



MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Wuhan Chia Tai Trading Co., Ltd. (65% attributable interest)

Wuhan Chia Tai Trading Co., Ltd. ("Wuhan Chia Tai") is a company set up in the PRC in 2001 by Chia Tai Trading Investment Co., Ltd., a wholly-owned subsidiary of the Company, and a PRC partner.

Wuhan Chia Tai previously focused on a kind of business namely "Club". Club is a form of business, which is similar to the wholesale business. It offers the daily necessity products in bulk pack to members under one roof.

The first Club has been officially opened on 29th September, 2001. In view of the increased purchasing power in the PRC due to the improved economy and demand for quality goods along with the improvement in living standards, the Directors decided to convert the Club into a non-membership large scale cash-and-carry warehouse store. The internal renovation was completed and the Club was re-opened as a warehouse store in January 2003. Another warehouse store was opened and operated in November 2002. The two stores covered a total floor area of approximately 20,000 square metres ("sq.m").

Freewill Solutions Co., Ltd. (49% attributable interest)

Founded in 1991, Freewill Solutions Co., Ltd. ("Freewill") is engaged in providing software solutions to Thailand's financial sector and the Asia Pacific region. The core business of the Bangkok-based Freewill has been split into two: the financial system division and the e-business division.

As for the financial system division, currently 75% of the securities brokers in Thailand are using Freewill's software solutions for front and back office operation.

The e-business division, which started operation in 2001 and currently conducts through Pantavanij Co., Ltd. ("Pantavanij"), Freewill's subsidiary, is an e-procurement service provider in Thailand. Apart from the core hosted e-procurement service, Pantavanij has extended its products to offer consulting services and sourcing services.



BUSINESS REVIEW (Continued)

Freewill Solutions Co., Ltd. (49% attributable interest) (Continued)

Due to the expansion of the information technological business in Thailand, a capital increase of Thai Baht 65.00 million for Freewill was necessary in 2002. The Group, which owns 49% equity interest, has already contributed Thai Baht 31.85 million (approximately HK\$5.87 million) to Freewill in early September, 2002.

Looking forward, Freewill is anticipating to drive further growth through its proposed new projects such as e-Marketplace, web-based enterprise resource planning for small enterprises and multimedia design service.

Shanghai Fortune World Development Co., Ltd.

Shanghai Fortune World (37.5% attributable interest)

Located in the heart of Shanghai Pudong area, Shanghai Fortune World is a large commercial land development project covering 40 hectares of the Lujiazui Finance and Trade Zone. The land is zoned for commercial, retail, entertainment and hotel property development.

The Lujiazui Finance and Trade Zone, where principal office blocks in Pudong are concentrated, has rapidly developed into the most important office area in Shanghai. With the total take up space for 2002 nearly doubled as that of the previous year, net effective rent for the office blocks in the Lujiazui Finance and Trade Zone was more than 10% higher than the previous year.

As at 31st December, 2002, a total gross floor area of approximately 100,000 sq.m. situated in the prime location of Lujiazui area still remained within the Shanghai Fortune World project. The Company is currently studying a number of plans to develop the land within the Shanghai Fortune World project, in order to maximize returns for shareholders.

Shanghai Fortune Garden (37.5% attributable interest)

The Shanghai Fortune Garden development project comprises four luxury high-rise apartment blocks and two-combined office/apartment blocks located at no. 1357-1369 Dongfang Road in Pudong.



BUSINESS REVIEW (Continued)

Shanghai Fortune World Development Co., Ltd. (Continued)

Shanghai Fortune Garden (37.5% attributable interest) (Continued)

With the projected opening of the extended underground railway in the middle of 2003, the value of the Shanghai Fortune Garden complex, located adjacent to the two new underground railways stations, is expected to receive a further boost.

As at 31st December, 2002, a total of 500 units in the complex were sold and a total of 55 units were leased. The Company is focusing on selling the remaining 121 units that are currently vacant, as well as the 55 units that are currently leased.

Tianjin Datian Plaza (57% attributable interest)

Located in the central business district of Tianjin, Tianjin Datian Plaza covers a site of 20,007 sq.m. and is designed to be a commercial complex providing 126,000 sq.m. for mixed-use shopping arcade, high-rise office buildings and luxurious apartments.

Disposal of interest in Tian He Grandview Plaza

Located in the heart of Tian He district of Guangzhou, Tian He Grandview Plaza is a planned 400,000 sq.m. office/shopping complex, to be built on a 51,759 sq.m. plot of land.

In 2000, the Company entered into an agreement ("Original S&P Agreement") with a PRC-based buyer ("buyer") to sell its entire 93% interest in a subsidiary, Chia Tai Tianhe Investment Company Limited ("C.T. Tianhe"). C.T. Tianhe owned a 70% interest in a sino-foreign joint venture which held 100% ownership of the Tian He Grandview Plaza project.

Recently, a supplemental agreement is under negotiation with the buyer by the Company in order to extend the time for the completion of the Original S&P Agreement. The final terms of the supplemental agreement have yet to be finalized. As at 31st December, 2002, the Company had transferred 20.7% interest in C.T. Tianhe to the buyer, and expected to transfer the remaining 72.3% interest within the year 2003.

**BUSINESS REVIEW** (Continued)**Disposal of interest in Land Lot No. 5 ("Lot No. 5") at the Lujiazui Finance and Trade Zone**

Lot No. 5 is situated in a prime site of the Lujiazui Finance and Trade Zone in Pudong, Shanghai, with a site area of 10,321 sq.m., which was held by Interwell Developments Limited ("Interwell"), a wholly-owned subsidiary of the Company.

On 25th April, 2002, the Company entered into a conditional sale and purchase agreement relating to the disposal of its entire 100% equity interest in Interwell to a third party for a consideration of US\$36.00 million (HK\$280.80 million). The disposal was completed on 30th July, 2002, resulting in a gain on disposal of HK\$69.09 million.

Disposal of equity interest in Shenzhen SDG Golf Club Company Limited ("SDG")

The disposal of the Group's entire 24.5% equity interest in SDG for a consideration of RMB75.00 million (HK\$70.23 million) was completed on 22nd March, 2002, resulting in a gain on disposal of HK\$58.77 million.

CAPITAL STRUCTURE

For the year ended 31st December, 2002, there has been no change in the Company's share capital.

The Group had repaid all the bank loans and other borrowings during the year.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's financial conditions remain healthy. During the year, the Group collected HK\$70.15 million, HK\$264.61 million and HK\$190.41 million respectively from the sales proceeds of the disposal of equity interest in an associate, the sales proceeds of the disposal of equity interest in a subsidiary and repayment of loans to jointly-controlled entities. Hence, as at 31st December, 2002, its cash and cash equivalents amounted to approximately HK\$331.88 million, representing an 11-fold increase when compared with the end of 2001. All the long-term loans outstanding at the beginning of the year were settled by cash and cash equivalents as at the balance sheet date.

The current ratio of the Group sharply increased from 0.36 to 4.35.



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

GEARING RATIO

As a result of the repayment of all the bank loans and other borrowings, the gearing ratio of the Group fell from 0.41 to 0 (gearing ratio was calculated by dividing interest-bearing bank loans and other borrowings by shareholders' equity).

FOREIGN CURRENCY EXPOSURE

As at 31st December, 2002, the Group had RMB280.74 million (equivalent to HK\$263.90 million) and US\$8.26 million (equivalent to HK\$64.43 million) in cash. The Group also had US dollar denominated receivables amounting to US\$28.21 million (equivalent to HK\$220.04 million) due from its jointly-controlled entities and RMB denominated payables of RMB375.43 million (equivalent to HK\$352.90 million) due to its jointly-controlled entities.

Most of the Group's monetary assets and liabilities are denominated in Hong Kong dollars, RMB and US dollars and minimal balances in Thai Baht. As the Hong Kong dollar is pegged to US dollar and the fluctuation in the exchange rates between Hong Kong dollar and RMB has been relatively small in recent years, the Group believes it faces minimal foreign currency risk and thus, has not undertaken any hedging activities.

CONTINGENT LIABILITY

The Company and the Group have a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK\$1,018,000 as at 31st December, 2002. The contingent liability has arisen as a number of current employees have achieved the required number of years of service to the Company and the Group at the balance sheet date, in order to be eligible for long service payments under the Hong Kong Employment Ordinance and their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation could result in a material future outflow of resources from the Company and the Group.

EMPLOYEES, TRAINING AND REMUNERATION POLICY

Including the Directors, the Company had around 20 employees as at 31st December, 2002. Its human resource strategy is to maintain a small, elite team capable of flexible and expeditious decision-making.



EMPLOYEES, TRAINING AND REMUNERATION POLICY (Continued)

The Group remunerates its employees based on their performance, experience and prevailing market rate. Other employee benefits include insurance and medical cover, subsidized training programmes as well as share option scheme.

Total staff costs (except Directors' remuneration) for the year were HK\$17,978,000 (2001: HK\$13,325,000).

The Company has adopted a share option scheme on 31st May, 2002, which will remain in force for ten years from that date, unless otherwise cancelled or amended.

POST BALANCE SHEET EVENTS

On 24th December, 2002, the Group entered into a sale and purchase agreement with an independent third party to dispose of a unit of its investment property for a consideration of HK\$707,000. This transaction was completed on 15th February, 2003 and resulted in a loss on disposal before expenses of approximately HK\$13,000.

On 11th March, 2003, the Group entered into a conditional share purchase agreement with an independent third party to acquire 48,700,000 shares in SHV-CPF (PRC) Investment Company Limited ("SHV-CPF"), representing 50% of the issued share capital of SHV-CPF at a total consideration of US\$32,217,075 (equivalent to HK\$251,293,185), subject to adjustments.

STRATEGIC OUTLOOK

The Directors believe that with PRC's success in bidding to host the 2008 Olympic Games and joining the World Trade Organization, the potential growth of business in the PRC is beginning to be realized and that the business of distribution of food and non-food products through large scale cash-and-carry warehouse stores has good potential in the PRC because of the increased purchasing power in the country due to the improved economy and demand for quality goods along with the improvement in living standards. The Directors further believe that the Group is in a strong position to take advantage of the economic boom in the PRC based on the Group's extensive experience and network in the PRC.

In the year ahead, the Group will continue to focus on the development of the business of large scale cash-and-carry warehouse stores in the PRC market and will diversify its asset and income base to business segments that the Directors foresee to show significant growth in the future.