

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

#### Retail

During the year under review, the retail business of Chia Tai Enterprises International Limited (the "Company") and its subsidiaries (together the "Group") expanded continuously through acquisition and establishment. Beijing Lotus Supermarket Chain Store Co., Ltd., Tianjin Lotus Supermarket Chain Store Co., Ltd. and Taian Lotus Supermarket Chain Store Co., Ltd. were incorporated in The People's Republic of China (the "PRC") during the year.

In 2003, the Group operated a total of 5 stores in Beijing, Tianjin, Taian and Wuhan with a turnover of RMB374,100,000. The 5 stores occupied a total floor area of about 80,000 square metres ("sq.m.").

For further expansion of the retail business, the Group acquired 50% interest of Lotus-CPF (PRC) Investment Company Limited (formerly known as "SHV-CPF (PRC) Investment Company Limited") ("Lotus-CPF") and 10% interest of Chia Tai-Lotus (Guangdong) Investment Co., Ltd. (formerly known as "Chia Tai-Makro (Guangdong) Investment Co. Ltd." ("Chia Tai-Lotus") during the year. As Lotus-CPF holds 90% of Chia Tai-Lotus, the Group holds a total of 55% of Chia Tai-Lotus, which operates 4 cash-and-carry warehouse stores in Guangzhou, Shantou and Nanhai of Guangdong Province with a total area of 88,554 sq.m.

The Group also announced the acquisition of an 11.25% interest of Shanghai Lotus Supermarket Chain Store Co., Ltd. ("Shanghai Lotus") in November, 2003 with an option to acquire up to 51% of Shanghai Lotus as another significant step to reflect the Group's strategy to develop its retail business. Currently, Shanghai Lotus operates 12 supermarkets: 10 in Shanghai, 1 in Hangzhou and 1 in Nanjing. The relevant agreements were approved by the independent shareholders in February, 2004.

To focus on the expansion in certain areas of the PRC with controlling interest, in December, 2003, the Group disposed of Chia Tai Trading Investment Co., Ltd., a wholly-owned subsidiary of the Company, which held 65% of Wuhan Lotus Supermarket Chain Store Co., Ltd., for a consideration of US\$6,000,000 (equivalents to HK\$46,800,000).

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### BUSINESS REVIEW (Continued)

#### Barbecue Foods

*Chia Tai Barbecue Specialist Company Limited ("C.T. Barbecue Specialist") (55% attributable interest)*

C.T. Barbecue Specialist was established during the last quarter of the year. Its principal activities are the operation of kiosks and the sale of roasted meat skewers, produced by a patented automatic barbecue machine, in supermarkets in Hong Kong and Shenzhen.

At the end of 2003, there were 20 and 2 kiosks operated in Hong Kong and Shenzhen respectively.

The management opined that the business has a high potential in penetrating into the market, and the unique taste and healthy image of the products especially suit the young client base.

#### Logistics

*Shanghai Li Tai Logistics Co. Ltd. ("Shanghai Logistics") (100% attributable interest)*

Shanghai Logistics was set up in June, 2003 as a wholly-owned subsidiary of the Company. Its principal business is mainly engaged in acting as one of the goods distribution centre for all Lotus supermarkets and other retail group companies in order to promote cost efficiency in goods distribution incurred by those distribution companies.

#### Computer Software Consultation and E-Procurement Service

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

Freewill was founded in 1991 and 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.

Currently 75% of users in Thailand, both local and international firms, are using Freewill products.

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### BUSINESS REVIEW (Continued)

#### Computer Software Consultation and E-Procurement Service (Continued)

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

In October, 2003, Freewill has further increased its shareholding in a subsidiary, Freewill FX Co., Ltd. from 69.98% to 79.98%, whose principal activities are engaged in the design and creative services for e-catalog. Whilst, in December, 2003, Freewill sold a portion of its investment in Pantavanij. As a result of the disposal, Freewill decreased its shareholding in Pantavanij from 99.99% to 90.07%.

#### Property Investment and Development

*Shanghai Fortune World Development Co. Ltd. (37.5% attributable interest)*

Shanghai Fortune World

Shanghai Fortune World is located in the heart of Shanghai Pudong area, and 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.

As at 31st December, 2003, 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

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, which is located adjacent to the two new underground railways stations.

As at 31st December, 2003, a total of 559 units in the complex were sold and a total of 28 units were leased. The Company is focusing on selling the remaining 89 units that are currently vacant, as well as the 28 units that are currently leased.

In December, 2003, a commercial podium was leased to a furniture company for operating a furniture plaza.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### BUSINESS REVIEW (Continued)

#### Property Investment and Development (Continued)

*Chia Tai Land Co. Ltd. ("C.T. Land") (100% attributable interest)*

C.T. Land was established in August, 2003 by a wholly-owned subsidiary of the Company. C.T. Land's principal activities are engaged in commercial realty and arrangement for facility development, construction, property leasing and selling, property management, consultancy and providing know-how service.

#### Tianjin Datian Plaza

On 1st July, 2003, the Company disposed of its entire 100% equity interest in Chia Tai Tianjin Real Estate Company Limited ("C.T. Tianjin") to a third party for a consideration of RMB70,000,000 (equivalent to HK\$65,800,000). C.T. Tianjin owned 57% interest in a sino-foreign joint venture which held 100% of the Tianjin Datian Plaza project.

#### Tian He Grandview Plaza

The Company has previously entered into an agreement with a PRC-based buyer (the "Buyer") to dispose of its entire 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% of the Tian He Grandview Plaza project.

As at 31st December, 2003, the Company has transferred the entire interest in C.T. Tianhe to the Buyer.

### CAPITAL STRUCTURE

For the year ended 31st December, 2003, there has been no change in the Company's share capital.

### LIQUIDITY AND FINANCIAL RESOURCES

During the year under review, the Group has substantially expanded its retail business. As at 31st December, 2003, its cash and cash equivalents amounted to approximately HK\$81,800,000 (2002: HK\$331,880,000).

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### GEARING AND CURRENT RATIOS

As at 31st December, 2003, the gearing ratio of the Group remained at zero level (gearing ratio was calculated by dividing interest-bearing bank loans and other borrowings by shareholders' equity) (31st December, 2002: zero).

The current ratio of the Group decreased from 4.37 to 2.82.

### FOREIGN CURRENCY EXPOSURE

As at 31st December, 2003, the Group had RMB50,600,000 (equivalent to HK\$47,600,000) in cash.

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

As at 31st December, 2003, neither the Group nor the Company had any significant contingent liabilities (2002: nil).

### EMPLOYEES, TRAINING AND REMUNERATION POLICY

Including the Directors, the Group had around 690 employees as at 31st December, 2003. 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\$46,460,000 (2002: HK\$17,978,000).

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### STRATEGIC OUTLOOK

The Directors believe 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.

Looking forward, 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.