

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### DIVIDENDS

No dividend was paid or proposed during the years ended 31st December, 2004 and 2003, nor has any dividend been proposed since the balance sheet date.

### BUSINESS REVIEW

The Group's net loss attributable to shareholders for the year amounted to HK\$141,142,000 (2003: net profit of HK\$65,551,000).

#### Retail

During the year under review, the retail business of the Group expanded continuously through establishment of 7 more Lotus supermarket chain stores in the northern region of the PRC, out of which 3 were operated under Beijing Lotus Supermarket Chain Store Co., Ltd., 2 under Tianjin Lotus Supermarket Chain Store Co., Ltd., 1 under Xian Lotus Supermarket Chain Store Co., Ltd. and 1 under Zhengzhou Lotus Supermarket Chain Store Co., Ltd.

In 2004, the Group operated a total of 10 stores in Beijing, Tianjin, Taian, Xian and Zhengzhou with a total turnover of RMB989.1 million (equivalent to HK\$929.8 million) and a total sales area of 113,219 sq.m..

Furthermore, Chia Tai-Lotus (Guangdong) Investment Co. Ltd., the Company's 55%-attributable interest associate, which has established 2 new Lotus supermarket chain stores in Jiangmen and Chenghai, operated a total of 6 Lotus supermarket chain stores in Guangzhou, Shantou, Nanhai, Jiangmen and Chenghai of Guangdong Province with a total floor area of 61,070 sq. m.. Total turnover for the year was RMB1,046.3 million (equivalent to HK\$983.5 million).

2 new stores have been opened in Jinan and Tianjin in the northern area of the PRC in January 2005. The Group will continuously expand by opening new Lotus supermarket chain stores both in the northern region of the PRC and in Guangdong Province in 2005 depending on the resources available.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### BUSINESS REVIEW (Continued)

#### Department Store

*Shanghai Chia Tai Department Store Company Limited ("Chia Tai Department Store") (100% attributable interest)*

Chia Tai Department Store was set up in March 2004 and is a wholly-owned subsidiary of the Company. It is principally engaged in the operation of department store with floor area of 35,600 sq.m. situated at Level 1 to Level 4 of Super Brand Mall in Shanghai, and has increased to 46,000 sq.m. as at the year end of 2004 after renovation.

The turnover for the period was RMB126.1 million (equivalent to HK\$118.5 million).

In order to build up its market share, Chia Tai Department Store will expand its business by increasing high quality products with superior brand names, introducing leading brands of chain stores into the department store, strengthening of management and control, improvement in customer service, and improvement in the overall floor layout and environment.

#### Barbecue Foods

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

Chia Tai Barbecue was established in the last quarter of 2003. Chia Tai Barbecue specializes in running and selling RoboQ barbecue kiosk franchise, together with its roasted meat skewers and supply, grilled by patented automatic barbecue machines, in major supermarkets and department stores in both Hong Kong and Shenzhen.

As at 31st December, 2004, there were 10 kiosks operated in Hong Kong and 2 kiosks in Shenzhen.

The management opined that the business has a very strong edge in penetrating the Greater China region, and the unique taste, hygiene and healthy image of its products especially suit the target mass market.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### BUSINESS REVIEW (Continued)

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

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

Freewill is engaged in providing software solutions to Thailand's financial sector and the Asia Pacific region.

In January 2004, Freewill has increased its shareholding in Pantavanij Co., Ltd. from 90.07% to 91.24%. In February 2004, it acquired 51% equity interests in T-Pay Co. Ltd. which was registered in December 2003 and provides counter service for True Corporation Public Company Limited in Thailand. Freewill has further increased its shareholding in Freewill FX from 79.98% to 99.99% in August 2004.

#### 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, 2004, 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/sell the land in order to maximize returns for the shareholders.

##### Shanghai Fortune Garden

Shanghai Fortune Garden development project comprises four luxury high-rise apartment blocks and two-combined office/apartment blocks located in Pudong adjacent to two new underground railways stations, a further boost in its value is expected.

As at 31st December, 2004, a total of 601 units in the complex were sold and a total of 8 units were leased. The Company is focusing on selling the remaining 67 units that are currently vacant, as well as the 8 units that are currently leased.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### BUSINESS REVIEW (Continued)

#### Logistics

*Shanghai Li Tai Logistics Co. Ltd. ("Shanghai Logistics")*

On 2nd December, 2004, the Company disposed of its entire equity interest in Shanghai Logistics to a third party.

### CAPITAL STRUCTURE

For the year ended 31st December, 2004, there has been no change in the Company's share capital.

### LIQUIDITY AND FINANCIAL RESOURCES

During the year under review, the Group has fully collected the consideration receivable of HK\$172.8 million on disposal of its subsidiaries in 2003 and obtained bank loan of HK\$18.8 million. As at 31st December, 2004, its cash and cash equivalents amounted to approximately HK\$131.7 million, representing 1.61 times when compared with the end of 2003.

### GEARING AND CURRENT RATIOS

As at 31st December, 2004, the gearing ratio of the Group stood at 0.03 (gearing ratio was calculated by dividing interest-bearing bank loans and other borrowings by shareholders' equity) (31st December, 2003: zero) and the current ratio of the Group decreased from 2.82 to 0.86.

### FOREIGN CURRENCY EXPOSURE

As at 31st December, 2004, the Group had RMB124.8 million (equivalent to HK\$117.3 million) in cash and cash equivalent.

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.

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### CONTINGENT LIABILITY

The Company has given a guarantee in favour of Chia Tai International Finance Company Limited, in which the controlling shareholder of the Company has a controlling interest, which made a cash deposit of US\$640,000 (equivalent to approximately HK\$4,992,000) (2003: Nil) to secure bank loan to a former subsidiary of the Company. The maximum potential liability of the Company under the guarantee was US\$640,000 (equivalent to approximately HK\$4,992,000).

### CHARGES ON ASSETS

As at 31st December, 2004, the Group had not charged any of its assets (2003: Nil).

### EMPLOYEES, TRAINING AND REMUNERATION POLICY

Including the Directors, the Company had around 5,350 employees as at 31st December, 2004. 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.

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.

### REVIEW OF ANNUAL RESULTS

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the audited financial statements for the year ended 31st December, 2004.

### STRATEGIC OUTLOOK

As the living standards in the PRC have improved which bring about the increased purchasing power of the people, they have begun to seek for quality goods accompanied by decent shopping environment. Hence, the Directors believe that the establishment and development of the distribution of food and non-food products business through large scale cash-and-carry warehouse stores in the PRC has solid potential, and, would, in the long term, be able to provide fruitful returns. The Directors further believe that the Group can cope with the challenges ahead and capitalise on the economic boom in the PRC.

Looking forward, apart from focusing on the existing businesses, the Directors will continue to strive for seeking different investment opportunities and will diversify into business segments which are expected to show significant growth in the future. The Directors will also endeavour to improve the operating efficiencies of the Company.