



BUSINESS REVIEW

The Group recorded a loss attributable to the Company's shareholders for the six months ended 30th June, 2005 of HK\$163.0 million (2004: HK\$49.8 million). The loss was mainly due to the increase in administrative expenses and distribution and store operating costs. Their increases were mainly attributable to (i) share option expense of HK\$50.7 million charged as administrative expenses during the Period as a result of the change in accounting policy; and (ii) the increase in expenses incurred at holding level as well as the operating level for the expansion of the Lotus supermarket chain stores in the PRC during the Period.

Retail

During the Period, the retail business of the Group expanded continuously through establishment. In the Northern area of the PRC, 2 companies, Qingdao Lotus Supermarket Chain Store Co., Ltd. and Jinan Lotus Supermarket Chain Store Co., Ltd. were established and new stores opened.

As at 30th June, 2005, the Group operated a total of 12 Lotus supermarket chain stores in Beijing, Tianjin, Taian, Xian, Zhengzhou and Jinan with a total turnover of RMB790.7 million (equivalent to HK\$743.3 million) and a total sales area of 131,369 sq.m. Furthermore, Chia Tai-Lotus (Guangdong) Investment Co. Ltd., the Company's 55%-owned associate, operated 6 Lotus supermarket chain stores in Guangzhou, Shantou, Nanhai, Jiangmen and Chenghai of Guangdong Province with a total sales area of 61,070 sq.m. and a total turnover of RMB662.9 million (equivalent to HK\$623.1 million).

In August, 2005, one more Lotus Supermarket was opened in Sanshui, Guangzhou area. The Group will continuously expand the retail sector by opening new Lotus supermarket chain stores in both the Northern and Southern areas in the PRC, subject to the availability of the resources of the Group in the year 2005.

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 a department store with a floor area of 35,600 sq.m. situated at level 1 to level 4 of Super Brand Mall in Shanghai and has increased to approximately 55,900 sq.m. after further renovation.

The turnover for the Period was RMB132.4 million (equivalent to HK\$124.4 million).

In order to build up the market share in department store business, Chia Tai Department Store will expand its business by introducing high quality products with superior brand names.

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 a patented automatic barbecue machine, in major supermarkets and department stores in both Hong Kong and Shenzhen.

In July, 2005, Chia Tai Barbecue has penetrated into 7-Eleven convenient stores in Hong Kong with its unique products.



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 April, 2005, Freewill disposed of its entire equity interest of 51% in T-pay Co. Ltd.

Freewill's performance has turned around from making loss in previous years to profit for the six months ended 30th June, 2005.

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 30th June, 2005, a total gross floor area of approximately 165,000 sq.m. situated in the prime location of Lujiazui area still remained within the Shanghai Fortune World project.

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 30th June, 2005, a total of 622 units in the complex were sold and a total of 4 units were leased. The Company is focusing on selling the remaining 50 units that are currently vacant, as well as the 4 units that are currently leased.

CAPITAL STRUCTURE

For the period ended 30th June, 2005, there has been no change in the Company's share capital.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June, 2005, bank balances and cash amounted to approximately HK\$125.4 million, representing a 0.95 times when compared with the end of 2004. Short-term bank borrowings stood at RMB20.0 million (equivalent to HK\$18.8 million) as at 30th June, 2005 and at the end of 2004.

GEARING AND CURRENT RATIOS

As at 30th June, 2005, the gearing ratio of the Group stood at 0.03 (gearing ratio was calculated by dividing interest-bearing bank borrowings by equity attributable to the Company's shareholders) (31st December, 2004: 0.03) and the current ratio of the Group was 0.59 (31st December, 2004: 0.83).