

CHAIRMAN'S STATEMENT

On behalf of the Board, I hereby present to our shareholders the annual results of Chia Tai Enterprises International Limited and its subsidiaries (together the "Group") for the year ended 31st December, 2005.

RESULTS

The Group's audited turnover for the year ended 31st December, 2005 was HK\$1,852,753,000 (2004: HK\$1,059,719,000), representing an increase of 75% over the corresponding period in 2004.

The Group recorded a net loss attributable for the year of HK\$497,296,000 (2004: net loss of HK\$141,142,000). Basic loss per share from continuing and discontinued operations for the year was HK\$0.0829 (2004: basic loss per share of HK\$0.0235).

OVERVIEW

The year 2005 was a year of challenges and continuing business expansion for the Group.

The Group's further penetration into the retail business through the development and opening of new stores in different areas of the PRC continued to remain robust. As at 31st December 2005, the Group had 17 stores in the Northern Region and 8 stores in the Southern Region of the PRC. During the year under review, the Group opened 9 new Lotus supermarket chain stores of which 7 were located in the Northern region of the PRC and 2 in Guangdong Province. In addition, the Group completed the acquisition of 35% interest of Beijing Lotus Supermarket Chain Store Co., Ltd. in 2005, and the acquisition of the remaining 35% interest in Tianjin Lotus Supermarket Chain Store Co., Ltd. has been approved by the Ministry of Commerce of the People's Republic of China (the "PRC") in March 2006. Furthermore, following the completion of acquisition of an additional 10% of Lotus-CPF (PRC) Investment Company Limited ("Lotus-CPF") in March 2006, the Group became its controlling shareholder. On 27th February, 2006, the Group announced the acquisition of the remaining 40% of Lotus-CPF and subject to the approval of the Independent Shareholders, Lotus-CPF and its subsidiaries will become wholly-owned subsidiaries of the Group.

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While the Group faced tough challenges from intensified competition since China's accession into the World Trade Organisation, the PRC's continued economic growth and the changing modern trade shopping behaviour and purchase patterns provided ample opportunities. The Group kept on refining its business expansion and operational strategies to suit the domestic market in light of local consumption patterns and development trends of the retail industry.

During the year under review, the Group disposed of its entire 75% interest in Fortune (Shanghai) Limited, an investment holding company whose principal assets are a 50% interest in a PRC property development company which owns the Shanghai Fortune World development project, and following the completion in March 2006, a net gain on disposal of approximately HK\$228,000,000 will be recorded in 2006. The disposal enabled the Group to cash in on the properties in Shanghai at the prevailing market prices and to improve liquidity of the Group. It also allowed senior management to allocate more resources to our core business, the Lotus supermarket chain stores.

PROSPECTS

With the continuous steady economic growth, stable interest environment, rising disposable income and favourable demographics, China's consumer market is promising. The Directors are confident that our supermarkets operation has solid potential, and, would be able to provide a turnaround in the performance. The Directors are also confident that the Group, having established considerable scale and expertise in Mainland China, can cope with the challenges ahead and capitalise on the continuous economic boom in the PRC.

The Group targets to improve our competitiveness and operating efficiencies through on-going strengthening and integration of our procurement system, strategic partnership with our suppliers as well as regulation and standardization of store management. We will continue to pursue our regional expansion strategy to achieve economies of scale. We will also continue to develop our own private labels and adopt more effective cost control measures in order to improve our operating efficiencies.

Looking forward, the new year will be full of competition as well as opportunities. Apart from focusing on the existing businesses, the Directors will continue to strive for seeking new investment opportunities which are expected to provide significant growth in the future.

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ACKNOWLEDGEMENT

I would like to express gratitude to our shareholders for their continued support to the Group and to the Directors and staff members of the Group for their contribution, professionalism, commitment and dedicated services in the past year.

Soopakij Chearavanont

Chairman

24th April, 2006