

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group recorded a loss attributable to equity holders for the year amounted to HK\$497,296,000 (2004: HK\$141,142,000).

Retail-Superstores

During the year under review, the retail business of the Group expanded continuously through organic growth and acquisition. In the Northern region of the PRC, 3 companies, namely Qingdao Lotus Supermarket Chain Store Co., Ltd., Jinan Lotus Supermarket Chain Store Co., Ltd. and Shijiazhuang Lotus Supermarket Chain Store Co., Ltd. were established during the year. 2 stores were opened in Jinan and Shijiazhuang.

During the year, the Group acquired 35% of Beijing Lotus Supermarket Chain Store Co., Ltd. ("Beijing Lotus") with a consideration of RMB31,066,492 (approximately HK\$30 million) from its Chinese Shareholder, and Beijing Lotus became a wholly-owned subsidiary of the Company. The Group further acquired for the remaining 35% of Tianjin Lotus Supermarket Chain Store Co., Ltd. ("Tianjin Lotus") after its initial Chinese Shareholder terminated the Joint Venture Agreement with the Group. Tianjin Lotus will become a wholly-owned subsidiary of the Company upon completion of the transaction.

Furthermore, the acquisition of an additional 10% of Lotus-CPF (PRC) Investment Company Limited ("Lotus-CPF") from a connected party with a consideration of US\$8,750,000 (approximately HK\$68 million) was approved by the Independent Shareholders in December 2005. The entire asset of Lotus-CPF is a 90% shareholding in Chia Tai-Lotus (Guangdong) Investment Co. Ltd. ("CT Guangdong"). Together with the 50% interest in Lotus-CPF and 10% interest in CT Guangdong already held, the Group became the controlling shareholder of Lotus-CPF upon successful completion of the transaction on 10th March, 2006. On 27th February, 2006, the Group announced the acquisition of the remaining 40% share of Lotus-CPF from a connected party, and subject to the approval of the Independent Shareholders, Lotus-CPF and its subsidiaries will become wholly-owned subsidiaries of the Group.

The Group opened 7 new stores in Beijing, Tianjin, Xian, Jinan and Shijiazhuang in 2005, making the total number of stores in operation in the Northern region to 17 with a total turnover of RMB1,630.2 million (approximately HK\$1,565.0 million) and a total sales area of 175,485 sq.m., an increase of 71.7% and 55% respectively as compared to the previous year.

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With one new store opened in Foshan during the year, Lotus-CPF operates a total of 8 Lotus supermarket chain stores in Guangzhou, Shantou, Nanhai, Jiangmen, Chenghai and Foshan of Guangdong Province in Southern China with a total sales area of 77,715 sq.m. and a total turnover for the year of RMB1,342.9 million (approximately HK\$1,289.2 million).

2 more Lotus supermarkets were opened in Zhengzhou, Henan Province, and Jieyang, Guangdong Province in the first quarter of 2006. The Group will continuously expand its business in the retail sector by opening new Lotus supermarket chain stores in both the Northern region and the Southern region in the PRC, subject to market environment and the availability of the resources in the future.

Department Store

Shanghai Chia Tai Department Store Co. Ltd. ("Chia Tai Department Store") (100% attributable interest)

Chia Tai Department Store is a wholly-owned subsidiary of the Company and is principally engaged in the operation of a department store with a floor area of 47,641 sq.m. situated at Levels 1 to level 4 of Super Brand Mall in Shanghai.

The turnover for the year was RMB295.1 million (approximately HK\$283.3 million).

Barbecue Foods

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

Chia Tai Barbecue specializes in the running and selling of RoboQ barbecue kiosk franchise, together with its roasted meat skewers and supply, grilled by a patented automatic barbecue machine, in 7-Eleven convenient stores in Hong Kong.

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Computer Software Consultation 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 its entire equity interest of 51% in T-pay Co. Ltd.

On 27th February, 2006, the Group entered into a Sale and Purchase Agreement to dispose of its entire equity interest in Freewill to a connected person and the disposal is subject to approval of the Independent Shareholders.

Property Investment and Development

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

On 9th September, 2005, the Company and Charoen Pokphand Group Co., Ltd. have entered into a Sale and Purchase Agreement to dispose of the Company's entire 75% interest in Fortune (Shanghai) Limited, which holds 50% interest in Shanghai Fortune World, at a net consideration of US\$52.7 million (approximately HK\$411 million). The transaction was completed on 10th March, 2006 and a net gain on disposal of approximately HK\$228,000,000 will be recorded in 2006.

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CAPITAL STRUCTURE

For the year ended 31st December, 2005, there has been no change in the Company's share capital.

LIQUIDITY AND FINANCIAL RESOURCES

During the year under review, the Group has obtained bank loans and other borrowings of HK\$418.6 million of which a bank loan of US\$44 million (equivalent to approximately HK\$343.2 million) has been fully repaid on 13th March, 2006. As at 31st December, 2005, its cash and cash equivalents amounted to approximately HK\$146.9 million, representing a 1.1 times increase when compared with the end of 2004.

GEARING AND CURRENT RATIOS

As at 31st December, 2005, the gearing ratio of the Group stood at 1.06 (gearing ratio was calculated by dividing interest-bearing bank loans and other borrowings by shareholders' equity) (31st December, 2004: 0.03) and the current ratio of the Group decreased from 0.83 to 0.65.

FOREIGN CURRENCY EXPOSURE

As at 31st December, 2005, the Group had RMB96.8 million (equivalent to HK\$91.0 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.

CONTINGENT LIABILITY

At 31st December, 2004, the Company has given a guarantee in favour of Chia Tai International Finance Company Limited, in which a controlling shareholder of the Company has a controlling interest, which made a cash deposit of US\$0.6 million (equivalent to approximately HK\$5 million) to secure bank loan to a former subsidiary of the Company. The maximum potential liability of the Company under the guarantee was US\$0.6 million (equivalent to approximately HK\$5 million). The guarantee was released in 2005.

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CHARGES ON ASSETS

As at 31st December, 2005, the Group had a charge over 112,500 shares of Fortune (Shanghai) Limited, representing the Company's entire interest in Fortune (Shanghai) Limited in connection with a bank loan facility agreement of US\$44 million signed on 9th September, 2005 (2004: Nil). The Company has repaid the loan in full in March, 2006.

EMPLOYEES, TRAINING AND REMUNERATION POLICY

Including the Directors, the Company had around 7,080 employees as at 31st December, 2005. 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, 2005.

STRATEGIC OUTLOOK

With the continuous steady economic growth, stable interest environment and favourable demographics, China's consumer market is promising. The Directors are confident that our supermarkets operation has solid potential, and, would, in the long term, be able to provide fruitful returns. 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.

Looking forward, 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. The Directors will also endeavour to improve the operating efficiencies of the Company. As ever, we rely on our staff and the Directors take this opportunity to thank them for the hard work during the last year.