Management's Discussion and Analysis

BUSINESS REVIEW

Off an increased revenue base of HK$3,482.8 million, representing a 88% growth from 2005 revenue base of HK$1,852.8 million, the Group recorded a net loss attributable to equity shareholders for the year 2006 amounting to HK$334.6 million (2005: HK$497.3 million).

Retail – Lotus Supermarket Chain Stores

During the year under review, the retail business of the Group expanded continuously through organic growth and acquisition.

In Northern region of the PRC, the Group opened 4 new stores in Beijing City, Henan Province, Shandong Province and Shaanxi Province in 2006, bringing the total number of northern stores to 21 stores. As of year end of 2006, the Group operated in Beijing (8 stores), Tianjin (4 stores), Taian (1 store), Xian (3 stores), Zhengzhou (2 stores), Jinan (1 store), Qingdao (1 store) and Shijiazhuang (1 store). These northern stores generated total turnover of RMB2,087 million (equivalent to HK$2,066 million) off a total sales area of 211,574 square metres, or an increment of 28% and 21% respectively compared to 2005.

In Southern region of the PRC, upon completion of the acquisition of an additional 10% of Lotus-CPF (PRC) Investment Company Limited ("Lotus-CPF") in March, 2006, and together with the 50% interest in Lotus-CPF already held, the Company became the controlling shareholder of Lotus-CPF. Further, in February, 2006, the Company announced the acquisition of the remaining 40% interest in Lotus-CPF from a connected party, upon the completion of the transaction in May, 2006, Lotus-CPF became a wholly-owned subsidiary of the Company.

With the opening of 3 more new stores in 2006, the Group now operates a total of 11 Lotus supermarket chain stores in Guangzhou (2 stores), Shantou (2 stores), Jiangmen (1 store), Jieyang (1 store), Chaozhou (1 store) and Foshan (4 stores) in the Guangdong Province. These southern stores generated total turnover of RMB1,343 million (equivalent to HK$1,330 million) attributable to the Group's turnover during the year off a total sales area of 103,476 square metres.

The Group intends to continue enhancing its retail business by renovating existing stores, and by opening new stores in the northern and southern regions of the PRC, subject to the availability of the resources.

Management's Discussion and Analysis

BUSINESS REVIEW (Continued)

Retail – Lotus Supermarket Chain Stores (Continued)

PRE-2005
LOCATION & NO. OF STORES

POST-2005
LOCATION & NO. OF STORES

Management's Discussion and Analysis

BUSINESS REVIEW (Continued)

Disposal of Non-Core Projects

In September, 2005, the Company entered into an agreement with Charoen Pokphand Group Company Limited to dispose its entire 75% interest in a subsidiary, Fortune (Shanghai) Limited, at a consideration of US$52.7 million (equivalent to approximately HK$411 million), and completion took place in March, 2006.

In February, 2006, a wholly-owned subsidiary of the Company entered into an agreement with Asia Freewill Co., Ltd. to dispose its entire 49% interest in an associate, Freewill Solutions Co., Ltd., at a consideration of approximately US$1.5 million (equivalent to approximately HK$11.4 million), and completion took place in March, 2006.

In June, 2006, the Company entered into an agreement with Great Splendid Investments Limited to dispose its entire 100% interest in a subsidiary, Mass Gain Investments Limited, which holds 100% interest in a PRC subsidiary, Shanghai Chia Tai Department Store Co. Ltd. (上海正大百貨有限公司), at a consideration of HK$100,000, and completion took place in June, 2006.

In June, 2006, a wholly-owned subsidiary of the Company entered into an agreement with The Barbecue Specialist Limited to dispose its entire 55% interest in a subsidiary, Chia Tai Barbecue Specialist Company Limited, at a consideration of approximately HK$6.8 million, and completion took place in June, 2006.

The total gain on disposal for the above subsidiaries and an associate amounted to approximately HK$266 million.

CAPITAL STRUCTURE

For the year ended 31st December, 2006, there has been no change in the Company's share capital.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2006, the Group had net current liabilities and net liabilities of approximately HK$745 million and HK$69 million respectively and incurred a loss from continuing operation of HK$571 million for the year then ended.

In view of these circumstances, the Directors have given careful consideration to the future liquidity and performance of the Group and have taken positive measures to improve the performance of the retail business going forward.

During the year under review, the Group obtained a long term loan facility of HK$390 million to replace short term loans in order to improve the liquidity position. The longer term nature of this financing provides a solid base of liquidity for the Group. The Directors are also considering other bank and non-bank sources of financing for future funding requirements. In addition to financing methods for liquidity management, management will implement further cost control measures to reduce operating costs and to improve liquidity generated from operations.

GEARING AND CURRENT RATIOS

As at 31st December, 2006, the gearing ratio of the Group stood at -6.90 (gearing ratio was calculated by dividing interest-bearing bank loans and other borrowings by shareholders' equity) (31st December, 2005: 1.69) and the current ratio of the Group decreased from 0.64 to 0.56.

Management's Discussion and Analysis

FOREIGN CURRENCY EXPOSURE

Most of the Group's monetary assets and liabilities are denominated in Hong Kong dollars, RMB and US dollars. As the Hong Kong dollar is pegged to US dollar and the fluctuation in the exchange rates has been relatively small in recent years, and the sales and purchases of the PRC subsidiaries are mainly in RMB which minimize the RMB exchange effect, therefore, the Group believes it faces minimal foreign currency risk and thus, has not undertaken any hedging activities.

CONTINGENT LIABILITIES

As at the balance sheet date, the Company has issued two guarantees to an independent third party in respect of lease arrangements with its subsidiaries which expire in 2025 and a co-guarantee to a bank in respect of a bank loan granted to its subsidiary which expires in August, 2009 or upon repayment of the loan, if earlier. As at the balance sheet date, the Directors do not consider it probable that claims will be made against the Company under any of the guarantees. The maximum liability of the Company at the balance sheet date under the guarantees issued is 55% of future minimum lease payments of the two lease agreements entered into by the subsidiaries of RMB55 million and the outstanding amount of the bank loan to its subsidiary of HK$19,800,000.

CHARGES ON ASSETS

The Company has repaid the loan in full in March, 2006 in respect of the banking facility of US$44 million signed on 9th September, 2005, for which the Group had a charge over 112,500 shares of Fortune (Shanghai) Limited, a former subsidiary of the Company.

A share charge has been entered into between Union Growth Investments Limited ("Union Growth"), a wholly-owned subsidiary of the Company and C.P. Merchandising Co. Ltd. ("CPM") on 30th May, 2006 whereby Union Growth has agreed to pledge 38,960,000 registered shares of Lotus-CPF to CPM as security for the due and punctual performance of its obligation under a Share Sale and Purchase Agreement dated 27th February, 2006 made between Union Growth and CPM, in relation to the acquisition of the remaining 40% of Lotus-CPF.

EMPLOYEES, TRAINING AND REMUNERATION POLICY

The Group had around 12,100 employees as at 31st December, 2006. 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 for senior management.

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 financial statements for the year ended 31st December, 2006.

STRATEGIC OUTLOOK

Rising disposable incomes that has led to increased consumer purchasing power, coupled with rapidly changing consumer preference for modern retail shopping experience has positioned the Group well to capitalize on these trends. Hence, the Directors believe that the establishment and development of the distribution of food and non-food products business through large scale hypermarkets in the PRC has solid potential, and will be able to provide fruitful returns. The Directors further believe that the Group can cope with the challenges ahead and capitalize on the economic boom in the PRC.

Looking forward, the Group will focus on understanding and fulfilling the changing needs of our customers by offering the right product mix and overall shopping experience. Enhancing our strong brand image and building customer loyalty will be a key part of the strategy to create long-term value for the Group.

The Directors, working with management, will endeavour to improve the operating efficiencies of the Group, and this should result in a financial turnaround in the coming year. As ever, we rely on our staff, and the Directors take this opportunity to thank them for the hard work during the past year.