



CHIA TAI ENTERPRISES INTERNATIONAL LIMITED

正大企業國際有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00121)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2008

UNAUDITED CONSOLIDATED RESULTS

The board of directors (the “Directors”) of Chia Tai Enterprises International Limited (the “Company”) announces the unaudited condensed consolidated income statement of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2008 (the “Period”) together with the comparative figures in 2007, as follows:

Condensed Consolidated Income Statement

		Unaudited	
		Six months ended 30th June,	
		2008	2007
	Notes	HK\$'000	HK\$'000 (Restated)
Turnover	2	2,661,417	2,137,762
Cost of sales		<u>(2,187,748)</u>	<u>(1,811,935)</u>
Gross profit		473,669	325,827
Other revenue	3	108,704	98,815
Other net income	3	17,242	8,372
Distribution and store operating costs		(506,354)	(481,300)
Administrative expenses		<u>(108,743)</u>	<u>(113,133)</u>
Loss from operation	2 & 4	(15,482)	(161,419)
Finance costs		<u>(53,187)</u>	<u>(42,808)</u>
Loss before taxation		(68,669)	(204,227)
Income tax	5	<u>(7,714)</u>	<u>(1,093)</u>
Loss for the period		<u>(76,383)</u>	<u>(205,320)</u>
Attributable to:			
Equity shareholders of the Company		(75,628)	(202,380)
Minority interests		<u>(755)</u>	<u>(2,940)</u>
Loss for the period		<u>(76,383)</u>	<u>(205,320)</u>
Loss per share	7		
- Basic and diluted		<u>(1.26) HK cents</u>	<u>(3.37) HK cents</u>

Condensed Consolidated Balance Sheet

		Unaudited 30th June, 2008 HK\$'000	Audited 31st December, 2007 HK\$'000
Non-current assets			
Fixed assets			
- Property, plant and equipment		991,161	982,201
- Interests in leasehold land held for own use under operating leases		<u>204,078</u>	<u>195,255</u>
		1,195,239	1,177,456
Goodwill		35,359	29,487
Deposits for acquisition of additional interest in subsidiaries		11,374	14,604
Prepaid lease payments for premises		11,123	13,965
Deferred tax assets		<u>4,625</u>	<u>4,343</u>
		1,257,720	1,239,855
Current assets			
Prepaid lease payments for premises		5,985	8,825
Long-term deposits receivable within one year		11,374	21,362
Inventories		304,196	356,297
Trade and other receivables	9	133,014	120,824
Income tax recoverable		5,981	1,631
Pledged bank deposits		39,869	38,208
Cash and cash equivalents		<u>163,201</u>	<u>181,252</u>
		663,620	728,399
Assets classified as held for sale	10	<u>525,195</u>	<u>497,273</u>
		1,188,815	1,225,672
Current liabilities			
Trade and other payables	11	1,020,469	1,087,470
Bank loans		580,122	110,043
Other loans		511,830	402,997
Consideration payable for acquisition of subsidiaries		60,450	111,772
Obligations under finance leases		3,847	3,427
Provisions		<u>26,571</u>	<u>24,951</u>
		2,203,289	1,740,660
Liabilities associated with assets classified as held for sale	10	<u>253,894</u>	<u>260,526</u>
		2,457,183	2,001,186
Net current liabilities		<u>(1,268,368)</u>	<u>(775,514)</u>
Total assets less current liabilities		<u>(10,648)</u>	<u>464,341</u>

Condensed Consolidated Balance Sheet (Continued)

	Unaudited 30th June, 2008	Audited 31st December, 2007
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current liabilities		
Bank loans	-	390,000
Other loans	46,642	46,642
Consideration payable for acquisition of subsidiaries	90,675	120,900
Obligations under finance leases	232,985	220,573
Deferred tax liabilities	5,535	5,602
	<u>375,837</u>	<u>783,717</u>
NET LIABILITIES	<u>(386,485)</u>	<u>(319,376)</u>
CAPITAL AND RESERVES		
Share capital	119,932	119,932
Reserves	(510,934)	(441,996)
Total equity attributable to equity shareholders of the Company - deficit	(391,002)	(322,064)
Minority interests	4,517	2,688
TOTAL EQUITY - DEFICIT	<u>(386,485)</u>	<u>(319,376)</u>

Notes to Condensed Consolidated Financial Statements

1. ACCOUNTING POLICIES

The condensed consolidated interim financial statements are unaudited and have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and Appendix 16 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The interim financial statements does not include all the information and disclosures required for annual financial statements, and should be read in conjunction with the 2007 annual financial statements.

The accounting policies used in the condensed financial statements are consistent with those adopted in the preparation of the Group’s annual financial statements for the year ended 31st December, 2007.

During the Period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRS”) and interpretations issued by the HKICPA, which are applicable to the Group’s operation and effective for the Group’s financial year beginning 1st January, 2008. The adoption of these standards and interpretations had no material impact on the results or financial position of the Group for the current or prior accounting periods have been prepared and presented.

The following new and revised standards and interpretations have been issued but are not effective as at the balance sheet date and have not been early adopted:

		Effective for annual periods beginning on or after
HKAS 1 (Revised)	Presentation of Financial Statements	1st January, 2009
HKAS 23 (Revised)	Borrowing Costs	1st January, 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements	1st July, 2009
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation	1st January, 2009
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations	1st January, 2009
HKFRS 3 (Revised)	Business Combinations	1st July, 2009
HKFRS 8	Operating Segments	1st January, 2009
HK(IFRIC) - Int 13	Customer Loyalty Programmes	1st July, 2008

The adoption of the above new and revised standards and interpretations will have no material impact on the financial statements and the accounting policies of the Group.

2. TURNOVER AND SEGMENTAL INFORMATION

Turnover represents the net amounts received and receivable for goods sold by the Group to external customers, less returns and allowances for the period and is analysed as follows:

	Unaudited	
	Six months ended 30th June,	
	2008	2007
	HK\$'000	HK\$'000
		(Restated)
Sales of goods	2,661,417	2,137,762

The Group is engaged in retail business of the operation of hypermarket stores in the PRC and all of its sales during the periods are generated in the PRC. Accordingly, no business segment and geographical segment analysis of the Group is presented for the periods ended 30th June, 2008 and 2007 as it is not subject to different risks and returns in its activities and the geographical regions in which it operates.

3. OTHER REVENUE AND OTHER NET INCOME

	Unaudited	
	Six months ended 30th June,	
	2008	2007
	HK\$'000	HK\$'000
		(Restated)
Other revenue		
Leasing of store premises	69,346	49,921
Interest income	2,794	5,206
Other promotion and service income	36,564	43,688
	<u>108,704</u>	<u>98,815</u>
Other net income		
Net foreign exchange gain	16,597	9,542
Net profit/(loss) on disposal of fixed assets	645	(1,170)
	<u>17,242</u>	<u>8,372</u>

4. DEPRECIATION AND AMORTIZATION

During the Period, depreciation and amortization of HK\$65.1 million (2007: HK\$81.7 million) was charged in respect of the Group's property, plant and equipment, and interest in leasehold land held for own use under operating leases.

5. TAX

	Unaudited	
	Six months ended 30th June,	
	2008	2007
	HK\$'000	HK\$'000
Current tax - PRC		
Provision for the period	8,134	1,592
Deferred tax		
Reversal of temporary differences	(420)	(499)
Taxation charge	<u>7,714</u>	<u>1,093</u>

No provision for Hong Kong profits tax has been made as the Group has no assessable profits which were earned in or derived from Hong Kong during the Period. Taxes on the profits assessable elsewhere have been calculated at the rates of tax prevailing in the areas in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

6. DIVIDEND

The Directors do not recommend the payment of any dividend in respect of the Period (2007: nil).

7. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share was based on the loss attributable to the Company's shareholders for the Period of HK\$75.6 million (2007: loss of HK\$202.4 million) and the weighted average number of 5,996,614,408 shares (2007: 5,996,614,408 shares) of the Company in issue during the Period.

(b) Diluted loss per share

The diluted loss per share for the six months ended 30th June, 2007 and 2008 is the same as the basic loss per share as all potential ordinary shares are anti-dilutive.

8. TRANSFER TO/FROM RESERVE

There was no transfer to/from reserve of the Company in either the current or the prior interim reporting period.

9. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	Unaudited 30th June, 2008 HK\$'000	Audited 31st December, 2007 HK\$'000
Trade receivables, other receivables and deposits	128,554	117,825
Amounts due from related companies	4,460	2,999
	133,014	120,824

Included in trade and other receivables are trade debtors (net of impairment losses for bad and doubtful debts) with the following ageing analysis:

	THE GROUP	
	Unaudited 30th June, 2008 HK\$'000	Audited 31st December, 2007 HK\$'000
Current to 30 days overdue	7,292	8,488
31 to 60 days overdue	156	158
61 to 90 days overdue	78	72
Over 90 days	1,561	682
	9,087	9,400

10. ASSETS CLASSIFIED AS HELD FOR SALE / LIABILITIES ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE

Assets classified as held for sale represent:

	THE GROUP	
	Unaudited 30th June, 2008 HK\$'000	Audited 31st December, 2007 HK\$'000
Assets subject to the Disposal Agreement (note (a))	512,684	485,524
Land use right (note (b))	12,511	11,749
	525,195	497,273

- (a) On 17th May, 2007, the Company entered into an agreement to dispose of the shares or interests held by the Group in Chia Tai Trading (Tianjin) Company Limited, Chia Tai Trading (Jinan) Company Limited, Chia Tai Trading (Shijiazhuang) Company Limited and 泰安易初蓮花連鎖超市有限公司 and certain business conducted by Beijing Lotus Supermarket Chain Store Co., Ltd., the consideration for the disposal is HK\$433.4 million, the assets and liabilities attributable to the shares or interests, which were expected to be sold within twelve months, were classified as held for sale and presented separately in the condensed consolidated balance sheet.

The major classes of assets and liabilities which were presented separately in the condensed consolidated balance sheet, are as follows:

	THE GROUP	
	Unaudited 30th June, 2008 HK\$'000	Audited 31st December, 2007 HK\$'000
Assets classified as held for sale		
Property, plant and equipment	370,830	345,442
Prepaid lease payments for premises	2,216	1,068
Inventories	105,479	105,647
Trade and other receivables	9,540	10,939
Cash and bank balances	24,619	22,428
	512,684	485,524
Liabilities associated with assets classified as held for sale		
Trade payables	239,446	230,963
Other creditors and accrued charges	14,448	29,563
	253,894	260,526

- (b) During the year ended 31st December, 2004, a subsidiary of Lotus-CPF (PRC) Investment Company Limited (“Lotus-CPF”) entered into an agreement with an independent third party to dispose of a land use right at a consideration of approximately RMB11.0 million (equivalent to approximately HK\$12.5 million (2007: HK\$11.7 million)). Accordingly, the land use right is classified as an asset held for sale and presented separately in the condensed consolidated balance sheet. As at 31st December, 2007 and the end of the Period, the transaction for the disposal of the land use right has not been completed pending the approval of the relevant government authorities.

11. TRADE AND OTHER PAYABLES

	THE GROUP	
	Unaudited	Audited
	30th June,	31st December,
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Notes payable	59,675	41,881
Creditors and accrued charges	934,869	1,018,455
Amounts due to related companies	25,925	27,134
	1,020,469	1,087,470

Included in trade and other payables are trade creditors and notes payable of approximately HK\$716.7 million (2007: approximately HK\$746.3 million) with the following ageing analysis:

	THE GROUP	
	Unaudited	Audited
	30th June,	31st December,
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days of invoice date	652,693	659,295
31 to 60 days after invoice date	26,254	58,639
61 to 90 days after invoice date	19,841	6,998
More than 90 days after invoice date	17,934	21,415
	716,722	746,347

12. COMPARATIVE FIGURES

Certain comparative figures were reclassified to conform with the current period presentation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group recorded a loss attributable to shareholders for the six months ended 30th June, 2008 of HK\$75.6 million (2007: HK\$202.4 million).

Revenue rose by HK\$523.7 million, or 24.5% to HK\$2,661.4 million. The increase in revenue was primarily a result of like-for-like growth of 21.2% and the contribution from a new store located in the southern region which was opened in the third quarter of 2007.

Gross profit margin which includes income from suppliers increased from 15.2% to 17.8%. Increase in purchase volume which enhanced our bargaining power with suppliers, increase in promotional activities and our continuous efforts to optimize merchandise mix and implement better pricing strategy all contributed to the improvement in the margin.

Revenue from leasing of store premises rose 38.9% to HK\$69.3 million, approximately 2.6% of sales. It represents income received from our tenants for leasing of the consignment areas. Increase in revenue from leasing of store premises was due primarily to the increase in the rental rates upon renewal of agreements as most of the leases have a lease term of 1 year or less. We will continue to bring in well-known tenants to our consignment areas and emphasize on total shopping experience by providing customers with shopping, leisure and food & beverage services to attract greater foot traffic and an increase in consignment revenue.

Distribution and store operating costs was HK\$506.4 million, represent a decrease from 22.5% of sales for the corresponding period in 2007 to 19.0% of sales during the Period. It mainly comprised of utilities, personnel and rental expenses for a total of HK\$363.4 million. We expect the distribution and store operation costs over sales will continue to decline as sales continue to pick up and more stringent cost control measures are in place.

Administrative expenses of HK\$108.7 million, represent a decrease from 5.3% of sales for the corresponding period in 2007 to 4.1% of sales during the Period. Administrative expenses mainly included personnel expenses of HK\$76.4 million and professional fee of HK\$4.6 million.

Loss for the Period was HK\$76.4 million, compared to HK\$205.3 million for the corresponding period in 2007. Earnings before interest, taxation, depreciation and amortization ("EBITDA") improved significantly from HK\$(79.7) million in 2007 to HK\$49.6 million in 2008. This was primarily attributable to improvement in revenue, a 2.6% point increase in gross profit margin and the relative reduction in operating cost.

Capital Structure

For the period ended 30th June, 2008, there has been no change in the Company's issued share capital.

Liquidity and Financial Resources

As at end of the Period, the Group had net current liabilities and net liabilities of approximately HK\$1,268.4 million and HK\$386.5 million respectively and incurred a loss of HK\$76.4 million for the Period then ended.

As at 30th June, 2008, the Group had short term bank loans of HK\$580.1 million (31st December, 2007: HK\$110.0 million). The Group had unsecured other loans of HK\$558.5 million (31st December, 2007: HK\$449.6 million) of which all (31st December, 2007: HK\$441.8 million) were advanced from related companies. The current portion of unsecured other loans amounted to HK\$511.8 million and HK\$403.0 million at the period ended 30th June, 2008 and the year ended 2007 respectively. The Group had cash and cash equivalents amounting to HK\$187.8 million, representing a 0.92 times of the balance as at the end of 2007.

Gearing and Current Ratios

As at 30th June, 2008, the gearing ratio of the Group stood at -2.91 (gearing ratio was calculated by dividing interest-bearing bank loans and other borrowings by shareholders' equity) (31st December, 2007: -2.95) and current ratio of the Group was 0.48 (31st December, 2007: 0.61).

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 minimizes the RMB exchange effect, therefore, the Group believes it faces minimal foreign currency risk and thus, has not undertaken any hedging activities.

Employees, Training and Remuneration Policy

The Group had around 11,000 employees as at 30th June, 2008. 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.

BUSINESS REVIEW

During the Period, the Group continued to focus on the operation of its hypermarket business in China and no new store was opened to conform with the Group's strategy to maintain its focus on the financial turnaround of its existing portfolio.

As at the date of this announcement, the Group operates a total of 33 hypermarkets stores in China, of which 21 are located in the Northern region and 12 in the Southern region of China.

Sales increased by 24.5% from HK\$2,137.8 million to HK\$2,661.4 million and loss for the Period reduced significantly from HK\$205.3 million to HK\$76.4 million, an encouraging result which demonstrated our continuous effort to review merchandise mix to ensure right products are offered to our customers; more marketing and promotional activities were organised to boost sales and strengthen customer loyalty and our commitment to reduce cost with more stringent cost measures in place.

While focusing on the operation of the hypermarket business, the Group also played its part in tackling some of the social and environmental challenges. Immediately after the Sichuan earthquake, the Group launched a donation campaign among all staff, the money raised were used to purchase food, medical aids and other necessities and delivered to those who were so unfortunately affected. Effective from 1st June, 2008, the PRC government banned free plastic bag, all plastic bags sold in our stores are in compliance with government standards. In addition, we also designed and manufactured our own Lotus shopping bags which are sold at very affordable prices to encourage people to use less single-use carrier bag and be more environmental friendly.

The Restructuring

On 30th July, 2008, the Company announced that as certain conditions precedent under the Acquisition Agreement were still outstanding, the parties to the Acquisition Agreement have agreed to extend the long-stop date of the Acquisition Agreement to 31st December, 2008. Efforts are continuing to be made to the fulfillment of those conditions and it is now expected that completion of the Restructuring will take place in the fourth quarter of 2008.

FUTURE OUTLOOK

Good momentum in first half of 2008 reinforces our confidence that performance will continue to improve and we are on the right track for a financial turnaround. In addition to continue to do the right things for our customers, we will focus our efforts to fulfill the outstanding conditions precedent to ensure the Restructuring, a new phase of our business, take place as soon as possible.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with all code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules during the Period.

AUDIT COMMITTEE

The Audit Committee comprises the three Independent Non-Executive Directors of the Company. 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 unaudited interim financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board
James H. Haworth
Chairman

Hong Kong, 23rd September, 2008

As at the date of this announcement, the Board comprises fourteen executive directors, namely Mr. James H. Haworth, Mr. Soopakij Chearavanont, Mr. Michael Ross, Mr. Narong Chearavanont, Mr. Tse Ping, Mr. Yang Xiaoping, Mr. Li Wen Hai, Mr. Umroong Sanphasitvong, Mr. Robert Ping-Hsien Ho, Mr. Meth Jiaravanont, Mr. Nopadol Chiaravanont, Mr. Chatchaval Jiaravanon, Mr. Suphachai Chearavanont and Mr. Kachorn Chiaravanont and three independent non-executive directors, namely Mr. Viroj Sangsnit, Mr. Chokchai Kotikula and Mr. Cheng Yuk Wo.