

REPORT OF THE DIRECTORS

The Directors present their annual report and the audited financial statements of the Company for the year ended 31st December, 2003.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries, jointly controlled entities and associates are set out in notes 16, 17 and 18 respectively to the financial statements.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed at the extraordinary general meeting held on 18th June, 2003, the name of the Company was changed from Hong Kong Fortune Limited to Chia Tai Enterprises International Limited 正大企業國際有限公司.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2003 are set out in the consolidated income statement on page 24 of the financial statements.

The directors do not recommend the payment of a dividend.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately HK\$138,071,000 on additions of property, plant and equipment.

Details of these and other movements during the year in the property, plant and equipment of the Group and the Company are set out in note 13 to the financial statements.

REPORT OF THE DIRECTORS

SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

On 11th March, 2003, Union Growth Investments Limited ("Union Growth"), a wholly-owned subsidiary of the Company, entered into a share purchase agreement with a third party to acquire 50% of the issued share capital of Lotus-CPF (PRC) Investment Company Limited (formerly known as "SHV-CPF (PRC) Investment Company Limited") ("Lotus-CPF") for an aggregate consideration of approximately US\$32,000,000 (equivalent to approximately HK\$251,000,000). The principal asset of Lotus-CPF is the holding of 90% interest in Chia Tai-Lotus (Guangdong) Investment Co. Ltd (formerly known as "Chia Tai-Makro (Guangdong) Investment Co. Ltd.") ("Chia Tai-Lotus") which, in return, is the holding company of subsidiaries which are principally engaged in the supermarket operation in Guangdong province. Further details of this acquisition are included in the Company's circular dated 10th April, 2003.

On 16th July, 2003, Union Growth entered into a sale and purchase agreement with a third party to further acquire 10% interest in Chia Tai-Lotus at a consideration of approximately US\$7,160,000 (equivalent to approximately HK\$55,850,000). Further details of this acquisition are included in the Company's circular dated 3rd September, 2003.

During the year, the Group disposed of its entire interests in the following subsidiaries, jointly controlled entities and associates:

72.3% interest in Chia Tai Tianhe Investment Company Limited ("Chia Tai Tianhe")

During the year ended 31st December, 2000, the Group entered into a conditional sale and purchase agreement with a third party ("Purchaser") to dispose of its entire interest in Chia Tai Tianhe at a consideration of US\$21,000,000 (equivalent to approximately HK\$163,800,000). The principal asset of Chia Tai Tianhe is the holding of 70% interest in Grandview Enterprise Company Limited, a company engaged in the property development in The People's Republic of China (the "PRC"). As at 31st December, 2003, the Group had transferred its entire interest in Chia Tai Tianhe to the Purchaser.

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SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (Continued)

100% interest in Chia Tai Tianjin Real Estate Company Limited (“Chia Tai Tianjin”)

The Group entered into a sale and purchase agreement with a third party for the disposal of its entire 100% interest in Chia Tai Tianjin and the shareholder loan at a consideration of RMB70,000,000 (equivalent to approximately HK\$65,800,000). The principal asset of Chia Tai Tianjin is the holding of 57% interest in Tianjin Datian Real Estate Development Company Limited, and 46.85% interest in Tianjin Datian International Limited, jointly controlled entities engaged in the property development in the PRC.

100% interest in Chia Tai Trading Investment Company Limited (“Chia Tai Trading”)

The Group entered into a sale and purchase agreement with a third party for the disposal of its entire 100% interest in Chia Tai Trading and part of the shareholder loan at a consideration of US\$6,000,000 (equivalent to HK\$46,800,000). The principal assets of Chia Tai Trading is the holding of 65% interest in Wuhan Lotus Supermarket Chain Store Company Limited, which is engaged in the operation of supermarkets in the PRC.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 25 to the financial statements.

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

RESERVES

Details of movements in reserves of the Company and the Group are set out in note 27 to the financial statements and the consolidated statement of changes in equity of the Group on page 28 in the annual report respectively.

REPORT OF THE DIRECTORS

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Soopakij Chearavanont

Tse Ping

Lee G. Lam (appointed on 10th February, 2003)

Narong Chearavanont

Supachai Chearavanont

Chatchaval Jiaravanon

Kachorn Chiaravanont

Yang Xiaoping

Robert Ping-Hsien Ho

Independent non-executive directors:

Viroj Sangsnit

Chokchai Kotikula

In accordance with the Company's articles of association, all directors shall continue to hold office. The independent non-executive directors of the Company are appointed for a term of one year in accordance with the Company's articles of association.

No director has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SECURITIES

At 31st December, 2003, the interests of the directors, the chief executive and their associates in the securities of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Future Ordinance, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long position in shares of an associated corporation

Ordinary shares of Baht 100 each of Freewill Solutions Company Limited

Name of director	Capacity	Percentage	
		Number of issued ordinary shares held	of issued share capital
Mr. Supachai Chearavanont	Beneficial owner	60,000	0.01%

Other than as disclosed above, none of the directors, chief executives nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31st December, 2003.

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SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 26 to the financial statements.

The following table discloses the movements in the Company's share options during the year.

	Date of grant	Exercise price HK\$	Exercisable period	Outstanding at beginning of year	Granted during the year	Outstanding at end of year	
						2002	2003
Category 1: Directors							
Mr Soopakij Chearavanont	6.6.2002	0.07	6.6.2002 to 5.6.2012	59,966,144	–	59,966,144	59,966,144
	10.11.2003	0.19	10.11.2003 to 9.11.2013	–	59,966,144	–	59,966,144
Mr Tse Ping	6.6.2002	0.07	6.6.2002 to 5.6.2012	59,966,144	–	59,966,144	59,966,144
	10.11.2003	0.19	10.11.2003 to 9.11.2013	–	59,966,144	–	59,966,144
Mr Narong Chearavanont	6.6.2002	0.07	6.6.2002 to 5.6.2012	59,966,144	–	59,966,144	59,966,144
	10.11.2003	0.19	10.11.2003 to 9.11.2013	–	59,966,144	–	59,966,144
Mr Supachai Chearavanont	6.6.2002	0.07	6.6.2002 to 5.6.2012	59,966,144	–	59,966,144	59,966,144
	10.11.2003	0.19	10.11.2003 to 9.11.2013	–	59,966,144	–	59,966,144
Mr Chatchaval Jiaravanon	6.6.2002	0.07	6.6.2002 to 5.6.2012	59,966,144	–	59,966,144	59,966,144
	10.11.2003	0.19	10.11.2003 to 9.11.2013	–	59,966,144	–	59,966,144
Mr Kachorn Chiaravanont	6.6.2002	0.07	6.6.2002 to 5.6.2012	59,966,144	–	59,966,144	59,966,144
	10.11.2003	0.19	10.11.2003 to 9.11.2013	–	59,966,144	–	59,966,144
Mr Yang Xiaoping	6.6.2002	0.07	6.6.2002 to 5.6.2012	59,966,144	–	59,966,144	59,966,144
	10.11.2003	0.19	10.11.2003 to 9.11.2013	–	59,966,144	–	59,966,144
Mr Robert Ping-Hsien Ho	6.6.2002	0.07	6.6.2002 to 5.6.2012	59,966,144	–	59,966,144	59,966,144
	10.11.2003	0.19	10.11.2003 to 9.11.2013	–	59,966,144	–	59,966,144
Total				479,729,152	479,729,152	479,729,152	959,458,304

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SHARE OPTIONS (Continued)

	Date of grant	Exercise price HK\$	Exercisable period	Outstanding at beginning of year	Granted during the year	Outstanding at end of year	
						2002	2003
Category 2: Employees							
Employees	6.6.2002	0.07	6.6.2002 to 5.6.2012	119,932,288	–	119,932,288	119,932,288
	10.11.2003	0.19	10.11.2003 to 9.11.2013	–	119,932,288	–	119,932,288
Total				119,932,288	119,932,288	119,932,288	239,864,576
Total all categories				599,661,440	599,661,440	599,661,440	1,199,322,880

The closing price of the Company's shares immediately before 10th November, 2003, the date of grant of the 2003 options, was HK\$0.178.

Since the application of the Black-Scholes Option Pricing Model and the Binomial Model is based on a number of variables that are either theoretical, speculative or difficult to be ascertained, the directors of the Company believed that valuation of the options calculated on such basis would not be meaningful to existing or potential shareholders. Accordingly, the fair value of share options is not disclosed in the annual report.

No charge is recognised in the income statement in respect of the value of options granted during the year.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed under the heading "Share Options", at no time during the year was the Company, its holding company, or any of its subsidiaries, a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company, its holding company or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2003, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that the following shareholders had notified the Company of the relevant interests in the issued share capital of the Company.

Long position in shares

Ordinary shares of HK\$0.02 each

Name of shareholders	Capacity	Number of issued ordinary shares held	Approximate percentage of issued share capital
Mr. Dhanin Chearavanont	Beneficial owner	90,315,830	1.51%
	Held by a controlled corporation (Note 1)	3,343,953,189	55.76%
		<hr/> 3,434,269,019	<hr/> 57.27%
Ms. Thipavan Hongkietkajohn	Held by a controlled corporation (Note 2)	<hr/> 508,130,081	<hr/> 8.47%
Ms. Unnapa Lertamornkitti	Held by a controlled corporation (Note 2)	<hr/> 508,130,081	<hr/> 8.47%
Mr. Wong Ho Pui	Held by a controlled corporation (Note 3)	304,878,048	5.08%
	Held by spouse (Note 3)	35,900,000	0.60%
		<hr/> 340,778,048	<hr/> 5.68%
Mr. Tse Hsuan Johnny	Held by a controlled corporation (Note 3)	<hr/> 304,878,048	<hr/> 5.09%
Ms. Chia Fai	Beneficial owner (Note 4)	35,900,000	0.60%
	Held by spouse (Note 4)	304,878,048	5.08%
		<hr/> 340,778,048	<hr/> 5.68%

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SUBSTANTIAL SHAREHOLDERS (Continued)

Notes:

- (1) 3,343,953,189 shares were beneficially owned by Ramon Limited, in which 50.86% of its share capital is beneficially held by Mr. Dhanin Chearavanont.
- (2) 508,130,081 shares were beneficially owned by A.D. Enterprise Limited, in which its entire share capital is beneficially held as to 50% by Ms. Thipavan Hongkietkajohn and Ms. Unnapa Lertamornkitti respectively.
- (3) 304,878,048 shares were beneficially owned by Upmost Quality Group Limited, in which its entire share capital is beneficially held as to 50% by Mr. Wong Ho Pui and Mr. Tse Hsuan Johnny respectively. Mr. Wong Ho Pui's spouse holds 35,900,000 shares personally.
- (4) Ms. Chia Fai is the spouse of Mr. Wong Ho Pui and is deemed to be interested in 304,878,048 shares in which Mr. Wong Ho Pui is deemed or taken to be interested. Ms. Chia Fai holds 35,900,000 shares personally.

Save as disclosed above, the Company has not been notified of any other interests or short positions in the issued share capital of the Company as at 31st December, 2003.

CONNECTED TRANSACTIONS

On 11th March, 2003, the Group entered into a share purchase agreement with a third party to acquire 50% of the issued share capital in Lotus-CPF at a total consideration of US\$32,000,000 (equivalent to HK\$251,000,000). The other shareholders of Lotus-CPF, namely C.P. Merchandising Co. Ltd. and Charoen Pokphand Group Co., Ltd., are associates of Ramon Limited, the controlling shareholder of the Company. Further details of the acquisition are set out in the Company's circular dated 10th April, 2003.

On 16th July, 2003, the Group entered into a sale and purchase agreement with a third party to acquire a 10% interest in Chia Tai-Lotus at a total consideration of approximately US\$7,160,000 (equivalent to HK\$55,850,000). The substantial shareholder of Chia Tai-Lotus, is an associate of Ramon Limited, the controlling shareholder of the Company. Further details of the acquisition are set out in the Company's circular dated 3rd September, 2003.

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CONNECTED TRANSACTIONS (Continued)

On 25th November, 2003, the Group entered into a conditional equity transfer agreement (the “Equity Transfer Agreement”) with a third party to acquire (the “Initial Acquisition”) an 11.25% equity interest (the “Initial Equity Interest”) in Shanghai Lotus Supermarket Chain Store Company Limited (“Shanghai Lotus”) at a consideration of RMB85,000,000 (equivalent to approximately HK\$79,900,000). On the same date, the Group also entered into an option agreement (the “Option Agreement”) with the same party, whereby, the vendor has granted an option (the “Option”) to the Group which would, upon exercise by the Group, entitle the Group to acquire additional equity interest in Shanghai Lotus. The Option may be exercised in full or in part, if exercised in full, would result in the Group acquiring, including the Initial Equity Interest, an aggregate 51% equity interest in Shanghai Lotus at the aggregate consideration (including the consideration paid for the Initial Acquisition) of RMB385,000,000 (equivalent to approximately HK\$362,200,000). The Equity Transfer Agreement and the Option Agreement were approved by the independent shareholders at the extraordinary general meeting on 10th February, 2004.

The other shareholder of Shanghai Lotus, namely Yangtze Supermarket Investment Co., Ltd., is an associate of the controlling shareholder of the Company. Further details of the acquisition are set out in the Company’s circular dated 20th January, 2004.

The independent non-executive directors confirmed that the transactions have been entered into by the Group in the ordinary course of its business and in accordance with the terms of the agreements governing such transactions.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December, 2003 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company’s Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers accounted for less than 30% of the Group's total turnover for the year.

The aggregate purchases attributable to the Group's five largest suppliers accounted for less than 30% of the Group's total purchases for the year.

None of the directors, their associates, or any shareholder has any interest in the Group's five largest customers and suppliers.

AUDITORS

During the year, Messrs. Ernst & Young, who acted as auditors of the Company for the past three years, resigned and Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company. A resolution will be submitted to the annual general meeting of the Company to appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Robert Ping-Hsien Ho

Director

Hong Kong, 15th April, 2004