

REPORT OF THE DIRECTORS

The Directors present their annual report and the audited financial statements for the year ended 31st December, 2005.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries, jointly controlled entity and associates are set out in notes 39, 20 and 21, respectively, to the financial statements.

On 26th August, 2005, a wholly-owned subsidiary of the Company entered into an equity transfer agreement with the minority shareholder of a subsidiary, Beijing Lotus Supermarket Chain Store Co., Ltd. 北京易初蓮花連鎖超市有限公司 ("Beijing Lotus"), in relation to the acquisition of a 35% interest in Beijing Lotus. Following the completion of the acquisition in September 2005, the Company increased its interest in Beijing Lotus from 65% to 100%.

On the same date, another wholly-owned subsidiary of the Company also entered into a termination and investment agreement with the minority shareholder of another subsidiary, Tianjin Lotus Supermarket Chain Store Co., Ltd. 天津易初蓮花連鎖超市有限公司 ("Tianjin Lotus"), in relation to the termination of the joint venture agreement and that the Group would invest in the remaining 35% interest in the registered capital of Tianjin Lotus. The Group currently has a 65% interest in Tianjin Lotus and will have 100% interest in Tianjin Lotus pending approval by the relevant government authorities in the People's Republic of China (the "PRC"). However, as the minority shareholder has surrendered its interest in the results and the net assets of Tianjin Lotus upon signing of the termination and investment agreement, the Group is entitled to 100% interest in Tianjin Lotus then.

On 9th September, 2005, a wholly-owned subsidiary of the Company entered into agreements with Charoen Pokphand Group Co., Ltd., a company in which Mr. Dhanin Chearavanont, a substantial shareholder of the Company, has beneficial interest, to acquire an additional 10% interest in Lotus-CPF (PRC) Investment Company Limited ("Lotus-CPF") at a consideration of USD8,750,000 (equivalent to approximately HK\$68,000,000) and to dispose of its entire 75% interest in Fortune (Shanghai) Limited ("Fortune Shanghai") at a consideration of US\$52,700,000 (equivalent to HK\$411,000,000). Fortune (Shanghai) Limited is engaged in investment holding which holds a 50% interest in Shanghai Fortune World Development Co., Ltd., engaged in property development in the PRC. The transactions were not yet completed at 31st December, 2005. Upon the completion of the aforesaid acquisition and disposal on 10th March, 2006, Lotus-CPF would become a subsidiary and Fortune Shanghai would cease to be a subsidiary of the Company respectively. Details of the transactions were disclosed in the Company's circular dated 7th December, 2005.

REPORT OF THE DIRECTORS

RESULTS

The results of the Group for the year ended 31st December, 2005 are set out in the consolidated income statement on page 48 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\$308,722,000 on additions of property, plant and equipment mainly for the expansion of the operation of “cash-and-carry” stores and a department store in the PRC.

Details of these and other movements during the year in the property, plant and equipment are set out in note 15 to the financial statements.

INVESTMENT PROPERTIES

The investment properties of the Group, which are classified under assets classified as held for sale, were revalued at 31st December, 2005 by an independent firm of professional property valuers, on an open market value basis at HK\$26,500,000. The valuation gave rise to a revaluation decrease of HK\$478,000 which has been charged to the income statement.

Details of these and other movements during the year in investment properties are set out in note 16 to the financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 30 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.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution represent the share premium and accumulated losses which in aggregate amounted to HK\$34,231,000 as at 31st December, 2005. Under the Company Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distribution or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends can only be distributed out of the accumulated profits, if any. Therefore, the Company did not have any distributable reserves as at 31st December, 2005 and 2004.

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

Narong Chearavanont

Supachai Chearavanont

Chatchaval Jiaravanon

Kachorn Chiaravanont

Meth Jiaravanont (appointed on 14th September, 2005)

Yang Xiaoping

Umroong Sanphasitvong (appointed on 14th September, 2005)

Robert Ping-Hsien Ho

Independent non-executive directors:

Viroj Sangsnit

Chokchai Kotikula

Cheng Yuk Wo

In accordance with Article 99 the Company's Articles of Association, Mr. Meth Jiaravanont and Mr. Umroong Sanphasitvong will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with Article 116 of the Company's Articles of Association, Mr. Soopakij Chearavanont, Mr. Tse Ping, Dr. Lee G. Lam, Mr. Chatchaval Jiaravanon, Mr. Kachorn Chiaravanont, Mr. Yang Xiaoping, Mr. Robert Ping-Hsien Ho and Mr. Viroj Sangsnit, will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Mr. Viroj Sangsnit, Mr. Chokchai Kotikula and Mr. Cheng Yuk Wo, independent non-executive directors of the Company, are appointed for a term of two years subject to retirement by rotation and re-election at the annual general meeting of the Company, in accordance with the provisions of the Company's Articles of Association.

Details of the Directors proposed to be re-elected at the forthcoming annual general meeting have been set out on page 26 to 32 in the annual report.

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

At 31st December, 2005, the interests of the directors, the chief executive and their associates in the securities of the Company and its associated corporation, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Future Ordinance (the "SFO"), 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 positions in shares of an associated corporation:

| | | Ordinary shares of Baht 100 each of Freewill Solutions Company Limited | |
|---------------------------|------------------|---|--|
| Name of director | Capacity | Number of issued ordinary shares held | Percentage of issued share capital |
| Mr. Supachai Chearavanont | Beneficial owner | 60,000 | 1.66% |

Other than as disclosed above, none of the directors, the chief executive nor their associates had any interests or short positions in any securities of the Company or any of its associated corporations as at 31st December, 2005.

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SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 31 to the financial statements.

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

| Category 1: Directors | Date of grant | Exercise price HK\$ | Exercisable period | Outstanding at beginning of year | Re-designation of employee as director | Granted during the year | Outstanding at end of year |
|---------------------------|---------------|---------------------|-------------------------|----------------------------------|--|-------------------------|----------------------------|
| Mr. Soopakij Chearavanont | 6.6.2002 | 0.07 | 6.6.2002 to 5.6.2012 | 59,966,144 | – | – | 59,966,144 |
| | 10.11.2003 | 0.19 | 10.11.2003 to 9.11.2013 | 59,966,144 | – | – | 59,966,144 |
| | 24.5.2005 | 0.11 | 24.5.2005 to 23.5.2015 | – | – | 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 |
| | 10.11.2003 | 0.19 | 10.11.2003 to 9.11.2013 | 59,966,144 | – | – | 59,966,144 |
| | 24.5.2005 | 0.11 | 24.5.2005 to 23.5.2015 | – | – | 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 |
| | 10.11.2003 | 0.19 | 10.11.2003 to 9.11.2013 | 59,966,144 | – | – | 59,966,144 |
| | 24.5.2005 | 0.11 | 24.5.2005 to 23.5.2015 | – | – | 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 |
| | 10.11.2003 | 0.19 | 10.11.2003 to 9.11.2013 | 59,966,144 | – | – | 59,966,144 |
| | 24.5.2005 | 0.11 | 24.5.2005 to 23.5.2015 | – | – | 59,966,144 | 59,966,144 |

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SHARE OPTIONS (Continued)

| Category 1: Directors | Date of grant | Exercise price HK\$ | Exercisable period | Outstanding at beginning of year | Re-designation of employee as director | Granted during the year | Outstanding at end of year |
|----------------------------------|---------------|---------------------|-------------------------|----------------------------------|--|-------------------------|----------------------------|
| Mr. Chatchaval Jiaravanon | 6.6.2002 | 0.07 | 6.6.2002 to 5.6.2012 | 59,966,144 | – | – | 59,966,144 |
| | 10.11.2003 | 0.19 | 10.11.2003 to 9.11.2013 | 59,966,144 | – | – | 59,966,144 |
| | 24.5.2005 | 0.11 | 24.5.2005 to 23.5.2015 | – | – | 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 |
| | 10.11.2003 | 0.19 | 10.11.2003 to 9.11.2013 | 59,966,144 | – | – | 59,966,144 |
| | 24.5.2005 | 0.11 | 24.5.2005 to 23.5.2015 | – | – | 59,966,144 | 59,966,144 |
| Mr. Meth Jiaravanont (note) | 24.5.2005 | 0.11 | 24.5.2005 to 23.5.2015 | – | – | 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 |
| | 10.11.2003 | 0.19 | 10.11.2003 to 9.11.2013 | 59,966,144 | – | – | 59,966,144 |
| | 24.5.2005 | 0.11 | 24.5.2005 to 23.5.2015 | – | – | 59,966,144 | 59,966,144 |
| Mr. Umroong Sanphasitvong (note) | 6.6.2002 | 0.07 | 6.6.2002 to 5.6.2012 | – | 59,966,144 | – | 59,966,144 |
| | 10.11.2003 | 0.19 | 10.11.2003 to 9.11.2013 | – | 59,966,144 | – | 59,966,144 |
| | 24.5.2005 | 0.11 | 24.5.2005 to 23.5.2015 | – | – | 59,966,144 | 59,966,144 |

REPORT OF THE DIRECTORS

SHARE OPTIONS (Continued)

| Category 1: Directors | Date of grant | Exercise price HK\$ | Exercisable period | Outstanding at beginning of year | Re-designation of employee as director | Granted during the year | Outstanding at end of year |
|--------------------------|---------------|---------------------|-------------------------|----------------------------------|--|-------------------------|----------------------------|
| Mr. Robert Ping-Hsien Ho | 6.6.2002 | 0.07 | 6.6.2002 to 5.6.2012 | 59,966,144 | – | – | 59,966,144 |
| | 10.11.2003 | 0.19 | 10.11.2003 to 9.11.2013 | 59,966,144 | – | – | 59,966,144 |
| | 24.5.2005 | 0.11 | 24.5.2005 to 23.5.2015 | – | – | 59,966,144 | 59,966,144 |
| Total | | | | 959,458,304 | 119,932,288 | 599,661,440 | 1,679,052,032 |
| Category 2: Employees | | | | | | | |
| Employees (note) | 6.6.2002 | 0.07 | 6.6.2002 to 5.6.2012 | 119,932,288 | (59,966,144) | – | 59,966,144 |
| | 10.11.2003 | 0.19 | 10.11.2003 to 9.11.2013 | 119,932,288 | (59,966,144) | – | 59,966,144 |
| | | | | 239,864,576 | (119,932,288) | – | 119,932,288 |
| Total for all categories | | | | 1,199,322,880 | – | 599,661,440 | 1,798,984,320 |

Note: Mr. Meth Jiaravanont and Mr. Umroong Sanphasitvong were appointed as Directors on 14th September, 2005. Mr. Umroong Sanphasitvong was an employee of the Company before he was appointed as the Director of the Company.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than disclosed in “Share Options” above, 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, 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of the relevant interests in the issued share capital of the Company.

Long positions 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 |
|-----------------------------|---|---|---|
| Ramon Limited | Beneficial owner | 3,700,519,019 | 61.71% |
| Mr. Dhanin Chearavanont | Held by controlled corporation (Note 1) | 3,700,519,019 | 61.71% |
| A. D. Enterprise Limited | Beneficial owner | 508,130,081 | 8.47% |
| Ms. Thipavan Hongkietkajohn | Held by controlled corporation (Note 2) | 508,130,081 | 8.47% |
| Ms. Unnapa Lertamornkitti | Held by controlled corporation (Note 2) | 508,130,081 | 8.47% |

Notes:

- (1) 3,700,519,019 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.

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, 2005.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

On 10th June, 2004, the Company entered into a guarantee in favour of Chia Tai International Finance Company Limited, a company in which a controlling shareholder of the Company has a controlling interest which has provided security in relation to a bank loan obtained by a former subsidiary of the Company. The guarantee has been released in 2005.

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On 24th June, 2004, the Group entered into a conditional lease agreement with Shanghai Kinghill Limited (“Shanghai Kinghill”), a company in which a controlling shareholder of the Company has a controlling interest, to lease the department store premises from Shanghai Kinghill at a maximum operating lease payments of not exceeding RMB90 million (approximately HK\$85 million) for an initial term of three years.

On 12th August, 2005, the Company entered into a sale and purchase agreement with a company which is an associate of the substantial shareholder of the Company for the disposal of the entire 100% interest in Chia Tai Land Holding Company Limited at a consideration of US\$289,441 (approximately HK\$2.26 million).

On 26th August, 2005, Chia Tai Trading (Beijing) Company Limited, a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with the minority shareholder of Beijing Lotus Supermarket Chain Store Co., Ltd. (“Beijing Lotus”) for the acquisition of the remaining 35% interest in the registered capital of Beijing Lotus at a consideration of RMB31,066,492 (approximately HK\$30 million).

On 26th August, 2005, Chia Tai Trading (Tianjin) Company Limited (“CT Tianjin”), a wholly-owned subsidiary of the Company, entered into a termination and investment agreement with the 35% minority shareholder of Tianjin Lotus Supermarket Chain Store Co., Ltd. (“Tianjin Lotus”) for the termination of the joint venture agreement and that CT Tianjin would invest in the remaining 35% interest in the registered capital of Tianjin Lotus.

On 9th September, 2005, the Company entered into a sale and purchase agreement with a company which is an associate of the substantial shareholder of the Company for the disposal of the entire 75% interest in Fortune (Shanghai) Limited at a consideration of US\$52.7 million (approximately HK\$411 million).

On 9th September, 2005, Union Growth Investments Limited, a wholly-owned subsidiary of the Company entered into a sale and purchase agreement with a company which is an associate of the substantial shareholder of the Company for the acquisition of 10% interest in Lotus-CPF (PRC) Investment Company Limited at a consideration of US\$8,750,000 (approximately HK\$68 million).

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The following continuing connected transactions were conducted by certain subsidiaries of the Company with connected persons under Chapter 14A of the Listing Rules during the year ended 31st December, 2005:

| | Maximum transaction amount for the year ended 31st December, 2005 (HK\$'000) |
|---|--|
| Purchases of edible oil from certain subsidiaries of CPP | 16,000 |
| Purchases of chicken and related products from certain subsidiaries of CPP | 23,400 |
| Purchases of duck and related products from a subsidiary of CPP | 9,000 |
| Purchases of packaged food, beverage, condiments and clothing from Shanghai Lotus | 61,000 |
| Sales of electrical appliances and clothing to Shanghai Lotus | 3,000 |

The Board of Directors engaged the Auditors of the Company to perform certain agreed procedures in respect of the continuing connected transactions of the Group. The Auditors have reported their factual findings on these procedures to the Board of Directors.

The Independent Non-Executive Directors have reviewed these continuing connected transactions and the report of the Auditors and confirmed that:

- (a) the transactions have been entered into by the Group in the ordinary and usual course of business;

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- (b) the transactions have been entered into on an arm's length basis and conducted either on normal commercial terms, or where there is no available comparison, on terms no less favourable to the Group than those available to or from independent third parties; and
- (c) the transactions have been entered into either in accordance with the terms of the agreements governing such transactions, or where there are no such agreements, on terms that are fair and reasonable so far as shareholders of the Company are concerned.

RULE 13.18 OF THE LISTING RULES

As at 31st December, 2005, there were covenants in certain agreement of the Company relating to specific performance obligations of the Company's controlling shareholders. The following information is hereby disclosed pursuant to Rule 13.18 of Chapter 13 of the Listing Rules:

During the year, the Company has entered into an agreement (the "Facility Agreement") with a bank in Thailand whereby the Company was granted a term loan facility of US\$44 million. Pursuant to the Facility Agreement, it would be an event of default thereunder if the Company fails to ensure that its controlling shareholder, the Chearavanont Family (being any one or more of Mr. Jaran Chiaravanont, Mr. Montri Jiaravanont, Mr. Dhanin Chearavanont and Mr. Sumet Jiaravanon (or any company or companies controlled by one or more of them) collectively) at all times maintains their aggregate shareholding in the Company at not less than 50%. As at 31st December, 2005, Mr. Dhanin Chearavanont, through a company in which he has a 50.86% shareholding interest, is interested in approximately 61.71% of the issued share capital of the Company.

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 year ended 31st December, 2005 except that certain Code Provisions are reviewed during the year and are complied in the second half of the year:

1. Code Provision A.4.2 – The shareholders of the Company have approved the amendment of the Articles of Association on 22nd December, 2005 to provide that every Director shall be subject to retirement by rotation at least once every three years in compliance with this Code Provision.
2. Code Provision B.1 – The Company has established a remuneration committee on 8th September, 2005 with specific terms of reference in compliance with this Code Provision.

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AUDIT COMMITTEE

The Company has established an audit committee (the “Committee”) which comprises the three Independent Non-Executive Directors of the Company, with written terms of reference in accordance with the requirement of the Code on Corporate Governance Practices. The 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.

The Company has received, from each of the Independent Non-Executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the Independent Non-Executive Directors are independent.

MODEL CODE

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code. All Directors have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company.

EMOLUMENT POLICY

Including the Directors, the Group 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 determination of emoluments of the Directors of the Company had taken into consideration of their expertise and job specifications.

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.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2005.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 37 to the financial statement.

AUDITORS

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Soopakij Chearavanont

Chairman

Hong Kong, 24th April, 2006