

Report of the Directors

The Directors present their annual report and the audited financial statements for the year ended 31st December, 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Through its subsidiaries, the Company is principally engaged in the operation of large scale one-stop shopping centers, Lotus Supercenters located in the north and the south of China. During the year, the Company has sold out all the other non-core businesses which are investment in properties in the PRC, provision of software solutions, operation of department store and operation of retailing barbecue foods in Hong Kong.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31st December, 2006 are set out in the consolidated income statement on page 32 of the financial statements.

The Directors do not recommend the payment of a dividend in respect of the year (2005: Nil).

FIXED ASSETS

During the year, the Group spent approximately HK\$297,522,000 on additions of fixed assets mainly for the expansion of the operation of Lotus Supercenters in the PRC.

Details of movements in the fixed assets during the year are set out in note 15 to the financial statements.

INVESTMENT PROPERTIES

The investment properties of the Group are classified as assets held for sales as at year end of 2005, which had been disposed of along with the completion of disposal of the 75% interest in Fortune (Shanghai) Limited in March, 2006.

Details of movements in investment properties during the year are set out in notes 9 and 15 to the financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 34(a) 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

In accordance with the Company's Articles of Association, distributions shall be payable out of the profits of the Company. Accordingly, the Company does not have any distributable reserves as at 31st December, 2006 and 2005.

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 (which to the knowledge of the Directors owns more than 5% of the Company's share capital) of the Company has any interest in the Group's five largest customers and suppliers.



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:

Mr. Soopakij Chearavanont	
Mr. Narong Chearavanont	
Mr. Tse Ping	
Mr. James Harold Haworth	(appointed on 15th September, 2006)
Mr. Michael Ross	(appointed on 15th September, 2006)
Mr. Yang Xiaoping	
Mr. Li Wen Hai	(appointed on 15th September, 2006)
Mr. Umroong Sanphasitvong	
Mr. Robert Ping-Hsien Ho	
Mr. Meth Jiaravanont	
Mr. Nopadol Chiaravanont	(appointed on 15th September, 2006)
Mr. Chatchaval Jiaravanon	
Mr. Supachai Chearavanont	
Mr. Kachorn Chiaravanont	
Mr. Lee G. Lam	(resigned on 15th September, 2006)

Independent Non-Executive Directors:

Mr. Viroj Sangsnit
Mr. Chokchai Kotikula
Mr. Cheng Yuk Wo

In accordance with Article 116 of the Company's Articles of Association, Messrs. Soopakij Chearavanont, Narong Chearavanont, Supachai Chearavanont, Viroj Sangsnit, Chokchai Kotikula and Cheng Yuk Wo, will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting ("AGM"). Details of the directors proposed to be re-elected at the forthcoming AGM have been set out in the relevant circular to be despatched to the shareholders of the Company.

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

The independent non-executive directors of the Company are appointed for successive term of one year each and are subject to retirement by rotation and re-election at the AGM of the Company in accordance with the Company's Articles of Association.

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 Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and considers all of the independent non-executive directors are independent.

DIRECTORS' REMUNERATION

Details of directors' remunerations are set out in note 10 to the financial statements.

Report of the Directors

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.

COMPETING INTERESTS

As at 31st December, 2006, the directors were not aware that any of the directors has interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group which falls to be disclosed under the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OR DEBENTURES

As at 31st December, 2006, the interests and short positions of the Directors and chief executives of the Company in shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

- (i) Director's interests in shares of an associated corporation

Name of Director	Name of associated corporation	Number of Shares held	Approximate percentage of shareholding
Mr. Umroong Sanphasitvong	Charoen Pokphand Foods Public Company Limited	2,000,000	0.03%

- (ii) Directors' interests in share options granted by the Company
Pursuant to the share option scheme adopted by the Company on 31st May, 2002 (the "Scheme"), the Company had on 6th June, 2002, 10th November, 2003 and 24th May, 2005 granted to certain Directors of the Company the rights to subscribe for ordinary shares in the capital of the Company at exercise prices of HK\$0.07, HK\$0.19 and HK\$0.11 per share respectively, details of which are as follows:

Name of Directors	Date of Grant	Exercisable Period	Exercise Price HK\$	Number of Share Options					As at 31st December, 2006
				As at 1st January, 2006	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	
Mr. Soopakij Chearavanont	6th June, 2002	6th June, 2002 to 5th June, 2012	0.07	59,966,144	-	-	-	-	59,966,144
	10th November, 2003	10th November, 2003 to 9th November, 2013	0.19	59,966,144	-	-	-	-	59,966,144
	24th May, 2005	24th May, 2005 to 23rd May, 2015	0.11	59,966,144	-	-	-	-	59,966,144



Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OR DEBENTURES (Continued)

(ii) Directors' interests in share options granted by the Company (Continued)

Name of Directors	Date of Grant	Exercisable Period	Exercise Price HK\$	Number of Share Options					As at 31st December, 2006
				As at 1st January, 2006	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	
Mr. Narong Chearavanont	6th June, 2002	6th June, 2002 to 5th June, 2012	0.07	59,966,144	-	-	-	-	59,966,144
	10th November, 2003	10th November, 2003 to 9th November, 2013	0.19	59,966,144	-	-	-	-	59,966,144
	24th May, 2005	24th May, 2005 to 23rd May, 2015	0.11	59,966,144	-	-	-	-	59,966,144
Mr. Tse Ping	6th June, 2002	6th June, 2002 to 5th June, 2012	0.07	59,966,144	-	-	-	-	59,966,144
	10th November, 2003	10th November, 2003 to 9th November, 2013	0.19	59,966,144	-	-	-	-	59,966,144
	24th May, 2005	24th May, 2005 to 23rd May, 2015	0.11	59,966,144	-	-	-	-	59,966,144
Mr. Yang Xiaoping	6th June, 2002	6th June, 2002 to 5th June, 2012	0.07	59,966,144	-	-	-	-	59,966,144
	10th November, 2003	10th November, 2003 to 9th November, 2013	0.19	59,966,144	-	-	-	-	59,966,144
	24th May, 2005	24th May, 2005 to 23rd May, 2015	0.11	59,966,144	-	-	-	-	59,966,144
Mr. Umroong Sanphasitvong	6th June, 2002	6th June, 2002 to 5th June, 2012	0.07	59,966,144	-	-	-	-	59,966,144
	10th November, 2003	10th November, 2003 to 9th November, 2013	0.19	59,966,144	-	-	-	-	59,966,144
	24th May, 2005	24th May, 2005 to 23rd May, 2015	0.11	59,966,144	-	-	-	-	59,966,144
Mr. Robert Ping-Hsien Ho	6th June, 2002	6th June, 2002 to 5th June, 2012	0.07	59,966,144	-	-	-	-	59,966,144
	10th November, 2003	10th November, 2003 to 9th November, 2013	0.19	59,966,144	-	-	-	-	59,966,144
	24th May, 2005	24th May, 2005 to 23rd May, 2015	0.11	59,966,144	-	-	-	-	59,966,144

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OR DEBENTURES (Continued)

(ii) Directors' interests in share options granted by the Company (Continued)

Name of Directors	Date of Grant	Exercisable Period	Exercise Price HK\$	Number of Share Options					As at 31st December, 2006
				As at 1st January, 2006	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	
Mr. Meth Jiaravanont	24th May, 2005	24th May, 2005 to 23rd May, 2015	0.11	59,966,144	-	-	-	-	59,966,144
Mr. Chatchaval Jiaravanon	6th June, 2002	6th June, 2002 to 5th June, 2012	0.07	59,966,144	-	-	-	-	59,966,144
	10th November, 2003	10th November, 2003 to 9th November, 2013	0.19	59,966,144	-	-	-	-	59,966,144
	24th May, 2005	24th May, 2005 to 23rd May, 2015	0.11	59,966,144	-	-	-	-	59,966,144
Mr. Supachai Chearavanont	6th June, 2002	6th June, 2002 to 5th June, 2012	0.07	59,966,144	-	-	-	-	59,966,144
	10th November, 2003	10th November, 2003 to 9th November, 2013	0.19	59,966,144	-	-	-	-	59,966,144
	24th May, 2005	24th May, 2005 to 23rd May, 2015	0.11	59,966,144	-	-	-	-	59,966,144
Mr. Kachorn Chiaravanont	6th June, 2002	6th June, 2002 to 5th June, 2012	0.07	59,966,144	-	-	-	-	59,966,144
	10th November, 2003	10th November, 2003 to 9th November, 2013	0.19	59,966,144	-	-	-	-	59,966,144
	24th May, 2005	24th May, 2005 to 23rd May, 2015	0.11	59,966,144	-	-	-	-	59,966,144
Total:				1,679,052,032	-	-	-	-	1,679,052,032

Save as disclosed above, as at 31st December, 2006, none of the Directors and chief executives of the Company had any interest or short positions in shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.



Report of the Directors

PERSONS WHO HAVE AN INTEREST OR SHORT POSITIONS WHICH IS DISCLOSABLE UNDER THE SECURITIES AND FUTURES ORDINANCE AND SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of SFO shows that the following shareholders had notified the Company of the relevant interests in the issued share capital of the Company:

Name of Shareholders	Notes	Number of Shares held	Approximate percentage of shareholding
C.P. Holding (BVI) Investment Company Limited ("CP BVI")	(1)	3,700,519,019	61.71%
Worth Access Trading Limited ("Worth Access")	(1)	3,700,519,019	61.71%
Charoen Pokphand Holding Company Limited ("CPH")	(1)	3,700,519,019	61.71%
Charoen Pokphand Group Company Limited ("CPG")	(1)	3,700,519,019	61.71%
A.D. Enterprise Limited	(2)	508,130,081	8.47%
Ms. Thipavan Hongkietkajohn	(2)	508,130,081	8.47%
Ms. Unnapa Lertamornkitti	(2)	508,130,081	8.47%

Notes:

- (1) CP BVI is the beneficial owner of 3,700,519,019 shares. Worth Access has declared an interest in the same 3,700,519,019 shares by virtue of its shareholding in CP BVI whilst CPH also declared an interest in such number of shares by virtue of its shareholding in Worth Access. CPG has declared an interest in the same 3,700,519,019 shares by virtue of shareholding in CPH.
- (2) 508,130,081 shares were beneficially owned by A.D. Enterprise Limited, in which its entire share capital is beneficially owned as to 50% by each of Ms. Thipavan Hongkietkajohn and Ms. Unnapa Lertamornkitti.

Saved as disclosed above, the Company has not been notified of any other interests or short positions in issued share capital of the Company as at 31st December, 2006.

DISCLOSURE PURSUANT TO RULE 13.18 OF LISTING RULES

On 22nd May, 2006, the Company entered into an agreement (the "Facility Agreement") with a bank in Thailand pursuant to the terms and subject to the conditions of which, the Company was granted a term loan facility of US\$50.0 million which will expire on 31st March, 2009.

Pursuant to the Facility Agreement, it would be an event of default if the Company fails to ensure that its controlling shareholder, the Chearavanont Family (being any one or more of Messrs. Jaran Chiaravanont, Montri Jiaravanont, Sumet Jiaravanon and Dhanin Chearavanont (or any company or companies controlled by one or more of them) collectively) at all times maintain their aggregate shareholding (direct or indirect) in the Company of at least 50%.

The occurrence of the aforesaid event of default would render all outstanding liabilities of the Company under the Facility Agreement to become immediately due and payable.

Report of the Directors

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Connected Transactions

The following transactions are connected transactions within the meaning of the Listing Rules of the Stock Exchange:

On 9th September, 2005, the Company entered into a sale and purchase agreement with Charoen Pokphand Group Company Limited, an associate of Mr. Dhanin Chearavanont (the then controlling shareholder of the Company through his interest in Ramon Limited as at the date of the transaction), for the disposal of the entire 75% interest in Fortune (Shanghai) Limited at a consideration of US\$52.7 million (equivalent to HK\$411 million). The completion took place in March, 2006.

On 9th September, 2005, Union Growth Investments Limited ("Union Growth"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Charoen Pokphand Group Company Limited, an associate of Mr. Dhanin Chearavanont (the then controlling shareholder of the Company through his interest in Ramon Limited as at the date of the transaction), for the acquisition of 10% interest in Lotus-CPF (PRC) Investment Company Limited ("Lotus-CPF") at a consideration of US\$8.75 million (equivalent to approximately HK\$68 million). The completion took place in March, 2006.

The relevant details of the abovementioned transactions are set out in the Company's announcement and circular dated 5th December, 2005 and 7th December, 2005 respectively.

On 27th February, 2006, Chia Tai Freewill Investment Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Asia Freewill Co., Ltd., an associate of Mr. Dhanin Chearavanont (the then controlling shareholder of the Company through his interest in Ramon Limited as at the date of the transaction), for the disposal of the entire 49% interest in Freewill Solution Co., Ltd. at a consideration of approximately US\$1.5 million (equivalent to HK\$11.4 million).

On 27th February, 2006, Union Growth, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with C.P. Merchandising Co. Ltd. ("CPM"), an associate of Mr. Dhanin Chearavanont (the then controlling shareholder of the Company through his interest in Ramon Limited as at the date of the transaction), for the acquisition of 40% interest in Lotus-CPF at a consideration of US\$31 million (approximately HK\$241.8 million) and that Union Growth charged the sale shares of Lotus-CPF in favour of CPM.

The relevant details of the abovementioned transactions are set out in the Company's announcement and circular dated 3rd March, 2006 and 2nd May, 2006 respectively.

On 2nd June, 2006, the Company entered into a sale and purchase agreement with Great Splendid Investments Limited, which was controlled by Mr. Dhanin Chearavanont (the then controlling shareholder of the Company through his interest in Ramon Limited as at the date of the transaction), for the disposal of the entire 100% interest in Mass Gain Investments Limited at a consideration of HK\$100,000. The relevant details of the transaction are set out in the Company's announcement and circular dated 5th June, 2006 and 23rd June, 2006 respectively.

On 2nd June, 2006, Chia Tai Food & Beverage Company Limited ("CT F&B"), a wholly-owned subsidiary of the Company, entered into an agreement with The Barbecue Specialist Limited ("BBQ Specialist"), which was controlled by a director of Chia Tai Barbecue Specialist Company Limited ("CTBBQ") for the disposal of the entire 55% interest in CTBBQ at a consideration of HK\$6.75 million. BBQ Specialist has granted a charge over the shares of CTBBQ in favour of CT F&B as security for the due and punctual repayment of BBQ Specialist. The relevant details of the transaction are set out in the Company's announcement dated 5th June, 2006.



Report of the Directors

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS (Continued)

Continuing Connected Transactions

In 2005, the Group entered into certain agreements regarding the purchase and supply of certain merchandise customarily sold in supermarkets with certain subsidiaries of C.P. Pokphand Co. Ltd. ("CPP") and Shanghai Lotus Supermarket Chain Store Co., Ltd. (上海易初蓮花連鎖超市有限公司) ("Shanghai Lotus"), details of which are set out in the circulars dated 29th March, 2005, 23rd November, 2005 and 7th December, 2005.

To enhance the flexibility of the procurement process and provide a wider range of quality merchandise to the customers, the Company entered into (i) the Reorganized CPP Purchase Agreement with CPP; (ii) the Reorganized Shanghai Lotus Purchase Agreement with Shanghai Lotus; and (iii) the Reorganized Shanghai Lotus Supply Agreement with Shanghai Lotus (collectively "Reorganized Agreements") on 24th August, 2006 to replace the agreements signed in 2005. Under the Reorganized Agreements, any subsidiaries of the Company can purchase relevant merchandise from any subsidiaries of CPP or Shanghai Lotus or any of its subsidiaries and any subsidiaries of the Company can supply relevant merchandise to Shanghai Lotus or any of its subsidiaries within the aggregated individual annual caps previously approved. Details of the reorganized continuing connected transactions are set out in the announcement and circular dated 24th August, 2006 and 3rd October, 2006 respectively. The continuing connected transactions were approved by Independent Shareholders of the Company on 25th October, 2006.

Both CPP and Shanghai Lotus are associates of the controlling shareholder of the Company and therefore are connected persons of the Company according to Chapter 14A of the Listing Rules. The transactions under the Reorganized Agreements constituted continuing connected transactions within the meaning of the Listing Rules. The annual caps for the abovementioned continuing connected transactions are as follows:

	Annual caps for the period from 1st January to 24th October, 2006	Prorated annual caps for the period from 25th October to 31st December, 2006
	HK\$'000	HK\$'000
Purchase from certain subsidiaries of CPP	125,620	52,181
Purchase from Shanghai Lotus	107,028	39,495
Supply to Shanghai Lotus	156,633	73,160

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

The independent non-executive directors of the Company have reviewed the continuing connected transactions and confirmed that the transactions were entered into:

- (a) in the ordinary and usual course of business of the Company;
- (b) on normal commercial terms no less favourable to the Company than terms available to or from independent third parties; and
- (c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Report of the Directors

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in the sub-section headed "Directors' interests in share options granted by the Company" under section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares or Debentures" 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.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Article 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.

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.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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. Having made specific enquiry of all Directors, the 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 for the year ended 31st December, 2006.

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

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company as at the date of this report, the Company has maintained the prescribed public float under the Listing Rules.

AUDITORS

Messrs. KPMG were appointed as auditors of the Company with effect from 12th December, 2006 upon the resignation of Messrs. Deloitte Touche Tohmatsu.

Messrs. KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Messrs. KPMG as auditors of the Company will be proposed at the forthcoming AGM.

On behalf of the Board

Soopakij Chearavanont
Chairman

Hong Kong, 20th April, 2007

