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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: 121)

DISCLOSEABLE AND CONNECTED TRANSACTIONS

PROPOSED ACQUISITION OF A 35% INTEREST IN THE REGISTERED CAPITAL OF BEIJING LOTUS SUPERMARKET CHAIN STORE COMPANY LIMITED AND PROPOSED INVESTMENT IN A 35% INTEREST IN THE REGISTERED CAPITAL OF TIANJIN LOTUS SUPERMARKET CHAIN STORE COMPANY LIMITED

On 26th August, 2005, Beijing Chia Tai, a wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with Xing Long with respect to the Beijing Lotus Acquisition pursuant to which Beijing Chia Tai, which currently has a 65% interest in the registered capital of Beijing Lotus, has conditionally agreed to purchase the Target Interest from Xing Long.

On 26th August, 2005, Tianjin Chia Tai, a wholly-owned subsidiary of the Company, entered into the Termination and Investment Agreement with Tian Bao with respect to the Tianjin Lotus Investment pursuant to which both parties agreed to terminate the Joint Venture Agreement and that Tianjin Chia Tai, which currently has a 65% interest in the registered capital of Tianjin Lotus, shall thereafter invest in the remaining 35% interest of the registered capital of Tianjin Lotus which Tian Bao had failed to take up and make payment for.

Each of Beijing Lotus and Tianjin Lotus is indirectly owned as to 65% by the Company. Upon completion of the Equity Transfer Agreement and the Termination and Investment Agreement, Beijing Lotus and Tianjin Lotus shall each become a wholly-owned subsidiary of Beijing Chia Tai and Tianjin Chia Tai respectively and an indirect wholly-owned subsidiary of the Company. Each of the Beijing Lotus Acquisition and Tianjin Lotus Investment amounts to a discloseable transaction of the Company under Rule 14.06(2) of the Listing Rules and a connected transaction of the Company under Rule 14A.11(1) of the Listing Rules and each is required to be made conditional on approval by the Shareholders.

As at the date of this announcement, the Company has obtained the written approval from Ramon Limited, a 55.76% Shareholder which does not have any interest in the Beijing Lotus Acquisition or the Tianjin Lotus Investment, of these transactions.

The Company has applied to the Stock Exchange pursuant to 14A.43 of the Listing Rules for a waiver from the requirement under the Listing Rules for the Company to hold a general meeting to seek shareholders' approval in respect of the Beijing Lotus Acquisition and the Tianjin Lotus Investment on the basis that no Shareholder is required to abstain from voting if the Company was to convene a general meeting for the approval of the Beijing Lotus Acquisition and the Tianjin Lotus Investment and the written approval from the shareholder holding more than 50% of the issued share capital of the Company has been obtained.

A circular containing, among other things, further details of the Beijing Lotus Acquisition and the Tianjin Lotus Investment and a letter from the independent financial adviser to the independent board committee of the Company and the Shareholders will be despatched to the Shareholders in due course.

A. BACKGROUND

Equity Transfer Agreement

On 26th August, 2005, Beijing Chia Tai, a wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with Xing Long pursuant to which Beijing Chia Tai shall acquire and Xing Long shall sell the Target Interest.

Beijing Chia Tai currently has a 65% interest in the registered capital of Beijing Lotus. Upon completion of the Equity Transfer Agreement, Beijing Lotus will become a wholly foreign-owned enterprise and an indirect wholly-owned subsidiary of the Company.

Termination and Investment Agreement

On 26th August, 2005, Tianjin Chia Tai, a wholly-owned subsidiary of the Company, entered into the Termination and Investment Agreement with Tian Bao pursuant to which both parties agreed to terminate the Joint Venture Agreement and that Tianjin Chia Tai shall thereafter invest in approximately 35% registered capital of Tianjin Lotus.

Tianjin Chia Tai currently has a 65% interest in the registered capital of Tianjin Lotus. Upon completion of the Termination and Investment Agreement, Tianjin Lotus will become a wholly foreign-owned enterprise and an indirect wholly-owned subsidiary of the Company.

Further details of the Equity Transfer Agreement and the Termination and Investment Agreement are set out below.

B. THE EQUITY TRANSFER AGREEMENT

Date

26th August, 2005

Parties

1. Beijing Chia Tai (as Purchaser)
2. Xing Long (as Vendor)

Assets to be acquired

The Target Interest, which represents an aggregate 35% interest in the registered capital of Beijing Lotus, including 14% of which has been paid up and the right to invest in and pay up the remaining 21% of the registered capital. The Target Interest will not subject to any transfer restriction upon completion of the Beijing Lotus Acquisition.

The total registered capital of Beijing Lotus is US\$25,000,000 (approximately HK\$195 million), 79% of which, being US\$19,753,600 (approximately HK\$154 million) has been paid up to date (which represents an aggregate of the 65%, being US\$16,250,000 (approximately HK\$127 million), paid up by the Company and the 14%, being US\$3,503,600 (approximately HK\$27 million), paid up by Xing Long.

Consideration

The consideration of RMB31,066,492 (approximately HK\$30 million) is payable by Beijing Chia Tai in cash within three months after completion of the Equity Transfer Agreement. The consideration is to be paid out of the internal resources of the Group.

The consideration has been determined after arms' length negotiation between Beijing Chia Tai and Xing Long and with reference to Xing Long's capital contribution to Beijing Lotus as at and to the date of the Equity Transfer Agreement of approximately US\$3,503,600 (approximately HK\$27 million) and taking into consideration that completion of the Beijing Lotus Acquisition will result in the Company's 100% control of Beijing Lotus.

Upon completion of the Equity Transfer Agreement, Beijing Chia Tai will also invest, out of the internal resources of the Group, US\$5,246,400 (approximately HK\$41 million) in order to take up and pay for the remaining 21% equity interest in the registered capital of Beijing Lotus which Xing Long failed to pay up and make payment for.

Beijing Chia Tai's total capital commitment in the Beijing Lotus Acquisition of approximately HK\$71 million (which includes RMB31,066,492 (approximately HK\$30 million) payable to Xing Long and US\$5,246,400 (approximately HK\$41 million) capital injection to pay up the unpaid registered capital) represents a premium of approximately 38.64% over the net asset value of Beijing Lotus of approximately RMB151,865,725 (approximately HK\$146 million) as at 31st December, 2004.

The Directors consider that the terms and conditions of the Equity Transfer Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Conditions

Completion of the Equity Transfer Agreement is conditional upon:

1. the approval by the board of directors of Beijing Lotus of the Equity Transfer Agreement and the Beijing Lotus Acquisition pursuant to the terms thereunder and the change of the legal status of Beijing Lotus to a wholly foreign-owned enterprise upon completion of the Equity Transfer Agreement;
2. the approval by the Beijing Municipal Commerce Bureau (北京市商業委員會) and the Ministry of Commerce of the PRC (中華人民共和國商務部) of the Equity Transfer Agreement and the Beijing Lotus Acquisition pursuant to the terms thereunder the above-mentioned change of the legal status of Beijing Lotus to a wholly foreign-owned enterprise upon completion of the Equity Transfer Agreement;
3. the approval by the Shareholders of the Equity Transfer Agreement and the Beijing Lotus Acquisition pursuant to the terms thereunder as required under the Listing Rules; and
4. in the event that the performance by either or both of the parties of its or their obligations under the Equity Transfer Agreement will result in a breach of its/their obligations with any third party, the consent of the relevant third party for the purposes of the consummation of the transactions contemplated under the Equity Transfer Agreement.

None of the aforesaid conditions can be waived by the parties to the Equity Transfer Agreement.

Completion

Completion shall take place on the fifth Business Day after the conditions set out above have been fulfilled.

Termination

Neither party to the Equity Transfer Agreement is permitted to terminate the agreement pursuant to the terms thereunder.

C. THE TERMINATION AND INVESTMENT AGREEMENT

Date

26th August, 2005

Parties

1. Tianjin Chia Tai
2. Tian Bao

Subject matter of the Termination and Investment Agreement

Tianjin Chia Tai and Tian Bao have agreed to terminate the Joint Venture Agreement and that Tianjin Chia Tai shall thereafter invest in an approximate 35% registered capital of Tianjin Lotus which Tian Bao had failed to take up and make payment for.

The registered capital of Tianjin Lotus as at the date of this announcement is US\$8,000,000 (approximately HK\$62 million), US\$5,200,000 (approximately HK\$41 million) of which, which amounts to 65% of the registered capital, has been paid up and is held by Tianjin Chia Tai. Upon completion of the Termination and Investment Agreement, Tianjin Chia Tai shall invest, out of the internal resources of the Group, US\$2,800,000 (approximately HK\$22 million) in order to take up and pay for the remaining 35% equity interest in Tianjin Lotus.

Tianjin Chia Tai's total capital commitment in the Tianjin Lotus Investment of US\$2,800,000 (approximately HK\$22 million) represents a premium of approximately 67.98% over the net asset value of Tianjin Lotus of approximately RMB38,694,309 (approximately HK\$37 million) as at 31st December, 2004.

The Directors consider that the terms and conditions of the Termination Agreement and the further investment in Tianjin Lotus are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Conditions

Completion of the Termination Agreement is conditional upon:

1. the approval by the board of directors of Tianjin Lotus of the Termination and Investment Agreement and the Tianjin Lotus Investment pursuant to the terms thereunder and the change of the legal status of Tianjin Lotus from a sino-foreign equity joint venture enterprise to a wholly foreign-owned enterprise upon completion of the Termination and Investment Agreement;

2. the approval by the Tianjin Municipal Commerce Bureau (天津市商業委員會) and the Ministry of Commerce of the PRC (中華人民共和國商務部) of the Termination and Investment Agreement and the Tianjin Lotus Investment pursuant to the terms thereunder and the above-mentioned change of the legal status of Tianjin Lotus to a wholly foreign-owned enterprise upon completion of the Termination and Investment Agreement; and
3. the approval by the Shareholders of the Termination and Investment Agreement and the Tianjin Lotus Investment pursuant to the terms thereunder as required under the Listing Rules.

None of the aforesaid conditions can be waived by the parties to the Termination and Investment Agreement.

Completion

Completion shall take place on the day upon which all of the conditions set out above have been fulfilled.

Termination

Neither party to the Termination and Investment Agreement is permitted to terminate the agreement pursuant to the terms thereunder.

D. FINANCIAL INFORMATION

The tables below set out certain audited financial information on each of Beijing Lotus and Tianjin Lotus for the two years ended 31st December, 2004 prepared in accordance with the generally accepted accounting principles in the PRC:

Beijing Lotus

	31st December, 2004 (RMB)	31st December, 2003 (RMB)
Turnover	479,653,968	8,260,968
Net assets	109,238,725	65,672,230
Loss before taxation	(36,306,858)	(17,418,980)
Loss after taxation	(36,306,858)	(17,448,917)

Tianjin Lotus

	31st December, 2004 (RMB)	31st December, 2003 (RMB)
Turnover	283,377,095	51,371,423
Net assets	15,944,309	(875,839)
Loss before taxation	(26,242,667)	(875,839)
Loss after taxation	(26,242,667)	(875,839)

E. INFORMATION ON THE PARTIES

Beijing Chia Tai

Beijing Chia Tai is an investment holding company which, save for a 65% interest in the registered capital of Beijing Lotus, does not have any other asset as at the date of this announcement.

Tianjin Chia Tai

Tianjin Chia Tai is an investment holding company which, save for a 65% interest in the registered capital of Tianjin Lotus, does not have any other asset as at the date of this announcement.

Xing Long

Xing Long is a company established in the PRC which is principally engaged in the provision of investment and technology development consultancy services and technology training in the PRC.

Tian Bao

Tian Bao is a company established in the PRC which is principally engaged in wholesaling and retailing in the PRC and property development within Tianjin Bonded Zone.

F. REASONS FOR THE BEIJING LOTUS ACQUISITION AND TIANJIN LOTUS INVESTMENT

The Company is an investment holding company whose subsidiaries are engaged in various business activities including, among other things, the operation of large scale cash-and-carry warehouse stores in the PRC.

As stated in the 2004 annual report of the Company, with the extensive network well established by the Group, coupled by high quality products and services provided, the Directors believe that the business of the large scale cash-and-carry warehouse stores in the PRC has solid base to develop, and, would in the long term, be able to generate returns to the Group.

The Directors consider that the Beijing Lotus Acquisition and the Tianjin Lotus Investment reflect the Group's strategy to develop the business of cash-and-carry warehouse stores in the PRC. They will also enable the Group to consolidate its interest and management control in the cash-and-carry warehouse stores in North China operated by Beijing Lotus. The Directors consider the terms (including the total capital commitment to be made by the Group in both acquisitions) of the Beijing Lotus Acquisition and the Tianjin Lotus Investment are in the interest of the Group and the Shareholders as a whole.

G. IMPLICATIONS UNDER THE LISTING RULES

Discloseable Transactions

As the Group's commitment under each of the Equity Transfer Agreement and the Termination and Investment Agreement exceeds 5% but is less than 25% of the percentage ratio under Rule 14.07 of the Listing Rules, the Beijing Lotus Acquisition and the Tianjin Lotus Investment each constitutes a discloseable transaction of the Company pursuant to Rule 14.06 of the Listing Rules.

Connected Transactions and Shareholders' Meeting Waiver

Beijing Lotus is a 65% owned subsidiary of the Company. Xing Long owns 35% of the interest in the registered capital of Beijing Lotus and is therefore a substantial shareholder of that company for Listing Rules purposes. Xing Long is therefore a connected person of the Company.

Similarly, Tianjin Lotus is a 65% owned subsidiary of the Company and Tian Bao is a substantial shareholder of Tianjin Lotus because Tian Bao owns 35% of the interest in the registered capital of Tianjin Lotus. Tian Bao is therefore also a connected person of the Company.

Accordingly, the Beijing Lotus Acquisition and the Tianjin Lotus Investment each constitutes a connected transaction of the Company under Rule 14A.11(1) of the Listing Rules and each is required to be made conditional on approval by the Shareholders.

Xing Long is a connected person of the Company by virtue of its ownership of a 35% equity interest in Beijing Lotus. So far as the Directors are aware, other than being interested in Beijing Lotus, Xing Long and its associates have no connection with the Group, and none of Xing Long, its directors, controlling shareholders or associates has any interest in the Shares. Similarly, Tian Bao is a connected person of the Company by virtue of its ownership of a 35% equity interest in Tianjin Lotus. So far as the Directors are aware, other than being interested in Tianjin Lotus, Tian Bao and its associates have no connection with the Group, and none of Tian Bao, its directors,

controlling shareholders or associates has any interest in the shares of the Company. As such, no Shareholder would be required to abstain from voting on the Beijing Lotus Acquisition and the Tianjin Lotus Investment.

As at the date of this announcement, the Company has obtained the written approval from Ramon Limited, a 55.76% Shareholder which does not have any interest in the Beijing Lotus Acquisition or the Tianjin Lotus Investment, of these transactions.

In view of the aforesaid, the Company has applied to the Stock Exchange pursuant to 14A.43 of the Listing Rules for a waiver from the requirement under the Listing Rules for the Company to hold a general meeting to seek shareholders' approval in respect of the Beijing Lotus Acquisition and the Tianjin Lotus Investment on the basis that no Shareholder is required to abstain from voting if the Company was to convene a general meeting for the approval of the Beijing Lotus Acquisition and the Tianjin Lotus Investment and the written approval from the shareholder holding more than 50% of the issued share capital of the Company has been obtained.

A circular containing, among other things, further details of the Equity Transfer Agreement and the Termination and Investment Agreement and a letter from the independent financial adviser to the independent board committee of the Company and the Shareholders, will be despatched to the Shareholders in due course.

H. DEFINITIONS

In this announcement, the following words and phrases have the following meanings:

"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Beijing Chia Tai"	Chia Tai Trading (Beijing) Company Limited, a limited liability company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company
"Beijing Lotus"	北京易初蓮花連鎖超市有限公司 (Beijing Lotus Supermarket Chain Store Co., Ltd.), a sino-foreign equity joint venture established in the PRC which is indirectly owned as to 65% by the Company
"Beijing Lotus Acquisition"	the proposed acquisition of an approximate 35% interest in the registered capital of Beijing Lotus by Beijing Chia Tai pursuant to the terms of the Equity Transfer Agreement
"Business Day"	a day on which licensed banks are generally open for business in PRC
"Company"	Chia Tai Enterprises International Limited (正大企業國際有限公司), a company incorporated in the Cayman Islands whose shares are listed and traded on the Main Board of the Stock Exchange
"Directors"	the directors of the Company
"HK\$"	Hong Kong dollars, the lawful currency of Hong Kong
"Joint Venture Agreement"	an agreement dated 28th January, 2003 between Tianjin Chia Tai and Tian Bao with respect to their joint investment in Tianjin Lotus
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"PRC"	the People's Republic of China (for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region and Taiwan)
"RMB"	Renminbi, the lawful currency of the PRC
"Share(s)"	share(s) of HK\$0.02 each in the issued share capital of the Company
"Equity Transfer Agreement"	a transfer agreement dated 26th August, 2005 entered into between Beijing Chia Tai and Xing Long in respect of an approximate 35% interest in the registered capital of Beijing Lotus
"Shareholders"	holders of the Share(s)
"Target Interest"	an aggregate 35% interest in the registered capital of Beijing Lotus, including 14% of the equity interest (amounting to US\$3,503,600) which has been paid up and the right to invest in and pay up the remaining 21% of the registered capital
"Termination and Investment Agreement"	an agreement dated 26th August, 2005 between Tianjin Chia Tai and Tian Bao with respect to the termination of the Joint Venture Agreement and the Tianjin Lotus Investment
"Tian Bao"	天津天保控股有限公司 (Tianjin Tian Bao Holding Company Limited), a company established in the PRC
"Tianjin Chia Tai"	Chia Tai Trading (Tianjin) Company Limited, a limited liability company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company
"Tianjin Lotus"	天津易初蓮花連鎖超市有限公司 (Tianjin Lotus Supermarket Chain Store Co., Ltd.), a sino-foreign equity joint venture established in the PRC which is indirectly owned as to 65% by the Company
"Tianjin Lotus Investment"	the proposed investment in an approximate 35% interest in the registered capital of Tianjin Lotus by Tianjin Chia Tai pursuant to the terms of the Termination and Investment Agreement
"Xing Long"	北京興隆投資集團有限公司 (Beijing Xing Long Investment Group Company Limited), a company established in the PRC
"US\$"	United States dollars, the lawful currency of the United States

Translations of RMB into HK\$ and US\$ into HK\$ are made in this announcement at the following respective exchange rates for illustration purposes only. No representation is made that any amounts in RMB or US\$ could have been or could be converted at those rates or at any other rates:

RMB1.00	HK\$0.96
US\$1.00	HK\$7.80

By Order of the Board
Chia Tai Enterprises International Limited
Robert Ping-Hsien Ho
 Director

Hong Kong, 30th August, 2005

As at the date of this announcement, the board of directors of the Company comprises nine executive Directors, namely Mr. Soopakij Chearavanont, Mr. Tse Ping, Dr. Lee G. Lam, Mr. Narong Chearavanont, Mr. Supachai Chearavanont, Mr. Chatchaval Jiaravanon, Mr. Kachorn Chiaravanont, Mr. Yang Xiaoping and Mr. Robert Ping-Hsien Ho and three independent non-executive Directors, namely, Mr. Viroj Sangsrit, Mr. Chokchai Kotikula and Mr. Cheng Yuk Wo.