Chia Tai Enterprises International Limited
正大企業國際有限公司

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立之有限公司)
Stock Code 股份代號： 00121

Annual Report 2007 年報

LOTUS SUPERCENTER

Chia Tai Enterprises International Limited ("CTEI") is an investment holding company. Through its subsidiaries, CTEI is principally engaged in the operation of large scale one-stop shopping centers, Lotus Supercenters, located in the North and the South of China.

Lotus Supercenters succeeded in introducing modern retail experience to China by establishing advanced, comprehensive and efficient system for purchasing, storage and logistics. As a one-stop shopping center, Lotus offers a large assortment of quality merchandise at good value, including fresh food, health supplement, beverage & liquor, household chemical, housewares, hardware, automotive, sporting goods, toys, electronic appliances, apparel, shoes and more. The aim is to offer customers a wide range of quality merchandise to meet their daily needs and to help them to live a better life.

易初蓮花購物中心

正大企業國際有限公司（「正大企業」）乃一家投資控股公司，其附屬公司主要於中國北方區及南方區經營大型「一站式」消費的購物中心－易初蓮花購物中心。

易初蓮花購物中心成功地把先進的零售概念帶入中國，並已經建立了先進、完整、高效的採購、倉儲和配運體系。作為一個「一站式」的購物中心，易初蓮花幾乎涵蓋所有種類的優質商品，並以超值價發售，包括新鮮食品、保健品、飲料、酒類、日用洗化用品、家用品、五金、汽車配件、體育用品、玩具、家用電器和服裝鞋類等，目標就是為廣大顧客提供種類廣泛的優質產品，以幫助人們享受更好的生活！

新鮮你的生活！

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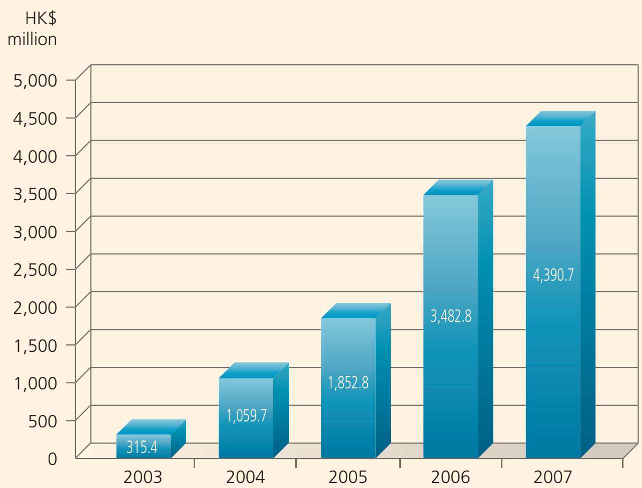
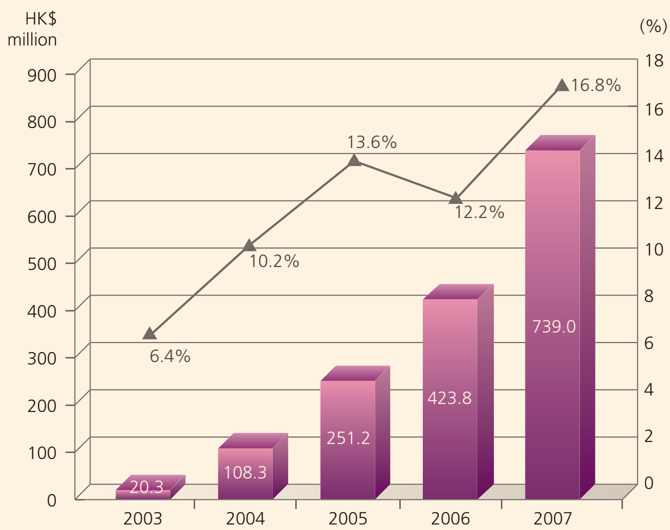
FINANCIAL HIGHLIGHTS

	Year ended 31st December, 2007 HK$million	2006 HK$million (Restated)	Change
Turnover	**4,390.7**	3,482.8	26.1%
Gross Profit	**739.0**	423.8	74.4%
Loss for the year	**(304.7)**	(347.5)	12.3%
Loss for the year (excluding gains from discontinued operations)	**(304.7)**	(571.0)	46.6%
EBITDA (excluding gains from discontinued operations and disposal of subsidiaries and an associate)	**(65.3)**	(382.9)	82.9%



FIVE-YEAR TURNOVER TREND



FIVE-YEAR GROSS PROFIT TREND

CHAIRMAN'S STATEMENT

2007 was characterized by the continued efforts and dedication to achieve financial turnaround for the Company.

During our 2006 results announcement, we set out our roadmap to a financial turnaround – a strategic plan to help us achieve our vision for future business success. Revenue increased over 26% from HK$3,482.8 million to HK$4,390.7 million while loss from continuing operation improved significantly from HK$571.0 million in 2006 to HK$304.7 million in 2007. We are seeing improvement in results but there is much more to do. It is important that we stay focused on doing the right things for our shareholders and our customers.

We have recruited a new management team headed by Mr. Jim Haworth, our Chief Executive Officer, who joined us in September 2006 after having over 20 years' experience at Wal-Mart stores. I am confident that Mr. Haworth and his team with the best global retailing and financial experience in addition to excellent management skills will continue to drive the business forward and work to achieve our goal as one the leading hypermarket operators in China while creating best return to our shareholders who richly deserve.

During the year under review, we operated a total of 33 Lotus hypermarkets, spanning across the Northern and Southern part of China. We opened one new store in Guangzhou in September and it was part of our strategy of maintaining our focus to improve the operation and financial performance of the existing stores and solidify our equity base before embarking on any expansion plan.

PROSPECT

Sustained economic growth will continue to drive domestic demand in China. Against this backdrop, we will build on the good momentum generated in 2007 by continuing our efforts for a successful financial turnaround and become one of the leading hypermarket operators in China. We are optimistic about the future.

We have the management depth to execute the strategy and we have talented and dedicated employees to help executing the strategy but most importantly, we need your understanding and continuous support.

ACKNOWLEDGEMENT

On behalf of the Board, I thank our management team and our staff for their hard work and commitment in the past year.

Soopakij Chearavanont
Chairman

18th April, 2008

CHIEF EXECUTIVE OFFICER'S REPORT

So much have happened at CTEI in the past few years.

Over the two years in 2005 and 2006, CTEI has divested itself of its non-core businesses in property development, department store management, and software development and provision of IT services and has focused solely on the hypermarket business in China.

In May 2007, we announced a "Restructuring" – in order to strengthen and accelerate the core hypermarket business, we will rationalize our business portfolio and upon completion of the Restructuring, we will operate 41 performing stores in the PRC. We are working very hard to ensure a smooth completion of the Restructuring and looking forward to this new phase of our business with great excitements and anticipation.

All these changes are part of the long-term strategy of making the CTEI Group to be one of the leading hypermarket operators in the PRC.

We have started our re-branding campaign, transforming from being perceived as old and serving low income customers to a younger and high-end image. To achieve this, we are bringing in branded tenants to our consignment areas, we are changing our signage and brand image to create a fresher and vibrant shopping atmosphere.

We also want to be a leader in food safety and provide affordable and timely supply chain for quality fresh products to echo our customers' quest for better, safer and higher quality living. We have introduced more stringent fresh produce specification and do not accept anything which fails to meet our standards.

We will continue to do the right things for the customers, offer them with the right products at the right price and making sure we are their number one choice of everyday shopping needs. Our hard work over the past year to put this strategy into action has yielded encouraging results.

OUTLOOK

We start 2008 in great shape, with good business momentum and a clear strategy. The fundamentals of our strategy remain the same. Our goal is to be our customers' first choice of everyday shopping needs. We are making tremendous progress in delivering the things our customers have told us are most important to them – top quality fresh food, the latest in electronics and fashion, and affordable everyday goods to enhance their good lives. However, I also realize that there is much more to do, we see opportunities for growth and we also see room for improvement.

Jim Haworth
Chief Executive Officer & President

18th April, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Chia Tai Enterprises International Limited (the "Company") and its subsidiaries (together the "Group") recorded a loss attributable to shareholders for the year ended 31st December, 2007 of HK$307.3 million (2006: HK$334.6 million). Loss from continuing operation improved significantly from HK$571.0 million in 2006 to HK$304.7 million in the year under review.

Revenue rose by HK$907.9 million, or 26.1% to HK$4,390.7 million. The increase in revenue was primarily a result of like-for-like growth of 11.6%, the contribution from 3 new stores, 2 located in the Northern region and 1 located in the Southern region which were opened in the second half of 2006 and the third quarter of 2007 respectively, and Lotus-CPF (PRC) Investment company Limited ("Lotus-CPF") becoming a subsidiary of the Group in March, 2006 and its revenue and results were consolidated into the financial statements of the Group since then.

Gross profit margin which includes income from suppliers increased from 12.2% to 16.8%. 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 50.5% to HK$110.5 million, approximately 2.5% 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$961.9 million compared to HK$820.0 million in 2006. It mainly comprised of utilities, personnel and rental expenses for a total of HK$643.2 million. The increase was primarily a result of rising utilities expenses and rising labour cost. 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$238.1 million, representing a decrease from 6.8% of sales in 2006 to 5.4% of sales during the year. Administrative expenses mainly included personnel expenses of HK$147.4 million and professional fee of HK$29.0 million.

Loss for the year from continuing operation was HK$304.7 million, compared to HK$571.0 million last year. Earnings before interest, taxation, depreciation and amortization ("EBITDA") improved 82.9% from HK$(382.9) million (excluding gain from discontinued operations and on disposal of subsidiaries and an associate) in 2006 to HK$(65.3) million in 2007. This was primarily attributable to improvement in revenue, and a 4.6% point increase in gross profit margin.

Capital Structure

For the year ended 31st December, 2007, there has been no change in the Company's issued share capital.

Liquidity and Financial Resources

As at 31st December, 2007, the Group had net current liabilities and net liabilities of approximately HK$775.5 million and HK$319.4 million respectively and incurred a loss from continuing operation of HK$304.7 million for the year then ended.

As at 31st December, 2007, the Group had short-term bank loans of HK$110.0 million (2006: HK$39.6 million), and had long-term bank loans of US$50.0 million (equivalent to HK$390.0 million) drawdown. The Group had unsecured other loans of HK$449.6 million (2006: HK$66.4 million) of which HK$441.8 million (2006: HK$66.4 million) were advanced from related companies. The current portion of unsecured other loans amounted to HK$403.0 million and HK$66.4 million at year ended 2007 and 2006 respectively. The Group had cash and cash equivalents amounting to HK$203.7 million, representing a 2.07 times of the balance as at the end of 2006.

FINANCIAL REVIEW (Continued)

Gearing and Current Ratios

As at 31st December, 2007, the gearing ratio of the Group stood at -2.95 (gearing ratio was calculated by dividing interest-bearing bank loans and other borrowings by shareholders' equity) (31st December, 2006: -6.90) and current ratio of the Group was 0.61 (31st December, 2006: 0.56).

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.

Contingent Liabilities

As at the balance sheet date, the Company had issued two guarantees to an independent third party in respect of finance lease arrangements with its subsidiaries which expire in 2025 and a co-guarantee to a bank in respect of a bank loan granted to its subsidiary which expires in November, 2010 or upon repayment of the loan, if earlier. As at the balance sheet date, the Directors did not consider it probable that claims will be made against the Company under any of the guarantees. The maximum liability of the Company at the balance sheet date under the guarantees issued was 55% of the future minimum lease payments under the two lease agreements entered into by the subsidiaries of RMB55.0 million (equivalent to HK$58.7 million) and the outstanding amount of the bank loan to its subsidiary of HK$32.0 million.

Charges on Assets

A share charge has been entered into between Union Growth Investments Limited ("Union Growth"), a wholly-owned subsidiary of the Company, and C.P. Merchandising Co. Ltd. ("CPM") on 30th May, 2006 whereby Union Growth has agreed to pledge 38,960,000 registered shares of Lotus-CPF to CPM as security for the due and punctual performance of its obligation under a Share Sale and Purchase Agreement dated 27th February, 2006 made between Union Growth and CPM, in relation to the acquisition of the remaining 40% of Lotus-CPF.

Employees, Training and Remuneration Policy

The Group had around 11,500 employees as at the end of 2007. 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.

REVIEW OF ANNUAL RESULTS

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, 2007.

BUSINESS REVIEW

During the year, the Group maintained its focus on the operation and development of its hypermarket business in China.

As at the date of this report, the Group operates a total of 33 hypermarket stores in China, of which 21 are located in the Northern region and 12 in the Southern region of China. Only 1 new store was opened during the year under review as it is the Group's strategy to maintain its focus on store operation and on the financial turnaround of its existing portfolio and solidify the equity base before opening more new stores.

Product Offering Enhancement

We have continued to review our merchandise mix to make sure we provide the right products to our customers. During the year under review, new products introduced accounted for over 25% of sales and 29% of profits; at the same time under-performing products were replaced. We have also enhanced our "Import Goods" section to provide a larger variety of high quality products from overseas. We have conducted tests and are preparing for rollouts of baby centers, life style health & fitness centers, and expanded assortments in cosmetics and products that appeal to customers with more disposable income such as sporting goods, toys and automotive.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW (Continued)

Re-branding Campaign

We have started our re-branding campaign, transforming Lotus from being perceived as old and serving low income customers to a younger and higher-end image. To achieve this we are bringing in well-known tenants to our consignment areas, we are changing our signage and brand image to create a fresher and vibrant shopping atmosphere. As we entered 2008, we launched our Lotus - fresh your life campaign to help customers better understand our commitment to fresh & new. We have developed prototype standards for all of our new and remodeled stores to reinforce the attitude of Lotus - fresh your life. We will continue to improve the total shopping environment by providing our customers with shopping, leisure and food & beverage services in our consignment areas.

Marketing and Promotional Activities

To further boosting sales and strengthen our relationship with our suppliers, we organized Thai Food Festival with the Thai Ministry of Commerce, a Baby Fair with Procter & Gamble, many product categories promotion with key suppliers and many anniversary events to celebrate the 10th anniversary of Lotus Supercenter.

New Food Safety Standard

With the quest for better living, customers are more concerned about food safety and hygiene. We want to be a leader in food safety and provide affordable and timely supply chain for quality fresh products. We have introduced more stringent fresh meat produce specifications to facilitate better product quality control with our suppliers as we strive to deliver very fresh products at consistently high standards.

IT Systems and Infrastructure

We successfully launched a nationwide VMS system in August, 2007. VMS is the core retail system used by various business areas to manage the business. It focuses on the merchandising aspects of the retail business including vendor and item file management, purchase orders, price maintenance, replenishment, consignment and inventory management. As part of the VMS implementation, we also introduced online work flow processes to increase efficiency in managing the merchandising side of the business. This also enables us to have rules based controls to ensure the decisions (i.e. pricing, purchasing, etc.) are within certain tolerance levels to help us achieve business targets.

Our People

At Lotus, we place great emphasis and participation on continuous training and talent development. We launched a Graduate Management Training (GMT) Development Program in 2007 which aims at recruiting young talented graduates from local leading renowned universities and developing these recruits into future business leaders.

The Restructuring

On 17th May, 2007, the Company entered into an acquisition agreement with the vendors and the ultimate shareholders of Shanghai Lotus Supermarket Chain Store Co., Ltd. for the acquisition of 19 well-established and performing stores at a consideration of HK$2,814.6 million ("the Acquisition"). As the consideration will be satisfied by issue of consideration shares, preference shares and convertible bonds, the Acquisition will not cause any depletion of the cash resources of the Group but will increase shareholders' equity significantly. At the same time, the Company also entered into a disposal agreement with a connected party for the disposal of 11 non-performing stores in the Northern region for a consideration of HK$433.4 million (collectively known as the "Restructuring").

The Restructuring was duly approved by the independent shareholders of the Company on 25th July, 2007. Upon completion of the Restructuring, the Group will operate a total of 41 hypermarket stores, of which 10 stores in the Northern, 12 stores in the Southern and 19 stores in the Central region of China with a total sales area of approximately 612,000 square metres, extending its presence in Shanghai and Jiangsu province in addition to its significant operations in the Guangdong province, Beijing, Qingdao, Xian and Zhengzhou, China. The disposal of the 11 non-performing stores provides a good opportunity for us to improve the financial positions.

STRATEGIC OUTLOOK

The overall consumer environment in China remains robust and the Group has started 2008 with good momentum. The Group will continue its efforts to maximize revenue and reduce cost to remain competitive, at the same time continue to improve our service quality to maintain customer loyalty. Competition from global and domestic rivals for market shares has intensified and it is important that we stay focused on doing the right things for our shareholders and our customers.

CORPORATE GOVERNANCE REPORT

Chia Tai Enterprises International Limited (the "Company") is committed to achieving high standards of corporate governance that properly protect and promote the interests of all the shareholders and to enhance corporate value and accountability. The Company has applied the principles and complied with the code provisions prescribed in Appendix 14 – Code on Corporate Governance Practices ("CG Code") as required under the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). This report describes our corporate governance practices and explains the applications of the principles of the CG Code.

A. BOARD OF DIRECTORS

BOARD

The Board is accountable to the shareholders for leadership and control of the Company and is collectively responsible for promoting the success of the Company and its businesses by directing and supervising the Company's affairs. The Board focuses on overall corporate strategies and policies with attention particularly paid to the growth and financial performance of the Group.

The Board has determined that certain matters such as strategic planning, significant transactions and budget should be retained for the Board's approval. It has formalised the functions reserved to the Board to achieve a clear division of the responsibilities of the Board and the management. The Board delegates its responsibilities to the senior management to deal with day-to-day operations and reviews those arrangements on a periodic basis. Management reports back to the Board and obtains prior approval before making decisions for key matters or entering into any commitments on behalf of the Company.

To maximise the effectiveness of the Board and to encourage active participation and contribution from Board members, the Board has established executive board committee, audit committee and remuneration committee with specific written terms of reference to assist in the execution of their duties. The terms of reference of each of the committees are reviewed and amended (if necessary) from time to time, as well as the committees' structure, duties and memberships.

The Company Secretary and the Qualified Accountant shall, as far as possible, attend all meetings of the Board/committees to advise on corporate governance, statutory compliance, accounting and financial matters. All directors have access to the Company Secretary who is responsible for the Group's compliance with the continuing obligations of the Listing Rules, Codes on Takeovers and Mergers and Share Repurchases, Companies Ordinance, Securities and Futures Ordinance and other applicable laws, rules and regulations etc.

All directors are given the opportunities to include matters to be discussed in the agenda of the Board/committee meetings. The Company Secretary is delegated with the responsibility to prepare the agenda and, where appropriate, take into account any matters proposed by each director/committee member for inclusion in the agenda.

Other than exceptional circumstances, an agenda accompanied by any related materials are circulated to all directors in a timely manner and at least three days before the date of the scheduled meeting. Where queries are raised by directors, responses should be given as promptly and fully as possible within a reasonable time.

The Board meets regularly and at least four board meetings are scheduled annually at approximately quarterly intervals. Ad-hoc meetings are convened when it considers necessary. Notices of regular Board/committee meetings are given at least 14 days before the date of meeting. For all other Board/committee meetings, reasonable notices are given.

CORPORATE GOVERNANCE REPORT

A. BOARD OF DIRECTORS (Continued)

BOARD (Continued)

Minutes of the Board/committee meetings are recorded in detail for the matters considered by the participants of such meetings and decisions reached, including concerns raised by directors or dissenting views expressed. Draft and final versions of minutes are circulated to relevant directors or committee members within a reasonable time after the meetings are held and taken as true records of the proceedings of such meetings. They are kept by the Company Secretary or secretary of the committees and are open for inspection at any reasonable time on reasonable notice by any director. All directors are entitled to have access to board papers and related materials unless there are legal or regulatory restrictions on disclosure due to regulatory requirements.

Directors are provided with complete, adequate explanation and information to enable them to make an informed decision or assessment of the Group's performance, position and prospects and to discharge their duties and responsibilities on timely basis. The directors, to properly discharge their duties, are given access to independent professional advisers, when necessary, at the expense of the Company.

If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will be dealt with by way of a Board/committee meeting and the interested shareholder or director shall not vote nor shall he/she be counted in the quorum present at the relevant meeting. Independent non-executive directors who, and whose associates, have no material interest in the transaction, should be present at such a board meeting.

BOARD COMPOSITION

The Board currently consists of fourteen Executive Directors (including a Chairman, four Vice Chairmen, a Chief Executive Officer ("CEO") & President) and three Independent Non-Executive Directors ("INEDs").

Executive Directors:
Mr. Soopakij Chearavanont *(Chairman)*
Mr. Narong Chearavanont *(Vice Chairman)*
Mr. Tse Ping *(Vice Chairman)*
Mr. Yang Xiaoping *(Vice Chairman)*
Mr. Li Wen Hai *(Vice Chairman)*
Mr. James Harold Haworth *(CEO & President)*
Mr. Michael Ross
Mr. Umroong Sanphasitvong
Mr. Robert Ping-Hsien Ho
Mr. Meth Jiaravanont
Mr. Nopadol Chiaravanont
Mr. Chatchaval Jiaravanon
Mr. Supachai Chearavanont
Mr. Kachorn Chiaravanont

Independent Non-Executive Directors:
Mr. Viroj Sangsnit
Mr. Chokchai Kotikula
Mr. Cheng Yuk Wo

Mr. Yang Xiaoping has been re-designated as Vice Chairman with effect from 14th May, 2007 while Mr. Li Wen Hai has been re-designated as Vice Chairman with effect from 18th April, 2008.

The attributes, skills and expertise among the existing directors have a balance and mix of core competencies in areas such as accounting and finance, legal, business and management and marketing strategies.

A. BOARD OF DIRECTORS (Continued)

BOARD COMPOSITION (Continued)

The INEDs meet the requirements of independence under the Listing Rules so that there is sufficient element of independence in the Board to exercise independent judgement. The Board considers that all of the INEDs are independent and has received from each of them the confirmation of independence as required by the Listing Rules.

The INEDs have the same duties of care and skill and fiduciary duties as the executive directors. They are expressly identified as such in all corporate communications that disclose the names of directors of the Company. The functions of INEDs include, but not limited to:

- participating in Board meetings to bring an independent judgement to bear on issues of corporate strategy, corporate performance, accountability, resources, key appointments and standard of conducts;
- taking the lead where potential conflicts of interests arise;
- serving and actively participating on committees, if invited;
- attending general meetings of the Company and developing a balanced understanding of the views of shareholders; and
- scrutinising the Group's performance in achieving agreed corporate goals and objectives and monitoring the reporting of performance.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of Chairman and CEO of the Company are separated and the positions are held by separate individuals with a view to maintain an effective segregation of duties between management of the Board and day-to-day management of the Group's business. There is no financial, business, family or other material/relevant relationship between the Chairman and CEO.

Mr. Soopakij Chearavanont is the Chairman of the Company. He is responsible for overseeing the function of the Board and formulating overall strategies and policies of the Company and providing leadership to the Board so that the Board works efficiently and discharges its responsibilities and that all key and appropriate issues are discussed by the Board in a timely manner.

Mr. James Harold Haworth is the CEO & President of the Company and is responsible for managing the Group's business and operations.

The Chairman also seeks to ensure that all directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

APPOINTMENT, RE-ELECTION AND REMOVAL

Appointment of new directors is a matter for consideration by the Board. It reviews the profiles of the candidates and makes recommendations on the appointment, re-election and retirement of directors. During the year, there was no resignation and appointment of directors.

The Articles of Association of the Company provides that (1) any directors appointed by the Board to fill a casual vacancy shall be subject to re-election by shareholders at the next following general meeting after their appointment or until the next following annual general meeting after their appointment in case of an addition to their number; and (2) one-third of the directors or, if their number is not three or a multiple of three, the number nearest to but not less than one-third who have been longest in office since their last election or re-election are subject to retirement by rotation at least once every three years. The new directors shall not be taken into account in determining the number of directors who are to retire by rotation at such meeting. All retiring directors are eligible for re-election.

CORPORATE GOVERNANCE REPORT

A. BOARD OF DIRECTORS (Continued)

APPOINTMENT, RE-ELECTION AND REMOVAL (Continued)

Newly appointed director(s) of the Company will receive induction and reference materials to enable him/them to familiarise with the Group's history, mission, business operations and the Company's policies. Each director is briefed and updated to ensure that he has a proper understanding of the operations and business of the Group and that he is fully aware of his responsibilities of the latest changes under statute and common law, the Listing Rules, Companies Ordinance, Securities and Futures Ordinance, applicable legal and other regulatory requirements and the governance policies of the Company. Every new director received a "Memorandum on the Duties and Responsibilities of Directors of a Company Listed on the Main Board of The Stock Exchange of Hong Kong Limited" prepared by the Group's external lawyers which set out guidelines on statutory and regulatory requirements.

Every director shall ensure that he can contribute sufficient time and effort to the corporate affairs of the Company once he accepts the appointment.

The Executive Directors are not appointed for a specific term. The INEDs are appointed for successive term of one year each. All the Directors are subject to retirement by rotation and re-election by shareholders at general meeting of the Company, in accordance with the Articles of Association of the Company.

The names and biographical details of the directors who will offer themselves for election or re-election at the general meeting are set out in the relating circular accompanying the notice of meeting, to assist shareholders in making an informed decision on their elections.

COMMITTEES

Executive Board Committee ("EBC")

The EBC was established on 8th September, 2005 with written terms of reference. The EBC consists of Messrs. Soopakij Chearavanont (Chairman), Narong Chearavanont, Yang Xiaoping, Umroong Sanphasitvong and Robert Ping-Hsien Ho.

The EBC meets as and when required to oversee the day-to-day management of the Group.

All resolutions or recommendations approved by the EBC will be reported to the Board, unless there are legal or regulatory restrictions.

Remuneration Committee ("RC")

The RC was established on 8th September, 2005 with written terms of reference. The RC consists of Messrs. Soopakij Chearavanont (Chairman), Umroong Sanphasitvong, Viroj Sangsnit (INED), Chokchai Kotikula (INED) and Cheng Yuk Wo (INED).

The principal functions of the RC include:

- recommending the Board on the Company's policies and structure for the remuneration of the directors and senior management of the Group;

- determining the remuneration packages of all executive directors and senior management;

- reviewing and approving their performance-based remuneration;

- reviewing and approving compensation to directors and senior management in connection with any loss or termination of their office or appointment; and

- ensuring no director or any of his associates is involved in deciding his own remuneration.

A. BOARD OF DIRECTORS (Continued)

COMMITTEES (Continued)

Remuneration Committee ("RC") (Continued)

The RC held two meetings in 2007 to approve the remuneration package of Mr. James Harold Haworth and review the remuneration policy and package for the other directors. The emoluments of directors are determined by reference to the skills, experiences, responsibilities, employment conditions and time-commitment in the Group's affairs and performance of each director as well as salaries paid by comparable companies and the prevailing market conditions. The Company has adopted a share option scheme on 31st May, 2002, which serves as an incentive to attract, retain and motivate talented eligible staff, including the directors. Members of the RC, however, do not participate in the determination of their own remuneration. Details of the directors' emoluments is set out in Note 8 to the financial statements.

The RC consults the Chairman and the CEO about its proposals relating to the remuneration of other executive directors and has access to professional advice if it considers necessary. The Company provides sufficient resources to RC to discharge its duties.

Minutes of RC are kept by the Company Secretary. Draft and final versions of minutes are sent to all members of the RC within a reasonable time after the meeting for their comments and records respectively.

The terms of reference of the RC is available from the Company Secretary on request and is posted on the Company's website.

Audit Committee ("AC")

The AC was established on 2nd July, 1999. The AC consists of three INEDs, Messrs. Cheng Yuk Wo (Chairman), Viroj Sangsnit and Chokchai Kotikula, who together have sufficient accounting and financial management expertise, legal and business experience to discharge their duties. In accordance with the provisions of the CG Code, the terms of reference of the AC were revised on 19th July, 2005 in terms substantially the same as the provisions set out in the CG Code.

The Company provides sufficient resources to the AC for discharging the duties. The duties and responsibilities are set out clearly in the terms of reference which includes:

- considering and recommending the appointment, re-appointment and removal of external auditors;
- approving the remuneration and terms of engagement of external auditors, any questions of resignation or dismissal of the auditors;
- discussing with external auditors' independence, the nature and scope of the audit and reporting obligations before the audit commences;
- monitoring integrity of financial statements and reviewing the interim and annual financial statements and reports before submission to the Board;
- reviewing the Group's financial controls, internal control and risk management systems;
- considering any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response; and
- reviewing the external auditors' management letter, any material queries raised by the auditors to management in respect of the accounting records, financial accounts or systems of control and management's response and ensuring that the Board will provide a timely response to the issues raised.

CORPORATE GOVERNANCE REPORT

A. BOARD OF DIRECTORS (Continued)

COMMITTEES (Continued)
Audit Committee ("AC") (Continued)
The AC met two times during 2007 and performed the following work:

- Reviewed and discussed with management and the external auditors regarding the financial statements for the year ended 31st December, 2006 and management letter;
- Reviewed with management the unaudited interim financial statements for the six months ended 30th June, 2007;
- Reviewed the operations and performance of the Group;
- Reviewed the effectiveness of internal control system;
- Reviewed the external auditors' statutory audit plan and engagement letter; and
- Recommended to the Board, for the approval by shareholders, of the re-appointment of the auditors.

Minutes of AC are kept by the Company Secretary. Draft and final versions of minutes are sent to all members of the AC within a reasonable time after the meeting for their comments and records respectively.

The terms of reference of the AC is available from the Company Secretary on request and is posted on the Company's website.

BOARD AND COMMITTEE ATTENDANCE
The Board held four regular meetings in 2007. Details of the attendance of each individual director at Board meetings and committee meetings during 2007 are set out below:

	No. of meetings attended/held		
Directors	**Board**	**Remuneration Committee**	**Audit Committee**
Executive Directors			
Mr. Soopakij Chearavanont	2/4	1/2	–
Mr. Narong Chearavanont	3/4	–	–
Mr. Tse Ping	1/4	–	–
Mr. Yang Xiaoping	3/4	–	–
Mr. Li Wen Hai	3/4	–	–
Mr. James Harold Haworth	4/4	–	–
Mr. Michael Ross	3/4	–	–
Mr. Umroong Sanphasitvong	3/4	2/2	–
Mr. Robert Ping-Hsien Ho	3/4	–	–
Mr. Meth Jiaravanont	4/4	–	–
Mr. Nopadol Chiaravanont	2/4	–	–
Mr. Chatchaval Jiaravanon	2/4	–	–
Mr. Supachai Chearavanont	2/4	–	–
Mr. Kachorn Chiaravanont	1/4	–	–
Independent Non-Executive Directors			
Mr. Viroj Sangsnit	4/4	2/2	2/2
Mr. Chokchai Kotikula	4/4	2/2	2/2
Mr. Cheng Yuk Wo	3/4	1/2	2/2
No. of meetings	4	2	2

A. BOARD OF DIRECTORS (Continued)

BOARD AND COMMITTEE ATTENDANCE (Continued)

Messrs. Soopakij Chearavanont, Narong Chearavanont and Supachai Chearavanont are brothers. They are cousins of Messrs. Tse Ping, Meth Jiaravanont, Nopadol Chiaravanont, Chatchaval Jiaravanon and Kachorn Chiaravanont. Messrs. Nopadol Chiaravanont and Kachorn Chiaravanont are brothers. They are also cousins of Messrs. Tse Ping, Meth Jiaravanont and Chatchaval Jiaravanon. Messrs. Tse Ping, Meth Jiaravanont and Chatchaval Jiaravanon are cousins. Mr. Michael Ross is the brother-in-law of Messrs. Soopakij Chearavanont, Narong Chearavanont and Supachai Chearavanont and cousin-in-law of Messrs. Tse Ping, Meth Jiaravanont, Nopadol Chiaravanont, Chatchaval Jiaravanon and Kachorn Chiaravanont. Save as disclosed above, there are no family relationships among members of the Board.

SECURITIES TRANSACTIONS BY OFFICERS

The Company has adopted a code of securities dealing for directors/senior management/employees (the "Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules, as its own code of conduct regarding securities transactions. Having made specific enquiry of all directors, they have confirmed that they have fully complied with the required standards as set out in the Model Code.

Officers/employees as defined in the Code deemed to be in possession of unpublished price-sensitive or confidential information in relation to the Company or its shares are required to prohibit from dealing in securities of the Company during the black-out period for compliance with the Code.

B. ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

The Board acknowledges its responsibility for preparing the accounts which give a true and fair view of the state of affairs of the Company and of the Group on a going concern basis, with supporting assumptions or qualifications as necessary. The directors have also ensured the timely publication of the financial statements of the Group.

The management provides explanation and information to the Board to enable it to make an informed assessment of the financial and other information to be approved.

The Board endeavours to ensure a balanced, clear and understandable assessment of the Group's position and prospects to extend the Group's financial reporting including annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements and applicable accounting standards.

INTERNAL CONTROLS

The Board is responsible for managing business and operational risks and maintaining a proper and effective system of internal control to safeguard the shareholders' investment and the Group's assets.

The directors conducted annual review of the effectiveness of the Group's system of internal control covering all material controls, including financial, operational and compliance and risk management functions.

The Group maintain a centralised cash management system for the Group's treasury function to oversee the Group's investment, lending and borrowing activities.

The Group has established guidelines and procedures for the approval and control of expenditures. Operating expenditures are subject to the overall budget control and are controlled by each business with approval levels for such expenditures being set by reference to each executive's and officer's level of responsibility. Capital expenditures are subject to overall control within the annual budget review and approval process, and more specific control and approval prior to commitment.

CORPORATE GOVERNANCE REPORT

B. ACCOUNTABILITY AND AUDIT (Continued)

AUDITORS' REMUNERATION

During the year under review, the remuneration paid/payable to the Group's external auditors, Messrs. KPMG is set out as follows:

	Fee Paid/Payable 2007 (HK$'000)
Audit Services	2,563
Other Assurance Services	1,964

C. COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company aims to provide its shareholders with high standards of disclosure and financial transparency through the publication of annual and interim reports, announcements and circulars made through the Company's and Stock Exchange's websites.

The annual general meeting or other general meetings provide a useful forum for shareholders to exchange views with the Board. The Chairman of the Board as well as the Chairmen of AC and/or RC, or in their absence, members of the committees or senior management of the Company should be available to answer the shareholders' questions. The Chairman of the independent board committee should also attend the general meetings for approving connected transactions or any transactions that is subject to independent shareholders' approval.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual directors.

Details of the poll voting procedures and rights of shareholders to demand a poll are included in circulars to the shareholders of the Company. The Chairman of the meeting should ensure compliance with the voting by poll requirement.

The Chairman of the meeting should at the commencement of the meeting ensure that an explanation is provided of (1) the procedures for demanding a poll by shareholders before putting a resolution to the vote on a show of hands; and (2) the detailed procedures for conducting a poll and then answer any questions from shareholders whenever voting by way of a poll is required.

The Company should count all proxy votes, and except where a poll is required, the Chairman of a meeting should indicate to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands. The Company should ensure that votes cast are properly counted and recorded.

The Company releases latest corporate news of the Group and information for investors on its website at http://www.ctei.com.hk.

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Soopakij Chearavanont, aged 44, has been an Executive Director and Chairman of the Company since 2000. He is also the Chairman of the Remuneration Committee of the Board. Mr. Chearavanont obtained a Bachelor of Science degree in the College of Business and Public Administration of New York University, USA and has extensive multinational investment and management experience in various industries. He is also a Director of C.P. Pokphand Co. Ltd., a company listed on the Main Board of The Stock Exchange of Hong Kong Limited ("SEHK") and a Director of True Corporation Public Company Limited and CP ALL Public Company Limited (formerly known as C.P. Seven Eleven Public Company Limited), which are companies listed on The Stock Exchange of Thailand ("SET"). Mr. Chearavanont is also the Chairman of True Visions Public Company Limited.

Mr. Narong Chearavanont, aged 42, has been an Executive Director of the Company since 2001. He was re-designated as Vice Chairman of the Company in September, 2006. He obtained a Bachelor of Science degree in Finance and International Business from New York University, USA. Mr. Chearavanont has extensive experience in the retail and trading industries. He is also a Director of C.P. Pokphand Co. Ltd., a company listed on the Main Board of SEHK and a Director of CP ALL Public Company Limited (formerly known as C.P. Seven Eleven Public Company Limited), a company listed on SET. He is also the Executive Vice Chairman of Shanghai Lotus Supermarket Chain Store Co., Ltd.

Mr. Tse Ping, aged 56, has been an Executive Director and Vice Chairman of the Company since 2000. He has more than 20 years' of investment and management experience in the PRC. Mr. Tse is currently the Chairman of Sino Biopharmaceutical Limited, a company listed on the Main Board of SEHK and a member of the Ninth, Tenth and Eleventh National Committee of the Chinese People's Political Consultative Conference.

Mr. Yang Xiaoping, aged 44, has been an Executive Director and Executive Vice President of the Company since April, 2000 and September, 2006 respectively. He has been re-designated as Vice Chairman of the Company with effect from 14th May, 2007. Mr. Yang has more than 10 years' extensive experience in the international trading and investment in the PRC and has good contact with central, provincial and municipal governors. He was an Independent Non-Executive Director and Audit Committee member of DeTeam Company Limited, a company listed on the GEM Board of SEHK, from August, 2001 to November, 2007.

Mr. Li Wen Hai, aged 50, has been an Executive Director and Executive Vice President of the Company since September, 2006. He has been re-designated as Vice Chairman of the Company with effect from 18th April, 2008. Mr. Li obtained a Master degree in Business Administration from Huazhong Normal University, PRC and is a senior economist. He has extensive experience in retail business.

Mr. James Harold Haworth, aged 46, has been an Executive Director, Chief Executive Officer and President of the Company since September, 2006. Mr. Haworth obtained a Bachelor of Science degree in Business Administration from Central Missouri State University, USA. He was presented the 2001 World Class Leadership Award and selected by Northwest Arkansas Business Journal as one of the top leaders under age 40, the "40 Under 40", in 2000. Mr. Haworth has extensive experience in retail business management. He was the Executive Vice President and Chief Operations Officer of Wal-Mart Stores, Inc., a company listed on the New York Stock Exchange, from 2001 to 2004.

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Michael Ross, aged 43, has been an Executive Director and Executive Vice President of the Company since September, 2006. Mr. Ross obtained a Master degree in Science from University of Salford, United Kingdom and a Bachelor degree in Hospitality Management from The Hong Kong Polytechnic University, Hong Kong. He has extensive experience in retail business.

Mr. Umroong Sanphasitvong, aged 55, has been an Executive Director of the Company since 2005. He was appointed as a member of the Remuneration Committee of the Board in December, 2006. He obtained a Bachelor and a Master degree in Accounting from Thammasat University, Thailand and has extensive experience in financial management. Mr. Sanphasitvong is currently a Director of True Corporation Public Company Limited, CP ALL Public Company Limited (formerly known as C.P. Seven Eleven Public Company Limited), which are companies listed on SET, and of CPPC Public Company Limited and Ayudhya Allianz C.P. Public Company Limited. He is also the Deputy Group Chief Financial Officer of Charoen Pokphand Group Company Limited.

Mr. Robert Ping-Hsien Ho, aged 59, has been an Executive Director of the Company since 2000. He obtained a Bachelor of Business Administration degree from College of Law, National Taiwan University. Mr. Ho has more than 30 years' of experience in management and finance. He is currently a Director of C.P. Pokphand Co. Ltd., a company listed on the Main Board of SEHK, and the Chief Financial Officer, International of the Charoen Pokphand Group.

Mr. Meth Jiaravanont, aged 49, has been an Executive Director of the Company since 2005. He obtained a Bachelor of Arts degree in Economics from Occidental College, California, USA and a Master degree in Business Administration from New York University, USA. Mr. Jiaravanont has extensive experience in investment, finance, banking and strategic business development in Asia and USA. He is currently the Executive Vice Chairman of C.P. Pokphand Co. Ltd., a company listed on the Main Board of SEHK, the Senior Executive Assistant to the Chairman-Finance of Charoen Pokphand Group Company Limited and a Director of CPPC Public Company Limited.

Mr. Nopadol Chiaravanont, aged 47, has been an Executive Director of the Company since September, 2006. Mr. Chiaravanont obtained a Bachelor degree from Virginia Intermont College in USA and has extensive experience in business management. Mr. Chiaravanont is also a Director of C.P. Pokphand Co. Ltd., a company listed on the Main Board of SEHK.

Mr. Chatchaval Jiaravanon, aged 45, has been an Executive Director of the Company since 2000. Mr. Jiaravanon obtained a Bachelor of Science degree in Business Administration from University of Southern California in USA. He has extensive experience in the telecommunication industry. Mr. Jiaravanon is currently the Chairman of Metrostar Property Public Company Limited, Nava Leasing Public Company Limited and Syrus Securities Public Company Limited, a Director and Audit Committee member of Ticon Industrial Connection Public Company Limited, and a Director of Aeon Thana Sinsap (Thailand) Public Company Limited, and True Corporation Public Company Limited, which are companies listed on SET. Mr. Jiaravanon was also an Independent Director of Cal-Comp Electronics (Thailand) Public Company Limited from 2000 to 2005, which is a company listed on SET. He is also a Director and executive committee member of True Visions Public Company Limited. He is the Chairman of Thai Kodama Co., Ltd., the President and Chief Executive Officer of Telecom Holding Company Limited, Chief Executive Officer of True Multimedia Co., Ltd., True Internet Co., Ltd. and Asia Infonet Co. Ltd. and a Director of Metro Machinery Company Limited.

Mr. Supachai Chearavanont, aged 41, has been an Executive Director of the Company since 2000. He obtained a Bachelor of Science degree in Business Administration from Boston University in USA, majoring in Financial Management. Mr. Chearavanont has extensive experience in the telecommunication and broadcasting industries. He is a Director, President and Chief Executive Officer of True Corporation Public Company Limited, which is a company listed on SET. Mr. Chearavanont is also a Director and Chief Executive Officer of True Visions Public Company Limited and True Move Company Limited and the Chairman of True Multimedia Co., Ltd.

Mr. Kachorn Chiaravanont, aged 40, has been an Executive Director of the Company since 2000. He obtained a Bachelor of Arts degree in Marketing from Fairleigh Dickinson University in USA. Mr. Chiaravanont has extensive experience in various fields such as in investment and fund management. He is the President and Director of True Property Co., Ltd. and True Leasing Co., Ltd. Mr. Chiaravanont is also a Director of True Visions Public Company Limited, Allianz CP General Insurance Co., Ltd., Bangkok Inter Teletech Public Company Limited, True Move Co., Ltd., True Distribution & Sales Co., Ltd. and Echo Autoparts (Thailand) Co., Ltd.

Mr. Viroj Sangsnit, aged 72, has been an Independent Non-Executive Director and a member of the Audit Committee of the Board since 1999. He is also a member of the Remuneration Committee of the Board. Mr. Sangsnit was the Deputy Minister of Transport from 1991 to 1992 and the Deputy of Minister of Defense in 1996 in Thailand.

Mr. Chokchai Kotikula, aged 69, has been an Independent Non-Executive Director and a member of the Audit Committee of the Board since 1999. He is also a member of the Remuneration Committee of the Board. Mr. Kotikula is the Chairman of the Bangkok Law Office & Associates, Luang Thepnarin Law Office and Thep Law Office and Advisor to Deputy Minister of the Ministry of Interior in Thailand.

Mr. Cheng Yuk Wo, aged 47, has been an Independent Non-Executive Director and the Chairman of the Audit Committee of the Board since 2004. He is also a member of the Remuneration Committee of the Board. Mr. Cheng obtained a Master of Science (Economics) degree, majoring in Accounting and Finance from London School of Economics, England and a Bachelor of Arts (Honours) degree in Accounting from University of Kent, England. He is a Fellow of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants, and a member of the Institute of Chartered Accountants of Ontario, Canada. Mr. Cheng has over 20 years' of expertise in accounting, finance and corporate advisory services.

Mr. Cheng is currently a Non-Executive Vice Chairman of Henry Group Holding Limited and an Independent Non-Executive Director of Capital Strategic Investment Limited, Chong Hing Bank Limited, HKC (Holdings) Limited, GFT Holdings Limited and Goldbond Group Holdings Limited, the abovementioned companies are listed on the Main Board of SEHK, and of South China Land Limited, which is listed on the GEM Board of SEHK. He was an Independent Non-Executive Director of Jessica Publications Limited from 17th September, 2004 to 15th October, 2007.

Messrs. Soopakij Chearavanont, Narong Chearavanont and Supachai Chearavanont are brothers. They are cousins of Messrs. Tse Ping, Meth Jiaravanont, Nopadol Chiaravanont, Chatchaval Jiaravanon and Kachorn Chiaravanont. Messrs. Nopadol Chiaravanont and Kachorn Chiaravanont are brothers. They are also cousins of Messrs. Tse Ping, Meth Jiaravanont and Chatchaval Jiaravanon. Messrs. Tse Ping, Meth Jiaravanont and Chatchaval Jiaravanon are cousins. Mr. Michael Ross is the brother-in-law of Messrs. Soopakij Chearavanont, Narong Chearavanont and Supachai Chearavanont and cousin-in-law of Messrs. Tse Ping, Meth Jiaravanont, Nopadol Chiaravanont, Chatchaval Jiaravanon and Kachorn Chiaravanont. Save as disclosed above, there are no family relationships between any director or senior management of the Company.

REPORT OF THE DIRECTORS

The Directors present their annual report and the audited financial statements for the year ended 31st December, 2007.

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.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31st December, 2007 are set out in the consolidated income statement on page 30 of the financial statements.

The Directors do not recommend the payment of a dividend in respect of the year (2006: Nil).

FIXED ASSETS

During the year, the Group spent approximately HK$95.2 million 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 13 to the financial statements.

SHARE CAPITAL

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

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, 2007 and 2006.

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.

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. Yang Xiaoping
Mr. Li Wen Hai
Mr. James Harold Haworth
Mr. Michael Ross
Mr. Umroong Sanphasitvong
Mr. Robert Ping-Hsien Ho
Mr. Meth Jiaravanont
Mr. Nopadol Chiaravanont
Mr. Chatchaval Jiaravanon
Mr. Supachai Chearavanont
Mr. Kachorn Chiaravanont

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. Tse Ping, Yang Xiaoping, Umroong Sanphasitvong, Robert Ping-Hsien Ho, Meth Jiaravanont and Chatchaval Jiaravanon, 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 8 to the financial statements.

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, 2007, 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.

REPORT OF THE DIRECTORS

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

As at 31st December, 2007, the interests and short positions of the Directors and chief executive 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 associated corporations

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:

				Number of share options					
Name of directors	Date of grant	Exercisable period	Exercise price HK$	As at 1st January, 2007	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	As at 31st December, 2007
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
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

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

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

				Number of share options					
Name of directors	Date of grant	Exercisable period	Exercise price HK$	As at 1st January, 2007	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	As at 31st December, 2007
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
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

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVE'S 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 1st January, 2007	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	As at 31st December, 2007
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, 2007, none of the Directors and chief executive 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.

PERSONS WHO HAVE AN INTEREST OR SHORT POSITIONS WHICH IS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2007, 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 (Note 1)
C.P. Holding (BVI) Investment Company Limited ("CPH")	(2)	8,407,126,096	140.20%
Worth Access Trading Limited ("Worth Access")	(2)	8,407,126,096	140.20%
Charoen Pokphand Holding Company Limited ("Charoen Pokphand Holding")	(2)	8,407,126,096	140.20%
Charoen Pokphand Group Company Limited ("CPG")	(2)	8,407,126,096	140.20%
CP ALL Public Company Limited ("CP ALL")	(3)	2,686,029,237	44.79%
Lotus Distribution Investment Limited ("LDIL")	(3)	2,249,231,423	37.51%
The China Retail Fund, LDC ("CRF")	(4)	1,612,055,458	26.88%
China Retail Management LDC ("CRM")	(4)	1,612,055,458	26.88%
China United Resource Co. Ltd. ("CUR")	(4)	1,612,055,458	26.88%
AIG Global Investment Corp. (Asia) Limited ("AIG Global")	(4)	1,612,055,458	26.88%
American International Group, Inc. ("AIG")	(4)	1,612,055,458	26.88%

PERSONS WHO HAVE AN INTEREST OR SHORT POSITIONS WHICH IS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS (Continued)

Notes:

(1) The percentages shown are based on the total number of shares in issue as at 31st December, 2007.

(2) Worth Access had declared an interest in the same 8,407,126,096 shares in which CPH had declared an interest by virtue of Worth Access' shareholding in CPH whilst Charoen Pokphand Holding also declared an interest in such number of shares by virtue of its shareholding in Worth Access. CPG had declared an interest in the same 8,407,126,096 shares by virtue of its shareholding in Charoen Pokphand Holding.

(3) The interest of CP ALL, formerly known as C.P. Seven Eleven Public Company Limited, included the interest of LDIL, its wholly-owned subsidiary.

(4) CRM had declared an interest in the same 1,612,055,458 shares in which CRF had declared an interest as CRF is accustomed to act in accordance with the directions of CRM whilst CUR also declared an interest in such number of shares by virtue of its shareholding in CRM. AIG Global had declared an interest in the same 1,612,055,458 shares by virtue of its shareholding in CRM whilst AIG also declared an interest in the same number of shares by virtue of its shareholding in AIG Global.

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, 2007.

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 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. Sumet Jiaravanon and Mr. 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.

CONTINUING CONNECTED TRANSACTIONS

In 2006, the Company entered into three Reorganized Agreements under which any subsidiaries of the Company can purchase relevant merchandise from any subsidiaries of C.P. Pokphand Co. Ltd. ("CPP") or Shanghai Lotus Supermarket Chain Store Co., Ltd. (上海易初蓮花連鎖超市有限公司) ("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.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS (Continued)

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 continuing connected transactions were approved by independent shareholders of the Company on 25th October, 2006. The annual caps for the abovementioned Reorganized Agreements are as follows:

	Annual caps for the year from 1st January, 2007 to 31st December, 2007 HK$'000
Reorganized CPP Purchase Agreement	138,182
Reorganized Shanghai Lotus Purchase Agreement	117,731
Reorganized Shanghai Lotus Supply Agreement	172,297

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.

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 Executive's 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 Articles of Association or laws of the 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, 2007.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

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, 2007.

PURCHASE, SALE OR REDEMPTION OF 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

Umroong Sanphasitvong
Director

Hong Kong, 18th April, 2008

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
CHIA TAI ENTERPRISES INTERNATIONAL LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Chia Tai Enterprises International Limited (the "Company") set out on pages 30 to 83 which comprise the consolidated and company balance sheets as at 31st December, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements
The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

18th April, 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2007
(Expressed in Hong Kong dollars)

	Note	2007 $'000	2006 $'000 (Restated) (note 40)
Continuing operation			
Turnover	3	**4,390,658**	3,482,835
Cost of sales	19	**(3,651,649)**	(3,058,989)
Gross profit		**739,009**	423,846
Other revenue	4	**170,073**	133,078
Other net income	4	**5,278**	30,624
Distribution and store operating costs		**(961,936)**	(820,004)
Administrative expenses		**(238,072)**	(236,250)
Impairment reversal/(losses)	13(a)	**72,495**	(33,609)
Loss from operations		**(213,153)**	(502,315)
Finance costs	5(a)	**(92,972)**	(62,462)
Share of results of associates		**–**	3,124
Loss before taxation	5	**(306,125)**	(561,653)
Income tax	6	**1,419**	(9,375)
Loss for the year from continuing operation		**(304,706)**	(571,028)
Discontinued operations			
Profit for the year from discontinued operations	7(c)	**–**	223,571
Loss for the year		**(304,706)**	(347,457)
Attributable to:			
Equity shareholders of the Company	10	**(307,329)**	(334,577)
Minority interests		**2,623**	(12,880)
Loss for the year		**(304,706)**	(347,457)
Loss per share	12		
From continuing and discontinued operations – Basic and diluted		**(5.13) cents**	(5.58) cents
From continuing operation – Basic and diluted		**(5.13) cents**	(9.32) cents

The notes on pages 35 to 83 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31st December, 2007
(Expressed in Hong Kong dollars)

	Note	2007 $'000	2006 $'000
Non-current assets			
Fixed assets	13		
– Property, plant and equipment		**982,201**	1,245,424
– Interests in leasehold land held for own use under operating leases		**195,255**	187,672
		1,177,456	1,433,096
Goodwill	14	**29,487**	27,331
Deposits for acquisition of additional interest in subsidiaries	16	**14,604**	9,900
Prepaid lease payments for premises	17	**13,965**	17,235
Long-term deposits	18	**–**	19,800
Deferred tax assets	29(b)	**4,343**	3,920
		1,239,855	1,511,282
Current assets			
Prepaid lease payments for premises	17	**8,825**	38,149
Long-term deposits receivable within one year	18	**21,362**	–
Inventories	19	**356,297**	458,715
Trade and other receivables	20	**120,824**	150,415
Income tax recoverable	29(a)	**1,631**	–
Pledged bank deposits	21	**38,208**	191,124
Cash and cash equivalents	22	**181,252**	98,528
		728,399	936,931
Assets classified as held for sale	7	**497,273**	10,890
		1,225,672	947,821
Current liabilities			
Trade and other payables	23	**1,087,470**	1,425,336
Bank loans	24	**110,043**	39,600
Other loans	25	**402,997**	66,442
Consideration payable for acquisition of subsidiaries	26	**111,772**	139,995
Obligations under finance leases	27	**3,427**	2,146
Provisions	28	**24,951**	18,834
		1,740,660	1,692,353
Liabilities associated with assets classified as held for sale	7(a)	**260,526**	–
		2,001,186	1,692,353
Net current liabilities		**(775,514)**	(744,532)
Total assets less current liabilities		**464,341**	766,750
Non-current liabilities			
Bank loans	24	**390,000**	390,000
Other loans	25	**46,642**	–
Consideration payable for acquisition of subsidiaries	26	**120,900**	230,285
Obligations under finance leases	27	**220,573**	208,002
Deferred tax liabilities	29(b)	**5,602**	7,842
		783,717	836,129
NET LIABILITIES		**(319,376)**	(69,379)
CAPITAL AND RESERVES			
Share capital	30(a)	**119,932**	119,932
Reserves		**(441,996)**	(191,828)
Total equity attributable to equity shareholders of the Company – deficit		**(322,064)**	(71,896)
Minority interests		**2,688**	2,517
TOTAL EQUITY – DEFICIT		**(319,376)**	(69,379)

Approved and authorised for issue by the board of directors on 18th April, 2008.

James Harold Haworth
Director

Umroong Sanphasitvong
Director

The notes on pages 35 to 83 form part of these financial statements.

BALANCE SHEET

At 31st December, 2007
(Expressed in Hong Kong dollars)

	Note	**2007 $'000**	2006 $'000
Non-current assets			
Fixed assets	13	**1,317**	2,679
Interests in subsidiaries	15	**700,709**	905,164
		702,026	907,843
Current assets			
Trade and other receivables	20	**3,879**	1,399
Cash and cash equivalents	22	**1,492**	1,191
		5,371	2,590
Assets classified as held for sale	15	**273,825**	–
		279,196	2,590
Current liabilities			
Trade and other payables	23	**212,625**	207,556
Bank loans	24	**78,000**	–
Other loans	25	**106,961**	60,161
		397,586	267,717
Net current liabilities		**(118,390)**	(265,127)
Total assets less current liabilities		**583,636**	642,716
Non-current liabilities			
Bank loans	24	**390,000**	390,000
NET ASSETS		**193,636**	252,716
CAPITAL AND RESERVES			
Share capital	30(a)	**119,932**	119,932
Reserves	31(a)	**73,704**	132,784
TOTAL EQUITY		**193,636**	252,716

Approved and authorised for issue by the board of directors on 18th April, 2008.

James Harold Haworth
Director

Umroong Sanphasitvong
Director

The notes on pages 35 to 83 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2007
(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company										
	Share capital (note 30) $'000	Share premium (note 31(c)) $'000	Revaluation reserve (note 31(c)) $'000	Share option reserve (note 31(c)) $'000	Re-organisation reserve (note 31(c)) $'000	Exchange reserve (note 31(c)) $'000	Reserve fund (note 31(c)) $'000	Accumulated losses $'000	Total $'000	Minority interests $'000	Total $'000
At 1st January, 2007	119,932	931,688	(8,839)	50,670	105,567	24,315	–	(1,295,229)	(71,896)	2,517	(69,379)
Exchange differences on translation of financial statements of subsidiaries in the People's Republic of China ("PRC") recognised directly in equity	–	–	–	–	–	57,161	–	–	57,161	(2,452)	54,709
Net loss for the year	–	–	–	–	–	–	–	(307,329)	(307,329)	2,623	(304,706)
Total recognised income and expense for the year	–	–	–	–	–	57,161	–	(307,329)	(250,168)	171	(249,997)
At 31st December, 2007	119,932	931,688	(8,839)	50,670	105,567	81,476	–	(1,602,558)	(322,064)	2,688	(319,376)
Reserves retained by: Company and subsidiaries	119,932	931,688	(8,839)	50,670	105,567	81,476	–	(1,602,558)	(322,064)	2,688	(319,376)
At 1st January, 2006	119,932	931,688	–	50,670	105,567	6,692	20,716	(981,368)	253,897	86,591	340,488
Exchange differences on translation of financial statements of subsidiaries in the PRC recognised directly in equity	–	–	–	–	–	7,952	–	–	7,952	–	7,952
Release on disposal of a jointly controlled entity and subsidiaries	–	–	–	–	–	9,671	(20,716)	20,716	9,671	(76,854)	(67,183)
Net loss for the year	–	–	–	–	–	–	–	(334,577)	(334,577)	(12,880)	(347,457)
Total recognised income and expense for the year	–	–	–	–	–	17,623	(20,716)	(313,861)	(316,954)	(89,734)	(406,688)
Arising from acquisition of subsidiaries	–	–	(8,839)	–	–	–	–	–	(8,839)	232,129	223,290
Acquisition of minority interests	–	–	–	–	–	–	–	–	–	(226,469)	(226,469)
At 31st December, 2006	119,932	931,688	(8,839)	50,670	105,567	24,315	–	(1,295,229)	(71,896)	2,517	(69,379)
Reserves retained by: Company and subsidiaries	119,932	931,688	(8,839)	50,670	105,567	24,315	–	(1,295,229)	(71,896)	2,517	(69,379)

The notes on pages 35 to 83 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2007
(Expressed in Hong Kong dollars)

	Note	2007 $'000	2006 $'000
Operating activities			
Loss before taxation		**(306,125)**	(338,082)
Adjustments for:			
Finance costs	5(a)	**92,972**	62,462
Share of net profit of associates		**–**	(3,124)
Interest income	4	**(6,335)**	(7,125)
Gain on disposal of subsidiaries and an associate	4	**–**	(39,137)
Profit for the year from discontinued operations	7(c)	**–**	(223,571)
Loss on disposal of fixed assets	4	**17,248**	8,198
Amortisation of land lease premium	5(c)	**6,958**	6,139
Depreciation of fixed assets	5(c)	**143,496**	136,419
Impairment (reversal)/losses on fixed assets	13(a)	**(72,495)**	33,609
Foreign exchange loss/(gain)		**2,545**	(17,243)
Operating loss before changes in working capital		**(121,736)**	(381,455)
Decrease in prepaid lease payments for premises		**34,581**	8,844
Decrease in inventories		**32,959**	23,704
Decrease in trade and other receivables		**30,518**	1,380
(Decrease)/increase in trade and other payables		**(185,152)**	252,786
Cash used in operations		**(208,830)**	(94,741)
PRC tax paid		**(3,075)**	(791)
Net cash used in operating activities		**(211,905)**	(95,532)
Investing activities			
Acquisition of a subsidiary, net of cash acquired		**–**	159,626
Net proceeds from disposal of assets classified as held for sale		**–**	342,688
Net cash outflow from disposal of subsidiaries		**–**	(3,732)
Proceeds from disposal of an associate		**–**	11,380
Payment for purchases of fixed assets		**(95,159)**	(297,522)
Payment of consideration for acquisition of subsidiaries		**(141,531)**	(127,903)
Decrease/(increase) in pledged bank deposits		**167,994**	(43,618)
Interest received		**6,335**	7,125
Increase in long-term deposits		**–**	(19,800)
Proceeds from disposal of fixed assets		**22,216**	153
Net cash (used in)/generated from investing activities		**(40,145)**	28,397
Financing activities			
Proceeds from bank loans		**110,043**	429,600
Repayment of bank loans		**(42,724)**	(357,600)
Proceeds from other loans		**449,639**	–
Repayment of other loans		**(71,684)**	–
Capital element of finance leases paid		**(2,726)**	(1,925)
Interest element of finance leases paid		**(21,452)**	(20,876)
Interest on bank loans		**(35,397)**	(21,163)
Interest on other borrowings/consideration payable		**(36,123)**	(13,962)
Net cash generated from financing activities		**349,576**	14,074
Net increase/(decrease) in cash and cash equivalents		**97,526**	(53,061)
Effect of foreign exchange rate changes		**7,626**	4,518
Cash and cash equivalents at 1st January		**98,528**	147,071
Cash and cash equivalents at 31st December	22	**203,680**	98,528

The notes on pages 35 to 83 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2007
(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on the changes resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of financial statements

The consolidated financial statements for the years ended 31st December, 2007 and 2006 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

As at 31st December, 2007, the Group had net current liabilities and net liabilities of approximately $776 million and $319 million respectively and incurred a loss of approximately $305 million for the year then ended. In view of these circumstances, the directors have given careful consideration to the future liquidity and performance of the Group in assessing whether the Group will have sufficient financial resources to continue as a going concern.

During 2006, the Group disposed of its non-core businesses in order for management to concentrate their effort on the Group's retail operation. The directors have recruited a team of senior management with extensive experience in retail business and financial management who have put measures in place with a view to rationalising and strengthening the retail business and to reduce operating costs. The directors consider that the measures taken to date and further measures to be implemented will improve the performance of the Group's retail business going forward.

Furthermore, as disclosed in a circular issued to the Company's shareholders on 29th June, 2007 (the "Circular");

(i) on 17th May, 2007, the Company entered into an agreement (the "Disposal Agreement") with C.P. Holding (BVI) Investment Company Limited ("CPH"), the Company's immediate holding company and a wholly-owned subsidiary of the Group's ultimate holding company, to dispose of 11 "CTEI Non-performing Stores" (as defined in the Circular) operated by the Company's subsidiaries in the People's Republic of China ("PRC") and the Group's equity interests in, and loans and advances made to, certain wholly-owned subsidiaries in the PRC (collectively, the "Disposal Group") to CPH for a consideration of approximately $433.4 million ("the Disposal Consideration"). The net carrying value of the assets and liabilities attributable to the Disposal Group as at 31st December, 2007 is approximately $225.0 million, comprising assets of approximately $485.5 million less liabilities of approximately $260.5 million (see note 7(a)).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of financial statements (Continued)

(ii) on 17th May, 2007, the Company entered into an agreement (the "Acquisition Agreement") with certain related parties to acquire the entire equity interest in Shanghai Lotus Supermarket Chain Store Co., Ltd. (上海易初蓮花連鎖超市有限公司) ("SLS"), for a total consideration of approximately $2,814.6 million. SLS operates hypermarket stores similar to those of the Group in Central and Eastern China. The acquisition is conditional upon, inter alia, completion of the transaction set out in the Disposal Agreement above and upon SLS disposing of certain "SLS Non-performing Stores" (as defined in the Circular) and wholly-owned subsidiaries to CPH prior to its acquisition by the Group.

The consideration for the acquisition of the entire equity interest in SLS is to be financed via:

(a) the Disposal Consideration of approximately $433.4 million;

(b) approximately $1,519.9 million to be satisfied by the issuance by the Company of convertible bonds bearing interest at 1% per annum to the existing ultimate shareholders in SLS or such person as they may direct (excluding CPH);

(c) approximately $861.3 million to be satisfied by the allotment and issuance by the Company of ordinary shares in the amount of approximately $583.4 million and convertible preference shares in the amount of approximately $277.9 million to CPH or such person as it may direct;

(iii) CP ALL Public Company Limited (formerly "C.P. Seven Eleven Public Company Limited"), the existing controlling shareholder in SLS and a related party of the Group's ultimate holding company, shall subscribe for convertible bonds issued by the Company in the principal amount of approximately $156.4 million at a total subscription price of approximately $156.4 million payable in cash.

(iv) Completion of the above transactions is expected to take place no later than 15th May, 2008.

Further details in respect of the above transactions are set out in the Circular.

The proposed transactions were approved by the independent shareholders of the Company on 25th July, 2007.

As at the date of approval of these financial statements, certain conditions needed to complete the above transactions, as set out in the Circular, have not been completed. These relate primarily to the need for CPH to obtain approvals from the relevant PRC authorities to establish certain legal entities in the PRC to which the CTEI Non-performing Stores and SLS Non-performing Stores will be sold. In the event that obtaining all the necessary approvals to enable completion of the transactions by 15th May, 2008 is not possible, the directors believe that, with the support of the Group's ultimate holding company, CP ALL Public Company Limited and the other shareholders of SLS, the timetable for completing the transactions can be extended.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2007
(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of financial statements (Continued)

The Directors believe that the measures taken to date to strengthen the Group's retail business and completion of the transactions set out in the Circular will improve the performance of the Group's retail business going forward. In addition, the Company has received a letter of support from its ultimate holding company, which confirmed that it will continue to provide adequate financial support to the Group so as to enable it to continue its operations for the foreseeable future and to meet its liabilities as and when they fall due.

On this basis, the Directors consider that the Group will have sufficient financial resources for its working capital and capital expenditure requirements and that it will be able to meet its financial obligations as and when they fall due. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

(c) Basis of measurement

The measurement basis used in the preparation of the financial statements is the historical cost basis except that financial guarantees issued are stated at their fair value as explained in the accounting policy set out in note 1(r)(i).

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell (see note 1(v)).

(d) Use of estimation and judgement

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 42.

(e) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Subsidiaries and minority interests (Continued)

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 1(m) and 1(n) depending on the nature of the liability.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(j)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 1(v)).

(f) Associates and jointly controlled entities

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 1(v)). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates and jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in associates and jointly controlled entities recognised for the year (see notes 1(g) and 1(j)).

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or the jointly controlled entity. For this purpose, the Group's interest in the associate or the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

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For the year ended 31st December, 2007
(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Associates and jointly controlled entities (Continued)

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Company's balance sheet, its investments in associates and jointly controlled entities are stated at cost less impairment losses (see note 1(j)), unless it is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 1(v)).

(g) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(j)). In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in profit or loss.

On disposal of a cash generating unit, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(h) Property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(j)):

– buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 1(i)); and

– other items of plant and equipment.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of the lease and their estimated useful lives, being no more than 30 years after the date of completion.

–	Leasehold improvements	Over the remaining term of the lease
–	Furniture, fixtures and equipment	3–5 years
–	Motor vehicles	3–6 years

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Property, plant and equipment (Continued)

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Stores under fit out represent the cost of leasehold improvements incurred to date. Stores under fit out are transferred to leasehold improvements when the stores are substantially ready for their intended use. No depreciation is provided in respect of stores under fit out.

(i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(j). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2007
(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment of assets

(i) Impairment of receivables

Current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– interests in leasehold land held for own use under operating leases;

– prepaid lease payments for premises;

– investments in subsidiaries, associates and jointly controlled entities (except for those classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 1(v)); and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(j)(i) and 1(j)(ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2007
(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(j)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(j)).

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(r)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in share option reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits/accumulated losses).

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2007
(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Income tax (Continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Income tax (Continued)

– different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(r)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2007
(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customers. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Promotion and service income

Promotion and service income not related to the purchase of goods is recognised when the services are rendered.

(iv) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(v) Interest income

Interest income is recognised as it accrues using the effective interest method.

(t) Translation of foreign currency

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised directly in equity.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Translation of foreign currency (Continued)

The results of foreign operations are translated into Hong Kong dollars ("HKD") at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1st January, 2005, are translated into HKD at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1st January, 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(u) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred.

(v) Non-current assets held for sale and discontinued operations

(i) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits and financial assets (other than investments in subsidiaries, associates and joint ventures). These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 1.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

(ii) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2007
(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Non-current assets held for sale and discontinued operations (Continued)

(ii) Discontinued operations (Continued)

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale (see (i) above), if earlier. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

(w) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(x) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Segment reporting (Continued)

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, Financial instruments: Disclosures and the amendment to HKAS 1, Presentation of financial statements: Capital disclosures, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, Financial instruments: Disclosure and presentation. These disclosures are provided throughout these financial statements, in particular in note 34.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 31(d).

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 TURNOVER

The principal activity of the Group is the operation of hypermarket stores in the PRC.

Prior to the disposal of the Company's entire equity interest in a subsidiary, Fortune (Shanghai) Limited ("FSL") on 10th March, 2006, the Group was also engaged in the business of property investment in residential premises for their rental income potential and property development in the PRC. The business of property investment and property development was discontinued on 9th September, 2005, being the date the Company entered into the agreement for the disposal of FSL. Turnover for this business in 2006 represented the rental income from investment properties.

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3 TURNOVER (Continued)

Turnover represents the sales value of goods supplied to customers, less returns, discounts and value added taxes.

Turnover is analysed as follows:

	Consolidated	
	2007	2006
	$'000	$'000
Continuing operation		
Sales of goods	**4,390,658**	3,482,835
Discontinued operations		
Rental income from investment properties	**–**	221

4 OTHER REVENUE AND OTHER NET INCOME

	Consolidated	
	2007	2006
	$'000	$'000
		(Restated)
Other revenue		
Leasing of store premises	**110,547**	73,477
Interest income	**6,335**	7,125
Other promotion and service income	**53,191**	52,476
	170,073	133,078
Other net income		
Net foreign exchange gain/(loss)	**22,526**	(315)
Gain on disposal of subsidiaries and an associate	**–**	39,137
Net loss on disposal of fixed assets	**(17,248)**	(8,198)
	5,278	30,624

5 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

		Continuing operation		Discontinued operations		Consolidated	
		2007	2006	**2007**	2006	**2007**	2006
		$'000	$'000	**$'000**	$'000	**$'000**	$'000
(a)	Finance costs:						
	Interest on borrowings wholly repayable within five years:						
	– Bank loans	**35,397**	21,163	**–**	–	**35,397**	21,163
	– Other borrowings	**19,391**	988	**–**	–	**19,391**	988
	Interest on deferred consideration payable (note 26)	**16,732**	19,435	**–**	–	**16,732**	19,435
	Finance charges on obligations under finance leases	**21,452**	20,876	**–**	–	**21,452**	20,876
		92,972	62,462	**–**	–	**92,972**	62,462
(b)	Staff costs:						
	Contributions to defined contribution retirement plans	**21,074**	18,184	**–**	20	**21,074**	18,204
	Salaries, wages and other benefits	**329,556**	301,664	**–**	2,896	**329,556**	304,560
		350,630	319,848	**–**	2,916	**350,630**	322,764
(c)	Other items:						
	Depreciation of fixed assets	**143,496**	136,419	**–**	–	**143,496**	136,419
	Amortisation of land lease premium	**6,958**	6,139	**–**	–	**6,958**	6,139
	Auditors' remuneration – audit service	**4,527**	3,936	**–**	28	**4,527**	3,964
	Operating lease charges: minimum lease payments – property rentals	**267,622**	244,734	**–**	–	**267,622**	244,734
	Cost of inventories (note 19)	**3,651,649**	3,058,989	**–**	–	**3,651,649**	3,058,989

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	Continuing operation	
	2007	2006
	$'000	$'000
Current tax–PRC		
Provision for the year	**1,444**	–
Deferred tax		
Origination and reversal of temporary differences (note 29(b))	**(2,863)**	9,375
Taxation (credit)/charge	**(1,419)**	9,375

Income tax is calculated at the rates prevailing in the relevant jurisdictions.

No provision for Hong Kong profits tax has been made as the Company and its subsidiaries did not generate any assessable profits in Hong Kong during the year.

NOTES TO THE FINANCIAL STATEMENTS

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6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (Continued)

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

The provision for PRC income tax is calculated at the statutory rate of 33% on the assessable profits of subsidiaries established in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC.

On 16th March, 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which took effect on 1st January, 2008. As a result of the new tax law, the income tax rate applicable to the subsidiaries established in the PRC was reduced to 25% from 1st January, 2008. The deferred taxation in 2007 has been adjusted to reflect this.

(b) Reconciliation between tax expense and accounting loss at applicable tax rates:

	2007 $'000	2006 $'000
Loss before taxation:		
Continuing operation	**(306,125)**	(561,653)
Discontinued operations	**–**	223,571
	(306,125)	(338,082)
Notional tax on loss before taxation, calculated at 33% (Note)	**(101,021)**	(111,567)
Effect of different tax rates of the Company and non-PRC subsidiaries	**15,098**	(46,659)
Tax effect of non-deductible expenses	**42,430**	80,971
Tax effect of non-taxable income	**(36,708)**	(61,073)
Tax effect of tax losses not recognised	**75,655**	141,511
Tax effect of prior year's tax losses utilised	**3,136**	–
Tax effect of temporary differences not recognised	**378**	6,192
Tax effect of change of tax rate applicable to deferred tax	**(387)**	–
Actual tax (credit)/expense	**(1,419)**	9,375

Note: The PRC Corporate Income Tax rate of 33% is used as the operation of the Group is substantially based in the PRC.

7 ASSETS CLASSIFIED AS HELD FOR SALE/DISCONTINUED OPERATIONS

Assets classified as held for sale represent:

	2007 $'000	2006 $'000
Assets subject to the Disposal Agreement (note (a))	**485,524**	–
Land use right (note (b))	**11,749**	10,890
	497,273	10,890

7 ASSETS CLASSIFIED AS HELD FOR SALE/DISCONTINUED OPERATIONS (Continued)

(a) As set out in note 1(b), on 17th May, 2007, the Company entered into a Disposal Agreement to dispose of certain stores and wholly-owned subsidiaries to CPH for a consideration of approximately $433,400,000. The independent shareholders of the Company approved this transaction on 25th July, 2007. Accordingly, the assets and associated liabilities to be disposed of to CPH have been accounted for in accordance with note 1(v) and separately classified in the consolidated balance sheet. These assets and liabilities comprise:

The Group

	2007 $'000
Assets classified as held for sale	
Property, plant and equipment (note)	345,442
Prepaid lease payments for premises	1,068
Inventories	105,647
Trade and other receivables	10,939
Cash and bank balances	22,428
	485,524
Liabilities associated with assets classified as held for sale	
Trade payables	230,963
Other creditors and accrued charges	29,563
	260,526

Note: Comprises net book value at date of classification as held for sale of $332,797,000 (note 13(a)) plus subsequent exchange rate adjustment.

The Company

The Company's interests in subsidiaries to be disposed of to CPH under the Disposal Agreement are classified as held for sale in the Company's balance sheet. Details are set out in note 15.

(b) During the year ended 31st December, 2006, the Group acquired an additional 50% equity interest in Lotus-CPF (PRC) Investment Company Limited ("Lotus-CPF") which became a wholly-owned subsidiary of the Group. During the year ended 31st December, 2004, a subsidiary of Lotus-CPF entered into an agreement with an independent third party to dispose of a land use right at a consideration of approximately RMB11,000,000 (equivalent to approximately $11,749,000 (2006: $10,890,000)). Accordingly, the land use right is classified as an asset held for sale and presented separately in the consolidated balance sheet. As at 31st December, 2007, the transaction for the disposal of the land use right has not been completed pending the approval of the relevant government authorities. The directors expect the sale to be completed in 2008.

NOTES TO THE FINANCIAL STATEMENTS

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7 ASSETS CLASSIFIED AS HELD FOR SALE/DISCONTINUED OPERATIONS (Continued)

(c) As disclosed in note 3, on 10th March, 2006, the Group disposed of its entire 75% interest held in a subsidiary, FSL. The profit from discontinued operations for the year ended 31st December, 2006 comprised:

	2006 $'000
Loss of FSL for the year	(3,697)
Gain on disposal of subsidiaries	227,268
	223,571

The loss of FSL included in the Group's financial statements for the year ended 31st December, 2006 was as follows:

	2006 $'000
Turnover	221
Administrative expenses	(3,640)
Loss before taxation	(3,419)
Share of loss of a jointly controlled entity	(278)
Loss for the year	(3,697)

During 2006, FSL contributed net operating cash outflow of $3,717,000 to the Group.

8 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

For the year ended 31st December, 2007:

	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonus $'000	Retirement benefit scheme contributions $'000	Subtotal $'000	Share-based payment $'000	Total $'000
Executive directors							
Mr. Soopakij Chearavanont	–	3,338	–	12	3,350	–	**3,350**
Mr. Narong Chearavanont	–	–	–	–	–	–	**–**
Mr. Tse Ping	–	–	–	–	–	–	**–**
Mr. Yang Xiaoping	–	2,219	–	12	2,231	–	**2,231**
Mr. Li Wen Hai	–	608	–	–	608	–	**608**
Mr. James Harold Haworth	–	2,438	–	–	2,438	–	**2,438**
Mr. Michael Ross	–	–	–	–	–	–	**–**
Mr. Umroong Sanphasitvong	–	–	–	–	–	–	**–**
Mr. Robert Ping-Hsien Ho	–	–	–	–	–	–	**–**
Mr. Meth Jiaravanont	–	936	–	–	936	–	**936**
Mr. Nopadol Chiaravanont	–	–	–	–	–	–	**–**
Mr. Chatchaval Jiaravanon	–	–	–	–	–	–	**–**
Mr. Supachai Chearavanont	–	–	–	–	–	–	**–**
Mr. Kachorn Chiaravanont	–	–	–	–	–	–	**–**
Independent non-executive directors							
Mr. Viroj Sangsnit	240	–	–	–	240	–	**240**
Mr. Chokchai Kotikula	240	–	–	–	240	–	**240**
Mr. Cheng Yuk Wo	240	–	–	–	240	–	**240**
Total	**720**	**9,539**	**–**	**24**	**10,283**	**–**	**10,283**

8 DIRECTORS' REMUNERATION (Continued)

For the year ended 31st December, 2006:

	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonus $'000	Retirement benefit scheme contributions $'000	Subtotal $'000	Share-based payment $'000	Total $'000
Executive directors							
Mr. Soopakij Chearavanont	–	3,405	–	12	3,417	–	3,417
Mr. Narong Chearavanont	–	–	–	–	–	–	–
Mr. Tse Ping	–	–	–	–	–	–	–
Mr. Yang Xiaoping	–	1,332	–	7	1,339	–	1,339
Mr. Li Wen Hai	–	177	–	–	177	–	177
Mr. James Harold Haworth	–	–	–	–	–	–	–
Mr. Michael Ross	–	–	–	–	–	–	–
Mr. Umroong Sanphasitvong	–	–	–	–	–	–	–
Mr. Robert Ping-Hsien Ho	–	–	–	–	–	–	–
Mr. Meth Jiaravanont	–	936	–	–	936	–	936
Mr. Nopadol Chiaravanont	–	–	–	–	–	–	–
Mr. Chatchaval Jiaravanon	–	–	–	–	–	–	–
Mr. Supachai Chearavanont	–	–	–	–	–	–	–
Mr. Kachorn Chiaravanont	–	–	–	–	–	–	–
Mr. Lee G. Lam	–	7,188	–	9	7,197	–	7,197
Independent non-executive directors							
Mr. Viroj Sangsnit	240	–	–	–	240	–	240
Mr. Chokchai Kotikula	240	–	–	–	240	–	240
Mr. Cheng Yuk Wo	240	–	–	–	240	–	240
Total	720	13,038	–	28	13,786	–	13,786

Note: Messrs. James Harold Haworth, Michael Ross, Li Wen Hai, Nopadol Chiaravanont were appointed as directors and Mr. Lee G. Lam resigned as a director on 15th September, 2006.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2006: four) are directors whose emoluments are disclosed in note 8. The details of the emoluments in respect of the remaining two individuals (2006: one) are as follows:

	2007 $'000	2006 $'000
Salaries and allowances	**3,100**	910
Discretionary bonuses	**–**	–
Share-based payments	**–**	–
Retirement benefit scheme contributions	**12**	7
	3,112	917

The emoluments of the two individuals (2006: one) with highest emoluments are within the following bands:

	2007 Number of individuals	2006 Number of Individuals
Nil to $1,000,000	**–**	1
$1,000,001 to $1,500,000	**–**	–
$1,500,001 to $2,000,000	**2**	–
	2	1

During the year ended 31st December, 2007, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, no director waived any emoluments for the years ended 31st December, 2007 and 2006.

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10 LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the Company includes a loss of $59,080,000 (2006: profit of $3,709,000) which has been dealt with in the financial statements of the Company.

11 DIVIDENDS

No dividend was paid or proposed during the years ended 31st December, 2007 and 2006, nor has any dividend been proposed since the balance sheet date.

12 LOSS PER SHARE

(a) Basic

(i) From continuing and discontinued operations

The calculation of the basic and diluted loss per share attributable to the equity shareholders of the Company is based on the following data:

	2007 $'000	2006 $'000
Loss for the year attributable to equity shareholders of the Company	**(307,329)**	(334,577)
Number of ordinary shares in issue	**5,996,614,408**	5,996,614,408

(ii) From continuing operation

The calculation of basic loss per share from continuing operation attributable to the equity shareholders of the Company is based on the following data:

	2007 $'000	2006 $'000
Loss for the year attributable to equity shareholders of the Company	**(307,329)**	(334,577)
Less: Profit for the year from discontinued operations (net of minority interests)	**–**	(224,495)
Loss for the purpose of basic loss per share from continuing operation	**(307,329)**	(559,072)

The number of ordinary shares is the same as those detailed in note 12(a)(i) above.

(iii) From discontinued operations

Basic earnings per share for the discontinued operations are nil for the year ended 31st December, 2007 (2006: 3.74 cents). The calculation is based on the profit for the year from the discontinued operations (net of minority interests) of nil (2006: $224,495,000) and the number of ordinary shares detailed in note 12(a)(i) above.

(b) Diluted

The diluted loss per share for the years ended 31st December, 2007 and 2006 is the same as the basic loss per share as all potential ordinary shares are anti-dilutive.

13 FIXED ASSETS

(a) The Group

	Buildings $'000	Leasehold improve-ments $'000	Furniture, fixtures and equip-ment $'000	Motor vehicles $'000	Stores under fit out $'000	Sub-total $'000	Interests in leasehold land held for own use under operating leases $'000	Total $'000
At 1st January, 2006	–	355,716	377,384	18,270	40,879	792,249	–	792,249
Exchange adjustments	–	13,900	11,552	548	1,230	27,230	–	27,230
Acquisition of subsidiaries	233,498	87,657	138,969	7,324	86,748	554,196	148,146	702,342
Additions	633	9,736	53,885	4,214	183,389	251,857	45,665	297,522
Transfer	–	363,616	(123,675)	3,229	(243,170)	–	–	–
Disposals	–	(8,780)	(304)	(1,738)	–	(10,822)	–	(10,822)
Disposal of subsidiaries	–	(25,726)	(4,537)	(1,037)	(7,919)	(39,219)	–	(39,219)
At 31st December, 2006	234,131	796,119	453,274	30,810	61,157	1,575,491	193,811	1,769,302
At 1st January, 2007	234,131	796,119	453,274	30,810	61,157	1,575,491	193,811	1,769,302
Exchange adjustments	18,459	51,637	31,113	1,693	3,842	106,744	15,290	122,034
Additions	–	2,019	27,898	2,302	62,940	95,159	–	95,159
Transfer	–	48,682	38,323	1,802	(88,807)	–	–	–
Transfer to assets held for sale (note 7(a))	–	(309,304)	(125,943)	(6,351)	–	(441,598)	–	(441,598)
Disposals	(308)	(31,433)	(47,825)	(4,577)	–	(84,143)	–	(84,143)
At 31st December, 2007	252,282	557,720	376,840	25,679	39,132	1,251,653	209,101	1,460,754
Accumulated depreciation and impairment losses:								
At 1st January, 2006	–	29,886	134,066	6,632	–	170,584	–	170,584
Exchange adjustments	–	1,448	4,353	236	–	6,037	–	6,037
Charge for the year	9,022	52,259	69,727	5,411	–	136,419	6,139	142,558
Transfer	–	15,509	(15,509)	–	–	–	–	–
Impairment losses	–	33,609	–	–	–	33,609	–	33,609
Written back on disposal	–	(568)	(194)	(1,709)	–	(2,471)	–	(2,471)
Disposal of subsidiaries	–	(12,376)	(1,466)	(269)	–	(14,111)	–	(14,111)
At 31st December, 2006	9,022	119,767	190,977	10,301	–	330,067	6,139	336,206
At 1st January, 2007	9,022	119,767	190,977	10,301	–	330,067	6,139	336,206
Exchange adjustments	1,175	8,012	11,082	508	1,087	21,864	749	22,613
Charge for the year	12,204	52,465	72,763	6,064	–	143,496	6,958	150,454
Impairment losses/ (reversal)	–	(24,787)	(76,302)	–	28,594	(72,495)	–	(72,495)
Transfer to assets held for sale (note 7(a))	–	(56,762)	(49,151)	(2,888)	–	(108,801)	–	(108,801)
Written back on disposal	(23)	(4,717)	(37,156)	(2,783)	–	(44,679)	–	(44,679)
At 31st December, 2007	22,378	93,978	112,213	11,202	29,681	269,452	13,846	283,298
Net book value:								
At 31st December, 2007	229,904	463,742	264,627	14,477	9,451	982,201	195,255	1,177,456
At 31st December, 2006	225,109	676,352	262,297	20,509	61,157	1,245,424	187,672	1,433,096

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13 FIXED ASSETS (Continued)

(a) The Group (Continued)

As at 31st December, 2006, leasehold improvements and furniture, fixtures and equipment used in the Group's retail operation were stated net of impairment losses of $108,653,000. In calculating such losses, the recoverable amounts of the relevant assets were determined on the basis of their value in use.

As set out in note 1(b), on 25th July, 2007, the independent shareholders of the Company approved the sale by the Group of certain stores to CPH for a consideration in excess of their carrying value. The directors have therefore reassessed the recoverable amount of the assets to be sold to CPH and consider that this exceeds their carrying value. Accordingly, the provisions for impairment losses brought forward (plus related exchange adjustments in 2007) have been reversed.

The directors have also carried out an impairment review of the store assets which will not be sold to CPH and which will remain in the Group. A provision for impairment loss of $10,147,000 has been made for the leasehold improvements and furniture, fixtures and equipment in one store for which the operating performance to date has not met management expectation.

As at 31st December, 2007, impairment provision amounting to $28,594,000 has been made for fit out costs incurred on new store projects which were cancelled (see note 28).

(b) The Company

	Leasehold improvements $'000	Furniture, fixtures and equipment $'000	Motor vehicles $'000	Total $'000
Cost:				
At 1st January, 2006	3,378	4,598	5,137	13,113
Additions	12	152	2,354	2,518
Disposals	–	(141)	(1,470)	(1,611)
At 31st December, 2006	3,390	4,609	6,021	14,020
At 1st January, 2007	3,390	4,609	6,021	14,020
Additions	–	35	–	35
Disposals	(3,218)	(918)	–	(4,136)
At 31st December, 2007	172	3,726	6,021	9,919
Accumulated depreciation:				
At 1st January, 2006	3,355	3,992	4,087	11,434
Charge for the year	24	450	1,044	1,518
Written back on disposal	–	(141)	(1,470)	(1,611)
At 31st December, 2006	3,379	4,301	3,661	11,341
At 1st January, 2007	3,379	4,301	3,661	11,341
Charge for the year	3	222	1,153	1,378
Written back on disposal	(3,210)	(907)	–	(4,117)
At 31st December, 2007	172	3,616	4,814	8,602
Net book value:				
At 31st December, 2007	–	110	1,207	1,317
At 31st December, 2006	11	308	2,360	2,679

13 FIXED ASSETS (Continued)

(c) The analysis of net book value of properties is as follows:

	The Group	
	2007 **$'000**	2006 $'000
In the PRC – medium-term leases	**425,159**	412,781
Representing:		
Buildings	**229,904**	225,109
Interests in leasehold land held for own use under operating leases	**195,255**	187,672
	425,159	412,781

(d) Fixed assets held under finance leases

As at 31st December, 2007, the net book value of buildings held under finance leases of the Group was $201,819,000 (2006: $189,019,000). The leases do not include contingent rentals. The buildings are situated in the PRC and held under medium-term land use rights.

(e) As at 31st December, 2007, the Group was still in the process of obtaining the formal title of certain land use rights in the PRC from the relevant government authorities while the Group had already paid the full amount of the purchase considerations. The book value of the land use rights for which the Group had not been granted formal title amounted to approximately $135,325,000 as at 31st December, 2007 (2006: $128,641,000), which includes an amount of $11,749,000 (2006: $10,890,000) recorded in assets classified as held for sale (note 7(b)). In the opinion of the directors, the formal title to the land use rights will be obtained from the relevant government authorities in due course.

14 GOODWILL

	The Group	
	2007 **$'000**	2006 $'000
Cost:		
At 1st January	**85,164**	59,249
Additions through acquisition of additional equity interests in subsidiaries	**–**	25,549
Disposals	**–**	(1,416)
Exchange adjustment	**2,156**	1,782
At 31st December	**87,320**	85,164
Accumulated impairment losses:		
At 1st January	**57,833**	59,249
Written back on disposal	**–**	(1,416)
At 31st December	**57,833**	57,833
Carrying amount:		
At 31st December	**29,487**	27,331

During 2006, the Group acquired additional 50% equity interest in Lotus-CPF in order to consolidate its interest in and control of Chia Tai-Lotus (Guangdong) Investment Co. Ltd. ("CT Guangdong"), a then subsidiary in which Lotus-CPF had 90% equity interest. As a result, goodwill of $25,549,000 was recognized in the consolidated financial statements in 2006.

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14 GOODWILL (Continued)

Impairment tests for cash-generating units containing goodwill

At 31st December, 2007 and 2006, the carrying amount of goodwill all relates to the operation of hypermarket stores in the Southern region of the PRC.

The recoverable amount of the respective cash-generating unit ("CGU")/group of CGUs is determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a one-year period. The cash flow projections are extrapolated up to the remaining leasing period of the respective stores of 16 to 19 years by using growth rates of 4% to 20%. The key assumptions for the value in use calculations are those relating to the discount rate, forecast growth rates and the expected changes to selling prices and direct costs. A discount rate of 10% has been used for the value in use calculations to reflect the current market assessment of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

15 INTERESTS IN SUBSIDIARIES

	The Company	
	2007	2006
	$'000	$'000
Unlisted shares/capital contributions, at cost	**82,398**	82,398
Add: Amounts due from subsidiaries	**998,452**	1,202,907
Less: Impairment losses	**(380,141)**	(380,141)
At 31st December	**700,709**	905,164

In addition to the above, the following amounts are included in the Company's balance sheet as assets held for sale (see note 7(a)).

	2007	2006
	$'000	$'000
Unlisted shares/capital contributions, at cost	**–**	–
Amounts due from subsidiaries	**273,825**	–
At 31st December	**273,825**	–

The above represents loans and advances to and the Company's equity investment in Chia Tai Trading (Tianjin) Company Limited, Chia Tai Trading (Jinan) Company Limited, Chia Tai Trading (Shijiazhuang) Company Limited and Taian Lotus Supermarket Chain Store Co., Ltd. (泰安易初蓮花連鎖超市有限公司), which own and/or operate stores to be disposed of to CPH under the Disposal Agreement (see note 1(b)).

Amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

15 INTERESTS IN SUBSIDIARIES (Continued)

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

Name of companies	Place of establishment/ incorporation and operation	Paid up capital	Proportion of ownership interest: Group's effective interest %	Held by the Company %	Held by subsidiary %	Principal activity
天津易初蓮花連鎖超市有限公司 Tianjin Lotus Supermarket Chain Store Co., Ltd. (note 5)	PRC	USD12,000,000 (note 3)	100	–	100	Operation of hypermarket stores in the PRC
北京易初蓮花連鎖超市有限公司 Beijing Lotus Supermarket Chain Store Co., Ltd.	PRC	USD25,000,000 (note 3)	100	–	100	Operation of hypermarket stores in the PRC
西安易初蓮花連鎖超市有限公司 Xian Lotus Supermarket Chain Store Co., Ltd.	PRC	RMB2,000,000 (note 2)	100	–	100 (note 4)	Operation of hypermarket stores in the PRC
泰安易初蓮花連鎖超市有限公司 Taian Lotus Supermarket Chain Store Co., Ltd. (note 5)	PRC	RMB2,000,000 (note 2)	100	–	100 (note 4)	Operation of hypermarket stores in the PRC
鄭州易初蓮花連鎖超市有限公司 Zhengzhou Lotus Supermarket Chain Store Co., Ltd.	PRC	RMB2,000,000 (note 2)	100	–	100 (note 4)	Operation of hypermarket stores in the PRC
青島易初蓮花連鎖超市有限公司 Qingdao Lotus Supermarket Chain Store Co., Ltd. ("Qingdao Lotus")	PRC	USD4,566,250 (note 6)	65	–	65	Operation of hypermarket stores in the PRC
濟南易初蓮花連鎖超市有限公司 Jinan Lotus Supermarket Chain Store Co., Ltd. (note 5)	PRC	USD8,000,000 (note 3)	100	–	100	Operation of hypermarket stores in the PRC
廣州易初蓮花連鎖超市有限公司 Guangzhou Lotus Supermarket Chain Store Co., Ltd.	PRC	USD30,000,000 (note 1)	100	–	100	Operation of hypermarket stores in the PRC
汕頭易初蓮花超市有限公司 Shantou Lotus Supermarket Store Co., Ltd. ("Shantou Lotus")	PRC	USD12,000,000 (note 6)	90	–	90	Operation of hypermarket stores in the PRC
佛山市南海區華南通商貿發展有限公司 Foshan Nanhai Hua Nan Tong Trading Development Co., Ltd.	PRC	RMB3,000,000 (note 2)	100	–	100 (note 4)	Operation of hypermarket stores in the PRC

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15 INTERESTS IN SUBSIDIARIES (Continued)

Name of companies	Place of establishment/ incorporation and operation	Paid up capital	Proportion of ownership interest: Group's effective interest %	Held by the Company %	Held by subsidiary %	Principal activity
廣東華南通商貿發展有限公司 Guangdong Hua Nan Tong Trading Development Co., Ltd.	PRC	RMB29,500,000 (note 2)	100	–	100 (note 4)	Operation of hypermarket stores in the PRC
石家莊易初蓮花連鎖超市有限公司 Shijiazhuang Lotus Supermarket Chain Store Co., Ltd. (note 5)	PRC	USD2,400,000 (note 3)	100	–	100	Operation of hypermarket stores in the PRC

Notes:

(1) This is a sino-foreign co-operative joint venture established in the PRC.
(2) All are companies established in the PRC with limited liability.
(3) All are wholly-foreign-owned enterprises.
(4) The equity interest is held by individual nominees on behalf of the Company. These companies are domestic enterprises in the PRC legally owned by PRC nationals. Due to the various agreements in place, the directors of the Company, after taking legal advice, consider that the Company has effective control over the operational and financial policies of these enterprises and therefore the financial results and positions of these enterprises have been consolidated into the Group since their respective dates of establishment.
(5) The Group's interests in these entities will be disposed of to CPH under the Disposal Agreement.
(6) All are sino-foreign joint ventures established in the PRC.

16 DEPOSITS FOR ACQUISITION OF ADDITIONAL INTEREST IN SUBSIDIARIES

At 31st December, 2007, the amount represents deposits paid for the acquisition of the remaining 10% equity interest in Shantou Lotus of $10,681,000 (2006: $9,900,000) and acquisition of the remaining 35% equity interest in Qingdao Lotus of $3,923,000 (2006: nil). The acquisitions will be completed when approval is obtained from the relevant government authorities.

17 PREPAID LEASE PAYMENTS FOR PREMISES

	The Group 2007 $'000	2006 $'000
At 1st January	**55,384**	51,329
Exchange adjustments	**3,055**	1,539
Addition from acquisition of subsidiaries	**–**	12,899
Additions	**5,543**	5,017
Charged to profit or loss for the year	**(40,124)**	(15,400)
Reclassified to asset held for sale (note7(a))	**(1,068)**	–
At 31st December	**22,790**	55,384
Represented by:		
Non-current portion	**13,965**	17,235
Current portion	**8,825**	38,149
	22,790	55,384

These represent prepaid rentals for hypermarket stores operated by the Group.

18 LONG-TERM DEPOSITS

These represent deposits of $10,681,000 (2006: $9,900,000) and $10,681,000 (2006: $9,900,000) with financial institutions which bear interest of 4.0% and 4.7% per annum and have maturity dates of 27th June, 2008 and 27th July, 2008 respectively.

19 INVENTORIES

All inventories as at 31st December, 2007 and 2006 are finished goods merchandise. The analysis of the amount of inventories recognised as an expense is as follows:

	The Group	
	2007	2006
	$'000	$'000
Carrying amount of inventories sold	**3,641,570**	3,046,841
Write-down of inventories	**10,079**	12,148
	3,651,649	3,058,989

20 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Trade receivables, other receivables and deposits	**117,825**	135,480	**3,879**	1,399
Amounts due from related companies	**2,999**	14,935	**–**	–
	120,824	150,415	**3,879**	1,399

All of the trade and other receivables apart from rental deposits amounting to $31,999,000 (2006: $13,539,000) are expected to be recovered within one year.

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

	The Group		The Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Current	**8,472**	4,646	**–**	–
1 to 30 days overdue	**16**	285	**–**	–
31 to 60 days overdue	**158**	102	**–**	–
61 to 90 days overdue	**72**	89	**–**	–
Over 90 days	**682**	–	**–**	–
	9,400	5,122	**–**	–

The Group's credit policy is set out in note 34(a).

21 PLEDGED BANK DEPOSITS

At 31st December, 2007, $38,208,000 (2006: $70,209,000) of the Group's bank deposits were pledged to banks to secure banking facilities and bank borrowings granted to the Group.

As at 31st December, 2006, deposits of $120,915,000 were pledged for bank guarantees provided by banks to third parties in respect of the Group's obligations under finance and operating leases and payments to suppliers.

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22 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Cash at bank and in hand as disclosed in the balance sheet	**181,252**	98,528	**1,492**	1,191
Cash at bank and in hand classified as assets held for sale (note 7(a))	**22,428**	–	**–**	–
Cash and cash equivalents in the consolidated cash flow statement	**203,680**	98,528	**1,492**	1,191

Cash and cash equivalents of the Group and of the Company amounting to $18,624,000 (2006: $63,659,000) and $443,000 (2006: $442,000) respectively are non-interest bearing.

23 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Notes payable	**41,881**	87,845	**–**	–
Creditors and accrued charges	**1,018,455**	1,260,901	**7,323**	7,703
Amounts due to related companies	**27,134**	76,590	**893**	–
Amounts due to subsidiaries	**–**	–	**204,409**	199,853
	1,087,470	1,425,336	**212,625**	207,556

All of the trade and other payables apart from amounts due to subsidiaries are expected to be settled within one year.

The above balances with related parties are unsecured, non-interest bearing and repayable on demand.

Included in the Group's trade and other payables are trade creditors and notes payable of $746,347,000 (2006: $956,895,000) with the following ageing analysis as of the balance sheet date:

	The Group		The Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Within 30 days of invoice date	**659,295**	642,716	**–**	–
31 to 60 days after invoice date	**58,639**	153,932	**–**	–
61 to 90 days after invoice date	**6,998**	96,062	**–**	–
More than 90 days after invoice date	**21,415**	64,185	**–**	–
	746,347	956,895	**–**	–

24 BANK LOANS

All the Group's bank loans as at 31st December, 2007 and 2006 were unsecured and repayable as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Within 1 year (note (i))	**110,043**	39,600	**78,000**	–
More than 1 year but within 2 years (note (ii))	**390,000**	–	**390,000**	–
More than 2 years but within 5 years (note (ii))	**–**	390,000	**–**	390,000
	500,043	429,600	**468,000**	390,000

As at 31st December, 2007, bank loans include fixed and floating rate bank loans as follows:

(i) As at 31st December, 2007, the Group has drawn down a fixed rate bank loan of $32,043,000 (2006: $39,600,000) which bears interest at 8.75% per annum (2006: 6.44% per annum) and is co-guaranteed by the Company and a subsidiary of the Company.

As at 31st December, 2007, the Company has drawn down a floating rate bank loan of USD10,000,000, equivalent to $78,000,000 (2006: Nil) which bears interest at London Interbank Offered Rate ("LIBOR") plus 1.65% per annum. The loan is subject to a renewal assessment every six months. A letter of comfort in respect of the loan has been issued to the lending bank by the Group's ultimate holding company.

As at 31st December, 2006, a fixed rate bank loan of $19,800,000 was secured by bills payable issued by a related company and another fixed rate bank loan of $19,800,000 was co-guaranteed by the Company and a subsidiary of the Company. These outstanding bank loans have been fully repaid as at 31st December, 2007.

(ii) The Company has drawn down a floating rate bank loan amounting to USD50,000,000, equivalent to $390,000,000 which bears interest at LIBOR plus 2.75% per annum and is secured by the equity interest in a company controlled by various shareholders of the Group's ultimate holding company. A letter of undertaking has also been issued to the lending bank by the ultimate holding company. This bank loan is subject to renewal in March, 2009 and fulfilment of certain financial covenants. If the Company were to breach the covenants, the drawn down facilities would become payable on demand. The Company regularly monitors its compliance with the covenants. Further details of the Company's management of liquidity risk are set out in note 34(b). As at 31st December, 2007, the Company was in compliance with the covenants.

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25 OTHER LOANS

	The Group		The Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Loan from third party (note (i))	**7,800**	–	**7,800**	–
Loans from related companies (note (ii))	**441,839**	66,442	**–**	–
Amount due to a subsidiary (note (iii))	**–**	–	**99,161**	60,161
	449,639	66,442	**106,961**	60,161
Represented by:				
Within one year	**402,997**	66,442	**106,961**	60,161
More than 1 year but within 2 years	**46,642**	–	**–**	–
	449,639	66,442	**106,961**	60,161

Notes:

(i) As at 31st December, 2007, a loan of $7,800,000 borrowed from an independent third party was unsecured, bearing interest at 9% per annum and repayable on demand.

(ii) Loans from related companies, being subsidiaries of the Group's ultimate holding company comprise the following:

(a) $395,197,000 (2006: $19,800,000), which bears interest at People's Bank of China lending rate multiplied by 1.055 per annum (2006: 5.58%), and is unsecured and repayable on 31st December, 2008.

(b) $46,642,000 (2006: $46,642,000), which bears interest at three-month LIBOR plus 1.5% per annum, is unsecured and repayable on 31st December, 2009.

(iii) At 31st December, 2007, $41,340,000 (2006: $41,340,000) of the amounts due to a subsidiary, bears interest at LIBOR plus 2% per annum (2006: LIBOR plus 2% per annum). The remaining amounts are non-interest bearing. The amounts due to a subsidiary have no fixed terms of repayment.

26 CONSIDERATION PAYABLE FOR ACQUISITION OF SUBSIDIARIES

An analysis of the consideration payable for acquisition of subsidiaries is set out as follows:

	The Group	
	2007	2006
	$'000	$'000
Acquisition of 50% equity interest in Lotus-CPF (note (i))	**41,991**	126,780
Acquisition of 10% equity interest in CT Guangdong (note (i))	**9,331**	25,880
Acquisition of 40% equity interest in Lotus-CPF (note (ii))	**181,350**	217,620
	232,672	370,280
Represented by:		
Current portion	**111,772**	139,995
Non-current portion	**120,900**	230,285
	232,672	370,280

26 CONSIDERATION PAYABLE FOR ACQUISITION OF SUBSIDIARIES (Continued)

Notes:

(i) These outstanding amounts are payable in six half-yearly instalments starting from November, 2005 and bear interest at 1.5% per annum. The outstanding amounts are secured by 48,700,000 registered shares of Lotus-CPF and 10,821,033 registered shares of CT Guangdong pledged to the sellers respectively as security for the due and punctual performance of the Group's obligations. The fair values of these amounts at recognition are determined based on the present value of the estimated future cash flows discounted using an effective interest rate of 2.5% per annum.

(ii) 10% of the consideration was paid upon completion of the acquisition during 2006 and the remaining amount is payable in eight half-yearly instalments with first instalment due in April, 2007. The outstanding amount bears interest at LIBOR plus 2% per annum and is secured by 38,960,000 registered shares of Lotus-CPF pledged to the seller, which is a related company, as security for the due and punctual performance of the Group's obligation under a Share Sale and Purchase Agreement dated 27th February, 2006 made between a subsidiary of the Company and the seller.

27 OBLIGATIONS UNDER FINANCE LEASES

At 31st December, 2007, the Group had obligations under finance leases repayable as follows:

	The Group			
	2007		2006	
	Present value of the minimum lease payments $'000	**Total minimum lease payments $'000**	Present value of the minimum lease payments $'000	Total minimum lease payments $'000
Within 1 year	**3,427**	**25,399**	2,146	23,165
After 1 year but within 2 years	**4,165**	**25,760**	3,177	23,542
After 2 years but within 5 years	**16,560**	**78,489**	19,209	96,627
After 5 years	**199,848**	**352,910**	185,616	327,104
	220,573	**457,159**	208,002	447,273
	224,000	**482,558**	210,148	470,438
Less: Total future interest expenses		**(258,558)**		(260,290)
Present value of lease obligations		**224,000**		210,148

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28 PROVISIONS

Provisions have been made for the directors' best estimate of the expected costs associated with the cancellation by the Group of certain new store projects. Provisions are summarised as follows:

	The Group	
	2007	2006
	$'000	$'000
At 1st January	**18,834**	–
Provisions made	**24,951**	18,834
Provisions utilised	**(18,834)**	–
At 31st December	**24,951**	18,834

The provision balance at 31st December, 2007 is expected to be utilised within one year.

In addition to the provisions described above, additional costs in relation to cancelling new store projects incurred during the financial year are summarised below:

	The Group	
	2007	2006
	$'000	$'000
Expenses incurred for cancelled new store projects	**12,887**	5,011
Provisions for impairment of store under fit out costs (note 13(a))	**28,594**	–
At 31st December	**41,481**	5,011

29 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group		The Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Provision for PRC income tax for the year	**1,444**	–	**–**	–
PRC income tax paid	**(3,075)**	–	**–**	–
Balance of income tax recoverable	**(1,631)**	–	**–**	–

29 INCOME TAX IN THE BALANCE SHEET (Continued)

(b) Deferred tax assets and liabilities recognised – the Group

The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and the movements during the year are as follows:

	Cumulative tax losses $'000	Depreciation allowances in excess of the related depreciation $'000	Others $'000	Total $'000
Deferred tax arising from:				
At 1st January, 2006	–	–	–	–
Acquisition of subsidiaries	17,936	(18,122)	5,639	5,453
Charged to profit or loss (note 6(a))	(14,016)	1,503	3,138	(9,375)
At 31st December, 2006	3,920	(16,619)	8,777	(3,922)
Credited to profit or loss (note 6(a))	(4,074)	1,435	5,115	2,476
Changes in applicable tax rate (note 6(a))	–	3,840	(3,453)	387
Exchange adjustment	154	(1,111)	757	(200)
At 31st December, 2007	–	(12,455)	11,196	(1,259)

An analysis of net deferred tax asset and liability is set out as follows:

	2007 $'000	2006 $'000
Net deferred tax asset recognised on the balance sheet	**4,343**	3,920
Net deferred tax liability recognised on the balance sheet	**(5,602)**	(7,842)
	(1,259)	(3,922)

(c) Deferred tax assets not recognised – the Group

	2007 $'000	2006 $'000
Tax losses	**870,113**	773,905
Deductible temporary differences	**39,854**	24,129
	909,967	798,034

Deferred tax assets have not been recognised in respect of the above items as it is not probable that future taxable profits against which the above items can be utilised will be available in the relevant tax jurisdictions and entities.

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29 INCOME TAX IN THE BALANCE SHEET (Continued)

(c) Deferred tax assets not recognised – the Group (Continued)

The tax losses, except for the tax losses of the Company which do not expire, can be carried forward up to five years from the year in which the loss originated, and will expire in the following years:

	2007 $'000	2006 $'000
2007	**–**	19,382
2008	**4,594**	11,392
2009	**67,752**	75,734
2010	**140,071**	165,813
2011	**350,276**	405,501
2012	**229,258**	–
	791,951	677,822

(d) Deferred tax assets not recognised – the Company

At 31st December, 2007, the Company has not recognised deferred tax assets in respect of cumulative tax losses of $78,162,000 (2006: $96,083,000) as it is not probable that future taxable profits against which the losses can be utilised will be available. The tax losses do not expire under current tax legislation.

30 SHARE CAPITAL

(a) Authorised and issued share capital

	2007 $'000	2006 $'000
Authorised:		
18,000,000,000 (2006: 15,000,000,000) ordinary shares of $0.02 each	**360,000**	300,000
2,000,000,000 (2006: Nil) preference shares of $0.02 each	**40,000**	–
Issued and fully paid:		
5,996,614,408 ordinary shares of $0.02 each	**119,932**	119,932

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(b) Terms and numbers of unexpired and unexercised share options at balance sheet date

Details of the unexpired and unexercised share options at balance sheet date are set out in note 32(a) to the financial statements.

(c) Increase in authorised share capital

By a special resolution passed at the extraordinary general meeting held on 25th July, 2007, the Company's authorised share capital was increased from $300,000,000 divided into 15,000,000,000 ordinary shares to $400,000,000 divided into 18,000,000,000 ordinary shares and 2,000,000,000 preference shares by the creation of an additional 3,000,000,000 new ordinary shares and 2,000,000,000 new preference shares. The preference shares are non-voting shares. The par value of each preference share is $0.02.

31 RESERVES

(a) The Company

	Share premium (note (c)) $'000	Share option reserve (note(c)) $'000	Accumulated losses $'000	Total $'000
At 1st January, 2006	931,688	50,670	(853,283)	129,075
Profit for the year (note 10)	–	–	3,709	3,709
At 31st December, 2006	931,688	50,670	(849,574)	132,784
At 1st January, 2007	931,688	50,670	(849,574)	132,784
Loss for the year (note 10)	–	–	(59,080)	(59,080)
At 31st December, 2007	931,688	50,670	(908,654)	73,704

(b) Distributability of 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, 2007 and 2006.

(c) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by the Companies Ordinance (Revised) of the Cayman Islands.

(ii) Revaluation reserve

The revaluation reserve represents the difference between the Group's share of the fair value of the associate's net assets and the Group's interest in associate as determined under accounting policy note 1(f) at the date the associate became a subsidiary of the Group.

(iii) Share option reserve

The share option reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share-based payments in note 1(p)(ii).

(iv) Reorganisation reserve

The reorganisation reserve of the Group represents the excess amount of the net asset value as at 31st December, 1990 of the Group's former listed holding company, Creative Investment Limited ("CIL"), over the nominal value of the Company's shares issued for the acquisition of 100% equity interest in CIL, pursuant to a Scheme of Arrangement in 1991.

(v) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policy set out in note 1(t).

(vi) Reserve fund

Pursuant to the relevant laws and regulations for sino-foreign joint venture enterprises, a portion of the profits of the Group's jointly controlled entity operating in the PRC is transferred to the reserve fund. The amounts of profits transferred to the reserve fund are determined by the board of directors of the jointly controlled entity. This fund is restricted as to use and is not available for distribution.

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31 RESERVES (Continued)

(d) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern so that it can provide returns for equity holders and benefits for other stakeholders and secure access to finance at a reasonable cost.

The Group actively and regularly reviews its capital structure to ensure it is in compliance with any loan covenants. The Group monitors capital on the basis of the gearing ratio which is calculated by dividing interest-bearing bank loans and other borrowings by shareholders' equity.

As set out in note 1(b), arrangements have been entered into with the Group's ultimate holding company and related parties to enlarge the capital base of the Company through the issue of ordinary and preference shares, and to issue convertible bonds. The directors consider these arrangements will significantly strengthen the Group's equity base and financial resources.

32 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The basis of eligibility of any of the eligible persons to the grant of options shall be determined by the Board of Directors from time to time on the basis of their contribution or potential contribution to the development and growth of the Group. The Scheme became effective on 31st May, 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Under the Scheme, the maximum number of unexercised share options currently permitted to be granted is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under the Scheme to each eligible participant within a 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. Notwithstanding the foregoing, the shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the shares in issue from time to time.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of $10 in total by the grantee. The exercise period of the share options granted is determinable by the Board of Directors, which is not later than ten years from the date of the offer of the share options or the expiry date of the Scheme, if earlier. No vesting period is set for each grant of options.

The options for the time being outstanding may be exercised in whole or in part at any time during the exercise period.

The exercise price of the share options is determined by the Board of Directors, but may not be less than the higher of (i) the closing price of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange (the "Daily Quotation Sheets") on the date of the offer of the share options; and (ii) the average closing price of the Company's shares as stated in the Daily Quotation Sheets for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares.

32 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (Continued)

(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

	Exercise price	Number of share options	Vesting conditions	Contractual life of options
Options granted to directors:				
– on 6th June, 2002	$0.07	539,695,296	Immediate from the date of grant	10 years
– on 10th November, 2003	$0.19	539,695,296	Immediate from the date of grant	10 years
– on 24th May, 2005	$0.11	599,661,440	Immediate from the date of grant	10 years
Options granted to employees:				
– on 6th June, 2002	$0.07	59,966,144	Immediate from the date of grant	10 years
– on 10th November, 2003	$0.19	59,966,144	Immediate from the date of grant	10 years
Total number of share options		1,798,984,320		

Each option entitles the holder to subscribe for one ordinary share in the Company.

(b) The number and weighted average exercise prices of share options are as follows:

	2007 and 2006 Weighted average exercise price	Number of shares
Outstanding at 1st January and 31st December	$0.123	1,798,984,320

The options outstanding at 31st December, 2007 had an exercise price of $0.07, $0.11 or $0.19 (2006: $0.07, $0.11 or $0.19) and a weighted average remaining contractual life of 5.9 years (2006: 6.9 years).

33 SEGMENT INFORMATION

The Group is currently engaged in retail business of the operation of hypermarket stores in the PRC and all of its sales during 2007 are generated in the PRC. Accordingly, no business segment and geographical segment analysis of the Group is presented for the year ended 31st December, 2007 as it is not subject to different risks and returns in its activities and the geographical regions in which it operates.

The Group was also involved in the business of property investment in the PRC, which was discontinued during 2006. The segment information of the discontinued business during 2006 is disclosed in note 7(c). At 31st December, 2007, all the assets and liabilities held by the Group are attributable to the retail business.

NOTES TO THE FINANCIAL STATEMENTS

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(Expressed in Hong Kong dollars unless otherwise indicated)

34 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and long-term deposits. Management monitors the exposures to these credit risks on an ongoing basis.

At the balance sheet date, the Group does not have a concentration of credit risk in respect of the total trade and other receivables. Sales to retail customers are made in cash or via major credit cards.

Long-term deposits are normally placed only with counterparties that have a high credit rating. Management does not expect any investment counterparty to fail to meet its obligations.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Group does not provide any guarantees which would expose the Group to credit risk.

(b) Liquidity risk

As at 31st December, 2007, the Group's net current liabilities and net liabilities amounted to approximately $776 million (2006: $745 million) and $319 million (2006: $69 million) respectively. For the year ended 31st December, 2007, the Group recorded a net cash outflow from operating activities of approximately $212 million (2006: outflow of $96 million), a net cash inflow from investing activities and financing activities of approximately $309 million (2006: inflow of $42 million) and a increase in cash and cash equivalents of approximately $98 million (2006: decrease of $53 million).

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations and obtain adequate finance from external parties or its ultimate holding company to meet its debt obligations and committed future capital expenditures as and when they fall due.

The directors of the Company have carried out a detailed review of the cash flow forecast of the Group for the twelve months ending 31st December, 2008. Based on such forecast and on the letter of support provided by the ultimate holding company (note 1(b)), the directors have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements of the Group during that period. In preparing the cash flow forecast, the directors have considered historical cash requirements of the Group which may impact the operations of the Group during the next twelve-month period. The directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

34 FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk (Continued)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

The Group

	Carrying amount $'000	Contractual undiscounted cash flows $'000	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	More than 5 years $'000
31st December, 2006						
Non-derivative financial liabilities						
Bank loans	429,600	(501,902)	(72,366)	(31,629)	(397,907)	–
Other loans	66,442	(69,443)	(69,443)	–	–	–
Notes payable, creditors and accrued charges	1,348,746	(1,348,746)	(1,348,746)	–	–	–
Amounts due to related companies	76,590	(76,590)	(76,590)	–	–	–
Consideration payable for acquisition of subsidiaries	370,280	(419,827)	(164,255)	(124,231)	(131,341)	–
Obligations under finance leases	210,148	(470,438)	(23,165)	(23,542)	(96,627)	(327,104)
	2,501,806	(2,886,946)	(1,754,565)	(179,402)	(625,875)	(327,104)
31st December, 2007						
Non-derivative financial liabilities						
Bank loans	500,043	(542,920)	(144,993)	(397,927)	–	–
Other loans	449,639	(486,567)	(434,139)	(52,428)	–	–
Notes payable, creditors and accrued charges	1,060,336	(1,060,336)	(1,060,336)	–	–	–
Amounts due to related companies	27,134	(27,134)	(27,134)	–	–	–
Consideration payable for acquisition of subsidiaries	232,672	(255,572)	(124,231)	(67,760)	(63,581)	–
Obligations under finance leases	224,000	(482,558)	(25,399)	(25,760)	(78,489)	(352,910)
	2,493,824	(2,855,087)	(1,816,232)	(543,875)	(142,070)	(352,910)

The Company

	Carrying amount $'000	Contractual undiscounted cash flows $'000	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	More than 5 years $'000
31st December, 2006						
Non-derivative financial liabilities						
Bank loans	390,000	(461,165)	(31,629)	(31,629)	(397,907)	–
Other loans	60,161	(60,161)	(60,161)	–	–	–
Notes payable, creditors and accrued charges	7,703	(7,703)	(7,703)	–	–	–
Amounts due to subsidiaries	199,853	(199,853)	(199,853)	–	–	–
	657,717	(728,882)	(299,346)	(31,629)	(397,907)	–
31st December, 2007						
Non-derivative financial liabilities						
Bank loans	468,000	(508,307)	(110,380)	(397,927)	–	–
Other loans	106,961	(106,961)	(106,961)	–	–	–
Notes payable, creditors and accrued charges	7,323	(7,323)	(7,323)	–	–	–
Amounts due to related companies	893	(893)	(893)	–	–	–
Amounts due to subsidiaries	204,409	(204,409)	(204,409)	–	–	–
	787,586	(827,893)	(429,966)	(397,927)	–	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2007
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34 FINANCIAL INSTRUMENTS (Continued)

(c) Interest rate risk

The Group's exposure to changes in interest rates relates primarily to the Group's cash and cash equivalents, pledged bank deposits, long-term deposits, bank loans, other loans, obligations under finance leases and consideration payable for acquisition of subsidiaries. The Group does not use financial derivatives to hedge against the interest rate risk.

(i) Interest rate profile

The following table details the interest rate profile of the Group's and the Company's net borrowings (interest-bearing liabilities less interest-bearing financial investments excluding cash held for short-term working capital purposes) at the balance sheet date.

The Group

	At 31st December, 2007 Effective interest rate	2007 Carrying value $'000	2006 Effective interest rate	2006 Carrying value $'000
Variable rate instruments:				
Pledged bank deposits	3.38%	38,208	2.16%	191,124
Cash and cash equivalents	0.73%	185,056	0.72%	34,869
Bank loans	7.94%	(468,000)	8.11%	(390,000)
Other loans	7.70%	(441,839)	6.84%	(46,642)
Consideration payable for acquisition of subsidiaries	6.82%	(181,350)	7.31%	(217,620)
		(867,925)		(428,269)
Fixed rate instruments:				
Long-term deposits	4.00%–4.70%	21,362	4.00%–4.70%	19,800
Bank loans	8.75%	(32,043)	6.44%	(39,600)
Other loans	9.00%	(7,800)	5.58%	(19,800)
Consideration payable for acquisition of subsidiaries	2.50%	(51,322)	2.50%	(152,660)
Obligations under finance leases	9.80%–10.03%	(224,000)	9.80%–10.03%	(210,148)
		(293,803)		(402,408)

34 FINANCIAL INSTRUMENTS (Continued)

(c) Interest rate risk (Continued)

(i) Interest rate profile (Continued)

The Company

	At 31st December, 2007 Effective interest rate	2007 Carrying value $'000	2006 Effective interest rate	2006 Carrying value $'000
Variable rate instruments:				
Cash and cash equivalents	**2.95%**	**1,049**	0.30%–1.20%	749
Amount due to subsidiaries	**7.16%**	**(41,340)**	7.33%	(41,340)
Bank loans	**7.94%**	**(468,000)**	8.11%	(390,000)
		(508,291)		(430,591)
Fixed rate instruments:				
Other loan	**9.00%**	**(7,800)**		–
		(7,800)		–

(ii) Sensitivity analysis

At 31st December, 2007, it was estimated that a change of 100 basis points in interest rates, with all other variables held constant, would increase/(decrease) the Group's net profit after income tax and retained profits by the amounts shown below.

	Year ended 31st December, 2007 $'000	Year ended 31st December, 2006 $'000
Variable rate instrument:		
100 basis point increase	**(8,679)**	(4,283)
100 basis point decrease	**8,679**	4,283

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2007
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34 FINANCIAL INSTRUMENTS (Continued)

(d) Currency risk

The Directors consider that as the Group's retail operations are all based in the PRC, the Group is not exposed to significant currency risk in its retail operations.

The Group is exposed to foreign currency risk from bank loans that are denominated in United States dollars ("USD"). As HKD is pegged to USD, the Group does not expect any significant movements in the USD/HKD exchange rate.

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31st December, 2007 and 2006.

35 CONTINGENT LIABILITIES

As at the balance sheet date, the Company has issued two guarantees to an independent third party in respect of finance lease arrangements with its subsidiaries which expire in 2025 (see note 27) and a co-guarantee to a bank in respect of a bank loan granted to its subsidiary which expires in November, 2010 or upon repayment of the loan, if earlier. As at the balance sheet date, the directors did not consider it probable that claims will be made against the Company under any of the guarantees. The maximum liability of the Company at the balance sheet date under the guarantees issued is 55% of the future minimum lease payments under the two lease agreements entered into by the subsidiaries of RMB55 million (equivalent to $58,746,000) and the outstanding amount of the bank loan owed by its subsidiary of $32,043,000 (2006: $19,800,000). The Company has not recognised any deferred income in respect of the guarantees as the fair values cannot be reliably measured and there was no transaction price.

36 OPERATING LEASE COMMITMENTS

As lessee

At 31st December, 2007, total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Within 1 year	**285,491**	226,163	**–**	884
After 1 year but within 5 years	**391,451**	307,806	**–**	–
After 5 years	**22,695**	39,127	**–**	–
	699,637	573,096	**–**	884

36 OPERATING LEASE COMMITMENTS (Continued)

As lessee (Continued)

The Group is the lessee in respect of a number of office and store premises held under operating leases. The leases typically run for an initial period up to 20 years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased every 3 to 7 years to reflect market rentals. None of the leases includes contingent rentals.

As lessor

Property rental income earned net of negligible outgoings from subletting of the Group's leased properties during the year amounted to approximately $110,547,000 (2006: $73,477,000). All of the properties held have committed tenants for the next two to five years.

At 31st December, 2007, the total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	The Group	
	2007	2006
	$'000	$'000
Within 1 year	**73,596**	28,906
After 1 year but within 5 years	**19,242**	6,450
After 5 years	**12,480**	4,484
	105,318	39,840

The leases typically run for an initial period of 3 months to 2 years, with an option to renew the lease when all terms are renegotiated. In addition to the minimum rental payments disclosed above, the tenants have commitments to pay additional rent of a proportion of turnover for certain sub-leased properties if the turnover generated from those sub-leased properties exceeds the predetermined levels. Contingent rentals are not included in the above commitments as it is not possible to estimate the amounts which may be payable by the lessee.

37 CAPITAL COMMITMENTS

Capital commitments outstanding at 31st December, 2007 not provided for in the financial statements were as follows:

	The Group	
	2007	2006
	$'000	$'000
Contracted for	**14,974**	31,752
Authorised but not contracted for	**–**	68,612
	14,974	100,364

All of the above capital commitments were made in respect of the establishment of new hypermarket stores and renovation work of existing stores.

38 EMPLOYEE RETIREMENT BENEFITS

The Group has arranged for its Hong Kong employees to join a Mandatory Provident Fund (the "MPF scheme"), a defined contribution scheme managed by an independent trustee. Under the rules of the MPF scheme, each of the Group and the employee make monthly contributions to the scheme at 5% of the employees' gross earnings, subject to a maximum of $1,000 per month per employee. The only obligation of the Group with respect to the MPF scheme is to make the required contributions under the scheme.

Employees of the Group in the PRC participate in several defined contribution retirement schemes organised separately by PRC municipal governments in regions where the major operations of the Group are located. The Group is required to contribute to these schemes at rates ranging from 10% to 21% (2006: 10% to 21%) of salary costs including certain allowances. A member of the retirement schemes is entitled to retirement benefits equal to a fixed proportion of the salary at the retirement date. The retirement benefit obligations of all existing and future retired staff of the Group are assumed by these schemes.

NOTES TO THE FINANCIAL STATEMENTS

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39 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions or balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions during the year.

(a) Significant transactions with related companies

	The Group	
	2007 **$'000**	2006 $'000
Store merchandise purchased from related companies (note (i))	**129,177**	72,703
Store merchandise purchased from an associate (note (i))	**–**	1,775
Store merchandise sold to a related company (note (i))	**(10,579)**	(15,006)
Rental expenses in respect of department store premises payable to a related company (note (ii))	**–**	8,859
Rental income in respect of investment properties receivable from a related company (note (iii))	**–**	(221)
Rental income in respect of office premises sublet to related companies (note (iii))	**–**	(928)
Building management fee receivable from related companies (note (iii))	**–**	(117)
Management fee payable to a related company (note (iii))	**5,421**	2,862
Loans borrowed from related companies (note(v))	**441,839**	66,442
Interest expenses in respect of consideration payable due to a related company (note (iv))	**14,894**	9,560
Interest expenses in respect of amount due to an associate (note (v))	**–**	515
Interest expenses in respect of amounts due to related companies (note (v))	**15,752**	1,103

Notes:

(i) The sales and purchases of merchandise were made at the prices negotiated and mutually agreed between both parties.

(ii) Rental payment was determined in accordance with the tenancy agreement.

(iii) The terms of these transactions were mutually determined and agreed between both parties.

(iv) The interest rate and terms of repayment of consideration payable are disclosed in note 26.

(v) The interest rate and terms of repayment of amounts due to an associate and related companies are disclosed in notes 23 and 25.

39 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	The Group 2007 $'000	2006 $'000
Short-term employee benefits	**16,180**	12,294
Post-employment benefits	**36**	40
Termination benefits	**–**	2,800
Equity compensation benefits	**–**	–
	16,216	15,134

Total remuneration is included in "staff costs" (see note 5(b)).

40 COMPARATIVE FIGURES

Certain income from suppliers amounting to $45,118,000 which was recorded in other revenue in the 2006 financial statements is now presented as a reduction of cost of sales to reflect more appropriately the nature of the income.

41 IMMEDIATE AND ULTIMATE HOLDING COMPANIES

At 31st December, 2007, the directors considered the immediate holding company to be C.P. Holding (BVI) Investment Company Limited, which is incorporated in the British Virgin Islands, and ultimate holding company to be Charoen Pokphand Group Company Limited, which is incorporated in the Kingdom of Thailand. None of these entities produces financial statements available for public use.

42 ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the consolidated financial statements. Notes 14 and 34 contain information about the assumptions and their risk factors relating to goodwill impairment and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Going concern

The directors of the Company have given careful consideration to the future liquidity of the Group in light of the Group's net current liabilities and net liabilities of approximately $776 million (2006: $745 million) and $319 million (2006: $69 million) respectively as at 31st December, 2007 and its loss from continuing operation of $305 million (2006: $571 million) for the year then ended. The directors consider that it is appropriate to prepare the financial statements using a going concern basis. Further details are set out in notes 1(b) and 34(b).

42 ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Key sources of estimation uncertainty (Continued)

(a) Going concern (Continued)

Should the Group be unable to continue as a going concern, all of the Group's assets and liabilities have to be stated at net realisable value. In particular, the non-current assets and the non-current liabilities have to be reclassified as current assets and current liabilities respectively and provision for contingent liabilities may be required as a result.

(b) Depreciation of fixed assets

Fixed assets are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews annually the estimated useful lives of the assets and their residual values, if any. The useful lives are based on the Group's historical experience with similar assets. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(c) Impairment

If circumstances indicate that the carrying value of interests in subsidiaries, fixed assets, goodwill and other non-current assets may not be recoverable, these assets may be considered "impaired", and an impairment loss may be recognised in accordance with HKAS 36 "Impairment of Assets". The carrying amounts of these assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable, except for goodwill which is tested annually for impairment. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling prices because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

43 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31ST DECEMBER, 2007

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31st December, 2007 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

SUMMARY OF FINANCIAL INFORMATION

(Expressed in Hong Kong dollars)

A summary of the results, assets and liabilities of the Group for the last five financial years is as follows:

	2003 $'000	2004 $'000	2005 $'000	2006 $'000	**2007** **$'000**
RESULTS					
Turnover	315,407	1,059,719	1,852,753	3,482,835	**4,390,658**
Profit/(loss) before taxation	43,239	(170,284)	(524,101)	(561,653)	**(306,125)**
Taxation	(3,710)	(1,667)	538	(9,375)	**1,419**
Profit/(loss) after taxation	39,529	(171,951)	(523,563)	(571,028)	**(304,706)**
Profit/(loss) from discontinued operations	–	13,457	(6,617)	223,571	**–**
Profit/(loss) for the year	39,529	(158,494)	(530,180)	(347,457)	**(304,706)**
Attributable to:					
Equity shareholders of the Company	65,551	(141,142)	(497,296)	(334,577)	**(307,329)**
Minority interests	(26,022)	(17,352)	(32,884)	(12,880)	**2,623**
Profit/(loss) for the year	39,529	(158,494)	(530,180)	(347,457)	**(304,706)**
ASSETS AND LIABILITIES					
Total assets	1,322,595	1,570,993	1,906,792	2,459,103	**2,465,527**
Total liabilities	(500,786)	(907,910)	(1,566,304)	(2,528,482)	**(2,784,903)**
NET ASSETS/(LIABILITIES)	821,809	663,083	340,488	(69,379)	**(319,376)**
CAPITAL AND RESERVES					
Total equity attributable to equity shareholders of the Company	718,480	577,106	253,897	(71,896)	**(322,064)**
Minority interests	103,329	85,977	86,591	2,517	**2,688**
TOTAL EQUITY	821,809	663,083	340,488	(69,379)	**(319,376)**

Note: Figures in 2004 have been reclassified as a result of the classification of property investment and development businesses to discontinued operations in 2005. Figures for 2003 have not been adjusted as it is not practicable to restate earlier years for comparison purposes.

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Soopakij Chearavanont *(Chairman)*
Mr. Narong Chearavanont *(Vice Chairman)*
Mr. Tse Ping *(Vice Chairman)*
Mr. Yang Xiaoping
(Vice Chairman & Executive Vice President)
Mr. Li Wen Hai
(Vice Chairman & Executive Vice President)
Mr. James Harold Haworth
(Chief Executive Officer & President)
Mr. Michael Ross *(Executive Vice President)*
Mr. Umroong Sanphasitvong
Mr. Robert Ping-Hsien Ho
Mr. Meth Jiaravanont
Mr. Nopadol Chiaravanont
Mr. Chatchaval Jiaravanon
Mr. Supachai Chearavanont
Mr. Kachorn Chiaravanont

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Mr. Soopakij Chearavanont
Mr. Umroong Sanphasitvong
Mr. Viroj Sangsnit
Mr. Chokchai Kotikula
Mr. Cheng Yuk Wo

COMPANY SECRETARY

Ms. Choi Yi Mei

QUALIFIED ACCOUNTANT

Mr. Siu Hin Leung

AUTHORISED REPRESENTATIVES

Mr. Robert Ping-Hsien Ho
Ms. Choi Yi Mei

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Siam City Bank Public Company Limited
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SHARE LISTING

The Stock Exchange of Hong Kong Limited
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COMPANY WEBSITE

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