Annual Report 2008年報

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

新鲜你的生活！
Fresh your life

Mission
使命

Helping People to Live a Better Life

幫助人們享受更好的生活

Vision
願景

Be the Most Preferred Lifestyle Retailer for products & services All Families need, want & dream of

成為顧客最喜愛的生活購物中心，為所有家庭提供需要的、想要的和夢想得到的商品和服務

Philosophy
理念

Put the Customer first

顧客第一

CP LOTUS
卜蜂蓮花

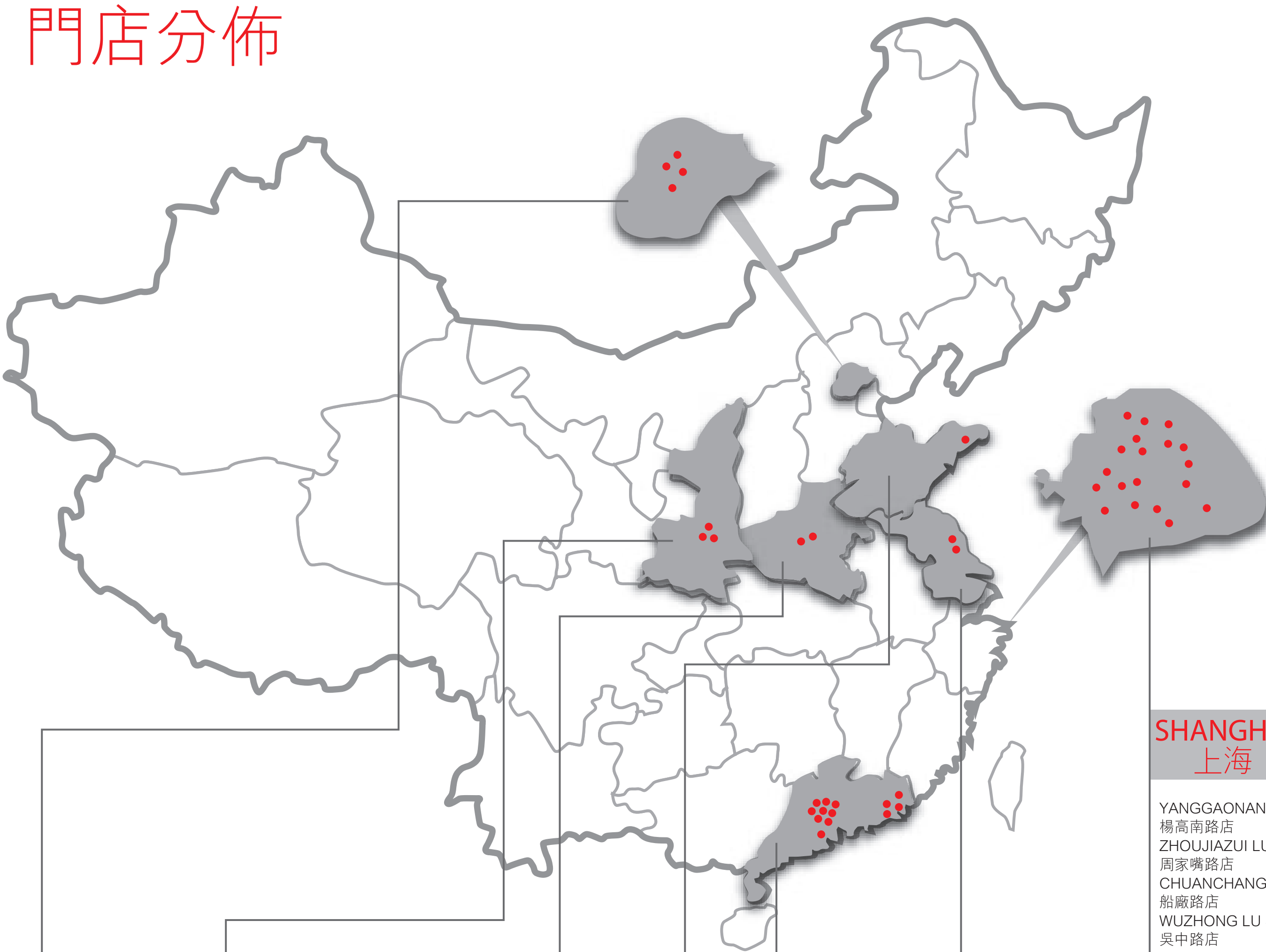
Chia Tai Enterprises International Limited ("CTEI") is an investment holding company. Through its subsidiaries, CTEI is principally engaged in the operation of large scale one-stop shopping centers, CP Lotus, located in the Northern, Eastern and Southern regions of China.

CP Lotus has successfully introduced modern retail experience to China. The use of an advanced, comprehensive and efficient system for purchasing, storage and logistics helps to bring merchandise to customers at the lowest cost. As a one-stop shopping center, CP Lotus offers a large assortment of quality merchandise, including fresh food, health supplement, beverage & liquor, household chemicals, housewares, hardware, sporting goods and toys, electronic appliances, apparel, shoes and more. CP Lotus endeavours to be the number one choice of everyday shopping needs of every customer, providing convenience, hospitality and pleasant shopping environment. We are committed to "Customer First" and will strive to take part in enhancing their good lives.

正大企業國際有限公司（「正大企業」）乃一家投資控股公司，其附屬公司主要於華北、華東和華南地區經營「一站式」的購物中心——卜蜂蓮花。

卜蜂蓮花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，以最低的成本把商品帶給顧客。作為一個「一站式」的購物中心，卜蜂蓮花幾乎涵蓋所有種類的優質商品，包括生鮮食品、保健品、飲料、酒類、日用洗化用品、家用品、五金、體育用品、玩具、家用電器和服裝鞋類等。卜蜂蓮花致力成為每位顧客每天購物需要的首選，並提供便利優越及親切友好的購物環境。卜蜂蓮花堅持「顧客第一」的承諾，並將努力成為顧客美好生活的一部分！

STORE NETWORK
門店分佈



BEIJING 北京

CHAOYANG STORE
朝陽店
TONGZHOU STORE
通州店
SHIFOYING STORE
石佛營店
CHENGFU LU STORE
成府路店

4

SHAANXI 陜西

XIAN
TANGYAN LU STORE
西安
唐延路店
XIAN
CHANGYING LU STORE
西安
長纓路店
XIAN
CHANGAN LU STORE
西安
長安路店

3

HENAN 河南

ZHENGZHOU
ZIJINGSHAN LU STORE
鄭州
紫荊山路店
ZHENGZHOU
DONGHUAN LU STORE
鄭州
東環路店

2

SHANDONG 山東

QINGDAO
LIAOYANGXI LU STORE
青島
遼陽西路店

1

GUANGDONG 廣東

SANYUANLI STORE
三元里店
SHANTOU STORE
汕頭店
TIANHE STORE
天河店
NANHAI STORE
南海店
JIANGMEN STORE
江門店
CHENGHAI STORE
澄海店
SANSHUI STORE
三水店
HUANGQI STORE
黃岐店
RONGCHENG STORE
榕城店
DONGSHAN STORE
東山店
SHUNDE STORE
順德店
CHAOZHOU STORE
潮州店
HUADU STORE
花都店

13

JIANGSU 江蘇

KUNSHAN STORE
昆山店
NANTONG STORE
南通店

2

SHANGHAI 上海

YANGGAONAN LU STORE
楊高南路店
ZHOUJIAZUI LU STORE
周家嘴路店
CHUANCHANG LU STORE
船廠路店
WUZHONG LU STORE
吳中路店
SHANGNAN LU STORE
上南路店
CAOAN LU STORE
曹安路店
TIANSHAN LU STORE
天山路店
KINGHILL STORE
正大廣場店
WENSHUI LU STORE
汶水路店
YANGGAOBEI LU STORE
楊高北路店
SONGJIANG YUEYANG STORE
松江岳陽店
CHUANSHA STORE
川沙店
NANFENG STORE
南奉店
YANGGAOZHONG LU STORE
楊高中路店
JINSHANWEIQING STORE
金山衛清店
XINZHEN LU STORE
新鎮路店
YUNCHUAN LU STORE
蘊川路店
PUJIANG STORE
浦江店
XINGANG LU STORE
新港路店

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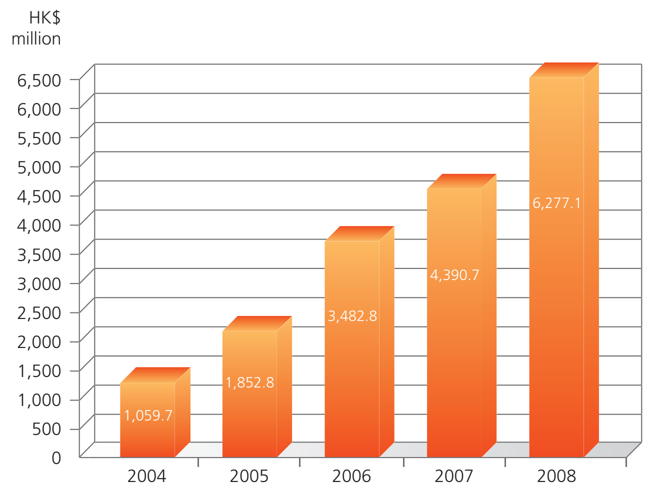
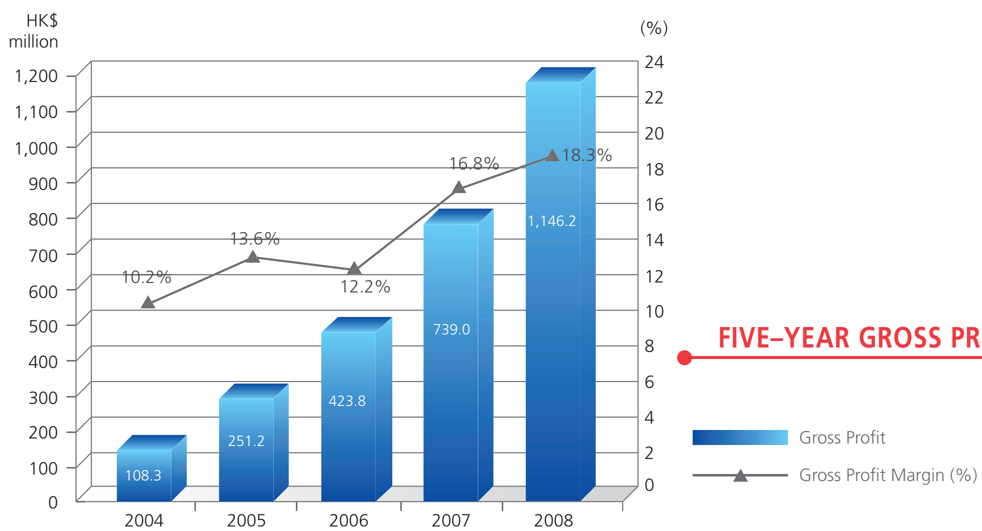
FINANCIAL HIGHLIGHTS

	Year ended 31st December, 2008 HK$million	2007 HK$million	Change
Turnover	**6,277.1**	4,390.7	43.0%
Gross Profit	**1,146.2**	739.0	55.1%
Loss for the year	**(45.6)**	(304.7)	85.0%
EBITDA*	**276.2**	(65.3)	N/A

FIVE–YEAR TURNOVER TREND



FIVE–YEAR GROSS PROFIT TREND



* EBITDA of 2008 and 2007 included gain on disposal of HK$159.9 million and impairment reversal of HK$72.5 million respectively.

CHAIRMAN'S STATEMENT

2008 was a challenging year while the Company entered into a new phase of our business and development.

During the year under review, revenue increased 43.0% from HK$4,390.7 million to HK$6,277.1 million, attributed by same store growth of 8.1% and the effect of the completion of the Restructuring in October, 2008. Loss for the year attributable to shareholders improved significantly from HK$307.3 million to HK$45.4 million in 2008.

The Company completed the Restructuring in October, 2008 – we rationalized our business portfolio, having added 21 performing stores located in premium locations in Shanghai and Jiangsu province while disposed of 11 non-performing stores. The Group now owns and operates a total of 44 stores spanning across the Eastern, Southern and Northern part of China. In 2009, we have plan to open 1 more store in the Southern region as we continue to focus on improving the operation and financial performance of the existing stores and solidify our equity base before embarking on any expansion plan.

The completion of the Restructuring symbolizes a new phase of business – while we will continue to offer our customers with the right products at the right price, we also recognize the strong emergence of increasingly affluent Chinese population. We have started transforming some of our stores into Lifestyle model – a one stop shopping format with shopping, leisure and food & beverage offerings. Currently, 8 stores are Lifestyle model stores and we have plan to transform at least 5 more in 2009. The transformation has proved to be successful with sales and net income of these Lifestyle model stores improved significantly.

OUTLOOK

While the current global economic background is a concern, positive signs are emerging. The Chinese government has vowed to maintain a GDP of 8% in 2009 and has a stimulus plan of injecting at least RMB4 trillion into the economy to boost domestic consumption. Fresh and dry grocery accounts for over 60% of our total sales and customers do not significantly reduce their spending on food even in difficult time. We will continue to expand our food offerings and ensure we maintain as one of the leaders in food safety and provide affordable and timely supply chain for quality fresh products. We are confident that with the right strategy, CTEI will come out a better and a stronger company.

ACKNOWLEDGEMENT

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

Jim Haworth
Chairman

17th April, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

In October, 2008, Chia Tai Enterprises International Limited (the "Company") and its subsidiaries (together the "Group") completed the Restructuring. Of the 44 stores it currently owns (1 of which was recently opened in the South region of China in March, 2009), 21 well-established and performing stores were acquired from the ultimate shareholders of Shanghai Lotus Supermarket Chain Store Co., Ltd. ("SLS"). The Group also disposed of 11 non-performing stores as part of the Restructuring. The completion of Restructuring enables the Group to extend its presence to premier locations in Shanghai and Jiangsu province.

The Group recorded a loss attributable to shareholders for the year ended 31st December, 2008 of HK$45.4 million (2007: HK$307.3 million). Profit from operations before finance costs and income tax improved significantly to HK$127.7 million in the year under review (2007: loss of HK$213.2 million).

Revenue rose by HK$1,886.4 million, or 43.0% to HK$6,277.1 million. The increase in revenue was a result of like-for-like growth of 8.1% and the contribution of revenue from the 21 performing stores acquired.

Gross profit margin which includes income from suppliers increased from 16.8% to 18.3%. This is due to the 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 41.6% to HK$156.6 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$1,185.0 million compared to HK$961.9 million in 2007, represent an improvement from 21.9% of sales in 2007 to 18.9% in 2008. It mainly comprised of utilities, personnel and rental expenses for a total of HK$812.7 million. The increase was primarily a result of rising utilities expenses, rental and 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$260.4 million, represent a decrease from 5.4% of sales in 2007 to 4.1% of sales during the year. Administrative expenses mainly included personnel expenses of HK$182.6 million and professional fee of HK$14.6 million.

Finance costs of HK$169.7 million (2007: HK$93.0 million), of which HK$39.9 million (2007: Nil) represent interest on convertible bonds, details as set out in notes 6 and 28 to the financial statements; and the rest of HK$129.8 million (2007: HK$93.0 million) represent interest on bank and other loans.

Loss for the year was HK$45.6 million, compared to HK$304.7 million last year. Earnings before interest, taxation, depreciation and amortization ("EBITDA") improved from loss of HK$65.3 million in 2007 to profit of HK$276.2 million in 2008.

FINANCIAL REVIEW (continued)

Capital Structure

The Group finances its own working capital requirements through a combination of funds generated from operations, short term bank and other loans.

During the year, 3,187,800,002 ordinary shares and 1,518,807,075 convertible preference shares have been issued by the Company as part of the consideration for the acquisition of SLS.

Liquidity and Financial Resources

As at 31st December, 2008, the Group had net current liabilities and net assets of approximately HK$3,698.8 million and HK$439.3 million respectively and incurred a loss of HK$45.6 million for the year then ended.

As at 31st December, 2008, the Group had short term bank loans of HK$2,033.7 million (2007: HK$110.0 million) of which the maturity of HK$390.0 million have been extended up to year 2012. The Group had unsecured other loans of HK$876.8 million (2007: HK$449.6 million) of which HK$767.6 million (2007: HK$441.8 million) were advanced from related companies. The current portion of unsecured other loans amounted to HK$876.8 million and HK$403.0 million at year ended 2008 and 2007 respectively. The Group had cash and cash equivalents amounting to HK$296.6 million, representing a 1.46 times of the balance as at the end of 2007.

Gearing and Current Ratios

As at 31st December, 2008, the gearing ratio of the Group stood at 9.30 (gearing ratio was calculated by dividing interest-bearing bank loans, other borrowings and convertible bonds by shareholders' equity) (31st December, 2007: -2.95) and current ratio of the Group was 0.43 (31st December, 2007: 0.61).

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$62.4 million) and the outstanding amount of the bank loan to its subsidiary of HK$28.3 million (2007: 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 (PRC) Investment Company Limited ("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.

As at 31st December, 2008, HK$435,172,000 (2007: Nil) of the Group's bank deposits were pledged to banks to secure banking facilities and bank borrowings granted to the Group.

FINANCIAL REVIEW (continued)

Employees, Training and Remuneration Policy

The Group had around 16,000 employees as at the end of 2008. 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, 2008.

BUSINESS REVIEW

As at the date of this report, the Group operates a total of 44 hypermarket stores in China, of which 21 are located in the East region, 13 in the South region and 10 in the North region of China.

Introduction of Life-style model stores

As the Chinese population becoming more affluent, we have witnessed the emergence of an increasingly discerning and sophisticated class of consumers. As a result, we have started to transform our stores into Lifestyle model - a one stop shopping format with shopping, leisure and food & beverage offerings. This strategy has proved to be a success so far with sales and store net income improved significantly.

Product Offering Enhancement

We continuously review our merchandise mix to ensure we provide the right products to our customers. New products introduced in 2008 accounted for over 26% of sales and 29% of profits. We, at the same time, regularly monitor and remove inefficient products to improve stock turnover and improve cash efficiency.

We have set up merchandise development and assortment study team with an objective to provide our customers with what they want at the lowest price with the maximum satisfaction. Customer satisfaction is always our number one priority – we aim to make their shopping experience as easy as possible, lower prices where we can help them to spend less, give them more choices and varieties.

Re-branding campaign

We continued our re-branding campaign in 2008, more well-known tenants were brought into to replace less well-known local ones to create a younger and higher-end image. Our "Fresh your Life" campaign introduced in 2008 was a huge success with customers acknowledging our commitment to fresh and new.

Food Safety

The safety and quality of our products is of paramount importance to Lotus as well as being essential for maintaining customer trust and confidence. We have detailed and established procedures (TQM and ISO programs etc) for ensuring product integrity at all times. There are strict product safety processes and regular management reports.

STRATEGIC OUTLOOK

While we have seen our performances affected by the current economic downturn, we have also seen some positive signs of recovery. The Group will continue its efforts to maximize revenue and reduce cost to become more competitive as we enter the new phase of our business and development. We believe we have the right strategy and right people to achieve success.

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 on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). 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.

All directors have access to the advice and services of the Company Secretary to ensure that board procedures, and all applicable rules and regulations, are followed.

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.

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.

A. BOARD OF DIRECTORS (continued)

BOARD (continued)

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 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 fifteen Executive Directors (including a Chairman, a Chief Executive Officer ("CEO"), two Executive Vice Chairmen, five Vice Chairmen), one Non-Executive Director and three Independent Non-Executive Directors ("INEDs").

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

Non-Executive Director:
Mr. Leung Chun Keung

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

Mr. Li Wen Hai has been re-designated as Vice Chairman with effect from 18th April, 2008 while Mr. James Harold Haworth, Mr. Soopakij Chearavanont and Mr. Michael Ross have been re-designated as Chairman, CEO & Executive Vice Chairman and Executive Vice Chairman respectively with effect from 1st May, 2008.

Mr. Zheng Mengyin has been appointed as Executive Director & Vice Chairman and Mr. Leung Chun Keung has been appointed as Non-Executive Director with effect from 11th November, 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 are 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 standards of conduct;
- taking the lead where potential conflicts of interest 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. James Harold Haworth 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. Soopakij Chearavanont is the CEO & Executive Vice Chairman 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, two directors were appointed by the Board and there was no resignation of directors.

The Articles of Association of the Company provide 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 ("AGM") 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.

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 Non-Executive Director is appointed for a specific term up to 31st October, 2011 in accordance with the terms and conditions of the convertible bonds issued by the Company. 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 one meeting in 2008 to recommend the remuneration packages of Messrs. Zheng Mengyin and Leung Chun Keung and review the remuneration policy and packages 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 9 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. The terms of reference of the AC were revised 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.

A. BOARD OF DIRECTORS (continued)

COMMITTEES (continued)

Audit Committee ("AC") (continued)

The AC met two times during 2008 and performed the following work:

- Reviewed and discussed with management and the external auditors regarding the financial statements for the year ended 31st December, 2007 and management letter;
- Reviewed with management the unaudited interim financial statements for the six months ended 30th June, 2008;
- 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 2008. Details of the attendance of each individual director at Board meetings and committee meetings during 2008 are set out below:

	No. of meetings attended/held		
Directors	**Board**	**Remuneration Committee**	**Audit Committee**
Executive Directors			
Mr. James Harold Haworth	4/4	–	2/2
Mr. Soopakij Chearavanont	4/4	1/1	2/2
Mr. Michael Ross	3/4	–	2/2
Mr. Narong Chearavanont	3/4	–	1/2
Mr. Tse Ping	0/4	–	–
Mr. Yang Xiaoping	2/4	–	–
Mr. Li Wen Hai	3/4	–	–
Mr. Zheng Mengyin (appointed on 11th November, 2008)	1/1	–	–
Mr. Umroong Sanphasitvong	4/4	1/1	2/2
Mr. Robert Ping-Hsien Ho	4/4	–	–
Mr. Meth Jiaravanont	1/4	–	–
Mr. Nopadol Chiaravanont	1/4	–	–
Mr. Chatchaval Jiaravanon	0/4	–	–
Mr. Suphachai Chearavanont	1/4	–	–
Mr. Kachorn Chiaravanont	1/4	–	–

A. BOARD OF DIRECTORS (continued)

BOARD AND COMMITTEE ATTENDANCE (continued)

Directors	No. of meetings attended/held		
	Board	Remuneration Committee	Audit Committee
Non-Executive Director			
Mr. Leung Chun Keung (appointed on 11th November, 2008)	1/1	–	–
Independent Non-Executive Directors			
Mr. Viroj Sangsnit	4/4	1/1	2/2
Mr. Chokchai Kotikula	4/4	1/1	2/2
Mr. Cheng Yuk Wo	4/4	1/1	2/2
No. of meetings	4	1	2

Messrs. Soopakij Chearavanont, Narong Chearavanont and Suphachai Chearavanont are brothers. They are cousins of Messrs. Tse Ping, Meth Jiaravanont, Nopadol Chiaravanont, Chatchaval Jiaravanon and Kachorn Chiaravanont. Messrs. Tse Ping, Meth Jiaravanont, Nopadol Chiaravanont, Chatchaval Jiaravanon and Kachorn Chiaravanont are cousins. Mr. Michael Ross is the brother-in-law of Messrs. Soopakij Chearavanont, Narong Chearavanont and Suphachai 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 the Model Code for Securities Transactions by Directors as set out in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by Directors. Having made specific enquiry of all directors, they confirmed that they have fully complied with the required standards as set out in the Model Code.

Officers/employees 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 in accordance with written guidelines.

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.

B. ACCOUNTABILITY AND AUDIT (continued)

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.

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 2008 (HKD'000)
Audit Services	3,372
Other Assurance Services	225

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 HKExnews' 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.

The Company should arrange for the notice to shareholders to be sent in the case of annual general meetings at least 20 clear business days before the meeting and to be sent at least 10 clear business days for other general meetings.

The Chairman of the meeting should at the commencement of the meeting ensure that an explanation is provided of the detailed procedures for conducting a poll and then answer any questions from shareholders regarding voting by way of a poll.

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. James Harold Haworth, aged 47, has been an Executive Director, Chief Executive Officer and President of the Company since September, 2006. He has been re-designated as Chairman of the Company with effect from 1st May, 2008. 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 over 20 years' of 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.

Mr. Soopakij Chearavanont, aged 45, has been an Executive Director and Chairman of the Company since 2000. He has been re-designated as Chief Executive Officer & Executive Vice Chairman of the Company with effect from 1st May, 2008. He is also the Chairman of the Remuneration Committee of the Company. 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 an executive 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, which are companies listed on The Stock Exchange of Thailand ("SET"). Mr. Chearavanont is also the Chairman of True Visions Public Company Limited.

Mr. Michael Ross, aged 44, has been an Executive Director and Executive Vice President of the Company since September, 2006. He has been re-designated as Executive Vice Chairman of the Company with effect from 1st May, 2008. 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. Since joining Lotus Supercenter in 1999, he had served in major key positions in Business Development, Operations and Merchandising. During this period, Mr. Ross had also served as Regional President in Southern Region & Eastern Region of Lotus.

Mr. Narong Chearavanont, aged 43, 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 Business Administration from New York University, USA and Certificate of Advance Management Program in Transforming Proven Leaders into Global Executives from Harvard Business School, Harvard University, USA. Mr. Chearavanont has extensive experience in the retail and trading industries. He is also an executive director of C.P. Pokphand Co. Ltd., a company listed on the Main Board of SEHK and a director of True Corporation Public Company Limited and CP ALL Public Company Limited, which are companies listed on SET.

Mr. Tse Ping, aged 57, 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 & Chief Executive Officer and the Chairman of Remuneration Committee of the Board 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 45, 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 20 years' extensive experience in the international trading and investment in the PRC and has good contact with central, provincial and municipal governors.

Mr. Li Wen Hai, aged 51, 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.

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Zheng Mengyin, aged 48, has been appointed as Executive Director and Vice Chairman of the Company since 11th November, 2008. Mr. Zheng graduated from No. 00089 Troop of The Chinese People's Liberation Army in Industrial and Civil Construction, PRC and obtained the Certificate of Completion in Senior Professional Manager (President) Course Program from Tsinghua University, PRC. He has extensive experience in retail business.

Mr. Umroong Sanphasitvong, aged 56, has been an Executive Director of the Company since 2005. He was appointed as a member of the Remuneration Committee of the Company 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, 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 60, 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 an executive 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 50, 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 and Remuneration Committee member 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 48, 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 an executive director of C.P. Pokphand Co. Ltd., a company listed on the Main Board of SEHK.

Mr. Chatchaval Jiaravanon, aged 46, 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 an executive director of C.P. Pokphand Co. Ltd., a company listed on the Main Board of SEHK. He is also 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 is also a director and executive committee member of True Visions Public Company Limited. He is the Chairman of Thai Kodama Company Limited, the President and Chief Executive Officer of Telecom Holding Company Limited, Chief Executive Officer of True Multimedia Company Limited, True Internet Company Limited and Asia Infonet Company Limited and a director of Metro Machinery Company Limited and Aeon Thailand Foundation.

Mr. Suphachai Chearavanont, aged 42, 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 an executive director of C.P. Pokphand Co. Ltd., a company listed on the Main Board of SEHK and 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 Company Limited.

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Kachorn Chiaravanont, aged 41, 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. Leung Chun Keung, aged 38, has been appointed as Non-Executive Director of the Company since 11th November, 2008. He is a CFA (Chartered Financial Analyst) charterholder and has a Bachelor of Science degree in Mathematics from the University of Hong Kong and a Master degree in Business Administration from the University of Warwick, United Kingdom. Mr. Leung is currently an associate director of AIG Global Investment Corp. (Asia) Ltd. He has over 10 years' of experience in private equity investments in Asia. Prior to joining AIG, Mr. Leung was a manager at CEF New Asia Partners Limited, a direct investment fund manager based in Hong Kong.

Mr. Viroj Sangsnit, aged 73, has been an Independent Non-Executive Director of the Company and a member of Audit Committee of the Company since 1999. He is also a member of Remuneration Committee of the Company. 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 70, has been an Independent Non-Executive Director of the Company and a member of Audit Committee of the Company since 1999. He is also a member of Remuneration Committee of the Company. 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 Ministry of Interior in Thailand.

Mr. Cheng Yuk Wo, aged 48, has been an Independent Non-Executive Director of the Company and the Chairman of the Audit Committee of the Company since 2004. He is also a member of the Remuneration Committee of the Company. 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 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.

Messrs. Soopakij Chearavanont, Narong Chearavanont and Suphachai Chearavanont are brothers. They are cousins of Messrs. Tse Ping, Meth Jiaravanont, Nopadol Chiaravanont, Chatchaval Jiaravanon and Kachorn Chiaravanont. Messrs. Tse Ping, Meth Jiaravanont, Nopadol Chiaravanont, Chatchaval Jiaravanon and Kachorn Chiaravanont are cousins. Mr. Michael Ross is the brother-in-law of Messrs. Soopakij Chearavanont, Narong Chearavanont and Suphachai 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, 2008.

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 northern, southern and eastern parts of China.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31st December, 2008 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 (2007: Nil).

FIXED ASSETS

During the year, the Group spent approximately HK$38,400,000 on additions of fixed assets mainly for the expansion of the operation of Lotus Supercenters in the PRC.

Details of movements in the fixed assets during the year are set out in note 14 to the financial statements. The increase in fixed assets is primarily due to the acquisition of Shanghai Lotus Supermarket Chain Store Co., Ltd. (上海易初蓮花連鎖超市有限公司) ("SLS") and its subsidiaries during the year.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 33 to the financial statements.

Ordinary shares and convertible preference shares were issued during the year as part of the consideration for the acquisition of SLS.

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, 2008 and 2007.

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.

Save for certain transactions disclosed in the section entitled "Continuing Connected Transactions" in this report, 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/or 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. James Harold Haworth
Mr. Soopakij Chearavanont
Mr. Michael Ross
Mr. Narong Chearavanont
Mr. Tse Ping
Mr. Yang Xiaoping
Mr. Li Wen Hai
Mr. Zheng Mengyin (appointed on 11th November, 2008)
Mr. Umroong Sanphasitvong
Mr. Robert Ping-Hsien Ho
Mr. Meth Jiaravanont
Mr. Nopadol Chiaravanont
Mr. Chatchaval Jiaravanon
Mr. Suphachai Chearavanont
Mr. Kachorn Chiaravanont

Non-Executive Director:
Mr. Leung Chun Keung (appointed on 11th November, 2008)

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

In accordance with Articles 99 and 116 of the Company's Articles of Association, Messrs. James Harold Haworth, Michael Ross, Li Wen Hai, Zheng Mengyin, Nopadol Chiaravanont, Kachorn Chiaravanont, Leung Chun Keung, Viroj Sangsnit and Chokchai Kotikula, 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 on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") and considers all of the independent non-executive directors are independent.

DIRECTORS' REMUNERATION

Details of directors' remuneration are set out in note 9 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.

REPORT OF THE DIRECTORS

COMPETING INTERESTS

As at 31st December, 2008, the directors were not aware that any of the directors has interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group which falls to be disclosed under the Listing Rules.

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

As at 31st December, 2008, 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, 2008	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	As at 31st December, 2008
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

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, 2008	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	As at 31st December, 2008
Mr. Tse Ping	6th June, 2002	6th June, 2002 to 5th June, 2012	0.07	59,966,144	–	–	–	–	59,966,144
	10th November, 2003	10th November, 2003 to 9th November, 2013	0.19	59,966,144	–	–	–	–	59,966,144
	24th May, 2005	24th May, 2005 to 23rd May, 2015	0.11	59,966,144	–	–	–	–	59,966,144
Mr. Yang Xiaoping	6th June, 2002	6th June, 2002 to 5th June, 2012	0.07	59,966,144	–	–	–	–	59,966,144
	10th November, 2003	10th November, 2003 to 9th November, 2013	0.19	59,966,144	–	–	–	–	59,966,144
	24th May, 2005	24th May, 2005 to 23rd May, 2015	0.11	59,966,144	–	–	–	–	59,966,144
Mr. Umroong Sanphasitvong	6th June, 2002	6th June, 2002 to 5th June, 2012	0.07	59,966,144	–	–	–	–	59,966,144
	10th November, 2003	10th November, 2003 to 9th November, 2013	0.19	59,966,144	–	–	–	–	59,966,144
	24th May, 2005	24th May, 2005 to 23rd May, 2015	0.11	59,966,144	–	–	–	–	59,966,144
Mr. Robert Ping-Hsien Ho	6th June, 2002	6th June, 2002 to 5th June, 2012	0.07	59,966,144	–	–	–	–	59,966,144
	10th November, 2003	10th November, 2003 to 9th November, 2013	0.19	59,966,144	–	–	–	–	59,966,144
	24th May, 2005	24th May, 2005 to 23rd May, 2015	0.11	59,966,144	–	–	–	–	59,966,144
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

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, 2008	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	As at 31st December, 2008
Mr. Suphachai Chearavanont	6th June, 2002	6th June, 2002 to 5th June, 2012	0.07	59,966,144	–	–	–	–	59,966,144
	10th November, 2003	10th November, 2003 to 9th November, 2013	0.19	59,966,144	–	–	–	–	59,966,144
	24th May, 2005	24th May, 2005 to 23rd May, 2015	0.11	59,966,144	–	–	–	–	59,966,144
Mr. Kachorn Chiaravanont	6th June, 2002	6th June, 2002 to 5th June, 2012	0.07	59,966,144	–	–	–	–	59,966,144
	10th November, 2003	10th November, 2003 to 9th November, 2013	0.19	59,966,144	–	–	–	–	59,966,144
	24th May, 2005	24th May, 2005 to 23rd May, 2015	0.11	59,966,144	–	–	–	–	59,966,144
Total:				1,679,052,032	–	–	–	–	1,679,052,032

Save as disclosed above, as at 31st December, 2008, 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, 2008, 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	91.54%
Worth Access Trading Limited ("Worth Access")	(2)	8,407,126,096	91.54%
Charoen Pokphand Holding Company Limited ("Charoen Pokphand Holding")	(2)	8,407,126,096	91.54%
Charoen Pokphand Group Company Limited ("CPG")	(2)	8,407,126,096	91.54%
CP ALL Public Company Limited ("CP ALL")	(3)	2,686,029,234	29.25%
Lotus Distribution Investment Limited ("LDIL")	(3)	2,650,205,781	28.86%
The China Retail Fund, LDC ("CRF")	(4)	1,612,055,458	17.55%
China Retail Management LDC ("CRM")	(4)	1,612,055,458	17.55%
China United Resource Co. Ltd. ("CUR")	(4)	1,612,055,458	17.55%
AIG Global Investment Corp. (Asia) Limited ("AIG Global")	(4)	1,612,055,458	17.55%
American International Group, Inc. ("AIG")	(4)	1,612,055,458	17.55%

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, 2008.

(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, 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, 2008.

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 expired on 31st March, 2009. The loan has been renewed and extended to 31st March, 2012.

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.

CONNECTED TRANSACTIONS

On 31st October, 2008, the Restructuring was completed. Details of the Restructuring are set out in the announcement dated 17th May, 2007, and the circular dated 29th June, 2007 and approved by the Independent Shareholders of the Company on 25th July, 2007.

The Restructuring

1. *Acquisition*

   On 17th May, 2007, the Company entered into the Acquisition Agreement with Yangtze Supermarket Investment Co. Limited & Chia Tai Distribution Investment Company Limited (the "Vendors") and C.P. Seven Eleven Public Company Limited (renamed as CP ALL Public Company Limited ("CP ALL")), Lotus Distribution Investment Limited ("LDIL"), The China Retail Fund, LDC & C.P. Holding (BVI) Investment Company Limited ("CPH") (collectively, the "Ultimate Shareholders") for the acquisition of the entire interests in SLS. The total consideration was satisfied by issuing the Consideration Shares, the Convertible Bonds and the Preference Shares upon completion and setting off the amount due from CPH for the disposal of the CTEI Non-performing Interests.

2. *Disposal*

   On 17th May, 2007, the Company also entered into the Disposal Agreement with CPH for the disposal of the CTEI Non-performing Interests for a consideration of HK$433.4 million, to be deducted from the amount of consideration paid to CPH under the Acquisition.

CONNECTED TRANSACTIONS (continued)

The Restructuring (continued)

3. *Issue of convertible bonds in the principal amount of HK$156,380,000*
   On 31st October, 2008, LDIL, a wholly-owned subsidiary of CP ALL, subscribed for and the Company issued to LDIL convertible bonds in the principal amount of HK$156,380,000 at a total subscription price of HK$156,380,000.

CPH is a connected person of the Company according to Chapter 14A of the Listing Rules. CP ALL and its subsidiaries (including SLS (prior to the Acquisition) and LDIL) are associates of the controlling shareholder of the Company and therefore are also connected persons of the Company according to Chapter 14A of the Listing Rules. Therefore, the Acquisition, the Disposal and the issue of the convertible bonds in the principal amount of HK$156,380,000 are connected transactions for the purposes of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

On 24th August, 2006, the Company entered into (i) the Reorganized CPP Purchase Agreement with C.P. Pokphand Co. Ltd. ("CPP"); (ii) the Reorganized Shanghai Lotus Purchase Agreement with SLS; and (iii) the Reorganized Shanghai Lotus Supply Agreement with SLS, under which, within the aggregate individual caps annually approved, (i) any subsidiaries of the Company can purchase relevant merchandise from any subsidiaries of CPP; (ii) any subsidiaries of the Company can purchase relevant merchandise from SLS or any of its subsidiaries; and (iii) any subsidiaries of the Company can supply relevant merchandise to SLS or any of its subsidiaries, respectively.

On 17th May, 2007, the Company entered into the CPP-CCT Agreement with CPP under which any subsidiaries of the Company can purchase relevant merchandise from any subsidiaries of CPP. The CPP-CCT Agreement also replaces the Reorganized CPP Purchase Agreement dated 24th August, 2006 made between the Company and CPP and the Reorganized Shanghai Lotus Purchase Agreement dated 24th August, 2006 made between CPP and SLS and takes effect from the date of completion of the Restructuring.

On 30th July, 2008, the Company entered into the CP China-CCT Purchase Agreement with CP China Investment Limited ("CP China") for the replacement of the CPP-CCT Agreement upon the completion of the CPP Disposal in relation to the disposal by CPP to CP China of the entire issued share capital/equity interest of certain of its subsidiaries. Under the CP China-CCT Purchase Agreement, any subsidiaries of the Company can purchase relevant merchandise from any subsidiaries of CP China.

On 30th July, 2008, the Company entered into the CPH Supply Agreement with CPH under which any subsidiaries of the Company can supply relevant merchandise to CPH or any of its subsidiaries.

On 17th May, 2007, the Company entered into the Management Services Agreement and Procurement Services Agreement with CPH.

Pursuant to the Management Services Agreement, the Company can by itself or procure other member(s) of the CTEI Group to provide the CPH Group with various management related services as the CPH Group may require from time to time in relation to the CPH Non-performing Stores such as inventory management, merchandising, accounting and finance services, legal support services, human resource management, and information technology support.

Pursuant to the Procurement Services Agreement, the Company can by itself or procure other member(s) of the CTEI Group to perform certain purchasing functions for the CPH Group in relation to products sold by the CPH Non-performing Stores.

Upon completion of the Acquisition, SLS became a wholly-owned subsidiary of the Company. The Super Brand Mall Lease, the Yang Gao Zhong Lu Sub-Lease, the Tian Shan Xi Lu Sub-Lease and the Consultancy Agreement were entered into by SLS.

CONTINUING CONNECTED TRANSACTIONS (continued)

Super Brand Mall Lease refers to the lease dated 1st July, 2008 between SLS and Shanghai Kinghill Ltd. (上海帝泰發展有限公司) ("Shanghai Kinghill") from 1st July, 2008 to 31st December, 2010 in relation to a portion of the Super Brand Mall situated at No. 168 Lujiazui Xi Road, Pudong New District, Shanghai, the PRC, with a total floor area of approximately 13,500 square meters for the monthly rental of RMB1,500,000, or RMB18,000,000 on an annualized basis.

Yang Gao Zhong Lu Sub-Lease refers to the sub-lease dated 1st May, 2007 between SLS and Chia Tai Commercial Real Estate Management Co., Ltd. (正大商業房地產管理有限公司) ("CTCREM") from 1st May, 2007 to 30th April, 2010 in relation to the property located at No. 2128 Yang Gao Zhong Lu, Pudong New District, Shanghai, the PRC, with a total floor area of approximately 6,447 square meters and an office area of 80 square meters, for the monthly rental of RMB362,500 for the first and second year, and RMB503,500 for the third year, equivalent to an annual rental of RMB4,350,000 and RMB6,042,000 respectively, plus a commission of 5% on the excess of subletting rental income received by CTCREM over the rental under the Yang Gao Zhong Lu Sub-Lease and a commission of 15% on the advertising and promotion income received by CTCREM derived from the property. There was a rent free period from 1st May, 2007 to 31st August, 2007.

Tian Shan Xi Lu Sub-Lease refers to the sub-lease dated 1st July, 2008 between SLS and上海正大生活百貨有限公司("Shanghai ZDSH"), a wholly-owned subsidiary of CTCREM, from 1st July, 2008 to 31st December, 2010 in relation to the property located at Level 1, No. 541 Tian Shan Xi Lu, Chang Ning District, Shanghai, the PRC, with a total floor area of approximately 9,000 square meters. At present, approximately 8,600 square meters of the property is and continues to be used by Shanghai ZDSH and approximately 400 square meters of the property have been sub-leased by SLS to an independent third party. SLS agreed to sub-lease the whole property to Shanghai ZDSH in the event that the sub-lease with the aforesaid independent third party is terminated. Shanghai ZDSH shall pay a monthly rental of RMB860,000 for the floor area of approximately 8,600 square meters and RMB900,000 for the floor area of approximately 9,000 square meters, equivalent to an annual rental of RMB10,320,000 and RMB10,800,000 respectively, plus a commission of 5% on the excess of subletting rental income received by Shanghai ZDSH over its rental under the Tian Shan Xi Lu Sub-Lease and a commission of 15% on the advertising and promotion income received by Shanghai ZDSH derived from the respective floor area of the property.

The Consulting Agreement refers to the agreement dated 16th November, 2007 between SLS and CTCREM for the provision of consultancy services by CTCREM to SLS in relation to 16 stores up to 31st December, 2008 with the monthly service fee of RMB390,000, and commission with respect to increased rental yield resulting from any store reorganization which is subject to a maximum of RMB2,970,000 determined by reference to the personnel and administrative costs incurred by CTCREM for similar services. SLS also agreed to reimburse CTCREM for transportation and miscellaneous expenses for up to a maximum of RMB35,000 per month.

Details of the abovementioned continuing connected transactions are set out in the announcements dated 24th August, 2006, 17th May, 2007 and 30th July, 2008 and circulars dated 3rd October, 2006, 29th June, 2007 and 15th August, 2008.

SLS was an associate of the controlling shareholder of the Company prior to the completion of the Acquisition and therefore was a connected person of the Company according to Chapter 14A of the Listing Rules. The transactions contemplated under the Reorganized Shanghai Lotus Purchase Agreement and the Reorganized Shanghai Lotus Supply Agreement constituted non-exempt continuing connected transactions within the meaning of the Listing Rules and were approved by the independent shareholders of the Company on 25th October, 2006.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS (continued)

CP China and CPH are connected persons of the Company according to Chapter 14A of the Listing Rules. CPP, Shanghai Kinghill and CTCREM are associates of the controlling shareholder of the Company and therefore are also connected persons of the Company according to Chapter 14A of the Listing Rules. The transactions contemplated under the Yang Gao Zhong Lu Sub-Lease, the Tian Shan Xi Lu Sub-Lease and the Consulting Agreement constitute continuing connected transactions exempt from shareholders' approval but were subject to reporting and announcement requirements under the Listing Rules. The transactions contemplated under the Reorganized CPP Purchase Agreement, the CPP-CCT Agreement, the CP China-CCT Purchase Agreement, the CPH Supply Agreement, the Management Services Agreement, the Procurement Services Agreement and the Super Brand Mall Lease constitute non-exempt continuing connected transactions for the Company within the meaning of the Listing Rules and they were approved by the independent shareholders of the Company on 25th October, 2006, 25th July, 2007 and 2nd September, 2008.

The actual transactions and approved prorated caps for the abovementioned continuing connected transaction agreements during the year from 1st January, 2008 to 31st December, 2008 are as follows:

	Actual Transactions HK$'000	**Approved Prorated Caps** HK$'000
Non-exempt continuing connected transaction agreements:		
Reorganized CPP Purchase Agreement	52,021	102,028
Reorganized Shanghai Lotus Purchase Agreement	3,521	108,216
Reorganized Shanghai Lotus Supply Agreement	2,618	158,372
CPP-CCT Agreement	N/A	150,637
CP China-CCT Purchase Agreement	40,683	150,637
CPH Supply Agreement	73,476	93,403
Management Services Agreement	20,500	23,096
Procurement Services Agreement	735	5,241
Super Brand Mall Lease	3,402	3,412
Exempt continuing connected transaction agreements:		
Yang Gao Zhong Lu Sub-Lease	865	910
Tian Shan Xi Lu Sub-Lease	1,994	2,180
Consulting Agreement	1,182	1,530

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, 2008.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors as set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry of all Directors, the Directors have complied with the required standards as set out in the Model Code for the year ended 31st December, 2008.

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

James Harold Haworth
Chairman

Hong Kong, 17th April, 2009

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 87 which comprise the consolidated and company balance sheets as at 31st December, 2008, 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, 2008 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

17th April, 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2008
(Expressed in Hong Kong dollars)

	Note	2008 $'000	2007 $'000
Turnover	4	**6,277,120**	4,390,658
Cost of sales	21	**(5,130,905)**	(3,651,649)
Gross profit		**1,146,215**	739,009
Other revenue	5	**258,524**	170,073
Other net income	5	**168,392**	5,278
Distribution and store operating costs		**(1,185,019)**	(961,936)
Administrative expenses		**(260,372)**	(238,072)
Impairment reversal	14(a)	**–**	72,495
Profit/(loss) from operations		**127,740**	(213,153)
Finance costs	6(a)		
– Interest on convertible bonds		**(39,928)**	–
– Other finance costs		**(129,756)**	(92,972)
		(169,684)	(92,972)
Loss before taxation	6	**(41,944)**	(306,125)
Income tax	7	**(3,629)**	1,419
Loss for the year		**(45,573)**	(304,706)
Attributable to:			
Equity shareholders of the Company	11	**(45,443)**	(307,329)
Minority interests		**(130)**	2,623
Loss for the year		**(45,573)**	(304,706)
Loss per share	13		
Basic and diluted		**(0.67) cents**	(5.13) cents

The notes on pages 35 to 87 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31st December, 2008
(Expressed in Hong Kong dollars)

	Note	2008 $'000	2007 $'000
Non-current assets			
Fixed assets	14		
– Property, plant and equipment		**2,000,442**	982,201
– Interests in leasehold land held for own use under operating leases		**199,074**	195,255
		2,199,516	1,177,456
Intangible assets	15	**260,713**	–
Goodwill	16	**3,083,965**	29,487
Deposits for acquisition of additional interest in subsidiaries	17	**–**	14,604
Prepaid lease payments for premises	19	**6,831**	13,965
Deferred tax assets	32(b)	**105,634**	4,343
		5,656,659	1,239,855
Current assets			
Prepaid lease payments for premises	19	**5,288**	8,825
Long-term deposits receivable within one year	20	**–**	21,362
Inventories	21	**900,969**	356,297
Trade and other receivables	22	**990,812**	120,824
Income tax recoverable	32(a)	**9,277**	1,631
Pledged and restricted bank deposits	23	**573,651**	38,208
Cash and cash equivalents	24	**296,631**	181,252
		2,776,628	728,399
Assets classified as held for sale	8	**12,473**	497,273
		2,789,101	1,225,672
Current liabilities			
Trade and other payables	25	**3,437,670**	1,087,470
Bank loans	26	**2,033,682**	110,043
Other loans	27	**876,764**	402,997
Consideration payable for acquisition of subsidiaries	29	**60,450**	111,772
Obligations under finance leases	30	**4,421**	3,427
Current taxation	32(a)	**3,632**	–
Provisions	31	**71,301**	24,951
		6,487,920	1,740,660
Liabilities associated with assets classified as held for sale	8(a)	**–**	260,526
		6,487,920	2,001,186
Net current liabilities		**(3,698,819)**	(775,514)
Total assets less current liabilities		**1,957,840**	464,341
Non-current liabilities			
Bank loans	26	**–**	390,000
Other loans	27	**–**	46,642
Convertible bonds	28	**1,174,928**	–
Consideration payable for acquisition of subsidiaries	29	**60,450**	120,900
Obligations under finance leases	30	**229,740**	220,573
Deferred tax liabilities	32(b)	**53,380**	5,602
		1,518,498	783,717
NET ASSETS/(LIABILITIES)		**439,342**	(319,376)
CAPITAL AND RESERVES			
Share capital	33(a)	**214,064**	119,932
Reserves		**225,278**	(441,996)
Total equity/(deficit) attributable to equity shareholders of the Company		**439,342**	(322,064)
Minority interests		**–**	2,688
TOTAL EQUITY/(DEFICIT)		**439,342**	(319,376)

Approved and authorised for issue by the board of directors on 17th April, 2009.

James Harold Haworth
Director

Umroong Sanphasitvong
Director

The notes on pages 35 to 87 form part of these financial statements.

BALANCE SHEET

At 31st December, 2008
(Expressed in Hong Kong dollars)

	Note	2008 $'000	2007 $'000
Non-current assets			
Property, plant and equipment	14	**1,409**	1,317
Interests in subsidiaries	18	**3,074,005**	700,709
		3,075,414	702,026
Current assets			
Trade and other receivables	22	**65,279**	3,879
Pledged bank deposits	23	**155,099**	–
Cash and cash equivalents	24	**2,851**	1,492
		223,229	5,371
Assets classified as held for sale	8(a)	**–**	273,825
		223,229	279,196
Current liabilities			
Trade and other payables	25	**218,790**	212,625
Bank loans	26	**428,220**	78,000
Other loans	27	**340,961**	106,961
		987,971	397,586
Net current liabilities		**(764,742)**	(118,390)
Total assets less current liabilities		**2,310,672**	583,636
Non-current liabilities			
Bank loans	26	**–**	390,000
Convertible bonds	28	**1,174,928**	–
		1,174,928	390,000
NET ASSETS		**1,135,744**	193,636
CAPITAL AND RESERVES			
Share capital	33(a)	**214,064**	119,932
Reserves	34(a)	**921,680**	73,704
TOTAL EQUITY		**1,135,744**	193,636

Approved and authorised for issue by the board of directors on 17th April, 2009

James Harold Haworth
Director

Umroong Sanphasitvong
Director

The notes on pages 35 to 87 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2008
(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company										
	Share capital (note 33) $'000	Share premium (note 34(c)) $'000	Revaluation reserve (note 34(c)) $'000	Share option reserve (note 34(c)) $'000	Re-organisation reserve (note 34(c)) $'000	Exchange reserve (note 34(c)) $'000	Convertible bonds reserve (note 34(c)) $'000	Accumulated losses $'000	Total $'000	Minority interests $'000	Total $'000
At 1st January, 2008	119,932	931,688	(8,839)	50,670	105,567	81,476	–	(1,602,558)	(322,064)	2,688	(319,376)
Exchange differences on translation of financial statements of subsidiaries in the People's Republic of China ("PRC") recognised directly in equity	–	–	–	–	–	7,621	–	–	7,621	117	7,738
Release on disposal of subsidiaries (note 8(a))	–	–	–	–	–	27,763	–	–	27,763	–	27,763
Net loss for the year	–	–	–	–	–	–	–	(45,443)	(45,443)	(130)	(45,573)
Total recognised income and expense for the year	–	–	–	–	–	35,384	–	(45,443)	(10,059)	(13)	(10,072)
Arising from acquisition of subsidiaries (note 3(a))											
– Issue of ordinary shares	63,756	235,897	–	–	–	–	–	–	299,653	–	299,653
– Issue of convertible preference shares	30,376	112,392	–	–	–	–	–	–	142,768	–	142,768
– Issue of convertible bonds (note 28)	–	–	–	–	–	–	278,554	–	278,554	–	278,554
	94,132	348,289	–	–	–	–	278,554	–	720,975	–	720,975
Issue of additional convertible bonds (note 28)	–	–	–	–	–	–	50,490	–	50,490	–	50,490
Acquisition of minority interests (note 3(b))	–	–	–	–	–	–	–	–	–	(2,675)	(2,675)
At 31st December, 2008	214,064	1,279,977	(8,839)	50,670	105,567	116,860	329,044	(1,648,001)	439,342	–	439,342
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 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)

The notes on pages 35 to 87 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2008
(Expressed in Hong Kong dollars)

	Note	2008 $'000	2007 $'000
Operating activities			
Loss before taxation		**(41,944)**	(306,125)
Adjustments for:			
Finance costs	6(a)	**169,684**	92,972
Interest income	5	**(5,716)**	(6,335)
Gain on disposal of assets held for sale	5	**(159,877)**	–
Loss on disposal of fixed assets	5	**3,866**	17,248
Depreciation of property, plant and equipment	6(c)	**137,882**	143,496
Amortisation of land lease premium	6(c)	**8,140**	6,958
Amortisation of intangible assets	6(c)	**2,352**	–
Reversal of impairment loss on fixed assets	14(a)	**–**	(72,495)
Foreign exchange (gain)/loss		**(30,836)**	2,545
Operating profit/(loss) before changes in working capital		**83,551**	(121,736)
Decrease in prepaid lease payments for premises		**11,972**	34,581
(Increase)/decrease in inventories		**(71,902)**	32,959
(Increase)/decrease in trade and other receivables		**(81,583)**	30,518
Increase/(decrease) in trade and other payables		**12,574**	(185,152)
Cash used in operations		**(45,388)**	(208,830)
PRC tax paid		**(12,673)**	(3,075)
Net cash used in operating activities		**(58,061)**	(211,905)
Investing activities			
Net cash acquired on acquisition of subsidiaries	3(a)	**67,494**	–
Net cash outflow from disposal of assets held for sale	8(a)	**(13,397)**	–
Payment for purchases of fixed assets		**(38,434)**	(95,159)
Payment of consideration for acquisition of subsidiaries		**(111,772)**	(141,531)
(Increase)/decrease in pledged/restricted bank deposits		**(151,023)**	167,994
Interest received		**5,716**	6,335
Proceeds from disposal of fixed assets		**10,253**	22,216
Net cash used in investing activities		**(231,163)**	(40,145)
Financing activities			
Proceeds from bank loans		**287,548**	110,043
Repayment of bank loans		**(171,268)**	(42,724)
Proceeds from other loans		**559,063**	449,639
Repayment of other loans		**(329,799)**	(71,684)
Proceeds from convertible bonds		**156,380**	–
Capital element of finance leases paid		**(3,608)**	(2,726)
Interest element of finance leases paid		**(23,134)**	(21,452)
Interest on bank loans		**(49,826)**	(35,397)
Interest on other borrowings/consideration payable		**(56,796)**	(36,123)
Net cash generated from financing activities		**368,560**	349,576
Net increase in cash and cash equivalents		**79,336**	97,526
Effect of foreign exchange rate changes		**13,615**	7,626
Cash and cash equivalents at 1st January		**203,680**	98,528
Cash and cash equivalents at 31st December	24	**296,631**	203,680

Note:

Investing and financing activities not requiring the use of cash or cash equivalents:

(i) Details of ordinary shares, convertible preference shares and convertible bonds issued to acquire subsidiaries are set out in note 3(a) to the financial statements.

(ii) Details of interest on convertible bonds are set out in note 6(a) to the financial statements.

The notes on pages 35 to 87 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2008
(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 any changes in accounting policies 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 2008 and 2007 comprise the Company and its subsidiaries (together referred to as the "Group").

As at 31st December, 2008, the Group had net current liabilities of approximately $3,699 million and incurred a loss of approximately $46 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 and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

On 31st October, 2008, the Company announced that the restructuring transactions (the "Restructuring") set out in a circular issued to the Company's shareholders on 29th June, 2007 (the "Circular"), and approved by the independent shareholders of the Company on 25th July, 2007, had been completed, including:

(a) the disposal to C.P. Holding (BVI) Investment Company Limited ("CPH") of 11 "CTEI Non-performing Stores" (as defined in the Circular) operated by the Company's subsidiaries in the PRC and the Group's equity interests in, and loans and advances made to, certain wholly-owned subsidiaries in the PRC ("Disposal"). CPH is the Company's immediate holding company and a wholly-owned subsidiary of the Group's ultimate holding company. The total consideration for the Disposal was approximately $433.4 million;

(b) the acquisition from certain related parties of Shanghai Lotus Supermarket Chain Store Co., Ltd. (上海易初蓮花連鎖超市有限公司) ("SLS") and its subsidiaries, which operate hypermarket stores in Eastern China ("Acquisition"); and

(c) the issue by the Company of convertible bonds at a total subscription price of approximately $156.4 million payable in cash, to Lotus Distribution Investment Limited ("LDIL"), a subsidiary of CP ALL Public Company Limited ("CP ALL"), the controlling shareholder of SLS prior to the Acquisition and a related party of the Group's ultimate holding company.

Further details of the above transactions are set out in notes 3(a), 8(a) and 28 respectively.

The Directors believe that completion of the Restructuring, together with measures taken to strengthen the Group's retail business and reduce operating costs, will improve the performance and operating cash flows of the Group going forward.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The Group's liabilities as at 31st December, 2008 include loans of approximately $768 million (note 27) due to subsidiaries of, and other companies related to, the Group's ultimate holding company. As disclosed in note 26, letters of undertaking, letters of credit and guarantees have been issued by the ultimate holding company or its related parties in respect of certain bank loans and facilities of the Group. 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. The Directors consider that the ultimate holding company will continue, and be able, to do so.

In view of the above, 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(t)(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(x)).

(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 44.

(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.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying amount of the net assets of the subsidiary.

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(x)).

(f) Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Goodwill arising on the acquisition of minority interests represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

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)).

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 is recognised immediately in profit or loss.

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

(g) 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment (continued)

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

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.

The fair value of property, plant and equipment recognised as a result of a business combination is based on market value. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of leasehold improvements, furniture, fixtures and equipment, and motor vehicles is based on the quoted market price for similar items.

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.

(h) Intangible assets (other than goodwill)

Intangible assets represent the favourable aspect of operating leases relative to market terms acquired in business combinations, where the acquiree is the lessee. These intangible assets are recognised and measured at fair value upon acquisition. The fair value is determined based on a comparison of the market and contractual rental rates at the date of acquisition.

Intangible assets associated with favourable aspects of operating leases acquired in a business combination are stated in the balance sheet at cost less accumulated amortisation and impairment losses (see note 1(j)). Amortisation is charged to profit or loss on a straight-line basis over the remaining lease term.

(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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leased assets (continued)

(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(g). 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.

(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, the 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 the 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of assets (continued)

(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;
– intangible assets;
– prepaid lease payments for premises;
– investments in subsidiaries (except for those classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 1(x)); 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.

– Calculation of recoverable amount
The recoverable amount of an asset is the greater of its fair value less costs to sell 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 an impairment loss 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, 2008
(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 allowance for impairment of 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 allowance for impairment of 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) Convertible bonds that contain an equity component

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

On initial recognition the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of the fair value of the compound financial instrument as a whole over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of the compound financial instrument as a whole.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the convertible bonds reserve until either the bonds are converted or redeemed.

If the bonds are converted, the convertible bonds reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bonds are redeemed, the convertible bonds reserve is released directly to retained profits.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends on preference share capital classified as equity are recognised as distributions within equity.

(p) 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(t)(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.

(q) 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.

(r) 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 resulting 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) 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 the relevant amounts of tax 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.

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

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Income tax (continued)

- 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
  - 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.

(t) 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(t)(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.

(u) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Revenue recognition (continued)

(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/fees

Promotion and service income/fees not related to the purchase of goods are 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.

(vi) Subsidy income

Subsidy income is recognised in the profit or loss upon receipt of the subsidy.

(v) 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. Except as noted below, exchange gains and losses are recognised in profit or loss.

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.

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.

Exchange differences arising from monetary items that in substance form part of the Group's net investment in foreign operations are taken into equity in the consolidated financial statements. On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(w) Borrowing costs

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

(x) 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Non-current assets held for sale (continued)

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). 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.

(y) 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.

(z) 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2008
(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Segment reporting (continued)

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 the following new Interpretations and an amendment to HKFRSs that are first effective for the current accounting period of the Group and the Company:

- HK(IFRIC) 11, *HKFRS 2 – Group and treasury share transactions*
- HK(IFRIC) 12, *Service concession arrangements*
- HK(IFRIC) 14, *HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction*
- Amendment to HKAS 39, *Financial instruments: Recognition and measurement, and HKFRS 7, Financial instruments: Disclosures – Reclassification of financial assets*

These HKFRS developments have had no material impact on the Group's financial statements as either they were consistent with accounting policies already adopted by the Group or they were not relevant to the Group's and the Company's operations.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 45).

3 ACQUISITION OF SUBSIDIARIES AND MINORITY INTERESTS

(a) Acquisition of subsidiaries

As set out in note 1(b), on 31st October, 2008, the Company announced that the Restructuring set out in the Circular had been completed. The consideration for the acquisition of SLS was satisfied in the following manner:

(i) approximately $433.4 million due to CPH was netted off against the proceeds due from CPH for the Disposal of the CTEI Non-performing Stores (note 8(a));

(ii) the issuance on 31st October, 2008 by the Company to CPH of 3,187,800,002 ordinary shares and 1,518,807,075 convertible preference shares (note 33); and

(iii) the issuance on 31st October, 2008 by the Company to LDIL, CP ALL and The China Retail Fund, LDC ("CRF"), which together with CPH represented the ultimate shareholders in SLS prior to the Acquisition, of convertible bonds in the principal amount of approximately $877.2 million, $14.0 million and $628.7 million respectively (note 28);

As the major conditions precedent needed to complete the acquisition of SLS had been substantially fulfilled, the Company, CP ALL, LDIL and CPH jointly agreed to transfer control over SLS' financial and operating policies from CP ALL to the Company on 15th October, 2008. Accordingly SLS has been accounted for as a subsidiary of the Group from that date ("the Acquisition Date").

3 ACQUISITION OF SUBSIDIARIES AND MINORITY INTERESTS (continued)

(a) Acquisition of subsidiaries (continued)

The acquisition of SLS and its subsidiaries, which has been accounted for using the purchase method of accounting, had the following effect on the Group's assets and liabilities on the Acquisition Date:

	Pre-acquisition carrying amounts $'000	Fair value adjustment $'000	Recognised values on acquisition $'000
Property, plant and equipment	1,087,695	(13,931)	1,073,764
Intangible assets	–	263,436	263,436
Inventories	442,059	8,776	450,835
Trade and other receivables	758,649	–	758,649
Pledged and restricted bank deposits	381,300	–	381,300
Cash and cash equivalents	67,494	–	67,494
Trade and other payables	(2,231,518)	–	(2,231,518)
Bank loans	(1,417,070)	–	(1,417,070)
Other loans	(172,596)	–	(172,596)
Provisions	(72,797)	–	(72,797)
Deferred tax assets/(liabilities) (see note 32(b))	113,144	(64,570)	48,574
Net liabilities acquired	(1,043,640)	193,711	(849,929)
Goodwill on acquisition (note 16)			3,044,129
			2,194,200
Cost of acquisition			
Total consideration, satisfied by			
– Issue of ordinary shares (note 33)			299,653
– Issue of convertible preference shares (note 33)			142,768
– Issue of convertible bonds (note 28)			1,307,664
– Set off against consideration for the Disposal (note 8(a))			433,398
			2,183,483
– Direct attributable costs			10,717
			2,194,200
Net cash inflow in respect of acquisition of subsidiaries			
– Cash and cash equivalents acquired			67,494

The fair value of the consideration satisfied by the issue of ordinary shares was determined based on the quoted market price of the Company's ordinary shares on the Acquisition Date. In addition, given the existence of a conversion feature, whereby the holders have the right to convert the preference shares into ordinary shares at any time at a conversion price of $0.183 each, subject to dilutive adjustments, and the other features set out in note 33, the fair value of the consideration satisfied by the issue of preference shares was also determined by reference to the quoted market price of the Company's ordinary shares as at the Acquisition Date.

The fair value of the consideration satisfied by the issue of convertible bonds was determined based on a valuation report prepared by an independent third party valuer.

3 ACQUISITION OF SUBSIDIARIES AND MINORITY INTERESTS (continued)

(a) Acquisition of subsidiaries (continued)

The acquired group contributed approximately $6 million profit to the Group's result for the year ended 31st December, 2008. If the above acquisition had occurred on 1st January, 2008, the Directors estimate that the combined revenue of the Group would have been $10,795 million, the combined profit from operations would have been $264 million, and the combined net loss would have been approximately $84 million for the year ended 31st December, 2008. In determining these amounts, the directors of the Company have assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisitions had occurred on 1st January, 2008.

(b) Acquisition of minority interests

(i) On 2nd October, 2007, a subsidiary of the Company entered into an agreement with a minority shareholder to acquire the remaining 10% equity interest in Shantou Lotus Supermarket Chain Store Co., Ltd. ("Shantou Lotus") (汕頭易初蓮花連鎖超市有限公司) for a cash consideration of RMB10,000,000 (equivalent to $11,132,000). The transaction was completed on 19th May, 2008 and Shantou Lotus became a wholly-owned subsidiary of the Group. The carrying amount of Shantou Lotus net assets in the consolidated financial statements on the date of acquisition was $23,680,000. The Group recognised a decrease in minority interest of $2,368,000 and goodwill of $8,764,000 (note 16).

(ii) On 12th July, 2007, a subsidiary of the Company entered into an agreement with a minority shareholder to acquire the remaining equity interest in Qingdao Lotus Supermarket Chain Store Co., Ltd. ("Qingdao Lotus") (青島易初蓮花連鎖超市有限公司) for a cash consideration of RMB3,602,000 (equivalent to $4,124,000). In addition, the Group made an additional capital injection to Qingdao Lotus of USD1,934,000 (equivalent to $15,085,000). The transaction was completed on 27th June, 2008 and Qingdao Lotus became a wholly-owned subsidiary of the Group. The carrying amount of Qingdao Lotus net assets in the consolidated financial statements on the date of acquisition was $4,046,000. The Group recognised a decrease in minority interest of $307,000 and goodwill of $3,817,000 (note 16).

4 TURNOVER

The principal activity of the Group is the operation of hypermarket stores in the PRC. Turnover represents the sales value of goods supplied to customers, less returns, discounts and value added taxes.

5 OTHER REVENUE AND OTHER NET INCOME

	Consolidated	
	2008 **$'000**	2007 $'000
Other revenue		
Leasing of store premises	**156,552**	110,547
Management service fee (note 42(a))	**20,500**	–
Procurement service fee (note 42(a))	**735**	–
Other promotion and service income	**75,021**	53,191
Interest income	**5,716**	6,335
	258,524	170,073
Other net income		
Gain on disposal of assets and liabilities classified as held for sale (note 8(a))	**159,877**	–
Net foreign exchange gain	**12,381**	22,526
Net loss on disposal of fixed assets	**(3,866)**	(17,248)
	168,392	5,278

6 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

		Consolidated	
		2008 **$'000**	2007 $'000
(a)	Finance costs:		
	Interest on borrowings wholly repayable within five years:		
	– Bank loans	**49,826**	35,397
	– Other borrowings	**46,878**	19,391
	Interest on deferred consideration payable (note 29)	**9,918**	16,732
	Finance charges on obligations under finance leases	**23,134**	21,452
	Interest on convertible bonds (note 28)(note)	**39,928**	–
		169,684	92,972

Note: Interest on convertible bonds of $39,928,000 for the year ended 31st December, 2008 consists of $2,794,000 representing coupon interest at 1% per annum on the principal amount of the convertible bonds and $37,134,000 representing additional interest expense arising from the remeasurement of the liability component of the convertible bonds using the effective interest rate method as set out in note 28.

		Consolidated	
		2008 **$'000**	2007 $'000
(b)	Staff costs:		
	Salaries, wages and other benefits	**430,292**	329,556
	Contributions to defined contribution retirement plans	**29,555**	21,074
		459,847	350,630
(c)	Other items:		
	Depreciation of property, plant and equipment	**137,882**	143,496
	Amortisation of land lease premium	**8,140**	6,958
	Amortisation of intangible assets	**2,352**	–
	Auditors' remuneration		
	– audit services	**3,372**	2,563
	– other assurance services	**225**	1,964
	Operating lease charges:		
	– property rentals	**329,227**	267,622
	Cost of inventories (note 21)	**5,130,905**	3,651,649

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2008 **$'000**	2007 $'000
Current tax – PRC		
Provision for the year	**8,659**	1,444
Deferred tax		
Origination and reversal of temporary differences (note 32(b))	**(5,030)**	(2,863)
Taxation expense/(credit)	**3,629**	(1,419)

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (continued)

(a) Taxation in the consolidated income statement represents: (continued)

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.

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.

Pursuant to the Corporate Income Tax Law ("new tax law") of the PRC which took effect on 1st January, 2008, subsidiaries of the Group established in the PRC are subject to PRC income tax at 25% (2007: 33%) on their assessable profits as determined in accordance with the new tax law.

Further, under the new tax law, 10% withholding tax is levied on the foreign investor in respect of dividend distributions arising from a foreign invested enterprise's profit earned after 1st January, 2008. As at 31st December, 2008, the PRC subsidiaries of the Group had aggregated accumulated losses and therefore no deferred tax liabilities were recognised in this regard.

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

	2008 **$'000**	2007 $'000
Loss before taxation	**(41,944)**	(306,125)
Notional tax on loss before taxation, calculated at 25% (2007: 33%) (note)	**(10,486)**	(101,021)
Effect of different tax rates of the Company and non-PRC subsidiaries	**–**	15,098
Tax effect of non-deductible expenses	**29,389**	42,430
Tax effect of non-taxable income	**(45,593)**	(36,708)
Tax effect of tax losses not recognised	**35,772**	75,655
Tax effect of prior year's tax losses utilised	**(5,995)**	3,136
Tax effect of temporary differences not recognised	**542**	378
Tax effect of change of tax rate applicable to deferred tax	**–**	(387)
Actual tax expense/(credit)	**3,629**	(1,419)

Note: The PRC Corporate Income Tax rate of 25% (2007: 33%) is used as the operations of the Group are substantially based in the PRC.

8 ASSETS CLASSIFIED AS HELD FOR SALE

Assets classified as held for sale represent:

	2008 **$'000**	2007 $'000
Assets subject to the Disposal Agreement (note (a))	**–**	485,524
Land use right (note (b))	**12,473**	11,749
	12,473	497,273

8 ASSETS CLASSIFIED AS HELD FOR SALE (continued)

(a) On 17th May, 2007, the Company entered into a Disposal Agreement to dispose of 11 CTEI Non-performing Stores and the Group's equity interest 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, to be settled via offset against the amount due by the Group to CPH in relation to the acquisition of SLS (note 3(a)). The assets and liabilities attributable to the CTEI Non-performing Stores were classified as a disposal group held for sale and presented separately in the consolidated balance sheet (see below). The Disposal was completed in October, 2008.

For the year ended 31st December, 2008, the above subsidiaries and stores in the Disposal Group contributed approximately $1,041 million (2007: $1,053 million) to the Group's turnover and accounted for approximately $101 million (2007: $175 million) of the Group's net loss for the year.

The major classes of assets and liabilities in the Disposal Group as at the date of disposal and 31st December, 2007 are as follows:

The Group

	2008 $'000	2007 $'000
Assets classified as held for sale		
Property, plant and equipment	**372,887**	345,442
Prepaid lease payments for premises	**2,552**	1,068
Inventories	**95,140**	105,647
Trade and other receivables	**34,865**	10,939
Cash and cash equivalents	**13,397**	22,428
	518,841	485,524
Liabilities associated with assets classified as held for sale		
Trade and other payables	**273,083**	260,526
Net assets disposed of	**245,758**	
Exchange reserve release	**27,763**	
	273,521	
Gain on disposal (note 5)	**159,877**	
Total consideration netted off against consideration payable for the Acquisition (note 3(a))	**433,398**	

The Company

The Company's interests in the above mentioned subsidiaries disposed of to CPH under the Disposal Agreement were classified as held for sale in the Company's balance sheet. Details are set out in note 18.

(b) During the year ended 31st December, 2006, the Company acquired an additional 50% equity interest in Lotus-CPF (PRC) Investment Company Limited ("Lotus-CPF") which as a result 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 $12,473,000 (2007: $11,749,000)). 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, 2008, 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 2009.

NOTES TO THE FINANCIAL STATEMENTS

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9 DIRECTORS' REMUNERATION

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

For the year ended 31st December, 2008:

	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. James Harold Haworth	–	6,675	–	–	6,675	–	6,675
Mr. Soopakij Chearavanont	–	3,323	–	12	3,335	–	3,335
Mr. Michael Ross	–	388	–	–	388	–	388
Mr. Narong Chearavanont	–	505	–	–	505	–	505
Mr. Tse Ping	–	–	–	–	–	–	–
Mr. Yang Xiaoping	–	2,198	–	12	2,210	–	2,210
Mr. Li Wen Hai	–	1,816	–	–	1,816	–	1,816
Mr. Zheng Mengyin	–	337	–	–	337	–	337
Mr. Umroong Sanphasitvong	–	–	–	–	–	–	–
Mr. Robert Ping-Hsien Ho	–	–	–	–	–	–	–
Mr. Meth Jiaravanont	–	936	–	–	936	–	936
Mr. Nopadol Chiaravanont	–	–	–	–	–	–	–
Mr. Chatchaval Jiaravanon	–	–	–	–	–	–	–
Mr. Suphachai Chearavanont	–	–	–	–	–	–	–
Mr. Kachorn Chiaravanont	–	–	–	–	–	–	–
Non-executive director							
Mr. Leung Chun Keung	–	–	–	–	–	–	–
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	16,178	–	24	16,922	–	16,922

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. Suphachai 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

Note: Messers. Zheng Mengyin and Leung Chun Keung were appointed as executive director and non-executive director respectively on 11th November, 2008.

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2007: three) are directors whose emoluments are disclosed in note 9. The details of the emoluments in respect of the remaining one individual (2007: two) are as follows:

	2008 $'000	2007 $'000
Salaries and allowances	**3,276**	3,100
Discretionary bonuses	**–**	–
Share-based payments	**–**	–
Retirement benefit scheme contributions	**–**	12
	3,276	3,112

The emoluments of the above individual (2007: two) with highest emoluments is within the following bands:

	2008 Number of individuals	2007 Number of Individuals
$1,500,001 to $2,000,000	**–**	2
$3,000,001 to $3,500,000	**1**	–
	1	2

During the years ended 31st December, 2008 and 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, 2008 and 2007.

11 LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the Company includes a profit of $170,643,000 (2007: loss of $59,080,000) which has been dealt with in the financial statements of the Company (note 34(a)).

12 DIVIDENDS

No dividend was paid or proposed during the years ended 31st December, 2008 and 2007, nor has any dividend been proposed since the balance sheet date.

13 LOSS PER SHARE

(a) Basic

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

	2008 $'000	2007 $'000
Loss for the year attributable to equity shareholders of the Company	**(45,443)**	(307,329)
Weighted average number of ordinary shares in issue	**6,527,914,408**	5,996,614,408
Weighted average number of preference shares in issue	**253,134,512**	–
Total	**6,781,048,920**	5,996,614,408

The weighted average number of ordinary shares is calculated based on the following data:

	2008	2007
Issued ordinary shares at 1st January	**5,996,614,408**	5,996,614,408
Effect of ordinary shares issued as consideration for acquisition of SLS	**531,300,000**	–
Weighted average number of ordinary shares in issue	**6,527,914,408**	5,996,614,408

The weighted average number of preference shares is calculated based on the following data:

	2008	2007
Issued preference shares at 1st January	**–**	–
Effect of preference shares issued as consideration for acquisition of SLS	**253,134,512**	–
Weighted average number of preference shares in issue	**253,134,512**	–

As set out in note 33(a), the holders of the preference shares are entitled to receive the same dividends as the holders of ordinary shares.

(b) Diluted

The diluted loss per share for the years ended 31st December, 2008 and 2007 is the same as the basic loss per share as all potential ordinary shares are anti-dilutive.

14 FIXED ASSETS

(a) The Group

	Buildings $'000	Leasehold improvements $'000	Furniture, fixtures and equipment $'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
Cost:								
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 8(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
At 1st January, 2008	252,282	557,720	376,840	25,679	39,132	1,251,653	209,101	1,460,754
Exchange adjustments	15,541	33,167	22,559	1,184	2,114	74,565	12,882	87,447
Additions	–	15,771	12,481	1,734	8,448	38,434	–	38,434
Additions through acquisition of subsidiaries (note 3(a))	–	918,110	139,199	11,671	4,784	1,073,764	–	1,073,764
Transfer	–	5,799	424	–	(6,223)	–	–	–
Disposals	(34)	(1,665)	(17,905)	(2,817)	(34,747)	(57,168)	–	(57,168)
At 31st December, 2008	267,789	1,528,902	533,598	37,451	13,508	2,381,248	221,983	2,603,231
Accumulated depreciation and impairment losses:								
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 8(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
At 1st January, 2008	22,378	93,978	112,213	11,202	29,681	269,452	13,846	283,298
Exchange adjustments	1,490	6,144	6,879	413	1,595	16,521	923	17,444
Charge for the year	12,927	57,309	61,835	5,811	–	137,882	8,140	146,022
Written back on disposal	(2)	(118)	(13,378)	(2,513)	(27,038)	(43,049)	–	(43,049)
At 31st December, 2008	36,793	157,313	167,549	14,913	4,238	380,806	22,909	403,715
Net book value:								
At 31st December, 2008	230,996	1,371,589	366,049	22,538	9,270	2,000,442	199,074	2,199,516
At 31st December, 2007	229,904	463,742	264,627	14,477	9,451	982,201	195,255	1,177,456

14 FIXED ASSETS (continued)

(b) The Company

	Leasehold improvements $'000	Furniture, fixtures and equipment $'000	Motor vehicles $'000	Total $'000
Cost:				
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
At 1st January, 2008	172	3,726	6,021	9,919
Additions	–	3	1,417	1,420
Disposals	–	(118)	(974)	(1,092)
At 31st December, 2008	172	3,611	6,464	10,247
Accumulated depreciation:				
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
At 1st January, 2008	172	3,616	4,814	8,602
Charge for the year	–	83	1,131	1,214
Written back on disposal	–	(118)	(860)	(978)
At 31st December, 2008	172	3,581	5,085	8,838
Net book value:				
At 31st December, 2008	–	30	1,379	1,409
At 31st December, 2007	–	110	1,207	1,317

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

	The Group	
	2008 $'000	2007 $'000
In the PRC		
– medium-term leases	**430,070**	425,159
Representing:		
Buildings	**230,996**	229,904
Interests in leasehold land held for own use under operating leases	**199,074**	195,255
	430,070	425,159

(d) Fixed assets held under finance leases

As at 31st December, 2008, the net book value of buildings held under finance leases of the Group was $202,000,000 (2007: $201,819,000). 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, 2008, 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 for such land use rights. The book value of the land use rights for which the Group had not been granted formal title amounted to approximately $139,445,000 as at 31st December, 2008 (2007: $135,325,000), which includes an amount of $12,473,000 (2007: $11,749,000) recorded in assets classified as held for sale (note 8(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.

15 INTANGIBLE ASSETS

	The Group	
	2008 **$'000**	2007 $'000
Cost:		
At 1st January	**–**	–
Additions through acquisition of subsidiaries (note 3(a))	**263,436**	–
Exchange adjustments	**(371)**	–
At 31st December	**263,065**	–
Accumulated amortisation:		
At 1st January	**–**	–
Charge for the year	**2,352**	–
Exchange adjustments	**–**	–
At 31st December	**2,352**	–
Net book value of intangible assets	**260,713**	–

Intangible assets relate to operating lease agreements acquired in the acquisition of SLS (note 3(a)). The fair value on acquisition was determined based on a valuation report prepared by an independent third party valuer and a comparison of the market rental rates at the date of acquisition and the estimated present value of payments due under the lease contracts entered into by SLS. The intangible assets are amortised using the straight-line method over the remaining lease terms which vary from 13 to 33 years.

16 GOODWILL

	The Group	
	2008 **$'000**	2007 $'000
Cost:		
At 1st January	**87,320**	85,164
Additions through acquisition of SLS (note 3(a))	**3,044,129**	–
Additions through acquisition of minority interests (note 3(b))	**12,581**	–
Exchange adjustments	**(2,232)**	2,156
At 31st December	**3,141,798**	87,320
Accumulated impairment losses:		
At 1st January and 31st December	**57,833**	57,833
Carrying amount:		
At 31st December	**3,083,965**	29,487

During 2008, the Group acquired SLS and additional equity interests in Qingdao Lotus and Shantou Lotus respectively. As a result, goodwill of $3,044,129,000, $3,817,000 and $8,764,000 were recognised in the consolidated financial statements of 2008 respectively. Further details of these transactions are set out in note 3.

16 GOODWILL (continued)

Impairment tests for cash-generating units containing goodwill

As at 31st December, 2008 and 2007, the carrying amount of goodwill is allocated to the Group's cash-generating units as follows:

	2008 $'000	2007 $'000
East China Region	**3,039,839**	–
South China Region	**40,273**	29,487
North China Region	**3,853**	–
	3,083,965	29,487

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, which are extrapolated up to the following 10 years and perpetual life by using estimated growth rates of 4% to 7% per annum. 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 cost. The discount rate of 12% (2007: 10%) reflects 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.

17 DEPOSITS FOR ACQUISITION OF ADDITIONAL INTEREST IN SUBSIDIARIES

At 31st December, 2007, the amount represented deposits paid for the acquisition of the remaining 10% equity interest in Shantou Lotus of $10,681,000 and acquisition of the remaining equity interest in Qingdao Lotus of $3,923,000. The acquisitions were completed in 2008 (note 3(b)).

18 INTERESTS IN SUBSIDIARIES

	The Company	
	2008 $'000	2007 $'000
Unlisted shares/capital contributions, at cost	**2,138,031**	82,398
Add: Amounts due from subsidiaries	**1,222,515**	998,452
Less: Impairment losses	**(286,541)**	(380,141)
At 31st December	**3,074,005**	700,709

In addition to the above, the following amounts were included in the Company's balance sheet as assets held for sale as at 31st December, 2007 (see note 8(a)).

	The Company 2007 $'000
Unlisted shares/capital contributions, at cost	–
Amounts due from subsidiaries	273,825
	273,825

The above represents loans and advances to and the Company's equity investments in Chia Tai Trading (Jinan) Company Limited, Chia Tai Trading (Shijiazhuang) Company Limited, Chia Tai Trading (Tianjin) Company Limited, and Taian Lotus Supermarket Chain Store Co., Ltd. (泰安易初蓮花連鎖超市有限公司). These assets were disposed of to CPH under the Disposal Agreement (see note 8(a)).

In addition to the above, the Company also disposed Chia Tai Trading (Luoyang) Company Limited, Chia Tai Lotus (Shanghai) Company Limited, Chia Tai Trading (Taian) Company Limited and Chia Tai Trading (Zibo) Company Limited to CPH during the year.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

18 INTERESTS IN SUBSIDIARIES (continued)

The following list contains only the particulars of the Group's subsidiaries which principally affected the results, assets or liabilities of the Group. The Group's effective interest in the entities below are all held by subsidiaries of the Company. The entities below are all companies established in the PRC with limited liability and are involved in the operation of hypermarket stores in the PRC.

Name of companies	Paid up capital		Group's effective interest	
	2008	2007	**2008 %**	2007 %
北京易初蓮花連鎖超市有限公司 Beijing Lotus Supermarket Chain Store Co., Ltd.	**USD25,000,000 (note 2)**	USD25,000,000	**100**	100
西安易初蓮花連鎖超市有限公司 Xian Lotus Supermarket Chain Store Co., Ltd.	**RMB2,000,000 (note 3)**	RMB2,000,000	**100**	100
鄭州易初蓮花連鎖超市有限公司 Zhengzhou Lotus Supermarket Chain Store Co., Ltd.	**RMB2,000,000 (note 3)**	RMB2,000,000	**100**	100
青島易初蓮花連鎖超市有限公司 Qingdao Lotus Supermarket Chain Store Co., Ltd.	**USD6,500,000 (note 2)**	USD4,566,250	**100**	65
廣州易初蓮花連鎖超市有限公司 Guangzhou Lotus Supermarket Chain Store Co., Ltd. ("Guangzhou Lotus")	**USD30,000,000 (note 1)**	USD30,000,000	**100**	100
汕頭易初蓮花連鎖超市有限公司 Shantou Lotus Supermarket Chain Store Co., Ltd.	**USD12,000,000 (note 6)**	USD12,000,000	**100**	90
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.	**RMB3,000,000 (note 3)**	RMB3,000,000	**100**	100
廣東華南通商貿發展有限公司 Guangdong Hua Nan Tong Trading Development Co., Ltd.	**RMB29,500,000 (note 3)**	RMB29,500,000	**100**	100
上海易初蓮花連鎖超市有限公司 Shanghai Lotus Supermarket Chain Store Co., Ltd.	**USD84,000,000 (note 2)**	USD84,000,000	**100 (note 4)**	–
上海長發購物中心有限公司 Shanghai Changfa Shopping Centre Co., Ltd.	**RMB5,000,000 (note 3)**	RMB5,000,000	**100 (note 4)**	–
上海怡蓮超市有限公司 Shanghai Yilian Supermarket Co., Ltd.	**RMB500,000 (note 3)**	RMB500,000	**100 (note 4)**	–
上海采蓮超市有限公司 Shanghai Cailian Supermarket Co., Ltd.	**RMB500,000 (note 3)**	RMB500,000	**100 (note 4)**	–
上海新蓮超市有限公司 Shanghai Xinlian Supermarket Co., Ltd.	**RMB500,000 (note 3)**	–	**100 (note 4)**	–
南通通蓮超市有限公司 Nantong Tonglian Supermarket Co., Ltd.	**RMB500,000 (note 3)**	RMB500,000	**100 (note 4)**	–
昆山泰蓮超市有限公司 Kunshan Tailian Supermarket Co., Ltd.	**RMB500,000 (note 3)**	–	**100 (note 4)**	–
上海雅蓮超市有限公司 Shanghai Yalian Supermarket Co., Ltd.	**RMB500,000 (note 3)**	RMB500,000	**100 (note 4)**	–
上海佳蓮超市有限公司 Shanghai Jialian Supermarket Co., Ltd.	**RMB500,000 (note 3)**	RMB500,000	**100 (note 4)**	–
佛山市卜蜂蓮花管理咨詢有限公司 Foshan C.P. Lotus Management Consulting Co., Ltd.	**RMB8,949,000 (note 7)**	–	**100**	–
天津易初蓮花連鎖超市有限公司 Tianjin Lotus Supermarket Chain Store Co., Ltd.	**USD12,000,000**	USD12,000,000	**– (note 5)**	100

18 INTERESTS IN SUBSIDIARIES (continued)

Name of companies	Paid up capital		Group's effective interest	
	2008	2007	**2008** %	2007 %
泰安易初蓮花連鎖超市有限公司 Taian Lotus Supermarket Chain Store Co., Ltd.	**RMB2,000,000**	RMB2,000,000	**–** **(note 5)**	100
濟南易初蓮花連鎖超市有限公司 Jinan Lotus Supermarket Chain Store Co., Ltd.	**USD8,000,000**	USD8,000,000	**–** **(note 5)**	100
石家莊易初蓮花連鎖超市有限公司 Shijiazhuang Lotus Supermarket Chain Store Co., Ltd.	**USD2,400,000**	USD2,400,000	**–** **(note 5)**	100

Notes:

(1) This is a sino-foreign co-operative joint venture established in the PRC.

(2) All are wholly-foreign-owned enterprises.

(3) 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.

(4) The Group's interests in these entities was acquired under the Acquisition during 2008 (see note 3(a)).

(5) The Group's interests in these entities were disposed of to CPH under the Disposal Agreement during 2008 (see note 8(a)).

(6) This is a sino-foreign joint venture established in the PRC.

(7) This is a domestic enterprise in the PRC.

19 PREPAID LEASE PAYMENTS FOR PREMISES

	The Group	
	2008 $'000	2007 $'000
At 1st January	**22,790**	55,384
Exchange adjustments	**1,301**	3,055
Additions	**–**	5,543
Charged to profit or loss for the year	**(11,972)**	(40,124)
Reclassified to asset held for sale (note 8(a))	**–**	(1,068)
At 31st December	**12,119**	22,790
Represented by:		
Non-current portion	**6,831**	13,965
Current portion	**5,288**	8,825
	12,119	22,790

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

20 LONG-TERM DEPOSITS RECEIVABLE WITHIN ONE YEAR

At 31st December, 2007, these represented deposits of $10,681,000 and $10,681,000 with financial institutions which bore interest of 4.0% and 4.7% per annum. These balances were fully received in 2008.

21 INVENTORIES

All inventories as at 31st December, 2008 and 2007 are finished goods merchandise. The analysis of the amount of inventories recognised as an expense is as follows:

	The Group	
	2008	2007
	$'000	$'000
Carrying amount of inventories sold	**5,116,646**	3,641,570
Write-down of inventories	**14,259**	10,079
	5,130,905	3,651,649

22 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Trade receivables, other receivables and deposits	**212,040**	117,825	**1,004**	3,879
Amounts due from related companies (note 42(b))	**778,772**	2,999	**–**	–
Amounts due from subsidiaries	**–**	–	**64,275**	–
	990,812	120,824	**65,279**	3,879

All of the trade and other receivables apart from rental deposits of the Group amounting to $53,753,000 (2007: $31,999,000) are expected to be recovered within one year.

Included in the Group's 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	
	2008	2007
	$'000	$'000
Current	**28,138**	8,472
1 to 30 days overdue	**4,877**	16
31 to 60 days overdue	**1,189**	158
61 to 90 days overdue	**630**	72
Over 90 days	**5,245**	682
	40,079	9,400

The Group's credit policy is set out in note 37(a).

23 PLEDGED AND RESTRICTED BANK DEPOSITS

The Group

At 31st December, 2008, $435,172,000 (2007: nil) of the Group's bank deposits were pledged to banks to secure banking facilities and bank borrowings granted to the Group.

At 31st December, 2008, deposits amounting to $102,051,000 (2007: nil) and $36,428,000 (2007: $38,208,000) were restricted for use in relation to outstanding litigation cases and guarantees for payments to suppliers respectively.

The Company

At 31st December, 2008, $155,099,000 (2007: nil) of the Company's bank deposits were pledged to banks to secure banking facilities and bank borrowings granted to the Company's subsidiary, Guangzhou Lotus.

24 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2008 **$'000**	2007 $'000	**2008** **$'000**	2007 $'000
Cash at bank and in hand as disclosed in the balance sheet	**296,631**	181,252	**2,851**	1,492
Cash at bank and in hand classified as assets held for sale (note 8(a))	**–**	22,428		
Cash and cash equivalents in the consolidated cash flow statement	**296,631**	203,680		

Cash and cash equivalents of the Group and of the Company amounting to $24,522,000 (2007: $18,624,000) and $53,000 (2007: $443,000) respectively are non-interest bearing.

25 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2008 **$'000**	2007 $'000	**2008** **$'000**	2007 $'000
Notes payable	**47,632**	41,881	**–**	–
Creditors and accrued charges	**3,200,121**	1,018,455	**5,402**	7,323
Amounts due to related companies (note 42(b))	**189,917**	27,134	**3,876**	893
Amounts due to subsidiaries	**–**	–	**209,512**	204,409
	3,437,670	1,087,470	**218,790**	212,625

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 $2,382,863,000 (2007: $746,347,000) with the following ageing analysis as of the balance sheet date:

	The Group		The Company	
	2008 **$'000**	2007 $'000	**2008** **$'000**	2007 $'000
Uninvoiced purchases	**860,118**	260,275	**–**	–
Within 30 days of invoice date	**1,138,779**	399,020	**–**	–
31 to 60 days after invoice date	**285,244**	58,639	**–**	–
61 to 90 days after invoice date	**51,437**	6,998	**–**	–
More than 90 days after invoice date	**47,285**	21,415	**–**	–
	2,382,863	746,347	**–**	–

26 BANK LOANS

	The Group		The Company	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Short-term bank loans	**1,178,697**	110,043	**38,220**	78,000
Long-term bank loan due within 1 year	**854,985**	–	**390,000**	–
Within 1 year	**2,033,682**	110,043	**428,220**	78,000
More than 1 year but within 2 years	**–**	390,000	**–**	390,000
	2,033,682	500,043	**428,220**	468,000

At 31st December, 2008, the Group's bank loans are secured/guaranteed as follows:

	The Group		The Company	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Secured bank loans				
– Secured by assets held by the Group (note (i))	**527,263**	–	**–**	–
– Secured by assets held by related parties (note (ii)/(vi))	**390,000**	390,000	**390,000**	390,000
– Secured by letters of credit issued by the ultimate holding company through financial institutions (note (iii))	**229,622**	–	**38,220**	–
	1,146,885	390,000	**428,220**	390,000
Unsecured bank loans				
– Guaranteed by the Company and its subsidiaries (note (iv))	**28,348**	32,043	**–**	–
– Guaranteed by a related company (note (v))	**53,293**	–	**–**	–
– Unsecured bank loans (note (vi))	**805,156**	78,000	**–**	78,000
	2,033,682	500,043	**428,220**	468,000

Note:

(i) As at 31st December, 2008, the Group has drawn down a floating rate bank loan of RMB118,000,000 (equivalent to $133,800,000) bearing interest at the People's Bank of China lending rate ("PBOC rate") multiplied by 1.1 per annum, which is secured by pledged bank deposits of RMB136,783,000 (equivalent to $155,099,000). This loan was repaid in January, 2009.

As at 31st December, 2008, the Group has drawn down two floating rate bank loans of RMB300,000,000 (equivalent to $340,170,000) and RMB47,000,000 (equivalent to $53,293,000) bearing interest at six-month PBOC rate and six-month PBOC rate multiplied by 1.1 per annum respectively, which are secured by pledged bank deposits totalling RMB247,000,000 (equivalent to $280,073,000).

26 BANK LOANS (continued)

Note: (continued)

(ii) As at 31st December, 2008 and 2007, the Company has drawn down a floating rate bank loan of USD50,000,000 (equivalent to $390,000,000) bearing interest at London Interbank Offered Rate ("LIBOR") plus 2.75% per annum. This loan is secured by the equity interest in a company controlled by various shareholders of the Group's ultimate holding company. On 31st March, 2009, the maturity date of this loan was extended to 31st March, 2012.

This bank loan is subject to 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 37(b). As at 31st December, 2008, the Company was in compliance with the covenants.

(iii) As at 31st December, 2008, subsidiaries of the Group have drawn down two floating rate bank loans of USD20,000,000 (equivalent to $155,117,000) and USD4,750,000 (equivalent to $36,285,000) bearing interest at six-month PBOC rate multiplied by 1.1 per annum and six-month PBOC rate multiplied by 1.15 per annum respectively, which are secured by letters of credit issued by the Group's ultimate holding company through financial institutions.

As at 31st December, 2008, the Company has drawn down a floating rate bank loan of USD4,900,000 (equivalent to $38,220,000) bearing interest at six-month LIBOR plus 1%, which is secured by a letter of credit issued by the Group's ultimate holding company through financial institutions.

(iv) As at 31st December, 2008, the Group has drawn down a fixed rate bank loan of RMB25,000,000 (equivalent to $28,348,000) (2007: $32,043,000) bearing interest at 6.417% per annum (2007: 8.75% per annum), which is co-guaranteed by the Company and one of its subsidiaries.

(v) As at 31st December, 2008, the Group has drawn down a floating rate bank loan of RMB47,000,000 (equivalent to $53,293,000) bearing interest at the PBOC rate plus 10% per annum. This loan is guaranteed by a fellow subsidiary controlled by the Group's ultimate holding company.

(vi) The Group's ultimate holding company has issued letters of undertaking for these loans to the respective lending banks.

27 OTHER LOANS

	The Group		The Company	
	2008 **$'000**	2007 $'000	**2008** **$'000**	2007 $'000
Loans from a third party (note (i))	**109,200**	7,800	**109,200**	7,800
Loans from related companies (note (ii))	**767,564**	441,839	**78,000**	–
Amounts due to a subsidiary (note (iii))	**–**	–	**153,761**	99,161
	876,764	449,639	**340,961**	106,961
Represented by:				
Within one year	**876,764**	402,997	**340,961**	106,961
More than 1 year but within 2 years	**–**	46,642	**–**	–
	876,764	449,639	**340,961**	106,961

27 OTHER LOANS (continued)

Notes: (continued)

(i) As at 31st December, 2008, loans of $109,200,000 (2007: $7,800,000) borrowed from an independent third party were unsecured and bearing interest ranging from 5.34% to 7.14% per annum (2007: 9% per annum).

(ii) Loans from related companies, being subsidiaries of, and other entities related to, the Group's ultimate holding company, are unsecured and comprise the following:

(a) RMB527,000,000 (equivalent to $597,566,000) (2007: $395,197,000), which bear fixed interest at 5.58% to 7.88% per annum (2007: PBOC rate multiplied by 1.055), were repayable on 31st December, 2008. The maturity dates of such loans amounting to RMB347,000,000 (equivalent to $393,464,000) were subsequently extended to 31st December, 2009;

(b) RMB40,000,000 (equivalent to $45,356,000), which bears fixed interest at 7% per annum and was repaid by the Group in January, 2009; and

(c) USD10,000,000 (equivalent to $78,000,000) and USD5,980,000 (equivalent to $46,642,000) (2007: $46,642,000), which bear interest at LIBOR plus 6% and three-month LIBOR plus 2% (2007: three-month LIBOR plus 2%) respectively, which are repayable in December, 2009.

(iii) As at 31st December, 2008 and 2007, $41,340,000 of the amounts due to a subsidiary bears interest at LIBOR plus 2% per annum. The remaining amounts are non-interest bearing. The amounts due to a subsidiary have no fixed terms of repayment.

28 CONVERTIBLE BONDS

On 31st October, 2008, the Company issued convertible bonds due in 2011 in the aggregate principal amount of $1,519,873,031 (the "Convertible Bonds") to certain of the then shareholders of SLS, namely CP ALL, LDIL and CRF, as part of the consideration to acquire SLS (note 3(a)). Contemporaneously, LDIL subscribed for additional convertible bonds due in 2011 in the principal amount of $156,380,000 (the "Subscribed Convertible Bonds") at their principal amount payable in cash. The terms of the Subscribed Convertible Bonds are the same as those of the Convertible Bonds as follows:

(i) Maturity/Redemption

– *Maturity date*
The date falling on the 3rd anniversary of the date of the completion of the Acquisition Agreement relating to SLS or (if mutually agreed in writing between the Company and the bondholders) the date falling on the 5th anniversary of the date of completion of the Acquisition Agreement relating to SLS. As set out in note 1(b), the Company announced that completion of the Restructuring took place on 31 October 2008.

– *Redemption at maturity*
Unless previously redeemed, converted or purchased and cancelled, the Convertible Bonds/Subscribed Convertible Bonds will be redeemed on the Maturity Date at the redemption amount equivalent to the sum of (i) the principal amount of the Convertible Bonds/Subscribed Convertible Bonds being redeemed and (ii) such amount which would (if aggregated with all interest previously paid on the Convertible Bonds/Subscribed Convertible Bonds being redeemed) result in the bondholder receiving a 3.5% per annum yield to maturity on the principal amount of the Convertible Bonds/Subscribed Convertible Bonds to the Maturity Date.

(ii) Interest

1% per annum on the principal amount of the Convertible Bonds/Subscribed Convertible Bonds.

28 CONVERTIBLE BONDS (continued)

(iii) Conversion

– *Conversion period*
From the 7th day after the date of issue of the Convertible Bonds/Subscribed Convertible Bonds up to and including the date which is 7 days prior to the Maturity Date

– *Optional conversion*
The bondholder shall have the right to convert any Convertible Bonds/ Subscribed Convertible Bonds into ordinary shares during the conversion period at the conversion price defined below.

– *Automatic conversion*
The Convertible Bonds/Subscribed Convertible Bonds will be automatically converted if either of the following events occur: (a) the closing price of the ordinary shares as quoted on The Stock Exchange of Hong Kong Limited is equal to or higher than $0.43 (as adjusted for stock splits, stock combination, stock dividends, reclassification and similar corporate action) on at least 15 consecutive trading days; or (b) the average of the closing price of the ordinary shares as quoted on The Stock Exchange of Hong Kong Limited on not less than 20 consecutive trading days is $0.43 or higher (as adjusted for stock splits, stock combination, stock dividends, reclassification and similar corporate action).

– *Conversion price*
The price at which the ordinary shares will be issued upon conversion of the Convertible Bonds/Subscribed Convertible Bonds will initially be $0.39 per ordinary share, subject to adjustments upon the occurrence of certain prescribed events including consolidation, subdivision or reclassification of shares, capitalization of profits or reserves, capital distribution, rights issues of the ordinary shares or options over the ordinary shares, rights issues of other securities, issues at less than current market price. The conversion price may not be reduced so that, on conversion, the ordinary shares would be issued at a discount to their nominal value.

(iv) Transferability

The Convertible Bonds/Subscribed Convertible Bonds may be assigned or transferred to any third party or parties other than a connected person of the Company unless necessary approvals and consents by independent shareholders of the Company have been obtained with respect to any assignment or transfer of the Convertible Bonds/ Subscribed Convertible Bonds to a connected party of the Company.

As the functional currency of the Company is HKD, the conversion of the Convertible Bonds/Subscribed Convertible Bonds denominated in HKD will result in settlement by exchange of a fixed amount of cash in HKD, for a fixed number of the Company's ordinary shares. In accordance with the requirements of HKAS 39 Financial Instruments-Recognition and Measurement, the bond contract must be separated into a liability component consisting of the straight debt element of the Convertible Bonds/ Subscribed Convertible Bonds, and an equity component representing the conversion option of the bondholders. The fair value/proceeds of the Convertible Bonds/ Subscribed Convertible Bonds have been split as below:

(i) Liability component represents the present value of the contractually determined stream of cash flows discounted at the prevailing market interest rate applicable to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option. The interest charged for the period is calculated by applying an effective interest rate of 17.07% and 17.32% to the liability component since the Convertible Bonds and Subscribed Convertible Bonds were issued respectively.

(ii) Equity component represents the option to convert the Convertible Bonds/ Subscribed Convertible Bonds into ordinary shares of the Company, and is determined by deducting the fair value of the liability component from the fair value/proceeds of the Convertible Bonds/Subscribed Convertible Bonds of the compound financial instrument as a whole.

28 CONVERTIBLE BONDS (continued)

There are no embedded derivatives which should be separately accounted for relating to the Convertible Bonds or Subscribed Convertible Bonds.

The fair value of the Convertible Bonds/Subscribed Convertible Bonds as a whole was calculated using a valuation model. The major inputs used in the model on the Acquisition Date were as follows:

Share price	$0.094 per share
Conversion price	$0.39 per share
Risk-free rate	1.878%
Expected life	3 years
Volatility	66.0%

The share price was determined according to the quoted market price of the Company's ordinary shares as at 15th October, 2008, the Acquisition Date relating to SLS. The risk-free rate was determined with reference to the Hong Kong Exchange Fund Notes Yields as extracted from Bloomberg. The expected life was estimated based on the terms of the Convertible Bonds. The volatilities were determined based on the historical price volatility of the Company.

The movement of the liability component of the Convertible Bonds/Subscribed Convertible Bonds for the year is set out below:

	Liability component $'000	**Equity component** $'000	**Total** $'000
Convertible Bonds issued	1,029,110	278,554	1,307,664
Subscribed Convertible Bonds issued	105,890	50,490	156,380
	1,135,000	329,044	1,464,044
Interest charged (note 6(a))	39,928	–	39,928
As at 31st December, 2008	1,174,928	329,044	1,503,972

No conversion of the Convertible Bonds has occurred up to 31st December, 2008. On 23rd January, 2009, the Company entered into a redemption agreement with CRF to redeem Convertible Bonds in the principal amount of $156,380,000 at a redemption price representing a discount of 15% (equivalent to $132,923,000) to the principal amount. The redemption was completed on 30th January, 2009.

29 CONSIDERATION PAYABLE FOR ACQUISITION OF SUBSIDIARIES

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

	The Group	
	2008 **$'000**	2007 $'000
Acquisition of 50% equity interest in Lotus-CPF	**–**	41,991
Acquisition of 10% equity interest in Chia Tai-Lotus (Guangdong) Investment Co. Ltd.	**–**	9,331
Acquisition of 40% equity interest in Lotus-CPF	**120,900**	181,350
	120,900	232,672
Represented by:		
Current portion	**60,450**	111,772
Non-current portion	**60,450**	120,900
	120,900	232,672

29 CONSIDERATION PAYABLE FOR ACQUISITION OF SUBSIDIARIES (continued)

Notes:

10% of the consideration payable for the acquisition of Lotus-CPF was paid upon completion of the acquisition during 2006. The remaining amount is payable in eight half-yearly instalments with the first instalment due in April, 2007. The outstanding amount as at 31st December, 2008 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.

30 OBLIGATIONS UNDER FINANCE LEASES

At 31st December, 2008, the Group had obligations under finance leases repayable as follows:

	The Group			
	2008		2007	
	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	**4,421**	**27,347**	3,427	25,399
After 1 year but within 2 years	**4,878**	**27,347**	4,165	25,760
After 2 years but within 5 years	**20,274**	**84,164**	16,560	78,489
After 5 years	**204,588**	**346,464**	199,848	352,910
	229,740	**457,975**	220,573	457,159
	234,161	**485,322**	224,000	482,558
Less: Total future interest expenses		**(251,161)**		(258,558)
Present value of lease obligations		**234,161**		224,000

31 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	
	2008 $'000	2007 $'000
As at 1st January	**24,951**	18,834
Addition through acquisition of subsidiaries (note 3(a))	**72,797**	–
Provisions made	**–**	24,951
Provisions utilised	**(26,447)**	(18,834)
As at 31st December	**71,301**	24,951

31 PROVISIONS (continued)

The provision balance at 31st December, 2008 is expected to be utilised within one year. For one store lease cancellation, a significant difference exists between the landlord's claimed amount and the provision made by the Group. The Directors have taken into account external legal advice in assessing the level of provision required, however, the ultimate outcome of this case is uncertain.

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	
	2008 $'000	2007 $'000
Expenses incurred for cancelled new store projects	**126**	12,887
Provisions for impairment of store under fit out costs	**–**	28,594
	126	41,481

32 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group		The Company	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Provision for PRC income tax for the year	**8,659**	1,444	**–**	–
PRC income tax paid	**(12,673)**	(3,075)	**–**	–
Balance of income tax provision related to prior year	**(1,631)**	–	**–**	–
Total	**(5,645)**	(1,631)	**–**	–

	The Group		The Company	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Balance of current taxation	**3,632**	–	**–**	–
Balance of tax recoverable	**(9,277)**	(1,631)	**–**	–
Total	**(5,645)**	(1,631)	**–**	–

32 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:

	Tax loss $'000	Property, plant and equipment $'000	Interests in leasehold land held for own use under operating leases $'000	Intangible assets $'000	Others $'000	Total $'000
Deferred tax arising from:						
At 1st January, 2007	3,920	6,381	(23,000)	–	8,777	(3,922)
Credited to profit or loss	(4,074)	317	1,118	–	5,115	2,476
Changes in applicable tax rate	–	(1,684)	5,524	–	(3,453)	387
Exchange adjustment	154	449	(1,560)	–	757	(200)
At 31st December, 2007	–	5,463	(17,918)	–	11,196	(1,259)
Acquisition of subsidiaries (note 3(a))	113,144	3,483	–	(65,859)	(2,194)	48,574
Credited to profit or loss (note 7(a))	(143)	182	988	588	3,415	5,030
Exchange adjustment	(123)	335	(1,094)	91	700	(91)
At 31st December, 2008	112,878	9,463	(18,024)	(65,180)	13,117	52,254

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

	2008 $'000	2007 $'000
Net deferred tax asset recognised on the balance sheet	**105,634**	4,343
Net deferred tax liability recognised on the balance sheet	**(53,380)**	(5,602)
	52,254	(1,259)

(c) Deferred tax assets not recognised – the Group

	2008 $'000	2007 $'000
Tax losses	**1,715,190**	827,245
Deductible temporary differences	**117,369**	39,854
	1,832,559	867,099

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.

32 INCOME TAX IN THE BALANCE SHEET (continued)

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

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

	2008 **$'000**	2007 $'000
2008	**–**	4,594
2009	**42,873**	67,752
2010	**204,086**	140,071
2011	**663,589**	350,276
2012	**507,981**	229,258
2013	**261,367**	–
	1,679,896	791,951

(d) Deferred tax assets not recognised – the Company

At 31st December, 2008, the Company has not recognised deferred tax assets in respect of cumulative tax losses of $35,294,000 (2007: $35,294,000) 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.

33 SHARE CAPITAL

(a) Authorised and issued share capital

	2008		2007	
	No. of shares ('000)	**$'000**	No. of shares ('000)	$'000
Authorised:				
Ordinary shares at par value of $0.02 each	**18,000,000**	**360,000**	18,000,000	360,000
Convertible preference shares at par value of $0.02 each	**2,000,000**	**40,000**	2,000,000	40,000
Issued and fully paid:				
Ordinary shares				
At 1st January	**5,996,614**	**119,932**	5,996,614	119,932
Ordinary shares issued for acquisition of SLS (note 3(a))	**3,187,800**	**63,756**	–	–
At 31st December	**9,184,414**	**183,688**	5,996,614	119,932
Convertible preference shares				
At 1st January	**–**	**–**	–	–
Preference shares issued for acquisition of SLS (note 3(a))	**1,518,807**	**30,376**	–	–
At 31st December	**1,518,807**	**30,376**	–	–
Total at 31st December	**10,703,221**	**214,064**	5,996,614	119,932

33 SHARE CAPITAL (continued)

(a) Authorised and issued share capital (continued)

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 general meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

The preference shares are non-voting shares. The holders of the preference shares are entitled to receive the same dividends as the holders of ordinary shares. In addition, the holders of the preference shares have the right to convert any preference share into the Company's ordinary shares at any time at the conversion price at the rate of 1 to 1 each. Adjustments to the conversion price are only made upon dilutive and other events which are related to the Company issuing new shares or convertible debts.

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

Details of the unexpired and unexercised share options at the balance sheet date are set out in note 35(a) to the financial statements.

34 RESERVES

(a) The Company

	Share premium (Note (c)) $'000	Share option reserve (Note (c)) $'000	Convertible bonds reserve (Note (c)) $'000	Accumulated losses (Note (c)) $'000	Total $'000
At 1st January, 2007	931,688	50,670	–	(849,574)	132,784
Loss for the year (note 11)	–	–	–	(59,080)	(59,080)
At 31st December, 2007	931,688	50,670	–	(908,654)	73,704
Arising from acquisition of subsidiaries (note 3(a))					
– Issue of ordinary shares	235,897	–	–	–	235,897
– Issue of convertible preference shares	112,392	–	–	–	112,392
– Issue of convertible bonds	–	–	278,554	–	278,554
Issue of additional convertible bonds (note 28)	–	–	50,490	–	50,490
Profit for the year (note 11)	–	–	–	170,643	170,643
At 31st December, 2008	1,279,977	50,670	329,044	(738,011)	921,680

(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, 2008 and 2007.

(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 at the date the associate became a subsidiary of the Group.

34 RESERVES (continued)

(c) Nature and purpose of reserves (continued)

(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(r)(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(v).

(vi) Convertible bonds reserve

The convertible bonds reserve represents the equity component of the convertible bonds recognised in accordance with the accounting policy set out in note 1(n).

(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, other borrowings and convertible bonds by shareholders' equity.

As set out in note 1(b) and 3(a), as a result of the Company's issuance of ordinary shares, preference shares and convertible bonds as part of the consideration for the acquisition of SLS, the Group's equity increased during 2008. In addition, the Group's ultimate holding company has issued a letter of support to the Company confirming 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. As a result of the Disposal of the CTEI Non-performing Stores, completion of the Restructuring and the improved operating performance of the Group, the Directors consider that the equity base of the Group will continue to improve going forward.

35 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.

(Expressed in Hong Kong dollars unless otherwise indicated)

35 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

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 of Hong Kong Limited (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.

(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.

(Expressed in Hong Kong dollars unless otherwise indicated)

35 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

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

	2008 and 2007	
	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, 2008 had an exercise price of $0.07, $0.11 or $0.19 (2007: $0.07, $0.11 or $0.19) and a weighted average remaining contractual life 4.9 years (2007: 5.9 years).

36 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 2008 are generated in the PRC. Accordingly, no business segment and geographical segment analysis of the Group is presented for the year ended 31st December, 2008 as it is not subject to different risks and returns in its activities and the geographical regions in which it operates.

37 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. Management monitors the exposures to these credit risks on an ongoing basis.

As set out in note 42(b), as at 31st December, 2008 the Group had receivables due from CPH and its subsidiaries amounting to approximately $770 million. These amounts represent approximately 78% of the Group's total trade and other receivables as at 31st December, 2008. Pursuant to the management services agreement between the Company and CPH, the Group is involved in the management and operation of the hypermarket stores of these entities. Given this and the letter of support received by the Company from its ultimate holding company, which owns the entire equity interest in CPH, the Directors consider that the amounts due from CPH and its subsidiaries are fully recoverable.

Except for the above, the Group has no other significant concentration of credit risk on trade and other receivables. Sales to retail customers are mainly made in cash or via major credit cards. Cash and deposits are placed with banks which the Directors consider have sound credit ratings.

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.

37 FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk

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.

As at 31st December, 2008, the Group had net current liabilities of approximately $3,699 million (2007: $776 million). The increase in net current liabilities during the year is primarily attributable to the acquisition of SLS. The Group's liabilities as at 31st December, 2008 include loans of approximately $768 million (note 27) due to companies related to the Group's ultimate holding company and, as disclosed in note 26, letters of undertaking, letters of credit and guarantees have been issued by the ultimate holding company or its related parties in respect of certain bank loans and facilities of the Group.

The Directors believe that following the Disposal of the CTEI Non-performing Stores and the acquisition of SLS, together with measures taken to strengthen the Group's retail business and reduce operating costs, the operating cash flows of the Group will improve going forward. In preparing the financial statements, the Directors have carried out a detailed review of the cash flow forecast of the Group for the twelve months ending 31st December, 2009. Based on the cash flow forecast prepared, the Group's operating performance subsequent to completion of the Restructuring, and 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.

As set out in note 26, on 31st March, 2009, an existing loan facility of the Group of USD50,000,000 (equivalent to $390,000,000) was extended until 31st March, 2012. In accordance with the updated loan agreement, USD2,500,000 (equivalent to $19,500,000) of such loan principal is repayable during 2010, USD7,500,000 (equivalent to $58,500,000) is repayable during 2011, and the balance of USD40,000,000 (equivalent to $312,000,000) is repayable on 31st March, 2012.

37 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

	Contractual undiscounted cash outflow					
	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	**Total** $'000	**Balance sheet carrying amount** $'000
31st December, 2007						
Non-derivative financial liabilities						
Bank loans	(144,993)	(397,927)	–	–	(542,920)	500,043
Other loans	(434,139)	(52,428)	–	–	(486,567)	449,639
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	(124,231)	(67,760)	(63,581)	–	(255,572)	232,672
Obligations under finance leases	(25,399)	(25,760)	(78,489)	(352,910)	(482,558)	224,000
	(1,816,232)	(543,875)	(142,070)	(352,910)	(2,855,087)	2,493,824
31st December, 2008						
Non-derivative financial liabilities						
Bank loans	(2,080,430)	–	–	–	(2,080,430)	2,033,682
Other loans	(917,239)	–	–	–	(917,239)	876,764
Notes payable, creditors and accrued charges	(3,247,753)	–	–	–	(3,247,753)	3,247,753
Amounts due to related companies	(189,917)	–	–	–	(189,917)	189,917
Consideration payable for acquisition of subsidiaries	(65,941)	(62,802)	–	–	(128,743)	120,900
Obligations under finance leases	(27,347)	(27,347)	(84,164)	(346,464)	(485,322)	234,161
Convertible bonds	(16,763)	(16,763)	(1,822,715)	–	(1,856,241)	1,174,928
	(6,545,390)	(106,912)	(1,906,879)	(346,464)	(8,905,645)	7,878,105

37 FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk (continued)

The Company

	Contractual undiscounted cash outflow					
	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	Total $'000	Balance sheet carrying amount $'000
31st December, 2007						
Non-derivative financial liabilities						
Bank loans	(110,380)	(397,927)	–	–	(508,307)	468,000
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
	(429,966)	(397,927)	–	–	(827,893)	787,586
31st December, 2008						
Non-derivative financial liabilities						
Bank loans	(433,141)	–	–	–	(433,141)	428,220
Other loans	(348,960)	–	–	–	(348,960)	340,961
Notes payable, creditors and accrued charges	(5,402)	–	–	–	(5,402)	5,402
Amounts due to related companies	(3,876)	–	–	–	(3,876)	3,876
Amounts due to subsidiaries	(209,512)	–	–	–	(209,512)	209,512
Convertible bonds	(16,763)	(16,763)	(1,822,715)	–	(1,856,241)	1,174,928
	(1,017,654)	(16,763)	(1,822,715)	–	(2,857,132)	2,162,899

(c) Interest rate risk

The Group's exposure to changes in interest rates relates primarily to the Group's cash and cash equivalents, pledged and restricted bank 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.

37 FINANCIAL INSTRUMENTS (continued)

(c) Interest rate risk (continued)

(i) Interest rate profile (continued)

The Group

	At 31 December			
	2008		2007	
	Effective interest rate	**Carrying value $'000**	Effective interest rate	Carrying value $'000
Variable rate instruments:				
Pledged and restricted bank deposits	**0.70%**	**573,651**	3.38%	38,208
Cash and cash equivalents	**0.36%**	**272,109**	0.73%	185,056
Bank loans	**4.94%**	**(1,665,164)**	7.94%	(468,000)
Other loans	**5.15%**	**(124,642)**	7.70%	(441,839)
Consideration payable for acquisition of subsidiaries	**5.12%**	**(120,900)**	6.82%	(181,350)
		(1,064,946)		(867,925)
Fixed rate instruments:				
Long-term deposits		**–**	4.00%- 4.70%	21,362
Bank loans	**7.51%**	**(368,518)**	8.75%	(32,043)
Other loans	**7.25%**	**(752,122)**	9.00%	(7,800)
Consideration payable for acquisition of subsidiaries		**–**	2.50%	(51,322)
Obligations under finance leases	**9.80%-10.03%**	**(234,161)**	9.80%-10.03%	(224,000)
Convertible bonds	**17.07% and 17.32%**	**(1,174,928)**		–
		(2,529,729)		(293,803)

The Company

	At 31 December			
	2008		2007	
	Effective interest rate	**Carrying value $'000**	Effective interest rate	Carrying value $'000
Variable rate instruments:				
Cash and cash equivalents	**0.36%**	**2,798**	2.95%	1,049
Pledged deposits	**0.23%**	**155,099**		–
Bank loans	**4.84%**	**(428,220)**	7.94%	(468,000)
Other loans	**5.89%**	**(119,340)**	7.16%	(41,340)
		(389,663)		(508,291)
Fixed rate instruments:				
Other loans	**5.51%**	**(109,200)**	9.00%	(7,800)
Convertible bonds	**17.07% and 17.32%**	**(1,174,928)**		–
		(1,284,128)		(7,800)

37 FINANCIAL INSTRUMENTS (continued)

(c) Interest rate risk (continued)

(ii) Sensitivity analysis

At 31st December, 2008, it is 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 31 December 2008 $'000	Year ended 31 December 2007 $'000
Variable rate instrument:		
100 basis point increase	**(10,649)**	(8,679)
100 basis point decrease	**10,649**	8,679

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 2007.

(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, 2008 and 2007.

38 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 30), and a co-guarantee to a bank in respect of a bank loan granted to its subsidiary which expires in November, 2010 respectively or upon repayment of the loan, if earlier (see note 26). As at the balance sheet date, the Directors do 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 $62,365,000) and the total outstanding amount of the bank loan owed by its subsidiaries of $28,348,000 (2007: $32,043,000). 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.

39 OPERATING LEASE COMMITMENTS

As lessee

At 31st December, 2008, total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Within 1 year	**333,737**	285,491	**–**	–
After 1 year but within 5 years	**441,653**	391,451	**–**	–
After 5 years	**44,284**	22,695	**–**	–
	819,674	699,637	**–**	–

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. The store leases typically provide the Group with the ability to cancel the leases within the lease period on payment of a penalty and/or after a minimum period of leasing.

As lessor

Property rental income earned net of negligible outgoings from subletting of the Group's leased properties during the year amounted to approximately $156,552,000 (2007: $110,547,000). All of the properties held have committed tenants for the next two to five years.

At 31st December, 2008, the total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	The Group	
	2008	2007
	$'000	$'000
Within 1 year	**82,039**	73,596
After 1 year but within 5 years	**53,492**	19,242
After 5 years	**16,695**	12,480
	152,226	105,318

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.

40 CAPITAL COMMITMENTS

Capital commitments outstanding at 31st December, 2008 not provided for in the financial statements were as follows:

	The Group	
	2008	2007
	$'000	$'000
Contracted for	**54,222**	14,974
Authorised but not contracted for	**14,540**	–
	68,762	14,974

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

41 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% (2007: 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.

42 MATERIAL RELATED PARTY TRANSACTIONS

(a) In addition to the Acquisition, Disposal and issuance of convertible bonds as disclosed in notes 3(a), 8(a) and 28 respectively, the Group entered into the following material related party transactions during the year.

	The Group	
	2008	2007
	$'000	$'000
(1) Recurring transactions:		
Store merchandise purchased from:		
– Subsidiaries of C.P. Pokphand Co., Ltd. ("CPP") (note)	**52,021**	85,931
– Subsidiaries of CP China Investment Limited ("CP China") (note)	**40,683**	–
– Other related companies	**31,187**	43,246
	123,891	129,177
Store merchandise sold to:		
– CPH and its subsidiaries	**73,476**	–
– Other related companies	**2,618**	10,579
	76,094	10,579
Management service fee income from CPH and its subsidiaries	**20,500**	–
Procurement service fee income from CPH and its subsidiaries	**735**	–
Rental income from other related companies	**2,858**	–
Rental expense charged by other related company	**3,402**	–
Consulting fee charged by other related company	**1,182**	–
(2) Non-recurring transactions:		
Loans borrowed from other related companies	**457,663**	441,839
Interest expenses charged by other related companies in respect of:		
– Other loans	**42,521**	15,752
– Convertible bonds	**24,679**	–
– Consideration payable	**9,050**	14,894
	76,250	30,646
Bank facility undertaking fee payable to other related companies	**3,043**	–
Management fee payable to a related company	**–**	5,421

Notes:

Both CPP and CP China are related to the Group's ultimate holding company.

42 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) In addition to the other loans and consideration payable due to related companies as disclosed in notes 27 and 29, the Group had the following balances with related companies:

	The Group	
	2008 **$'000**	2007 $'000
Due from related companies		
– CPH and its subsidiaries	**770,136**	–
– Subsidiaries of CP China	**4**	63
– Other related companies	**8,632**	2,936
	778,772	2,999
Due to related companies		
– CPH and its subsidiaries	**20,751**	–
– Subsidiaries of CP China	**104,642**	19,190
– Other related companies	**64,524**	7,944
	189,917	27,134

(c) **Key management personnel remuneration**

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 9 and certain of the highest paid employees as disclosed in note 10, is as follows:

	The Group	
	2008 **$'000**	2007 $'000
Short-term employee benefits	**22,350**	16,180
Post-employment benefits	**36**	36
Termination benefits	**–**	–
Equity compensation benefits	**–**	–
	22,386	16,216

Total remuneration is included in "staff costs" (see note 6(b)).

43 IMMEDIATE AND ULTIMATE HOLDING COMPANIES

At 31st December, 2008, the directors consider 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.

44 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 16 and 37 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 of approximately $3,699 million (2007: $776 million) as at 31st December, 2008. 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 37(b).

Should the Group be unable to continue as a going concern, all of the Group's assets and liabilities would have to be stated at net realisable value. In particular, the non-current assets and the non-current liabilities would 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 the recoverable amount. Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. 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.

44 ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(d) Deferred tax

As at 31st December, 2008, the Group has recognised a deferred tax asset in relation to tax losses carried forward of certain PRC subsidiaries, as set out in note 32. The realisability of the deferred tax asset mainly depends on whether it is probable that future taxable profits will be available against which the asset can be utilised. In assessing the need to recognise a deferred tax asset, management considers all available evidence, including projected future taxable income, tax planning strategies, historical taxable income, and the expiration period of the losses carried forward. In cases where the actual future taxable profits are less than expected, a reversal of a deferred tax asset may arise, which will be recognised in profit or loss in the period in which such a reversal takes place.

(e) Provisions

After obtaining legal advice, the Directors have made a provision as at 31st December, 2008 of $71,301,000 for estimated penalties, claims and liquidated damages in respect of claims brought against a subsidiary for cancelling new store lease contracts in the prior year.

45 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31ST DECEMBER, 2008

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, 2008 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:

	2004 $'000	2005 $'000	2006 $'000	2007 $'000	**2008 $'000**
RESULTS					
Turnover	1,059,719	1,852,753	3,482,835	4,390,658	**6,277,120**
Loss before taxation	(170,284)	(524,101)	(561,653)	(306,125)	**(41,944)**
Taxation	(1,667)	538	(9,375)	1,419	**(3,629)**
Loss after taxation	(171,951)	(523,563)	(571,028)	(304,706)	**(45,573)**
Profit/(loss) from discontinued operations	13,457	(6,617)	223,571	–	–
Loss for the year	(158,494)	(530,180)	(347,457)	(304,706)	**(45,573)**
Attributable to:					
Equity shareholders of the Company	(141,142)	(497,296)	(334,577)	(307,329)	**(45,443)**
Minority interests	(17,352)	(32,884)	(12,880)	2,623	**(130)**
Loss for the year	(158,494)	(530,180)	(347,457)	(304,706)	**(45,573)**
ASSETS AND LIABILITIES					
Total assets	1,570,993	1,906,792	2,459,103	2,465,527	**8,445,760**
Total liabilities	(907,910)	(1,566,304)	(2,528,482)	(2,784,903)	**(8,006,418)**
NET ASSETS/(LIABILITIES)	663,083	340,488	(69,379)	(319,376)	**439,342**
CAPITAL AND RESERVES					
Total equity attributable to equity shareholders of the Company	577,106	253,897	(71,896)	(322,064)	**439,342**
Minority interests	85,977	86,591	2,517	2,688	**–**
TOTAL EQUITY	663,083	340,488	(69,379)	(319,376)	**439,342**

Note: Figures in 2004 have been reclassified as a result of the classification of property investment and development businesses to discontinued operations in 2005.

CORPORATE INFORMATION

Executive Directors
Mr. James Harold Haworth *(Chairman)*
Mr. Soopakij Chearavanont
(Chief Executive Officer & Executive Vice Chairman)
Mr. Michael Ross
(Executive Vice Chairman & Executive Vice President)
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. Zheng Mengyin *(Vice Chairman)*
Mr. Umroong Sanphasitvong
Mr. Robert Ping-Hsien Ho
Mr. Meth Jiaravanont
Mr. Nopadol Chiaravanont
Mr. Chatchaval Jiaravanon
Mr. Suphachai Chearavanont
Mr. Kachorn Chiaravanont

Non-executive Director
Mr. Leung Chun Keung

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

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

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Bank of America, N.A.

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Share Listing
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Stock Code: 00121

Company Website
http://www.ctei.com.hk

Annual
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