Annual Report
2009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

LOTUS
卜蜂蓮花

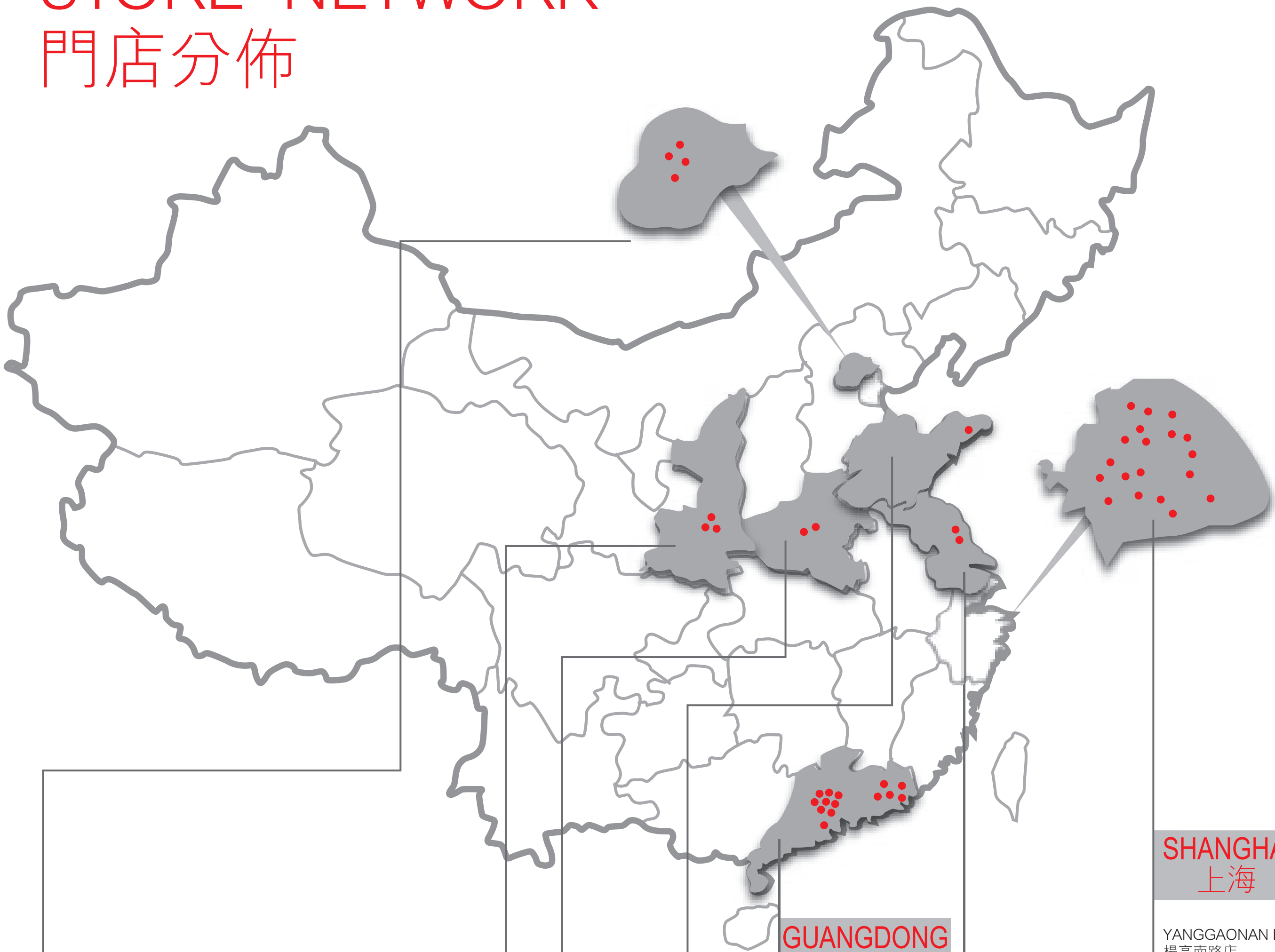
Chia Tai Enterprises International Limited ("CTEI") is an investment holding company. Through its subsidiaries, CTEI is principally engaged in the operation of large scale one-stop shopping centers, Lotus, located in the Northern, Eastern and Southern regions of China.

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, 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. 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 陝西

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

3

HENAN 河南

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

2

SHANDONG 山東

QINGDAO 青島
LIAOYANGXI LU STORE
遼陽西路店

1

GUANGDONG 廣東

GUANGZHOU 廣州
SANYUANLI STORE
三元里店
TIANHE STORE
天河店
HUADU STORE
花都店
SHANTOU 汕頭
CHANGPING STORE
長平店
CHENGHAI STORE
澄海店
JINGPING STORE
金平店
FOSHAN 佛山
NANHAI STORE
南海店
SANSHUI STORE
三水店
HUANGQI STORE
黃岐店
SHUNDE STORE
順德店
JIEYANG 揭陽
DONGSHAN STORE
東山店
RONGCHENG STORE
榕城店
JIANGMEN 江門
JIANGMEN STORE
江門店
CHAOZHOU 潮州
CHAOZHOU STORE
潮州店

14

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
SUPER BRAND MALL 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
JINSHAN WEIQING 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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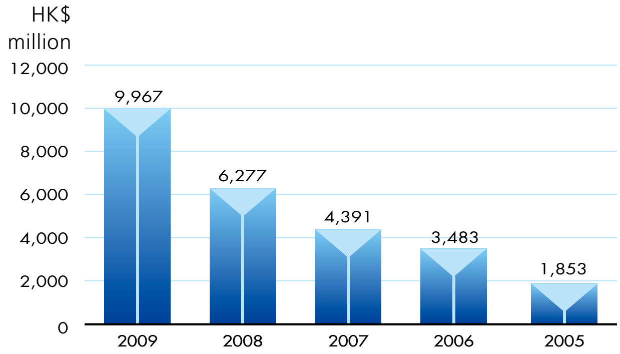
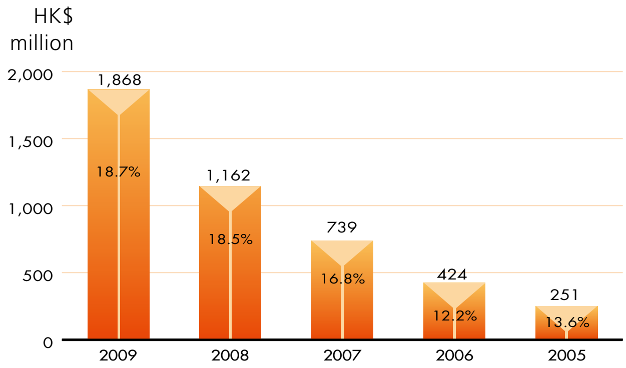
FINANCIAL HIGHLIGHTS

	Year ended 31 December 2009 HK$million	2008 HK$million	Change
Turnover	**9,967.4**	6,277.1	58.8%
Gross Profit	**1,868.3**	1,161.9	60.8%
Loss for the year	**(267.5)**	(45.6)	486.6%
EBITDA*	**382.8**	276.2	38.6%

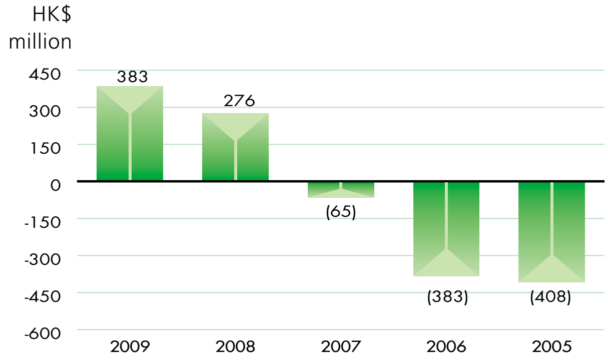
TURNOVER TREND



GROSS PROFIT & GP RATIO TREND



EBITDA TREND



* EBITDA of 2008 included gain on disposal of subsidiaries and stores of HK$159.9 million.

CHAIRMAN'S STATEMENT

2009 was yet another challenging and exciting year for the Company, it was the first full year of operation since the Restructuring in October 2008. I took over as Chairman in December 2009, a role that I relish with great pride and anticipation.

MARKET OVERVIEW

Despite recent global economic crises, the Chinese market fundamentals remain solid and retail industry remains promising fuelled by the government's stimulus measures coming into full play. According to the National Bureau of Statistics, China retail sales increased by 16.9% in 2009 with the value of all China retail sales totaling 12.53 trillion yuan. Urban sales increased 15.5% year on year to 8.51 trillion yuan. Strong underlying economic growth trends, population growth and the increasing wealth of individuals are key factors behind market expansion. The market will be further expanded as Chairman Hu Jintao and Premier Wen Jiabao continue implementing and introducing reform policies to improve agriculture productivity in farming, promote economic development of rural areas and increase the income of the 700 million farmers in China to solve the rural poverty problem. We believe this growth trend will continue as the government's attempt to switch the economy from export-dependent to domestic demand and consumption driven and its commitment to provide its people a better life continue. This belief is based on having witnessed the successful implementation of policies during my 30 years investment experience in China.

FINANCIAL REVIEW

During the year under review, the Group's turnover was HK$9,967.4 million, an increase of 58.8% from 2008, EBITDA improved 38.6% to HK$382.8 million. These results are encouraging and evidence our strategy is on the right track. With the stronger asset base, the robust revenue growth and our commitment to reducing cost and increasing profitability, our shareholders will soon be rewarded with their confidence and patience.

We completed a US$250 million debt refinancing in December 2009 to provide Lotus China operations with a stable and long term assured financing. The successful completion of this refinancing signifies the confidence the syndicate banks have in us and in the Chinese retail industry.

To solidify our equity base, we signed an agreement with CPALL in March 2010 to purchase and cancel the Convertible Bonds and issue of New Convertible Preference Shares as consideration. This transaction, once completed, will eliminate all interest expenses and guaranteed yield associated with the Convertible Bonds, and greatly enhances the overall capital structure of the Company. As a result of this redemption of Convertible Bonds, our proforma external interest bearing debt to equity ratio will significantly improve from approximately 22.2x to approximately 1.5x.

OPERATION REVIEW

We opened 2 new stores in the South region in 2009. The Group now owns and operates a total of 45 stores with a total sales area of over 510,000 sqm spanning across the Eastern, Southern and Northern part of China. Over 90% of our Lotus stores are located in more developed and high per capita cities such as Shanghai, Beijing, and Guangzhou.

We continued to develop our Lifestyle Mall, providing one-stop shopping convenience and varieties to the increasingly affluent and sophisticated Chinese customers. We completed upgrading of our store at Super Brand Mall offering top of the line, luxury products to Shanghai's discerning consumers and millions of tourists expected at the Shanghai Expo.

Subject to the approval of the shareholders in the upcoming AGM, we will also be changing our name to C.P. Lotus Corporation to improve brand recognition. All our hypermarkets in China have been renamed Pufeng Lotus, a name synonymous with quality, value for money and customer satisfaction.

OUTLOOK

Economic conditions around the world continue to improve, and with China being the key driver of recovery, China's retail sales top 2.5 trillion yuan in first 2 months of 2010. In 2010, we will focus on enhancing competitiveness and operating efficiencies to capture this continued robust growth. We look forward to capturing the opportunities surrounding the World Expo in Shanghai, a city where we have one of the largest number of stores among all the foreign retailers.

APPRECIATION

I would like to take this opportunity to thank our shareholders, banks and vendors for their support; and management and staff for their hard work and commitment during the year.

Dhanin Chearavanont
Chairman

26 April 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Group opened two stores during the year under review, one in Jieyang, Guangdong and one in Shantou, Guangdong. The Group currently owns and operates 45 Lotus stores in China – 21 in East Coastal (19 in Shanghai and 2 in Jiangsu), 14 in South Coastal (all in Guangdong) and 10 in the North Coastal (4 in Beijing, 3 in Xian, 2 in Zhengzhou and 1 in Qingdao).

CTEI also owns and operates 4 distribution centres, two in Shanghai (one fresh and one dry), one dry in Guangzhou and one dry in Beijing with a total capacity of 53,000 pallets, forming a nationwide network to serve all our Lotus stores.

FINANCIAL REVIEW

The Group recognised the importance of a stable and long term assured financing to the continued development of our operation. In December 2009, the Group entered into facility agreements with a group of syndicate banks from Thailand for a 6-years term loan facilities totaling of USD250 million which will be used to refinance existing loans of the Group (the "Refinancing"). In addition, all deposits pledged to secure existing borrowings will be released upon completion of the Refinancing which is expected to take place around the first half of 2010.

In addition to the Refinancing, the Group also underwent another financial restructuring in March 2010. The Company entered into an agreement with CP ALL Public Company Limited ("CPALL") and Lotus Distribution Investment Limited ("LDIL") to redeem and cancel all the outstanding convertible bonds and issue new convertible preference shares as consideration. This transaction will eliminate all interest expenses and guaranteed yield associated with the convertible bonds, and will greatly enhance the overall capital structure of the Company. This transaction was approved by the Independent Shareholders at the EGM held on 26 April 2010 and we expect the completion to take place no later than 30 September 2010.

CTEI completed a corporate restructuring in October 2008 involving the acquisition of 21 well-established and performing stores owned by Shanghai Lotus Supermarket Chain Store Co., Ltd. ("SLS") and the disposal of 11 non-performing stores (the "Restructuring"). 2009 was the first full year of operation since the Restructuring while 2008 figures included 10 months of pre-restructuring and 2 months of post-restructuring performance, and therefore much of the changes of the results in the consolidated statement of comprehensive income were attributed to the Restructuring.

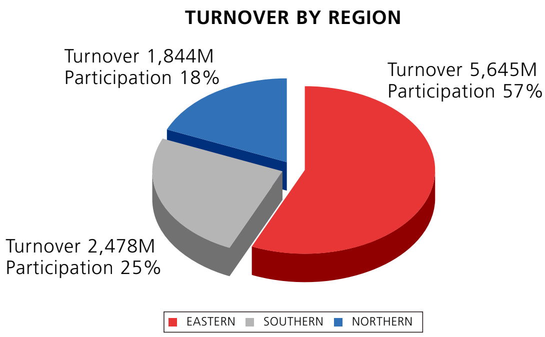
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31 December 2009

	2009 HK$ million	2008 HK$ million	Change HK$ million	Change %
Turnover	9,967.4	6,277.1	3,690.3	58.8
Gross profit	1,868.3	1,161.9	706.4	60.8
Other revenue and other net (loss)/income	353.0	411.2	(58.2)	(14.2)
Distribution and store operating costs	(1,615.8)	(1,185.0)	(430.8)	36.4
Administrative expenses	(482.8)	(260.4)	(222.4)	85.4
Finance costs				
Interest on convertible bonds	(190.2)	(39.9)	(150.3)	376.7
Other finance costs	(176.0)	(129.8)	(46.2)	35.6
Taxation	(24.0)	(3.6)	(20.4)	566.7
Loss for the Year	**(267.5)**	**(45.6)**	**(221.9)**	**486.6**
EBITDA	**382.8**	**276.2**	**106.6**	**38.6**

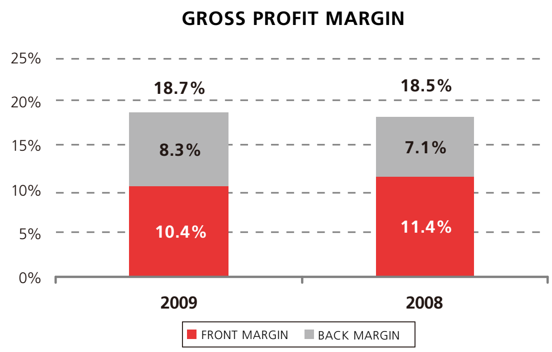
Turnover

Group turnover was entirely generated from the sale of goods, less returns, discount and other added value from our hypermarket operations in China. Due to the general adverse economic conditions in 2009, same store sales recorded a moderate growth of 0.5%.



Gross Profit

Gross profit margin is comprised of front margin and back margin. Front margin is sales minus direct cost of sales; back margin represents income from suppliers such as discounts and allowances, entry fee and promotional fee etc. Front margin decreased by 1.0% from 11.4% in 2008 to 10.4% in 2009 as a result of general price decreases in food prices such as meat, egg and edible oil and more price-cutting promotional activities launched to boost sales and to reduce the inventory level.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Back margin increased from 7.1% to 8.3% as our focus on building and cementing good relationships with suppliers coupled with increasing purchases both resulted in stronger returns.

Other Revenue

Other revenue is comprised mainly of income received from leasing of store premises, management services income and procurement services income from services provided to C.P. Holding (BVI) Investment Company Limited ("CPH"). The management services agreement was terminated on 31 March 2009.

Distribution and Store Operating Costs

Operating costs for the year under review was HK$1,615.8 million, an improvement from 18.9% to 16.2% of sales in 2009. It mainly comprised of utilities, personnel and rental expenses for a total of HK$1,148.3 million. The controllable expenses, which are expenses that can be impacted by the actions of the store managers such as utilities, transportation expenses etc amounted to approximately HK$968.6 million, or 9.7% of sales in 2009 as compared to HK$675.9 million, or 10.8% of sales in 2008. The reduction in controllable expenses as a percentage of sales was a result of more stringent cost control measures in place including usage of energy-saving equipment, more training introduced to increase the efficiency of our labour force which helped reduce the cost further.

Administrative Expenses

Administrative expenses mainly included personnel expenses of HK$321.9 million, professional fee of HK$35.4 million and bank charges and guarantee fees of HK$44.9 million.

Financial Expenses

Interest on convertible bonds of HK$190.2 million (2008: HK$39.9 million), of which HK$15.3 million representing coupon interest of 1% per annum on the principal amount of the convertible bonds which was actual cash payment and HK$174.9 million representing additional non-cash interest element arising from the re-measurement of the liability component of the convertible bonds using the effective interest rate method. The Company will no longer be obligated to pay this interest and the guaranteed yield of 3.5% at redemption upon the completion of agreement between the Company, CPALL and LDIL for the redemption and cancellation of the convertible bonds.

Net Loss

Net loss attributable to shareholders increased from HK$45.4 million to HK$267.5 million, and was mainly due to an increase of interest on convertible bonds of HK$150.3 million as the convertible bonds were only issued in October 2008. There was no gain on disposal of subsidiaries recorded in 2009 while there was such gain of HK$159.9 million recorded in 2008.

EBITDA

EBITDA increased by 38.6% to HK$382.8 million. EBIDTA margin (excluding gain on disposal of subsidiaries and stores) improved from 1.9% in 2008 to 3.8% in 2009.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	2009 HK$ million	2008 HK$ million	Change HK$ million	Change %
Fixed assets	2,018.1	2,199.5	(181.4)	(8.2)
Goodwill	3,088.9	3,084.0	4.9	0.2
Cash and cash equivalents	358.7	296.6	62.1	20.9
Pledged and restricted bank deposits	398.3	573.7	(175.4)	(30.6)
Inventories	840.7	901.0	(60.3)	(6.7)
Trade and other receivables	875.0	990.8	(115.8)	(11.7)
Other assets	380.6	400.1	(19.5)	(4.9)
Total Assets	**7,960.3**	**8,445.7**	**(485.4)**	**(5.7)**
Bank and other loans	2,738.9	2,910.5	(171.6)	(5.9)
Convertible bonds	1,238.7	1,174.9	63.8	5.4
Trade payables and other liabilities	3,829.5	3,921.0	(91.5)	(2.3)
Total liabilities	7,807.1	8,006.4	(199.3)	(2.5)
Net Assets	**153.2**	**439.3**	**(286.1)**	**(65.1)**
Share capital	214.1	214.1	–	–
Reserves	(60.9)	225.2	(286.1)	(127.0)
Shareholders' Equity	**153.2**	**439.3**	**(286.1)**	**(65.1)**

Fixed Assets

The changes mainly represent total depreciation and amortisation for the year of HK$251.7 million and the additions of fixed assets of HK$88.0 million.

Goodwill

The amount represents substantially the goodwill arising from the Company's acquisition of the 21 performing stores owned by SLS and additional interest in Qingdao Lotus Supermarket Chain Store Co., Ltd. and Shantou Lotus Supermarket Chain Store Co., Ltd. in 2008. Impairment test on the goodwill value is carried out annually based on a number of market assumptions including discount rates, forecast growth rates and expected changes to direct prices and selling costs. As a result of sound store level operating performance, no impairment of goodwill was recorded for 2009.

Cash and Cash Equivalents

Cash and cash equivalents amounted to HK$358.7 million as of year end (2008: HK$296.6 million). The increase was mainly due to the improvement in the operation and part release of pledged and restricted bank deposits.

Pledged and Restricted Bank Deposits

The amount of HK$398.3 million (2008: HK$573.7 million) of which HK$227.1 million (2008: HK$435.2 million) was pledged as restricted bank deposits to secure borrowings. In 2010, we expect pledged and restricted bank deposits to decrease as a result of the Refinancing to be completed during first half of 2010, which will result in a release of these pledged deposits.

Inventories

The Group's inventories balance decreased by 6.7% to HK$840.7 million as at 31 December 2009, from HK$901.0 million as at 31 December 2008 with an average inventory days of 39 days. During the year under review, we stepped up our efforts to reduce slow-moving stocks by returning to vendors according to the terms of the vendor agreements. For slow-moving stocks which could not be returned, the prices were marked down in order to clear such items as many as possible.

In addition, we have a monitoring system in place to ensure only fast moving stock is automatically replenished. For items which are slow moving in some stores but in high demand in other stores will be first transferred among the stores rather than sourced from the vendors in order to optimise inventory level.

Trade and Other Receivables

Trade and other receivables reduced by 11.7% to HK$875.0 million (2008: HK$990.8 million). Included in the balance was HK$209.7 million (2008: HK$212.0 million) of trade receivables, other receivables and deposits; and HK$665.3 million (2008: HK$778.8 million) receivables from related companies. All trade and other receivables, apart from rental deposits of HK$45.6 million, are expected to be recovered within one year and thus no provision was made.

Receivables from related companies were primarily purchases made by the Group's PRC subsidiaries on behalf of the other hypermarkets stores now held by CPH prior to the Restructuring. Upon the completion of Restructuring, a procurement services agreement was entered into between CTEI and CPH whereby CTEI/certain members of the CTEI Group performed certain purchasing functions for the CPH Group in relation to the hypermarket stores under CPH. CTEI charged CPH a fee of 1.0% of the total purchases. This procurement services agreement was renewed and will expire on 31 December 2012, all other terms and conditions unchanged. We will continue to work with CPH closely to expedite collection.

Other Assets

Other assets of HK$380.6 million mainly comprised of intangible assets of HK$252.7 million and deferred tax assets of HK$94.2 million. Intangible assets relate to operating lease agreements acquired in the acquisition of subsidiaries in 2008 and is amortised using the straight-line method over the remaining lease terms which vary from 12 to 32 years.

Bank and Other Loans

As at 31 December 2009, the Group's total loans balance was HK$2,738.9 million, a reduction of HK$171.6 million from 2008.

LOAN PORTFOLIO
As at 31 December 2009

	Bank loans HK$ million	Other loans HK$ million	Loans from related parties HK$ million	Total HK$ million
Within one year	1,507.7	279.2	581.5	2,368.4
Over one year	370.5	–	–	370.5
Total	1,878.2	279.2	581.5	2,738.9

Part of these loans will be refinanced by a 6-years term loan facility of USD250 million extended by a Thai syndicate.

Convertible Bonds
The convertible bonds were issued by the Company on 31 October 2008 to certain of the then shareholders of SLS as part of the consideration to acquire SLS. Subsequent to a transaction between these shareholders, all the convertible bonds are now held by CPALL and a wholly-owned subsidiary of CPALL. We expect the convertible bonds to be redeemed and cancelled no later than 30 September 2010.

Trade Payables and Other Liabilities
The Group's trade payables and other liabilities balance at 31 December 2009 was HK$3,829.5 million (2008: HK$3,921.0 million), of which HK$3,559.9 million (2008: HK$3,610.2 million) was trade and other payables due to third parties while the remaining was payables to related parties. The Group typically receives terms of up to 60 days for payments to trade suppliers.

Reserves
The decrease of reserves was mainly due to the loss of HK$267.5 million in 2009 and the decrease in convertible bonds reserve by HK$28.7 million as a result of convertible bonds redemption during the year under review.

Liquidity and Financial Resources

KEY LIQUIDITY INDICATORS

	As at 31 December 2009	As at 31 December 2008
Cash and cash equivalents (HK$ million)	**359**	296
Pledged and restricted bank deposits (HK$ million)	**398**	574
Net cash inflow (HK$ million)	**62**	79
Current ratio (x)	**0.42**	0.43
Quick ratio (x)	**0.28**	0.29
Gearing ratio (x) (note)	**26.0**	9.3

Note:

Gearing ratio was calculated by dividing interest-bearing bank loans, other loans and convertible bonds by shareholders' equity.

During the year under review, the Group's source of fund was generated primarily from operating activities. With the completion of the USD250 million refinancing, the redemption and cancellation of the convertible bonds and the continued improvement of our hypermarket operations, we expect we will have sufficient cash to meet our business needs, and our gearing ratio will be significantly improved.

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 rate has been relatively small in recent years, and the sales and purchases of the PRC subsidiaries are mainly in RMB which minimises the RMB exchange effect, therefore, the Group believes it faces minimal foreign currency risk and thus, have not undertaken any hedging activities.

Contingent Liabilities
As at the reporting date, the Company has issued two guarantees to an independent third party which expire in 2025 and two guarantees to a bank which expire in March 2010 and July 2010 respectively in respect of finance lease arrangements with its subsidiaries, a co-guarantee to a bank for a bank acceptance facility granted to its subsidiary which expires in August 2012 and a co-guarantee to a bank in respect of a bank loan granted to its subsidiary which expires in May 2012 or upon repayment of the loan, if earlier. As at the reporting 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 reporting date under the guarantees issued was 100% of the future minimum lease payments under the two lease agreements entered into by the subsidiaries of RMB100.0 million (equivalent to HK$113.6 million) and the total outstanding amount of the bank acceptance facility and bank loan owed by its subsidiaries of HK$47.3 million (2008: HK$28.3 million).

Charge 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 30 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 27 February 2006 made between Union Growth and CPM, in relation to the acquisition of the remaining 40% of Lotus-CPF.

As at 31 December 2009, HK$227.1 million (2008: HK$435.2 million) of the Group's bank deposits were pledged to banks to secure banking facilities and bank borrowings to the Group. These pledged deposits will be released upon the completion of the Refinancing.

BUSINESS REVIEW
China's economy had been adversely affected by the global financial crisis in particular the end of 2008 and first half of 2009, we saw a sharp fall in general food prices which impacted the Group's sales and margin. The economy swiftly recovered credited to the government's speedy fiscal policy to stimulate demand and encourage consumptions and the country's strong fundamentals. The Group continued to focus its efforts on its TOP strategy to remain competitive.

Transform stores and merchandise to delight new generation customers
Upgrading of Stores to Lifestyle Model

During the year under review, the Group continued its efforts to transform our stores into Lifestyle model to provide one-stop shopping convenience and varieties to our customers. The transformation had been proven a success with significant improvement in both sales and margin.

As of this date, 22 of our 45 stores are operated in this new Lifestyle model and we expect to finish the remodeling of all our stores no later than 2011. In addition, all our stores have been rebranded to LOTUS

Before Renovation

After Renovation

MANAGEMENT'S DISCUSSION AND ANALYSIS

During the year under review, the Group opened 2 new stores, one in Jieyang, Guangdong and one in Shantou, Guangdong, the performance of the 2 stores was very encouraging in particular the Shantou store was profitable within the first month of operation and has remained profitable since. After 3 months' of renovation, our first premier supermarket store, the Super Brand Mall store was re-opened in January 2010 offering premium and luxury products.

<u>Excel in integrated Operations with service excellence</u>

Enhancement of Product Offering and Optimisation of Product Mix

Merchandise performance reviewed was conducted at the end of each quarter to ensure slow-moving and under-performed merchandises were replaced with new/more popular items. During the year under review, over 60,000 new items were introduced and over 40,000 under-performed items were removed.

During the year, visits were made to Japan, Hong Kong, Taiwan, Thailand and Korea not only to learn their operation management but also to study new product trends in order to bring to our customers the newest and hottest items.

Expansion of Procurement Channels

To provide our customers with more choices and enlarge our vendor base, we continued to expand and explore new procurement channels. During the year, our merchandise team attended many product exhibitions throughout the country and overseas. Through the cooperation with a leading e-commerce portal, we held a vendor conference in March 2009 with over 100 qualified new vendors. As we continued to put more emphasis on our fresh offering, we increased the number of fresh product bases to ensure our customers are provided with the freshest of products at a lower price.

Increase Operation Efficiency
In 2009, given the global economic situation, the Group announced the "Refreshment Programme" in the second quarter. The objective of the programme is to gain efficiency through work process improvement and performance management processes. All the functions put efforts on developing the key performance indicators to better focus the resources and efforts to achieve desired results. We also streamlined the organisation structure to gain efficiency through aligned workforce and reporting structure especially in the supporting functions like Business Development, Finance, Information System and Human Resources.

We launched vendor evaluation project in 2009. The project helps us to understand vendor performance objectively and impartially so that tailor-made action plan can be drawn up. It also provides information to help enhance the quality performance of vendors and eliminate unqualified vendors.

Launch of Membership Card Programme
In 2009, the Group made a strategic decision to launch our first membership programme "Lotus Fresh Card" in the first quarter of 2010 in order to reward customer loyalty and attract new customers. Currently, members can enjoy special members' price of selected products. Information gathered will be used to analyse spending behaviours and preferences and special marketing strategies will be devised to provide our loyal customers with further benefits.

Development of Private Label Products
After an extensive market survey carried out by a consultant company specialising in private label development strategy, we launched our private labels – the Lotus private brand卜蜂蓮花 (repackaged and renamed from the old Lotus private brand易初蓮花) and the Yijiahuan易家歡 private brand. The Lotus private brand provides consumers with a wide range offering at competitive prices without sacrificing quality while the mantra for the Yijiahuan private brand is basic quality, basic functionality and basic pricing.

We also introduced "Sensory Tests" in which a consumer panel research of volunteers taste different flavours of food (brand leaders & our proposed new house brand) while the brand name is hidden. Participants will then provide feedbacks on the taste. This is used at the product development stage and the objective is to ensure that what we put out to the market is what our customers want.

Preparation for Shanghai Expo

To prepare for the eagerly awaited World Expo at Shanghai, staff at our Shanghai stores, under the supervision of the Economic Committee of Shanghai Pudong, received training including English language, first aids and sign language. In addition, we provided additional training to our staff to increase efficiency and strengthen their skills. Storewide, a range of facilities have been installed including free drinking water and additional benches to provide convenience and comfort. In addition, different Expo-themed competitions were organised; all these efforts are to ensure our customers and millions of Expo visitors are provided with an enjoyable and welcome shopping experience.

Develop People with Win-Win growth

As at 31 December 2009, the Group employed a total approximately 17,700 employees, of which 1,500 were head office staff and 16,200 were store employees. Among our growth priorities, the development of a strong base of leadership is always a top priority. The Group recognises that, in particular, in a retail business environment, people are the key driver to success.

In 2009, we continued to recruit and develop new retail talents through the cooperation with the CP Corporate University team and other major universities in Shanghai, Beijing and Guangzhou. These young graduates are offered different training and development opportunities to cater for individual needs. In total 58 students in Shanghai have successfully passed our customised training modules which contained both classroom and in-store practice.

We started the CP Finance Executive Trainee ("CPfet") Programme in China, a programme first introduced by the CP Group in 2007. The programme provides qualified candidates two years of on the job training with special project assignment within the finance department of Lotus, to gain industry knowledge for future work. Every candidate will be evaluated every 6 months and will be promoted to junior management role after successfully completed the two years' training. After the initial selection, 51 students from major universities in Shanghai were invited to attend interviews and 6 of them passed all the tests and will start working for Lotus in July 2010.

The Group offers compensation and benefits at a competitive level to ensure fairness and to retain talented employees. We have completed a job benchmark and compensation review with one of the global consulting firm – Mercer Associates -- to better understand our position and market trend. The job evaluation results and compensation programme has been proposed to the management of the company with target to implement in 2010. Other employee benefits include insurance and medical cover, subsidised training programmes as well as share option scheme for senior management. We will continue to review our reward and recognition system to reinforce our culture of "performance driven" and "caring for people" at the same time.

LOOKING AHEAD

The PRC economy is expected to continue its growth momentum due partly to the follow through of the government's stimulus measures and the gradual recovery in exports. It is expected the policies to boost consumption will be further enhanced as the government's attempt to switch to a demand driven economy continues.

Looking forward, we will continue our TOP strategy – Transform our stores, Operation excellence and develop People.

We will continue our store transformation to Lifestyle model in 2010. While continue to focus on the development and improvement of our existing stores, we plan to step up our efforts to seek suitable locations in Beijing, Shanghai and Guangzhou for steady expansion of our networks. Depending on the locations chosen and various considerations, some of the new stores opened in the future will be in the supermarket format with major focus on food.

We will further strengthen and standardise our store operations, all 45 stores have received ISO Operation manual and will implement ISO9001 quality management system starting in April 2010. We will continue to upgrade our IT system in order to increase overall efficiency and reduce costs. We will upgrade our current SAP R/3 4.6 C version to be up-to-date version of SAP ECC 6.0 as there will have no support and maintenance SAP R/3 4.6 C by the end of year 2010. We will fully implement the vendor evaluation project in 2010 which was launched last year. In 2010, we will launch the annual strategic partner plan with major nationwide vendor to increase our brand image.

In 2010, we will continue to work on the employee competency development, reward program development and organisation development. In terms of professional talent development, we will execute the career roadmap for both managerial path and professional path to all employees who have the desire and competencies to excel. There will also be branding training roll out to all employees at all levels to reinforce the service processes and skills.

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining the highest standards of corporate governance that properly protect and promote the interests of all shareholders at all times. The Board believes that good corporate governance practices are the cornerstones for a successful business, not an exercise in compliance.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board regularly reviews the Group's corporate governance guidelines and practices. During the year, the Company has applied the principles and complied with all the relevant code provisions prescribed in the Code on Corporate Governance Practices (the "Code").

THE BOARD

The Board is accountable to the shareholders for the leadership and control of the Company and is collectively responsible for promoting the success of the Company and its businesses. The Board decides on corporate strategies and supervises the financial performance, management and organisation on behalf of the shareholders.

The Board delegates the authority and responsibility for implementing day-to-day operations, business strategies and management of the Group's businesses to certain executive directors and senior management and certain specific responsibilities to the Board committees.

Board Composition

As at the date of this Report, the Board comprises of eighteen members, fifteen are executive directors (including a Chairman, a Chief Executive Officer ("CEO"), two Executive Vice Chairmen and five Vice Chairmen) and three are independent non-executive directors. Detailed biographies of the directors can be found on pages 23 to 26 of this annual report.

Mr. Dhanin Chearavanont has been appointed as Chairman of the Board on 31 December 2009. Mr. James Harold Haworth resigned as Chairman of the Board on 31 December 2009.

Confirmation has been received from all independent non-executive directors that they are independent as required by the Listing Rules.

Chairman and the Chief Executive Officer

Although Mr. Dhanin Chearavanont is the father of Mr. Soopakij Chearavanont, the roles of Chairman and CEO of the Company are clearly segregated 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.

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

Mr. Soopakij Chearavanont is the CEO & Executive Vice Chairman of the Company and is responsible for managing the Group's business and operations.

Board and Committee Attendance

The Board held four regular meetings in 2009. Details of the attendance of each individual director at Board meetings and committee meetings during 2009 are set out below :

Directors	No. of meetings attended/held		
	Board	Remuneration Committee	Audit Committee
Executive Directors			
Mr. Dhanin Chearavanont (appointed on 31 December 2009)	–	–	–
Mr. James Harold Haworth (resigned on 31 December 2009)	4/4	–	2/3
Mr. Soopakij Chearavanont	3/4	1/1	2/3
Mr. Michael Ross	2/4	–	1/3
Mr. Narong Chearavanont	3/4	–	2/3
Mr. Tse Ping	0/4	–	–
Mr. Yang Xiaoping	1/4	–	–
Mr. Li Wen Hai	2/4	–	–
Mr. Zheng Mengyin	4/4	–	2/3
Mr. Umroong Sanphasitvong	4/4	1/1	3/3
Mr. Robert Ping-Hsien Ho	3/4	–	–
Mr. Meth Jiaravanont	3/4	–	–
Mr. Nopadol Chiaravanont	2/4	–	1/3
Mr. Chatchaval Jiaravanon	1/4	–	–
Mr. Suphachai Chearavanont	0/4	–	–
Mr. Kachorn Chiaravanont	1/4	–	–
Non-Executive Director			
Mr. Leung Chun Keung (resigned on 15 July 2009)	1/1	–	–
Independent Non-Executive Directors			
Mr. Viroj Sangsnit	4/4	1/1	3/3
Mr. Chokchai Kotikula	4/4	1/1	3/3
Mr. Cheng Yuk Wo	4/4	1/1	3/3
No. of meetings	**4**	**1**	**3**

CORPORATE GOVERNANCE REPORT

Mr. Dhanin Chearavanont is the father of Messrs. Soopakij Chearavanont, Narong Chearavanont and Suphachai Chearavanont. He is an uncle of Messrs. Tse Ping, Meth Jiaravanont, Nopadol Chiaravanont, Chatchaval Jiaravanon and Kachorn Chiaravanont. Mr. Dhanin Chearavanont is the father-in-law of Mr. Michael Ross. Messrs. Soopakij Chearavanont, Narong Chearavanont and Suphachai Chearavanont are brothers. They are the 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.

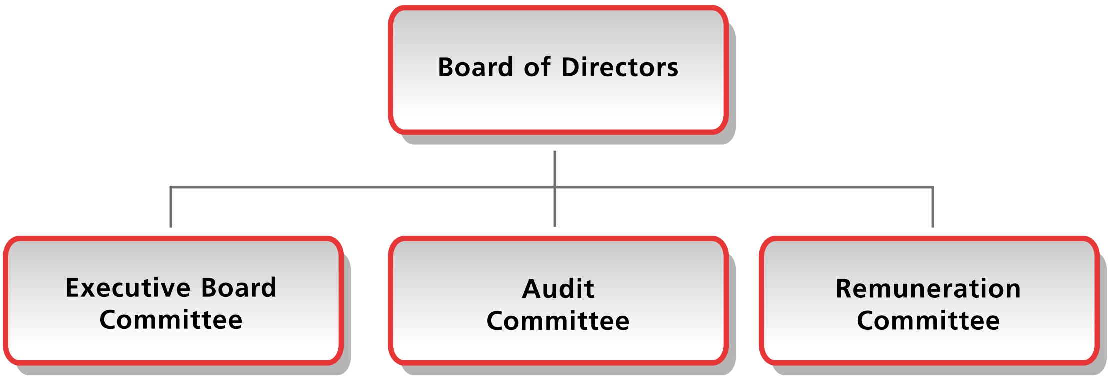
Appointment, Re-election and Removal

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, one director was appointed by the Board and two directors resigned. All newly appointed directors are briefed by the Company's lawyers about their duties and obligations as a director of a listed company in Hong Kong.

The Executive Directors are not appointed for a specific term. The Independent Non-Executive Directors 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.

Directors who are appointed by the Board must retire at the next following general meeting after their appointments, but they are eligible for re-election at that general meeting, and such election is separate from the normal retirement of directors by rotation. According to the Articles of the Company, at least one-third of the Board members who have served the longest on the Board, including the Chairman and CEO, are required to retire by rotation at each Annual General Meeting. Directors are eligible for re-election at the same Annual General Meeting.

BOARD AND OTHER COMMITTEES



EXECUTIVE BOARD COMMITTEE ("EBC")

The EBC consists of Messrs. Soopakij Chearavanont (Chairman), Narong Chearavanont, Yang Xiaoping, Umroong Saphasitvong 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.

AUDIT COMMITTEE

The Audit Committee consists of 3 independent non-executive directors of the Company Messrs. Cheng Yuk Wo (Chairman), Viroj Sangsnit and Chokchai Kotikula with the purpose of monitoring the integrity of Group's financial statements and provides assurances to the Board that these comply with accounting standards, stock exchange and legal requirements. The Audit Committee met three times in 2009 to review work done by internal and external auditors, oversees financial reporting system and internal control procedures. The Committee receives updates from Internal Audit and has dialogue with senior management on their control responsibilities. Written terms of reference is posted on the Company's website.

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 2009 (HK$'000)
Audit Services	3,802
Other Assurance Services	227

REMUNERATION COMMITTEE

The Remuneration Committee consists of Messrs. Soopakij Chearavanont (Chairman), Umroong Sanphasitvong and the 3 independent non-executive directors, Messrs. Viroj Sangsnit, Chokchai Kotikula and Cheng Yuk Wo. The main roles and responsibilities of the Remuneration Committee are set out by the Board with clearly defined written terms of reference is posted on the Company's website. The Remuneration Committee is responsible for the formulation of the Group's remuneration policies and for the approval of remuneration packages for all directors except that its members do not participate in the determination of their own remuneration. The Remuneration Committee met once in 2009 to discharge its duties. Details of the directors' emoluments in set out in Note 7 to the financial statements.

LOTUS CAPITAL INVESTMENT COMMITTEE

The Lotus Capital Investment Committee ("LCIC") reviews any new business initiatives, any proposed new store development and any proposed renovation project where the total investment budget projected at or in excess of RMB1 million. Members of the LCIC include the Executive vice-chairman, CEO, CFO and other senior management and any proposal must be approved jointly by the CEO and the CFO. LCIC annual meeting is scheduled during October/November each year, in conjunction with the annual budget preparation and will meet to review any additional project requests during the year.

INTERNAL CONTROL, RISK MANAGEMENT AND FINANCIAL REPORTING

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 against unauthorised use or disposition. The Group has adopted comprehensive procedures with duly assigned levels of authority in areas of financial, operational controls, and risk management to ensure that its assets and resources remain secure at all times.

The role of the Audit Committee is, through dialogue with management, and the use of risk management and internal audit functions to review the effectiveness of the internal control systems and to report to the Board any significant risks and issues.

Risk Management is responsible for analysing possible risks that may affect the Company's business operations; find measures to eliminate, prevent and control risk. The Company has invested in distribution centre and information technology systems such as the store management system and the distribution centre system. Information technology has played a major role in assisting the Company to achieve higher efficiency in data storage and analysis. Therefore, an error or problem in the information technology systems will affect the Company's ability to manage store operation on a normal basis and may negatively affect the Company's operating performance.

The internal audit department is fully independent of business operations. It has full and complete access to any of the Company's records, physical properties and personnel relevant to a review. The authority of the department is defined by the Audit Committee and reports administratively to the CEO and functionally to the Audit Committee.

The objective of operations audit is to provide an independent and objective evaluation of the quality and effectiveness of store operations including internal controls established by the management. Each store has to go through a monthly detailed inspection of key operating activities such as cash movement, goods receiving, claims and payments. Store-wide physical counts are carried out at least once a year. The operation audit department reports to the CFO.

The Board acknowledges its responsibility for the preparation of financial statements which give a true and fair view of the Group's state of affairs. Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

COMMUNICATIONS WITH SHAREHOLDER AND INVESTORS

Effective communication with shareholders and investors and the provision of high standards of disclosure and financial transparency have always been one of the Group's priorities. A number of formal communication channels are account to shareholders for the performance of the Group including the annual and interim report and the press release and announcements. AGM and other general meetings provide a useful opportunity for the Board to maintain a constructive dialogue with our shareholders.

The Group is committed to maintain continuing open dialogue with institutional investors and analysts as a means of developing their understanding of our strategy, operations, management and plans and raising any issues they may have and provide the Group with valuable feedbacks and insights.

CTEI has its company website http://www.ctei.com.hk which provide additional channel for shareholders and interested parties to access the Group's information.

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Dhanin Chearavanont, aged 70, has been appointed as Executive Director and Chairman of the Company since 31 December 2009. He is also the Chairman and Chief Executive Officer of the Charoen Pokphand Group. Mr. Dhanin Chearavanont has extensive experience in establishing and operating businesses in Asia, Europe and USA. He was an executive director and Executive Chairman of C.P. Pokphand Co. Ltd. ("CPP"), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited ("SEHK"). He has been re-designated as Chairman of CPP with effect from 28 February 2010. Mr. Dhanin Chearavanont is also the Chairman of Charoen Pokphand Foods Public Company Limited, True Corporation Public Company Limited and CP ALL Public Company Limited and an independent director and Honorary Chairman of Siam Makro Public Company Limited, which are companies listed on The Stock Exchange of Thailand ("SET").

Mr. Soopakij Chearavanont, aged 46, 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 1 May 2008. He is also the Chairman of the Remuneration Committee of the Company. Mr. Soopakij 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 an executive director of CPP, a company listed on the Main Board of SEHK. He has been appointed as Vice Chairman of CPP with effect from 28 February 2010. Mr. Soopakij Chearavanont is also a director of True Corporation Public Company Limited and CP ALL Public Company Limited, which are companies listed on SET. He is also the Chairman of True Visions Public Company Limited.

Mr. Michael Ross, aged 45, 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 1 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 completed an Executive Program at the Kennedy School of Government of Harvard University in USA in 2009. 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 44, 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. Narong Chearavanont has extensive experience in the retail and trading industries. He is also an executive director of CPP, 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.

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Tse Ping, aged 58, 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 an executive director, the Chairman 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 46, 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 14 May 2007. Mr. Yang has more than 20 years' of 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 52, 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 18 April 2008. Mr. Li obtained a Master degree in Business Administration from Huazhong Normal University, PRC and is a senior economist. He has extensive experience in retail business.

Mr. Zheng Mengyin, aged 49, has been appointed as Executive Director and Vice Chairman of the Company since 11 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 57, 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. Life Public Company Limited. He is also the Deputy Group Chief Financial Officer of Charoen Pokphand Group Company Limited.

Mr. Robert Ping-Hsien Ho, aged 61, 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 CPP, a company listed on the Main Board of SEHK, and the Chief Financial Officer, International of the Charoen Pokphand Group.

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Meth Jiaravanont, aged 51, 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 an executive director and a Vice Chairman of CPP, 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 49, 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 CPP, a company listed on the Main Board of SEHK.

Mr. Chatchaval Jiaravanon, aged 47, 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 CPP, 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 Finansia 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 43, 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. Suphachai Chearavanont has extensive experience in the telecommunication and broadcasting industries. He is an executive director of CPP, 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. Suphachai Chearavanont is also a director and Chief Executive Officer of True Visions Public Company Limited and True Move Company Limited.

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Kachorn Chiaravanont, aged 42, has been an Executive Director of the Company since 2000. He obtained a Bachelor of Arts degree in Marketing from Fairleigh Dickinson University in USA. Mr. Chiaravanont has extensive experience in various fields such as in investment and fund management. He is the President and director of True Property Co., Ltd. and True Leasing Co., Ltd. Mr. Chiaravanont is also a director of True Visions Public Company Limited, Allianz CP General Insurance Co., Ltd., Bangkok Inter Teletech Public Company Limited, True Move Co., Ltd., True Distribution & Sales Co., Ltd. and Echo Autoparts (Thailand) Co., Ltd.

Mr. Viroj Sangsnit, aged 74, has been an Independent Non-Executive Director of the Company and a member of the Audit Committee of the Company since 1999. He is also a member of the 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 71, has been an Independent Non-Executive Director of the Company and a member of the Audit Committee of the Company since 1999. He is also a member of the 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 49, 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 CSI Properties Limited (formerly known as Capital Strategic Investment Limited), Chong Hing Bank Limited, HKC (Holdings) Limited, 21 Holdings Limited (formerly known as GFT Holdings Limited), Goldbond Group Holdings Limited, and CPMC 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.

Mr. Dhanin Chearavanont is the father of Messrs. Soopakij Chearavanont, Narong Chearavanont and Suphachai Chearavanont. He is an uncle of Messrs. Tse Ping, Meth Jiaravanont, Nopadol Chiaravanont, Chatchaval Jiaravanon and Kachorn Chiaravanont. Mr. Dhanin Chearavanont is the father-in-law of Mr. Michael Ross. Messrs. Soopakij Chearavanont, Narong Chearavanont and Suphachai Chearavanont are brothers. They are the 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 31 December 2009.

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 31 December 2009 are set out in the consolidated statement of comprehensive income on page 40 of the financial statements.

The Directors do not recommend the payment of a dividend in respect of the year (2008: Nil).

FIXED ASSETS

During the year, the Group spent approximately HK$88,000,000 on additions of fixed assets mainly for the expansion of the operation of Lotus Supercenters in the PRC, including two new stores opened in Jieyang, Guangdong and Shantou, Guangdong.

Details of movements in the fixed assets during the year are set out in note 12 to the financial statements.

SHARE CAPITAL

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

DISTRIBUTABLE RESERVES

In accordance with the Company's Articles of Association, distributions shall be payable out of the profits of the Company. Accordingly, the Company does not have any distributable reserves as at 31 December 2009 and 2008.

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 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. Dhanin Chearavanont	(appointed on 31 December 2009)
Mr. James Harold Haworth	(resigned on 31 December 2009)
Mr. Soopakij Chearavanont	
Mr. Michael Ross	
Mr. Narong Chearavanont	
Mr. Tse Ping	
Mr. Yang Xiaoping	
Mr. Li Wen Hai	
Mr. Zheng Mengyin	
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	(resigned on 15 July 2009)

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. Dhanin Chearavanont, Soopakij Chearavanont, Narong Chearavanont, Umroong Sanphasitvong, Robert Ping-Hsien Ho, Suphachai Chearavanont and Cheng Yuk Wo, will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting ("AGM"). Details of the directors proposed to be re-elected at the forthcoming AGM have been set out in the relevant circular to be despatched to the shareholders of the Company.

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

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

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities 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 7 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company, its holding company or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

COMPETING INTERESTS

As at 31 December 2009, 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 31 December 2009, 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 interest in shares of associated corporation

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

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

Pursuant to the share option scheme adopted by the Company on 31 May 2002 (the "Scheme"), the Company had on 6 June 2002, 10 November 2003 and 24 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 1 January 2009	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	As at 31 December 2009
Mr. Soopakij Chearavanont	6 June 2002	6 June 2002 to 5 June 2012	0.07	59,966,144	–	–	–	–	59,966,144
	10 November 2003	10 November 2003 to 9 November 2013	0.19	59,966,144	–	–	–	–	59,966,144
	24 May 2005	24 May 2005 to 23 May 2015	0.11	59,966,144	–	–	–	–	59,966,144
Mr. Narong Chearavanont	6 June 2002	6 June 2002 to 5 June 2012	0.07	59,966,144	–	–	–	–	59,966,144
	10 November 2003	10 November 2003 to 9 November 2013	0.19	59,966,144	–	–	–	–	59,966,144
	24 May 2005	24 May 2005 to 23 May 2015	0.11	59,966,144	–	–	–	–	59,966,144
Mr. Tse Ping	6 June 2002	6 June 2002 to 5 June 2012	0.07	59,966,144	–	–	–	–	59,966,144
	10 November 2003	10 November 2003 to 9 November 2013	0.19	59,966,144	–	–	–	–	59,966,144
	24 May 2005	24 May 2005 to 23 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 1 January 2009	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	As at 31 December 2009
Mr. Yang Xiaoping	6 June 2002	6 June 2002 to 5 June 2012	0.07	59,966,144	–	–	–	–	59,966,144
	10 November 2003	10 November 2003 to 9 November 2013	0.19	59,966,144	–	–	–	–	59,966,144
	24 May 2005	24 May 2005 to 23 May 2015	0.11	59,966,144	–	–	–	–	59,966,144
Mr. Umroong Sanphasitvong	6 June 2002	6 June 2002 to 5 June 2012	0.07	59,966,144	–	–	–	–	59,966,144
	10 November 2003	10 November 2003 to 9 November 2013	0.19	59,966,144	–	–	–	–	59,966,144
	24 May 2005	24 May 2005 to 23 May 2015	0.11	59,966,144	–	–	–	–	59,966,144
Mr. Robert Ping-Hsien Ho	6 June 2002	6 June 2002 to 5 June 2012	0.07	59,966,144	–	–	–	–	59,966,144
	10 November 2003	10 November 2003 to 9 November 2013	0.19	59,966,144	–	–	–	–	59,966,144
	24 May 2005	24 May 2005 to 23 May 2015	0.11	59,966,144	–	–	–	–	59,966,144
Mr. Meth Jiaravanont	24 May 2005	24 May 2005 to 23 May 2015	0.11	59,966,144	–	–	–	–	59,966,144
Mr. Chatchaval Jiaravanon	6 June 2002	6 June 2002 to 5 June 2012	0.07	59,966,144	–	–	–	–	59,966,144
	10 November 2003	10 November 2003 to 9 November 2013	0.19	59,966,144	–	–	–	–	59,966,144
	24 May 2005	24 May 2005 to 23 May 2015	0.11	59,966,144	–	–	–	–	59,966,144

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

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

				Number of share options					
Name of directors	Date of grant	Exercisable period	Exercise price HK$	As at 1 January 2009	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	As at 31 December 2009
Mr. Suphachai Chearavanont	6 June 2002	6 June 2002 to 5 June 2012	0.07	59,966,144	–	–	–	–	59,966,144
	10 November 2003	10 November 2003 to 9 November 2013	0.19	59,966,144	–	–	–	–	59,966,144
	24 May 2005	24 May 2005 to 23 May 2015	0.11	59,966,144	–	–	–	–	59,966,144
Mr. Kachorn Chiaravanont	6 June 2002	6 June 2002 to 5 June 2012	0.07	59,966,144	–	–	–	–	59,966,144
	10 November 2003	10 November 2003 to 9 November 2013	0.19	59,966,144	–	–	–	–	59,966,144
	24 May 2005	24 May 2005 to 23 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 31 December 2009, 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 31 December 2009, 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 ("CPALL")	(3)	3,897,110,334	42.43%
Lotus Distribution Investment Limited ("LDIL")	(3)	3,861,286,881	42.04%

Notes:

(1) The percentages shown are based on the total number of shares in issue as at 31 December 2009.

(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 CPALL included the interest of LDIL, its wholly-owned subsidiary.

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 31 December 2009.

DISCLOSURE PURSUANT TO RULE 13.18 OF LISTING RULES

On 22 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 USD50 million which expired on 31 March 2009. The loan has been renewed and extended to 31 March 2012 and it was repaid on 1 April 2010.

On 28 December 2009, the Company entered into an agreement (the "New 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 USD145 million which will expire on 31 December 2015.

DISCLOSURE PURSUANT TO RULE 13.18 OF LISTING RULES (continued)

Pursuant to the Facility Agreement and New 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 more than 50%.

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

CONTINUING CONNECTED TRANSACTIONS

Purchase and Supply Agreements:

On 30 July 2008, the Company entered into the CP China-CCT Purchase Agreement with CP China Investment Limited ("CP China") under which any subsidiaries of the Company can purchase relevant merchandise from any subsidiaries of CP China.

On 30 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.

Services Agreements:

On 17 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. The Management Services Agreement was terminated with effect from 1 April 2009.

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. The Procurement Services Agreement expired on 31 December 2009 and was renewed and will expire on 31 December 2012.

On 29 June 2009, Shanghai Lotus Supermarket Chain Store Co., Ltd. (上海易初蓮花連鎖超市有限公司) ("SLS"), a subsidiary of the Company, entered into Eastern China Consulting Agreement with Chia Tai Commercial Real Estate Management Co., Ltd. (正大商業房地產管理有限公司) ("CTCREM") under which CTCREM provided consultancy services to SLS in relation to 19 stores operated by SLS in Eastern China from 1 June 2009 to 31 December 2009 with a monthly service fee of RMB708,000. SLS has also agreed to reimburse CTCREM for transportation and miscellaneous expenses actually incurred by CTCREM in connection with the provision of the relevant services.

CONTINUING CONNECTED TRANSACTIONS (continued)

Services Agreements: (continued)

On 29 June 2009, Beijing Lotus Supermarket Chain Store Co., Ltd. (北京易初蓮花連鎖超市有限公司) ("Beijing Lotus"), a subsidiary of the Company, entered into Northern China Consulting Agreement with CTCREM under which CTCREM provided consultancy services to Beijing Lotus in relation to 4 stores operated by Beijing Lotus in Northern China from 1 June 2009 to 31 December 2009 with a monthly service fee of RMB66,858. Beijing Lotus has also agreed to reimburse CTCREM for miscellaneous expenses actually incurred by CTCREM in connection with the provision of the relevant services.

Leases:

Super Brand Mall Lease refers to the lease dated 1 July 2008 between SLS and Shanghai Kinghill Ltd. (上海帝泰發展有限公司) ("Shanghai Kinghill") from 1 July 2008 to 31 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 annualised basis.

Yang Gao Zhong Lu Sub-Lease refers to the sub-lease dated 1 May 2007 between SLS and CTCREM from 1 May 2007 to 30 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 1 May 2007 to 31 August 2007.

Tian Shan Xi Lu Sub-Lease refers to the sub-lease dated 1 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 1 July 2008 to 31 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.

Details of the abovementioned continuing connected transactions are set out in the announcements dated 17 May 2007, 30 July 2008 and 29 June 2009 and circulars dated 29 June 2007 and 15 August 2008.

CONTINUING CONNECTED TRANSACTIONS (continued)

CP China and CPH are connected persons of the Company according to Chapter 14A of the Listing Rules. 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 Eastern China Consulting Agreement, the Northern China Consulting Agreement, the Yang Gao Zhong Lu Sub-Lease and the Tian Shan Xi Lu Sub-Lease 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 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 25 July 2007 and 2 September 2008.

The actual transactions and approved annual caps for the abovementioned continuing connected transaction agreements during the year from 1 January 2009 to 31 December 2009 are as follows:

	Actual Transactions HK$'000	Approved Annual Caps HK$'000
Non-exempt continuing connected transaction agreements:		
CP China-CCT Purchase Agreement	234,499	499,800
CPH Supply Agreement	452,408	609,615
Management Services Agreement	35,353	150,640
Procurement Services Agreement	3,534	34,190
Super Brand Mall Lease	20,426	20,426
Exempt continuing connected transaction agreements:		
Eastern China Consulting Agreement	5,624	5,624
Northern China Consulting Agreement	531	531
Yang Gao Zhong Lu Sub-Lease	6,662	6,809
Tian Shan Xi Lu Sub-Lease	12,384	13,050

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.

CONTINUING CONNECTED TRANSACTIONS (continued)

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 31 December 2009.

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 regarding securities transactions by Directors adopted by the Company for the year ended 31 December 2009.

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

On behalf of the Board

Soopakij Chearavanont
Director

Hong Kong, 26 April 2010

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 40 to 112 which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 31 December 2009 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

26 April 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009
(Expressed in Hong Kong dollars)

	Note	2009 $'000	2008 $'000 (Restated) (note 40)
Turnover	3	**9,967,358**	6,277,120
Cost of sales	17	**(8,099,031)**	(5,115,205)
Gross profit		**1,868,327**	1,161,915
Other revenue	4	**368,147**	242,824
Other net (loss)/income	4	**(15,172)**	168,392
Distribution and store operating costs		**(1,615,774)**	(1,185,019)
Administrative expenses		**(482,812)**	(260,372)
Profit from operations		**122,716**	127,740
Finance costs	5(a)		
– Interest on convertible bonds		**(190,187)**	(39,928)
– Other finance costs		**(176,023)**	(129,756)
		(366,210)	(169,684)
Loss before taxation	5	**(243,494)**	(41,944)
Income tax	6	**(24,014)**	(3,629)
Loss for the year		**(267,508)**	(45,573)
Other comprehensive income for the year (after tax and reclassification adjustments)			
Exchange differences on translation of financial statements of subsidiaries in the People's Republic of China ("PRC")		**3,454**	7,738
Exchange reserve transferred to profit on disposal of subsidiaries		**–**	27,763
Total comprehensive loss for the year		**(264,054)**	(10,072)
Loss for the year attributable to:			
Equity shareholders of the Company	9	**(267,508)**	(45,443)
Minority interests		**–**	(130)
		(267,508)	(45,573)
Total comprehensive loss for the year attributable to:			
Equity shareholders of the Company		**(264,054)**	(10,059)
Minority interests		**–**	(13)
		(264,054)	(10,072)
Loss per share	11		
Basic and diluted		**(2.50) cents**	(0.67) cent

The notes on pages 45 to 112 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009
(Expressed in Hong Kong dollars)

	Note	2009 $'000	2008 $'000
Non-current assets			
Fixed assets	12		
– Property, plant and equipment		**1,826,612**	2,000,442
– Interests in leasehold land held for own use under operating leases		**191,446**	199,074
		2,018,058	2,199,516
Intangible assets	13	**252,699**	260,713
Goodwill	14	**3,088,860**	3,083,965
Prepaid lease payments for premises	16	**9,365**	6,831
Other long-term prepayments		**9,313**	–
Deferred tax assets	29(b)	**94,246**	105,634
		5,472,541	5,656,659
Current assets			
Prepaid lease payments for premises	16	**14,744**	5,288
Inventories	17	**840,729**	900,969
Trade and other receivables	18	**874,958**	990,812
Income tax recoverable	29(a)	**241**	9,277
Pledged and restricted bank deposits	19	**398,332**	573,651
Cash and cash equivalents	20	**358,723**	296,631
		2,487,727	2,776,628
Assets classified as held for sale	21	**–**	12,473
		2,487,727	2,789,101
Current liabilities			
Trade and other payables	22	**3,424,194**	3,437,670
Bank loans	23	**1,507,659**	2,033,682
Other loans	24	**860,661**	876,764
Consideration payable for acquisition of subsidiaries	26	**60,450**	60,450
Obligations under finance leases	27	**4,886**	4,421
Current taxation	29(a)	**14,117**	3,632
Provisions	28	**50,339**	71,301
		5,922,306	6,487,920
Net current liabilities		**(3,434,579)**	(3,698,819)
Total assets less current liabilities		**2,037,962**	1,957,840
Non-current liabilities			
Bank loans	23	**370,500**	–
Convertible bonds	25	**1,238,729**	1,174,928
Consideration payable for acquisition of subsidiaries	26	**–**	60,450
Obligations under finance leases	27	**225,220**	229,740
Deferred tax liabilities	29(b)	**50,350**	53,380
		1,884,799	1,518,498
NET ASSETS		**153,163**	439,342
CAPITAL AND RESERVES			
Share capital	30(a)	**214,064**	214,064
Reserves		**(60,901)**	225,278
TOTAL EQUITY		**153,163**	439,342

Approved and authorised for issue by the Board of Directors on 26 April 2010.

Soopakij Chearavanont
Director

Umroong Sanphasitvong
Director

The notes on pages 45 to 112 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2009
(Expressed in Hong Kong dollars)

	Note	2009 $'000	2008 $'000
Non-current assets			
Property, plant and equipment	12	**797**	1,409
Interests in subsidiaries	15	**3,125,177**	3,074,005
Other long-term prepayments		**9,313**	–
		3,135,287	3,075,414
Current assets			
Trade and other receivables	18	**47,455**	65,279
Pledged bank deposits	19	**–**	155,099
Cash and cash equivalents	20	**3,444**	2,851
		50,899	223,229
Current liabilities			
Trade and other payables	22	**219,004**	218,790
Bank loans	23	**57,720**	428,220
Other loans	24	**335,650**	340,961
		612,374	987,971
Net current liabilities		**(561,475)**	(764,742)
Total assets less current liabilities		**2,573,812**	2,310,672
Non-current liabilities			
Bank loans	23	**370,500**	–
Convertible bonds	25	**1,238,729**	1,174,928
		1,609,229	1,174,928
NET ASSETS		**964,583**	1,135,744
CAPITAL AND RESERVES			
Share capital	30(a)	**214,064**	214,064
Reserves	31(a)	**750,519**	921,680
TOTAL EQUITY		**964,583**	1,135,744

Approved and authorised for issue by the Board of Directors on 26 April 2010.

Soopakij Chearavanont	**Umroong Sanphasitvong**
Director	*Director*

The notes on pages 45 to 112 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009
(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company										
	Share capital (note 30) $'000	Share premium (note 31(c)) $'000	Revaluation reserve (note 31(c)) $'000	Share option reserve (note 31(c)) $'000	Re-organisation reserve (note 31(c)) $'000	Exchange reserve (note 31(c)) $'000	Convertible bonds reserve (note 31(c)) $'000	Accumulated losses $'000	Total $'000	Minority interests $'000	Total $'000
At 1 January 2008	119,932	931,688	(8,839)	50,670	105,567	81,476	–	(1,602,558)	(322,064)	2,688	(319,376)
Total comprehensive loss for the year	–	–	–	–	–	35,384	–	(45,443)	(10,059)	(13)	(10,072)
Arising from acquisition of subsidiaries											
– 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	–	–	–	–	–	–	278,554	–	278,554	–	278,554
	94,132	348,289	–	–	–	–	278,554	–	720,975	–	720,975
Issue of additional convertible bonds	–	–	–	–	–	–	50,490	–	50,490	–	50,490
Acquisition of minority interests	–	–	–	–	–	–	–	–	–	(2,675)	(2,675)
	94,132	348,289	–	–	–	–	329,044	–	771,465	(2,675)	768,790
At 31 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 1 January 2009	214,064	1,279,977	(8,839)	50,670	105,567	116,860	329,044	(1,648,001)	439,342	–	439,342
Total comprehensive loss for the year	–	–	–	–	–	3,454	–	(267,508)	(264,054)	–	(264,054)
Redemption of convertible bonds (note 25)	–	–	–	–	–	–	(28,660)	6,535	(22,125)	–	(22,125)
At 31 December 2009	214,064	1,279,977	(8,839)	50,670	105,567	120,314	300,384	(1,908,974)	153,163	–	153,163

The notes on pages 45 to 112 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009
(Expressed in Hong Kong dollars)

	Note	2009 $'000	2008 $'000
Operating activities			
Loss before taxation		**(243,494)**	(41,944)
Adjustments for:			
Finance costs	5(a)	**366,210**	169,684
Interest income	4	**(8,153)**	(5,716)
Gain on disposal of assets held for sale	4	**–**	(159,877)
Loss on disposal of fixed assets	4	**16,096**	3,866
Depreciation of property, plant and equipment	5(c)	**243,774**	137,882
Amortisation of land lease premium	5(c)	**7,938**	8,140
Amortisation of intangible assets	5(c)	**8,421**	2,352
Foreign exchange gain		**(185)**	(30,836)
Operating profit before changes in working capital		**390,607**	83,551
(Increase)/Decrease in prepaid lease payments for premises		**(11,962)**	11,972
Decrease/(Increase) in inventories		**61,572**	(71,902)
Decrease/(Increase) in trade and other receivables		**107,932**	(81,583)
(Decrease)/Increase in trade and other payables		**(17,637)**	12,574
Cash generated from/(used in) operations		**530,512**	(45,388)
PRC tax refunded/(paid)		**3,941**	(12,673)
Net cash generated from/(used in) operating activities		**534,453**	(58,061)
Investing activities			
Net cash acquired on acquisition of subsidiaries		**–**	67,494
Net cash inflow/(outflow) from disposal of assets held for sale		**1,248**	(13,397)
Payment for purchases of fixed assets		**(101,150)**	(38,434)
Payment of consideration for acquisition of subsidiaries		**(60,450)**	(111,772)
Decrease/(Increase) in pledged/restricted bank deposits		**175,950**	(151,023)
Interest received		**8,153**	5,716
Proceeds from disposal of fixed assets		**5,020**	10,253
Net cash generated from/(used in) investing activities		**28,771**	(231,163)
Financing activities			
Proceeds from bank loans		**287,808**	287,548
Repayment of bank loans		**(445,311)**	(171,268)
Proceeds from other loans		**715,162**	559,063
Repayment of other loans		**(732,286)**	(329,799)
Proceeds from convertible bonds		**–**	156,380
Payment for redemption of convertible bonds	25	**(133,313)**	–
Capital element of finance leases paid		**(4,428)**	(3,608)
Interest element of finance leases paid		**(22,946)**	(23,134)
Interest on bank loans		**(105,678)**	(49,826)
Coupon interest on convertible bonds		**(15,198)**	–
Interest on other borrowings/consideration payable		**(45,413)**	(56,796)
Net cash (used in)/generated from financing activities		**(501,603)**	368,560
Net increase in cash and cash equivalents		**61,621**	79,336
Effect of foreign exchange rate changes		**471**	13,615
Cash and cash equivalents at 1 January		**296,631**	203,680
Cash and cash equivalents at 31 December	20	**358,723**	296,631

The notes on pages 45 to 112 form part of these financial statements.

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 31 December 2009 and 2008 comprise the Company and its subsidiaries (together referred to as the "Group").

As at 31 December 2009, the Group had net current liabilities of approximately $3,435 million and incurred a loss of approximately $268 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.

The Group generated net cash from operating activities of approximately $534 million during the year ended 31 December 2009 (2008: net cash outflow from operating activities of approximately $58 million).

The Group's liabilities as at 31 December 2009 include loans of approximately $581 million (note 24) due to subsidiaries of, and other companies related to, the Group's ultimate holding company. As disclosed in note 23, 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

On 28 December 2009, the Company and two of its subsidiaries, Shanghai Lotus Supermarket Chain Store Co., Ltd. (上海易初蓮花連鎖超市有限公司) ("SLS") and Guangzhou Lotus Supermarket Chain Store Co., Ltd. (廣州易初蓮花連鎖超市有限公司) ("GLS"), entered into facility agreements ("Facility Agreements") with certain banks, whereby the Company was granted a term loan facility of United States Dollars ("USD") 145 million (equivalent to $1,131 million) and SLS and GLS were granted term loan facilities totalling USD105 million (equivalent to $819 million). The facilities will expire on 31 December 2015 with instalment repayments scheduled during their term. The Facility Agreements contain certain covenants and conditions with which the Company, SLS and GLS need to comply and also require part of the facilities to be used to refinance certain of the Company and SLS' existing loans. No drawdowns from the facilities had been made as at 31 December 2009.

The Group's loss for the year ended 31 December 2009 is stated after deduction of interest on convertible bonds of approximately $190 million (note 5(a)). As disclosed in note 25, on 16 March 2010, the Company entered into an agreement with the holders of its convertible bonds, which are entities related to the Group's ultimate holding company, to purchase and cancel all convertible bonds in issue with the consideration to be satisfied by the issuance by the Company to the convertible bondholders of 3,897,110,334 new convertible preference shares of par value $0.02 each. Completion of this transaction is subject to fulfilment of certain conditions. The Directors expect completion to take place no later than 30 September 2010. Further details of the proposed transaction are set out in an announcement issued by the Company on 16 March 2010.

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)).

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 major sources of estimation uncertainty are discussed in note 42.

(e) Subsidiaries and minority interests

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

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

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 statement of financial position 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 statement of comprehensive income as an allocation of the total comprehensive income for the year between minority interests and the equity shareholders of the Company.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Subsidiaries and minority interests (continued)

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 statement of financial position, 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 each cash-generating unit or groups of cash generating units, that is expected to benefit from the synergies of the acquisition 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, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment

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

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

– other items of plant and equipment.

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

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

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

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

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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 statement of financial position 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.

(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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leased assets (continued)

(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 reporting 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, such as a default or delinquency in interest or principal repayments;
– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
– 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 reporting 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; 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 if 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– 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.

(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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 bond reserve until either the bonds are converted or redeemed.

If the bonds are converted, the convertible bond 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 bond reserve is released directly to retained profits/accumulated losses.

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 statement of cash flows.

(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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Employee benefits (continued)

(ii) Share-based payments (continued)

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.

(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 in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Income tax (continued)

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

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

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

The carrying amount of a deferred tax asset is reviewed at each reporting 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Income tax (continued)

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 the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

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

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

  – the same taxable entity; or

  – 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Financial guarantees issued, provisions and contingent liabilities (continued)

(i) Financial guarantees issued (continued)

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 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 reporting 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Translation of foreign currency (continued)

The results of foreign operations are translated into Hong Kong dollars ("HKD") at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. The assets and liabilities of foreign operations, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into HKD at the closing foreign exchange rates at the reporting date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 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 recognised in other comprehensive income 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 that are directly attributable to the acquisition, construction or production of an asset, which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(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

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Related parties (continued)

(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

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various operations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to HKFRS 2, *Share-based payment – vesting conditions and cancellations*
- Amendments to HKFRS 7, *Financial instruments: disclosures – improving disclosure about financial instruments*
- HKFRS 8, *Operating segments*
- HKAS 1 (revised 2007), *Presentation of Financial Statements*
- HKAS 23 (revised 2007), *Borrowing costs*
- HK(IFRIC) 13, *Customer loyalty programmes*
- HK(IFRIC) 16, *Hedges of a net investment in a foreign operation*
- Improvements to HKFRSs (2008)

2 CHANGES IN ACCOUNTING POLICIES (continued)

The amendments to HKFRS 2, HKFRS 7, and Interpretations HK(IFRIC) 13 and HK(IFRIC) 16, and the "Improvements to HKFRSs (2008)" have had no material impact on the Group's financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. The impact of the remainder of these developments is as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. As the Group has a single operating and reportable segment – operation of hypermarket stores in the PRC – and the segment information in prior years was presented in a manner consistent with the internal reporting provided to the Group's chief operating decision maker, the adoption of HKFRS 8 has had no material impact on the Group's financial statements.

- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

- HKAS 23 (revised 2007) requires capitalisation of borrowing costs on qualifying assets. Previously, the Group's policy was to expense all borrowing costs in profit or loss in the period in which they are incurred. The Group has revised its accounting policy accordingly. The changes in this accounting policy had no material impact on the Group's results as the Group does not have any qualifying asset acquired, constructed or produced during the year ended 31 December 2009.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 43).

3 TURNOVER

The principal activity of the Group is the operation of hypermarket stores in the PRC. Turnover represents the net amounts received and receivable for goods sold by the Group to external customers, less returns, discounts and value added taxes.

The Group's customer base is diversified and there is no customer with whom transactions have exceeded 10% of the Group's revenues.

4 OTHER REVENUE AND OTHER NET (LOSS)/INCOME

	Consolidated	
	2009 **$'000**	2008 $'000 (Restated) (note 40)
Other revenue		
Leasing of store premises	**246,043**	156,552
Management service fee (note 39(a))	**35,353**	20,500
Procurement service fee (note 39(a))	**3,534**	735
Other promotion and service income	**75,064**	59,321
Interest income	**8,153**	5,716
	368,147	242,824
Other net (loss)/income		
Gain on disposal of assets and liabilities classified as held for sale	**–**	159,877
Net foreign exchange gain	**924**	12,381
Net loss on disposal of fixed assets	**(16,096)**	(3,866)
	(15,172)	168,392

5 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	Consolidated	
	2009 **$'000**	2008 $'000
(a) Finance costs:		
Interest on borrowings wholly repayable within five years:		
– Bank loans	**107,664**	49,826
– Other loans	**41,394**	46,878
Interest on deferred consideration payable (note 26)	**4,019**	9,918
Finance charges on obligations under finance leases (note 27)	**22,946**	23,134
Interest on convertible bonds (note 25) (note)	**190,187**	39,928
	366,210	169,684

5 LOSS BEFORE TAXATION (continued)

Note: Interest on convertible bonds of $190,187,000 (2008: $39,928,000) for the year ended 31 December 2009 consists of $15,329,000 (2008: $2,794,000) representing coupon interest at 1% per annum on the principal amount of the convertible bonds and $174,858,000 (2008: $37,134,000) representing additional interest expense arising from the remeasurement of the liability component of the convertible bonds upon their issuance using the effective interest rate method as set out in note 25.

		Consolidated	
		2009	2008
		$'000	$'000
			(Restated)
			(note 40)
(b)	Staff costs:		
	Salaries, wages and other benefits	**709,170**	430,292
	Contributions to defined contribution retirement plans	**53,823**	29,555
		762,993	459,847
(c)	Other items:		
	Depreciation of property, plant and equipment	**243,774**	137,882
	Amortisation of land lease premium	**7,938**	8,140
	Amortisation of intangible assets	**8,421**	2,352
	Auditors' remuneration		
	– audit service	**3,802**	3,372
	– other assurance services	**227**	225
	Operating lease charges		
	– property rentals	**412,093**	329,227
	Cost of inventories (note 17)	**8,099,031**	5,115,205

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(a) Taxation in the consolidated statement of comprehensive income represents:

	2009	2008
	$'000	$'000
Current tax – PRC		
Provision for the year	**15,580**	8,659
Deferred tax		
Origination and reversal of temporary differences (note 29(b))	**8,434**	(5,030)
Taxation expense	**24,014**	3,629

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

(a) Taxation in the consolidated statement of comprehensive income 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 ("CIT law") of the PRC which took effect on 1 January 2008, subsidiaries of the Group established in the PRC are subject to PRC income tax at 25% (2008: 25%) on their assessable profits as determined in accordance with the CIT law.

Further, under the CIT 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 1 January 2008. As at 31 December 2009, 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:

	2009 **$'000**	2008 $'000
Loss before taxation	**(243,494)**	(41,944)
Notional tax on loss before taxation, calculated at 25% (2008: 25%) (note)	**(60,874)**	(10,486)
Tax effect of non-deductible expenses	**66,264**	29,389
Tax effect of non-taxable income	**(5,756)**	(45,593)
Tax effect of tax losses not recognised	**39,007**	35,772
Tax effect of prior year's tax losses utilised	**(9,338)**	(5,995)
Tax effect of temporary differences not recognised	**(5,289)**	542
Actual tax expense	**24,014**	3,629

Note: The PRC Corporate Income Tax rate of 25% (2008: 25%) is used as the operations of the Group are substantially based in the PRC.

7 DIRECTORS' REMUNERATION

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

For the year ended 31 December 2009:

	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. Dhanin Chearavanont	–	–	–	–	–	–	–
Mr. James Harold Haworth	–	9,229	–	–	9,229	–	9,229
Mr. Soopakij Chearavanont	–	4,335	–	12	4,347	–	4,347
Mr. Michael Ross	–	3,142	–	–	3,142	–	3,142
Mr. Narong Chearavanont	–	4,520	–	–	4,520	–	4,520
Mr. Tse Ping	–	–	–	–	–	–	–
Mr. Yang Xiaoping	–	2,359	–	12	2,371	–	2,371
Mr. Li Wen Hai	–	1,712	–	–	1,712	–	1,712
Mr. Zheng Mengyin	–	2,008	–	–	2,008	–	2,008
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	28,241	–	24	28,985	–	28,985

7 DIRECTORS' REMUNERATION (continued)

For the year ended 31 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

Note: Mr. Dhanin Chearavanont was appointed as executive director and Chairman of the Company on 31 December 2009. Messrs. James Harold Haworth and Leung Chun Keung resigned as directors of the Company on 31 December 2009 and 15 July 2009 respectively.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2008: four) are directors whose emoluments are disclosed in note 7. The details of the emoluments in respect of the remaining one individual (2008: one) are as follows:

	2009 $'000	2008 $'000
Salaries and allowances	**4,826**	3,276
Discretionary bonuses	**–**	–
Share-based payments	**–**	–
Retirement benefit scheme contributions	**7**	–
	4,833	3,276

The emoluments of the above individual (2008: one) with highest emoluments is within the following bands:

	2009 Number of individuals	2008 Number of Individuals
$3,000,001 to $3,500,000	**–**	1
$4,500,001 to $5,000,000	**1**	–
	1	1

During the years ended 31 December 2009 and 2008, 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 31 December 2009 and 2008.

9 LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the Company includes a loss of $149,036,000 (2008: profit of $170,643,000) which has been dealt with in the financial statements of the Company (note 31(a)).

10 DIVIDENDS

No dividend was paid or proposed during the years ended 31 December 2009 and 2008, nor has any dividend been proposed since the reporting date.

11 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:

	2009 **$'000**	2008 $'000
Loss for the year attributable to equity shareholders of the Company	**(267,508)**	(45,443)
Weighted average number of ordinary shares in issue	**9,184,414,410**	6,527,914,408
Weighted average number of preference shares in issue	**1,518,807,075**	253,134,512
Total	**10,703,221,485**	6,781,048,920

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

	2009	2008
Issued ordinary shares at 1 January	**9,184,414,410**	5,996,614,408
Effect of ordinary shares issued as consideration for acquisition of subsidiaries	**–**	531,300,000
Weighted average number of ordinary shares in issue	**9,184,414,410**	6,527,914,408

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

	2009	2008
Issued preference shares at 1 January	**1,518,807,075**	–
Effect of preference shares issued as consideration for acquisition of subsidiaries	**–**	253,134,512
Weighted average number of preference shares in issue	**1,518,807,075**	253,134,512

As set out in note 30(a), the holders of the preference shares are entitled to receive the same dividends as the holders of ordinary shares.

11 LOSS PER SHARE (continued)

(b) Diluted

The diluted loss per share for the years ended 31 December 2009 and 2008 is the same as the basic loss per share as all potential ordinary shares are anti-dilutive.

12 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 1 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	–	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 31 December 2008	267,789	1,528,902	533,598	37,451	13,508	2,381,248	221,983	2,603,231
At 1 January 2009	267,789	1,528,902	533,598	37,451	13,508	2,381,248	221,983	2,603,231
Exchange adjustments	426	2,418	854	50	18	3,766	352	4,118
Additions	–	8,312	15,752	1,019	62,944	88,027	–	88,027
Transfer	–	36,908	19,993	895	(57,796)	–	–	–
Disposals	–	(50,163)	(17,600)	(2,568)	(4,543)	(74,874)	–	(74,874)
At 31 December 2009	268,215	1,526,377	552,597	36,847	14,131	2,398,167	222,335	2,620,502
Accumulated depreciation and impairment losses:								
At 1 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 31 December 2008	36,793	157,313	167,549	14,913	4,238	380,806	22,909	403,715
At 1 January 2009	36,793	157,313	167,549	14,913	4,238	380,806	22,909	403,715
Exchange adjustments	68	316	321	21	7	733	42	775
Charge for the year	13,048	125,990	96,920	7,816	–	243,774	7,938	251,712
Written back on disposal	–	(35,205)	(16,207)	(2,215)	(131)	(53,758)	–	(53,758)
At 31 December 2009	49,909	248,414	248,583	20,535	4,114	571,555	30,889	602,444
Net book value:								
At 31 December 2009	218,306	1,277,963	304,014	16,312	10,017	1,826,612	191,446	2,018,058
At 31 December 2008	230,996	1,371,589	366,049	22,538	9,270	2,000,442	199,074	2,199,516

12 FIXED ASSETS (continued)

(b) The Company

	Leasehold improvements $'000	Furniture, fixtures and equipment $'000	Motor vehicles $'000	Total $'000
Cost:				
At 1 January 2008	172	3,726	6,021	9,919
Additions	–	3	1,417	1,420
Disposals	–	(118)	(974)	(1,092)
At 31 December 2008	172	3,611	6,464	10,247
At 1 January 2009	172	3,611	6,464	10,247
Additions	–	38	–	38
Disposals	–	–	(480)	(480)
At 31 December 2009	172	3,649	5,984	9,805
Accumulated depreciation:				
At 1 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 31 December 2008	172	3,581	5,085	8,838
At 1 January 2009	172	3,581	5,085	8,838
Charge for the year	–	31	619	650
Written back on disposal	–	–	(480)	(480)
At 31 December 2009	172	3,612	5,224	9,008
Net book value:				
At 31 December 2009	–	37	760	797
At 31 December 2008	–	30	1,379	1,409

12 FIXED ASSETS (continued)

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

	The Group	
	2009 $'000	2008 $'000
In the PRC		
– medium-term leases	**409,752**	430,070
Representing:		
Buildings	**218,306**	230,996
Interests in leasehold land held for own use under operating leases	**191,446**	199,074
	409,752	430,070

(d) Fixed assets held under finance leases

At 31 December 2009, the net book value of buildings held under finance leases of the Group was $190,050,000 (2008: $202,000,000). The leases do not include contingent rentals. The buildings are situated in the PRC and held under medium term land use rights.

13 INTANGIBLE ASSETS

	The Group	
	2009 $'000	2008 $'000
Cost:		
At 1 January	**263,065**	–
Additions through acquisition of subsidiaries	**–**	263,436
Exchange adjustments	**418**	(371)
At 31 December	**263,483**	263,065
Accumulated amortisation:		
At 1 January	**2,352**	–
Charge for the year	**8,421**	2,352
Exchange adjustments	**11**	–
At 31 December	**10,784**	2,352
Net book value:	**252,699**	260,713

13 INTANGIBLE ASSETS (continued)

Intangible assets relate to operating lease agreements acquired in the acquisition of subsidiaries in 2008. 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 the acquired subsidiaries. The intangible assets are amortised using the straight-line method over the remaining lease terms which vary from 12 to 32 years.

The amortisation charge for the year is included in "Distribution and store operating costs" in the consolidated statement of comprehensive income.

14 GOODWILL

	The Group	
	2009	2008
	$'000	$'000
Cost:		
At 1 January	**3,141,798**	87,320
Additions through acquisition of subsidiaries	**–**	3,044,129
Additions through acquisition of minority interests	**–**	12,581
Exchange adjustments	**4,895**	(2,232)
At 31 December	**3,146,693**	3,141,798
Accumulated impairment losses:		
At 1 January and 31 December	**57,833**	57,833
Carrying amount:		
At 31 December	**3,088,860**	3,083,965

Impairment tests for cash-generating units containing goodwill

As at 31 December 2009 and 2008, the carrying amount of goodwill is allocated to the Group's cash generating units as follows:

	2009	2008
	$'000	$'000
East China Region	**3,044,665**	3,039,839
South China Region	**40,336**	40,273
North China Region	**3,859**	3,853
	3,088,860	3,083,965

14 GOODWILL (continued)

Impairment tests for cash-generating units containing goodwill (continued)

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 3% to 6% per annum (2008: 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 costs. The discount rate of 12% (2008: 12%) 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.

15 INTERESTS IN SUBSIDIARIES

	The Company	
	2009	2008
	$'000	$'000
Unlisted shares/capital contributions, at cost	**2,138,031**	2,138,031
Add: Amounts due from subsidiaries	**1,273,687**	1,222,515
Less: Impairment losses	**(286,541)**	(286,541)
At 31 December	**3,125,177**	3,074,005

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

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.

(Expressed in Hong Kong dollars unless otherwise indicated)

15 INTERESTS IN SUBSIDIARIES (continued)

Name of companies	Paid up capital		Group's effective interest	
	2009	2008	**2009 %**	2008 %
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 1)**	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 2)**	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 2)**	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 1)**	USD6,500,000	**100**	100
廣州易初蓮花連鎖超市有限公司 Guangzhou Lotus Supermarket Chain Store Co., Ltd.	**USD34,420,000 (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 3)**	USD12,000,000	**100**	100
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 2)**	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 2)**	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 1)**	USD84,000,000	**100**	100
上海長發購物中心有限公司 Shanghai Changfa Shopping Centre Co., Ltd.	**RMB5,000,000 (note 2)**	RMB5,000,000	**100**	100
上海怡蓮超市有限公司 Shanghai Yilian Supermarket Co., Ltd.	**RMB500,000 (note 2)**	RMB500,000	**100**	100
上海采蓮超市有限公司 Shanghai Cailian Supermarket Co., Ltd.	**RMB500,000 (note 2)**	RMB500,000	**100**	100
上海新蓮超市有限公司 Shanghai Xinlian Supermarket Co., Ltd.	**RMB500,000 (note 2)**	RMB500,000	**100**	100

(Expressed in Hong Kong dollars unless otherwise indicated)

15 INTERESTS IN SUBSIDIARIES (continued)

Name of companies	Paid up capital		Group's effective interest	
	2009	2008	**2009** %	2008 %
南通通蓮超市有限公司 Nantong Tonglian Supermarket Co., Ltd.	**RMB500,000 (note 2)**	RMB500,000	**100**	100
昆山泰蓮超市有限公司 Kunshan Tailian Supermarket Co., Ltd.	**RMB500,000 (note 2)**	RMB500,000	**100**	100
上海雅蓮超市有限公司 Shanghai Yalian Supermarket Co., Ltd.	**RMB500,000 (note 2)**	RMB500,000	**100**	100
上海佳蓮超市有限公司 Shanghai Jialian Supermarket Co., Ltd.	**RMB500,000 (note 2)**	RMB500,000	**100**	100
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 4)**	RMB8,949,000	**100**	100

Notes:

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

(2) 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.

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

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

16 PREPAID LEASE PAYMENTS FOR PREMISES

	The Group	
	2009 $'000	2008 $'000
At 1 January	**12,119**	22,790
Exchange adjustments	**28**	1,301
Additions	**28,592**	–
Charged to profit or loss for the year	**(16,630)**	(11,972)
At 31 December	**24,109**	12,119
Represented by:		
Non-current portion	**9,365**	6,831
Current portion	**14,744**	5,288
	24,109	12,119

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

17 INVENTORIES

All inventories as at 31 December 2009 and 2008 are finished goods merchandise. The analysis of the amount of inventories recognised as an expense is as follows:

	The Group	
	2009 $'000	2008 $'000 (Restated) (note 40)
Carrying amount of inventories sold	**8,076,169**	5,100,946
Write-down of inventories	**22,862**	14,259
	8,099,031	5,115,205

18 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Trade receivables, other receivables and deposits	**209,650**	212,040	**2,733**	1,004
Amounts due from related companies (note 39(b))	**665,308**	778,772	**9,314**	–
Amounts due from subsidiaries	**–**	–	**35,408**	64,275
	874,958	990,812	**47,455**	65,279

18 TRADE AND OTHER RECEIVABLES (continued)

All of the trade and other receivables apart from rental deposits of the Group amounting to $45,556,000 (2008: $53,753,000) 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 reporting date:

	The Group	
	2009	2008
	$'000	$'000
Current	**34,567**	28,138
1 to 30 days overdue	**1,743**	4,877
31 to 60 days overdue	**1,616**	1,189
61 to 90 days overdue	**265**	630
Over 90 days	**2,349**	5,245
	40,540	40,079

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

19 PLEDGED AND RESTRICTED BANK DEPOSITS

The Group

At 31 December 2009, $227,140,000 (2008: $435,172,000) of the Group's bank deposits were pledged to banks to secure banking facilities and bank borrowings granted to the Group.

At 31 December 2009, deposits amounting to $84,864,000 (2008: $102,051,000) and $86,328,000 (2008: $36,428,000) were restricted for use in relation to outstanding litigation cases and guarantees for payments to suppliers respectively.

The Company

As at 31 December 2008, deposits amounting to $155,099,000 were pledged to a bank to secure banking facilities granted to the Company's subsidiary, GLS.

20 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Cash at bank and in hand	**358,723**	296,631	**3,444**	2,851

Cash and cash equivalents of the Group and of the Company amounting to $17,080,000 (2008: $24,522,000) and $56,000 (2008: $53,000) respectively are non-interest bearing.

21 ASSETS CLASSIFIED AS HELD FOR SALE

At 31 December 2008, the assets classified as held for sale represented a land use right to be disposed to an independent third party at a consideration of approximately RMB11,000,000 (equivalent to approximately $12,473,000). The transaction for the disposal of the land use right was completed in 2009.

22 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Notes payable	**92,218**	47,632	**–**	–
Creditors and accrued charges	**3,122,771**	3,200,121	**7,873**	5,402
Amounts due to related companies (note 39(b))	**209,205**	189,917	**779**	3,876
Amounts due to subsidiaries	**–**	–	**210,352**	209,512
	3,424,194	3,437,670	**219,004**	218,790

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 $2,414,710,000 (2008: $2,382,863,000) with the following ageing analysis as of the reporting date:

	The Group		The Company	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Uninvoiced purchases	**806,955**	860,118	**–**	–
Within 30 days of invoice date	**1,210,850**	1,138,779	**–**	–
31 to 60 days after invoice date	**314,119**	285,244	**–**	–
61 to 90 days after invoice date	**13,513**	51,437	**–**	–
More than 90 days after invoice date	**69,273**	47,285	**–**	–
	2,414,710	2,382,863	**–**	–

23 BANK LOANS

	The Group		The Company	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Short-term bank loans	**1,488,159**	1,178,697	**38,220**	38,220
Long-term bank loan due within 1 year	**19,500**	854,985	**19,500**	390,000
Within 1 year	**1,507,659**	2,033,682	**57,720**	428,220
Long-term bank loan due over 1 year	**370,500**	–	**370,500**	–
	1,878,159	2,033,682	**428,220**	428,220

At 31 December 2009, the Group's bank loans are secured/guaranteed as follows:

	The Group		The Company	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Secured bank loans				
– Secured by assets held by the Group (note (i))	**340,710**	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))	**229,017**	229,622	**38,220**	38,220
	959,727	1,146,885	**428,220**	428,220
Unsecured bank loans				
– Guaranteed by the Company and its subsidiaries (note (iv))	**399,767**	28,348	**–**	–
– Guaranteed by a related company (note (v))	**53,378**	53,293	**–**	–
– Unsecured bank loans (note (vi))	**465,287**	805,156	**–**	–
	1,878,159	2,033,682	**428,220**	428,220

23 BANK LOANS (continued)

Notes:

(i) At 31 December 2009, the Group has drawn down three floating rate bank loans with aggregated principal amount of RMB300,000,000 (equivalent to $340,710,000) (2008: $527,263,000) bearing interest at six-month People's Bank of China lending rate ("PBOC rate") (2008: PBOC rate multiplied by 1.1 per annum, six-month PBOC rate per annum and six-month PBOC rate multiplied by 1.1 per annum), which are secured by pledged bank deposits of RMB200,000,000 (equivalent to $227,140,000) (2008: $435,172,000).

(ii) At 31 December 2009 and 2008, the Company has drawn down a floating rate bank loan of USD50,000,000 (equivalent to $390,000,000) bearing interest at three-month London Interbank Offered Rate ("LIBOR") plus 4% per annum (2008: three-month 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.

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 34(b). As at 31 December 2009, the Company was in compliance with the covenants.

(iii) At 31 December 2009 and 2008, subsidiaries of the Group have drawn down two floating rate bank loans of USD20,000,000 (equivalent to $154,455,000) and USD4,750,000 (equivalent to $36,342,000) 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.

At 31 December 2009 and 2008, the Company has drawn down a floating rate bank loan of USD4,900,000 (equivalent to $38,220,000) bearing interest at three-month LIBOR plus 1.5% per annum (2008: three-month LIBOR plus 1% per annum), which is secured by a letter of credit issued by the Group's ultimate holding company through financial institutions.

(iv) At 31 December 2009 and 2008, the Group has drawn down a floating rate bank loan of RMB25,000,000 (equivalent to $28,393,000) bearing interest at one-year PBOC rate multiplied by 1.15 per annum (2008: 6.417% per annum), which is co-guaranteed by the Company and one of its subsidiaries.

At 31 December 2009, the Group has drawn down a floating rate bank loan of RMB327,000,000 (equivalent to $371,374,000) bearing interest at six-month PBOC rate multiplied by 1.2 per annum, which is co-guaranteed by two of the Company's subsidiaries and a letter of undertaking issued by the Company.

(v) At 31 December 2009 and 2008, the Group has drawn down a floating rate bank loan of RMB47,000,000 (equivalent to $53,378,000) bearing interest at six-month PBOC rate multiplied by 1.1 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 and a fellow subsidiary controlled by the Group's ultimate holding company have issued letters of undertaking for these loans to the respective lending banks.

24 OTHER LOANS

	The Group		The Company	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Loans from third parties (note (i))	**279,183**	109,200	**217,776**	109,200
Loans from related companies (note (ii))	**581,478**	767,564	**–**	78,000
Amounts due to a subsidiary (note (iii))	**–**	–	**117,874**	153,761
	860,661	876,764	**335,650**	340,961
Represented by:				
Within one year	**860,661**	876,764	**335,650**	340,961

Notes:

(i) At 31 December 2009, loans of $279,183,000 (2008: $109,200,000) borrowed from independent third parties were unsecured and bearing interest ranging from 1.76% to 6.50% per annum (2008: 5.34% to 7.14% per annum).

(ii) At 31 December 2009 and 2008, the Group has drawn down two loans of RMB512,000,000 (equivalent to $581,478,000) (2008: $642,922,000) from related parties, being fellow subsidiaries of the Group and other entities related to the Group's ultimate holding company. These loans are unsecured and bearing fixed interest at 5.982% to 6% per annum (2008: 5.58% to 7.88% per annum).

At 31 December 2008, the Group had also drawn down two loans of USD10,000,000 (equivalent to $78,000,000) and USD5,980,000 (equivalent to $46,642,000) from related parties, which bear interest at LIBOR plus 6% per annum and three month LIBOR plus 2% respectively. These loans were repaid in 2009.

(iii) At 31 December 2009 and 2008, $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.

25 CONVERTIBLE BONDS

On 31 October 2008, the Company issued convertible bonds due in 2011 in the aggregate principal amount of $1,519,873,031 (the "Convertible Bonds") as part of the consideration to acquire SLS based on the acquisition agreement dated 17 May 2007 (the "Acquisition Agreement"). Contemporaneously, a related party subscribed for additional convertible bonds due in 2011 in the aggregate 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, which was determined as 31 October 2008, 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.

– *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.

25 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.

25 CONVERTIBLE BONDS (continued)

(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 components were initially measured at 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.

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

On 23 January 2009, the Company entered into a redemption agreement with an original holder of the Convertible Bonds to redeem Convertible Bonds in the principal amount of $156,380,000 at a redemption price of $133,313,000 representing a discount of 15% to the principal amount plus accrued coupon interest. The redemption was completed on 30 January 2009. As at 30 January 2009, the carrying value of the redeemed Convertible Bonds was $139,848,000, including liability component and equity component of $111,188,000 and $28,660,000 respectively. As the fair value of the liability component of the redeemed Convertible Bonds was similar to their carrying value as at 30 January 2009, the discount of $6,535,000 arising on the redemption has been credited directly to equity.

25 CONVERTIBLE BONDS (continued)

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

	Convertible Bonds $'000	Subscribed Convertible Bonds $'000	Total $'000
Issued on 31 October 2008	1,029,110	105,890	1,135,000
Interest charged for the year	36,865	3,063	39,928
As at 31 December 2008 and 1 January 2009	1,065,975	108,953	1,174,928
Interest charged for the year	170,615	19,572	190,187
Interest paid during the year	(13,634)	(1,564)	(15,198)
Redeemed during the year	(111,188)	–	(111,188)
As at 31 December 2009	1,111,768	126,961	1,238,729

As set out in note 1(b), on 16 March 2010, the Company entered into an agreement with the bondholders to purchase and cancel all Convertible Bonds and Subscribed Convertible Bonds in issue with the consideration to be satisfied by the issuance by the Company to the bondholders of 3,897,110,334 new convertible preference shares of par value $0.02 each. This transaction has not been completed as at the date of approval of these financial statements and completion is subject to fulfilment of certain conditions.

26 CONSIDERATION PAYABLE FOR ACQUISITION OF SUBSIDIARIES

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

	The Group	
	2009 $'000	2008 $'000
Acquisition of 40% equity interest in Lotus-CPF (PRC) Investment Company Limited ("Lotus-CPF")	**60,450**	120,900
Represented by:		
Current portion	**60,450**	60,450
Non-current portion	**–**	60,450
	60,450	120,900

26 CONSIDERATION PAYABLE FOR ACQUISITION OF SUBSIDIARIES (continued)

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 31 December 2009 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 27 February 2006 made between a subsidiary of the Company and the seller.

27 OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2009, the Group had obligations under finance leases repayable as follows:

	The Group			
	2009		2008	
	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	**4,886**	**27,391**	4,421	27,347
After 1 year but within 2 years	**5,849**	**27,835**	4,878	27,347
After 2 years but within 5 years	**23,296**	**85,151**	20,274	84,164
After 5 years	**196,075**	**318,325**	204,588	346,464
	225,220	**431,311**	229,740	457,975
	230,106	**458,702**	234,161	485,322
Less: Total future interest expenses		**(228,596)**		(251,161)
Present value of lease obligations		**230,106**		234,161

28 PROVISIONS

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

	The Group	
	2009 $'000	2008 $'000
At 1 January	**71,301**	24,951
Addition through acquisition of subsidiaries	**–**	72,797
Provisions utilised	**(20,962)**	(26,447)
At 31 December	**50,339**	71,301

The provision balance at 31 December 2009 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.

29 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the statement of financial position represents:

	The Group		The Company	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Provision for PRC income tax for the year	**15,580**	8,659	**–**	–
PRC income tax refunded/(paid)	**3,941**	(12,673)	**–**	–
Balance of income tax provision related to prior year	**(5,645)**	(1,631)	**–**	–
Total	**13,876**	(5,645)	**–**	–

	The Group		The Company	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Balance of current taxation	**14,117**	3,632	**–**	–
Balance of tax recoverable	**(241)**	(9,277)	**–**	–
Total	**13,876**	(5,645)	**–**	–

29 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION (continued)

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

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

	Tax losses $'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 1 January 2008	–	5,463	(17,918)	–	11,196	(1,259)
Acquisition of subsidiaries	113,144	3,483	–	(65,859)	(2,194)	48,574
Credited to profit or loss (note 6(a))	(143)	182	988	588	3,415	5,030
Exchange adjustments	(123)	335	(1,094)	91	700	(91)
At 31 December 2008	112,878	9,463	(18,024)	(65,180)	13,117	52,254
Credited to profit or loss (note 6(a))	(9,683)	(215)	999	2,105	(1,640)	(8,434)
Exchange adjustments	172	15	(28)	(100)	17	76
At 31 December 2009	103,367	9,263	(17,053)	(63,175)	11,494	43,896

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

	2009 $'000	2008 $'000
Net deferred tax assets	**94,246**	105,634
Net deferred tax liabilities	**(50,350)**	(53,380)
	43,896	52,254

29 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION (continued)

(c) Deferred tax assets not recognised – the Group

	2009 $'000	2008 $'000
Tax losses	**1,750,465**	1,715,190
Deductible temporary differences	**153,333**	117,369
	1,903,798	1,832,559

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.

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:

	2009 $'000	2008 $'000
2009	**–**	42,873
2010	**177,214**	204,086
2011	**619,306**	663,589
2012	**480,392**	507,981
2013	**279,137**	261,367
2014	**159,676**	–
	1,715,725	1,679,896

(d) Deferred tax assets not recognised – the Company

At 31 December 2009, the Company has not recognised deferred tax assets in respect of cumulative tax losses of $34,740,000 (2008: $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.

30 SHARE CAPITAL

(a) Authorised and issued share capital

	2009 No. of shares ('000)	2009 $'000	2008 No. of shares ('000)	2008 $'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 1 January	**9,184,414**	**183,688**	5,996,614	119,932
Ordinary shares issued for acquisition of subsidiaries	**–**	**–**	3,187,800	63,756
At 31 December	**9,184,414**	**183,688**	9,184,414	183,688
Convertible preference shares				
At 1 January	**1,518,807**	**30,376**	–	–
Preference shares issued for acquisition of subsidiaries	**–**	**–**	1,518,807	30,376
At 31 December	**1,518,807**	**30,376**	1,518,807	30,376
Total at 31 December	**10,703,221**	**214,064**	10,703,221	214,064

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.

30 SHARE CAPITAL (continued)

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

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

31 RESERVES

(a) The Company

	Share premium (Note (c)) $'000	Share option reserve (Note (c)) $'000	Convertible bonds reserve (Note (c)) $'000	Accumulated losses (Note (b)) $'000	Total $'000
At 1 January 2008	931,688	50,670	–	(908,654)	73,704
Total comprehensive income for the year	–	–	–	170,643	170,643
Arising from acquisition of subsidiaries					
– 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	–	–	50,490	–	50,490
At 31 December 2008	1,279,977	50,670	329,044	(738,011)	921,680
Total comprehensive loss for the year	–	–	–	(149,036)	(149,036)
Redemption of convertible bonds (note 25)	–	–	(28,660)	6,535	(22,125)
At 31 December 2009	1,279,977	50,670	300,384	(880,512)	750,519

(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 31 December 2009 and 2008.

31 RESERVES (continued)

(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.

(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 31 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).

31 RESERVES (continued)

(d) Capital management

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

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

As set out in note 1(b), on 16 March 2010, the Company entered into an agreement with the holders of its convertible bonds to purchase and cancel all convertible bonds in issue (see note 25) with the consideration to be satisfied by the issuance by the Company to the convertible bondholders of 3,897,110,334 new convertible preference shares of $0.02 each. Completion of this transaction is subject to fulfillment of certain conditions.

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.

In view of the above and the improved operating performance of the Group, the Directors consider that the Group's equity base will improve going forward.

32 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

32 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

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 6 June 2002	$0.07	539,695,296	Immediate from the date of grant	10 years
– on 10 November 2003	$0.19	539,695,296	Immediate from the date of grant	10 years
– on 24 May 2005	$0.11	599,661,440	Immediate from the date of grant	10 years
Options granted to employees:				
– on 6 June 2002	$0.07	59,966,144	Immediate from the date of grant	10 years
– on 10 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)

32 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

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

	2009 and 2008	
	Weighted average exercise price	Number of shares
Outstanding at 1 January and 31 December	$0.123	1,798,984,320

The options outstanding at 31 December 2009 had an exercise price of $0.07, $0.11 or $0.19 (2008: $0.07, $0.11 or $0.19) and a weighted average remaining contractual life of 3.9 years (2008: 4.9 years).

33 SEGMENT INFORMATION

The Group has a single operating and reportable segment – operation of hypermarket stores in the PRC. All revenue from external customers are generated in the PRC and all significant operating assets of the Group are located in the PRC.

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are 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 39(b), the Group had receivables due from C.P. Holding (BVI) Investment Company Limited ("CPH"), which is the Company's immediate holding company, and its subsidiaries amounting to approximately $662 million (2008: $770 million) as at 31 December 2009, which represent approximately 76% (2008: 78%) of the Group's total trade and other receivables. Given 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.

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(a) Credit risk (continued)

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

(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 31 December 2009, the Group had net current liabilities of approximately $3,435 million (2008: $3,699 million). The Group's liabilities as at 31 December 2009 include loans of approximately $581 million (2008: $768 million) (note 24) due to companies related to the Group's ultimate holding company and, as disclosed in note 23, 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 Group generated net cash from operating activities of approximately $534 million during the year ended 31 December 2009 (2008: net cash outflow from operating activities of approximately $58 million).

As set out in note 1(b) on 28 December 2009, the Group entered into the Facility Agreements whereby the Group was granted term loan facilities with an aggregated amount of USD250 million (equivalent to $1,950 million) which will expire on 31 December 2015 with instalment repayments scheduled during their term. The Company has also entered into an agreement to purchase and cancel all convertible bonds in issue, to be satisfied by the issuance of new convertible preference shares to the bondholders. Assuming the required conditions are met, the Directors expect completion of this transaction to take place no later than 30 September 2010.

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 31 December 2010. 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.

Based on the cash flow forecast prepared, the Group's improved operating performance and cash flows in 2009, the long-term loan facilities obtained under the Facility Agreements 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 for the forthcoming year.

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (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	Carrying amount $'000
31 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
31 December 2009						
Non-derivative financial liabilities						
Bank loans	(1,557,352)	(73,332)	(315,339)	–	(1,946,023)	1,878,159
Other loans	(890,173)	–	–	–	(890,173)	860,661
Notes payable, creditors and accrued charges	(3,214,989)	–	–	–	(3,214,989)	3,214,989
Amounts due to related companies	(209,205)	–	–	–	(209,205)	209,205
Consideration payable for acquisition of subsidiaries	(61,628)	–	–	–	(61,628)	60,450
Obligations under finance leases	(27,391)	(27,835)	(85,151)	(318,325)	(458,702)	230,106
Convertible bonds	(15,199)	(1,652,671)	–	–	(1,667,870)	1,238,729
	(5,975,937)	(1,753,838)	(400,490)	(318,325)	(8,448,590)	7,692,299

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (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	Carrying amount $'000
31 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
31 December 2009						
Non-derivative financial liabilities						
Bank loans	(74,301)	(73,332)	(315,339)	–	(462,972)	428,220
Other loans	(336,808)	–	–	–	(336,808)	335,650
Notes payable, creditors and accrued charges	(7,873)	–	–	–	(7,873)	7,873
Amounts due to related companies	(779)	–	–	–	(779)	779
Amounts due to subsidiaries	(210,352)	–	–	–	(210,352)	210,352
Convertible bonds	(15,199)	(1,652,671)	–	–	(1,667,870)	1,238,729
	(645,312)	(1,726,003)	(315,339)	–	(2,686,654)	2,221,603

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(c) Interest rate risk

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

The Group

	At 31 December			
	2009		2008	
	Effective interest rate	**Carrying value $'000**	Effective interest rate	Carrying value $'000
Variable rate instruments:				
Pledged and restricted bank deposits	**1.77%**	**398,332**	0.70%	573,651
Cash and cash equivalents	**0.36%**	**341,643**	0.36%	272,109
Bank loans	**4.68%**	**(1,878,159)**	4.94%	(1,665,164)
Other loans	**1.76%**	**(46,642)**	5.15%	(124,642)
Consideration payable for acquisition of subsidiaries	**2.56%**	**(60,450)**	5.12%	(120,900)
		(1,245,276)		(1,064,946)
Fixed rate instruments:				
Bank loans	**–**	**–**	7.51%	(368,518)
Other loans	**5.18%**	**(814,019)**	7.25%	(752,122)
Obligations under finance leases	**9.80%-10.03%**	**(230,106)**	9.80%-10.03%	(234,161)
Convertible bonds	**17.07% and 17.32%**	**(1,238,729)**	17.07% and 17.32%	(1,174,928)
		(2,282,854)		(2,529,729)

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(c) Interest rate risk (continued)

(i) Interest rate profile (continued)

The Company

	At 31 December			
	2009		2008	
	Effective interest rate	**Carrying value $'000**	Effective interest rate	Carrying value $'000
Variable rate instruments:				
Cash and cash equivalents	**0.01%**	**3,388**	0.36%	2,798
Pledged deposits	**–**	**–**	0.23%	155,099
Bank loans	**4.06%**	**(428,220)**	4.84%	(428,220)
Other loans	**3.02%**	**(41,340)**	5.89%	(119,340)
		(466,172)		(389,663)
Fixed rate instruments:				
Other loans	**2.98%**	**(217,776)**	5.51%	(109,200)
Convertible Bonds	**17.07% and 17.32%**	**(1,238,729)**	17.07% and 17.32%	(1,174,928)
		(1,456,505)		(1,284,128)

(ii) Sensitivity analysis

At 31 December 2009, 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 2009 $'000	Year ended 31 December 2008 $'000
Variable rate instrument:		
100 basis point increase	**(12,453)**	(10,649)
100 basis point decrease	**12,453**	10,649

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the reporting date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The analysis is performed on the same basis for 2008.

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk

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

The Group is exposed to foreign currency risk from bank loans that are denominated in 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 31 December 2009 and 2008.

35 CONTINGENT LIABILITIES

As at the reporting date, the Company has issued two guarantees to an independent third party which expire in 2025 and two guarantees to a bank which expire in March 2010 and July 2010 respectively in respect of finance lease arrangements with its subsidiaries (see note 27), a co-guarantee to a bank for a bank acceptance facility granted to its subsidiary which expires in August 2012 and a co-guarantee to a bank in respect of a bank loan granted to its subsidiary which expires in May 2012 respectively or upon repayment of the loan, if earlier (see note 23). As at the reporting 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 reporting date under the guarantees issued is 100% of the future minimum lease payments under the two lease agreements entered into by the subsidiaries of RMB100 million (equivalent to $113,570,000), and the total outstanding amount of the bank acceptance facility and bank loan owed by its subsidiaries of $47,325,000 (2008: $28,348,000).

36 OPERATING LEASE COMMITMENTS

As lessee

At 31 December 2009, total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Within 1 year	**325,626**	333,737	**–**	–
After 1 year but within 5 years	**406,170**	441,653	**–**	–
After 5 years	**43,529**	44,284	**–**	–
	775,325	819,674	**–**	–

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 $246,043,000 (2008: $156,552,000). All of the properties held have committed tenants for the next two to five years.

At 31 December 2009, the total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	The Group	
	2009	2008
	$'000	$'000
Within 1 year	**96,049**	82,039
After 1 year but within 5 years	**43,385**	53,492
After 5 years	**18,236**	16,695
	157,670	152,226

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.

37 CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2009 not provided for in the financial statements were as follows:

	The Group	
	2009 **$'000**	2008 $'000
Contracted for	**101,303**	54,222
Authorised but not contracted for	**35,365**	14,540
	136,668	68,762

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

38 EMPLOYEE RETIREMENT BENEFITS

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

Employees of the Group in the PRC participate in several defined contribution retirement schemes organised separately by PRC municipal governments in regions where the major operations of the Group are located. The Group is required to contribute to these schemes at rates ranging from 10% to 21% (2008: 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.

39 MATERIAL RELATED PARTY TRANSACTIONS

(a) The Group entered into the following material related party transactions during the year:

	The Group	
	2009 **$'000**	2008 $'000
(i) Recurring transactions:		
Store merchandise purchased from:		
– Subsidiaries of C.P. Pokphand Co. Ltd. ("CPP") (note (i))	**–**	52,021
– Subsidiaries of CP China Investment Limited ("CP China") (note (i))	**234,499**	40,683
– Other related companies	**11,408**	31,187
	245,907	123,891
Store merchandise sold to:		
– CPH and its subsidiaries	**452,408**	73,476
– Other related companies	**–**	2,618
	452,408	76,094
Management service fee income from CPH and its subsidiaries (note (ii))	**35,353**	20,500
Procurement service fee income from CPH and its subsidiaries (note (iii))	**3,534**	735
IT service fee income from CPH and its subsidiaries	**9,352**	–
Rental income from other related companies	**19,904**	2,858
Rental expense charged by other related company	**20,426**	3,402
Consulting fee charged by other related company	**6,155**	1,182

39 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) The Group entered into the following material related party transactions during the year: (continued)

	The Group	
	2009 $'000	2008 $'000
(ii) Non-recurring transactions:		
Loans borrowed from other related companies	**34,044**	457,663
Interest expenses charged by other related companies in respect of:		
– Other loans	**41,174**	42,521
– Convertible bonds	**170,377**	24,679
– Consideration payable	**4,019**	9,050
	215,570	76,250
Bank facility undertaking fee payable to other related companies	**7,881**	3,043
Guarantee fee payable to other related companies	**9,617**	847

Notes:

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

(ii) On 1 January 2009, CPH and the Company agreed to terminate all the services under the management services agreements entered into on 17 May 2007 with effect from 1 April 2009.

(iii) The procurement services agreement dated 17 May 2007 entered into between the Company and CPH has been extended until 31 December 2012.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009
(Expressed in Hong Kong dollars unless otherwise indicated)

39 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) In addition to the other loans and consideration payable due to related companies as disclosed in notes 24 and 26, the Group had the following balances with related companies:

	The Group		The Company	
	2009 **$'000**	2008 $'000	**2009** **$'000**	2008 $'000
Due from related companies				
– CPH and its subsidiaries	**661,973**	770,136	**9,237**	–
– CP China and its subsidiaries	**–**	4	**–**	–
– Other related companies	**3,335**	8,632	**77**	–
	665,308	778,772	**9,314**	–
Due to related companies				
– CPH and its subsidiaries	**29,523**	20,751	**–**	–
– CP China and its subsidiaries	**98,169**	104,642	**–**	3,876
– Other related companies	**81,513**	64,524	**779**	–
	209,205	189,917	**779**	3,876

(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 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	The Group	
	2009 **$'000**	2008 $'000
Short-term employee benefits	**38,066**	22,350
Post-employment benefits	**43**	36
Termination benefits	**–**	–
Equity compensation benefits	**–**	–
	38,109	22,386

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

40 COMPARATIVE FIGURES

Certain income from suppliers amounting to $15,700,000 which was recorded in other revenue in the 2008 financial statements is now presented as a reduction of cost of sales to reflect more appropriately the nature of the income.

As a result of the application of HKAS 1 (revised 2007), Presentation of financial statements, certain comparative figures have been adjusted to conform to the current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 2.

41 IMMEDIATE AND ULTIMATE HOLDING COMPANIES

At 31 December 2009, 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.

42 ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty

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

(a) Going concern

The Directors of the Company have given careful consideration to the future liquidity of the Group in light of the Group's net current liabilities of approximately $3,435 million (2008: $3,699 million) as at 31 December 2009. The Directors consider that it is appropriate to prepare the financial statements using a going concern basis. Further details are set out in notes 1(b) and 34(b).

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.

42 ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(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.

(d) Deferred tax

At 31 December 2009, the Group has recognised a deferred tax asset in relation to tax losses carried forward of certain PRC subsidiaries, as set out in note 29. 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.

42 ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(e) Provisions

After obtaining legal advice, the Directors have made a provision as at 31 December 2009 of $50,339,000 for estimated penalties, claims and liquidated damages in respect of claims brought against a subsidiary for cancelling new store lease contracts in prior years. The ultimate outcome of these cases is uncertain.

43 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2009

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 31 December 2009 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:

	2005 $'000	2006 $'000	2007 $'000	2008 $'000	**2009** **$'000**
RESULTS					
Turnover	1,852,753	3,482,835	4,390,658	6,277,120	**9,967,358**
Loss before taxation	(524,101)	(561,653)	(306,125)	(41,944)	**(243,494)**
Taxation	538	(9,375)	1,419	(3,629)	**(24,014)**
Loss after taxation	(523,563)	(571,028)	(304,706)	(45,573)	**(267,508)**
(Loss)/profit from discontinued operations	(6,617)	223,571	–	–	–
Loss for the year	(530,180)	(347,457)	(304,706)	(45,573)	**(267,508)**
Attributable to:					
Equity shareholders of the Company	(497,296)	(334,577)	(307,329)	(45,443)	**(267,508)**
Minority interests	(32,884)	(12,880)	2,623	(130)	–
Loss for the year	(530,180)	(347,457)	(304,706)	(45,573)	**(267,508)**
ASSETS AND LIABILITIES					
Total assets	1,906,792	2,459,103	2,465,527	8,445,760	**7,960,268**
Total liabilities	(1,566,304)	(2,528,482)	(2,784,903)	(8,006,418)	**(7,807,105)**
NET ASSETS/(LIABILITIES)	340,488	(69,379)	(319,376)	439,342	**153,163**
CAPITAL AND RESERVES					
Total equity attributable to equity shareholders of the Company	253,897	(71,896)	(322,064)	439,342	**153,163**
Minority interests	86,591	2,517	2,688	–	**–**
TOTAL EQUITY	340,488	(69,379)	(319,376)	439,342	**153,163**

CORPORATE INFORMATION

Executive Directors
Mr. Dhanin Chearavanont *(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

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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Share Listing
The Stock Exchange of Hong Kong Limited
Stock Code: 00121

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

FINANCIAL CALENDAR AND SHAREHOLDER INFORMATION

FINANCIAL CALENDAR 2010

Annual results announced	26 April
Extraordinary General Meeting	26 April
Annual General Meeting	June 2010
2010 Interim Results	August 2010
Financial year end	31 December

SHAREHOLDER INFORMATION

Share Capital As at 31 December 2009	**Nominal value HK$**	**Number of shares**	**HK$'000**
Ordinary Shares			
Authorised	0.02	18,000,000,000	360,000
Issued and Fully Paid-up	0.02	9,184,414,410	183,688
Convertible Preference Shares			
Authorised	0.02	2,000,000,000	40,000
Issued and Fully Paid-up*	0.02	1,518,807,075	30,376

* Held by CPH

Shareholding As at 31 December 2009	**No. of shares**	**% of issued share capital**
C.P. Holding (BVI) Investment Company Limited ("CPH")*	6,888,319,021	75%
Public	2,296,095,389	25%
TOTAL	9,184,414,410	100%

* CPH is an indirect wholly-owned subsidiary of Charoen Pokphand Group Company Limited

STOCK CODE

Hong Kong Stock Exchange	00121
Reuters	0121 HK
Bloomberg	121 HK

Request for Feedback

Please email to contact@ctei.com.hk for any comments on our public announcement and disclosures.

Annual
Report
2009 年報