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CHIA TAI ENTERPRISES INTERNATIONAL LIMITED

正大企業國際有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00121)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31ST DECEMBER, 2009

The board of directors (the “Directors”) of Chia Tai Enterprises International Limited (the “Company” or “CTEI”) announces that the consolidated results of the Company and its subsidiaries (together the “Group”) for the year ended 31st December, 2009 with comparative figures in 2008, were as follows:

Consolidated Statement of Comprehensive Income

		For the year ended	
		31st December,	
		2009	2008
	Notes	HK\$'000	HK\$'000
			(Restated)
			(Note 16)
Turnover	2	9,967,358	6,277,120
Cost of sales		(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			
- Interest on convertible bonds	6	(190,187)	(39,928)
- Other finance costs		(176,023)	(129,756)
		(366,210)	(169,684)
Loss before taxation		(243,494)	(41,944)
Income tax	7	(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)

Consolidated Statement of Comprehensive Income (Continued)

		For the year ended	
		31st December,	
		2009	2008
	Notes	HK\$'000	HK\$'000
Loss for the year attributable to:			
Equity shareholders of the Company		(267,508)	(45,443)
Minority interests		-	(130)
		<u>(267,508)</u>	<u>(45,573)</u>
Total comprehensive loss for the year attributable to:			
Equity shareholders of the Company		(264,054)	(10,059)
Minority interests		-	(13)
		<u>(264,054)</u>	<u>(10,072)</u>
Loss per share			
- Basic and diluted	9	<u>(2.50) HK cents</u>	<u>(0.67) HK cent</u>

Consolidated Statement of Financial Position

		2009	2008
	Notes	HK\$'000	HK\$'000
Non-current assets			
Fixed assets			
- 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
		<u>2,018,058</u>	<u>2,199,516</u>
Intangible assets		252,699	260,713
Goodwill	10	3,088,860	3,083,965
Prepaid lease payments for premises		9,365	6,831
Other long-term prepayments		9,313	-
Deferred tax assets		94,246	105,634
		<u>5,472,541</u>	<u>5,656,659</u>
Current assets			
Prepaid lease payments for premises		14,744	5,288
Inventories		840,729	900,969
Trade and other receivables	11	874,958	990,812
Income tax recoverable		241	9,277
Pledged and restricted bank deposits		398,332	573,651
Cash and cash equivalents		358,723	296,631
		<u>2,487,727</u>	<u>2,776,628</u>
Assets classified as held for sale	12	-	12,473
		<u>2,487,727</u>	<u>2,789,101</u>

Consolidated Statement of Financial Position (Continued)

		2009	2008
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current liabilities			
Trade and other payables	13	3,424,194	3,437,670
Bank loans		1,507,659	2,033,682
Other loans		860,661	876,764
Consideration payable for acquisition of subsidiaries		60,450	60,450
Obligations under finance leases		4,886	4,421
Current taxation		14,117	3,632
Provisions	15	50,339	71,301
		<u>5,922,306</u>	<u>6,487,920</u>
Net current liabilities		<u>(3,434,579)</u>	<u>(3,698,819)</u>
Total assets less current liabilities		<u>2,037,962</u>	<u>1,957,840</u>
Non-current liabilities			
Bank loans		370,500	-
Convertible bonds		1,238,729	1,174,928
Consideration payable for acquisition of subsidiaries		-	60,450
Obligations under finance leases		225,220	229,740
Deferred tax liabilities		50,350	53,380
		<u>1,884,799</u>	<u>1,518,498</u>
NET ASSETS		<u>153,163</u>	<u>439,342</u>
CAPITAL AND RESERVES			
Share capital		214,064	214,064
Reserves		<u>(60,901)</u>	<u>225,278</u>
TOTAL EQUITY		<u>153,163</u>	<u>439,342</u>

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

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”).

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. These developments had no material effect on profit or loss, total income and expense or net assets for the current and prior accounting periods reflected in these financial statements.

2. 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.

	Consolidated	
	2009	2008
	HK\$'000	HK\$'000
Sales of goods	<u>9,967,358</u>	<u>6,277,120</u>

3. SEGMENT INFORMATION

In the current year, the Group has applied HKFRS 8, "Operating Segments" issued by the HKICPA, which replaces HKAS 14, "Segment Reporting". It requires segmental information to be disclosed based on the way that the Group's chief operating decision makers regard and manage the Group.

The Group is engaged in retail business of the operation of hypermarket stores in the PRC and all of its sales during the periods are generated in the PRC. Under the requirement of HKFRS 8, the Group has only one business segment for the years ended 31st December, 2009 and 2008.

4. OTHER REVENUE AND OTHER NET (LOSS)/INCOME

	Consolidated	
	2009	2008
	HK\$'000	HK\$'000
		(Restated)
		(Note 16)
Other revenue		
Leasing of store premises	246,043	156,552
Management service fee	35,353	20,500
Procurement service fee	3,534	735
Other promotion and service income	75,064	59,321
Interest income	8,153	5,716
	<u>368,147</u>	<u>242,824</u>
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)
	<u>(15,172)</u>	<u>168,392</u>

5. DEPRECIATION AND AMORTISATION

During the year ended 31st December, 2009, depreciation of HK\$243,774,000 (2008: HK\$137,882,000) in respect of the Group's property, plant and equipment; amortisation of HK\$7,938,000 (2008: HK\$8,140,000) in respect of land lease premium, and amortisation of HK\$8,421,000 (2008: HK\$2,352,000) in respect of the intangible assets were charged.

6. INTEREST ON CONVERTIBLE BONDS

Interest on convertible bonds of HK\$190,187,000 (2008: HK\$39,928,000) for the year ended 31st December, 2009 consists of HK\$15,329,000 (2008: HK\$2,794,000) representing coupon interest at 1% per annum on the principal amount of the convertible bonds and HK\$174,858,000 (2008: HK\$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 14.

7. INCOME TAX

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Current tax - PRC		
Provision for the year	15,580	8,659
Deferred tax		
Origination and reversal of temporary differences	8,434	(5,030)
Taxation expense	<u>24,014</u>	<u>3,629</u>

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 1st 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 1st January, 2008. As at 31st December, 2009, the PRC subsidiaries of the Group had aggregated accumulated losses and therefore no deferred tax liabilities were recognized in this regard.

8. DIVIDEND

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

9. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the loss for the year attributable to equity shareholders of the Company of HK\$267,508,000 (2008: HK\$45,443,000) and on the 9,184,414,410 weighted average number of ordinary shares and 1,518,807,075 weighted average number of preference shares (2008: 6,527,914,408 weighted average number of ordinary shares and 253,134,512 weighted average number of preference shares) in issue during the year.

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

10. GOODWILL

	THE GROUP	
	2009	2008
	HK\$'000	HK\$'000
<i>Cost:</i>		
As at 1st 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)
As at 31st December	<u>3,146,693</u>	<u>3,141,798</u>
<i>Accumulated impairment losses:</i>		
As at 1st January and 31st December	<u>57,833</u>	<u>57,833</u>
<i>Carrying amount:</i>		
As at 31st December	<u>3,088,860</u>	<u>3,083,965</u>

11. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2009	2008
	HK\$'000	HK\$'000
Trade receivables, other receivables and deposits	209,650	212,040
Amounts due from related companies	665,308	778,772
	<u>874,958</u>	<u>990,812</u>

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

	2009	2008
	HK\$'000	HK\$'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
	<u>40,540</u>	<u>40,079</u>

12. ASSETS CLASSIFIED AS HELD FOR SALE

At 31st 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 HK\$12,473,000). The transaction for the disposal of the land use right was completed in 2009.

13. TRADE AND OTHER PAYABLES

	THE GROUP	
	2009	2008
	HK\$'000	HK\$'000
Notes payable	92,218	47,632
Creditors and accrued charges	3,122,771	3,200,121
Amounts due to related companies	209,205	189,917
	<u>3,424,194</u>	<u>3,437,670</u>

Included in trade and other payables are trade creditors and notes payable of HK\$2,414,710,000 (2008: HK\$2,382,863,000) with the following ageing analysis:

	THE GROUP	
	2009	2008
	HK\$'000	HK\$'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
	<u>2,414,710</u>	<u>2,382,863</u>

14. CONVERTIBLE BONDS

On 31st October, 2008, the Company issued convertible bonds due in 2011 in the aggregate principal amount of HK\$1,519,873,031 (the "Convertible Bonds") as part of the consideration to acquire Shanghai Lotus Supermarket Chain Store Co., Ltd. ("SLS") based on the acquisition agreement dated 17th May, 2007 (the "Acquisition Agreement"). Contemporaneously, a related party subscribed for additional convertible bonds due in 2011 in the aggregate principal amount of HK\$156,380,000 (the "Subscribed Convertible Bonds") at their principal amount payable in cash.

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

- i. Liability component represents the present value of the contractually determined stream of cash flows discounted at the prevailing market interest rate applicable to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option. The interest charged for the period is calculated by applying an effective interest rate of 17.07% and 17.32% to the liability component since the Convertible Bonds and Subscribed Convertible Bonds were issued respectively.
- ii. Equity component represents the option to convert the Convertible Bonds/Subscribed Convertible Bonds into ordinary shares of the Company, and is determined by deducting the fair value of the liability component from the fair value/proceeds of the Convertible Bonds/Subscribed Convertible Bonds of the compound financial instrument as a whole.

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

On 23rd 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 HK\$156,380,000 at a redemption price of HK\$133,313,000 representing a discount of 15% to the principal amount plus accrued coupon interest. The redemption was completed on 30th January, 2009. As at 30th January, 2009, the carrying value of the redeemed Convertible Bonds was HK\$139,848,000, including liability component and equity component of HK\$111,188,000 and HK\$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 30th January, 2009, the discount of HK\$6,535,000 arising on the redemption has been credited directly to equity.

On 16th 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, including the approval of the independent shareholders of the Company.

15. 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	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1st January	71,301	24,951
Addition through acquisition of subsidiaries	-	72,797
Provisions utilised	(20,962)	(26,447)
As at 31st December	50,339	71,301

The provision balance at 31st 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.

16. COMPARATIVE FIGURES

Certain income from suppliers amounting to HK\$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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 US\$250 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 26th April, 2010 and we expect the completion to take place no later than 30th September, 2010.

CTEI completed the restructuring in October 2008 involving the acquisition of 21 well-established and performing stores owned by 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.

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. 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 31st 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 annual 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.

Liquidity and Financial Resources

During the year, the Group's source of fund was generated primarily from operating activities. With the completion of the US\$250 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.

	THE GROUP	
	2009	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.

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, has not undertaken any hedging activities.

Contingent Liabilities

As at the reporting date, the Company had 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 subsidiary 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 30th May, 2006 whereby Union Growth has agreed to pledge 38,960,000 registered shares of Lotus-CPF (PRC) Investment Company Limited (“Lotus-CPF”) to CPM as security for the due and punctual performance of its obligation under a Share Sale and Purchase Agreement dated 27th February, 2006 made between Union Growth and CPM, in relation to the acquisition of the remaining 40% of Lotus-CPF.

As at 31st December, 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.

Capital Structure

For the year ended 31st December, 2009, there has been no change in the Company’s issued share capital.

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 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.

The Group continued its efforts to transform our stores into Lifestyle model to provide one-stop shopping convenience and varieties to our customers.

Excel in integrated Operations with service excellence

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 organization 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 31st 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.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with all code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules during the year.

AUDIT COMMITTEE

The Audit Committee comprises the three independent non-executive directors of the Company. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the financial statements for the year ended 31st December, 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.

By Order of the Board
Umroong Sanphasitvong
Director

Hong Kong, 26th April, 2010

As at the date of this announcement, the Board comprises fifteen executive directors, namely Mr. Dhanin Chearavanont, 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 and Mr. Kachorn Chiaravanont and three independent non-executive directors, namely Mr. Viroj Sangsnit, Mr. Chokchai Kotikula and Mr. Cheng Yuk Wo.