

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated in Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its ultimate holding company is Ramon Limited, incorporated in the British Virgin Islands.

The Company is an investment holding company. The principal activities of its subsidiaries, jointly controlled entities and associates are set out in notes 16, 17 and 18 respectively.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Society of Accountants (“HKSA”), the terms of HKFRS is inclusive of Statement of Standard Accounting Practices (“SSAP(s)”) and interpretations approved by the HKSA. The principal effect of the implementation of SSAP 12 (Revised) “Income Taxes” is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of this revised SSAP has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiary acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intra-group transactions and balances have been eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, an associate or a jointly controlled entity at the date of acquisition.

Goodwill arising on acquisitions is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition over the cost of acquisition.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Negative goodwill (Continued)

Negative goodwill arising on acquisition is presented as a deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquire depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of an associate or a jointly controlled entity is deducted from the carrying value of that associate or jointly controlled entity. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus goodwill in so far as it has not already been written off, less any identified impairment loss.

Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities plus the goodwill in so far as it has not already been written off, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

The Company's investments in jointly controlled entities are stated at cost, as reduced by any identified impairment loss. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Rental income from properties under operating leases is recognised on a straight line basis over the term of the relevant lease.

Service income is recognised when services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation and amortisation and accumulated impairment losses.

Depreciation and amortisation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Land and building	5%
Leasehold improvements	$33\frac{1}{3}\%$
Furniture, fixtures and equipment	$18\% - 33\frac{1}{3}\%$
Motor vehicles	$15\% - 33\frac{1}{3}\%$

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties (Continued)

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance of the investment properties revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation surplus subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance of the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amounts, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using on the weighted average method.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease term.

Retirement benefit costs

Payments to State-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

4. TURNOVER

Turnover represents the amounts received and receivable for goods sold to outside customers, less returns and allowances, promotion and services income, and property rental income for the year, and is analysed as follows:

	2003 HK\$'000	2002 HK\$'000
Sale of goods	315,407	86,724
Promotion and services income	30,083	–
Property rental income	3,617	3,990
	349,107	90,714

5. SEGMENTAL INFORMATION

BUSINESS SEGMENTS

For management purposes, the Group is currently organised into four operating divisions – property investment, property development, retail and other operation. These divisions are the bases on which the Group reports its primary segment information.

Principal activities are as follows:

- Property investment – includes the Group's investment in residential premises for their rental income potential;
- Property development – includes the Group's investment in land for development of commercial building;
- Retail – includes the operation of supermarket chain stores and retailing of consumer products; and
- Other operation – comprises the provision of logistics services.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

5. SEGMENTAL INFORMATION (Continued)

BUSINESS SEGMENTS (Continued)

Segmental information about these businesses is presented below.

For the year ended 31st December, 2003

	Property investment HK\$'000	Property development HK\$'000	Retail HK\$'000	Other operation HK\$'000	Elimination HK\$'000	Total HK\$'000
REVENUE						
External revenue	2,831	–	343,924	2,352	–	349,107
RESULT						
Segment result	(22,810)	–	(52,237)	(3,806)	–	(78,853)
Interest and unallocated gains						9,843
Unallocated expenses						(49,468)
Loss from operations						(118,478)
Finance costs						(163)
Share of losses of associates			(17,732)			(17,732)
Share of profits of jointly controlled entities		18,980				18,980
Gain on disposal/dilution of interest in subsidiaries						160,632
Profit before taxation						43,239
Income tax expenses						(3,710)
Net profit for the year						39,529
Minority interests						26,022
Net profit attributable to shareholders						65,551

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

5. SEGMENTAL INFORMATION (Continued)

BUSINESS SEGMENTS (Continued)

Assets and liabilities at 31st December, 2003

	Property investment HK\$'000	Property development HK\$'000	Retail HK\$'000	Other operation HK\$'000	Total HK\$'000
ASSETS					
Segmental assets	27,683	–	226,096	2,935	256,714
Interests in associates	–	–	357,279	–	357,279
Interests in jointly controlled entities	–	249,607	–	–	249,607
Unallocated corporate assets	–	–	–	–	458,995
Consolidated total assets	27,683	249,607	583,375	2,935	1,322,595
LIABILITIES					
Segmental liabilities	10,340	–	107,452	917	118,709
Unallocated corporate liabilities	–	–	–	–	382,077
Consolidated total liabilities	10,340	–	107,452	917	500,786
OTHER INFORMATION					
Capital additions	–	–	127,319	10,752	138,071
Additions to non-current assets	–	–	23,030	–	23,030
Depreciation and amortisation	–	–	8,565	3,578	12,143
Deficit on revaluation of investment properties	1,571	–	–	–	1,571

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

5. SEGMENTAL INFORMATION (Continued)

BUSINESS SEGMENTS (Continued)

For the year ended 31st December, 2002

	Property investment HK\$'000	Property development HK\$'000	Retail HK\$'000	Other operation HK\$'000	Elimination HK\$'000	Total HK\$'000
REVENUE						
External revenue	3,990	–	86,724	–	–	90,714
Inter segment revenue	398	–	–	–	(398)	–
Total revenue	4,388	–	86,724	–	(398)	90,714
RESULT						
Segment result	(5,247)	–	(32,955)	–	–	(38,202)
Interest and unallocated gains						12,242
Unallocated expenses						(36,220)
Loss from operations						(62,180)
Finance costs						(6,760)
Gain on disposal/dilution of interest in subsidiaries						69,086
Gain on disposal of associates						58,766
Share of profits of jointly controlled entities						84,195
Share of losses of associates						(10,811)
Profit before taxation						132,296
Income tax expenses						(6,290)
Net profit for the year						126,006
Minority interests						(20,759)
Net profit attributable to shareholders						105,247

Inter segment revenue is charged at terms determined and agreed between the group companies.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

5. SEGMENTAL INFORMATION (Continued)

BUSINESS SEGMENTS (Continued)

Assets and liabilities at 31st December, 2002

	Property investment HK\$'000	Property development HK\$'000	Retail HK\$'000	Other operation HK\$'000	Total HK\$'000
ASSETS					
Segmental assets	133,500	295	109,456	–	243,251
Interests in associates	–	–	–	18,847	18,847
Interests in jointly controlled entities	–	360,427	–	–	360,427
Unallocated corporate assets	–	–	–	–	497,490
Consolidated total assets	133,500	360,722	109,456	18,847	1,120,015
LIABILITIES					
Segmental liabilities	8,952	217,091	57,349	–	283,392
Unallocated corporate liabilities	–	–	–	–	55,820
Consolidated total liabilities	8,952	217,091	57,349	–	339,212
OTHER INFORMATION					
Capital additions	–	–	30,676	–	30,676
Depreciation and amortisation	17	–	2,351	2,023	4,391
Deficit on revaluation of investment properties	2,860	–	–	–	2,860

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

5. SEGMENTAL INFORMATION (Continued)

GEOGRAPHICAL SEGMENTS

The Group's operations are located in Hong Kong and The People's Republic of China (the "PRC").

An analysis of the Group's revenue by geographical market and an analysis of the carrying amount of segment assets, and capital additions analysed by the geographical area in which the assets are located, is presented below.

2003

	Hong Kong HK\$'000	The PRC HK\$'000	Others HK\$'000	Total HK\$'000
REVENUE				
Turnover	5,632	343,475	–	349,107
Carrying amount of segment assets	253,496	1,069,099	–	1,322,595
Additions to property, plant and equipment	9,074	128,997	–	138,071
Additions to non-current assets	11,750	11,280	–	23,030

2002

	Hong Kong HK\$'000	The PRC HK\$'000	Others HK\$'000	Total HK\$'000
REVENUE				
Turnover	2,993	87,721	–	90,714
Carrying amount of segment assets	90,382	793,695	18,847	902,924
Additions to property, plant and equipment	2,625	30,393	–	33,018

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

6. LOSS FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Loss from operations has been arrived at after charging:		
Directors' emoluments (<i>note 9</i>)	11,949	5,971
Other staff costs	46,460	17,978
Total staff costs	58,409	23,949
Auditors' remuneration	1,264	541
Amortisation of franchise fee	250	–
Depreciation of property, plant and equipment	11,893	4,391
Write off of interest receivable from a jointly controlled entity	–	2,754
and after crediting:		
Interest income	7,177	2,285

Included in total staff costs is an aggregate amount of approximately HK\$3,586,000 (2002: HK\$818,000) in respect of contribution to retirement benefit scheme paid or payable by the Group.

7. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on borrowings wholly repayable within five years:		
Bank borrowings	163	3,483
Loans from related companies	–	1,033
Other loans	–	2,244
	163	6,760

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

8. GAIN ON DISPOSAL/DILUTION OF INTEREST IN SUBSIDIARIES

During the year, the Group recognised the gain on disposal/dilution of interest in subsidiaries of approximately HK\$160,632,000, after adjusting for the reserves released of approximately HK\$7,799,000 upon disposal, in the consolidated income statement. The carrying amounts of the assets and liabilities of the above subsidiaries disposed of at the dates of disposal are disclosed in note 28.

9. DIRECTORS' AND EMPLOYEES REMUNERATION

The emoluments of the directors and the five highest paid individuals are summarised as follows:

	2003 HK\$'000	2002 HK\$'000
(a) Directors' remuneration		
Fees		
– Executive directors	–	–
– Independent non-executive directors	240	240
	240	240
Other emoluments (executive directors):		
Salaries and allowances	11,685	5,731
Contribution to retirement benefits scheme	24	–
Total emoluments	11,949	5,971

The emoluments of the directors were within the following bands:

	2003 No. of Directors	2002 No. of Directors
Nil to HK\$1,000,000	8	8
HK\$2,000,001 to HK\$2,500,000	1	1
HK\$3,000,001 to HK\$3,500,000	2	1
	11	10

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

9. DIRECTORS' AND EMPLOYEES REMUNERATION (Continued)

(b) Employees' emoluments

The five highest paid individuals in the Group included three directors (2002: two directors) of the Company, details of whose emoluments are set out above. The emoluments of the remaining individuals were as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and allowances	2,762	3,440

The emoluments of the highest paid employees, excluding directors, were within the following bands:

	2003 HK\$'000	2002 HK\$'000
Nil to HK\$1,000,000	–	1
HK\$1,000,001 to HK\$1,500,000	2	2
	2	3

During the years ended 31st December, 2003 and 2002, 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 additions, no director waived any emoluments for these two years.

10. INCOME TAX EXPENSES

	2003 HK\$'000	2002 HK\$'000
Company and its subsidiaries		
Income tax provision in other jurisdictions	–	65
Share of taxation attributable to jointly controlled entities	3,710	6,225
	3,710	6,290

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

10. INCOME TAX EXPENSES (Continued)

Tax in other jurisdictions was calculated at the rates prevailing in the respective jurisdictions. No provision for tax in other jurisdictions for the current year has been made in the financial statements as neither the Company nor any of its subsidiaries had any assessable profits subject to tax in other jurisdiction.

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries have no assessable profit for the year.

The charge for the year can be reconciled to the profit per the income statement as follows:

	2003		2002	
	HK\$'000	%	HK\$'000	%
Profit before taxation	43,239		132,296	
Tax at the domestic income tax rate of 33% (2002: 33%)	14,269	33.0	43,658	33.0
Tax effect of income that are not taxable in determining taxable profit	(32,632)	(75.5)	(35,460)	(26.8)
Tax effect of expenses that are not deductible in determining taxable profit	9,264	21.4	6,601	5.0
Tax effect of tax loss previously not recognised	27,912	64.6	14,934	11.3
Effect of different tax rates of subsidiaries and associates operating in other jurisdictions	(15,103)	(34.9)	(23,443)	(17.7)
Tax expense and effective tax rate for the year	3,710	8.6	6,290	4.8

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

11. DIVIDENDS

No dividend was paid or proposed during the years ended 31st December, 2003 and 2002, nor has any dividend been proposed since the balance sheet date.

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2003 HK\$	2002 HK\$
Net profit attributable to shareholders	65,551,000	105,247,000
Weighted average number of ordinary shares for the purposes of basic earnings per share	5,996,614,408	5,996,614,408
Effect of dilutive potential ordinary shares in respect of Share options	255,593,401	178,635,354
Weighted average number of ordinary shares for the purposes of diluted earnings per share	6,252,207,809	6,175,249,762
Earnings per share		
Basic	1.09 cents	1.76 cents
Diluted	1.05 cents	1.70 cents

For the year ended 31st December, 2002, the outstanding warrants did not have dilutive effect to the basic earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

13. PROPERTY, PLANT AND EQUIPMENT

	Land and building HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
THE GROUP						
COST						
At 1st January, 2003	–	13,780	36,109	3,627	4,385	57,901
Additions	34,311	280	51,330	8,344	43,806	138,071
Transfer	–	1,713	3,703	–	(5,416)	–
Disposal	–	–	(254)	–	–	(254)
Released on disposal of subsidiaries	–	(12,230)	(44,886)	(1,410)	(615)	(59,141)
At 31st December, 2003	34,311	3,543	46,002	10,561	42,160	136,577
DEPRECIATION AND AMORTISATION						
At 1st January, 2003	–	2,450	4,332	966	–	7,748
Provided for the year	325	860	9,028	1,680	–	11,893
Eliminated on disposal	–	–	(88)	–	–	(88)
Released on disposals of subsidiaries	–	(100)	(9,197)	(361)	–	(9,658)
At 31st December, 2003	325	3,210	4,075	2,285	–	9,895
NET BOOK VALUES						
At 31st December, 2003	33,986	333	41,927	8,276	42,160	126,682
At 31st December, 2002	–	11,330	31,777	2,661	4,385	50,153

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

The land and buildings of the Group are held under long-term land use rights in the PRC, other than Hong Kong.

	Lease hold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE COMPANY				
COST				
At 1st January, 2003	3,264	3,083	2,099	8,446
Additions	89	812	1,934	2,835
Disposal	–	(254)	–	(254)
At 31st December, 2003	3,353	3,641	4,033	11,027
DEPRECIATION AND AMORTISATION				
At 1st January, 2003	2,350	1,755	487	4,592
Provided for the year	847	979	1,226	3,052
Eliminated on disposal	–	(88)	–	(88)
At 31st December, 2003	3,197	2,646	1,713	7,556
NET BOOK VALUES				
At 31st December, 2003	156	995	2,320	3,471
At 31st December, 2002	914	1,328	1,612	3,854

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14. INVESTMENT PROPERTIES

	2003 HK\$'000	2002 HK\$'000
THE GROUP		
At 1st January, 2003	75,000	80,000
Disposals	(47,429)	(2,140)
Deficit on revaluation	(1,571)	(2,860)
At 31st December, 2003	26,000	75,000

The Group's investment properties are held under long-term land use rights in the PRC and held for rental under operating leases.

The investment properties were valued at 31st December, 2003 by Landscape Surveyors Limited, an independent firm of professional property valuers, on an open market value basis. The deficit arising on revaluation of HK\$1,571,000 has been charged to the income statement.

15. OTHER NON-CURRENT ASSETS – THE GROUP

Other non-current assets include a franchise fee of HK\$12,000,000 paid by the Group for the use of the trademarks/tradenames in the retail operations of the Group for indefinite period. The amount of HK\$250,000 is amortised to the income statement on straight-line basis of ten years. The unamortised amount at 31st December, 2003 is HK\$11,750,000.

The remaining amount of HK\$11,280,000 included in other non-current assets represents the prepayment of rental charges made by the Group for the premises in connection with the supermarket operations in the PRC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

16. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE TO SUBSIDIARIES

	THE COMPANY	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	64,371	187,177
Amounts due from subsidiaries	337,537	275,733
	401,908	462,910
Impairment recognised	(26,412)	(83,189)
	375,496	379,721
Amounts due to subsidiaries	241,931	233,588

Details of the Company's principal subsidiaries are as follows:

Name of subsidiary	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest held by the Company		Principal activities and place of operation
			directly %	indirectly %	
Fortune (Shanghai) Limited	Cayman Islands	USD150,000	75	–	Investment holding and property investment, PRC
Taian Lotus Supermarket Chain Store Co. Ltd.	PRC	RMB2,000,000 (note 1)	–	100 (note 2)	Supermarket operation, PRC
Shanghai Litai Logistics Co. Ltd.	PRC	RMB8,000,000 (note 1)	–	100 (note 2)	Provision for logistics services, PRC
Beijing Lotus Supermarket Chain Store Co., Ltd.	PRC	USD10,045,828 (note 1)	–	65	Supermarket operation, PRC
Tianjin Lotus Supermarket Chain Store Co. Ltd.	PRC	RMB8,000,000 (note 1)	–	65	Supermarket operation, PRC
Chia Tai Barbecue Specialist Co. Ltd.	HK	HKD3,000,000	–	55	Retailing of barbecue food, Hong Kong

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

16. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE TO SUBSIDIARIES (Continued)

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive lengths.

The amounts due from/to subsidiaries are unsecured, interest free and have no fixed repayment terms. These amounts will not be repaid within the next twelve months from the balance sheet date and the amounts are therefore shown in the balance sheet as non-current.

Notes:

- (1) All are the PRC Sino-foreign equity joint ventures.
- (2) The legal title of these companies are not held by the Group. As under certain arrangements, the Group is entitled to exercise control over these companies and the beneficial ownership of all the assets, liabilities, profits and losses from these companies, these companies are treated as wholly-owned subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES/AMOUNTS DUE TO JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	249,607	488,138
Discount on acquisition	–	(3,750)
Interest capitalised	–	39,557
	249,607	523,945
Loan to jointly controlled entities	–	79,037
	249,607	602,982
Impairment loss recognised	–	(2,950)
	249,607	600,032
Amounts due to jointly controlled entities	3,637	217,091

As at 31st December, 2003, the Group had interests in the following jointly controlled entity:

Name of jointly controlled entity	Place of registration	Registered capital	Percentage of equity interest held indirectly by the Company %	Principal activities and place of operation
Shanghai Fortune World Development Co., Ltd. ("Shanghai Fortune")	PRC	US\$30,000,000	37.5	Property development, PRC

Shanghai Fortune was set up in the PRC under a joint venture agreement between Fortune (Shanghai) Company Limited and Shanghai Lujiazui Finance and Trade Zone Development Stock Co., Ltd., a company listed on the Shanghai Securities Exchange, to develop a site in the Pudong district Shanghai, PRC. The tenure of this joint venture is 88 years commencing from 18th July, 1992 with an option to seek the granting of an extension by application to the relevant government authority.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES/AMOUNTS DUE TO JOINTLY CONTROLLED ENTITIES (Continued)

Audited consolidated results of Shanghai Fortune for the years ended 31st December, 2003 and 2002, are as follows:

	2003 HK\$'000	2002 HK\$'000
Turnover	540,824	417,699
Profit from ordinary activities before taxation	50,614	224,520
Profit from ordinary activities before taxation attributable to the Group	18,980	84,195

Consolidated financial position of Shanghai Fortune at 31st December are as follows:

	2003 HK\$'000	2002 HK\$'000
Non-current assets	2,475	922
Current assets	1,227,235	1,210,190
Current liabilities	(702,689)	(736,556)
Net assets	527,021	474,556

The amounts due from/to jointly controlled entities are unsecured, non-interest bearing and have no fixed repayment term. These amounts will not be repaid within the next twelve months from the balance sheet date and accordingly, the amounts are classified as non-current in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

18. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES

	2003 HK\$'000	2002 HK\$'000
Share of net assets	412,741	18,847
Discount on acquisition	(125,211)	—
Amounts due from associates	69,749	—
	357,279	18,847

As at 31st December, 2003, the Group had interests in the following indirectly-owned associates:

Name of associates	Place of incorporation	Issued share capital	Percentage of equity interest attributable to the Group %	Principal activities and place of operation
Freewill Solutions Co., Ltd.	Thailand	Baht362,000,000	49	Trading of information technology products, Thailand
Lotus – CPF (PRC) Investment Company Limited	British Virgin Islands (“BVI”)	US\$97,400,000	50	Supermarket operations, PRC
Chia Tai-Lotus (Guangdong) Investment Co. Ltd.	BVI	US\$108,210,345	55	Supermarket operations, PRC

Pursuant to the agreement for the acquisition of Lotus-CPF (PRC) Investment Company Limited (“Lotus-CPF”) dated 11th March, 2003, (the “Acquisition”), the consideration for the Acquisition is approximately US\$32,217,000 (equivalent to approximately HK\$251,293,000), subject to adjustments, if necessary in respect of the outcome of certain disputes that the group under Lotus-CPF are involved in claim against Lotus – CPF’s employees for acquiring business secrets, villager’s claim against removal and relocation compensation and government authorities’ claims against land acquisition levies. The directors are of the opinion that, the maximum liability under these disputes is estimated to be US\$6,021,000 (equivalent to HK\$46,964,000). The consideration for the Acquisition had been already taken into account of this maximum liability of US\$6,021,000 under these disputes.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

18. INTERESTS IN ASSOCIATES (Continued)

A condensed summary of the results and the assets and liabilities of the Group's principal associate, Lotus-CPF, and its subsidiaries (hereinafter collectively referred to as the "Lotus-CPF Group") for the year ended 31st December, 2003, as extracted from the audited consolidated financial statements of Lotus-CPF, is set out below:

Audited consolidated results of Lotus-CPF Group for the year ended 31st December, 2003 are as follows:

	HK\$'000
Turnover	116,134
Loss from ordinary activities before taxation	17,410
Profit for ordinary activities after taxation attributable to the Group since acquisition	1,115

Consolidated financial position of Lotus-CPF Group at 31st December, 2003 are as follows:

	HK\$'000
Non-current assets	633,844
Current assets	486,907
Current liabilities	(440,326)
Minority interests	(63,141)
Net assets	617,284

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

19. INVENTORIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Raw materials	182	—
Work in progress	—	—
Finished goods	75,862	25,452
	76,044	25,452

The carrying amount of inventories is carried at cost at the balance sheet dates.

20. TRADE, OTHER RECEIVABLES AND DEPOSITS

The Group has a policy of allowing its trade customers credit periods normally ranging from 30 days to 60 days. Included in trade, other receivables and deposits are trade receivables of HK\$1,476,000 (2002: Nil) and their aged analysis is as follows:

	2003 HK\$'000	2002 HK\$'000
0 – 30 days	1,366	—
31 – 60 days	19	—
61 – 90 days	91	—
	1,476	—

Included in other receivables and deposits of the amount of HK\$172,846,000 represents the consideration receivables for the disposal of interests in subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

21. AMOUNT DUE FROM (TO) A RELATED COMPANY

Details of the amount due from a related company are as follows:

	THE GROUP		
	As at		Maximum amount
	31st December,		outstanding
	2003	2002	during the year
	HK\$'000	HK\$'000	HK\$'000
Shanghai Lotus Supermarket Chain Store Co., Ltd. ("Shanghai Lotus")	–	3,767	3,767

A substantial shareholder of the Company has beneficial interest in Shanghai Lotus.

The amount due from the above company was unsecured, non-interest bearing and was fully repaid during the year.

The amount due to a related company, in which a substantial shareholder of the Company has beneficial interest, is unsecured, non-interest bearing and is repayable on demand.

22. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$90,582,000 (2002: HK\$29,966,000) and their aged analysis is as follows:

	2003	2002
	HK\$'000	HK\$'000
0 – 30 days	90,582	2,611
31 – 60 days	–	10,961
61 – 90 days	–	11,864
Over 90 days	–	4,530
	90,582	29,966

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

23. AMOUNTS DUE TO ULTIMATE HOLDING COMPANY/ MINORITY SHAREHOLDERS OF SUBSIDIARIES

The amounts are unsecured, non-interest bearing and have no fixed repayment term. These amounts will not be repaid within the next twelve months from the balance sheet date and accordingly, the amounts are classified as non-current in the balance sheet.

24. DEFERRED TAXATION

THE GROUP

At 31st December, 2003, the Group had unused tax losses of HK\$35,518,000 (2002: HK\$23,765,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

25. SHARE CAPITAL

	2003 HK\$'000	2002 HK\$'000
THE COMPANY		
Share authorised:		
15,000,000,000 ordinary shares of HK\$0.02 each	300,000	300,000
Issued and fully paid:		
5,996,614,408 ordinary shares of HK\$0.02 each	119,932	119,932

Warrants

No warrants were exercised and all the warrants were expired during the year. At 31st December, 2002, the Company had 599,661,440 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 599,661,440 additional shares of HK\$0.02 each.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

26. SHARE OPTION SCHEME

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

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

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK\$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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

26. SHARE OPTION SCHEME (Continued)

The following tables disclose details of the Company's share options held by employees and movements of such holdings during the year:

As at 31st December, 2003

Date of grant	Exercisable period	Exercise price per share HK\$	Number of shares options		
			Outstanding at 1.1.2003	Granted during the year	Outstanding at 31.12.2003
6.6.2002	6.6.2002 to 5.6.2012	0.07	599,661,440	–	599,661,440
10.11.2003	10.11.2003 to 9.11.2013	0.19	–	599,661,440	599,661,440
					<u>1,199,322,880</u>

The closing price of the Company's shares immediately before 10th November, 2003, the date of grant of the 2003 options, was HK\$0.178.

As at 31st December, 2002

Date of grant	Exercisable period	Exercise price per share HK\$	Number of shares options		
			Outstanding at 1.1.2002	Granted during the year	Outstanding at 31.12.2002
6.6.2002	6.6.2002 to 5.6.2012	0.07	–	599,661,440	<u>599,661,440</u>

Details of the share options held by the directors included in the above are as follows:

	Outstanding at 1st January	Granted during the year	Outstanding at 31st December
2002	–	479,729,152	<u>479,729,152</u>
2003	<u>479,729,152</u>	<u>479,729,152</u>	<u>959,458,304</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

26. SHARE OPTION SCHEME (Continued)

No charge was recognised in the consolidated financial statement in respect of the value of options granted during the year ended 31st December, 2003 and 2002.

Total consideration received during the year from employees for taking up the options granted is not material.

27. RESERVES

	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY			
At 1st January, 2002	931,688	(651,422)	280,266
Net loss for the year	–	(15,778)	(15,778)
At 31st December, 2002	931,688	(667,200)	264,488
Net profit for the year	–	1,404	1,404
At 31st December, 2003	931,688	(665,796)	265,892

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

28. DISPOSAL OF SUBSIDIARIES

During the year, the Group disposed of equity interests in certain subsidiaries. The net assets of these subsidiaries at the dates of disposal were as follows:

	2003 HK\$'000
NET ASSETS DISPOSED OF	
Property, plant and equipment	49,483
Interests in joint controlled entities	302,188
Inventories	32,825
Trade, other receivables and deposits	145,970
Bank balances and cash	16,066
Trade and other payables	(211,044)
Amounts due to jointly controlled entities	(204,903)
Minority interests	(19,786)
	110,799
General reserve released	(137)
Exchange reserve released	(7,662)
	103,000
Gain on disposal	160,632
Total consideration	263,632
Satisfied by:	
Cash	77,876
Deposit received	12,910
Consideration receivables	172,846
	263,632
Net cash inflow arising on disposal:	
Cash consideration	77,876
Bank balances and cash disposed of	(16,066)
	61,810

The subsidiaries disposed of during the year contributed HK\$213,466,000 to the Group's turnover and HK\$27,059,000 to the Group's loss from operations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

29. OPERATING LEASE COMMITMENTS

The Group as lessee

Minimum lease payments paid under operating leases during the year:

	2003 HK\$'000	2002 HK\$'000
Premises	16,747	12,187

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Operating leases which expire:				
Within one year	1,718	16,823	1,386	943
In the second to fifth year inclusive	949	73,637	693	—
After five years	—	126,799	—	—
	2,667	217,259	2,079	943

Operating lease payments represent rentals payable by the Group for certain of its office premises and stores under operating lease arrangements. Leases are negotiated for an average term of three years for office premises and terms ranging from six months to thirty years for stores. Either the landlord and the Group can terminate the lease by giving a six months notice to either party.

The Group as lessor

Property rental income earned from subletting of the Group's properties during the year amounted to approximately HK\$5,085,000 (2002: HK\$3,990,000). All of the properties held have committed tenants for the next two to five years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

29. OPERATING LEASE COMMITMENTS (Continued)

The Group as lessor (Continued)

At the balance sheet date, the Group has contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within one year	3,315	—
In the second to fifth years inclusive	755	—
	4,070	—

30. CAPITAL COMMITMENTS

At the balance sheet dates, the Group had the following capital commitments:

	2003 HK\$'000	2002 HK\$'000
THE GROUP		
Authorised but not contracted for acquisition of property, plant and equipment	—	3,749
Contracted but not provided for acquisition of property, plant and equipment	107,146	—
	107,146	3,749

In addition, the Group's share of the jointly controlled entities' own capital commitments is as follows:

	2003 HK\$'000	2002 HK\$'000
THE GROUP		
Authorised and contracted for:		
Acquisition of land use rights	—	33,447
Preliminary development costs	—	11,608
	—	45,055

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

31. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the “MPF Scheme”) established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by the employees.

The employees of the Group’s subsidiaries in the PRC are members of the state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

32. RELATED PARTY TRANSACTIONS

During the year, the Group carried out the following transactions with the related parties in which a substantial shareholder of the Company had beneficial interests:

Nature of transactions	2003 HK\$'000	2002 HK\$'000
Interest expenses paid (<i>note i</i>)	–	1,033
Rental income in respect of investment properties received (<i>note ii</i>)	2,501	4,085
Logistics services income received (<i>note ii</i>)	1,692	–
Purchases of merchandises (<i>note iii</i>)	–	20,630
Sales of investment properties (<i>note iii</i>)	–	1,851

Notes:

- (i) The interest expenses were calculated at prevailing market rate.
- (ii) Rental income and logistics services income were mutually determined and agreed between both parties.
- (iii) The purchase of merchandise was made and the investment properties were sold at the prices negotiated and mutually agreed between both parties.

Details of the Group’s balance with subsidiaries, jointly controlled entities, associates and a related company as at the balance sheet dates are set out in note 16, 17, 18 and 21 respectively.