

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

1. GENERAL

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 (“BVI”).

The Company is an investment holding company. The principal activities of its subsidiaries, jointly controlled entity and associates are set out in notes 16, 18 and 19 respectively.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) issued a number of new or revised Hong Kong Accounting Standards (“HKASs”) and Hong Kong Financial Reporting Standards (“HKFRSs”) (herein collectively referred to as “new HKFRSs”) which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

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 acquisition 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, 2004

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 as 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 unamortised goodwill less negative goodwill in so far as it has not already been written off, less any identified impairment loss.

Jointly controlled entity

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 less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entity 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, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Sales of goods are recognised when goods are delivered and title has been 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 accumulated depreciation and amortisation and accumulated impairment losses.

Construction in progress is stated at cost less any identified impairment loss. Cost which includes all development expenditure and other direct costs, attributable to such projects. Construction in progress is not depreciated or amortised until the completion of construction. Cost of completed construction work is transferred to the appropriate category of property, plant and equipment.

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:

Buildings	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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

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

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 on 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 the weighted average method.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

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 expenses 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 currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates prevailing 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 operations which are denominated in currencies other than Hong Kong dollars 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 period 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases 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 taxable 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 venture, 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 profits 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

4. TURNOVER

Turnover represents the net amounts received and receivable for goods sold by the Group to outsider customers, less returns and allowances and rental income from investment properties for the year and is analysed as follows:

	2004 HK\$'000	2003 HK\$'000
Sales of goods	1,059,719	315,407
Rental income from investment properties	1,576	2,831
	1,061,295	318,238

5. SEGMENT INFORMATION

BUSINESS SEGMENTS

For management purposes, the Group is currently organised into three operating divisions – property investment, property development and retail. 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 buildings; and
- Retail – includes the operation of "cash-and-carry" stores, operation of department store and retailing of consumer products.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

5. SEGMENTAL INFORMATION (Continued)

BUSINESS SEGMENTS (Continued)

Segment information about these businesses is presented below:

For the year ended 31st December, 2004

	Property investment HK\$'000	Property development HK\$'000	Retail HK\$'000	Other operations HK\$'000	Total HK\$'000
REVENUE					
External revenue	1,576	–	1,036,307	23,412	1,061,295
RESULT					
Segment result	(8,536)	–	(102,737)	(4,412)	(115,685)
Interest and unallocated gains					20,363
Unallocated expenses					(67,663)
Loss from operations					(162,985)
Finance costs					(7,673)
Share of result of a jointly controlled entity		28,990			28,990
Share of results of associates			(13,442)		(13,442)
Release of negative goodwill of associates			5,235		5,235
Gain on disposal of a subsidiary					45
Loss before taxation					(149,830)
Income tax expense					(8,664)
Net loss for the year					(158,494)
Minority interests					17,352
Net loss attributable to shareholders					(141,142)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

5. SEGMENTAL INFORMATION (Continued)

BUSINESS SEGMENTS (Continued)

Assets and liabilities at 31st December, 2004

	Property investment HK\$'000	Property development HK\$'000	Retail HK\$'000	Other operations HK\$'000	Total HK\$'000
ASSETS					
Segment assets	29,456	–	827,364	–	856,820
Interest in a jointly controlled entity	–	271,600	–	–	271,600
Interests in associates	–	–	302,157	–	302,157
Unallocated corporate assets	–	–	–	–	140,416
Consolidated total assets	29,456	271,600	1,129,521	–	1,570,993
LIABILITIES					
Segment liabilities	10,357	–	554,003	–	564,360
Unallocated corporate liabilities	–	–	–	–	343,550
Consolidated total liabilities	10,357	–	554,003	–	907,910
OTHER INFORMATION					
Capital additions	–	–	352,929	6,964	359,893
Goodwill arising on acquisition of a subsidiary	–	–	1,504	–	1,504
Depreciation and amortisation	–	–	21,740	5,953	27,693
Revaluation increase recognised in respect of investment properties	2,246	–	–	–	2,246

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

5. SEGMENTAL INFORMATION (Continued)

BUSINESS SEGMENTS (Continued)

Segment 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 operations HK\$'000	Total HK\$'000
REVENUE					
External revenue	2,831	–	313,055	2,352	318,238
RESULT					
Segment result	(22,810)	–	(52,237)	(3,806)	(78,853)
Interest and unallocated gains					4,608
Unallocated expenses					(45,718)
Loss from operations					(119,963)
Finance costs					(3,913)
Share of result of a jointly controlled entity		18,980			18,980
Share of results of associates			(17,732)		(17,732)
Release of negative goodwill of associates			5,235		5,235
Gain on disposal of interests in subsidiaries					160,632
Profit before taxation					43,239
Income tax expense					(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, 2004

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 operations HK\$'000	Total HK\$'000
ASSETS					
Segment assets	27,683	–	226,096	2,935	256,714
Interest in a jointly controlled entity	–	249,607	–	–	249,607
Interests in associates	–	–	357,279	–	357,279
Unallocated corporate assets	–	–	–	–	458,995
Consolidated total assets	27,683	249,607	583,375	2,935	1,322,595
LIABILITIES					
Segment 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 other non-current assets	–	–	23,030	–	23,030
Depreciation and amortisation	–	–	8,565	3,578	12,143
Revaluation decrease recognised in respect of investment properties	1,571	–	–	–	1,571

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

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:

2004

	Hong Kong HK\$'000	The PRC HK\$'000	Total HK\$'000
REVENUE			
Turnover	10,205	1,051,090	1,061,295

	Hong Kong HK\$'000	The PRC HK\$'000	Total HK\$'000
Carrying amount of segment assets	137,807	859,429	997,236
Additions to property, plant and equipment	2,390	357,503	359,893
Goodwill arising on acquisition of a subsidiary	–	1,504	1,504

2003

	Hong Kong HK\$'000	The PRC HK\$'000	Total HK\$'000
REVENUE			
Turnover	5,632	312,606	318,238

	Hong Kong HK\$'000	The PRC HK\$'000	Total HK\$'000
Carrying amount of segment assets	253,496	462,213	715,709
Additions to property, plant and equipment	9,074	128,997	138,071
Additions to other non-current assets	11,750	11,280	23,030

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

6. LOSS FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Loss from operations has been arrived at after charging:		
Depreciation of property, plant and equipment	26,405	11,893
Amortisation of franchise fee (included in administrative expenses)	1,200	250
Amortisation of goodwill (included in administrative expenses)	88	—
Total depreciation and amortisation	27,693	12,143
Directors' emoluments (note 9)	13,149	11,949
Other staff costs	133,158	46,460
Total staff costs	146,307	58,409
Auditors' remuneration	1,400	1,264
Loss on disposal of property, plant and equipment	718	—
and after crediting:		
Release of negative goodwill of subsidiaries to income (included in other income)	—	3,750
Interest income	5,876	7,177

Included in total staff costs is an aggregate amount of approximately HK\$7,932,000 (2003: HK\$3,586,000) in respect of contributions to retirement benefits scheme paid or payable by the Group.

7. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on borrowings wholly repayable within five years:		
Bank borrowings	896	165
Deemed interest on deferred consideration (note 19)	6,777	3,748
	7,673	3,913

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

8. GAIN ON DISPOSAL OF INTERESTS IN SUBSIDIARIES

During the year ended 31st December, 2004, the Group recognised gain on disposal of a subsidiary of approximately HK\$45,000 (2003: gain on disposal of interests 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 date of disposal are disclosed in note 30.

9. DIRECTORS' AND EMPLOYEES REMUNERATION

Particulars of the emoluments of directors and the five highest paid employees are as follows:

(a) Directors' emoluments

The emoluments paid or payable to each of the 12 (2003: 11) directors were as follows:

	2004 HK\$'000	2003 HK\$'000
Fees		
– Executive directors	–	–
– Independent non-executive directors	271	240
	271	240
Other emoluments:		
Salaries and other benefits	12,850	11,685
Contributions to retirement benefits scheme	28	24
Total emoluments	13,149	11,949

The emoluments of the directors were within the following bands:

	2004 No. of directors	2003 No. of directors
Nil to HK\$1,000,000	9	8
HK\$2,000,001 to HK\$2,500,000	–	1
HK\$2,500,001 to HK\$3,000,000	1	–
HK\$3,000,001 to HK\$3,500,000	1	2
HK\$6,500,001 to HK\$7,000,000	1	–
	12	11

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

9. DIRECTORS' AND EMPLOYEES REMUNERATION (Continued)

(b) Employees' emoluments

The five highest paid individuals in the Group included three directors (2003: three directors), details of whose emoluments are set out above. The emoluments of the remaining individuals were as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and allowances	2,327	2,750
Contributions to retirement benefits schemes	12	12
	2,339	2,762

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

	2004 HK\$'000	2003 HK\$'000
Nil to HK\$1,000,000	—	—
HK\$1,000,001 to HK\$1,500,000	2	2
	2	2

During the years ended 31st December, 2004 and 2003, 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

10. INCOME TAX EXPENSE

	2004 HK\$'000	2003 HK\$'000
Company and its subsidiaries		
Income tax provision in other jurisdictions		
– Current year's provision	892	–
– Underprovision in prior year	775	–
Share of taxation attributable to a jointly controlled entity	6,997	3,710
	8,664	3,710

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

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries have no income arisen in or derived from, Hong Kong.

Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries established in the PRC are subject to an enterprise income tax of 33% whilst two subsidiaries are entitled to exemption from the PRC enterprise income tax for the year ended 31st December, 2004 according to the notices issued by the relevant tax authorities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

10. INCOME TAX EXPENSE (Continued)

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

	2004 HK\$'000	2003 HK\$'000
(Loss) profit before taxation	(149,830)	43,239
Tax at the domestic income tax rate of 33% (Note)	(49,443)	14,269
Tax effect of expenses not deductible in determining taxable profit	8,434	9,264
Tax effect of income not taxable in determining taxable profit	(5,485)	(32,632)
Underprovision in respect of prior year	775	–
Tax effect of tax losses not recognised	38,359	22,060
Tax effect of utilisation of other deferred tax assets previously not recognised	(802)	–
Tax effect of deferred tax asset not recognised	4,374	–
Effect of tax exemptions granted to certain PRC subsidiaries	(5,263)	–
Effect of different tax rates of subsidiaries	8,994	(12,550)
Income tax on concessionary rate	6,855	–
Tax effect of share of results of associates	4,436	5,852
Tax effect of share of result of a jointly controlled entity	(2,570)	(2,553)
Income tax expenses for the year	8,664	3,710

Note: The domestic tax rate in the jurisdiction where the operation of the Group is substantially based is used.

11. DIVIDENDS

No dividend was paid or proposed during the years ended 31st December, 2004 and 2003, nor has any dividend been proposed since the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

12. (LOSS) EARNINGS PER SHARE

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

	2004 HK\$	2003 HK\$
Net (loss) profit attributable to shareholders	(141,142,000)	65,551,000
Weighted average number of ordinary shares for the purposes of basic (loss) 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
Weighted average number of ordinary shares for the purposes of diluted (loss) earnings per share		6,252,207,809
(Loss) earnings per share		
Basic	(2.35) HK cents	1.09 HK cents
Diluted	N/A	1.05 HK cents

During the year ended 31st December, 2004, no diluted loss per share is presented as the exercise of the Company's outstanding share option would result in a decrease in net loss per share.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP						
COST						
At 1st January, 2004	34,311	3,543	46,002	10,561	42,160	136,577
Additions	8,232	15,554	16,622	8,885	310,159	359,452
Acquired on acquisition of a subsidiary	–	171	270	–	–	441
Transfer	169,552	–	133,442	598	(303,592)	–
Disposals	(3,640)	(541)	(472)	(449)	–	(5,102)
Released on disposal of a subsidiary	–	–	(199)	(6,788)	–	(6,987)
At 31st December, 2004	208,455	18,727	195,665	12,807	48,727	484,381
DEPRECIATION AND AMORTISATION						
At 1st January, 2004	325	3,210	4,075	2,285	–	9,895
Provided for the year	4,898	2,913	16,061	2,533	–	26,405
Eliminated on disposals	(113)	(90)	(90)	(49)	–	(342)
Released on disposal of a subsidiary	–	–	(61)	(567)	–	(628)
At 31st December, 2004	5,110	6,033	19,985	4,202	–	35,330
NET BOOK VALUE						
At 31st December, 2004	203,345	12,694	175,680	8,605	48,727	449,051
At 31st December, 2003	33,986	333	41,927	8,276	42,160	126,682

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For the year ended 31st December, 2004

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE COMPANY				
COST				
At 1st January, 2004	3,353	3,641	4,033	11,027
Additions	25	864	–	889
Disposals	–	(3)	–	(3)
At 31st December, 2004	3,378	4,502	4,033	11,913
DEPRECIATION AND AMORTISATION				
At 1st January, 2004	3,197	2,646	1,713	7,556
Provided for the year	87	667	1,185	1,939
Eliminated on disposals	–	(2)	–	(2)
At 31st December, 2004	3,284	3,311	2,898	9,493
NET BOOK VALUE				
At 31st December, 2004	94	1,191	1,135	2,420
At 31st December, 2003	156	995	2,320	3,471

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

14. INVESTMENT PROPERTIES

	THE GROUP HK\$'000
THE GROUP	
At 1st January, 2004	26,000
Disposals	(1,268)
Revaluation increase	2,246
At 31st December, 2004	26,978

The investment properties were revalued at 31st December, 2004 by DTZ Debenham Tie Leung Limited, an independent firm of professional property valuers, on an open market value basis. The revaluation increase arising on revaluation of HK\$2,246,000 (2003: revaluation decrease arising on revaluation of HK\$1,571,000) has been charged to the income statement.

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

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 an indefinite period. The amount of HK\$1,200,000 (2003: HK\$250,000) is amortised to the income statement on a straight line basis over ten years. The unamortised amount at 31st December, 2004 was HK\$10,550,000 (2003: HK\$11,750,000).

At 31st December, 2003, 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 operation of "cash-and-carry" stores in the PRC. The amount was fully charged to the income statement in the current year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

16. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE TO SUBSIDIARIES

	THE COMPANY	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	95,711	64,371
Amounts due from subsidiaries	470,525	337,537
	566,236	401,908
Impairment losses recognised	(26,412)	(26,412)
	539,824	375,496
Amounts due to subsidiaries	205,846	241,931

Particulars 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 %	
Chia Tai Barbecue Specialist Company Limited	Hong Kong	HK\$3,000,000	–	55	Operation of retail of barbecue foods, Hong Kong
Fortune (Shanghai) Limited	Cayman Islands	US\$150,000	75	–	Investment holding and property investment, PRC
上海正大百貨有限公司 Chia Tai Department Store Co., Ltd.	PRC	RMB40,000,000	–	100 (note 3)	Operation of a department store in the PRC
天津易初蓮花連鎖超市有限公司 Tianjin Lotus Supermarket Chain Store Co., Ltd.	PRC	US\$5,200,000 (note 1)	–	65	Operation of “cash- and-carry” stores in the PRC
北京易初蓮花連鎖超市有限公司 Beijing Lotus Supermarket Chain Store Co., Ltd.	PRC	US\$19,753,600 (note 1)	–	65	Operation of “cash- and-carry” stores in the PRC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

16. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE TO SUBSIDIARIES

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 %	
西安易初蓮花連鎖超市有限公司 Xian Lotus Supermarket Chain Store Co., Ltd.	PRC	RMB2,000,000 (note 2)	–	100 (note 3)	Operation of “cash-and-carry” stores in the PRC
泰安易初蓮花連鎖超市有限公司 Taian Lotus Supermarket Chain Store Co., Ltd.	PRC	RMB2,000,000 (note 2)	–	100 (note 3)	Operation of “cash-and-carry” stores in the PRC
鄭州易初蓮花連鎖超市有限公司 Zhengzhou Lotus Supermarket Chain Store Co., Ltd.	PRC	RMB2,000,000 (note 2)	–	100 (note 3)	Operation of “cash-and-carry” stores in the PRC

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 are not repayable within one year 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 co-operative joint ventures.
- (2) All are companies established in the PRC with limited liabilities.
- (3) The equity interest is held by individual nominees on behalf of the Company.

These companies are domestic enterprises in the PRC legally owned by PRC nationals. Due to the various agreements in place, in the opinion of the directors of the Company, the Company has effective control over the operational and financial policies of these enterprises and therefore these enterprises have been included as subsidiaries of the Company since their date of establishments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

17. GOODWILL

THE GROUP
HK\$'000

COST	
Arising on acquisition of a subsidiary and at 31st December, 2004	1,504
AMORTISATION	
Provided for the year and at 31st December, 2004	(88)
NET BOOK VALUE	
At 31st December, 2004	1,416

Goodwill is amortised over its estimated useful life, on a straight line basis. The amortisation period for goodwill is 10 years.

18. INTEREST IN A JOINTLY CONTROLLED ENTITY/AMOUNT DUE TO A JOINTLY CONTROLLED ENTITY

THE GROUP

	2004 HK\$'000	2003 HK\$'000
Share of net assets	271,600	249,607
Amount due to a jointly controlled entity	–	3,637

As at 31st December, 2004, 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
上海富都世界發展有限公司 Shanghai Fortune World Development Co., Ltd. ("Shanghai Fortune")	PRC	US\$30,000,000	37.5	Property development in the PRC

Shanghai Fortune was a sino-foreign co-operative joint venture set up in the PRC under a joint venture agreement between Fortune (Shanghai) Limited, a subsidiary of the Company, and Shanghai Lujiazui Finance and Trade Zone Development Stock Co., Ltd., a company listed on the Shanghai Stock Exchange, to develop a site in the Pudong district Shanghai, the PRC. The tenure of this joint venture is 88 years commencing 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, 2004

18. INTEREST IN A JOINTLY CONTROLLED ENTITY/AMOUNT DUE TO A JOINTLY CONTROLLED ENTITY (Continued)

Audited consolidated results of Shanghai Fortune for the years ended 31st December, 2004 and 2003, are as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover	182,989	540,824
Profit from ordinary activities before taxation	57,980	37,960
Profit from ordinary activities before taxation attributable to the Group	28,990	18,980

Consolidated financial position of Shanghai Fortune at 31st December extracted from audited financial information are as follows:

	2004 HK\$'000	2003 HK\$'000
Non-current assets	2,449	2,475
Current assets	1,282,276	1,227,235
Current liabilities	(713,719)	(702,689)
Net assets	571,006	527,021

The amount due to a jointly controlled entity was unsecured, non-interest bearing and had no fixed repayment term. The full amount was waived by the jointly controlled entity in the current year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

19. INTERESTS IN ASSOCIATES/AMOUNT DUE FROM AN ASSOCIATE

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Share of net assets	399,364	412,741	–	–
Negative goodwill on acquisitions	(119,976)	(125,211)	–	–
Amount due from an associate	–	69,749	22,701	69,749
	279,388	357,279	22,701	69,749

Negative goodwill is released to income on a straight line basis of 20 years, the remaining average useful life of the identifiable acquired depreciable assets.

As at 31st December 2004, 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
Lotus-CPF (PRC) Investment Company Limited ("Lotus-CPF")	BVI	US\$97,400,000	50	Investment holding in the PRC

Pursuant to the unconditional agreement for the acquisition of 50% interest in Lotus-CPF dated 11th March, 2003 (the "Acquisition"), the consideration for the Acquisition was approximately US\$32,217,000 (equivalent to approximately HK\$251,293,000) of which 5% was payable upon the completion and the remaining payment will commence in November, 2005, in six semi-annual equal instalments, 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 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, 2004

19. INTERESTS IN ASSOCIATES/AMOUNT DUE FROM AN ASSOCIATE (Continued)

The sole asset of Lotus-CPF is the 90% interest in Chia Tai-Lotus (Guangdong) Investment Company Limited ("CT Guangdong"). Further to an agreement entered into by the Group on 16th July, 2003, the remaining 10% interest in CT Guangdong was acquired by the Group at a consideration of US\$7,199,350 (equivalent to approximately HK\$55,842,000), of which 5% was also payable upon the completion and the remaining payment will commence in November, 2005, in six semi-annual equal instalments. The aggregate gross consideration of the aforesaid acquisitions amounted to approximately HK\$291,780,000 ("Gross Consideration") and the present value of the aggregate gross consideration at the date of acquisitions amounted to approximately HK\$266,035,000 ("Total Consideration").

The difference between the Gross Consideration and Total Consideration amounting to approximately HK\$25,745,000 represents a deemed interest charged on the aforesaid acquisitions which is charged to the income statement in proportion to the balances outstanding each period.

Deemed interest charged to income statement since the Acquisition amounted to HK\$10,525,000 (2003: HK\$3,748,000).

As at 31st December, 2004, HK\$48,630,000 (2003: Nil) of Total Consideration was payable within one year.

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, 2004, as extracted from the audited consolidated financial statements of Lotus-CPF, is set out below.

The negative goodwill on acquisition of associates arose on the acquisition of Lotus-CPF and CT Guangdong in 2003. The gross negative goodwill of HK\$130,446,000 had been released to income to the extent of HK\$5,235,000 at 31st December, 2003. In the current year, an amount of HK\$5,235,000 was released to the consolidated income statement.

The amount due from an associate is unsecured, interest-free and has not fixed repayment terms. At 31st December, 2003, the amount was not repayable within one year from the balance sheet date and the amount was therefore shown in the balance sheet as non-current.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

19. INTERESTS IN ASSOCIATES/AMOUNT DUE FROM AN ASSOCIATE (Continued)

Audited consolidated results of Lotus-CPF Group for the year ended 31st December, 2004 and 2003 are as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover	983,533	116,134
Loss from ordinary activities before taxation	(24,564)	(17,410)
(Loss) profit for ordinary activities after taxation attributable to the Group	(13,442)	1,115

Consolidated financial position of Lotus-CPF Group at 31st December, 2004 extracted from audited financial information is as follows:

	2004 HK\$'000	2003 HK\$'000
Non-current assets	805,184	690,853
Current assets	455,091	481,723
Current liabilities	(549,405)	(435,244)
Minority interests	(61,106)	(63,004)
Net assets	649,764	674,328

20. INVENTORIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
At cost		
Raw materials	156	182
Finished goods	219,975	75,862
	220,131	76,044

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

21. TRADE, OTHER RECEIVABLES AND DEPOSITS

The Group normally makes sales on a cash-on-delivery basis and has a policy of allowing its trade customers credit periods normally ranging from 30 days to 90 days. Included in trade, other receivables and deposits are trade receivables of HK\$4,948,000 (2003: HK\$1,476,000) and their aged analysis is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
0 to 30 days	3,301	1,366
31 to 60 days	716	19
61 to 90 days	366	91
Over 90 days	565	—
	4,948	1,476

Included in other receivables and deposits is an amount of HK\$2,496,000 (2003: HK\$172,846,000) represents the consideration receivables for disposal of interest in a subsidiary.

22. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$398,986,000 (2003: HK\$90,582,000) and their aged analysis is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
0 to 30 days	338,959	90,582
31 to 60 days	46,315	—
61 to 90 days	10,246	—
Over 90 days	3,466	—
	398,986	90,582

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

23. SHORT-TERM BANK BORROWINGS – UNSECURED

During the year ended 31st December, 2004, the Group obtained new borrowings in the amount of RMB20,000,000 (approximately HK\$18,800,000). The borrowings bear interest at 5.31% per annum and will be repayable in 2005. The borrowings are secured by corporate guarantee issued by Chia Tai International Finance Company Limited 正大國際財務有限公司 (“CTIF”) in which a substantial shareholder of the Company has significant influence.

24. AMOUNTS DUE TO ULTIMATE HOLDING COMPANY/MINORITY SHAREHOLDERS OF A SUBSIDIARY

The amounts are unsecured and non-interest bearing.

The amounts due to ultimate holding company and minority shareholders of subsidiaries 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.

25. DEFERRED TAXATION

THE GROUP

At the balance sheet date, the Group has unused tax losses of approximately HK\$196,215,000 (2003: HK\$35,518,000) available for offset against future profits. The tax losses can be carried forward for five years.

At the balance sheet date, the Group has deductible temporary differences of approximately HK\$13,254,000 (2003: HK\$2,430,000).

The above deferred tax assets have not been recognised due to the unpredictability of future profit streams.

THE COMPANY

At the balance sheet date, the Company has unused tax loss of approximately HK\$59,189,000 (2003: HK\$11,383,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

26. SHARE CAPITAL

	2004 HK\$'000	2003 HK\$'000
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

27. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

27. SHARE OPTION SCHEME (Continued)

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.

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, 2004

Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options		
			Outstanding at 1.1.2004	Granted during the year	Outstanding at 31.12.2004
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
			1,199,322,880	–	1,199,322,880

As at 31st December, 2003

Date of grant	Exercisable period	Exercise price per share HK\$	Number of share 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
			599,661,440	599,661,440	1,199,322,880

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

27. SHARE OPTION SCHEME (Continued)

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
2004	959,458,304	–	959,458,304
2003	479,729,152	479,729,152	959,458,304

The financial impact of share options granted not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Total consideration received during 2003 from employees for taking up the options granted is not material.

28. RESERVES

	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY			
At 1st January, 2003	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
Net loss for the year	–	(7,692)	(7,692)
At 31st December, 2004	931,688	(673,488)	258,200

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

28. RESERVES (Continued)

The Company's reserves available for distribution represent the share premium and accumulated losses. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends can only be distributed out of the retained profits, if any. Therefore, the Company did not have any distributable reserves as at 31st December, 2004 and 2003.

29. ACQUISITION OF A SUBSIDIARY

On 26th May, 2004, the Group acquired 100% of the paid-in-capital of 深圳東日堂食品有限公司 Shenzhen Dong Yi Tong Food Co., Ltd. ("Dong Yi Tong") for a consideration of RMB738,000 (approximately HK\$696,000). The acquisition has been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was HK\$1,504,000.

The legal title of Dong Yi Tong is not held by the Group. As under certain arrangements, the Group is entitled to exercise control over Dong Yi Tong and the beneficial ownership of all the assets, liabilities, profits and losses from Dong Yi Tong. It was treated as a subsidiary of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

29. ACQUISITION OF A SUBSIDIARY (Continued)

Net assets acquired:

	2004 HK\$'000	2003 HK\$'000
Property, plant and equipment	441	—
Inventories	31	—
Trade and other receivables	238	—
Bank balances and cash	47	—
Trade and other payables	(1,565)	—
	(808)	—
Goodwill	1,504	—
Total consideration	696	—
Satisfied by:		
Cash	696	—
Net cash outflow arising on acquisition:		
Cash consideration	(696)	—
Bank balances and cash acquired	47	—
Net cash outflow of cash and cash equivalent in respect of the purchase of a subsidiary	(649)	—

The subsidiary acquired during the year contributed HK\$666,000 to the Group's turnover, and HK\$568,000 to the Group's loss from operations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

30. DISPOSAL OF INTEREST IN SUBSIDIARIES

During the year ended 31st December, 2004, the Group disposed of its entire equity interests in its subsidiary, Shanghai Li Tai Logistics Co., Ltd.. During the year ended 31st December, 2003, the Group disposed of equity interests in certain subsidiaries. The net assets of the subsidiaries at the date of disposal were as follows:

	2004 HK\$'000	2003 HK\$'000
NET ASSETS DISPOSED OF		
Property, plant and equipment	6,359	49,483
Interests in jointly controlled entities	–	302,188
Inventories	–	32,825
Trade, other receivables and deposits	7,687	145,970
Bank balances and cash	2,451	16,066
Trade and other payables	(9,304)	(211,044)
Amounts due to jointly controlled entities	–	(204,903)
Short-term bank borrowings	(4,742)	–
Minority interests	–	(19,786)
	2,451	110,799
General reserve released	–	(137)
Exchange reserve released	–	(7,662)
	2,451	103,000
Gain on disposal	45	160,632
Total consideration	2,496	263,632
Satisfied by:		
Cash	–	77,876
Deposit received	–	12,910
Consideration receivables	2,496	172,846
	2,496	263,632
Net cash inflow arising on disposal:		
Cash consideration	–	77,876
Bank balances and cash disposed of	(2,451)	(16,066)
	(2,451)	61,810

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

30. DISPOSAL OF INTEREST IN SUBSIDIARIES (Continued)

The consideration receivables at 31st December, 2004 were fully settled in cash by the purchaser in January 2005.

The subsidiary disposed of during the year contributed HK\$26,748,000 (2003: HK\$213,466,000) to the Group's turnover and HK\$1,263,000 (2003: HK\$27,059,000) to the Group's loss from operations.

31. CONTINGENT LIABILITIES

The Company has given a guarantee in favour of CTIE, a company in which a controlling shareholder has a controlling interest, which made a cash deposit of US\$640,000 (equivalent to approximately HK\$4,992,000) (2003: Nil) to secure bank loan to a former subsidiary of the Company. The maximum potential liability of the Company under the guarantee was US\$640,000 (equivalent to approximately HK\$4,992,000).

32. OPERATING LEASE COMMITMENTS

The Group as lessee

Minimum lease payments paid under operating leases during the year:

	2004 HK\$'000	2003 HK\$'000
Premises	61,482	16,747

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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Operating leases which expire:				
Within one year	138,389	40,396	754	1,386
In the second to fifth years inclusive	700,627	306,772	–	693
After five years	2,844,980	1,201,119	–	–
	3,683,996	1,548,287	754	2,079

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

32. OPERATING LEASE COMMITMENTS (Continued)

The Group as lessor

Property rental income earned net of negligible outgoings from subletting of the Group's properties during the year amounted to approximately HK\$14,430,000 (2003: HK\$5,085,000). All of the properties held have committed tenants for the next two to five years.

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	16,557	3,315
In the second to fifth years inclusive	9,571	755
After five years	5,272	–
	31,400	4,070

33. CAPITAL COMMITMENTS

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

	2004 HK\$'000	2003 HK\$'000
Authorised but not contracted for in respect of development project of additional plant and machinery for the expansion of "cash-and-carry" stores	508,631	–
Contracted but not provided for in respect of development project of additional plant and machinery for the expansion of "cash-and-carry" stores	83,306	107,146
	591,937	107,146

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

33. CAPITAL COMMITMENTS (Continued)

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

	2004 HK\$'000	2003 HK\$'000
Authorised but not contracted for in respect of development project of additional plant and machinery for the expansion of "cash-and-carry" stores	31,283	—
Contracted but not provided for in respect of development project of additional plant and machinery for the expansion of "cash-and-carry" stores	15,526	—
	46,809	—

34. 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 MPF Scheme, which contribution is matched by the employees.

Certain 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 finance the scheme. The only obligation of the subsidiaries with respect to the retirement benefit scheme is to make the specified contributions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

35. RELATED PARTY TRANSACTIONS AND BALANCES

During the year and at 31st December, 2004, the Group had transactions or material balances with the following related parties, in which a substantial shareholder of the Company and his close family members have significant influence.

Name of related parties

Shanghai Lotus Supermarket Chain Store Co., Ltd.

上海易初蓮花連鎖超市有限公司 (“Shanghai Lotus”)

Shanghai Kinghill Limited

上海帝泰發展有限公司 (“Shanghai Kinghill”)

CTIF

C.P. Pokphand Co. Ltd. (“C.P. Pokphand”)

(a) During the year, the Group had the following transactions with the related parties:

	2004 HK\$'000	2003 HK\$'000
Logistics services income received from Shanghai Lotus (<i>note i</i>)	15,014	1,692
Rental expenses in respect of department store premise paid to Shanghai Kinghill (<i>note ii</i>)	11,589	—
Rental income in respect of investment properties received from Shanghai Lotus (<i>note i</i>)	1,280	2,501
Rental income in respect of office premise sublet to C.P. Pokphand (<i>note i</i>)	485	—
Store merchandises purchased from Shanghai Lotus (<i>note iii</i>)	7,000	—
Store merchandises sold to Shanghai Lotus (<i>note iii</i>)	1,383	—
Management fee paid to Shanghai Lotus (<i>note i</i>)	3,878	—
Building management fee received from Shanghai Kinghill (<i>note i</i>)	564	—
Building management fee received from C.P. Pokphand (<i>note i</i>)	156	—
Property, plant and equipment purchase from Shanghai Lotus (<i>note i</i>)	479	—

During the year, the Company entered into a guarantee in favour of CTIF which has provided security in relation to a bank loan obtained by a former subsidiary of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

35. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

- (a) During the year, the Group had the following transactions with the related parties (Continued):

Notes:

- (i) The terms of these transactions were mutually determined and agreed between both parties.
- (ii) Rental expenses were determined by reference to the market rate.
- (iii) The sales and purchases of merchandises were made at the prices negotiated and mutually agreed between both parties.

Details of the Group's balance with subsidiaries, jointly controlled entities, associates and related companies as at the balance sheet dates are set out in notes 16, 18, 19, 23, 24 and 35(b) respectively.

- (b) At 31st December, 2004, the Group and the Company had the following material balances with related parties which are unsecured, interest-free and are repayable on demand:

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Due from related parties:				
Shanghai Lotus	–	–	59	–
Shanghai Kinghill	–	–	684	–
	–	–	743	–
Due to related parties:				
Shanghai Lotus	7,297	2,147	–	–
C.P. Group	78	–	78	–
Shanghai Kinghill	5,038	–	–	–
	12,413	2,147	78	–