



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost convention, as modified for the revaluation of investment properties.

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The interim financial statements should be read in conjunction with the 2004 annual financial statements.

The accounting policies and basis of preparation used in the preparation of these condensed financial statements are consistent with those used in the annual financial statements for the year ended 31st December, 2004, except as described below.

In the current Period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The adoption of the new HKFRSs has resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results for current or prior accounting periods are prepared and presented:

- (a) The adoption of HKFRS 3 “Business Combination”, which is applied on a prospective basis, results in a change in accounting policy for goodwill. In accordance with the provision of HKFRS 3:

- (i) The Group ceased amortisation of goodwill from 1st January, 2005 and will be tested for impairment annually as well as when there is indication of impairment.

As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. No restatement of comparative figures for 2004 is required.

- (ii) The Group discontinued to amortise negative goodwill from 1st January, 2005 and derecognised negative goodwill included in the carrying amount of interest in associates by way of a corresponding adjustment to the opening balance of the accumulated loss as at 1st January, 2005.

As a result of this change in accounting policy, an adjustment of HK\$120.0 million was made to interest in associates and to the accumulated loss as at 1st January, 2005.

- (b) The adoption of HKFRS 2 “Share-based Payment” has resulted in a change in accounting policy for employee share options and other share-based payments. This provision did not apply to the outstanding share options as they were granted on or before 7th November, 2002 and granted after 7th November, 2002 had vested before 1st January, 2005.

In accordance with the share option scheme of the Company adopted on 31st May, 2002, during the Period, 599,661,440 share options were granted and vested immediately to certain directors and employees. HKFRS 2 applies for such grant, the fair value of the grant of share options is estimated and recognised as an expense and credited the same amount to capital reserve under the equity.



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. ACCOUNTING POLICIES (Continued)

As a result of this change in accounting policy, an amount of HK\$50.7 million representing the estimated fair value of share options granted has been charged to income statement during the Period and credited the same amount to capital reserve under equity. No retrospective restatement is required for the share options granted in previous years.

- (c) HKAS 1 affects the presentation of minority interests, share of profit of a jointly controlled entity and other disclosures. Minority interests are now included in equity on the condensed consolidated balance sheet. Share of profit of a jointly controlled entity is presented net of taxation on the condensed consolidated income statement. The changes in presentation have been applied retrospectively.

2. TURNOVER AND SEGMENTAL INFORMATION

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 Period.

An analysis of the Group's revenue and results by business segments is presented below:

2005

	Property investment HK\$'000	Property development HK\$'000	Retail HK\$'000	Other operation HK\$'000	Total HK\$'000
REVENUE					
External revenue	<u>758</u>	<u>–</u>	<u>869,851</u>	<u>–</u>	<u>870,609</u>
RESULT					
Segment result	<u>(4,921)</u>	<u>–</u>	<u>(70,748)</u>	<u>–</u>	<u>(75,669)</u>
Interest and unallocated gains					5,129
Unallocated expenses					<u>(92,831)</u>
Loss from operations					(163,371)
Finance costs					(6,213)
Share of profit of a jointly controlled entity		14,342			14,342
Share of loss of associates			(16,234)		<u>(16,234)</u>
Loss before tax					(171,476)
Tax					<u>–</u>
Loss for the Period					<u>(171,476)</u>

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. TURNOVER AND SEGMENTAL INFORMATION (Continued)**

2004

	Property investment HK\$'000	Property development HK\$'000	Retail HK\$'000	Other operation HK\$'000	Total HK\$'000
REVENUE					
External revenue	<u>798</u>	<u>–</u>	<u>389,217</u>	<u>6,890</u>	<u>396,905</u>
RESULT					
Segment result	<u>(7,139)</u>	<u>–</u>	<u>(49,128)</u>	<u>(3,123)</u>	<u>(59,390)</u>
Interest and unallocated gains					10,537
Unallocated expenses					<u>(26,372)</u>
Loss from operations					(75,225)
Finance costs					(248)
Share of profit of a jointly controlled entity		8,289			8,289
Share of profit of associates			3,897		<u>3,897</u>
Loss before tax					(63,287)
Tax					<u>(230)</u>
Loss for the Period					<u>(63,517)</u>

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

An analysis of the Group's revenue by geographical segments is presented below:

2005

	The PRC, other than Hong Kong HK\$'000	Hong Kong HK\$'000	Total HK\$'000
REVENUE			
Turnover	<u>868,854</u>	<u>1,755</u>	<u>870,609</u>
2004			
	The PRC, other than Hong Kong HK\$'000	Hong Kong HK\$'000	Total HK\$'000
REVENUE			
Turnover	<u>391,018</u>	<u>5,887</u>	<u>396,905</u>



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. DEPRECIATION AND AMORTISATION

During the Period, a depreciation of HK\$27.6 million (2004: HK\$7.6 million) was charged in respect of the Group's property and equipment and an amortisation of HK\$0.6 million (2004: HK\$0.6 million) was charged in respect of the Group's franchise fee.

4. TAX

	GROUP	
	Unaudited	
	Six months ended 30th June,	
	2005	2004
	HK\$'000	HK\$'000
Company and its subsidiaries:		
Income tax provision in other jurisdictions	—	230

No provision for Hong Kong profits tax has been made as the Group has no assessable profits which were earned in or derived from Hong Kong during the Period. Taxes on the profits assessable elsewhere have been calculated at the rates of tax prevailing in the areas in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

Share of tax of a jointly controlled entity for the six months ended 30th June, 2005 of HK\$2,530,000 (2004: HK\$1,463,000) is included in the condensed consolidated income statement as share of profit of a jointly controlled entity.

5. DIVIDEND

The Directors do not recommend the payment of any dividend in respect of the Period (2004: nil).

6. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share was based on the loss attributable to the Company's shareholders for the Period of HK\$163.0 million (2004: HK\$49.8 million) and the weighted average of 5,996,614,408 shares (2004: 5,996,614,408 shares) of the Company in issue during the Period.

(b) Diluted loss per share

Diluted loss per share for the period ended 30th June, 2005 was calculated based on the loss attributable to the Company's shareholders of HK\$163.0 million and the weighted average number of ordinary shares in issue of 5,996,614,408 shares during the period ended 30th June, 2005 plus potential ordinary shares of 340,602,227 shares deemed to be issued if outstanding share options had been exercised.

During the period ended 30th June, 2005 and 30th June, 2004, no diluted loss per share is presented as the exercise of the Company's outstanding share options would result in a decrease in loss per share.

7. TRANSFER TO/FROM RESERVE

There was no transfer to/from reserve of the Company in either the current or the prior interim reporting period.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8. FIXED ASSETS**

During the Period, the Group spent approximately HK\$111.9 million on property, plant and equipment in order to cope with the expansion of its retail business.

9. TRADE, OTHER RECEIVABLES AND DEPOSITS

Included in trade, other receivables and deposits are trade receivables of HK\$11,230,000 (2004: HK\$4,948,000) and their aged analysis is as follows:

	GROUP	
	Unaudited 30th June, 2005 HK\$'000	Audited 31st December, 2004 HK\$'000
0 – 30 days	9,570	3,301
31 – 60 days	382	716
61 – 90 days	207	366
Over 90 days	1,071	565
	11,230	4,948

10. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$466,808,000 (2004: HK\$398,986,000) and their aged analysis is as follows:

	GROUP	
	Unaudited 30th June, 2005 HK\$'000	Audited 31st December, 2004 HK\$'000
0 – 30 days	395,567	338,959
31 – 60 days	55,186	46,315
61 – 90 days	11,402	10,246
Over 90 days	4,653	3,466
	466,808	398,986



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. SHORT-TERM BANK BORROWINGS – UNSECURED

	GROUP	
	Unaudited 30th June, 2005 HK\$'000	Audited 31st December, 2004 HK\$'000
Bank borrowings repayable within one year, unsecured	18,800	18,800

The borrowings bear interest at 5.31% and 5.58% per annum for amount of RMB10.0 million each and are repayable within one year. The Borrowings are secured by corporate guarantee issued by Chia Tai International Finance Company Limited in which a substantial shareholder of the Company has significant influence.

12. CONTINGENCIES AND COMMITMENTS

	GROUP	
	Unaudited 30th June, 2005 HK\$'000	Audited 31st December, 2004 HK\$'000
Guarantee provided for bank facility utilised by a subsidiary	37,600	4,992
Capital Commitments:		
Authorised but not contracted for in respect of development project of additional plant and machinery for the expansion of “cash-and-carry” stores	699,230	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	83,022	83,306
	782,252	591,937

13. POST BALANCE SHEET EVENTS

On 12th August, 2005, the Company entered into the Sale and Purchase Agreement to dispose of the entire equity interest and to assign the shareholder's loan of Chia Tai Land Holding Company Limited to a company, which is an associate of the substantial shareholder of the Company, at a consideration of US\$289,441 (approximately HK\$2.26 million).

On 26th August, 2005, the Group entered into the Equity Transfer Agreement to acquire a 35% interest in the registered capital of Beijing Lotus Supermarket Chain Store Company Limited at a consideration of RMB 31,066,492 (approximately HK\$30 million).

On 26th August, 2005, the Group entered into the Termination and Investment Agreement to terminate the Joint-Venture Agreement and invest a 35% interest in the registered capital of Tianjin Lotus Supermarket Chain Store Company Limited.