NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

1. GENERAL AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated in the 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 addresses and registered office and principal place of business of the Company are disclosed in "Corporate Information" of the annual report.

The Company is an investment holding company. The principal activities of its subsidiaries, jointly controlled entity and associates are set out in notes 39, 20 and 21 respectively.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

In preparing the financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the Group's net current liabilities of approximately HK$504 million at 31st December, 2005. The directors of the Company have taken steps to improve the liquidity of the Group. The controlling shareholder of the Company's ultimate holding company agreed to use his best endeavour to ensure that the Company's ultimate holding company will provide financial support to enable the Company to meet in full its financial obligations. The directors are satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due in the foreseeable future. Accordingly the financial statements have been prepared on a going concern basis.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS"s), Hong Kong Accounting Standards ("HKAS"s) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of a jointly controlled entity, a result of the application of HKAS 1 "Presentation of Financial Statements" ("HKAS 1"), have been changed. The changes in presentation have been applied retrospectively. 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 the current and prior accounting years are prepared and presented:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Non-current assets held for sale

In the current year, the Group has, for the first time, applied HKFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations" ("HKFRS 5"). HKFRS 5 requires an entity to classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than continuing use. The assets classified as held for sale should be measured at the lower of carrying amount and fair value, less costs to sell. The Group has applied the relevant transitional provisions in HKFRS 5 and elected to apply HKFRS 5 from 1st January, 2005 onwards. In the current year, assets with carrying amounts of HK$313,140,000 and the associated liabilities with carrying amounts of HK$46,382,000 have been classified as assets held for sale and liabilities associated with assets classified as held for sale, respectively.

Business Combinations

In the current year, the Group has applied HKFRS 3 *Business Combinations* ("HKFRS 3") which is effective for business combination for which the agreement date is on or after 1st January, 2005 and for existing goodwill and negative goodwill. The principal effects of the application of transactional provision of HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisition was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. The Group on 1st January, 2005 eliminated the carrying amount of the related accumulated amortisation of HK$88,000 with a corresponding decrease in the cost of goodwill (see Note 18). The Group has discontinued amortising such goodwill from 1st January, 2005 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisition after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated (see Note 2A for the financial impact).

In the current year, the Group has also applied HKAS 21 *The Effects of Changes in Foreign Exchange Rates* ("HKAS 21") which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisition of foreign operations was reported at the historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisition prior to 1st January, 2005 is treated as a non-monetary foreign currency item. Therefore, no prior period adjustment has been made. In the current year, the Group acquired additional interest in its foreign operation, and goodwill arose on the acquisition of that foreign operation has been translated at the closing rate at 31st December, 2005. No significant changes to the translation reserve at 31st December, 2005 was resulted.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Business Combinations (Continued)

Excess of the Group's interest in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisition was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. The carrying amount of negative goodwill on 1st January, 2005 of HK$119,976,000 was restated as a result of a restatement of HK$10,506,000 in connection with an adjustment for the share of losses by a minority shareholder held by the associate was made, details of which are set out in Note 21. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill of HK$109,410,000 on 1st January, 2005, which was previously presented as a deduction from interests in associates, with a corresponding decrease to accumulated losses of the same amount (see Note 2A for the financial impact).

Share-based Payments

In the current year, the Group has applied HKFRS 2 *Share-based Payment* ("HFKRS 2") which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st January, 2005. In relation to share options granted before 1st January, 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7th November, 2002 and vested before 1st January, 2005. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7th November, 2002 and had not yet vested on 1st January, 2005. Comparative figures for 2004 have not been restated as the share options that were granted after 7th November, 2002 were vested on or before 1st January, 2005 (see Note 2A for the financial impact).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Financial instruments

In the current year, the Group has applied HKAS 32 *Financial Instruments: Disclosure and Presentation* ("HKAS 32") and HKAS 39 *Financial Instruments: Recognition and Measurement* ("HKAS 39"). HKAS 32 requires retrospective application. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Financial assets and financial liabilities other than debt and equity securities

From 1st January, 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of the Statement of Standard Accounting Practice 24 *Accounting for Investments in Securities*) in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition.

Prior to the application of HKAS 39, an interest-free non-current loan from the minority shareholders of a subsidiary was stated at the nominal amount. HKAS 39 requires all financial assets and financial liabilities to be measured at fair value on initial recognition. Such interest-free loan is measured at amortised cost determined using the effective interest method at subsequent balance sheet dates. The Group has applied the relevant transitional provisions in HKAS 39. As a result of this change in the accounting policy, the carrying amount of the loan as at 1 January 2005 has been decreased by HK$1,449,000 in order to state the loan at amortised cost in accordance with HKAS 39. Minority interests as at 1 January 2005 has been increased by HK$1,449,000, which represents the deemed capital contribution from the minority shareholders made on the recognition of the loan. Loss for the year has been increased by HK$1,449,000 due to the recognition of imputed interest expense (see Note 2A for the financial impact).

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Investment Properties

In the current year, the Group has, for the first time, applied HKAS 40 *Investment Property* ("HKAS 40"). The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in profit or loss for the year in which they arise. In previous years, investment properties under the predecessor accounting standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation surplus subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1st January, 2005 onwards. As the investment properties were valued below cost and the gain/loss from change to fair value of investment property had previously been charged to the income statement, comparative figures for 2004 have not been restated.

Interests in Jointly Controlled entities

In previous years, interest in jointly controlled entities were accounted for using the equity method. HKAS 31 *Interest in Jointly Controlled Entities* ("HKAS 31") allows entities to use either proportionate consolidation or the equity method to account for its interests in jointly controlled entities. The Group has selected to continue the application of equity method so that no financial impact is resulted for the prior and current periods.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	2005 HK$'000	2004 HK$'000
Non-amortisation of goodwill (included in administrative expenses)	150	–
Decrease in negative goodwill released to income	(5,235)	–
Recognition of share-based payment expenses	(50,670)	–
Imputed interest expenses on non-interest bearing loans from minority shareholders of a subsidiary	(1,449)	–
Decrease in amortisation of franchise fee	1,200	–
Decrease in share of profit of a jointly controlled entity	(3,615)	(6,997)
Decrease in taxation	3,615	6,997
Increase in loss for the year	(56,004)	–

Analysis of decrease in loss for the year ended 31st December, 2005 and 2004 by line items presented according to their function:

	2005 HK$'000	2004 HK$'000
Decrease in other income	(5,235)	–
Increase in finance costs	(1,449)	–
Increase in administrative expenses	(49,320)	–
Decrease in share of profit of a jointly controlled entity	(3,615)	(6,997)
Decrease in taxation	3,615	6,997
Increase in loss for the year	(56,004)	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (Continued)

The cumulative effects of the application of the new HKFRSs on 31st December, 2004 and 1st January, 2005 are summarised below:

	As at 31st December, 2004 (originally stated) HK$'000	HKAS 1 adjustments HK$'000	As at 31st December, 2004 (restated) HK$'000	HKFRS 3 adjustment HK$'000	HKAS 39 adjustment HK$'000	As at 1st January, 2005 (restated) HK$'000
Effects on assets and liabilities						
Interest in associates	279,388	–	279,388	109,470	–	388,858
Amounts due to minority shareholders of a subsidiary	(35,896)	–	(35,896)	–	1,449	(34,447)
Other assets/liabilities	419,591	–	419,591	–	–	419,591
Net assets	663,083	–	663,083	109,470	1,449	774,002
Effects on equity						
Share capital	119,932	–	119,932	–	–	119,932
Reserves	457,174	–	457,174	109,470	–	566,644
Minority interests	–	85,977	85,977	–	1,449	87,426
Total equity	577,106	85,977	663,083	109,470	1,449	774,002
Minority interests	85,977	(85,977)	–	–	–	–
	663,083	–	663,083	109,470	1,449	774,002

Note: The figures at 31st December, 2004 was restated as a result of an adjustment for the increase in consideration payable of (included in other assets/liabilities) of HK$18,575,000 for acquisition of the associate (with a corresponding restatement in interest in associate of the same amount).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (Continued)

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards or Interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market-waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] Effective for annual periods beginning on or after 1st January, 2007.

[2] Effective for annual periods beginning on or after 1st January, 2006.

[3] Effective for annual periods beginning on or after 1st December, 2005.

[4] Effective for annual periods beginning on or after 1st March, 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost basis expect for the investment properties and financial instruments, which are measured at fair value, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries 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.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on acquisition before 1st January, 2005

Goodwill arising on acquisition of a subsidiary for which the agreement date is before 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

For previously capitalised goodwill, the Group has discontinued amortisation from 1st January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash-generating unit to which the goodwill related may be impaired.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

Goodwill arising on acquisition on or after 1st January, 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition of subsidiary is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Additional interests in subsidiaries are measured at the aggregate of the carrying amounts of identified assets and liabilities of the subsidiaries and any excess of the consideration over the net assets acquired are accounted for as goodwill.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisition of a subsidiary, an associate or a jointly controlled entity for which an agreement date is on or after 1st January, 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss. A discount on acquisition arising on an acquisition of an associate or a jointly controlled entity (which is accounted for using the equity method) is included as income in the determination of the investor's share of results of the associate or jointly controlled entity in the period in which the investment is acquired.

As explained in Note 2 above, all negative goodwill as at 1st January, 2005 has been derecognised with a corresponding decrease to the Group's accumulated losses.

Investments in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under HKFRS 5. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets'(disposal groups') previous carrying amount and fair value less costs to sell.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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 from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rates applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent 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, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year in which the item is derecognised.

Impairment (other than goodwill – see the accounting policies in respect of goodwill above)

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 amount, the carrying amount of the asset is reduced to its recoverable amount. An 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

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

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

Exchange differences arising on the settlement of monetary items, and on the re-translation of monetary items, are recognised in profit or loss for the year. Exchange differences arising on the re-translation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the re-translation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations in the People's Republic of China ("PRC") are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such translation differences are recognised in profit or loss in the period in which the PRC 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.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated 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 profit 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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.

Intangible assets

On initial recognition, intangible assets acquired separately are recognised at cost and at fair value respectively. Intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses for assets above).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Intangible assets with indefinite useful lives are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions

Share options granted to employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated profits (losses).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management makes various estimates based on past experiences, expectations of the future and other information. The key sources of estimation uncertainty that may significantly affect the amounts recognised in the financial statements are disclosed below:

Going concern

The directors of the Company have given careful consideration to the future liquidity of the Group in light of the Group's net current liabilities of approximately HK$503,867,000 at 31st December, 2005 and prepared the financial statements based on going concern.

Should there be any problem in the going concern of the Group, all the assets and liabilities have to be stated at net realisable values. In particular, the non-current assets and the non-current liabilities have to be reclassified as current assets and current liabilities respectively. As at 31st December, 2005, the directors had taken into consideration of the recoverable amounts and made adequate impairment loss on all major assets in preparation of the financial statements and were of the view that the carrying amounts of all the assets and liabilities approximate their fair values.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight line basis over their estimated useful lives, after taking into account of their estimated residual value. The determination of the useful lives and residual values involve management's estimation.

The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Impairment of goodwill, property, plant and equipment and other non-current assets

Determining whether goodwill, property, plant and equipment and other non-current assets are impaired requires an estimation of the value in use of the cash-generating units to which goodwill, property, plant and equipment and other non-current assets have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, trade and other payables and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its bank borrowings. Bank loans at variable rates expose the Group to cash flow interest-rate risk. Details of the Group's bank borrowings have been disclosed in note 26.

The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Currency risk

Several subsidiaries of the Company have sales in currency other than the presentation currency of the Group ("foreign currency"), which expose the Group to foreign currencies risk. In addition, certain trade and other receivables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 is the carrying amount of trade and other receivables as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

6. REVENUE

Revenue 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:

	2005 **HK$'000**	2004 HK$'000
Continuing operation		
Sales of goods	**1,852,753**	1,059,719
Discontinued operations		
Rental income from investment properties	**1,438**	1,576

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

7. SEGMENT INFORMATION

BUSINESS SEGMENTS

For management purposes, the Group is currently engaged in retail business as the major operating division of the Group. The retail business mainly includes the operation of "cash-and-carry" stores, operation of department stores and retailing of consumer products. This division is the base on which the Group reports its primary segment information.

The Group was also involved in the business of property investment in residential premises for their rental income potential and property development in the PRC. The business of property investment and property development was discontinued on 9th September, 2005 (see note 11).

Segment information about these businesses is presented below.

For the year ended 31st December, 2005

	Continuing operation		Discontinued operations		
	Retail HK$'000	Total HK$'000	Property investment HK$'000	Property development HK$'000	Consolidated HK$'000
REVENUE					
External revenue	1,852,753	1,852,753	1,438	–	1,854,191
RESULT					
Segment result	(252,901)	(252,901)	(13,734)	–	(266,635)
Interest and unallocated gains		10,543			10,543
Unallocated expenses		(216,648)			(216,648)
Finance costs		(22,539)	(1,449)		(23,988)
Share of result of a jointly controlled entity		–		8,566	8,566
Share of results of associates	(23,981)	(23,981)			(23,981)
Adjustment in negative goodwill arising from acquisition of an associate	(18,575)	(18,575)			(18,575)
Loss before taxation		(524,101)			(530,718)
Taxation		538			538
Loss for the year		(523,563)			(530,180)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

7. SEGMENT INFORMATION (Continued)

Assets and liabilities at 31st December, 2005

	Continuing operation		Discontinued operations		
	Retail	Others	Property investment	Property development	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS					
Segment assets	1,072,569		26,900		1,099,469
Interest in a jointly controlled entity	–			286,240	286,240
Interests in associates	368,888				368,888
Unallocated corporate assets					152,195
Consolidated total assets					1,906,792
LIABILITIES					
Segment liabilities	707,974		44,288		752,262
Unallocated corporate liabilities					814,042
Consolidated total liabilities					1,566,304
OTHER INFORMATION					
Capital additions	307,463	1,259	–	–	308,722
Goodwill arising on acquisition of additional interests in subsidiaries	57,833	–	–	–	57,833
Depreciation of property, plant and equipment	59,049	2,000	–	–	61,049
Impairment loss on property, plant and equipment	75,044	–	–	–	75,044
Impairment loss on goodwill	59,249	–			59,249
Impairment loss on other non-current asset	10,550	–			10,550
Loss from change in fair value of investment properties	–	–	478	–	478

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

7. SEGMENT INFORMATION (Continued)

For the year ended 31st December, 2004

	Continuing operation		Discontinued operations		
	Retail HK$'000	Total HK$'000	Property investment HK$'000	Property development HK$'000	Consolidated HK$'000
REVENUE					
External revenue	1,059,719	1,059,719	1,576	–	1,061,295
RESULT					
Segment result	(102,737)	(102,737)	(8,536)	–	(111,273)
Interest and unallocated gains		25,643			25,643
Unallocated expenses		(72,075)			(72,075)
Finance costs		(7,673)			(7,673)
Share of result of a jointly controlled entity		–		21,993	21,993
Share of results of associates	(13,442)	(13,442)			(13,442)
Loss before taxation		(170,284)			(156,827)
Taxation		(1,667)			(1,667)
Loss for the year		(171,951)			(158,494)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

7. SEGMENT INFORMATION (Continued)

Assets and liabilities at 31st December, 2004

	Continuing operation		Discontinued operations		
	Retail HK$'000	Others HK$'000	Property investment HK$'000	Property development HK$'000	Consolidated HK$'000
ASSETS					
Segment assets	827,364		29,456		856,820
Interest in a jointly controlled entity	–			271,600	271,600
Interests in associates	279,388				279,388
Amount due from an associate	22,769				22,769
Unallocated corporate assets	–				140,416
Consolidated total assets					1,570,993
LIABILITIES					
Segment liabilities	554,003		44,843		598,846
Unallocated corporate liabilities					309,064
Consolidated total liabilities					907,910
OTHER INFORMATION					
Capital additions	352,488	6,964	–	–	359,452
Goodwill arising on acquisition of a subsidiary	1,504	–	–	–	1,504
Depreciation of property, plant and equipment	20,452	5,953	–	–	26,405
Amortisation of franchise fee	1,200	–	–	–	1,200
Amortisation of goodwill	88	–	–	–	88
Revaluation increase recognised in respect of investment properties	–	–	2,246	–	2,246

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

7. SEGMENT 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.

2005

	Hong Kong HK$'000	The PRC HK$'000	Total HK$'000
Revenue	3,527	1,850,664	1,854,191

	Hong Kong HK$'000	The PRC HK$'000	Total HK$'000
Carrying amount of segment assets	34,169	1,217,495	1,251,664
Additions to property, plant and equipment	1,634	307,088	308,722
Goodwill arising on acquisition of additional interest in subsidiaries	–	57,833	57,833

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

7. SEGMENT INFORMATION (Continued)

GEOGRAPHICAL SEGMENTS (Continued)

2004

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

	Hong Kong HK$'000	The PRC HK$'000	Total HK$'000
Carrying amount of segment assets	47,575	972,430	1,020,005
Additions to property, plant and equipment	2,390	357,062	359,452
Goodwill arising on acquisition of a subsidiary	–	1,504	1,504

Revenue from the Group's discontinued property investment and property development (2005: HK$1,438,000; 2004: HK$1,576,000) was derived principally from the PRC.

8. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on borrowings wholly repayable within five years:		
Bank borrowings	**5,861**	896
Other borrowings	**4,535**	–
Deemed interest on deferred consideration payable (note 21)	**10,694**	6,777
Imputed interest on amounts due to minority shareholders of a subsidiary	**1,449**	–
	22,539	7,673

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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 14 (2004: 12) directors were as follows:

For the year ended 31st December, 2005

	Soopakij Chearavanont HK$'000	Tse Ping HK$'000	Lee G. Lam HK$'000	Narong Chearavanont HK$'000	Supachai Chearavanont HK$'000	Chatchaval Jiaravanon HK$'000	Kachorn Chiaravanont HK$'000	Meth Jiaravanont HK$'000 (note)	Yang Xiaoping HK$'000	Umroong Sanphasitvong HK$'000 (note)	Robert Ping-Hsien Ho HK$'000	Viroj Sangsnit HK$'000	Chokchai Kotikula HK$'000	Cheng Yuk Wo HK$'000	Total HK$'000
Fees	-	-	-	-	-	-	-	-	-	-	-	120	120	120	360
Other emoluments:															
- Salaries and other benefits	3,435	-	6,338	-	-	-	-	273	3,211	-	-	-	-	-	13,257
- contributions to retirement benefit scheme	12	-	12	-	-	-	-	-	12	-	-	-	-	-	36
Share-based payment	5,067	5,067	-	5,067	5,067	5,067	5,067	5,067	5,067	5,067	5,067	-	-	-	50,670
Total emoluments	8,514	5,067	6,350	5,067	5,067	5,067	5,067	5,340	8,290	5,067	5,067	120	120	120	64,323

For the year ended 31st December, 2004

	Soopakij Chearavanont HK$'000	Tse Ping HK$'000	Lee G. Lam HK$'000	Narong Chearavanont HK$'000	Supachai Chearavanont HK$'000	Chatchaval Jiaravanon HK$'000	Kachorn Chiaravanont HK$'000	Yang Xiaoping HK$'000	Robert Ping-Hsien Ho HK$'000	Viroj Sangsnit HK$'000	Chokchai Kotikula HK$'000	Cheng Yuk Wo HK$'000	Total HK$'000
Fees	-	-	-	-	-	-	-	-	-	120	120	31	271
Other emoluments:													
- Salaries and other benefits	3,455	-	6,607	-	-	-	-	2,788	-	-	-	-	12,850
- contributions to retirement benefit scheme	12	-	12	-	-	-	-	4	-	-	-	-	28
Total emoluments	3,467	-	6,619	-	-	-	-	2,792	-	120	120	31	13,149

Note: Mr. Meth Jiaravanont and Mr. Umroong Sanphasitvong were appointed as directors on 14th September, 2005.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

9. DIRECTORS' AND EMPLOYEES REMUNERATION (Continued)

(b) Employees' emoluments

The five highest paid individuals in the Group included three directors (2004: three directors), details of whose emoluments are set out above. The emoluments of the remaining individuals were as follows:

	2005 HK$'000	2004 HK$'000
Salaries and allowances	**2,945**	2,327
Contributions to retirement benefits schemes	**12**	12
	2,957	2,339

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

	2005 HK$'000	2004 HK$'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, 2005 and 2004, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, no director waived any emoluments for these two years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

10. TAXATION

	Continuing operation		Discontinued operations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Income tax provision in other jurisdictions						
– Current year's provision	**–**	892	**–**	–	**–**	892
– (Over) under-provision in prior year	**(538)**	775	**–**	–	**(538)**	775
	(538)	1,667	**–**	–	**(538)**	1,667

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%. For the year ended 31st December, 2005, no subsidiary (2004: three subsidiaries) is entitled to exemption from the PRC enterprise income tax according to the notices issued by the relevant tax authorities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

10. TAXATION (Continued)

The charge for the year can be reconciled to the loss before taxation per the consolidated income statement as follows:

	2005 HK$'000	2004 HK$'000
Loss before taxation:		
Continuing operation	(524,101)	(170,284)
Discontinuing operations	(6,617)	13,457
	(530,718)	(156,827)
Tax at the domestic income tax rate of 33% (Note)	(175,137)	(51,753)
Tax effect of expenses not deductible in determining taxable profit	102,931	8,434
Tax effect of income not taxable in determining taxable profit	(1,449)	(5,485)
(Over) underprovision in respect of prior year	(538)	775
Tax effect of tax losses not recognised	45,798	35,538
Tax effect of utilisation of other deferred tax assets previously not recognised	(1,787)	(802)
Tax effect of deferred tax asset not recognised	1,638	4,374
Effect of tax exemptions granted to certain PRC subsidiaries	–	(5,263)
Effect of different tax rates of subsidiaries	28,006	8,994
Income tax on concessionary rate	–	6,855
Taxation for the year	(538)	1,667

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

11. DISCONTINUED OPERATIONS/ASSETS CLASSIFIED AS HELD FOR SALE

On 9th September, 2005, the Group entered into an agreement to dispose of its entire 75% interest in a subsidiary, Fortune (Shanghai) Limited ("FSL"), which is engaged in property investment in the PRC and holding 50% interest in a jointly controlled entity which is also engaged in property development in the PRC ("Disposal"). The consideration for the Disposal is US$52,700,000 (equivalent to HK$411,000,000). The assets and liabilities attributable to the business, which are expected to be sold within twelve months, have been classified as a disposal group held for sale and are presented separately in the balance sheet (see below). The net proceeds of disposal are expected to exceed the net carrying amount of the relevant assets and liabilities, after adjusted for 25% minority shareholders' share of their net carrying amounts and accordingly, no impairment loss has been recognised.

The disposal was completed subsequent to the balance sheet date.

The results of FSL for the year were as follows:

	2005 **HK$'000**	2004 HK$'000
Revenue	**1,438**	1,576
Administrative expenses	**(14,694)**	(11,931)
(Loss) gain from change in fair value of investment properties	**(478)**	2,246
Loss on disposal of investment property	**–**	(427)
Loss before taxation	**(13,734)**	(8,536)
Share of result of a jointly controlled entity	**8,566**	21,993
Imputed interest on non-interest bearing loans from minority shareholders of a subsidiary	**(1,449)**	–
(Loss) profit for the year	**(6,617)**	13,457

During the year, FSL contributed net operating cash outflow of HK$85,000 (2004: net operating cash inflow of HK$939,000) to the Group. During the year ended 31st December, 2004, FSL also paid HK$1,240,000 (2005: nil) in respect of investing activities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

11. DISCONTINUED OPERATIONS/ASSETS CLASSIFIED AS HELD FOR SALE (Continued)

The major classes of assets and liabilities of FSL as at 31st December, 2005, which have been presented separately in the balance sheet, are as follows:

	HK$'000
Investment properties (note 16)	26,500
Interest in a jointly controlled entity (note 20)	286,240
Other receivables	170
Amount due from a related company	108
Bank balances and cash	122
Total assets classified as held for sale	313,140
Trade and other payables	10,486
Amounts due to minority shareholders of a subsidiary	35,896
Total liabilities associated with assets classified as held for sale	46,382

The 25% minority shareholder of FSL is entitled to its share of net assets of FSL at 31st December, 2005 of HK$86,838,000. Accordingly, the net assets of FSL attributable to the Group is HK$199,402,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

12. LOSS FOR THE YEAR

	Continuing operation		Discontinued operations		Consolidated	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Loss for the year has been arrived at after charging:						
Depreciation of property, plant and equipment	61,049	26,405	–	–	61,049	26,405
Amortisation of franchise fee (included in administrative operating expenses)	–	1,200	–	–	–	1,200
Amortisation of goodwill (included in administrative expenses)	–	–	–	88	–	88
Total depreciation and amortisation	61,049	27,605	–	88	61,049	27,693
Directors' emoluments (note 9)	64,323	13,149	–	–	64,323	13,149
Other staff costs, other than share based payment expenses	156,574	126,274	11,861	6,884	168,435	133,158
Total staff costs	220,897	139,423	11,861	6,884	232,758	146,307
Auditors' remuneration	1,729	1,229	171	171	1,900	1,400
(Loss) gain from change to fair value recognised in respect of investment properties	–	–	(478)	2,246	(478)	2,246
Loss on disposal of property, plant and equipment	2,585	718	–	–	2,585	718
Release of negative goodwill arising on acquisition of an associate (included in other income)	–	5,235	–	–	–	5,235
Impairment loss on intangible assets (included in other expenses)	10,550	–	–	–	10,550	–
Impairment loss on goodwill (included in other expenses)	59,249	–	–	–	59,249	–
Share of tax of a jointly controlled entity (included in share of result of a jointly controlled entity)	–	–	(3,615)	(6,997)	(3,615)	(6,997)
and after crediting:						
Interest income	4,922	5,876	–	–	4,922	5,876
Gain on disposal of a subsidiary	613	45	–	–	613	45

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

12. LOSS FOR THE YEAR (Continued)

Included in total staff costs is an aggregate amount of approximately HK$9,250,000 (2004: HK$7,932,000) in respect of contributions to retirement benefits scheme paid or payable by the Group.

13. DIVIDENDS

No dividend was paid or proposed during the years ended 31st December, 2005 and 2004, nor has any dividend been proposed since the balance sheet date.

14. LOSS PER SHARE

For continuing and discontinued operations

The calculation of the basic and diluted loss per share attributable to the equity holders of the Company is based on the following data:

	2005 HK$'000	2004 HK$'000
Loss for the purpose of basic and diluted loss per share	**497,296**	141,142
Weighted average number of ordinary shares for the purpose of basic loss per share	**5,996,614,408**	5,996,614,408
Effect of dilutive potential ordinary shares options		429,852,648
Weighted average number of ordinary shares for the purpose of diluted loss (earnings) per share		6,426,467,056

During the year ended 31st December, 2005 and 2004, no diluted loss per share in respect of both the continuing and discontinued operations is presented as the exercise of the Company's outstanding share option would result in a decrease in loss per share.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

14. LOSS PER SHARE

From continuing operation

Basic loss per share from continuing operation attributable to the equity holders of the Company is based on the following data:

Loss figures are calculated as follows:

	2005 HK$'000	2004 HK$'000
Loss for the year attributable to equity holders of the Company	**(497,296)**	(141,142)
Less: Loss (profit) for the year from discontinued operations (net of minority interests)	**4,729**	(9,072)
Loss for the purposes of basic loss per share from continuing operation	**(492,567)**	(150,214)

The denominators used are the same as those detailed above for basic loss per share. During the years ended 31st December, 2005 and 2004, no diluted loss per share in respect of the continuing operations as the exercise of the Company's outstanding share option would result in a decrease in net loss per share.

From discontinued operations

Basic loss per share for the discontinued operation is HK0.08 cent per share (2004: basic earnings per share of HK0.15 cent), based on the loss for the year from the discontinued operations of HK$4,729,000 (2004: profit of HK$9,072,000) and the denominators detailed above for both basic loss (earnings) per share.

During the year ended 31st December, 2005, no diluted loss per share in respect of the discontinued operations is presented as the exercise of the Company's outstanding share option would result in a decrease in net loss per share. For the year ended 31st December, 2004, diluted earnings per share for the discontinued operations is HK0.14 cent per share, based on the profit for the year from the discontinued operations of HK$9,072,000 and the denominators detailed above for diluted earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

14. LOSS PER SHARE (Continued)

The following table summarises the impact on basic loss per share for the year ended 31st December, 2005 as a result of the application of new accounting standards or interpretations:

	From continuing and discontinued operations HK Cents	**From continuing operations** HK Cents
Figures before adjustments	7.36	7.28
Adjustments arising from changes in accounting policies (see note 2A)	0.93	0.93
Reported figures after adjustments	8.29	8.21

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

15. 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
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
Exchange adjustments	4,435	277	3,993	187	1,037	9,929
Additions	7,637	5,930	12,038	7,688	275,429	308,722
Transfer	102,574	13,199	168,541	–	(284,314)	–
Disposals	(3,275)	(2,243)	(2,234)	(1,074)	–	(8,826)
Released on disposal of a subsidiary	–	–	(619)	(1,338)	–	(1,957)
At 31st December, 2005 – at cost	319,826	35,890	377,384	18,270	40,879	792,249
DEPRECIATION AND IMPAIRMENT						
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
Exchange adjustments	109	62	365	55	–	591
Provided for the year	12,027	6,698	39,250	3,074	–	61,049
Impairment loss recognised for the year	–	55	74,989	–	–	75,044
Eliminated on disposals	(80)	(128)	(407)	(43)	–	(658)
Released on disposal of a subsidiary	–	–	(116)	(656)	–	(772)
At 31st December, 2005	17,166	12,720	134,066	6,632	–	170,584
CARRYING VALUES						
At 31st December, 2005	302,660	23,170	243,318	11,638	40,879	621,665
At 31st December, 2004	203,345	12,694	175,680	8,605	48,727	449,051

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For the year ended 31st December, 2005

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment are depreciated on a straight line basis at the following rates per annum:

Buildings	5%
Leasehold improvements	$33^1/_3$%
Furniture, fixtures and equipment	18% – $33^1/_3$%
Motor vehicles	15% – $33^1/_3$%

During the year, the directors conducted a review of the Group's operating assets and determined that a number of those assets were impaired, because the business growth does not meet certain expectation by the management in the operation of "cash-and-carry" stores in certain regions in the PRC and the sale of barbecue foods in Hong Kong. Accordingly, impairment losses of approximately HK$55,000 and HK$74,989,000 have been recognised in respect of leasehold improvements and furniture, fixtures and equipment, which are used in the retail segment. The recoverable amounts of the relevant assets have been determined on the basis of their value in use. The discount rates in measuring the amounts of value in use were 5% for all these assets.

16. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1st January, 2004	26,000
Disposals	(1,268)
Increase in fair value	2,246
At 1st January, 2005	26,978
Disposals	–
Decrease in fair value	(478)
At 31st December, 2005, included under assets classified as held for sale (note 11)	26,500

The fair value of the Group's investment properties at 31st December, 2005 have been arrived at on the basis of valuation carried out by Landscope Surveyors Limited, an independent firm of professional property valuers. The valuation, which conforms to the Hong Kong Institute of Surveyors Valuation Standard on Properties, of the Group's investment properties was arrived at by reference to market evidence of transaction prices for similar properties. The decrease in fair value of HK$478,000 (2004: increase in fair value of HK$2,246,000) has been charged (credited) 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.

17. INTANGIBLE ASSET

	Franchise fee HK$'000
COST	
At 1st January, 2004, 31st December, 2004 and 31st December, 2005	12,000
AMORTISATION AND IMPAIRMENT	
At 1st January, 2004	250
Charge for the year	1,200
At 31st December, 2004	1,450
Impairment loss recognised in the year	10,550
At 31st December, 2005	12,000
CARRYING VALUE	
At 31st December, 2005	–
At 31st December, 2004	10,550

Intangible asset represents 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. In previous years, the amount was amortised to the income statement on a straight line basis over ten years. Particulars regarding impairment testing on the franchise fee are disclosed in note 19.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

18. GOODWILL

	HK$'000
COST	
Arising on acquisition of a subsidiary and at 1st January, 2005	1,504
Elimination of accumulated amortisation upon the application of HKFRS 3 (note 2)	(88)
Arising on acquisition of additional interests in subsidiaries	57,833
At 31st December, 2005	59,249
AMORTISATION/IMPAIRMENT	
Charged for the year ended 31st December, 2004 and at 1st January, 2005	88
Elimination of accumulated amortisation upon the application of HKFRS 3 (note 2)	(88)
Impairment loss recognised for the year	59,249
As at 31st December, 2005	59,249
CARRYING VALUES	
At 31st December, 2005	–
At 31st December, 2004	1,416

Until 31st December, 2004, goodwill had been amortised over its estimated useful life of 10 years.

Particulars regarding impairment testing on goodwill are disclosed in note 19.

19. IMPAIRMENT TESTING ON INTANGIBLE ASSETS AND GOODWILL

As explained in note 7, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, franchise fee and goodwill set out in notes 17 and 18 respectively have been allocated to cash generating units (CGUs), including Beijing Lotus Supermarket Chain Store Co., Ltd. 北京易初蓮花連鎖超市有限公司 ("Beijing Lotus"), Tianjin Lotus Supermarket Chain Store Co., Ltd. 天津易初蓮花連鎖超市有限公司 ("Tianjin Lotus") and Chia Tai Barbecue Specialist Company Limited ("CTBBQ"), which are subsidiaries in retail segment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

19. IMPAIRMENT TESTING ON INTANGIBLE ASSETS AND GOODWILL (Continued)

The carrying amounts of franchise fee and goodwill as at 31st December, 2005 allocated to these units are as follows:

	Franchise fee	Goodwill
	HK$'000	HK$'000
Name of subsidiary in retail segment		
CTBBQ	**10,550**	1,416
Beijing Lotus	–	28,525
Tianjin Lotus	–	29,308
	10,550	59,249

In previous years, Beijing Lotus and Tianjin Lotus were established as Sino-foreign co-operative joint ventures in the PRC. In accordance with the joint venture agreements between the wholly-owned subsidiaries of the Group which hold direct interest in Beijing Lotus and Tianjin Lotus and the respective minority shareholders, share of result of Beijing Lotus and Tianjin Lotus is based on the total capital contribution percentage committed by the joint venture partners. As a result, minority interests have shared losses of Beijing Lotus and Tianjin Lotus in excess of their capital contribution up to 31st December, 2004.

During the year, the Group acquired the entire interest in Beijing Lotus and Tianjin Lotus from their respective minority shareholders in order to consolidate its interest in and control of Beijing Lotus and Tianjin Lotus and therefore the "cash-and-carry" stores were operated by these two subsidiaries. Details of the acquisitions were disclosed in note 39 to the financial statements. Goodwill of HK$28,525,000 and HK$29,308,000 arising from these acquisitions represented the net liabilities previously shared by the minority interests now taken up by the Group upon completion of the acquisitions.

Accordingly, impairment losses were recognised in respect of the full amount of goodwill arising from these acquisitions.

Also, the franchise fee of HK$10,550,000 and goodwill arising from the acquisition of subsidiaries of HK$1,416,000 in respect of CTBBQ were fully impaired because the business growth does not meet certain expectation by the management in the sale of barbecue foods in Hong Kong.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

20. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2005 HK$'000	2004 HK$'000
Cost of unlisted investment in a jointly controlled entity	**163,532**	163,532
Share of post-acquisition profits, net of dividend received	**122,708**	108,068
	286,240	271,600

As at 31st December, 2005, 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	USD30,000,000	37.5 (note)	Property development in the PRC

Note: The Company, through its 75% equity-owned subsidiary, owns 50% equity interest in Shanghai Fortune.

Shanghai Fortune was a Sino-foreign co-operative joint venture set up in the PRC under a joint venture agreement between FSL, a non-wholly-owned 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, 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, 2005

20. INTEREST IN A JOINTLY CONTROLLED ENTITY (Continued)

Consolidated results of Shanghai Fortune for the year ended 31st December, 2005 and 2004, are as follows:

	2005 HK$'000	2004 HK$'000
Turnover	**63,045**	182,989
Profit for the year	**17,132**	43,985
Profit for the year attributable to the Group	**8,566**	21,993

Consolidated financial position of Shanghai Fortune at 31st December which are accounted for using equity method are as follows:

	2005 HK$'000	2004 HK$'000
Non-current assets	**2,051**	2,449
Current assets	**1,246,753**	1,254,470
Current liabilities	**(676,324)**	(713,719)
Net assets	**572,480**	543,200
Group's share of net assets	**286,240**	271,600

As set out in note 11, the Group, through the disposal of FSL, disposed of its interests in Shanghai Fortune. Accordingly, the Group's interest in Shanghai Fortune is classified under "assets classified as held for sale".

21. INTERESTS IN ASSOCIATES/AMOUNT DUE FROM (TO) AN ASSOCIATE

	2005 HK$'000	2004 HK$'000
Cost of unlisted investment in associates	**369,734**	351,159
Share of post-acquisition reserves	**(846)**	37,699
Negative goodwill on acquisition	**–**	(109,470)
	368,888	279,388

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For the year ended 31st December, 2005

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

As at 31st December 2005, 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	USD97,400,000 Ordinary shares	50	Investment holding in the PRC
Freewill Solutions Co, Ltd. ("Freewill Solutions")	Thailand	Baht 362,000,000 Ordinary shares	49	Investment holding in Thailand

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 is approximately USD32,217,000 (equivalent to HK$251,293,000) of which 5% was payable upon the completion and the remaining will be payable in 2008, 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 USD6,021,000 (equivalent to HK$46,964,000). The consideration for the Acquisition is contingent upon the conclusion of these disputes.

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 HK$55,842,000), of which 5% was also payable upon the completion and the remaining payment will be wholly repaid by 2008. The aggregate gross consideration of the aforesaid acquisitions amounted to approximately HK$291,780,000 ("Gross Consideration") will be wholly repaid by 2008 and the present value of the aggregate gross consideration at the date of acquisitions amounted to approximately HK$266,035,000 ("Total Consideration").

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

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 at a discount rate of 2.5%, to the income statement in proportion to the balances outstanding each period.

Deemed interest charged to income statement since the Acquisition amounted to HK$18,553,000 (2004: HK$10,525,000).

During the year ended 31st December, 2005, one of these disputes regarding claims against Lotus-CPF's employees for acquiring business secrets was settled and the consideration for the Acquisition is adjusted by US$2,730,000 (equivalent to HK$21,241,000). This additional consideration will be payable in 2008. The present value of the consideration payable amounting to HK$18,575,000 is adjusted to negative goodwill and was charged to income statement in the current year.

On 9th September, 2005, the Group entered into an agreement with Charoen Pokphand Group Co., Ltd., a company in which Mr. Dhanin Chearavanont, a substantial shareholder of the Company, has beneficial interest, to acquire an additional 10% interest in Lotus-CPF at consideration of US$8,750,000 (equivalent to approximately HK$68,000,000). The transaction was not yet completed at 31st December, 2005. Upon completion of the transaction on 10th March, 2006, Lotus-CPF became a subsidiary of the Company. Detail of this transaction was disclosed in the Company's circular dated 7th December, 2005.

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For the year ended 31st December, 2005

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

At 31st December, 2004, included in the cost of investment in associates is negative goodwill of HK$109,470,000 (2005: nil) arising on acquisitions of an associate in prior years. The movement of goodwill is set out below.

	HK$'000
COST	
At 1st January, 2004 – as originally stated	130,442
Restatement adjustments	(10,506)
At 1st January, 2004 and 31st December, 2004, as restated	119,936
Elimination of accumulated amortisation upon the application of HKFRS 3 (see Note 2A)	(119,936)
At 31st December, 2005	–
AMORTISATION	
At 1st January, 2004	5,231
Charge for the year	5,235
At 31st December, 2004	10,466
Elimination of accumulated amortisation upon the application of HKFRS 3 (see Note 2A)	(10,466)
At 31st December, 2005	–
CARRYING VALUES	
At 31st December, 2005	–
At 31st December, 2004	109,470

The negative goodwill arising on acquisition was restated as a result of an adjustment of HK$10,506,000 for the share of losses by a minority shareholder in a non-wholly owned subsidiary held under Lotus-CPF.

Until 31st December, 2004, goodwill had been amortised over 20 years.

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

Negative goodwill was presented as a deduction from the cost of investments in associates. In prior years, negative goodwill was released to income on a straight line basis of 20 years, representing the remaining weighted average useful life of the depreciable assets acquired. The amount of negative goodwill released to the income statement for the year ended 31st December, 2004 was HK$5,235,000. All negative goodwill was derecognised on 1st January, 2005 as a result of the application of HKFRS 3 (note 2).

The amount due from an associate was unsecured, interest-free and was repaid in the year.

The amount due to an associate is unsecured, interest-free and is repayable on demand.

The fair value of the total consideration payable and amount due from an associate at 31st December, 2004 and 2005 approximates to the corresponding carrying value.

Consolidated result of the associates for the year ended 31st December, 2005 and 2004 are as follows:

	2005 **HK$'000**	2004 HK$'000
Turnover	**1,359,218**	983,533
Loss for the year	**(56,074)**	(24,564)
Loss for the year attributable to the Group	**(23,981)**	(13,442)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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

Consolidated financial position of the associates at 31st December, 2005 and 2004 as follows:

	2005 HK$'000	2004 HK$'000
Non-current assets	691,647	805,184
Current assets	640,184	455,091
Current liabilities	(204,551)	(549,405)
Non-current liabilities	(428,878)	–
Minority interests	(76,992)	(61,106)
Net assets	621,410	649,764
Group's share of net assets	368,888	279,388

22. INVENTORIES

	2005 HK$'000	2004 HK$'000
Raw materials	88	156
Finished goods	310,275	219,975
	310,363	220,131

At 31st December, 2005 and 2004, all the inventories are carried at net realisable value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

23. 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$9,927,000 (2004: HK$4,948,000) and their aged analysis is as follows:

	2005 HK$'000	2004 HK$'000
0 to 30 days	**7,888**	3,301
31 to 60 days	**805**	716
61 to 90 days	**525**	366
Over 90 days	**709**	565
	9,927	4,948

At 31st December, 2004, included in other receivables and deposits is an amount of HK$2,496,000 (2005: nil) represents the consideration receivables for disposal of interest in a subsidiary.

The fair value of the Group's trade and other receivables and deposits at 31st December, 2005 approximates to the corresponding carrying values.

24. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

The amounts represent deposits pledged to banks to secure banking facilities granted to the Group. These deposits have been pledged to secure short-term banking facilities and are therefore classified as current assets.

The pledged bank deposits will be released upon the settlement of relevant facilities. The fair value of bank deposits at 31 December 2005 approximates to the corresponding carrying amount.

Bank balances and cash comprises cash held by the Group and short-term deposits that are interest bearing from 0.72% to 4.04% per annum and have original maturity of three months or less. The carrying amounts of these assets approximate to their fair values.

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For the year ended 31st December, 2005

25. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK$511,511,000 (2004: HK$398,986,000) and their aged analysis is as follows:

	2005 HK$'000	2004 HK$'000
0 to 30 days	**409,756**	338,959
31 to 60 days	**69,088**	46,315
61 to 90 days	**11,648**	10,246
Over 90 days	**21,019**	3,466
	511,511	398,986

The fair value of the Group's trade and other payables at 31st December, 2005 approximates to the corresponding carrying value.

26. SHORT-TERM BANK AND OTHER BORROWINGS

	2005 HK$'000	2004 HK$'000
Secured bank loan	**343,200**	–
Unsecured bank loans	**14,400**	18,800
	357,600	18,800
Other borrowings	**70,583**	–
	428,183	18,800

The above amounts bear interest at prevailing market rates and are repayable in 2006.

Bank loans include approximately HK$14,400,000 (2004: HK$18,800,000) fixed-rate borrowings which carry interest ranging from 5.76% to 6.14% per annum (2004: 5.31% to 7.375% per annum). Another bank loan of HK$343,200,000 is variable-rate borrowing which carries interest at London Interbank Offered Rate plus 2.825% per annum (2004: nil). Effective interest rate on the variable-rate borrowing ranged from 6.70% to 7.33%.

The other borrowings of HK$70,583,000 from independent third parties carry interest ranging from one-month London Interbank Offered Rate ("LIBOR") to three-month LIBOR.

26. SHORT-TERM BANK AND OTHER BORROWINGS (Continued)

The Group's borrowings that are denominated in currencies other the functional currencies of the relevant group entities are set out below:

	RMB HK$'000	US$ HK$'000
As at 31st December, 2005	14,400	343,200
As at 31st December, 2004	18,800	–

During the year, the Group obtained new bank loans in the amount of US$44,000,000 (equivalent to approximately HK$343,200,000) and RMB5,000,000 (equivalent to approximately HK$4,800,000). The loans drawn during the year bear interest at market rates and will be repayable in 2006.

The directors consider that the carrying amount of bank borrowings approximates to their fair value.

HK$9,600,000 (2004: HK$9,400,000) of the fixed-rate borrowings is secured by a 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. Another fixed-rate borrowings of HK$4,800,000 (2004: HK$4,700,000) is guaranteed by a subsidiary of the Group. The guarantee was released in 2005.

In respect of a bank loan with carrying amount of HK$343,200,000 as at 31st December, 2005, the Group shall make mandatory payment of the full amount upon receipt of proceeds from the disposal of FSL, as detailed in note 11. At 31st December, 2005, the consideration for this disposal has not yet been settled. The bank borrowing is secured by the Group's entire 75% equity shares in FSL.

27. CONSIDERATION PAYABLE FOR ACQUISITION OF AN ASSOCIATE

At 31st December, 2004 and 31st December, 2005, the amount represents the outstanding balance of consideration payable for the acquisition of a 50% interest in Lotus-CPF and 10% interest in CT Guangdong at total consideration of USD32,217,000 and USD7,199,350 respectively. The consideration is payable in six half-year instalments and the first instalment was due in November 2005. The fair value of this amount at the balance sheet date, determined based on the present value of the estimated future cash flows discounted using effective interest rate of 2.5% at the balance sheet date approximates to its carrying value.

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

The amount due to ultimate holding company was fully repaid during the year 31st December, 2005.

The amount due to ultimate holding company at 31st December, 2004 was unsecured, non-interest bearing and had no fixed repayment term. In the opinion of directors as at that date, the amount would not be repaid in the next twelve months of the balance sheet date and was therefore classified as non-current.

The amounts due to minority shareholders of FSL are unsecured, non-interest bearing and 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 date.

As disclosed in note 11, the amounts due to minority shareholders of FSL are classified under assets classified as held for sale.

29. DEFERRED TAXATION

At 31st December, 2005, the Group has unused tax losses of approximately HK$334,996,000 (2004: HK$196,215,000) available for offset against future profits. The tax losses can be carried forward for five years.

At 31st December, 2005, the Group has deductible temporary differences in respect of property, plant and equipment of approximately HK$12,803,000 (2004: HK$13,254,000).

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

30. SHARE CAPITAL

	2005 HK$'000	2004 HK$'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

31. 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 issuable 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. No vesting period is for each grant of options.

The options for the time being outstanding may be exercised in whole or in part at any time during the exercise period.

The exercise price of the share options is 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.

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31. SHARE OPTION SCHEME (Continued)

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

As at 31st December, 2005

Date of grant	Exercisable period	Exercise price per share HK$	Number of shares options Outstanding at 1.1.2005	Granted during the year	Outstanding at 12.31.2005
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
24.5.2005	24.5.2005 to 23.5.2015	0.11	–	599,661,440	599,661,440
			1,199,322,880	599,661,440	1,798,984,320

As at 31st December, 2004

Date of grant	Exercisable period	Exercise price per share HK$	Number of shares options Outstanding at 1.1.2004	Granted during the year	Outstanding at 12.31.2004
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

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

	Outstanding at 1st January	Redesignation of employee as director	Granted during the year	Outstanding at 31st December
2005	959,458,304	119,932,288	599,661,440	1,679,052,032
2004	959,458,304	–	–	959,458,304

On 24th May, 2005, 599,661,440 share options were granted. The estimated fair value of the options granted on that date is HK$50,670,000.

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For the year ended 31st December, 2005

31. SHARE OPTION SCHEME (Continued)

The fair value was calculated using the binominal model. The inputs into the model were as follows:

	2005
Weighted average share price	**HK$0.11**
Weighted average exercise price	**HK$0.11**
Expected volatility at date of grant	**68.34%**
Weighted average expected life	**10 years**
Risk-free rate	**3.68%**
Expected dividend yield	**0%**

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 100 days. The expected life used in the model is based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognised the total expense of HK$50,670,000 for the year ended 31st December, 2005 (2004: Nil) in relation to share options granted by the Company.

32. DISPOSAL OF INTEREST IN A SUBSIDIARY

During the year ended 31st December, 2005, the Group disposed of its entire equity interest in its subsidiary, Chia Tai Land Holding Company Limited. During the year ended 31st December, 2004, the Group disposed of its entire equity interests in its subsidiary, Shanghai Litai Logistics Co., Ltd. The net assets of the subsidiaries at the date of disposal were as follows:

	2005 HK$'000	2004 HK$'000
NET ASSETS DISPOSED OF		
Property, plant and equipment	**1,185**	6,359
Trade, other receivables and deposits	**379**	7,687
Bank balances and cash	**6,300**	2,451
Trade and other payables	**(5,606)**	(9,304)
Short-term bank borrowings	**–**	(4,742)
	2,258	2,451
Exchange reserve released	**(613)**	–
	1,645	2,451
Gain on disposal	**613**	45
Total consideration	**2,258**	2,496

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

32. DISPOSAL OF INTEREST IN A SUBSIDIARY (Continued)

	2005 HK$'000	2004 HK$'000
Satisfied by:		
Cash	2,258	–
Consideration receivables	–	2,496
	2,258	2,496
Net cash inflow arising on disposal:		
Cash consideration	2,258	–
Bank balances and cash disposed of	(6,300)	(2,451)
	(4,042)	(2,451)

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

For the year ended 31st December, 2004, the subsidiary disposed of contributed HK$26,748,000 (2005: nil) to the Group's turnover and HK$1,263,000 (2005: HK$4,425,000) to the Group's loss from operations.

33. CONTINGENT LIABILITIES

At 31st December, 2004 the Company has given a guarantee in favour of CTIF, which made a cash deposit of US$640,000 (equivalent to approximately HK$4,992,000) 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). The guarantee was released in 2005.

34. OPERATING LEASE COMMITMENTS

The Group as lessee

Minimum lease payments paid under operating leases during the year:

	2005 HK$'000	2004 HK$'000
Premises	**304,582**	61,482

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

	2005 HK$'000	2004 HK$'000
Within one year	**264,095**	138,389
In the second to fifth years inclusive	**936,280**	700,627
After five years	**3,730,076**	2,844,980
	4,930,451	3,683,996

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, 2005

34. OPERATING LEASE COMMITMENTS (Continued)

The Group as lessor

Property rental income earned net of negligible outgoings from subletting of the Group's leased properties during the year amounted to approximately HK$22,683,000 (2004: HK$14,430,000). 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:

	2005 HK$'000	2004 HK$'000
Within one year	**26,258**	16,557
In the second to fifth years inclusive	**14,452**	9,571
After five years	**8,370**	5,272
	49,080	31,400

35. CAPITAL COMMITMENTS

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

	2005 HK$'000	2004 HK$'000
Authorised but not contracted for in respect of development project of additional plant and machinery for the expansion of "cash-and-carry" stores	**283,972**	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	**51,328**	83,306
	335,300	591,937

35. CAPITAL COMMITMENTS (Continued)

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

	2005 HK$'000	2004 HK$'000
Authorised but not contracted for in respect of development project of additional plant and machinery for the expansion of "cash-and-carry" stores	**68,293**	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	**20,935**	15,526
	89,228	46,809

36. 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, 2005

37. POST BALANCE SHEET EVENTS

(i) On 27th February, 2006, the Group and C. P. Merchandising Co. Ltd., a company in which a substantial shareholder of the Company and his close family have significant influence, entered into a sale and purchase agreement to acquire a further 40% interest in the issued share capital of Lotus-CPF at a consideration of US$31,000,000 (equivalent to HK$241,800,000). Details of the transactions were disclosed in the Company's announcement dated 3rd March, 2006. Up to the date of this report, the transaction is not yet completed.

(ii) On 27th February, 2006, the Group and Asia Freewill Co., Ltd., a company in which a substantial shareholder of the Company and his close family have significant influence, entered into an agreement to dispose of its entire 49% equity interest in Freewill Solutions at consideration of US$1,459,000 (equivalent to HK$11,380,000). Details of the transactions were disclosed in the Company's announcement dated 3rd March, 2006. Up to the date of this report, the transaction is not yet completed.

(iii) On 9th September, 2005, a wholly-owned subsidiary of the Company entered into agreements with Charoen Pokphand Group Co., Ltd., a company in which Mr. Dhanin Chearavanont, a substantial shareholder of the Company, has beneficial interest, to acquire an additional 10% interest in Lotus-CPF at consideration of US$8,750,000 (equivalent to HK$68,000,000) and to dispose of its entire 75% interest in FSL at consideration of US$52,700,000 (equivalent to HK$411,000,000). The assets and liabilities of Lotus-CPF as at 10th March, 2006 are not presented as the financial information of Lotus-CPF as at 10th March, 2006 is not available.

Details of the transactions were disclosed in the Company's circular dated 7th December, 2005. The transactions were completed on 10th March, 2006.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

38. RELATED PARTY TRANSACTIONS AND BALANCES

During the year and at the balance sheet date, other than those disclosed in note 37, 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.

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

	2005 **HK$'000**	2004 HK$'000
Logistics services income received from Shanghai Lotus Supermarket Chain Store Co., Ltd. 上海易初蓮花連鎖超市有限公司 ("Shanghai Lotus") *(note i)*	**–**	15,014
Rental expenses in respect of department store premises paid to Shanghai Kinghill Limited 上海帝泰發展有限公司 ("Shanghai Kinghill") *(note ii)*	**34,404**	11,589
Rental income in respect of investment properties received from Shanghai Lotus *(note i)*	**697**	1,280
Rental income in respect of office premises sublet to C.P. Pokphand Co. Ltd. ("C.P. Pokphand") *(note i)*	**649**	485
Rental income in respect of office premises sublet to Sino Biopharmaceutical Limited 中國生物製藥有限公司 *(note i)*	**241**	–
Store merchandises purchased from Shanghai Lotus *(note iii)*	**43,097**	7,000
Store merchandises purchased from Lotus-CPF *(note iii)*	**13,151**	2,730
Store merchandises sold to Shanghai Lotus *(note iii)*	**17,848**	1,383
Management fee paid to Shanghai Lotus *(note i)*	**–**	3,878
Building management fee received from Shanghai Kinghill *(note i)*	**81**	564
Building management fee received from C.P. Pokphand *(note i)*	**150**	156
Property, plant and equipment purchase from Shanghai Lotus *(note i)*	**–**	479
Compensation of key management personnel *(note iv)*	**67,280**	15,488

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

38. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

During the year ended 31st December, 2004, the Group 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. The guarantee was released in June 2005.

Notes:

(i) The terms of these transactions were mutually determined and agreed between both parties.

(ii) Rental payment were determined in accordance with the tenancy agreement entered rate.

(iii) The sales and purchases of merchandises were made at the prices negotiated and mutually agreed between both parties.

(iv) Remuneration of key management personnel

The remuneration of members of key management during the year was as follows:

	2005 HK$'000	2004 HK$'000
Short-term benefits	**16,562**	15,448
Long-term benefits	**48**	40
Share-based payments	**50,670**	–
	67,280	15,488

The remuneration of members of key management is determined with reference to their performance, experience and prevailing market rate.

Details of the Group's balance with its jointly controlled entities, associates and related companies as at the balance sheet dates are set out in notes 20, 21 and 37(b) respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

38. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) At the balance sheet dates, the Group had the following material balances with related parties which are unsecured, non-interest bearing and are repayable on demand:

	2005 **HK$'000**	2004 HK$'000
Due to related parties:		
Shanghai Lotus	**38,250**	7,297
Qingdao Chia Tai	**955**	–
C.P. Group	**–**	78
Shanghai Kinghill	**–**	5,038
	39,205	12,413

Also, as disclosed in note 11, the Group had an amount due from Shanghai Kinghill of HK$108,000, which is unsecured, non-interest bearing and repayable on demand.

39. PARTICULARS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/ registration	Issued share capital	Percentage of equity interest held by the Company directly %	indirectly %	Principal activities and place of operation
CTBBQ	Hong Kong	HKD3,000,000	–	55	Operation of retailing barbecue foods, Hong Kong
FSL	Cayman Islands	USD150,000	75	–	Investment holding and property investment in the PRC
上海正大百貨有限公司 Shanghai Chia Tai Department Store Co., Ltd.	PRC	RMB40,000,000	–	100 (note 4)	Operation of a department store in the PRC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

39. PARTICULARS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration	Issued share capital	Percentage of equity interest held by the Company directly %	indirectly %	Principal activities and place of operation
Tianjin Lotus	PRC	USD7,800,000 (note 2)	–	100 (note 5)	Operation of "cash-and-carry" stores in the PRC
Beijing Lotus	PRC	USD25,000,000 (note 3)	–	100 (note 5)	Operation of "cash-and-carry" stores in the PRC
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 4)	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 4)	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 4)	Operation of "cash-and-carry" stores in the PRC
青島易初蓮花連鎖超市有限公司 Qingdao Lotus Supermarket China Stores Co., Ltd.	PRC	USD4,566,250 (note 1)	–	65%	Operation of "cash-and-carry" stores in the PRC
濟南易初蓮花連鎖超市有限公司 Jinan Lotus Supermarket China Stores Co., Ltd.	PRC	USD8,000,000 (note 3)	–	100%	Operation of "cash-and-carry" stores in the PRC

39. PARTICULARS OF THE COMPANY'S PRINCIPAL 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.

Notes:

(1) All are the PRC Sino-foreign co-operative joint ventures.

(2) All are companies established in the PRC with limited liabilities.

(3) All are wholly foreign owned enterprise.

(4) The equity interest is held by individual nominees on behalf of the Company.

These companies are domestic enterprises in the PRC legally owned by PRC nationals. Due to the various agreements in place, the directors of the Company, after taking legal advices, represented that 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.

(5) On 26th August, 2005, a wholly-owned subsidiary of the Company entered into an equity transfer agreement with the minority shareholder of a subsidiary, Beijing Lotus in relation to the acquisition of 35% equity interest in Beijing Lotus. Following the completion of the acquisition in September 2005. The Company increased its interest in Beijing Lotus from 65% to 100%.

On 26th August, 2005, another wholly-owned subsidiary of the Company also entered into a termination and investment agreement with the minority shareholder of Tianjin Lotus to terminate the joint venture agreement between the Group and the minority shareholder. The Group currently has a 65% interest in Tianjin Lotus and will have 100% interest in Tianjin Lotus pending approval by the relevant government authorities. However, as the minority shareholder has surrendered its interest in the results and the net assets of Tianjin Lotus upon signing of the termination and investment agreement, the Group has to include the entire results and assets and liabilities of Tianjin Lotus and therefore treated it as a wholly-owned subsidiary of the Group.