

Notes to the Financial Statements

For the year ended 31st December, 2006
(Expressed in Hong Kong dollars unless otherwise indicated)

8 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	Continuing operation		Discontinued operations		Consolidated	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current tax – PRC						
Over-provision in respect of prior years	-	(538)	-	-	-	(538)
Deferred tax						
Origination and reversal of temporary differences (note 33(b))	9,375	-	-	-	9,375	-
	9,375	(538)	-	-	9,375	(538)

Income tax 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 derived from Hong Kong.

Pursuant to the relevant laws and regulations in the PRC, subsidiaries established in the PRC are subject to a Corporate Income Tax of 33%. No provision for income tax is made as the subsidiaries in the PRC either have sustained losses for taxation purposes or have tax losses brought forward exceeded the assessable profits for the current year.

(b) Reconciliation between tax expense and accounting loss at applicable tax rates:

	2006 \$'000	2005 (Restated) \$'000
Loss before taxation:		
Continuing operation	(561,653)	(524,101)
Discontinued operations	223,571	(6,617)
	(338,082)	(530,718)
Notional tax on loss before taxation, calculated at 33% (2005: 33%) (Note)	(111,567)	(175,137)
Effect of different tax rates of subsidiaries	(46,659)	28,006
Tax effect of non-deductible expenses	80,971	102,931
Tax effect of non-taxable income	(61,073)	(1,449)
Tax effect of tax losses not recognised	141,511	45,798
Tax effect of temporary differences not recognised	6,192	(149)
Over-provision in respect of prior years	-	(538)
Actual tax expense	9,375	(538)

Note: The PRC Corporate Income Tax rate of 33% is used as the operation of the Group is substantially based in the PRC.



Notes to the Financial Statements

For the year ended 31st December, 2006
(Expressed in Hong Kong dollars unless otherwise indicated)

9 DISCONTINUED OPERATIONS/ASSETS CLASSIFIED AS HELD FOR SALE

- (a) On 9th September, 2005, the Company entered into an agreement to dispose of its entire 75% interest in a subsidiary, FSL, which is engaged in property investment in the PRC and holding 50% interest in a jointly controlled entity which is engaged in property development in the PRC (the "Disposal"). The consideration for the Disposal is USD52,700,000 (equivalent to \$411,060,000). In 2005's financial statements, the assets and liabilities attributable to the business, which were expected to be sold within twelve months, were classified as a disposal group held for sale and presented separately in the consolidated balance sheet (see below). At 31st December, 2005, the net proceeds of disposal were expected to exceed the net carrying amount of the relevant assets and liabilities, after adjusting for 25% minority shareholders' share of their net carrying amounts and accordingly, no impairment loss was recognised in 2005's financial statements.

The Disposal was completed on 10th March, 2006 and the Group received \$342,810,000, which was net of the consideration of \$68,250,000 for the acquisition of the additional 10% equity interest in Lotus-CPF (note 3(a)).

The profit/(loss) for the year from discontinued operations is analysed as follows:

	2006 \$'000	2005 \$'000
Loss of FSL for the year	(3,697)	(6,617)
Gain on disposal of subsidiaries	227,268	–
	223,571	(6,617)

The loss of FSL for the year is as follows:

	2006 \$'000	2005 \$'000
Turnover	221	1,438
Administrative expenses	(3,640)	(14,694)
Loss on fair value adjustment in respect of investment properties	–	(478)
Loss before taxation	(3,419)	(13,734)
Share of (loss)/profit of a jointly controlled entity	(278)	8,566
Imputed interest on non-interest bearing loans from minority shareholders of a subsidiary	–	(1,449)
Loss for the year	(3,697)	(6,617)

During the year, FSL contributed net operating cash outflow of \$3,717,000 (2005: \$85,000) to the Group.

No tax charge or credit arose on gain on disposal of FSL.

Notes to the Financial Statements

For the year ended 31st December, 2006
(Expressed in Hong Kong dollars unless otherwise indicated)

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

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

	2005 \$'000
Investment properties (note 15)	26,500
Interest in a jointly controlled entity (note 19)	286,240
Other receivables	170
Amount due from a related company	108
Cash and cash equivalents (note 27)	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 net cash inflow arising on disposal was as follows:

	\$'000
Cash consideration	411,060
Consideration for the acquisition of the additional 10% equity interest in Lotus-CPF (note 3(a))	(68,250)
Cash and cash equivalents disposed of	(122)
	342,688

As the disposal was expected to be completed within twelve months, the investment cost in FSL amounted to \$7,673,000 was classified as held for sale and presented separately in the Company's balance sheet as at 31st December, 2005.

- (b) During the year, the Group acquired an additional 50% equity interest in Lotus-CPF which became a wholly-owned subsidiary of the Group (note 3). During the year ended 31st December, 2004, a subsidiary of Lotus-CPF entered into an agreement with an independent third party to dispose of a land use right at a consideration of approximately RMB11,000,000 (equivalent to approximately \$10,890,000). Accordingly, the land use right is classified as an asset held for sale and presented separately in the consolidated balance sheet. As at 31st December, 2006, the transaction for the disposal of the land use right has not been completed pending the approval of the relevant government authorities. The directors expect the sale will be completed by mid 2007.



Notes to the Financial Statements

For the year ended 31st December, 2006
(Expressed in Hong Kong dollars unless otherwise indicated)

10 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

For the year ended 31st December, 2006:

	Directors' fees \$'000	Salaries, allowances and benefits in kind \$'000	Discretionary bonuses \$'000	Retirement scheme contributions \$'000	Subtotal \$'000	Share-based payments \$'000	Total \$'000
Executive Directors							
Mr. Soopakij Chearavanont	-	3,405	-	12	3,417	-	3,417
Mr. Narong Chearavanont	-	-	-	-	-	-	-
Mr. Tse Ping	-	-	-	-	-	-	-
Mr. James Harold Haworth	-	-	-	-	-	-	-
Mr. Michael Ross	-	-	-	-	-	-	-
Mr. Yang Xiaoping	-	1,332	-	7	1,339	-	1,339
Mr. Li Wen Hai	-	177	-	-	177	-	177
Mr. Umroong Sanphasitvong	-	-	-	-	-	-	-
Mr. Robert Ping-Hsien Ho	-	-	-	-	-	-	-
Mr. Meth Jiaravanont	-	936	-	-	936	-	936
Mr. Nopadol Chiaravanont	-	-	-	-	-	-	-
Mr. Chatchaval Jiaravanon	-	-	-	-	-	-	-
Mr. Supachai Chearavanont	-	-	-	-	-	-	-
Mr. Kachorn Chiaravanont	-	-	-	-	-	-	-
Mr. Lee G. Lam	-	7,188	-	9	7,197	-	7,197
Independent Non-Executive Directors							
Mr. Viroj Sangsrit	240	-	-	-	240	-	240
Mr. Chokchai Kotikula	240	-	-	-	240	-	240
Mr. Cheng Yuk Wo	240	-	-	-	240	-	240
Total	720	13,038	-	28	13,786	-	13,786

Note: Messrs. James Harold Haworth, Michael Ross, Li Wen Hai and Nopadol Chiaravanont were appointed as directors and Mr. Lee G. Lam resigned as director of the Company on 15th September, 2006.

For the year ended 31st December, 2005:

	Directors' fees \$'000	Salaries, allowances and benefits in kind \$'000	Discretionary bonuses \$'000	Retirement scheme contributions \$'000	Subtotal \$'000	Share-based payments \$'000	Total \$'000
Executive Directors							
Mr. Soopakij Chearavanont	-	3,435	-	12	3,447	5,067	8,514
Mr. Narong Chearavanont	-	-	-	-	-	5,067	5,067
Mr. Tse Ping	-	-	-	-	-	5,067	5,067
Mr. Yang Xiaoping	-	3,211	-	12	3,223	5,067	8,290
Mr. Umroong Sanphasitvong	-	-	-	-	-	5,067	5,067
Mr. Robert Ping-Hsien Ho	-	-	-	-	-	5,067	5,067
Mr. Meth Jiaravanont	-	273	-	-	273	5,067	5,340
Mr. Chatchaval Jiaravanon	-	-	-	-	-	5,067	5,067
Mr. Supachai Chearavanont	-	-	-	-	-	5,067	5,067
Mr. Kachorn Chiaravanont	-	-	-	-	-	5,067	5,067
Mr. Lee G. Lam	-	6,338	-	12	6,350	-	6,350
Independent Non-Executive Directors							
Mr. Viroj Sangsrit	120	-	-	-	120	-	120
Mr. Chokchai Kotikula	120	-	-	-	120	-	120
Mr. Cheng Yuk Wo	120	-	-	-	120	-	120
Total	360	13,257	-	36	13,653	50,670	64,323

Note: Messrs. Meth Jiaravanont and Umroong Sanphasitvong were appointed as directors of the Company on 14th September, 2005.

Notes to the Financial Statements

For the year ended 31st December, 2006
(Expressed in Hong Kong dollars unless otherwise indicated)

11 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2005: five) are directors whose emoluments are disclosed in note 10. The details of the emoluments in respect of the remaining individual (2005: Nil) are as follows:

	2006 \$'000	2005 \$'000
Salaries and allowances	910	—
Discretionary bonuses	—	—
Share-based payments	—	—
Retirement scheme contributions	7	—
	917	—

The emoluments of the one individual (2005: Nil) with highest emoluments are within the following bands:

	2006 Number of individuals	2005 Number of individuals
Nil to \$1,000,000	1	—
\$1,000,001 to \$1,500,000	—	—
	1	—

During the year ended 31st December, 2006, 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 the years ended 31st December, 2006 and 2005.

12 LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the Company includes a profit of \$3,709,000 (2005: loss of \$179,795,000) which has been dealt with in the financial statements of the Company.

13 DIVIDENDS

No dividend was paid or proposed during the years ended 31st December, 2006 and 2005, nor has any dividend been proposed since the balance sheet date.

14 LOSS PER SHARE

(a) Basic

(i) From continuing and discontinued operations

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

	2006 \$'000	2005 \$'000
Loss for the purpose of basic and diluted loss per share	(334,577)	(497,296)
Number of ordinary shares for the purpose of basic loss per share	5,996,614,408	5,996,614,408



Notes to the Financial Statements

For the year ended 31st December, 2006
(Expressed in Hong Kong dollars unless otherwise indicated)

14 LOSS PER SHARE (Continued)

(a) Basic (Continued)

(ii) From continuing operation

The calculation of basic loss per share from continuing operation attributable to equity shareholders of the Company is based on the following data:

Loss figures are calculated as follows:

	2006 \$'000	2005 \$'000
Loss for the year attributable to equity shareholders of the Company	(334,577)	(497,296)
Less: (Profit)/loss for the year from discontinued operations (net of minority interests)	(224,495)	4,729
Loss for the purpose of basic loss per share from continuing operation	(559,072)	(492,567)

The number of ordinary shares is the same as those detailed in note 14(a)(i) above.

(iii) From discontinued operations

Basic earnings per share for the discontinued operations are 3.74 cents per share (2005: basic loss per share of 0.08 cent). The calculation of the basic earnings per share is based on the profit for the year from the discontinued operations of \$224,495,000 (2005: loss of \$4,729,000) and the number of ordinary shares detailed in note 14(a)(i) above.

(b) Diluted

The diluted loss per share for the years ended 31st December, 2006 and 2005 is the same as the basic loss per share as all potential ordinary shares are anti-dilutive.

Notes to the Financial Statements

For the year ended 31st December, 2006
(Expressed in Hong Kong dollars unless otherwise indicated)

15 FIXED ASSETS

(a) The Group

	Buildings \$'000	Leasehold improve- ments \$'000	Furniture, fixtures and equipment \$'000	Motor vehicles \$'000	Stores under fit out \$'000	Sub-total \$'000	Investment properties \$'000	Interests in leasehold land held for own use under operating leases \$'000	Total \$'000
At 1st January, 2005									
– At cost	–	227,182	195,665	12,807	48,727	484,381	–	–	484,381
– At valuation	–	–	–	–	–	–	26,978	–	26,978
Exchange adjustments	–	4,712	3,993	187	1,037	9,929	–	–	9,929
Additions	–	13,567	12,038	7,688	275,429	308,722	–	–	308,722
Transfer	–	115,773	168,541	–	(284,314)	–	–	–	–
Disposals	–	(5,518)	(2,853)	(2,412)	–	(10,783)	–	–	(10,783)
Fair value adjustments	–	–	–	–	–	–	(478)	–	(478)
Transfer to assets held for sale (note 9)	–	–	–	–	–	–	(26,500)	–	(26,500)
At 31st December, 2005									
– At cost	–	355,716	377,384	18,270	40,879	792,249	–	–	792,249
At 1st January, 2006	–	355,716	377,384	18,270	40,879	792,249	–	–	792,249
Exchange adjustments	–	13,900	11,552	548	1,230	27,230	–	–	27,230
Acquisition of subsidiaries (note 3)	233,498	87,657	138,969	7,324	86,748	554,196	–	148,146	702,342
Additions	633	9,736	53,885	4,214	183,389	251,857	–	45,665	297,522
Transfer	–	363,616	(123,675)	3,229	(243,170)	–	–	–	–
Disposals	–	(8,780)	(304)	(1,738)	–	(10,822)	–	–	(10,822)
Disposal of subsidiaries	–	(25,726)	(4,537)	(1,037)	(7,919)	(39,219)	–	–	(39,219)
At 31st December, 2006	234,131	796,119	453,274	30,810	61,157	1,575,491	–	193,811	1,769,302
Accumulated depreciation and impairment losses:									
At 1st January, 2005	–	11,143	19,985	4,202	–	35,330	–	–	35,330
Exchange adjustments	–	171	365	55	–	591	–	–	591
Charge for the year	–	18,725	39,250	3,074	–	61,049	–	–	61,049
Impairment losses	–	55	74,989	–	–	75,044	–	–	75,044
Written back on disposal	–	(208)	(523)	(699)	–	(1,430)	–	–	(1,430)
At 31st December, 2005	–	29,886	134,066	6,632	–	170,584	–	–	170,584
At 1st January, 2006	–	29,886	134,066	6,632	–	170,584	–	–	170,584
Exchange adjustments	–	1,448	4,353	236	–	6,037	–	–	6,037
Charge for the year	9,022	52,259	69,727	5,411	–	136,419	–	6,139	142,558
Transfer	–	15,509	(15,509)	–	–	–	–	–	–
Impairment losses	–	33,609	–	–	–	33,609	–	–	33,609
Written back on disposal	–	(568)	(194)	(1,709)	–	(2,471)	–	–	(2,471)
Disposal of subsidiaries	–	(12,376)	(1,466)	(269)	–	(14,111)	–	–	(14,111)
At 31st December, 2006	9,022	119,767	190,977	10,301	–	330,067	–	6,139	336,206
Net book value:									
At 31st December, 2006	225,109	676,352	262,297	20,509	61,157	1,245,424	–	187,672	1,433,096
At 31st December, 2005	–	325,830	243,318	11,638	40,879	621,665	–	–	621,665



Notes to the Financial Statements

For the year ended 31st December, 2006
(Expressed in Hong Kong dollars unless otherwise indicated)

15 FIXED ASSETS (Continued)

(a) The Group (Continued)

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 did not meet certain expectation of the management in the operation of "cash-and-carry" stores in certain regions in the PRC. Accordingly, impairment losses of \$33,609,000 (2005: \$75,044,000) were 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.

(b) The Company

	Leasehold improvements \$'000	Furniture, fixtures and equipment \$'000	Motor vehicles \$'000	Total \$'000
Cost:				
At 1st January, 2005	3,378	4,502	4,033	11,913
Additions	–	155	1,104	1,259
Disposals	–	(59)	–	(59)
At 31st December, 2005	3,378	4,598	5,137	13,113
At 1st January, 2006	3,378	4,598	5,137	13,113
Additions	12	152	2,354	2,518
Disposals	–	(141)	(1,470)	(1,611)
At 31st December, 2006	3,390	4,609	6,021	14,020
Accumulated depreciation:				
At 1st January, 2005	3,284	3,312	2,898	9,494
Charge for the year	71	739	1,189	1,999
Written back on disposal	–	(59)	–	(59)
At 31st December, 2005	3,355	3,992	4,087	11,434
At 1st January, 2006	3,355	3,992	4,087	11,434
Charge for the year	24	450	1,044	1,518
Written back on disposal	–	(141)	(1,470)	(1,611)
At 31st December, 2006	3,379	4,301	3,661	11,341
Net book value:				
At 31st December, 2006	11	308	2,360	2,679
At 31st December, 2005	23	606	1,050	1,679

Notes to the Financial Statements

For the year ended 31st December, 2006
(Expressed in Hong Kong dollars unless otherwise indicated)

15 FIXED ASSETS (Continued)

- (c) Investment properties were included under assets classified as held for sale in 2005's financial statements and disposed of during 2006 (note 9).

The fair value of the Group's investment properties at 31st December, 2005 was 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 \$478,000 had been charged to the consolidated income statement for the year ended 31st December, 2005.

At 31st December, 2005, the Group's investment properties were held under long term land use right in the PRC and held for rental under operating leases.

- (d) The analysis of net book value of properties is as follows:

	The Group	
	2006 \$'000	2005 \$'000
In the PRC		
– medium-term leases	412,781	–
	412,781	–
Representing:		
Buildings	225,109	–
Interests in leasehold land held for own use under operating leases	187,672	–
	412,781	–

- (e) Fixed assets held under finance leases

During the year, the additions to buildings of the Group under finance leases were \$197,440,000 through the acquisition of subsidiaries. At the balance sheet date, the net book value of buildings held under finance leases of the Group was \$189,019,000. The leases do not include contingent rentals. The buildings are situated in the PRC and held under medium term land use rights.

- (f) At 31st December, 2006, the Group was still in the process of obtaining the formal title of certain land use rights in the PRC from the relevant government authorities while the Group had already paid the full amount of the purchase considerations. The book value of the land use rights for which the Group had not been granted formal title amounted to approximately \$128,641,000 as at 31st December, 2006 (2005: Nil), which includes an amount of \$10,890,000 recorded in assets classified as held for sale. In the opinion of the directors, the formal title to the land use rights will be obtained from the relevant government authorities in due course.



Notes to the Financial Statements

For the year ended 31st December, 2006
(Expressed in Hong Kong dollars unless otherwise indicated)

16 INTANGIBLE ASSETS

	Franchise fee \$'000
Cost:	
At 1st January, 2005 and 31st December, 2005	12,000
Accumulated amortisation and impairment losses:	
At 1st January, 2005	1,450
Impairment loss	10,550
At 31st December, 2005	12,000
Net book value:	
At 31st December, 2005	—
Cost:	
At 1st January, 2006	12,000
Disposals	(12,000)
At 31st December, 2006	—
Accumulated amortisation and impairment losses:	
At 1st January, 2006	12,000
Charge for the year	—
Written back on disposal	(12,000)
At 31st December, 2006	—
Net book value:	
At 31st December, 2006	—

Intangible assets as at 31st December, 2005 represented a franchise fee of \$12,000,000 paid by the Group for the use of the trademarks/tradenames in the retail operations of the Group for an indefinite period. The intangible assets were fully impaired in 2005 because the business growth did not meet certain expectations of the management in the sale of barbecue foods in Hong Kong. The impairment loss for 2005 was included in other operating expenses in the consolidated income statement.

During the year, the subsidiary holding the intangible assets was disposed of.

Notes to the Financial Statements

For the year ended 31st December, 2006
(Expressed in Hong Kong dollars unless otherwise indicated)

17 GOODWILL

	The Group	
	2006 \$'000	2005 \$'000
Cost:		
At 1st January	59,249	1,504
Elimination of accumulated amortisation upon the application of HKFRS 3	–	(88)
Additions through acquisition of additional equity interests in subsidiaries (note 3)	25,549	57,833
Disposals	(1,416)	–
Exchange adjustment	1,782	–
At 31st December	85,164	59,249
Accumulated amortisation and impairment losses:		
At 1st January	59,249	88
Elimination of accumulated amortisation upon the application of HKFRS 3	–	(88)
Impairment losses	–	59,249
Written back on disposal	(1,416)	–
At 31st December	57,833	59,249
Carrying amount:		
At 31st December	27,331	–

With effect from 1st January, 2005 the Group no longer amortises goodwill. In accordance with the transitional provisions set out in HKFRS 3, the accumulated amortisation of goodwill as at 1st January, 2005 has been eliminated against the cost of goodwill as at that date.

During 2005, the Group acquired the entire interest in Beijing Lotus Supermarket Chain Store Co., Ltd. (北京易初蓮花連鎖超市有限公司) ("Beijing Lotus") and Tianjin Lotus Supermarket Chain Store Co., Ltd. (天津易初蓮花連鎖超市有限公司) ("Tianjin Lotus") from their respective minority shareholders in order to consolidate its interest in and control of Beijing Lotus and Tianjin Lotus and the "cash-and-carry" stores operated by these two subsidiaries. Impairment losses were recognised in respect of the full amount of goodwill arising from these acquisitions.

The goodwill arising in 2006 relates to the acquisition of Lotus-CPF as disclosed in note 3.



Notes to the Financial Statements

For the year ended 31st December, 2006
(Expressed in Hong Kong dollars unless otherwise indicated)

17 GOODWILL (Continued)

Impairment tests for cash-generating units containing goodwill

The carrying amount of goodwill is allocated to the Group's cash-generating units ("CGU") identified as follows:

	2006 \$'000	2005 \$'000
Individual CGU or a group of CGUs in retail segment:		
Barbecue foods operations in Hong Kong	—	—
Operation of "cash-and-carry" stores in Beijing	—	—
Operation of "cash-and-carry" stores in Tianjin	—	—
Operation of "cash-and-carry" stores in Southern region of the PRC	27,331	—
	27,331	—

The recoverable amount of the respective CGU/group of CGUs is determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a one-year period. The cash flow projections are extrapolated up to a period of 20 years by using growth rates of 5% to 14%. The key assumptions for the value in use calculations are those relating to the discount rate, forecast growth rates and the expected changes to selling prices and direct costs. Discount rate of 9.8% has been used for the value in use calculations which reflects the current market assessment of the time value of money and the risks specific to the CGUs. The growth rates are based on the industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

18 INTERESTS IN SUBSIDIARIES

	The Company 2006 \$'000	2005 \$'000
Unlisted shares/capital contributions, at cost	82,398	90,071
Less: Assets classified as held for sale (note 9)	—	(7,673)
	82,398	82,398
Add: Amounts due from subsidiaries	1,202,907	905,507
Less: Impairment losses	(380,141)	(69,189)
	905,164	918,716

Amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

Notes to the Financial Statements

For the year ended 31st December, 2006
(Expressed in Hong Kong dollars unless otherwise indicated)

18 INTERESTS IN SUBSIDIARIES (Continued)

Included in amounts due from subsidiaries are the following amounts denominated in a currency other than the functional currency of the Company:

	The Company	
	2006 '000	2005 '000
United States Dollars	USD113,982	USD82,418
Renminbi	RMB310,580	RMB368,275

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

Name of companies	Place of establishment/ incorporation and operation	Paid up capital	Proportion of ownership interest			Principal activity
			Group's effective interest %	Held by the Company %	Held by subsidiary %	
天津易初蓮花連鎖超市有限公司 Tianjin Lotus Supermarket Chain Store Co., Ltd.	PRC	USD12,000,000 (note 3)	100	–	100	Operation of "cash-and- carry" stores in the PRC
北京易初蓮花連鎖超市有限公司 Beijing Lotus Supermarket Chain Store Co., Ltd.	PRC	USD25,000,000 (note 3)	100	–	100	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	–	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	–	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	–	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 Chain Store Co. Ltd.	PRC	USD4,566,250 (note 1)	65	–	65	Operation of "cash-and- carry" stores in the PRC



Notes to the Financial Statements

For the year ended 31st December, 2006
(Expressed in Hong Kong dollars unless otherwise indicated)

18 INTERESTS IN SUBSIDIARIES (Continued)

Name of companies	Place of establishment/ incorporation and operation	Paid up capital	Proportion of ownership interest			Principal activity
			Group's effective interest %	Held by the Company %	Held by a subsidiary %	
濟南易初蓮花連鎖超市有限公司 Jinan Lotus Supermarket Chain Store Co., Ltd.	PRC	USD8,000,000 (note 3)	100	–	100	Operation of "cash-and- carry" stores in the PRC
廣州易初蓮花連鎖超市有限公司 Guangzhou Lotus Supermarket Chain Store Co., Ltd.	PRC	USD30,000,000 (note 1)	100	–	100	Operation of "cash-and- carry" stores in the PRC
汕頭易初蓮花超市有限公司 Shantou Chia Tai Lotus Supermarket Chain Store Co. Ltd. ("Shantou Lotus")	PRC	USD12,000,000 (note 1)	90	–	90	Operation of "cash-and- carry" stores in the PRC
佛山市南海區華南通商貿易發展有限公司 Foshan Nanhai Hua Nan Tong Trading Development Co., Ltd.	PRC	RMB3,000,000 (note 2)	100	–	100 (note 4)	Operation of "cash-and- carry" stores in the PRC
廣東華南通商貿易發展有限公司 Guangdong Hua Nan Tong Trading Development Co., Ltd.	PRC	RMB29,500,000 (note 2)	100	–	100 (note 4)	Operation of "cash-and- carry" stores in the PRC
石家莊易初蓮花連鎖超市有限公司 Shijiazhuang Lotus Supermarket Chain Store Co. Ltd	PRC	USD2,400,000 (note 3)	100	–	100	Operation of "cash-and- carry" stores in the PRC

Notes:

- (1) All are sino-foreign co-operative joint ventures established in the PRC.
- (2) All are companies established in the PRC with limited liability.
- (3) All are wholly foreign owned enterprises.
- (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 advice, represented that the Company has effective control over the operational and financial policies of these enterprises and therefore the financial results and positions of these enterprises have been consolidated into the Group since their respective dates of establishment.

Notes to the Financial Statements

For the year ended 31st December, 2006
(Expressed in Hong Kong dollars unless otherwise indicated)

19 INTEREST IN A JOINTLY CONTROLLED ENTITY

	2006 \$'000	2005 \$'000
Cost of unlisted investment in a jointly controlled entity	–	163,532
Share of post-acquisition profits, net of dividend received	–	122,708
Interest in a jointly controlled entity (note 9(a))	–	286,240

The Group had an effective interest of 37.5% in Shanghai Fortune World Development Co., Ltd. ("Shanghai Fortune") which was disposed of during the year. The Group's interest in Shanghai Fortune was classified as assets classified as held for sale in 2005's financial statements (note 9). Details of the Group's interest in the jointly controlled entity as at 31st December, 2005 were as follows:

Name of jointly controlled entity	Place of establishment/ operation	Registered capital	Group's effective interest	Proportion of ownership		Principal activity
				Held by the Company %	Held by subsidiary %	
上海富都世界發展有限公司 Shanghai Fortune World Development Co., Ltd.	PRC	USD30,000,000	37.5	–	50	Property development

Shanghai Fortune was a sino-foreign co-operative joint venture set up in the PRC under a joint venture agreement between FSL, a formerly 75% 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.

Summary financial information on a jointly controlled entity – Group's effective interest:

	2006 \$'000	2005 \$'000
Turnover	7,089	31,523
Expenses	(7,367)	(22,957)
(Loss)/profit for the year (note 9(a))	(278)	8,566

	2006 \$'000	2005 \$'000
Non-current assets	–	1,026
Current assets	–	623,377
Current liabilities	–	(338,163)
Net assets	–	286,240



Notes to the Financial Statements

For the year ended 31st December, 2006
(Expressed in Hong Kong dollars unless otherwise indicated)

20 INTERESTS IN ASSOCIATES

	2006 \$'000	2005 \$'000
Share of net assets	–	368,888

Details of associates as at 31st December, 2005 were as follows:

Name of associates	Place of incorporation/ operation	Issued share capital	Group's effective interest %	Principal activity
Lotus-CPF (PRC) Investment Company Limited ("Lotus-CPF")	British Virgin Islands/PRC	97,400,000 ordinary shares of USD1 each	50	Investment holding
Freewill Solutions Co., Ltd. ("Freewill Solutions")	Thailand	3,620,000 ordinary shares of Baht 100 each	49	Investment holding

On 27th February, 2006, a subsidiary of the Company entered into an agreement with Asia Freewill Co., Ltd. to dispose of its entire 49% interest in an associate, Freewill Solutions, at a consideration of approximately \$11.4 million. The transaction was completed in March, 2006.

Lotus-CPF became a wholly-owned subsidiary of the Group following the acquisition of the remaining 50% interest. Further details are set out in note 3. Lotus-CPF was accounted as an associate until 9th March, 2006.

Summary combined financial information in respect of the Group's associates for the year ended 31st December, 2006 and 2005 are as follows:

	2006 \$'000	2005 \$'000
(i) Operating results (note)		
Turnover	324,408	1,359,218
Profit/(loss) for the year	6,422	(56,074)
Profit/(loss) for the year attributable to the Group	3,124	(23,981)

Note: Operating results of the associates are included up to the date of transfer to subsidiary or disposal.

Notes to the Financial Statements

For the year ended 31st December, 2006
(Expressed in Hong Kong dollars unless otherwise indicated)

20 INTERESTS IN ASSOCIATES (Continued)

	2006 \$'000	2005 \$'000
(ii) Balance sheet		
Non-current assets	–	691,647
Current assets	–	640,184
Current liabilities	–	(204,551)
Non-current liabilities	–	(428,878)
Minority interests	–	(76,992)
Net assets	–	621,410
Group's share of net assets	–	368,888

21 DEPOSIT FOR ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY

At 31st December, 2006, the amount represents a deposit paid for the acquisition of the remaining 10% equity interest in Shantou Lotus. The acquisition will be completed when approval is obtained from the relevant government authorities.

22 PREPAID LEASE PAYMENTS FOR PREMISES

	2006 \$'000	2005 \$'000
At 1st January	51,329	12,298
Exchange adjustments	1,539	246
Addition from acquisition of subsidiaries	12,899	–
Additions	5,017	67,710
Charged to profit or loss for the year	(15,400)	(28,925)
At 31st December	55,384	51,329
Represented by:		
Non-current portion	17,235	9,876
Current portion	38,149	41,453
	55,384	51,329

These represent prepaid rentals for "cash-and-carry" stores operated by the Group.

23 LONG TERM DEPOSITS

These represent two deposits with financial institutions which bear interest of 4.0% and 4.7% per annum and have maturity dates of 27th June, 2008 and 27th July, 2008 respectively.



Notes to the Financial Statements

For the year ended 31st December, 2006
(Expressed in Hong Kong dollars unless otherwise indicated)

24 INVENTORIES

(a) Inventories in the balance sheet comprise:

	The Group	
	2006 \$'000	2005 \$'000
Raw materials	–	88
Finished goods	458,715	310,275
	458,715	310,363

(b) The analysis of amount of inventories recognised as an expense is as follows:

	The Group	
	2006 \$'000	2005 \$'000
Carrying amount of inventories sold	3,091,959	1,599,031
Write-down of inventories	12,148	2,512
	3,104,107	1,601,543

25 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Trade receivables, other receivables and deposits	135,480	42,761	1,399	2,612
Amounts due from related companies [#]	14,935	28,074	–	–
	150,415	70,835	1,399	2,612

All of the trade and other receivables apart from rental deposits amounting to \$13,539,000 (2005: \$2,386,000) are expected to be recovered within one year.

[#] Amounts due from related companies are unsecured, non-interest bearing and repayable on demand.

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

	The Group		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current	4,646	4,548	–	–
1 to 30 days overdue	285	1,269	–	–
31 to 60 days overdue	102	385	–	–
61 to 90 days overdue	89	2,209	–	–
	5,122	8,411	–	–

The Group's credit policy is set out in note 38(a).

Notes to the Financial Statements

For the year ended 31st December, 2006
(Expressed in Hong Kong dollars unless otherwise indicated)

26 PLEDGED BANK DEPOSITS

At 31st December, 2006, the Group's bank deposits of \$191,124,000 (2005: \$23,623,000) were pledged to banks to secure banking facilities and bank borrowings granted to the Group and bank guarantees provided by the banks to third parties in respect of finance and operating leases, and payments to suppliers. Subsequent to the balance sheet date, a pledged bank deposit of \$49,500,000 (2005: Nil) was released by the bank.

27 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Cash at bank and in hand as disclosed in the balance sheet	98,528	146,949	1,191	2,410
Cash at bank and in hand classified as assets held for sale (note 9(a))	–	122	–	–
Cash and cash equivalents in the consolidated cash flow statement	98,528	147,071	1,191	2,410

Cash and cash equivalents of the Group and of the Company amounting to \$63,659,000 (2005: \$105,574,000) and \$442,000 (2005: \$1,494,000) respectively are non-interest bearing.

Included in cash and cash equivalents in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006 '000	2005 '000	2006 '000	2005 '000
United States Dollars	USD90	USD7,424	USD42	USD36
Renminbi	RMB195	RMB2,173	RMB195	RMB2,173

28 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Notes payable	87,845	49,716	–	–
Creditors and accrued charges	1,279,735	654,031	7,703	9,643
Amounts due to related companies (note (i))	143,032	39,205	–	–
Amount due to an associate (note (ii))	–	97,569	–	43,102
Amount due to minority shareholder of a subsidiary	–	505	–	–
Amounts due to subsidiaries (note (iii))	–	–	260,014	248,436
	1,510,612	841,026	267,717	301,181



Notes to the Financial Statements

For the year ended 31st December, 2006
(Expressed in Hong Kong dollars unless otherwise indicated)

28 TRADE AND OTHER PAYABLES (Continued)

All of the trade and other payables apart from amounts due to subsidiaries are expected to be settled within one year.

All balances with related parties are unsecured, non-interest bearing (except as stated in notes (i) – (iii) below) and repayable on demand.

Notes:

- (i) Amounts due to related companies of \$66,442,000 (2005: Nil) bear interest at rates ranging from 5.58% per annum to London Interbank Offered Rate ("LIBOR") plus 1.5% per annum (2005: Nil).
- (ii) As at 31st December, 2005, the amount due to an associate of \$41,340,000 was interest bearing at LIBOR plus 1% per annum.
- (iii) Amount due to a subsidiary of \$41,340,000 (2005: Nil) bears interest at LIBOR plus 1% per annum.

Included in trade and other payables are trade creditors and notes payable of \$956,895,000 (2005: \$511,511,000) with the following ageing analysis as of the balance sheet date:

	The Group		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Within 30 days of invoice date	642,716	353,919	–	–
31 to 60 days after invoice date	153,932	91,664	–	–
61 to 90 days after invoice date	96,062	48,255	–	–
More than 90 days of invoice date	64,185	17,673	–	–
	956,895	511,511	–	–

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate.

	The Group		The Company	
	2006 '000	2005 '000	2006 '000	2005 '000
United States Dollars	USD5,980	USD5,300	USD8,339	USD25,887
Renminbi	RMB –	RMB –	RMB73,774	RMB113,576

29 BANK LOANS

At 31st December, 2006, the Group's bank loans were repayable as follows:

	The Group		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Within 1 year	39,600	357,600	–	343,200
After 2 years but within 5 years	390,000	–	390,000	–
	429,600	357,600	390,000	343,200