1. Principal activities

The principal activities of Lianhua Supermarket Holdings Company Limited (the "Company") and its subsidiaries (collectively the "Group") and its associates are the operation of a chain of supermarkets, hypermarkets and convenience stores, primarily in the Eastern Region of the People's Republic of China (the "PRC"). All the operating assets of the Group and its associates are located in the PRC.

The Company is a limited liability company incorporated in the PRC. The address of its registered office is 11th to 15th Floors, 1666 Sichuan (North) Road, Shanghai, the PRC.

2. Basis of preparation and changes in accounting policies

(a) Basis of preparation

The consolidated accounts have been prepared in accordance with Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (collectively the "HKFRS"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, financial assets and financial liabilities are generally stated at fair value.

The preparation of accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in Note 5.

(b) Changes in accounting policies

In 2005, the Group adopted the following new/revised standards and interpretation of HKFRS, which are relevant to its operations. The 2004 comparatives have been restated as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS-Int 15	Operating Leases – Incentives
HKFRS 3	Business Combinations

2. Basis of preparation and changes in accounting policies (continued)

(b) Changes in accounting polices (continued)

Following the adoption of the new/revised standards and interpretation of HKFRS, the Group's accounting policies remain consistent with those set out more fully in the 2004 annual accounts, except for the following:

(i) Land use rights

The adoption of revised HKAS 17, which is applied on a retrospective basis, has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to operating leases. The up-front prepayments made for land use rights are expensed in the profit and loss account on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the profit and loss account. In prior years, the land use rights were accounted for at cost less accumulated depreciation and accumulated impairment. Apart from presentational changes with comparatives restated, this change in accounting policy does not have any material effect on the accounts.

(ii) Financial assets and liabilities

The adoption of HKAS 32 and HKAS 39 has resulted in a change in the accounting policy relating to the classification of financial assets and liabilities and their measurement. HKAS 32 requires retrospective application while HKAS 39 generally does not permit to recognise, derecognise and measure financial assets and liabilities on a retrospective basis.

Investments in securities, other than subsidiaries, associates and jointly controlled entities, were previously classified as long-term investments and trading securities. Effective from 1 January 2005, these are grouped under available-for-sale financial assets and financial assets at fair value through profit or loss respectively. Available-for-sale financial assets are carried at fair value, where an active market exists, with any unrealised gains and losses recognised in equity. Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured by valuation techniques are carried at cost less impairment. Financial assets at fair value through profit or loss are carried at fair value.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Trade and other receivables were previously carried at cost less provision for doubtful debts.

Lianhua Supermarket Holdings Co., Ltd. Annual Report 2005 74

2. Basis of preparation and changes in accounting policies (continued)

(b) Changes in accounting polices (continued)

(ii) Financial assets and liabilities (continued)

Borrowings are now recognised initially at fair value, net of transaction costs incurred. They are subsequently stated at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption value recognised in the profit and loss account over the period of the borrowings using the effective interest method. Borrowings were previously carried at cost.

The above changes in accounting policy do not have any material effect on the accounts.

(iii) Goodwill

The adoption of HKFRS 3, HKAS 36 and HKAS 3, which is applied on a prospective basis, resulted in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

- Amortised on a straight-line basis over its estimated useful life; and
- Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

- The Group ceased amortisation of goodwill from 1 January 2005;
- Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;
- From the year ending 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

This change in accounting policy has resulted in no amortisation charge for goodwill in the profit and loss account for the year ended 31 December 2005.

(iv) Related party disclosures

HKAS 24 has affected the identification of related parties and some related party disclosures.

2. Basis of preparation and changes in accounting policies (continued)

(b) Changes in accounting polices (continued)

(v) Presentational changes

HKAS 1 has affected the presentation of minority interests, share of results of associates and other disclosures. Minority interests are now included in equity on the balance sheet and share of results of associates is presented net of taxation on the consolidated profit and loss account. These changes in presentation have been applied retrospectively.

All changes in the accounting policies have been made in accordance with the transitional provisions of the respective standards. The adoption of revised HKAS 17 and revised HKAS 1 resulted in reclassifications as detailed below:

Adoption of revised HKAS 17 resulted in:

	31 December 2005	31 December 2004
	RMB'000	*RMB'000*
Decrease in property, plant and equipment	**(205,663)**	(187,846)
Increase in land use rights	**205,663**	187,846

Adoption of revised HKAS 1 resulted in:

	2005	2004
	RMB'000	*RMB'000*
Decrease in share of results of associates	**(47,857)**	(42,438)
Decrease in taxation	**47,857**	42,438

In addition, minority interests of RMB224,450,000 as at 31 December 2005 have been included in equity with comparative figure of RMB220,768,000 as at 31 December 2004 restated.

Certain new standards, amendments and interpretations to existing standards of HKFRS have been published that are mandatory for accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not early adopted. Those that are relevant to the Group's operations are as follows:

2. Basis of preparation and changes in accounting policies (continued)

(b) Changes in accounting polices (continued)

(i) HKFRS 7 "Financial Instruments: Disclosures", and a complementary amendment to HKAS 1 "Presentation of Financial Statements – Capital Disclosures" (effective from 1 January 2007). HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces HKAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" and disclosure requirements in HKAS 32 "Financial Instruments: Disclosure and Presentation". It is applicable to all entities that report under HKFRS. The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 January 2007.

(ii) HKFRS-Int 4 "Determining whether an Arrangement contains a Lease" (effective from 1 January 2006). HKFRS-Int 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of HKFRS-Int 4 on the Group's operations.

The Group has assessed the other recently published new standards, amendments and interpretations to existing standards of HKFRS, and concluded that they are not relevant to the Group's operations or will not result in significant changes to the Group's accounting policies. These are set out as follows:

HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures (effective from 1 January 2006)
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rate – Net Investment in a Foreign Operation (effective from 1 January 2006)
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006)
HKAS 39 (Amendment)	The Fair Value Option (effective from 1 January 2006)
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts (effective from 1 January 2006)
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards (effective from 1 January 2006)
HKFRS 6 (Amendment)	Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006)
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006)
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective from 1 December 2005)
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS29 Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006)

3. Principal accounting policies

(a) Consolidation

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31 December.

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

3. Principal accounting policies (continued)

(a) Consolidation (continued)

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the profit and loss account, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in associates are stated at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividend received and receivable.

(b) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, property, plant and equipment, inventories, receivables and operating cash, and mainly exclude certain corporate bank balances and cash, investments in associates, deferred tax assets, amounts due from related parties and investments in financial assets at fair value through profit or loss/trading securities. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to property, plant and equipment and construction in progress, intangible assets and other non-current assets, including additions resulting from acquisitions through purchases of subsidiaries.

No geographical segment information by location of assets is presented as all of the Group's assets and capital expenditure are located or incurred in the PRC. No analysis of turnover by location is presented as the Group sells merchandise to customers in the PRC.

3. Principal accounting policies (continued)

(c) Property, plant and equipment

Property, plant and equipment, comprising buildings, leasehold improvements, transportation vehicles and operating and office equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the profit and loss account during the financial period in which they are incurred.

Property, plant and equipment are depreciated at rates sufficient to write off their cost less accumulated impairment losses to their estimated residual values over their estimated useful lives on a straight-line basis. The estimated useful lives and residual values, as a percentage of the cost, are as follows:

	Estimated useful lives	Estimated residual values
Buildings	25 to 40 years	5 to 10%
Leasehold improvements	5 to 8 years or the remaining term of any non-renewable lease, whichever is shorter	–
Transportation vehicles	5 to 8 years	5 to 10%
Operating and office equipment	5 to 8 years	5 to 10%

The useful lives and residual values of the assets are reviewed and adjusted if appropriate at each balance sheet date.

The gain or loss on disposal of property, plant and equipement is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(d) Land use rights

All land in the PRC is state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the right to use certain land. The premiums paid for such right are treated as prepayment for operating lease and recorded as land use rights, which are amortised over the period of the lease using the straight-line method.

3. Principal accounting policies (continued)

(e) Construction-in-progress

Construction–in-progress represents stores and storage facilities under construction, computer networks and equipment being installed or renovation works in progress and is stated at cost. Cost comprises development and construction expenditure incurred and interest and other direct costs attributable to the development less any accumulated impairment losses. No depreciation is provided on construction in progress. On completion, the relevant assets are transferred to property, plant and equipment or intangible assets, where appropriate, at cost less accumulated impairment losses.

(f) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(ii) Software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight-line method over their estimated useful lives (three to five years).

3. Principal accounting policies (continued)

(g) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(h) Financial assets

From 1 January 2004 to 31 December 2004:

The Group classified its investments in securities, other than subsidiaries, associates and jointly controlled entities, as long-term investments and trading securities.

(a) Long-term investments

Long-term investments were equity investments held for strategic purposes and were stated at cost less any provision for impairment losses.

The carrying amounts of individual investments were reviewed by the Directors at each balance sheet date to assess whether the fair values had declined below the carrying amounts. When a decline other than temporary had occurred, the carrying amount of such investments was reduced to its fair value. The impairment loss was recognised as an expense in the profit and loss account. This impairment loss was written back to the profit and loss account when the circumstances and events that led to the write-downs or write-offs ceased to exist and there was persuasive evidence that the new circumstances and events would persist for the foreseeable future.

3. Principal accounting policies (continued)

(h) Financial assets (continued)

(b) Trading securities

Trading securities were carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities were recognised in the profit and loss account. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, were recognised in the profit and loss account as they arose.

From 1 January 2005 onwards:

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' in the balance sheet (Note 3(j)).

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held to maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date which are classified as current assets. During the year, the Group did not hold any investments in this category.

3. Principal accounting policies (continued)

(h) Financial assets (continued)

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit and loss account. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured by valuation techniques are carried at cost less impairment. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category including interest and dividend income, are presented in the profit and loss account within 'other income' and 'other operating expenses' respectively in the period in which they arise.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit and loss account as 'gains and losses from investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit and loss account. Dividends on available-for-sale equity instruments are recognised in the profit and loss account when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

3. Principal accounting policies (continued)

(h) Financial assets (continued)

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss account – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. Impairment testing of trade and other receivables is described in Note 3(j).

(i) Inventories

Inventories comprise merchandise purchased for resale and are stated at the lower of cost and net realisable value. Cost of merchandise, representing its purchase cost, is calculated either on the first-in, first-out basis for hypermarkets or on the weighted average basis for supermarkets and convenience stores. Net realisable value of merchandise is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(j) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade and other receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

(k) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

3. Principal accounting policies (continued)

(l) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(m) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. However, the deferred taxation is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred taxation is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(n) Employee retirement benefits

The Group contributes on a monthly basis to various retirement benefit plans organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

3. Principal accounting policies (continued)

(o) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(p) Coupon liabilities

Coupon liabilities are recorded as liabilities when coupons are sold. Coupons surrendered in exchange for products during the year are recognised as sales and transferred to the profit and loss account using the coupon sales value. Coupons liabilities are classified as current liabilities at the end of the year.

(q) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(r) Pre-operating expenses

The cost of start-up activities, including organisational costs and new store openings, are expensed as incurred.

3. Principal accounting policies (continued)

(s) Government grants

A government grant is recognised when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the profit and loss account over the period necessary to match them with the costs they are intended to compensate.

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(u) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates, and discounts and after elimination of sales within the Group. Revenue is recognised as follows:

(i) Revenue from the sale of merchandise is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the merchandise are delivered to customers and title has passed.

(ii) Promotion and store display income, income from leasing of merchandise storage space, delivery income from suppliers and information system service income are recognised according to contract terms and as services are provided.

(iii) Income from leasing of shop premises is recognised on a straight-line basis over the lease periods.

(iv) Royalty income from franchise stores is recognised on an accrual basis.

(v) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the profit and loss account on a straight-line basis over the period of the lease.

4. Financial risk management

(a) Financial risks

The Group's business activities expose it to a variety of financial risks, including:

(i) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The interest rates of bank borrowings are disclosed in Note 35. Other financial assets and liabilities do not have significant interest rate risk.

(ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet either as available-for-sale financial assets or as financial assets at fair value through profit or loss. The Group is not exposed to commodity price risk.

(iii) Credit risk

Trade debtors are spread among a number of customers, mainly in the PRC. All bank balances are deposited with banks registered in the PRC. The Directors are of the opinion that the Group has no significant concentrations of credit risk on financial assets. The carrying amounts of the financial assets after deducting the provision for doubtful debts best represent their maximum credit risk as at 31 December 2005.

(iv) Foreign exchange risk

The Group operates mainly in the PRC and is therefore not exposed to significant foreign exchange risk.

(b) Fair value estimation

The fair values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. There is no quoted market price for the investments in unlisted companies and a reasonable estimate of their fair values could not be made.

5. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 3(f). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(b) Estimate of goodwill and fair value of identifiable assets, liabilities and contingent liabilities in relation to acquisition

The Group accounted for the acquisition in accordance with HKFRS 3, which provides that the acquirer shall, at the acquisition date, initially measure the goodwill at its cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

The Group has performed assessment on the fair value of each individual identifiable assets and liabilities on the date of acquisition. Based on the Directors' estimation, carrying amounts of most of assets and liabilities approximate their fair values. A number of assumptions and estimates are involved for the calculations.

(c) Useful lives of property, plant and equipment

The Group determines the estimated lives for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles.

The Group will increase the depreciation charge where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

5. Critical accounting estimates and judgements (continued)

(d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could changes significantly as a result of competitor actions in response to severe industry cycles. The Group will reassess the estimations by the balance sheet date.

6. Segment information

No geographical segment analysis is presented as all assets and operations of the Group are located in the PRC.

The principal operation of the Group is organised into three main business segments:

- Supermarkets chain operation
- Hypermarkets chain operation
- Convenience stores chain operation

There are no significant sales or other transactions between the business segments.

Other operations of the Group mainly comprise sales of merchandise to wholesalers; and logistic services for wholesale business.

6. Segment information (continued)

	Supermarkets	Hypermarkets	Convenience stores	Other operations	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2005					
Segment revenue	6,118,152	7,762,268	1,605,148	47,988	15,533,556
Including sales of merchandise to					
– an associate at cost	–	1,313,760	–	–	1,313,760
– an associate at retail price less 1.3%	312,446	388,012	1,962	–	702,420
– franchised stores at cost	366,038	–	317,771	–	683,809
Segment results	185,067	49,525	30,946	460	265,998
Other income					30,845
Unallocated costs					(30,537)
Operating profit					266,306
Finance costs					(2,129)
Share of results of associates					94,287
Profit before taxation					358,464
Taxation					(104,209)
Profit for the year					254,255

Other segment terms are as follows:

	Supermarkets	Hypermarkets	Convenience stores	Other operations	Group
Capital expenditure	302,220	900,384	37,971	12,616	1,253,191
Depreciation charge	126,863	144,959	36,103	17,012	324,937
Amortisation charge	7,880	7,161	1,226	2,496	18,763

6. Segment information (continued)

	Supermarkets	Hypermarkets	Convenience stores	Other operations	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2004					
Segment revenue	5,290,682	5,039,819	1,247,543	66,821	11,644,865
Including sales of merchandise to					
– an associate at cost	–	1,039,249	–	–	1,039,249
– an associate at retail price less 2%	120,778	171,427	–	–	292,205
– franchised stores at cost	320,430	–	118,727	–	439,157
Segment results	134,824	67,149	24,178	416	226,567
Other income					56,426
Unallocated costs					(27,670)
Operating profit					255,323
Finance costs					(6,251)
Share of results of associates					57,299
Profit before taxation					306,371
Taxation					(65,936)
Profit for the year					240,435

Other segment terms are as follows:

	Supermarkets	Hypermarkets	Convenience stores	Other operations	Group
Capital expenditure	50,990	601,925	35,751	44,270	732,936
Depreciation charge	115,303	85,180	32,752	13,887	247,122
Amortisation charge	6,178	2,450	1,110	2,165	11,903

6. Segment information (continued)

The segment assets and liabilities at 31 December 2005 are as follows:

	Supermarkets	Hypermarkets	Convenience stores	Other operations	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets	**1,764,703**	**3,509,363**	**342,928**	**26,553**	**5,643,547**
Investments in associates					**335,261**
Unallocated assets					**1,016,258**
Total assets					**6,995,066**
Segment liabilities	**1,496,949**	**3,016,246**	**246,464**	**10,001**	**4,769,660**
Unallocated liabilities					**110,195**
Total liabilities					**4,879,855**

The segment assets and liabilities at 31 December 2004 are as follows:

	Supermarkets	Hypermarkets	Convenience stores	Other operations	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets	1,366,547	2,018,970	329,562	22,682	3,737,761
Investments in associates					293,842
Unallocated assets					779,108
Total assets					4,810,711
Segment liabilities	1,014,067	1,579,004	195,505	15,745	2,804,321
Unallocated liabilities					57,273
Total liabilities					2,861,594

6. Segment information (continued)

Unallocated costs represent corporate expenses.

Segment assets consist primarily of property, plant and equipment, land use rights, intangible assets, inventories, receivables and operating cash. They mainly exclude certain corporate bank balances and cash, investments in associates, deferred tax assets, amounts due from related parties and financial assets at fair value through profit or loss/trading securities.

Segment liabilities comprise operating liabilities. They exclude items such as taxation and corporate borrowings.

Capital expenditure comprises additions to property, plant and equipment, construction in progress, land use rights, intangible assets and other non-current assets, including additions resulting from acquisitions through purchases of subsidiaries.

7. Turnover and other revenues

The Group is principally engaged in operation of chain stores including supermarkets, hypermarkets and convenience stores. Revenues recognised during the year are as follows:

	2005	2004
	RMB'000	*RMB'000*
Turnover		
Sales of merchandise	**14,312,503**	10,854,967
Other revenues		
Income from suppliers		
– Promotion and store display income	**892,659**	516,609
– Merchandise storage and delivery income	**54,855**	87,164
– Information system service income	**4,492**	6,901
Gross rental income from leasing of shop premises	**186,885**	119,319
Royalty income from franchised stores	**30,205**	29,733
Others	**51,957**	30,172
	1,221,053	789,898
Total revenues	**15,533,556**	11,644,865

8. Operating profit

Operating profit is stated after crediting and charging the following:

	2005 *RMB'000*	2004 *RMB'000*
Crediting:		
Government subsidies	**13,565**	30,816
Gain on disposal of property, plant and equipment	**–**	18,960
Income from leasing of shop premises		
– Gross rental income	**186,885**	119,319
– Outgoings	**(68,384)**	(39,707)
Interest income	**9,168**	5,598
Net income from investments		
– Fair value gain (realised and unrealised) on financial assets at fair value through profit or loss	**8,112**	–
– Gain (realised and unrealised) on trading securities	**–**	1,051
Reversal of provision for impairment of receivables	**4,585**	–
Charging:		
Amortisation of goodwill *(Note 19)*	**–**	9,996
Amortisation of other non-current assets	**5,244**	1,394
Amortisation of software *(Note 19)*	**7,169**	5,547
Amortisation of land use rights *(Note 18)*	**6,350**	4,962
Auditors' remuneration	**4,408**	3,304
Depreciation of property, plant and equipment *(Note 16)*	**324,937**	247,122
Loss on disposal of property, plant and equipment	**3,310**	–
Operating lease rental in respect of land and buildings	**635,147**	448,124
Staff costs *(Note 10)*	**798,953**	613,118
Pre-operating expenses	**8,435**	12,529
Provision for impairment of receivables	**–**	1,559
Provision for obsolescence of inventories	**1,308**	127

9. Finance costs

Financial costs represent interest expense on bank borrowings.

10. Staff costs

Staff costs, excluding directors' emoluments, are analysed as follows:

	2005	2004
	RMB'000	*RMB'000*
Salaries and wages	**571,026**	440,231
Retirement benefit costs – defined contribution plans *(Note)*	**72,306**	52,099
Medical benefits	**44,402**	32,950
Other welfare expenses	**111,219**	87,838
	798,953	613,118

Note

In accordance with the rules and regulations in the PRC, the employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries, subject to a ceiling, during the year.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired employees payable under the plans described above. Contributions to these plans are expensed as incurred and other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administered funds managed by the PRC government.

11. Taxation

Hong Kong profits tax has not been provided for as the Group has no estimated assessable profits subject to Hong Kong profits tax.

PRC income tax is calculated based on the statutory income tax rate of 33% (2004: 33%) of the assessable income of the Group except for certain subsidiaries which are taxed at preferential rates ranging from 0% to 15% (2004: 0% to 15%) based on the relevant PRC tax rules and regulations.

The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

	2005	2004
	RMB'000	*RMB'000*
PRC income tax - current taxation	**104,453**	68,984
Deferred income tax *(Note 36)*	**(244)**	(3,048)
	104,209	65,936

The taxation on the Group's profit before taxation (excluding share of results of associates) differs from the theoretical amount that would arise using the statutory taxation rate of PRC income tax as follows:

	2005	2004
	RMB'000	*RMB'000*
Profit before taxation	**358,464**	306,371
Less: Share of results of associates	**(94,287)**	(57,299)
	264,177	249,072
Calculated at a taxation rate of 33%	**87,178**	82,194
Effect of preferential tax rates on the income of certain subsidiaries	**(14,117)**	(28,714)
Expenses not deductible for taxation purpose	**3,795**	3,479
Utilisation of previously unrecognised tax losses	**(35)**	(587)
Tax losses for which no deferred tax asset was recognised	**27,388**	9,564
Taxation charge	**104,209**	65,936

12. Profit attributable to Company's shareholders

The profit attributable to Company's shareholders for the year ended 31 December 2005 is dealt with in the Company's accounts to the extent of RMB257,307,000 (2004: RMB177,922,000).

13. Dividends

	2005	2004
	RMB'000	*RMB'000*
Interim dividend, approved, of RMB 0.06 (2004: RMB 0.05) per share	**37,320**	29,375
Final dividend, proposed, of RMB 0.07 (2004: RMB 0.07) per share	**43,540**	43,540
	80,860	72,915

The 2005 interim dividend was approved by the shareholders on 13 December 2005 and remained payable as at 31 December 2005. The 2004 interim dividend was approved by the shareholders on 30 September 2004 and paid by 31 December 2004.

At a meeting held on 18 April 2006, the Directors proposed a final dividend of RMB 0.07 per share for 2005 (2004: RMB 0.07 per share). This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2006.

14. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to Company's shareholders by the weighted average number of ordinary shares in issue during the year.

	2005	2004
	RMB'000	*RMB'000*
Profit attributable to Company's shareholders	**239,677**	215,540
Weighted average number of ordinary shares in issue	**622,000**	595,041
Basic earnings per share	**RMB0.39**	RMB0.36

Diluted earnings per share has not been calculated as there were no dilutive options and other dilutive potential shares in issue during both periods presented.

15. Directors' and senior management's emoluments

(a) Directors' emoluments

The remuneration of each Director for the year ended 31 December 2005 is set out below:

Name of Director	Fees	Basic salaries, allowances and benefits in kind	Discretionary bonuses	Retirement benefit costs	Medical benefits	2005 Total	2004 Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive/Non-executive Directors:							
Mr. Liang Wei	–	289	302	23	9	623	572
Ms. Xu Ling-ling	–	237	280	23	9	549	525
Ms. Cai Lan-ying	–	237	280	23	9	549	525
Mr. Wang Zong-nan	–	–	–	–	–	–	–
Mr. Lu Ming-fang	–	–	–	–	–	–	–
Mr. Tsunao Kijima	–	–	–	–	–	–	–
Mr. Wong Tak Hung	–	–	–	–	–	–	–
Mr. Hua Guo-ping	–	–	–	–	–	–	–
Mr. Shi Zu-qi	–	–	–	–	–	–	–
Independent non-executive Directors							
Mr. Lee Kwok Ming, Don	100	–	–	–	–	100	100
Mr. Zhang Hui Ming	100	–	–	–	–	100	50
Mr. Xia Da Wei	100	–	–	–	–	100	25
2005	**300**	**763**	**862**	**69**	**27**	**2,021**	**1,797**
2004	175	738	800	60	24		

None of the Directors waived any emoluments during the year.

15. Directors' and senior management's emoluments (continued)

(b) Supervisory committee members' emoluments

The aggregate amounts of emoluments paid and payable to the Supervisors of the Company during the year are as follows:

	2005	2004
	RMB'000	*RMB'000*
Basic salaries, allowances and benefits in kind	**211**	237
Discretionary bonuses	**258**	240
Retirement benefit costs	**23**	20
Medical benefits	**9**	8
	501	505

The emoluments fell within the following band:

	Number of Supervisors	
	2005	2004
Nil – HK$1,000,000	**3**	3

None of the Supervisors waived any emoluments during the year.

15. Directors' and senior management's emoluments (continued)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year were executives of the Group and none of them was a Director or Supervisor of the Company. The emoluments of these five highest paid individuals are as follows:

	2005	2004
	RMB'000	*RMB'000*
Basic salaries, allowances and benefits-in-kind	**2,472**	2,453
Discretionary bonuses	**342**	705
Retirement benefit costs	**116**	100
Medical benefits	**43**	40
	2,973	3,298

The emoluments of each of the five highest paid individuals were less than HK$1,000,000.

During the year, no emoluments were paid by the Group to any of the Directors, Supervisors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

16. Property, plant and equipment

Group	Buildings RMB'000	Leasehold improvements RMB'000	Transportation vehicles RMB'000	Operating and office equipment RMB'000	Total RMB'000
At 1 January 2004					
Cost	723,962	575,895	91,343	889,513	2,280,713
Accumulated depreciation	(51,365)	(218,673)	(25,939)	(322,181)	(618,158)
Net book value	672,597	357,222	65,404	567,332	1,662,555
Year ended 31 December 2004					
Opening net book amount, as previously reported	672,597	357,222	65,404	567,332	1,662,555
Opening adjustment on adoption of HKAS 17	(192,808)	–	–	–	(192,808)
Opening net book amount, as restated	479,789	357,222	65,404	567,332	1,469,747
Additions	10,602	150,148	10,751	137,897	309,398
Transfer from construction in progress *(Note 17)*	17,889	30,823	3,176	11,266	63,154
Acquisition of a business	28,556	38,112	537	58,903	126,108
Acquisition of a subsidiary	–	24	73	10,310	10,407
Disposals	(7,780)	(359)	(634)	(9,302)	(18,075)
Depreciation	(14,953)	(101,402)	(13,235)	(117,532)	(247,122)
Closing net book amount, as restated	514,103	474,568	66,072	658,874	1,713,617
At 31 December 2004					
Cost, as restated	574,269	785,707	99,974	1,078,533	2,538,483
Accumulated depreciation, as restated	(60,166)	(311,139)	(33,902)	(419,659)	(824,866)
Net book value, as restated	514,103	474,568	66,072	658,874	1,713,617
Year ended 31 December 2005					
Opening net book amount, as previously reported	701,949	474,568	66,072	658,874	1,901,463
Opening adjustment on adoption of HKAS 17	(187,846)	–	–	–	(187,846)
Opening net book amount, as restated	514,103	474,568	66,072	658,874	1,713,617
Additions	12,801	136,171	13,625	195,724	358,321
Transfer from construction in progress *(Note 17)*	144,000	57,333	6,414	28,082	235,829
Acquisition of subsidiaries *(Note 38)*	309,663	222,281	17,452	242,745	792,141
Disposals	(45)	(525)	(4,829)	(4,893)	(10,292)
Depreciation	(26,059)	(128,797)	(12,917)	(157,164)	(324,937)
Closing net book amount	954,463	761,031	85,817	963,368	2,764,679
At 31 December 2005					
Cost	1,040,661	1,195,961	124,495	1,519,140	3,880,257
Accumulated depreciation	(86,198)	(434,930)	(38,678)	(555,772)	(1,115,578)
Net book value	954,463	761,031	85,817	963,368	2,764,679

16. Property, plant and equipment (continued)

Included in property, plant and equipment are certain buildings with a total net book amount of RMB55,238,000 as at 31 December 2005 (2004: Nil), which have been pledged against the Group's bank borrowings *(Note 35)*.

The Group has not yet obtained the building ownership certificates of certain buildings included in property, plant and equipment with a total net book amount of RMB11,479,000 as at 31 December 2005 (2004: Nil). The Group is in the process of applying for the building ownership certificates.

Company	**Buildings** *RMB'000*	**Leasehold improvements** *RMB'000*	**Transportation vehicles** *RMB'000*	**Operating and office equipment** *RMB'000*	**Total** *RMB'000*
At 1 January 2004					
Cost	149,236	125,950	8,347	211,119	494,652
Accumulated depreciation	(21,889)	(80,357)	(3,482)	(123,681)	(229,409)
Net book value	127,347	45,593	4,865	87,438	265,243
Year ended 31 December 2004					
Opening net book amount, as previously reported	127,347	45,593	4,865	87,438	265,243
Opening adjustment on adoption of HKAS 17	(39,320)	–	–	–	(39,320)
Opening net book amount, as restated	88,027	45,593	4,865	87,438	225,923
Additions	–	–	384	7,749	8,133
Transfer from construction in progress *(Note 17)*	–	2,236	2,111	649	4,996
Disposals	(2,220)	–	(1,091)	(2,047)	(5,358)
Depreciation	(3,007)	(15,753)	(809)	(21,961)	(41,530)
Closing net book amount, as restated	82,800	32,076	5,460	71,828	192,164
At 31 December 2004					
Cost, as restated	103,054	128,186	8,706	212,734	452,680
Accumulated depreciation, as restated	(20,254)	(96,110)	(3,246)	(140,906)	(260,516)
Net book value, as restated	82,800	32,076	5,460	71,828	192,164
Year ended 31 December 2005					
Opening net book amount, as previously reported	121,191	32,076	5,460	71,828	230,555
Opening adjustments on adoption of HKAS 17	(38,391)	–	–	–	(38,391)
Opening net book amount, as restated	82,800	32,076	5,460	71,828	192,164
Additions	–	–	2,941	7,002	9,943
Transfer from construction in progress *(Note 17)*	–	18,355	–	6,578	24,933
Disposals	–	–	(2,973)	(1,195)	(4,168)
Depreciation	(2,950)	(16,215)	(1,345)	(19,034)	(39,544)
Closing net book amount	79,850	34,216	4,083	65,179	183,328
At 31 December 2005					
Cost	103,054	146,541	6,988	217,679	474,262
Accumulated depreciation	(23,204)	(112,325)	(2,905)	(152,500)	(290,934)
Net book value	79,850	34,216	4,083	65,179	183,328

17. Construction in progress

Group

	RMB'000
At 1 January 2004	24,852
Additions	256,669
Transfer to property, plant and equipment	(63,154)
At 31 December 2004	218,367
Additions	32,739
Acquisition of a subsidiary *(Note 38(b))*	15,691
Transfer to property, plant and equipment *(Note 16)*	(235,829)
Transfer to intangible assets *(Note 19)*	(7,354)
At 31 December 2005	**23,614**

Company

	RMB'000
At 1 January 2004	7,194
Additions	23,048
Transfer to property, plant and equipment	(4,996)
At 31 December 2004	25,246
Additions	5,224
Transfer to property, plant and equipment *(Note 16)*	(24,933)
Transfer to intangible assets *(Note 19)*	(3,240)
At 31 December 2005	**2,297**

18. Land use rights

The Group's interests in land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Net book value, at 1 January as previously reported	**–**	–	**–**	–
Opening adjustment on adoption of HKAS 17	**187,846**	192,808	**38,391**	39,320
Net book value, at 1 January, as restated	**187,846**	192,808	**38,391**	39,320
Additions	**4,329**	–	**–**	–
Acquisition of a subsidiary *(Note 38(a))*	**19,838**	–	**–**	–
Amortisation	**(6,350)**	(4,962)	**(929)**	(929)
Net book value, at 31 December	**205,663**	187,846	**37,462**	38,391

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
In PRC held on:				
Lease of over 50 years	**1,599**	1,606	**–**	–
Leases of between 10 to 50 years	**204,064**	186,240	**37,462**	38,391
	205,663	187,846	**37,462**	38,391

19. Intangible assets

Group

	Software *RMB'000*	**Goodwill** *RMB'000*	**Total** *RMB'000*
At 1 January 2004			
Cost	24,273	87,871	112,144
Accumulated amortisation	(4,987)	(12,185)	(17,172)
Net book amount	19,286	75,686	94,972
Opening net book amount at 1 January 2004	19,286	75,686	94,972
Additions	9,101	–	9,101
Acquisition of business	193	20,000	20,193
Acquisition of a subsidiary	1,060	1,960	3,020
Acquisition of additional equity interests in subsidiaries	–	360	360
Amortisation charge *(Note a)*	(5,547)	(9,996)	(15,543)
Disposals	(59)	–	(59)
Closing net book amount at 31 December 2004	24,034	88,010	112,044
At 31 December 2004			
Cost	34,568	110,191	144,759
Accumulated amortisation	(10,534)	(22,181)	(32,715)
Net book amount	24,034	88,010	112,044
Opening net book amount at 1 January 2005	24,034	88,010	112,044
Additions	5,601	–	5,601
Transfer from construction in progress *(Note 17)*	7,354	–	7,354
Acquisition of subsidiaries *(Note 38)*	8,063	70,471	78,534
Acquisition of additional equity interests in subsidiaries	–	938	938
Amortisation charge *(Note a)*	(7,169)	–	(7,169)
Closing net book amount at 31 December 2005	**37,883**	**159,419**	**197,302**
At 31 December 2005			
Cost *(Note b)*	55,586	159,419	215,005
Accumulated amortisation	(17,703)	–	(17,703)
Net book amount	37,883	159,419	197,302

19. Intangible assets (continued)

Note:

(a) Amortisation of RMB3,514,000 (2004: RMB4,432,000) and RMB3,655,000 (2004: RMB11,111,000) was included in selling expenses and in administrative expenses, respectively in the consolidated profit and loss account.

(b) In accordance with the provisions of HKFRS 3, accumulated amortisation as at 31 December 2004 of RMB22,181,000 has been eliminated with a corresponding decrease in the cost of goodwill.

Company

	Software
	RMB'000
At 1 January 2004	
Cost	1,668
Accumulated amortisation	(186)
Net book value	1,482
Opening net book amount at 1 January 2004	1,482
Additions	2,753
Amortisation charge	(801)
Closing net book value at 31 December 2004	3,434
At 31 December 2004	
Cost	4,421
Accumulated amortisation	(987)
Net book value	3,434
Opening net book amount at 1 January 2005	3,434
Additions	148
Transfer from construction in progress *(Note 17)*	3,240
Amortisation charge	(1,094)
Closing net book value at 31 December 2005	**5,728**
At 31 December 2005	
Cost	7,809
Accumulated amortisation	(2,081)
Net book value	5,728

20. Investments in subsidiaries/Balances with subsidiaries

Company

	2005	2004
	RMB'000	*RMB'000*
Unlisted equity investments, at cost	**922,921**	626,140
Less: Provision for impairment losses	**(7,000)**	(1,650)
	915,921	624,490

Particulars of the Company's principal subsidiaries at 31 December 2005 are set out in Note 42 to the accounts.

Balances with subsidiaries are unsecured, interest free and repayable on demand.

21. Investments in associates

Group

	2005	2004
	RMB'000	*RMB'000*
Share of net assets including goodwill	**335,261**	293,842
Unlisted equity investments, at cost	**250,729**	230,401

Company

	2005	2004
	RMB'000	*RMB'000*
Unlisted equity investments, at cost	**249,510**	228,581
Less: Impairment provision	**(41,889)**	(43,139)
	207,621	185,442

Investments in associates as at 31 December 2005 include goodwill of RMB6,787,000 (2004: Nil) *(Note 38(c))*.

21. Investments in associates (continued)

(a) Movement of investments in associates is as follows:

Group

	2005	2004
	RMB'000	*RMB'000*
Balance at beginning of the year	**293,842**	279,507
Share of profit less losses of associates	**94,287**	57,299
– Profit before taxation	**142,308**	100,738
– Taxation	**(47,857)**	(42,438)
– Minority interest	**(164)**	(1,001)
Capital contributions	**–**	24,229
Acquisition *(Note 38(c))*	**48,929**	–
Addition arising from acquisition of a subsidiary *(Note 38(a))*	**278**	–
Addition arising from acquisition of additional interest in an associate *(Note 38(b))*	**900**	–
Dividends received	**(84,593)**	(66,893)
Disposals	**(106)**	(300)
Reclassification as a subsidiary on acquisition of additional interest in an associate *(Note 38(b))*	**(18,276)**	–
Balance at end of the year	**335,261**	293,842

21. Investments in associates (continued)

(b) The Group's share of turnover, profit for the year and assets and liabilities of associates, which are included in the consolidated profit and loss account and balance sheet using equity method, are as follows:

Name	Assets	Liabilities	Net assets	Revenues	Profit/(Loss)	%Interest held
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	
2005						
Shanghai Carhua Supermarket Co., Ltd.	**654,827**	**408,826**	**246,001**	**1,520,155**	**92,639**	**45**
Shanghai Dia-Lianhua Retail Co., Ltd. *(Note (a))*	**69,622**	**69,622**	**–**	**174,542**	**(1,316)**	**45**
Others *(Note (b))*	**729,871**	**647,398**	**82,473**	**1,078,506**	**2,964**	
	1,454,320	**1,125,846**	**328,474**	**2,773,203**	**94,287**	
2004						
Shanghai Carhua Supermarket Co., Ltd.	581,861	351,285	230,576	1,392,408	83,959	45
Shanghai Dia-Lianhua Retail Co., Ltd.	59,646	58,330	1,316	117,755	(30,979)	45
Others	478,102	416,152	61,950	823,393	4,319	
	1,119,609	825,767	293,842	2,333,556	57,299	

Note:

(a) During the year ended 31 December 2005, the Group's share of losses from an associate, Shanghai Dia-Lianhua Retail Co., Ltd., in which the Group holds a 45% equity interest, has reduced the Group's investment in the associate to zero. Accordingly the Group has discontinued recognising its share of further losses from the associate. Losses incurred by the associate during the period not recognised by the Group amounted to RMB48,505,000 (2004: Nil).

(b) The revenues and profit of 'Others' mainly include those of Century Lianhua, which was subsequently reclassified as a subsidiary on acquisition of additional equity interest by the Group (Note 38(b)). The revenues and profit of Century Lianhua are included in the above up to 13 December 2005, being the date on which the control was transferred to the Group while its assets and liabilities are not included as they are fully consolidated as at 31 December 2005. The assets and liabilities of 'Others' as at 31 December 2005 are mainly those of Shanghai Lianhua E-business Co., Ltd. which did not generate substantial revenues and profit.

22. Available-for-sale financial assets/Long-term investments

Group

	2005 **RMB'000**	2004 RMB'000
Available-for-sale financial assets	**12,848**	–
Long-term investments	**–**	10,193
	12,848	10,193
Available-for-sale financial assets/long-term investments include the following:		
Legal person shares *(i)*	**1,112**	1,112
Unlisted equity investments *(ii)*	**11,736**	9,081
	12,848	10,193

Company

	2005 **RMB'000**	2004 RMB'000
Available-for-sale financial assets	**4,535**	–
Long-term investments	**–**	2,112
	4,535	2,112
Available-for-sale financial assets/long-term investments include the following:		
Legal person shares *(i)*	**1,112**	1,112
Unlisted equity investments *(ii)*	**3,423**	1,000
	4,535	2,112

(i) These represent investments in legal person shares of certain PRC listed companies which are not freely transferable in the market.

(ii) These represent investments in certain unlisted companies in the PRC.

At 1 January 2005, the Group redesignated its long-term investments as available-for-sale financial assets according to the transitional provision of HKAS 39. Long-term investments were carried at cost less impairment losses while available-for-sale financial assets are carried at fair value unless the fair value cannot be reliably measured.

23. Other non-current assets

Other non-current assets of the Group and the Company include payments for obtaining the rights to use certain buildings, which may or may not have a specified period of time limit, and are being amortised over the shorter of the contract period or the estimated useful lives of the buildings.

24. Inventories

Group

	2005	2004
	RMB'000	*RMB'000*
Merchandise for resale	**1,733,405**	945,207
Provision for obsolescence	**(4,233)**	(3,577)
	1,729,172	941,630
Low value consumables	**28,191**	26,835
	1,757,363	968,465

Company

	2005	2004
	RMB'000	*RMB'000*
Merchandise for resale	**169,463**	151,975
Provision for obsolescence	**(825)**	(825)
	168,638	151,150
Low value consumables	**2,395**	2,688
	171,033	153,838

25. Trade receivables

The ageing analyses of the trade receivables, arising mainly from sales of merchandise to franchised stores and wholesalers and with credit terms ranging from 30 to 45 days, are as follows:

Group

	2005	2004
	RMB'000	*RMB'000*
Within 30 days	**26,840**	26,507
30–60 days	**2,685**	287
61–90 days	**849**	89
91 days–one year	**262**	359
	30,636	27,242

Company

	2005	2004
	RMB'000	*RMB'000*
Within 30 days	**6,826**	4,189
30–60 days	**–**	216
61–90 days	**–**	114
91 days–one year	**–**	217
	6,826	4,736

26. Deposits, prepayments and other receivables

Group

	2005	2004
	RMB'000	*RMB'000*
Deposits and prepayments	**449,694**	234,612
Other receivables	**47,758**	19,332
	497,452	253,944

Company

	2005	2004
	RMB'000	*RMB'000*
Deposits and prepayments	**86,915**	45,285
Other receivables	**3,891**	3,065
	90,806	48,350

27. Amounts due from/to associates

Amounts due from/to associates represent balances arising from sales of merchandise and advanced payments for merchandise received from associates respectively. Balances are all aged within 90 days and the credit terms range from 30 to 90 days. Such balances with associates are unsecured and interest free.

28. Amount due to holding company

Amount due to holding company represents the balance due to Shanghai Friendship Group Incorporated Company, which is unsecured and bears interest at 2.85% per annum. The amount was assumed by the Group during the year as part of the acquisition of additional equity interest in an associate, Century Lianhua (Note 38(b)).

29. Financial assets at fair value through profit or loss/ Trading securities

Group

	2005	2004
	RMB'000	*RMB'000*
Equity securities listed in the PRC held for trading,		
at market value		
– Financial assets at fair value through profit or loss	**12,437**	–
– Trading securities	**–**	4,973
	12,437	4,973

Company

	2005	2004
	RMB'000	*RMB'000*
Equity securities listed in the PRC held for trading,		
at market value		
– Trading securities	**–**	4,903

At 1 January 2005, the Group redesignated its trading securities as financial assets at fair value through profit or loss according to the transitional provision of HKAS 39. They are both carried at fair value.

30. Bank balances and cash

All bank balances, which are denominated in Renminbi and other currencies, are placed with banks in the PRC. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

31. Share capital

Registered, issued and fully paid

	Number of shares *at RMB1.00 each*	Nominal value *RMB'000*
At 1 January 2004	587,500,000	587,500
Issue of H shares *(Note)*	34,500,000	34,500
At 31 December 2004 and 31 December 2005	622,000,000	622,000

Pursuant to a resolution passed at the shareholders' meeting on 18 May 2004 and approvals from the relevant government authorities, the Company was authorised to increase its registered share capital from RMB587,500,000 to an amount not exceeding RMB705,000,000.

On 12 October 2004, the Company completed a placing of 34,500,000 H shares with a par value of RMB1.00 each at a price of HK$8.8 per share in cash for an aggregate consideration of HK$303,000,000 (equivalent to approximately RMB322,393,000). These shares rank pari passu in all respect with the then existing H shares.

The share capital of the Company composed of:

	2005		2004	
	Number of shares *at RMB 1.00 each*	**Nominal value *RMB'000***	Number of shares at RMB 1.00 each	Nominal value RMB'000
Domestic shares	**355,543,000**	**355,543**	355,543,000	355,543
Unlisted foreign shares	**59,457,000**	**59,457**	59,457,000	59,457
H shares	**207,000,000**	**207,000**	207,000,000	207,000
	622,000,000	**622,000**	622,000,000	622,000

The H shares rank pari passu in all respects with the domestic shares and the unlisted foreign shares and rank equally for all dividends declared, paid or made except that all dividends in respect of H shares are to be paid by the Company in Hong Kong dollars and H shares may only be subscribed for by, and traded in Hong Kong dollars between, legal or natural persons of Hong Kong, Taiwan, Macau Special Administrative Region of the PRC or any country other than the PRC. The transfer of the domestic and unlisted foreign shares is subject to such restrictions as the PRC laws may impose from time to time.

32. Reserves

Group

	Capital reserve RMB'000 (note (a))	Other reserves RMB'000	Statutory common reserve fund RMB'000 (note (b))	Statutory common welfare fund RMB'000 (note (c))	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2005	755,953	–	88,435	45,033	216,928	1,106,349
Profit for the year attributable to Company's shareholders	–	–	–	–	239,677	239,677
Profit appropriations	–	–	41,830	20,915	(62,745)	–
Revaluation reserve arising from acquisition of a subsidiary *(Note 38(b))*	–	3,595	–	–	–	3,595
2004 final dividend	–	–	–	–	(43,540)	(43,540)
2005 interim dividend	–	–	–	–	(37,320)	(37,320)
Balance at 31 December 2005	**755,953**	**3,595**	**130,265**	**65,948**	**313,000**	**1,268,761**
Representing:						
Final dividend proposed					43,540	43,540
Others					269,460	1,225,221
					313,000	1,268,761
Balance at 1 January 2004	480,459	–	50,285	25,259	135,687	691,690
Issue of H shares	287,893	–	–	–	–	287,893
Share issuance expenses	(12,399)	–	–	–	–	(12,399)
Profit for the year attributable to Company's shareholders	–	–	–	–	215,540	215,540
Profit appropriations	–	–	38,150	19,774	(57,924)	–
2003 final dividend	–	–	–	–	(47,000)	(47,000)
2004 interim dividend	–	–	–	–	(29,375)	(29,375)
Balance at 31 December 2004	755,953	–	88,435	45,033	216,928	1,106,349
Representing:						
Final dividend proposed					43,540	43,540
Others					173,388	1,062,809
					216,928	1,106,349

32. Reserves (continued)

Company

	Capital reserve RMB'000 (note (a))	Other reserves RMB'000	Statutory common reserve fund RMB'000 (note (b))	Statutory common welfare fund RMB'000 (note (c))	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2005	755,953	–	54,416	27,208	98,809	936,386
Profit for the year attributable to Company's shareholders	–	–	–	–	257,307	257,307
Profit appropriations	–	–	21,784	10,892	(32,676)	–
Revaluation reserve arising from acquisition of a subsidiary *(Note 38(b))*	–	3,595	–	–	–	3,595
2004 final dividend	–	–	–	–	(43,540)	(43,540)
2005 interim dividend	–	–	–	–	(37,320)	(37,320)
Balance at 31 December 2005	**755,953**	**3,595**	**76,200**	**38,100**	**242,580**	**1,116,428**
Representing:						
Final dividend proposed					43,540	43,540
Others					199,040	1,072,888
					242,580	1,116,428
Balance at 1 January 2004	480,459	–	34,214	17,107	27,565	559,345
Issue of H shares	287,893	–	–	–	–	287,893
Share issuance expenses	(12,399)	–	–	–	–	(12,399)
Profit for the year attributable to Company's shareholders	–	–	–	–	177,922	177,922
Profit appropriations	–	–	20,202	10,101	(30,303)	–
2003 final dividend	–	–	–	–	(47,000)	(47,000)
2004 interim dividend	–	–	–	–	(29,375)	(29,375)
Balance at 31 December 2004	755,953	–	54,416	27,208	98,809	936,386
Representing:						
Final dividend proposed					43,540	43,540
Others					55,269	892,846
					98,809	936,386

32. Reserves (continued)

Note:

(a) Capital reserve of the Company and the Group mainly represents premium arising from issue of H shares net of share issuance expenses.

(b) Pursuant to the relevant PRC regulations and the Articles of Association of the companies within the Group, each of the companies within the Group is required to transfer 10% of its attributable to Company's shareholders, as determined under the PRC accounting regulations, to statutory common reserve fund until the fund aggregates to 50% of its registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders.

The statutory common reserve fund shall only be used to offset previous years' losses, to expand its production operations, or to increase its capital. Upon approval by a resolution of shareholders at a general meeting, each of the companies within the Group may convert its statutory common reserve fund into share capital and issue bonus shares to existing shareholders in proportion to their original shareholdings or to increase the nominal value of each share currently held by them, provided the balance of the reserve fund after such issue is not less than 25% of the registered capital.

(c) Pursuant to the relevant PRC regulations and the Articles of Association of the companies within the Group, each of the companies within the Group is required to transfer 5% to 10% of its attributable to Company's shareholders, as determined under the PRC accounting regulations, to the statutory common welfare fund. This fund can only be used to provide staff facilities and other collective benefits to its employees. This fund is non-distributable other than upon liquidation of the company.

33. Trade payables

The ageing analyses of the trade payables are as follows:

Group

	2005	2004
	RMB'000	*RMB'000*
Within 30 days	**1,915,454**	1,428,912
30–60 days	**616,148**	363,978
61–90 days	**99,753**	29,499
91 days–one year	**116,254**	24,614
	2,747,609	1,847,003

33. Trade payables (continued)

Company

	2005	2004
	RMB'000	*RMB'000*
Within 30 days	**850,122**	396,365
30–60 days	**116,866**	5,037
61–90 days	**34,670**	9,346
91 days–one year	**75,138**	9,090
	1,076,796	419,838

34. Other payables, accruals and coupon liabilities

Group

	2005	2004
	RMB'000	*RMB'000*
Other payables	**621,589**	502,208
Coupon liabilities	**769,400**	318,874
Customers' advances	**15,139**	25,379
Accruals	**39,713**	22,692
	1,445,841	869,153

Company

	2005	2004
	RMB'000	*RMB'000*
Other payables	**137,146**	80,689
Coupon liabilities	**241,798**	152,023
Customers' advances	**2,524**	966
Accruals	**188**	5,434
	381,656	239,112

35. Bank borrowings

Group

	31 December 2005 RMB'000	31 December 2004 RMB'000
Non-current bank borrowings	**16,377**	–
Current bank borrowings	**2,533**	–
Total borrowings	**18,910**	–

The Group's bank borrowings of RMB18,910,000 was assumed by the Group during the year as part of the acquisition of a subsidiary, Guangxi Lianhua Supermarket Joint Stock Company Limited (formerly known as Guangxi Jiayong Commercial and Trading Joint Stock Company Limited) ("Guangxi Lianhua"). These borrowings are secured by certain buildings of the Group with an aggregate net book amount of RMB55,238,000 as at 31 December 2005 *(Note 16)*.

The maturity of the Group's bank borrowings is as follows:

	31 December 2005 RMB'000	31 December 2004 RMB'000
Within 1 year	**2,533**	–
Between 1 and 2 years	**2,700**	–
Between 2 and 5 years	**9,089**	–
Over 5 years	**4,588**	–
	18,910	–

The bank borrowings are denominated in Renminbi and their effective interest rate at the balance sheet date was 5.95% per annum. The carrying amounts of current and non-current borrowings approximate their fair values.

36. Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using the tax rates which are expected to be applied at the time of reversal of the temporary differences.

The movement on the major deferred tax liabilities/(assets) accounts are as follows:

Group

	Deferred tax liabilities	Deferred tax assets			
	Fair value adjustments	**Pre-operating expenses**	**Bad debt and inventory provisions**	**Accrued expenses**	**Sub-total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2004	44,579	(4,437)	(2,677)	–	(7,114)
Credited to consolidated profit and loss account	(1,157)	(1,403)	(488)	–	(1,891)
At 31 December 2004	43,422	(5,840)	(3,165)	–	(9,005)
Acquisition of subsidiaries	37,123	(6,131)	(1,124)	(8,750)	(16,005)
(Credited)/debited to consolidated profit and loss account	(1,157)	(639)	1,552	–	913
At 31 December 2005	**79,388**	**(12,610)**	**(2,737)**	**(8,750)**	**(24,097)**

Company

	Deferred tax assets in respect of bad debt and inventory provisions
	RMB'000
Balance at 1 January 2004	1,738
Credited to profit and loss account	(903)
At 31 December 2004	835
Credited to profit and loss account	(513)
At 31 December 2005	**322**

At 31 December 2005, deferred tax assets mainly in respect of certain temporary differences arising from tax losses carried forward amounting to RMB173,798,000 (2004: RMB 88,082,000) have not been recognised in the accounts as, in the opinion of the directors, it is uncertain that there will be sufficient future taxable profit to utilise these tax losses, which are expiring in the next five years, before their expiry.

37. Notes to consolidated cash flow statement

(a) Reconciliation of profit before taxation to cash generated from operations:

	2005 *RMB'000*	Restated 2004 *RMB'000*
Profit before taxation	**358,464**	306,371
Adjustments for:		
Amortisation of intangible assets	**7,169**	15,543
Amortisation of other non-current assets	**5,244**	1,394
Amortisation of land use rights	**6,350**	4,962
Depreciation of property, plant and equipment	**324,937**	247,122
Loss/(gain) on disposal of property, plant and equipment	**3,310**	(18,960)
Loss on disposal of intangible assets	**–**	59
Fair value gain (including profit on disposal) on financial assets at fair value through profit or loss	**(8,112)**	–
Gain (including profit on disposal) on trading securities	**–**	(1,051)
Share of results of associates	**(94,287)**	(57,299)
Interest income	**(9,168)**	(5,598)
Interest expense	**2,129**	6,251
Operating profit before working capital changes	**596,036**	498,794
Changes in working capital:		
Inventories	**(423,198)**	(44,209)
Trade and other receivables	**(74,869)**	(122,279)
Amounts due from associates	**132,735**	3,855
Financial assets at fair value through profit or loss	**44,620**	–
Trading securities	–	(516)
Trade and other payables	**588,745**	305,159
Amounts due to associates	**10,829**	57,620
Cash generated from operations	**874,898**	698,424

37. Notes to consolidated cash flow statement (continued)

(b) Analysis of changes in financing during the year

	Share capital RMB'000	Capital reserve RMB'000	Bank borrowings RMB'000	Dividend payable RMB'000	Minority interests RMB'000	Amounts due to holding company RMB'000	Total RMB'000
At 1 January 2004	587,500	480,459	208,000	–	219,736	–	1,495,695
Minority interests' share of profit	–	–	–	–	24,895	–	24,895
Acquisition of additional equity interests in subsidiaries	–	–	–	–	(9,186)	–	(9,186)
Acquisition of a subsidiary	–	–	–	–	5,537	–	5,537
Dividend	–	–	–	76,375	–	–	76,375
Cash inflow/(outflow) from financing	34,500	275,494	(208,000)	(76,375)	(20,214)	–	5,405
At 31 December 2004	622,000	755,953	–	–	220,768	–	1,598,721
Minority interests' share of profit	–	–	–	–	14,578	–	14,578
Acquisition of additional equity interests in subsidiaries	–	–	–	–	(1,822)	–	(1,822)
Acquisition of a subsidiary *(Note 38(a))*	–	–	92,411	–	3,434	–	95,845
Increase arising from acquisition of additional interest in an associate *(Note 38(b))*	–	–	–	–	37,996	39,000	76,996
Decrease arising from acquisition of additional interest in an associate *(Note 38(b))*	–	–	–	–	(20,649)	–	(20,649)
Disposal of a subsidiary	–	–	–	–	(962)	–	(962)
Dividend	–	–	–	80,860	–	–	80,860
Cash inflow/(outflow) from financing	–	–	(73,501)	(43,540)	(28,893)	–	(145,934)
At 31 December 2005	**622,000**	**755,953**	**18,910**	**37,320**	**224,450**	**39,000**	**1,697,633**

38. Business combinations

(a) Acquisition of Guangxi Lianhua

In March 2005, the Group entered into agreements with the then investors (the "Former Investors") of Guangxi Lianhua whereby the Group agreed to invest cash of RMB107,000,000 in Guangxi Lianhua and assumed the Former Investors' debts of RMB92,306,000 due to Guangxi Lianhua in return for a 95% of the enlarged equity interests in Guangxi Lianhua. The acquisition was effective on 1 June 2005 in accordance with the relevant agreements.

Guangxi Lianhua is a limited liability company registered in the PRC. The principal activities of Guangxi Lianhua are the operation of hypermarkets, supermarkets, processing, packaging and distribution of the related merchandise. Guangxi Lianhua contributed sales of RMB370,550,000 and profit attributable to Company's shareholders of RMB7,922,000 to the Group for the period from 1 June 2005 to 31 December 2005.

Details of net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration :	
- Capital injection in cash	107,000
- Direct costs relating to the acquisition	1,240
- Liabilities assumed	92,306
Total acquisition cost	200,546
Fair value of net assets acquired, shown as below	(152,273)
Goodwill	48,273

Significant synergies are expected to arise after the Group's acquisition of Guangxi Lianhua.

38. Business combinations (continued)

(a) Acquisition of Guangxi Lianhua (continued)

The assets and liabilities arising from the acquisition are as follows:

	Fair value *RMB'000*	Acquiree's carrying amount *RMB'000*
Bank balances and cash *(Note)*	33,423	33,423
Property, plant and equipment	254,539	200,453
Land use rights	19,838	9,827
Intangible assets	921	921
Investments in associates	278	278
Inventories	65,942	65,942
Trade receivables, deposits and prepayments	130,939	130,939
Deferred tax assets	1,842	1,842
Payables, accruals and coupon liabilities	(231,335)	(231,335)
Borrowings	(92,411)	(92,411)
Deferred tax liabilities	(28,269)	(7,120)
Net assets	155,707	112,759
Minority interests	(3,434)	
Net assets acquired	152,273	
Cash inflow on acquisition		14,423

Note: The balance includes the bank balances and cash originally held by Guangxi Lianhua of RMB14,423,000 and the remaining portion of capital injection of RMB19,000,000 at the date of acquisition. The original amount of capital injection is RMB107,000,000, of which RMB88,000,000 has been utilised by Guangxi Lianhua to turn into other assets or reduce liabilities up to the date of acquisition.

38. Business combinations (continued)

(b) Acquisition of Century Lianhua

In October 2005, the Company entered into an equity transfer agreement with S.I. Commerce Holding Limited ("SI Commerce") and Shanghai Friendship Group Incorporated Company ("Shanghai Friendship"), the Former Investors of Century Lianhua, one of the Company's then associates, to acquire their 22.21% and 35.70% equity interest in Century Lianhua respectively. Furthermore, Hangzhou Lianhua Huashang Group Co., Ltd. ("Hangzhou Lianhua"), a non wholly-owned subsidiary of the Company, entered into an equity transfer agreement in October 2005 with Shanghai Liding Investment Company Limited ("Shanghai Liding") to acquire from the latter, its 22.09% of the equity interest in Century Lianhua. Upon completion of these equity transfer agreements, Century Lianhua will become a non wholly-owned subsidiary of the Company and the Company and Hangzhou Lianhua will hold approximately 77.91% and 22.09% of the equity interest in Century Lianhua respectively.

According to relevant equity transfer agreements, from the date of approval of those equity transfer agreements by the Company's independent shareholders, i.e. 13 December 2005, until the date when all conditions precedent under the equity transfer agreements are fulfilled or waived and all the approval are obtained, or the date when the equity transfer agreements are terminated, the Company shall be entitled to exercise all voting rights attributable to Shanghai Liding, Shanghai Friendship and SI Commerce's equity interest in Century Lianhua. Therefore, the Company obtained control over more than half of voting rights of Century Lianhua commencing from 13 December 2005. Consequently, Century Lianhua was considered as a subsidiary commencing from 13 December 2005 and its accounts were included in the consolidated accounts of the Group.

Century Lianhua is a limited liability company registered in the PRC. The principal activities of Century Lianhua are the operation of hypermarkets. Century Lianhua contributed sales of RMB104,654,000 and profit to attributable to Company's shareholders of RMB529,000 to the Group for the period from 13 December 2005 to 31 December 2005.

Details of net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration:	
- Consideration paid in cash	67,603
- Consideration payable	27,369
Total acquisition cost	94,972
Fair value of net assets acquired, shown as below	(72,774)
Goodwill	22,198

38. Business combinations (continued)

(b) Acquisition of Century Lianhua (continued)

The assets and liabilities arising from the acquisition are as follows:

	Fair value *RMB'000*	Acquiree's carrying amount *RMB'000*
Bank balances and cash	104,657	104,657
Property, plant and equipment	537,602	510,773
Construction in progress	15,691	15,691
Intangible assets	7,142	7,142
Other non-current assets	16,468	16,468
Investments in associates	900	900
Investments in Lianhua's subsidiaries	20,649	13,001
Available-for-sale financial assets	33	33
Financial assets at fair value through profit or loss	43,972	43,972
Inventories	298,140	298,140
Trade receivables, deposits and prepayments	27,670	27,670
Deferred tax assets	14,163	14,163
Payables, accruals and coupon liabilities	(515,698)	(508,050)
Amount due to holding company	(39,000)	(39,000)
Amounts due to associates	(387,560)	(387,560)
Deferred tax liabilities	(8,853)	–
Minority interests - Lianhua	(6,930)	(6,930)
Minority interests – Third parties	(37,996)	(37,996)
Net assets	91,050	73,074
Lianhua's share of interest before acquisition	(18,276)	
Net assets acquired	72,774	
Bank balances and cash in subsidiary acquired		104,657
Purchase consideration settled in cash		(67,603)
Cash inflow on acquisition		37,054

The fair value difference of Century Lianhua's net assets arising from the acquisition in relation to the original 20% equity interest of Century Lianhua held by the Company amounted to RMB 3,595,000 has been credited to revaluation reserve under other reserves.

38. Business combinations (continued)

(c) Acquisition of an associate

During 2005, the Company acquired 20% equity interest of an associate from the respective shareholder at an aggregate cash consideration of RMB48,929,000. The fair value of net assets acquired amounted to RMB42,142,000, resulting in goodwill arising from acquisition of RMB6,787,000.

(d) Had the above acquisitions been occurred on 1 January 2005, the Group's revenue would have been RMB15,421,253,000, and the Group's profit for the year would have been RMB239,982,000.

39. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Given that the PRC government still owns a significant portion of the productive assets in the PRC despite the continuous reform of the government's structure, the majority of the Group's business activities had been conducted with enterprises directly or indirectly owned or controlled by the PRC government ("state-owned enterprise"). In accordance with the revised HKAS 24, "Related Party Disclosures"), state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC government are also defined as related parties of the Group. In the normal course of its business, the Group enters into various transactions with one or more of such state-owned enterprises and their subsidiaries.

Apart from those disclosed under Notes 27, 28 and 38(b), the Group entered into significant related party transactions during the year, which were carried out in the normal course of the Group's business, as follows:

(a) Related party transactions

	Note	**2005** **RMB'000**	2004 RMB'000
Sales to associates			
– Shanghai Lianhua E-business Co., Ltd.	(i)	**702,420**	292,205
– Subsidiaries of Shanghai Century Lianhua Supermarket Development Co., Ltd.	(ii)	**1,313,760**	1,039,249
Purchases from associates			
– Shanghai Lianhua Supermarket Food Co., Ltd. and Shanghai Gude Commercial Trading Co., Ltd.	(iii)	**29,193**	26,298
Decoration cost paid to an associate	(iv)	**31,053**	13,841

39. Related party transactions (continued)

(a) Related party transactions (continued)

Note:

(i) Sales to Shanghai Lianhua E-business Co., Ltd. were recognised when customers presented coupons issued by Shanghai Lianhua E-business Co., Ltd. at the Group's stores in exchange for the Group's merchandises. These sales were set at retail prices less a discount of 1.3%(2004:2%).

(ii) Sales were made at cost and were in accordance with the terms of the underlying agreements.

(iii) The purchase price was determined with reference to the then prevailing market prices and the prices charged by those associates to third parties.

(iv) The decoration cost paid to an associate was determined with reference to the then prevailing market prices.

(b) Related party balances with other state-owned enterprises

Included in the consolidated balance sheet were balances with other state-owned enterprises as follows:

	2005	2004
	RMB'000	*RMB'000*
Current liabilities		
Accounts payable and other liabilities	**246,496**	140,182

All the above balances are unsecured, non-interest bearing and repayable within one year.

In addition, all cash at bank and bank borrowings of the Group at the balance sheet date are deposited at or borrowed from state-owned banks.

39. Related party transactions (continued)

(c) Related party transactions with other state-owned enterprises

	2005	2004
	RMB'000	*RMB'000*
Purchase of goods	**1,581,642**	1,383,896
Long-term loans borrowed	**–**	127,740
Interest income received	**9,168**	5,598
Bank charges	**6,144**	5,964
Interest expenses	**2,129**	6,251

Related party transactions with other state-owned enterprises were conducted in the normal course of business at market rates.

(d) Key management compensation

	2005	2004
	RMB'000	*RMB'000*
Salaries and other short-term employee benefits	**5,392**	4,590
Post-employment benefits	**209**	209
Other long-term benefits	**209**	209
	5,810	5,008

40. Commitments

(a) Capital commitments for property, plant and equipment and information system development

	2005	2004
	RMB'000	*RMB'000*
Contracted but not provided for	**173,004**	59,764

The capital commitments mainly represent commitments for construction of buildings, leasehold improvements, purchase of equipment and development of a supply chain management system.

(b) Commitments under operating leases

The Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2005	2004
	RMB'000	*RMB'000*
Not later than one year	**789,342**	597,352
Later than one year and not later than five years	**2,930,777**	1,943,850
Later than five years	**6,535,084**	3,267,741
	10,255,203	5,808,943

(c) Commitments for equity investments

As at 31 December 2005, the Group had a commitment to acquire the remaining equity interests of 25.39% (2004: 25.39%) in Hangzhou Lianhua Huashang Group Co., Ltd. held by third parties at a consideration of not less than RMB140,760,000.

41. Future operating lease arrangements

The Group had future aggregate minimum lease receipts under non-cancellable operating leases in respect of land and buildings as follows:

	2005	2004
	RMB'000	*RMB'000*
Not later than one year	**149,664**	114,616
Later than one year and not later than five years	**235,036**	170,904
Later than five years	**164,447**	99,428
	549,147	384,948

The minimum lease receipts as set out above mainly related to leasing of shop premises located at the Group's hypermarkets which are entered into primarily on a short-term or medium-term basis.

42. Particulars of major subsidiaries and associates

As at 31 December 2005, the Company held interest in the following major subsidiaries and associates, all of which are private limited liability companies established and operating in the PRC:

Company name	Date of establishment	Registered and fully paid capital *RMB'000*	Attributable equity interest held directly	Attributable equity interest held indirectly	Principal activities
(a) Subsidiaries					
Beijing Century Lianhua Supermarket Co., Ltd.	29 May 2003	2,000	80.00%	18.86%	Hypermarket
Fuzhou Century Lianhua Supermarket Co., Ltd.	1 July 2002	10,000	80.00%	18.86%	Hypermarket
Guangzhou Century Lianhua Supermarket Co., Ltd.	1 August 2002	16,000	80.00%	18.86%	Hypermarket
Shanghai Century Lianhua Supermarket Baoshan Co., Ltd.	28 June 2001	10,000	57.50%	30.06%	Hypermarket
Shanghai Century Lianhua Supermarket Hongkou Co., Ltd.	19 August 2003	3,000	83.67%	–	Hypermarket
Shanghai Century Lianhua Supermarket Minhang Co., Ltd.	5 September 2002	5,000	80.00% *(i)*	18.86%	Hypermarket
Shanghai Century Lianhua Supermarket Nanhui Co., Ltd.	28 April 2004	10,000	49.00%	30.60%	Hypermarket
Shanghai Century Lianhua Supermarket Qingpu Co., Ltd.	7 August 2003	500	90.00%	–	Hypermarket

42. Particulars of major subsidiaries and associates (continued)

Company name	Date of establishment	Registered and fully paid capital *RMB'000*	Attributable equity interest held directly	Attributable equity interest held indirectly	Principal activities
(a) Subsidiaries (continued)					
Shanghai Lujiazui Lianhua Hypermarket Co., Ltd.	16 August 2000	20,000	77.50%	16.50%	Hypermarket
Shanghai Century Lianhua supermarket Xuhui Co.,Ltd.	1 June 2001	500	100.00% *(ii)*	–	Hypermarket
Shenyang Century Lianhua Supermarket Co., Ltd.	26 May 2004	3,000	90.00%	9.89%	Hypermarket
Tianjin Yishang Lianhua Supermarket Co., Ltd.	1 September 2002	30,000	80.00%	–	Hypermarket
Zhejiang Gongshu Century Lianhua Supermarket Co., Ltd.	29 August 2004	15,000	90.00%	9.89%	Hypermarket
Hangzhou Lianhua Huashang Group Co., Ltd.	1 June 2001	120,500	74.19%	–	Supermarket and hypermarket
Shanghai Century Lianhua Western Commercial Co., Ltd.	7 November 2001	5,000	15.00%	51.00%	Supermarket and hypermarket
Lianhua Supermarket Jiangsu Co., Ltd.	21 March 2003	50,000	85.00%	13.89%	Supermarket
Shanghai Lianhua Supermarket Fengxian Co., Ltd.	4 March 1997	3,000	55.00%	–	Supermarket

42. Particulars of major subsidiaries and associates (continued)

Company name	Date of establishment	Registered and fully paid capital *RMB'000*	Attributable equity interest held directly	Attributable equity interest held indirectly	Principal activities
(a) Subsidiaries (continued)					
Shanghai Lianhua Supermarket Jiading Co., Ltd.	9 October 1996	3,290	81.76%	17.20%	Supermarket
Shanghai Lianhua Supermarket Jinshan Co., Ltd.	21 October 1996	10,410	80.79%	19.00%	Supermarket
Shanghai Lianhua Supermarket Nanhui Co., Ltd.	28 November 1996	11,000	60.00%	–	Supermarket
Shanghai Lianhua Supermarket Qingpu Co., Ltd.	13 January 1997	3,000	60.00%	–	Supermarket
Shanghai Lianhua Xinxin Supermarket Co., Ltd.	22 April 1997	13,300	55.00%	–	Supermarket
Shanghai Lianhua Yongchang Supermarket Co., Ltd.	5 July 1999	35,000	60.00%	–	Supermarket
Shanghai Pudong Lianhua Supermarket Co., Ltd.	29 September 1997	5,000	60.00%	–	Supermarket
Shanghai Songjiang Lianhua Supermarket Co., Ltd.	1 September 1998	5,350	63.00%	–	Supermarket
Lianhua Quik Stores Co., Ltd.	25 November 1997	63,000	70.00%	–	Convenience store

42. Particulars of major subsidiaries and associates (continued)

Company name	Date of establishment	Registered and fully paid capital *RMB'000*	Attributable equity interest held directly	Attributable equity interest held indirectly	Principal activities
(a) Subsidiaries (continued)					
Shanghai Lianhua Commercial Trading Co., Ltd.	27 June 2001	3,000	30.00%	53.60%	Wholesaling
Shanghai Lianhua Supermarket Distribution Co., Ltd.	29 October 1998	1,000	70.00%	9.43%	Purchase and distribution
Shanghai Lianhua Supermarket Jilin Purchase and Distribution Co., Ltd.	9 August 2000	1,000	51.00%	–	Purchase and distribution
Shanghai Lianhua Live and Fresh Food Processing and Distribution Co., Ltd.	29 December 1999	5,000	90.00%	–	Fresh food processing and distribution
Shanghai Lianhua Commercial and Business Consulting Co., Ltd.	20 July 2004	2,000	90.00%	9.89%	Business consulting
Shanghai Century Lianhua Supermarket Development Co., Ltd.	24 November 1997	100,000	77.91%	16.39%	Hypermarket
Beijing Century Lianhua Qingcheng Supermarket Co.,Ltd.	23 November 2005	5,000	95.00%	4.94%	Hypermarket
Guangxi Lianhua Supermarket Joint Stock Co., Ltd.	18 November 2001	68,670	92.00%	2.59%	Supermarket and hypermarket

42. Particulars of major subsidiaries and associates (continued)

Company name	Date of establishment	Registered and fully paid capital RMB'000	Attributable equity interest held directly	Attributable equity interest held indirectly	Principal activities
(b) Associates					
Shanghai Carhua Supermarket Co., Ltd.	8 February 1995	289,891	45.00%	–	Hypermarket
Shanghai Lianhua E-business Co., Ltd.	4 October 1995	50,000	43.00%	–	Trading
Shanghai Dia-Lianhua Retail Co., Ltd.	20 June 2003	93,087	45.00%	–	Discount store

(i) The Group directly holds 29% of equity interest in the company while another owner holding an interest of 51% in this company has given up its rights and obligations to govern the financial and operating policies of the company and its share of profit and loss of the company to the Group with effect from 24 December 2002.

(ii) The Group directly holds 49% of equity interest in the company while the other owner holding the remaining 51% equity interest in this company has given up its rights and obligations to govern the financial and operating policies of the company and its share of profit and loss of the company to the Group with effect from 28 June 2002.

43. Controlling shareholder and ultimate holding company

The Directors regard Shanghai Friendship Group Incorporated, a company incorporated and listed in the PRC, as being the controlling shareholder.

The Directors regard Bailian Group Company Limited, a state-owned enterprise established in the PRC, as being the ultimate holding company.

44. Approval of accounts

The accounts were approved by the Board of Directors on 18 April 2006.

45. Comparative figures

Certain comparative figures have been reclassified to conform to the current year presentation.