Notes to the Accounts

For the year ended 31 December 2006

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. The Company is listed on the main board of the Stock Exchange of Hong Kong Limited.

2. Summary of significant accounting policies

(a) Basis of preparation

The consolidated accounts have been prepared in accordance with Hong Kong Financial Reporting Standards (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 4.

In 2006, the Group adopted the following amendments and interpretation of HKFRS, which are effective in 2006 and relevant to the Group's operations.

- Amendment to HKAS 39 "The Fair Value Option". This amendment does not have any impact on the classification and valuation of the Group's financial instruments classified as at fair value through profit or loss prior to 1 January 2006 as the Group is able to comply with the amended criteria for the designation of financial instruments at fair value through profit or loss.

- HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease". The Group has reviewed its contracts. This interpretation does not have any significant impact on classification of the leases of the Group and on the expenses recognised in respect of them.

Notes to the Accounts

For the year ended 31 December 2006

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Certain new standards, amendments and interpretations to existing standards of HKFRS have been published but are not yet effective for the annual period beginning on 1 January 2006 and have not been early adopted by the Group. Those that are relevant to the Group's operations are as follows:

(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) HK(IFRIC)-Int 10 "Interim Financial Reporting and Impairment" (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated accounts.

(iii) HKFRS 8 "Operating Segments" (effective for annual periods beginning on or after 1 January 2009). HKFRS 8 supersedes HKAS 14, under which segments were identified and reported on risk and return analysis. Items were reported on the accounting policies used for external reporting. Under HKFRS 8, segments are components of an entity regularly reviewed by an entity's chief operating decision-maker. Items are reported based on the internal reporting. The Group does not expect the adoption of the standard will have any significant impact on the Group's consolidated accounts.

Notes to the Accounts

For the year ended 31 December 2006

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

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. These are set out as follows:

- HK(IFRIC)-Int 7 "Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies" (effective for annual periods beginning on or after 1 March 2006).

- HK(IFRIC)-Int 8 "Scope of HKFRS 2" (effective for annual periods beginning on or after 1 May 2006).

- HK(IFRIC)-Int 9 "Reassessment of Embedded Derivatives" (effective for annual periods beginning on or after 1 June 2006).

- HK(IFRIC)-Int 11 "HKFRS 2 – Group and Treasury Share Transactions" (effective for annual periods beginning on or after 1 March 2007).

- HK(IFRIC)-Int 12 "Service Concession Arrangement" (effective for annual periods beginning on or after 1 January 2008)

(b) 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 one 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.

Notes to the Accounts

For the year ended 31 December 2006

2. Summary of significant accounting policies (continued)

(b) Consolidation (continued)

(i) *Subsidiaries* (continued)

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.

(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.

Dilution gains and losses in associates are recognised in the profit and loss account.

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.

Notes to the Accounts

For the year ended 31 December 2006

2. Summary of significant accounting policies (continued)

(c) 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 available-for-sale financial assets and financial assets at fair value through profit or loss. 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.

(d) Property, plant and equipment

Property, plant and equipment, comprising buildings, leasehold improvements, transportation vehicles and equipment, 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the profit and loss account during the financial period in which they are incurred.

Notes to the Accounts

For the year ended 31 December 2006

2. Summary of significant accounting policies (continued)

(d) Property, plant and equipment (continued)

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 and equipment	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 equipment 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.

(e) 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.

(f) 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.

Notes to the Accounts

For the year ended 31 December 2006

2. Summary of significant accounting policies (continued)

(g) 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).

(h) Impairment of non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation, which are tested annually for impairment. 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.

Notes to the Accounts

For the year ended 31 December 2006

2. Summary of significant accounting policies (continued)

(i) Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables 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.

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(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 2(l)).

(c) 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 financial assets 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 expended in the profit and loss account. Financial assets 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 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. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

Notes to the Accounts

For the year ended 31 December 2006

2. Summary of significant accounting policies (continued)

(i) Financial assets (continued)

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.

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 2(l).

(j) Non-current assets (or disposal group) held for sale

Non-current assets (or disposal group) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

(k) 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.

Notes to the Accounts

For the year ended 31 December 2006

2. Summary of significant accounting policies (continued)

(l) 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 original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the profit and loss account. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited in the profit and loss account.

(m) 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.

(n) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. 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.

(o) 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.

Notes to the Accounts

For the year ended 31 December 2006

2. Summary of significant accounting policies (continued)

(p) 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.

(q) 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. Provisions are not recognised for future operating losses. 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.

(r) 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.

(s) 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.

(t) Pre-operating expenses

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

Notes to the Accounts

For the year ended 31 December 2006

2. Summary of significant accounting policies (continued)

(u) 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.

(v) 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.

(w) 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.

(x) 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.

Notes to the Accounts

For the year ended 31 December 2006

3. 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. Except for the bank balances and cash, an entrusted loan and certain available-for-sale financial assets, the Group has no other significant interest-bearing assets and liabilities. The Group has a policy to place surplus funds with creditable financial institutions and companies which offer the best return for the Group on a short-term basis.

(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. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio through investing mainly in blue chip companies, high performance equity funds and money market with creditable financial institutions.

(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 2006.

(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 value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. There is no quoted market price for the investments in unlisted companies and a reasonable estimate of their fair values could not be made. The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values.

Notes to the Accounts

For the year ended 31 December 2006

4. 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 2(g). 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.

(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.

Notes to the Accounts

For the year ended 31 December 2006

4. Critical accounting estimates and judgements (continued)

(e) Estimated impairment of non-financial assets other than goodwill

The Group follows HKAS 36 to determine whether non-financial assets (other than goodwill stated in above 4(a)) have suffered any impairment. The recoverable amount of an asset is determined based on the higher of the asset's fair value less costs to sell and value in use. The value in use calculations require the use of estimates.

5. 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; logistic services for wholesale business; and sales through internet.

Notes to the Accounts

For the year ended 31 December 2006

5. Segment information (continued)

	Supermarkets	Hypermarkets	Convenience stores	Other operations	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2006					
Segment revenue	6,690,088	9,696,195	1,676,675	90,910	18,153,868
Including sales of merchandise to					
– an associate at cost	–	–	–	–	–
– an associate at retail price less 1%	434,595	487,223	–	–	921,818
– franchised stores at cost	404,918	–	347,384	–	752,302
Segment results	209,206	(55,313)	29,741	13,145	196,779
Other income					80,694
Unallocated costs					(47,955)
Operating profit					229,518
Finance income					26,781
Finance costs					(1,951)
Finance income – net					24,830
Share of results of associates					113,597
Profit before taxation					367,945
Taxation					(104,221)
Profit for the year					263,724

Other segment terms are as follows:

	Supermarkets	Hypermarkets	Convenience stores	Other operations	Group
Capital expenditure	350,867	456,771	17,830	26,887	852,355
Depreciation charge	131,362	279,178	37,972	18,023	466,535
Amortisation charge	9,236	9,810	1,448	3,683	24,177

Notes to the Accounts

For the year ended 31 December 2006

5. Segment information (continued)

	Supermarkets *RMB'000*	Hypermarkets *RMB'000*	Convenience stores *RMB'000*	Other operations *RMB'000*	Group *RMB'000*
2005					
Segment revenue	6,092,179	7,744,165	1,602,758	42,497	15,481,599
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					21,677
Unallocated costs					(30,537)
Operating profit					257,138
Finance income					9,168
Finance costs					(2,129)
Finance income – net					7,039
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 *RMB'000*	Hypermarkets *RMB'000*	Convenience stores *RMB'000*	Other operations *RMB'000*	Group *RMB'000*
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

Notes to the Accounts

For the year ended 31 December 2006

5. Segment information (continued)

The segment assets and liabilities at 31 December 2006 are as follows:

	Supermarkets	**Hypermarkets**	**Convenience stores**	**Other operations**	**Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets	2,062,353	4,820,727	373,049	26,499	7,282,628
Investments in associates					328,622
Unallocated assets					1,289,631
Total assets					8,900,881
Segment liabilities	1,826,238	4,328,916	309,917	24,632	6,489,703
Unallocated liabilities					86,359
Total liabilities					6,576,062

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

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, available-for-sale financial assets and financial assets at fair value through profit or loss.

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.

Notes to the Accounts

For the year ended 31 December 2006

6. 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:

	2006	2005
	RMB'000	*RMB'000*
Turnover		
Sales of merchandise	**16,446,967**	14,312,503
Other revenues		
Income from suppliers		
– Promotion and store display income	**1,288,630**	892,659
– Merchandise storage and delivery income	**60,601**	54,855
– Information system service income	**5,948**	4,492
Gross rental income from leasing of shop premises	**317,094**	186,885
Royalty income from franchised stores	**34,628**	30,205
	1,706,901	1,169,096
Total revenues	**18,153,868**	15,481,599

7. Other income

	2006	2005
	RMB'000	*RMB'000*
Government subsidies	**18,631**	13,565
Fair value gain (realised and unrealised) on financial assets at fair value through profit or loss	**34,308**	8,112
Gain on disposal of an associate *(Note 21(b)(i))*	**41,889**	–
Gain on disposal of available-for-sale financial assets	**4,498**	–
Gain on disposal of other non-current assets	**4,801**	–
Compensation on store relocation and lease termination	**26,961**	6,850
Salvage sales	**36,506**	27,704
Others	**22,332**	17,403
	189,926	73,634

Notes to the Accounts

For the year ended 31 December 2006

8. Expenses by nature

	2006	2005
	RMB'000	*RMB'000*
Cost of merchandise	**14,461,350**	12,708,282
Amortisation of other non-current assets	**2,646**	5,244
Amortisation of software *(Note 19)*	**13,938**	7,169
Amortisation of land use rights *(Note 18)*	**7,593**	6,350
Auditors' remuneration	**4,446**	4,408
Depreciation of property, plant and equipment *(Note 16)*	**466,535**	324,937
Loss on disposal of property, plant and equipment	**52,800**	3,310
Loss on disposal of land use right	**13**	–
Operating lease rental in respect of land and buildings	**792,676**	566,763
Outgoings for income from leasing of shop premises	**130,851**	68,384
Staff costs *(Note 10)*	**1,057,599**	800,974
Pre-operating expenses	**14,034**	8,435
Utility expenses	**389,300**	291,586
Advertising and promotion costs	**95,749**	53,693
Other store operating expenses	**326,517**	232,632
Provision for obsolescence of inventories	**(724)**	1,308
Other expenses	**298,953**	214,620
Total cost of sales, distribution costs, administrative expenses and other operating expenses	**18,114,276**	15,298,095

9. Finance income and costs

	2006	2005
	RMB'000	*RMB'000*
Interest income	**26,781**	9,168
Interest expenses:		
Bank borrowings wholly repayable within five years	**(1,951)**	(2,129)
Net finance income	**24,830**	7,039

Notes to the Accounts

For the year ended 31 December 2006

10. Staff costs

Staff costs, including Directors' emoluments, are analysed as follows:

	2006	2005
	RMB'000	*RMB'000*
Salaries and wages	**738,636**	572,951
Retirement benefit costs – defined contribution plans *(Note)*	**93,221**	72,375
Medical benefits	**58,055**	44,429
Other welfare expenses	**167,687**	111,219
	1,057,599	800,974

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% (2005: 33%) of the assessable income of the Group except for certain subsidiaries which are taxed at preferential rates ranging from 0% to 15% (2005: 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:

	2006	2005
	RMB'000	*RMB'000*
PRC income tax – current taxation	**115,409**	104,453
Deferred income tax *(Note 36)*	**(11,188)**	(244)
	104,221	104,209

Notes to the Accounts

For the year ended 31 December 2006

11. Taxation (continued)

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:

	2006	2005
	RMB'000	*RMB'000*
Profit before taxation	**367,945**	358,464
Less: Share of results of associates	**(113,597)**	(94,287)
	254,348	264,177
Calculated at a taxation rate of 33%	**83,935**	87,178
Effect of preferential tax rates on the income of certain subsidiaries	**(16,797)**	(14,117)
Income not subject to tax *(Note)*	**(14,726)**	–
Expenses not deductible for taxation purpose	**2,396**	3,795
Utilisation of previously unrecognised tax losses	**(37)**	(35)
Tax losses for which no deferred tax asset was recognised	**49,450**	27,388
Taxation charge	**104,221**	104,209

Note:

For the year ended 31 December 2006, income not subject to tax mainly represents the disposal gain of an associate of RMB41,889,000.

12. Profit attributable to Company's shareholders

The profit attributable to Company's shareholders for the year ended 31 December 2006 is dealt with in the Company's accounts to the extent of RMB276,531,000 (2005: RMB257,307,000).

Notes to the Accounts

For the year ended 31 December 2006

13. Dividends

	2006	2005
	RMB'000	*RMB'000*
Interim dividend, approved, of RMB 0.06 (2005: RMB 0.06) per share	**37,320**	37,320
Final dividend, proposed, of RMB 0.07 (2005: RMB 0.07) per share	**43,540**	43,540
	80,860	80,860

At a meeting held on 15 August 2006, the Directors declared an interim dividend of RMB 0.06 per share.

At a meeting held on 18 April 2007, the Directors proposed a final dividend of RMB 0.07 per share for 2006 (2005: 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 2007.

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.

	2006	2005
	RMB'000	*RMB'000*
Profit attributable to Company's shareholders	**241,599**	239,677
Weighted average number of ordinary shares in issue	**622,000**	622,000
Basic earnings per share	**RMB0.39**	RMB0.39

As there were no dilutive options and other dilutive potential shares in issue during both periods presented, diluted earnings per share is the same as basic earnings per share.

Notes to the Accounts

For the year ended 31 December 2006

15. Directors' and senior management's emoluments

(a) Directors' emoluments

The remuneration of each Director for the year ended 31 December 2006 is set out below:

Name of Director	Fees	Basic salaries, allowances and benefits in kind	Discretionary bonuses	Retirement benefit costs	Medical benefits	2006 Total	2005 Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive/Non-executive Directors:							
Mr. Liang Wei	–	289	259	23	9	580	623
Ms. Xu Ling-ling	–	237	241	23	9	510	549
Ms. Cai Lan-ying	–	237	1,382	23	9	1,651	549
Mr. Wang Zong-nan	–	–	–	–	–	–	–
Mr. Lu Ming-fang	–	–	–	–	–	–	–
Mr. Shi Zu-qi	–	–	–	–	–	–	–
Mr. Koichi Narita	–	–	–	–	–	–	–
Mr. Wong Tak Hung	–	–	–	–	–	–	–
Mr. Hua Guo-ping	–	–	–	–	–	–	–
Independent non-executive Directors							
Mr. Lee Kwok Ming,Don	100	–	–	–	–	100	100
Mr. Zhang Hui Ming	100	–	–	–	–	100	100
Mr. Xia Da Wei	100	–	–	–	–	100	100
2006	**300**	**763**	**1,882**	**69**	**27**	**3,041**	**2,021**
2005	300	763	862	69	27		

None of the Directors waived any emoluments during the year.

Notes to the Accounts

For the year ended 31 December 2006

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:

	2006	2005
	RMB'000	*RMB'000*
Basic salaries, allowances and benefits in kind	**211**	211
Discretionary bonuses	**236**	258
Retirement benefit costs	**23**	23
Medical benefits	**9**	9
	479	501

The emoluments fell within the following band:

	Number of Supervisors	
	2006	2005
Nil – HK$1,000,000	**3**	3

None of the Supervisors waived any emoluments during the year.

Notes to the Accounts

For the year ended 31 December 2006

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

(c) Five highest paid individuals

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

	2006	2005
	RMB'000	*RMB'000*
Basic salaries, allowances and benefits-in-kind	**1,494**	2,472
Discretionary bonuses	**5,428**	342
Retirement benefit costs	**117**	116
Medical benefits	**43**	43
	7,082	2,973

The emoluments fell within the following band:

	Number of Individuals	
	2006	2005
Nil – HK$1,000,000	**–**	5
HK$1,000,001 – HK$1,500,000	**3**	–
HK$1,500,001 – HK$2,000,000	**2**	–

(d) 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.

Notes to the Accounts

For the year ended 31 December 2006

16. Property, plant and equipment

Group	Buildings	Leasehold improvements	Transportation vehicles and equipment	Operating and office equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2005					
Cost	574,269	785,707	99,974	1,078,533	2,538,483
Accumulated depreciation	(60,166)	(311,139)	(33,902)	(419,659)	(824,866)
Net book value	514,103	474,568	66,072	658,874	1,713,617
Year ended 31 December 2005					
Opening net book amount	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	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
Year ended 31 December 2006					
Opening net book amount	954,463	761,031	85,817	963,368	2,764,679
Additions	17,069	240,038	30,084	183,876	471,067
Transfer from construction in progress *(Note 17)*	216	32,118	–	4,083	36,417
Acquisition of a subsidiary *(Note 38(a))*	–	56	235	3,350	3,641
Disposals	(8,295)	(36,040)	(5,231)	(24,601)	(74,167)
Depreciation	(39,427)	(199,392)	(21,855)	(205,861)	(466,535)
Reclassification	–	–	46,567	(46,567)	–
Transfer to non-current assets classified as held for sale	–	(4,190)	(154)	(6,190)	(10,534)
Closing net book amount	924,026	793,621	135,463	871,458	2,724,568
At 31 December 2006					
Cost	**1,024,835**	**1,370,104**	**199,015**	**1,557,357**	**4,151,311**
Accumulated depreciation	**(100,809)**	**(576,483)**	**(63,552)**	**(685,899)**	**(1,426,743)**
Net book value	**924,026**	**793,621**	**135,463**	**871,458**	**2,724,568**

Notes to the Accounts

For the year ended 31 December 2006

16. Property, plant and equipment (continued)

Company	Buildings	Leasehold improvements	Transportation vehicles and equipment	Operating and office equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2005					
Cost	103,054	128,186	8,706	212,734	452,680
Accumulated depreciation	(20,254)	(96,110)	(3,246)	(140,906)	(260,516)
Net book value	82,800	32,076	5,460	71,828	192,164
Year ended 31 December 2005					
Opening net book amount	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
Year ended 31 December 2006					
Opening net book amount	79,850	34,216	4,083	65,179	183,328
Additions	–	34,665	1,274	17,494	53,433
Transfer from construction in progress *(Note 17)*	132	–	–	530	662
Disposals	–	(2)	(416)	(3,744)	(4,162)
Depreciation	(2,953)	(16,682)	(693)	(19,670)	(39,998)
Closing net book amount	77,029	52,197	4,248	59,789	193,263
At 31 December 2006					
Cost	**103,186**	**175,300**	**6,470**	**213,871**	**498,827**
Accumulated depreciation	**(26,157)**	**(123,103)**	**(2,222)**	**(154,082)**	**(305,564)**
Net book value	**77,029**	**52,197**	**4,248**	**59,789**	**193,263**

As at 31 December 2005, certain buildings of RMB55,238,000 were pledged against the Group's bank borrowings as security. The security was released after repayment of the borrowings in 2006.

Notes to the Accounts

For the year ended 31 December 2006

17. Construction in progress

Group	*RMB'000*
At 1 January 2005	218,367
Additions	32,739
Acquisition of a subsidiary	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
Additions	350,586
Acquisition of a subsidiary *(Note 38(a))*	17,158
Transfer to property, plant and equipment *(Note 16)*	(36,417)
Transfer to intangible assets *(Note 19)*	(1,786)
At 31 December 2006	**353,155**

Company	*RMB'000*
At 1 January 2005	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
Additions	155,205
Transfer to property, plant and equipment *(Note 16)*	(662)
Transfer to intangible assets *(Note 19)*	(1,786)
At 31 December 2006	**155,054**

Notes to the Accounts

For the year ended 31 December 2006

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	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Net book value, at 1 January	**205,663**	187,846	**37,462**	38,391
Additions	**259**	4,329	**–**	–
Acquisition of a subsidiary	**–**	19,838	**–**	–
Amortisation	**(7,593)**	(6,350)	**(929)**	(929)
Disposal	**(13)**	–	**–**	–
Net book value, at 31 December	**198,316**	205,663	**36,533**	37,462

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
In PRC held on:				
Lease of over 50 years	**1,569**	1,599	**–**	–
Leases of between 10 to 50 years	**196,747**	204,064	**36,533**	37,462
	198,316	205,663	**36,533**	37,462

Notes to the Accounts

For the year ended 31 December 2006

19. Intangible assets

Group

	Software *RMB'000*	Goodwill *RMB'000*	Total *RMB'000*
At 1 January 2005			
Cost	34,568	88,010	12,578
Accumulated amortisation	(10,534)	–	(10,534)
Net book value	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	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	55,586	159,419	215,005
Accumulated amortisation	(17,703)	–	(17,703)
Net book value	37,883	159,419	197,302
Opening net book amount at 1 January 2006	37,883	159,419	197,302
Additions	9,584	–	9,584
Transfer from construction in progress *(Note 17)*	1,786	–	1,786
Acquisition of subsidiaries *(Note 38(a))*	60	2,305	2,365
Acquisition of additional equity interests in subsidiaries	–	1,523	1,523
Amortisation charge *(Note a)*	(13,938)	–	(13,938)
Closing net book amount at 31 December 2006	**35,375**	**163,247**	**198,622**
At 31 December 2006			
Cost	**66,819**	**163,247**	**230,066**
Accumulated amortisation	**(31,444)**	**–**	**(31,444)**
Net book value	**35,375**	**163,247**	**198,622**

Note:

(a) Amortisation of RMB7,946,000 (2005: RMB3,514,000) and RMB5,992,000 (2005: RMB3,655,000) was included in distribution costs and in administrative expenses, respectively in the consolidated profit and loss account.

Notes to the Accounts

For the year ended 31 December 2006

19. Intangible assets (continued)

Company

	Software
	RMB'000
At 1 January 2005	
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 amount at 31 December 2005	5,728
At 31 December 2005	
Cost	7,809
Accumulated amortisation	(2,081)
Net book value	5,728
Opening net book amount at 1 January 2006	5,728
Additions	5,231
Transfer from construction in progress *(Note 17)*	1,786
Amortisation charge	(2,056)
Closing net book amount at 31 December 2006	**10,689**
At 31 December 2006	
Cost	**14,826**
Accumulated amortisation	**(4,137)**
Net book value	**10,689**

Notes to the Accounts

For the year ended 31 December 2006

19. Intangible assets (continued)

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business segment. A segment level summary of the goodwill is presented below.

	2006	2005
	RMB'000	*RMB'000*
Supermarkets	**94,939**	93,416
Hypermarkets	**66,003**	66,003
Others	**2,305**	–
	163,247	159,419

The recoverable amounts of the cash-generating units are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rate and growth rate. These calculations based on cash flow forecasts prepared by the Group, which is derived from the one year financial budgets and extrapolated for the following 15 years using an estimated growth rate of 5% to 8% and a discount rate of 6%. The growth rate used does not exceed the average long-term growth rate for the relevant markets.

20. Investments in subsidiaries/Balances with subsidiaries

Company

	2006	2005
	RMB'000	*RMB'000*
Unlisted equity investments, at cost	**971,599**	922,921
Less: Provision for impairment losses	**(23,000)**	(7,000)
	948,599	915,921

Particulars of the Company's principal subsidiaries at 31 December 2006 are set out in Note 43 to the accounts.

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

Notes to the Accounts

For the year ended 31 December 2006

21. Investments in associates

Group

	2006	2005
	RMB'000	*RMB'000*
Share of net assets including goodwill	**328,622**	335,261
Unlisted equity investments, at cost	**187,310**	250,729

Company

	2006	2005
	RMB'000	*RMB'000*
Unlisted equity investments, at cost	**186,121**	249,510
Less: Provision for impairment losses	**–**	(41,889)
	186,121	207,621

Investments in associates as at 31 December 2006 include goodwill of RMB6,787,000 (2005: RMB6,787,000).

Particulars of the Company's principal associates at 31 December 2006 are set out in Note 43 to the accounts.

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

Group

	2006	2005
	RMB'000	*RMB'000*
Balance at beginning of the year	**335,261**	293,842
Share of profit less losses of associates	**113,597**	94,287
– Profit before taxation	**164,453**	142,308
– Taxation	**(50,512)**	(47,857)
– Minority interest	**(344)**	(164)
Acquisition	**–**	48,929
Addition arising from acquisition of a subsidiary	**–**	278
Addition arising from acquisition of additional interest in an associate *(Note 38(a))*	**1,000**	900
Dividends received	**(86,190)**	(84,593)
Disposals	**(1,030)**	(106)
Reclassification as a subsidiary on acquisition of additional interest in an associate *(Note 38(a))*	**(34,016)**	(18,276)
Balance at end of the year	**328,622**	335,261

Notes to the Accounts

For the year ended 31 December 2006

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 *RMB'000*	Liabilities *RMB'000*	Net assets *RMB'000*	Revenues *RMB'000*	Profit/(Loss) *RMB'000*	%Interest held
2006						
Shanghai Carhua Supermarket Co., Ltd.	**693,750**	**434,206**	**259,544**	**1,738,987**	**97,015**	**45**
Tianjin Yishang Development Co., Ltd.	**329,628**	**280,164**	**49,464**	**302,054**	**5,408**	**20**
Others(ii)	**27,707**	**14,880**	**12,827**	**526,226**	**11,174**	
	1,051,085	**729,250**	**321,835**	**2,567,267**	**113,597**	
2005						
Shanghai Carhua Supermarket Co., Ltd.	654,827	408,826	246,001	1,520,155	92,639	45
Shanghai Dia-Lianhua Retail Co., Ltd. (i)	69,622	69,622	–	174,542	(1,316)	45
Tianjin Yishang Development Co., Ltd.	257,014	213,031	43,983	115,586	1,840	20
Others(ii)	472,857	434,367	38,490	962,920	1,124	
	1,454,320	1,125,846	328,474	2,773,203	94,287	

Note:

(i) On 2 November 2006, the Group entered an agreement to dispose of its 45% equity interest in an associate, Shanghai Dia-Lianhua Retail Co., Ltd., to the joint venture partner at a cash consideration RMB41,889,000. The disposal was completed on 8 November 2006. As the Group's investment in the associate has reduced to zero in prior years, the disposal resulted in a gain of RMB41,889,000 (Note 7). The consideration has been received subsequently in January 2007.

(ii) Included in "Others" as at 31 December 2005 was the Group's investment in a former associate, Shanghai Lianhua E-Business Co., Ltd. ("Lianhua E-Business"), which was acquired and became a subsidiary since 2 November 2006 (Note 38(a)). The revenues and profit of "Others" for the year ended 31 December 2006 included those of Lianhua E-Business before the acquisition.

Notes to the Accounts

For the year ended 31 December 2006

22. Available-for-sale financial assets

Group

Available-for-sale financial assets include the following:

	2006	2005
	RMB'000	*RMB'000*
Non-current		
Legal person shares (i)	**2,141**	1,112
Unlisted equity investments (ii)	**7,305**	11,736
	9,446	12,848
Current		
Unlisted money market investment (iii)	**30,000**	–
Total	**39,446**	12,848

Company

Available-for-sale financial assets include the following:

	2006	2005
	RMB'000	*RMB'000*
Non-current		
Legal person shares (i)	**1,112**	1,112
Unlisted equity investments (ii)	**3,423**	3,423
	4,535	4,535
Current		
Unlisted money market investment (iii)	**30,000**	–
Total	**34,535**	4,535

(i) These represents investments in legal person shares of certain PRC listed companies.

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

(iii) This represents funds placed with bank for money market investments. Based on the terms, the funds will be repaid in next 12 months.

Notes to the Accounts

For the year ended 31 December 2006

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

	2006 *RMB'000*	2005 *RMB'000*
Merchandise for resale	**1,596,226**	1,733,405
Provision for obsolescence	**(3,509)**	(4,233)
	1,592,717	1,729,172
Low value consumables	**23,654**	28,191
	1,616,371	1,757,363

Company

	2006 *RMB'000*	2005 *RMB'000*
Merchandise for resale	**149,168**	169,463
Provision for obsolescence	**(746)**	(825)
	148,422	168,638
Low value consumables	**2,679**	2,395
	151,101	171,033

Notes to the Accounts

For the year ended 31 December 2006

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

	2006	2005
	RMB'000	*RMB'000*
Within 30 days	**26,160**	26,840
30-60 days	**12,183**	2,685
61-90 days	**4,106**	849
91 days-one year	**2,793**	262
	45,242	30,636

All trade receivables of the Company at each balance sheet date were aged less than 30 days.

As at 31 December, the fair value of trade receivables of the Group and the Company approximate their carrying amounts.

26. Deposits, prepayments and other receivables

Group

	2006	2005
	RMB'000	*RMB'000*
Deposits and prepayments	**580,446**	449,694
Other receivables	**74,730**	47,758
Entrusted loan (i)	**80,053**	–
	735,229	497,452

Company

	2006	2005
	RMB'000	*RMB'000*
Deposits and prepayments	**48,487**	86,915
Other receivables	**46,086**	3,891
Entrusted loan (i)	**80,053**	–
	174,626	90,806

(i) The entrusted loan represents the entrusted lending through a bank to a state-owned enterprise, which bears interest at 3.6% per annum and due in July 2007.

(ii) As at 31 December 2006, the fair value of the deposits, other receivables and entrusted loan of the Group and the Company approximate their carrying amounts.

Notes to the Accounts

For the year ended 31 December 2006

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.

As at 31 December 2005, amounts due to associates of the Group and the Company included an amount of RMB469,387,000 and RMB145,499,000 due to Lianhua E-Business respectively, which became a subsidiary of the Group through acquisition during 2006 (Note 38(a)).

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.

29. Financial assets at fair value through profit or loss

Group

	2006	2005
	RMB'000	*RMB'000*
Equity securities listed in the PRC held for trading, at market value	**78,252**	12,437

Company

	2006	2005
	RMB'000	*RMB'000*
Equity securities listed in the PRC held for trading, at market value	**7,263**	–

30. Bank balances and cash

All bank balances, which are mainly denominated in Renminbi, 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.

Notes to the Accounts

For the year ended 31 December 2006

31. Share capital

	Number of shares at RMB 1.00 each	Nominal value RMB'000
Authorised	705,000,000	705,000
Registered, issued and fully paid		
At 31 December 2005 and 31 December 2006	622,000,000	622,000

The share capital of the Company as at 31 December 2006 and 2005 composed of:

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

Notes to the Accounts

For the year ended 31 December 2006

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 2006	755,953	3,595	130,265	65,948	313,000	1,268,761
Transfer of statutory common reserve fund	–	–	65,948	(65,948)	–	–
Profit for the year attributable to Company's shareholders	–	–	–	–	241,599	241,599
Profit appropriations	–	–	42,953	–	(42,953)	–
2005 final dividend	–	–	–	–	(43,540)	(43,540)
2006 interim dividend	–	–	–	–	(37,320)	(37,320)
Balance at 31 December 2006	**755,953**	**3,595**	**239,166**	**–**	**430,786**	**1,429,500**
Representing:						
Final dividend proposed					43,540	43,540
Others					387,246	1,385,960
					430,786	1,429,500
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	–	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

Notes to the Accounts

For the year ended 31 December 2006

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 2006	755,953	3,595	76,200	38,100	242,580	1,116,428
Transfer of statutory common reserve fund	–	–	38,100	(38,100)	–	–
Profit for the year attributable to Company's shareholders	–	–	–	–	276,531	276,531
Profit appropriations	–	–	22,439	–	(22,439)	–
2005 final dividend	–	–	–	–	(43,540)	(43,540)
2006 interim dividend	–	–	–	–	(37,320)	(37,320)
Balance at 31 December 2006	**755,953**	**3,595**	**136,739**	**–**	**415,812**	**1,312,099**
Representing:						
Final dividend proposed					43,540	43,540
Others					372,272	1,268,559
					415,812	1,312,099
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	–	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

Notes to the Accounts

For the year ended 31 December 2006

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. The statutory common reserve fund may be converted into the share capital, provided the balance of the reserve fund after such conversion is not less than 25% of the registered capital.

(c) According to new Company Law of the PRC effective on 1 January 2006, appropriation of statutory common welfare fund was no longer required. Based on the relevant interpretations issued by the Ministry of Finance, the unutilised statutory common welfare fund are transferred to statutory common reserve fund.

33. Trade payables

The ageing analyses of the trade payables are as follows:

Group

	2006 *RMB'000*	2005 *RMB'000*
Within 30 days	**1,484,922**	1,915,454
30-60 days	**744,957**	616,148
61-90 days	**189,425**	99,753
91 days-one year	**145,424**	116,254
	2,564,728	2,747,609

Company

	2006 *RMB'000*	2005 *RMB'000*
Within 30 days	**645,618**	850,122
30-60 days	**325,129**	116,866
61-90 days	**114,140**	34,670
91 days-one year	**83,888**	75,138
	1,168,775	1,076,796

Notes to the Accounts

For the year ended 31 December 2006

34. Other payables, accruals and coupon liabilities

Group

	2006	2005
	RMB'000	*RMB'000*
Other payables	**754,925**	621,589
Coupon liabilities	**2,987,005**	769,400
Customers' advances	**63,662**	15,139
Accruals	**21,472**	39,713
	3,827,064	1,445,841

Company

	2006	2005
	RMB'000	*RMB'000*
Other payables	**114,701**	137,146
Coupon liabilities	**570,555**	241,798
Customers' advances	**2,697**	2,524
Accruals	**216**	188
	688,169	381,656

35. Bank borrowings

The borrowings as at 31 December 2005 were fully repaid during 2006 and pledges over the property, plant and equipment was released (Note 16).

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. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follow:

	Group		**Company**	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred tax assets	**(38,448)**	(24,097)	**(284)**	(322)
Deferred tax liabilities	**77,604**	79,388	**–**	–
	39,156	55,291	**(284)**	(322)

Notes to the Accounts

For the year ended 31 December 2006

36. Deferred taxation (continued)

The movement on the major deferred tax liabilities/(assets) accounts, without taking into consideration the offsetting of balances with the same tax jurisdiction is as follows:

Group

Deferred tax liabilities

	Fair value adjustments on		
	Buildings	**Financial assets at fair value through profit or loss**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2005	43,422	–	43,422
Acquisition of subsidiaries	37,123	–	37,123
(Credited)/debited to consolidated profit and loss account	(1,157)	–	(1,157)
At 31 December 2005	79,388	–	79,388
(Credited)/debited to consolidated profit and loss account	(2,716)	4,461	1,745
At 31 December 2006	**76,672**	**4,461**	**81,133**

Notes to the Accounts

For the year ended 31 December 2006

36. Deferred taxation (continued)

Deferred tax assets

	Pre-operating expenses	Bad debt and inventory provisions	Accrued expenses	Financial assets at fair value through profit or loss	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2005	(5,840)	(3,165)	–	–	(9,005)
Acquisition of subsidiaries	(6,131)	(1,124)	(8,750)	–	(16,005)
(Credited)/debited to consolidated profit and loss account	(639)	1,552	–	–	913
At 31 December 2005	(12,610)	(2,737)	(8,750)	–	(24,097)
Acquisition of a subsidiary *(Note 38(a))*	–	(682)	–	(4,265)	(4,947)
(Credited)/debited to consolidated profit and loss account	874	188	(14,731)	736	(12,933)
At 31 December 2006	**(11,736)**	**(3,231)**	**(23,481)**	**(3,529)**	**(41,977)**

Company

	Deferred tax assets in respect of bad debt and inventory provisions
	RMB'000
Balance at 1 January 2005	835
Credited to profit and loss account	(513)
At 31 December 2005	322
Credited to profit and loss account	(38)
At 31 December 2006	284

At 31 December 2006, deferred tax assets mainly in respect of certain temporary differences arising from tax losses carried forward amounting to RMB271,783,000 (2005: RMB173,798,000) 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.

Notes to the Accounts

For the year ended 31 December 2006

37. Notes to consolidated cash flow statement

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

	2006 **RMB'000**	2005 *RMB'000*
Profit before taxation	**367,945**	358,464
Adjustments for:		
Amortisation of intangible assets	**13,938**	7,169
Amortisation of other non-current assets	**2,646**	5,244
Amoritsation of land use rights	**7,593**	6,350
Depreciation of property, plant and equipment	**466,535**	324,937
Loss on disposal of property, plant and equipment	**52,800**	3,310
Loss on disposal of land use rights	**13**	–
Gain on disposal of other non-current assets	**(4,801)**	–
Gain on disposal of an associate	**(41,889)**	–
Gain on disposal of available-for-sales financial assets	**(4,498)**	–
Fair value gain (realised and unrealised) on financial assets at fair value through profit or loss	**(34,308)**	(8,112)
Share of results of associates	**(113,597)**	(94,287)
Interest income	**(26,781)**	(9,168)
Interest expense	**1,951**	2,129
Operating profit before working capital changes	**687,547**	596,036
Changes in working capital:		
Inventories	**181,329**	(423,198)
Trade and other receivables	**(143,412)**	(74,869)
Amounts due from associates	**(82)**	132,735
Financial assets at fair value through profit or loss	**(6,050)**	44,620
Trade and other payables	**1,589,424**	588,745
Amounts due to associates	**(469,774)**	10,829
Cash generated from operations	**1,838,982**	874,898

Notes to the Accounts

For the year ended 31 December 2006

37. Notes to consolidated cash flow statement (continued)

(b) In October 2005, the Group entered into an equity transfer agreement with S.I. Commerce Holding Limited ("SI Commerce") to acquire 22.21% equity interest in Shanghai Century Lianhua Supermarket Development Co., Ltd. ("Century Lianhua"). SI Commerce's interest in Century Lianhua was assumed from Shanghai Industrial United (Group) Commercial Network Development Co., Ltd. ("SI Commercial Network") pursuant to an equity transfer agreement entered into in July 2005. The equity transfer agreement was terminated on 21 July 2006 since the statutory approval procedures were not completed within the time specified in that agreement. Accordingly, the agreement for the Group's acquisition of 22.21% equity interest in Century Lianhua from SI Commerce was also terminated.

On 21 August 2006, the Group entered into an agreement with SI Commercial Network to acquire the 22.21% equity interest in Century Lianhua. The agreement was approved at the meeting of shareholders on 2 November 2006 and the legal process was completed on 25 December 2006. The consideration for the acquisition amounting to RMB26,900,000 was settled in December 2006.

38. Business combinations

(a) Acquisition of Lianhua E-Business

In August 2006, the Group entered into an equity transfer agreement with Shanghai Industrial United Holdings Company Limited ("SI United") to acquire its 18.18% equity interest in Lianhua E-Business, a 39.09% associate of the Group. Upon the completion of the equity transfer agreement, Lianhua E-Business became a non wholly-owned subsidiary of the Company with 57.27% equity interest held. The acquisition was approved at the shareholders' meeting and became effective on 2 November 2006.

Lianhua E-Business is a limited liability company registered in the PRC. The principal activities of Lianhua E-Business are sales of merchandises through internet and management services relating to issuance and usage of membership card. Lianhua E-Business contributed sales of RMB24,296,000 and profit attributable to Company's shareholders of RMB12,173,000 to the Group for the period from 2 November 2006 to 31 December 2006. Had the above acquisition been occurred on 1 January 2006, the Group's revenue would have been RMB16,567,209,000, and the Group's profit for the year would have been RMB275,301,000.

Details of net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration:	
– Consideration paid in cash	17,900
– Direct costs relating to the acquisition	225
Total acquisition cost	18,125
Fair value of net assets acquired, shown as below	(15,820)
Goodwill	2,305

Notes to the Accounts

For the year ended 31 December 2006

38. Business combinations (continued)

(a) Acquisition of Lianhua E-Business (continued)

The goodwill is attributable to the workforce of the acquired business and the significant synergies are expected to arise after the Group's acquisition of Lianhua E-Business.

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

	Acquiree's carrying amount *RMB'000*
Bank balances and cash	586,117
Property, plant and equipment	3,641
Construction in progress	17,158
Intangible assets	60
Investments in associates	1,000
Investments in subsidiary	750
Available-for-sale financial assets	1,029
Financial assets at fair value through profit or loss	25,457
Inventories	50,538
Trade receivables, deposits and prepayments	1,060,384
Deferred tax assets	4,947
Payables, accruals and coupon liabilities	(1,663,240)
Minority interests	(822)
Net assets	87,019
Lianhua's share of interest before acquisition	(34,016)
Minority interests	(37,183)
Net assets acquired	15,820
Bank balances and cash in subsidiary acquired	586,117
Purchase consideration settled in cash	(18,125)
Cash inflow on acquisition	567,992

The fair value of the assets and liabilities acquired approximates the acquiree's carrying amount.

Notes to the Accounts

For the year ended 31 December 2006

38. Business combinations (continued)

(b) Acquisition of Luoyang Xingyu Property Co., Ltd. ("Luoyang Xingyu")

On 30 June 2006, the Group acquired 100% equity interests of Luoyang Xingyu from third parties at a cash consideration of RMB6,700,000.

The acquired subsidiary did not contribute any revenue or net profit to the Group for the period as it is still at pre-operating period.

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

	Acquiree's carrying amount *RMB'000*
Prepayment on land use rights	21,122
Other receivables	303
Bank balances and cash	8
Other payables	(14,733)
Net assets acquired	6,700
Net outflow of cash to acquire the subsidiary	
– Cash consideration	6,700
– Bank balances and cash in subsidiary acquired	(8)
	6,692

The fair value of assets and liabilities acquired appropriates the acquiree's carrying amount.

Notes to the Accounts

For the year ended 31 December 2006

39. Non-current assets classified as held for sale

On 22 December 2006, the Group entered an agreement with Guangdong Sai Yi Convenience Stores Ltd. to sell it entire equity interest in Guangzhou Lianhua Quik Stores Co., Ltd. ("Guangzhou Quik"). The transaction has been substantially completed in March 2007 (Note 44(a)). Following the agreement, the assets and liabilities related to Guangzhou Quik have been presented as held for sale.

	2006
	RMB'000
Current assets	
Property, plant and equipment	**10,534**
Inventories	**10,201**
Trade receivables	**1,027**
Deposits and prepayments	**333**
Other current assets	**5,766**
Non-current assets classified as held for sale	**27,861**
Current liabilities	
Trade payables	**21,401**
Advances from customers	**450**
Other payables	**2,248**
Liabilities directly associated with non-current assets classified as held for sale	**24,099**

The disposal group held for sale has been stated at the lower of carrying amount and fair value less cost to sell.

40. 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.

Notes to the Accounts

For the year ended 31 December 2006

40. Related party transactions (continued)

Apart from those disclosed under Notes 27 and 28, 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	2006 RMB'000	2005 RMB'000
Sales to associates			
– Lianhua E-business	(i)	**921,818**	702,420
– Subsidiaries of Century Lianhua	(ii)	**–**	1,313,760
Purchases from associates			
– Shanghai Lianhua Supermarket Food Co., Ltd. and Shanghai Gude Commercial Trading Co., Ltd.	(iii)	**29,402**	29,193
Decoration cost paid to Lianhua E-Business	(iv)	**28,158**	31,053
Rental expenses paid to subsidiaries of holding company	(v)	**18,914**	–

Note:

(i) Sales to Lianhua E-Business were recognised when customers presented coupons issued by Lianhua E-Business at the Group's stores in exchange for the Group's merchandises. These sales were set at retail prices less a discount of 1% (2005:1.3%). Lianhua E-Business became a subsidiary after the Group's further acquisition of its equity interests (Note 38(a)), and therefore such transactions after acquisition have been eliminated in the consolidated accounts.

(ii) Sales were made at cost and were in accordance with the terms of the underlying agreements. Such transactions have been eliminated in the consolidated accounts after acquisition of Century Lianhua since 13 December 2005.

(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 Lianhua E-Business was determined with reference to the then prevailing market prices. Lianhua E-Business became a subsidiary after the Group's further acquisition of the equity interests (Note 38(a)), and therefore such transactions after acquisition have been eliminated in the consolidated accounts.

(v) These represent rental expenses of certain hypermarkets paid to subsidiaries of Shanghai Friendship Group Incorporated Company, the holding company of the Group. The rentals were charged in accordance with the terms of the underlying agreements which were entered into with reference to the then prevailing market prices.

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40. Related party transactions (continued)

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

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

	2006 RMB'000	2005 RMB'000
Current assets		
Deposits, prepayments and other receivables		
– entrusted loan	**80,053**	–
Current liabilities		
Accounts payable and other liabilities	**248,901**	246,496

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 state-owned banks.

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

	2006 RMB'000	2005 RMB'000
Purchase of goods	**2,971,663**	1,581,642
Entrusted loan and interested received	**81,299**	–
Interest income received	**26,781**	9,168
Bank charges	**10,294**	6,144
Interest expenses	**1,951**	2,129

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

(d) Key management compensation

	2006 RMB'000	2005 RMB'000
Salaries and other short-term employee benefits	**7,533**	5,392
Post-employment benefits	**317**	209
Other long-term benefits	**119**	209
	7,969	5,810

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For the year ended 31 December 2006

41. Commitments

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

	2006	2005
	RMB'000	*RMB'000*
Contracted but not provided for	**250,184**	173,004

The capital commitments mainly represent commitments for construction of buildings, leasehold improvements and purchase of equipment.

(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:

	2006	2005
	RMB'000	*RMB'000*
Not later than one year	**837,645**	789,342
Later than one year and not later than five years	**3,119,485**	2,930,777
Later than five years	**6,841,330**	6,535,084
	10,798,460	10,255,203

(c) Commitments for equity investments

As at 31 December 2006, the Group had a commitment to acquire the remaining equity interests of 25.39% (2005: 25.39%) in Hangzhou Lianhua Huashang Group Co., Ltd. held by third parties at a consideration of not less than RMB140,760,000.

42. 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:

	2006	2005
	RMB'000	*RMB'000*
Not later than one year	**168,323**	149,664
Later than one year and not later than five years	**270,281**	235,036
Later than five years	**184,949**	164,447
	623,553	549,147

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.

Notes to the Accounts

For the year ended 31 December 2006

43. Particulars of major subsidiaries and associates

As at 31 December 2006, 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
Shanghai Lujiazui Lianhua Hypermarket Co., Ltd.	16 August 2000	20,000	77.50%	16.50%	Hypermarket

Notes to the Accounts

For the year ended 31 December 2006

43. 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 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 and hypermarket
Shanghai Lianhua Supermarket Fengxian Co., Ltd.	4 March 1997	3,000	55.00%	–	Supermarket
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

Notes to the Accounts

For the year ended 31 December 2006

43. 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 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
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

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43. 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 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
Shanghai Lianhua E-business Co., Ltd.	4 October 1995	55,000	57.27%	–	Trading
(b) Associates					
Shanghai Carhua Supermarket Co., Ltd.	8 February 1995	289,891	45.00%	–	Hypermarket
Tianjin Yishang Development Co., Ltd.	27 October 1998	200,277	20.00%	–	Department stores

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For the year ended 31 December 2006

43. Particulars of major subsidiaries and associates (continued)

(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.

44. Subsequent events

(a) On 22 December 2006, the Group entered an agreement with Guangdong Sai Yi Convenience Stores Ltd. to sell its entire equity interest in Guangzhou Lianhua Quik Stores Co., Ltd. at a consideration of RMB32,000,000. The transaction is substantially completed in March 2007.

(b) On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"). The new CIT Law reduces the corporate income tax rate for foreign invested enterprises from 33% to 25% with effect from 1 January 2008. The tax rate reduction will also impact the carrying value of deferred tax assets and liabilities as a result of the newly-enacted tax rate. Detailed measures and other related regulations that would provide guidance on the determination of taxable profit, tax incentives and grandfathering provisions have yet to be issued. The Group will continue to evaluate the impact as more detailed regulations are announced.

45. 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.

46. Approval of accounts

The accounts were approved by the Board of Directors on 18 April 2007.

47. Comparative figures

For comparative figures, certain amounts originally recorded under other revenues have been reclassified to other income and the finance income has been separately disclosed from other income so as to conform to the current year presentation.