

# Notes to the Financial Statements

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

## 1 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

### (b) Basis of preparation of financial statements

The consolidated financial statements for the year ended 31st December, 2006 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and a jointly controlled entity.

As at 31st December, 2006, the Group had net current liabilities and net liabilities of approximately \$745 million and \$69 million respectively and incurred a loss from continuing operation of \$571 million for the year then ended. In view of these circumstances, the directors have given careful consideration to the future liquidity and performance of the Group in assessing whether the Group will have sufficient financial resources to continue as a going concern.

As disclosed in these financial statements, the Group has disposed of its non-core businesses in order for management to concentrate their effort on the retail operation of "cash-and-carry" stores. The directors have recruited a team of senior management with extensive experience in retail business and financial management who are in the process of conducting a detailed review of the performance of the stores with a view to rationalising and strengthening the "cash-and-carry" retail business. Appropriate measures will be put in place following such review. In the coming year, management will also implement further cost control measures to reduce the operating costs. The directors consider that the measures taken to date and the further measures to be implemented will improve the performance of the retail business going forward.

During the year, the Group has obtained a long term loan facility of \$390 million to replace the short term loans in order to improve the liquidity position. As a further measure, the directors are considering other bank and non-bank sources of financing in light of the future funding requirements of the Group. The Company has received a letter of support from its majority shareholder which confirmed that it will continue to provide adequate financial support to the Group so as to enable it to continue its operations for the foreseeable future and meet its liabilities as and when they fall due. On this basis, the directors consider that the Group will have sufficient financial resources for its working capital and capital expenditure requirements and that it will be able to meet its financial obligations as and when they fall due. Accordingly, the financial statements have been prepared on a going concern basis.



# Notes to the Financial Statements

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

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (b) Basis of preparation of financial statements (Continued)

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- investment property (see note 1(g)); and
- financial guarantees issued (see note 1(s)(i)).

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell (see note 1(w)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 47.

### (c) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment turnover, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment turnover, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

# Notes to the Financial Statements

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

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Segment reporting (Continued)

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

### (d) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 1(n) and 1(o) depending on the nature of the liability.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(k)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 1(w)).



# Notes to the Financial Statements

For the year ended 31st December, 2006  
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## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (e) Associates and jointly controlled entities

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 1(w)). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates and jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in associates and jointly controlled entities recognised for the year (see notes 1(f) and 1(k)).

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or the jointly controlled entity. For this purpose, the Group's interest in the associate or the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Company's balance sheet, its investments in associates and jointly controlled entities are stated at cost less impairment losses (see note 1(k)), unless it is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 1(w)).

### (f) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(k)). In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity.

# Notes to the Financial Statements

For the year ended 31st December, 2006  
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## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (f) Goodwill (Continued)

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in profit or loss.

On disposal of a cash generating unit, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

### (g) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(j)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(t)(ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(j)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(j).

### (h) Other fixed assets

The following items of fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(k)):

- buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 1(j)); and
- other items of plant and equipment.

Gains or losses arising from the retirement or disposal of an item of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of fixed assets, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of the lease and their estimated useful lives, being no more than 30 years after the date of completion.
- Leasehold improvements Over the remaining term of the lease
- Furniture, fixtures and equipment 3 – 5 years
- Motor vehicles 3 – 6 years



# Notes to the Financial Statements

For the year ended 31st December, 2006  
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## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (h) Other fixed assets (Continued)

Where parts of an item of fixed assets have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Stores under fit out represent the cost of leasehold improvements incurred to date. Stores under fit out are transferred to leasehold improvements when the stores are substantially ready for their intended use.

No depreciation is provided in respect of stores under fit out.

### (i) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(k)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– Franchise fee	10 years
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Both the period and method of amortisation are reviewed annually.

### (j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

#### (i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

#### (ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(k). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

# Notes to the Financial Statements

For the year ended 31st December, 2006  
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## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (j) Leased assets (Continued)

#### (iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 1(g)).

### (k) Impairment of assets

#### (i) Impairment of receivables

Current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

#### (ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- interests in leasehold land held for own use under operating leases;
- prepaid lease payments for premises;
- intangible assets;
- investments in subsidiaries, associates and joint ventures (except for those classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 1(w)); and
- goodwill.



# Notes to the Financial Statements

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

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (k) Impairment of assets (Continued)

#### (ii) *Impairment of other assets (Continued)*

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount  
The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).
- Recognition of impairment losses  
An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.
- Reversals of impairment losses  
In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

#### (iii) *Interim financial reporting and impairment*

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(k)(i) and 1(k)(ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.



# Notes to the Financial Statements

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

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### (m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(k)).

### (n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

### (o) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(s)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.



# Notes to the Financial Statements

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

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (q) Employee benefits

#### (i) *Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

#### (ii) *Share based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in share option reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged / credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits/accumulated losses).

#### (iii) *Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

### (r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

# Notes to the Financial Statements

For the year ended 31st December, 2006  
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## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (r) Income tax (Continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or



# Notes to the Financial Statements

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## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (r) Income tax (Continued)

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### (s) Financial guarantees issued, provisions and contingent liabilities

#### (i) *Financial guarantees issued*

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(s)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

#### (ii) *Other provisions and contingent liabilities*

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

# Notes to the Financial Statements

For the year ended 31st December, 2006  
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## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (t) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

- (i) *Sale of goods*  
Revenue is recognised when significant risks and rewards of ownership have been transferred to the customers. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.
- (ii) *Rental income from operating leases*  
Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.
- (iii) *Dividends*  
Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- (iv) *Interest income*  
Interest income is recognised as it accrues using the effective interest method.

### (u) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars ("HKD") at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1st January, 2005, are translated into HKD at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1st January, 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.



# Notes to the Financial Statements

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

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (v) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred.

### (w) Non-current assets held for sale and discontinued operations

#### (i) *Non-current assets held for sale*

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 1.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

#### (ii) *Discontinued operations*

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale (see (i) above), if earlier. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the consolidated income statement, which comprises:

- the post-tax profit or loss of the discontinued operation; and
- the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

# Notes to the Financial Statements

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

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (x) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

## 2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group.

Note 1 summarises the accounting policies of the Group after the adoption of these developments to the extent that they are relevant to the Group. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 48) except for HK(IFRIC) 10, Interim financial reporting and impairment, which is effective for accounting periods beginning on or after 1st November, 2006.

### (a) Estimated effect of changes in accounting policies for the years presented

The adoption of the new and revised HKFRSs in note 2(b) did not have any financial impact on the consolidated and company financial statements for the years presented.



# Notes to the Financial Statements

For the year ended 31st December, 2006  
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## 2 CHANGES IN ACCOUNTING POLICIES (Continued)

### (b) Financial guarantees issued (Amendments to HKAS 39, Financial instruments: Recognition and measurement: Financial guarantee contracts)

In prior years, financial guarantees issued by the Group were disclosed as contingent liabilities in accordance with HKAS 37, Provisions, contingent liabilities and contingent assets. No provisions were made in respect of these guarantees unless it was more likely than not that the guarantees would be called upon.

With effect from 1st January, 2006, in order to comply with the amendments to HKAS 39 in respect of financial guarantee contracts, the Group has changed its accounting policy for financial guarantees issued. Under the new policy, financial guarantees issued are accounted for as financial liabilities under HKAS 39 and measured initially at fair value, where the fair value can be reliably measured.

Subsequently, they are measured at the higher of the amount initially recognised, less accumulated amortisation, and the amount of the provision, if any, that should be recognised in accordance with HKAS 37. Further details of the new policy are set out in note 1(s)(i).

This change in accounting policy has no financial effect on the consolidated and company financial statements. Details of the financial guarantees currently issued by the Company are set out in note 39.

## 3 ACQUISITIONS OF SUBSIDIARIES AND MINORITY INTERESTS

### (a) Business combination

On 9th September, 2005, a subsidiary of the Company entered into an agreement with Charoen Pokphand Group Company Limited, the ultimate holding company, to acquire an additional 10% equity interest in Lotus-CPF (PRC) Investment Company Limited ("Lotus-CPF"), a then associate in which the Group had 50% equity interest, at a consideration of US\$8,750,000 (equivalent to \$68,250,000), to be settled by netting with the proceeds from the disposal of a subsidiary (note 9), giving rise to goodwill of \$10,218,000. The transaction was completed on 10th March, 2006. Upon the completion of the transaction, Lotus-CPF became a subsidiary of the Group. For the period from 10th March, 2006 to 31st December, 2006, Lotus-CPF and its subsidiaries contributed turnover of \$1,329,865,000 and a net loss of \$55,920,000 to the consolidated net loss for the year. If the acquisition had occurred on 1st January, 2006, Group turnover would have been increased by \$289,574,000 and loss for the year would have been increased by \$2,266,000.



# Notes to the Financial Statements

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

## 3 ACQUISITIONS OF SUBSIDIARIES AND MINORITY INTERESTS (Continued)

### (a) Business combination (Continued)

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Pre-acquisition carrying amounts \$'000	Fair value adjustments \$'000	Recognised values on acquisition \$'000
Property, plant and equipment	572,612	(18,416)	554,196
Interests in leasehold land held for own use under operating leases	74,814	73,332	148,146
Deposit for acquisition of additional interest in a subsidiary	9,900	—	9,900
Prepaid lease payments for premises	12,899	—	12,899
Deferred tax assets	19,570	(14,117)	5,453
Inventories	156,414	16,090	172,504
Trade and other receivables	73,911	—	73,911
Amounts due from related companies	100,796	—	100,796
Pledged bank deposits	120,129	—	120,129
Cash and cash equivalents	159,626	—	159,626
Assets classified as held for sale	10,560	—	10,560
Trade and other payables	(489,373)	(28,232)	(517,605)
Obligations under finance leases	(205,712)	—	(205,712)
Net identifiable assets and liabilities of the subsidiaries	616,146	28,657	644,803
Interest in Lotus-CPF (previously recorded as "interest in associates")			(363,481)
Revaluation reserve			8,839
Minority interests (note)			(232,129)
Goodwill on acquisition			10,218
Consideration (note 9(a))			68,250
Consideration paid, satisfied in cash			—
Cash acquired			159,626
Net cash inflow			159,626

Note: Before completion of the acquisition transaction, on 10th March, 2006, the Group had 50% equity interest in Lotus-CPF and 10% equity interest in Chia Tai-Lotus (Guangdong) Investment Co. Ltd. ("CT Guangdong") respectively. As the major asset of Lotus-CPF is the 90% equity interest in CT Guangdong, the Group in effect had 55% effective interest in CT Guangdong which was accounted for as an associate as the Group had significant influence but not control over it. After the acquisition of the additional 10% equity interest in Lotus-CPF, the Group gained control over CT Guangdong and its effective interest in CT Guangdong was increased to 64%.

### (b) Acquisition of minority interests

On 27th February, 2006, a subsidiary of the Company entered into an agreement with C.P. Merchandising Co. Ltd., a company in which the then substantial shareholder of the Company and his close family members have significant influence, to acquire an additional 40% equity interest in Lotus-CPF at a consideration of USD31,000,000 (equivalent to \$241,800,000), to be settled by instalment, thereby increasing its interest from 60% to 100%. The transaction was completed on 30th May, 2006. Upon the completion of the transaction, Lotus-CPF became a wholly-owned subsidiary of the Group. The carrying amount of Lotus-CPF's net assets in the consolidated financial statements on the date of acquisition was \$629,081,000. The Group recognised a decrease in minority interest of \$226,469,000 and goodwill of \$15,331,000.



# Notes to the Financial Statements

For the year ended 31st December, 2006  
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## 4 DISPOSAL OF INTERESTS IN SUBSIDIARIES

During the year ended 31st December, 2006, the Group disposed of its entire 100% equity interest in its subsidiary, Mass Gain Investments Limited, and its entire 55% equity interest in its subsidiary, Chia Tai Barbecue Specialist Company Limited. During the year ended 31st December, 2005, the Group disposed of its entire 100% equity interest in its subsidiary, Chia Tai Land Holding Company Limited. The net assets of the subsidiaries at the dates of disposal were as follows:

	2006 \$'000	2005 \$'000
Net assets disposed of:		
Fixed assets	25,108	1,185
Inventories	448	—
Trade and other receivables	5,266	379
Amounts due from related companies	8,952	—
Cash and cash equivalents	3,832	6,300
Trade and other payables	(50,897)	(5,606)
Amount due to minority shareholder of a subsidiary	(505)	—
Amounts due to related companies	(19,886)	—
	(27,682)	2,258
Exchange reserve released	46	(613)
	(27,636)	1,645
Gain on disposal	34,486	613
Total consideration	6,850	2,258
Satisfied by:		
Cash	100	2,258
Consideration receivable	6,750	—
	6,850	2,258
Net cash outflow arising on disposal:		
Cash consideration	100	2,258
Cash and cash equivalents disposed of	(3,832)	(6,300)
	(3,732)	(4,042)

For the year ended 31st December, 2006, the above subsidiaries disposed of contributed \$86,513,000 (2005: \$26,748,000) to the Group's turnover and \$9,949,000 (2005: \$1,263,000) to the Group's loss for the year.

During the year ended 31st December, 2006, the Group also disposed of its entire 75% equity interest in a subsidiary, Fortune (Shanghai) Limited ("FSL"), which was included as assets classified as held for sale in the consolidated balance sheet at 31st December, 2005. Further details are set out in note 9(a).

# Notes to the Financial Statements

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

## 5 TURNOVER

The principal activity of the Group is the operation of "cash-and-carry" stores in the PRC.

Prior to the disposal of FSL on 10th March, 2006, the Group was also engaged in the business of property investment in residential premises for their rental income potential and property development in the PRC. The business of property investment and property development was discontinued on 9th September, 2005, being the date the Company entered into the agreement for the disposal of FSL (see note 9). Turnover for this business in 2005 and 2006 represented the rental income from investment properties.

Turnover represents the sales value of goods supplied to customers, less returns, discounts and value added taxes.

Turnover is analysed as follows:

	2006 \$'000	2005 \$'000
<b>Continuing operation</b>		
Sales of goods	3,482,835	1,852,753
<b>Discontinued operations</b>		
Rental income from investment properties	221	1,438

## 6 OTHER REVENUE AND OTHER NET INCOME/(LOSS)

	2006 \$'000	2005 \$'000
<b>Other revenue</b>		
Promotion and service income	75,344	31,245
Leasing of store premises	73,477	23,842
Interest income	7,125	4,292
Other income	21,935	18,069
	177,881	77,448
<b>Other net income/(loss)</b>		
Gain on disposal of subsidiaries and an associate	39,137	613
Loss on disposal of fixed assets	(8,198)	(2,585)
	30,939	(1,972)



# Notes to the Financial Statements

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

## 7 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

	Continuing operation		Discontinued operations		Consolidated	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
(a) Finance costs:						
Interest on borrowings wholly repayable within five years:						
– Bank loans	21,163	5,861	–	–	21,163	5,861
– Other borrowings	988	5,984	–	–	988	5,984
Interest on deferred consideration payable (note 31)	19,435	10,694	–	–	19,435	10,694
Finance charges on obligations under finance leases	20,876	–	–	–	20,876	–
Total finance costs	62,462	22,539	–	–	62,462	22,539
(b) Staff costs:						
Contributions to defined contribution retirement plans	18,184	9,250	20	–	18,204	9,250
Equity-settled share-based payment expenses	–	50,670	–	–	–	50,670
Salaries, wages and other benefits	301,664	211,647	2,896	11,861	304,560	223,508
Total staff costs	319,848	271,567	2,916	11,861	322,764	283,428
(c) Other items:						
Depreciation of fixed assets	136,419	61,049	–	–	136,419	61,049
Amortisation of land lease premium	6,139	–	–	–	6,139	–
Impairment losses (included in other operating expenses)						
– fixed assets	33,609	75,044	–	–	33,609	75,044
– intangible assets	–	10,550	–	–	–	10,550
– goodwill	–	59,249	–	–	–	59,249
Adjustment to negative goodwill arising from acquisition of an associate (note 31)	–	18,575	–	–	–	18,575
Net foreign exchange loss/(gain)	315	(1,773)	–	–	315	(1,773)
Auditors' remuneration	3,936	1,729	28	171	3,964	1,900
Operating lease charges:						
– minimum lease payments						
– property rentals	244,734	178,632	–	–	244,734	178,632
Cost of inventories (note 24(b))	3,104,107	1,601,543	–	–	3,104,107	1,601,543
Loss on fair value adjustment in respect of investment properties	–	–	–	(478)	–	(478)
Share of tax of a jointly controlled entity (included in share of result of a jointly controlled entity)	–	–	–	(3,615)	–	(3,615)