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29 BANK LOANS (Continued)

As at 31st December, 2006, the bank loans were secured as follows:

	The Group		The Company	
	2006 **$'000**	2005 $'000	**2006** **$'000**	2005 $'000
Bank loans				
– secured	**–**	343,200	**–**	343,200
– unsecured	**429,600**	14,400	**390,000**	–
	429,600	357,600	**390,000**	343,200

Included in bank loans are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006 **'000**	2005 '000	**2006** **'000**	2005 '000
United States Dollars	**USD50,000**	USD44,000	**USD50,000**	USD44,000

As at 31st December, 2006, bank loans include fixed-rate bank loans of $39,600,000 (2005: $14,400,000) which bear interest at 6.73% per annum (2005: 5.76% to 6.14% per annum) and a variable-rate bank loan of $390,000,000 (2005: $343,200,000) which bears interest at LIBOR plus 2.75% per annum (2005: LIBOR plus 2.825% per annum).

As at 31st December, 2006, a fixed-rate bank loan of $19,800,000 is secured by bills payable issued by a related company and another fixed-rate bank loan of $19,800,000 is co-guaranteed by the Company and a subsidiary of the Group. The remaining bank loan of $390,000,000 is secured by equity interest in a subsidiary held by the majority shareholder and a letter of undertaking issued by the majority shareholder.

As at 31st December, 2005, a fixed-rate bank loan of $9,600,000 was secured by a corporate guarantee issued by a related company in which a substantial shareholder of the Company has significant influence and another fixed-rate bank loan of $4,800,000 was guaranteed by a subsidiary of the Group. In respect of the remaining bank loan with a carrying amount of $343,200,000, the Group made repayment of the full amount upon receipt of proceeds from the disposal of FSL during the year ended 31st December, 2006. As at 31st December, 2005, this bank loan was secured by the Group's entire 75% equity shares in FSL.

The bank loan of $390,000,000 outstanding as at 31st December, 2006 is subject to the fulfilment of a financial covenant. If the Group were to breach the covenant, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with this covenant. Further details of the Group's management of liquidity risk are set out in note 38(b). As at 31st December, 2006, the Group is in compliance with the covenant.

30 OTHER LOANS

As at 31st December, 2005, other loans from independent third parties were unsecured, interest bearing at rates ranging from one-month LIBOR to 3-month LIBOR per annum. The loans were assigned to a related company during 2006 and included under amounts due to related companies at 31st December, 2006 (note 28).

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31 CONSIDERATION PAYABLE FOR ACQUISITION OF SUBSIDIARIES

An analysis of the consideration payable for acquisition of subsidiaries is set out as follows:

	The Group	
	2006	2005
	$'000	$'000
Acquisition of 50% equity interest in Lotus-CPF (note (i))	**126,780**	207,314
Acquisition of 10% equity interest in CT Guangdong (note (i))	**25,880**	42,608
Acquisition of 40% equity interest in Lotus-CPF (note (ii))	**217,620**	–
	370,280	249,922
Represented by:		
Current portion	**139,995**	103,724
Non-current portion	**230,285**	146,198
	370,280	249,922

The consideration payable is denominated in United States Dollars and the carrying amount is equivalent to USD47,472,000 (2005: USD32,041,000) at 31st December, 2006.

Notes:

(i) These outstanding amounts are payable in six half-yearly instalments starting from November, 2005 and bear interest at 1.5% per annum. The outstanding amounts are secured by 48,700,000 registered shares of Lotus-CPF and 10,821,033 registered shares of CT Guangdong pledged to the sellers respectively as security for the due and punctual performance of the Group's obligations. The fair values of these amounts at recognition are determined based on the present value of the estimated future cash flows discounted using an effective interest rate of 2.5% per annum.

The consideration for the acquisition of 50% interest in Lotus-CPF includes a contingent consideration of $10,321,000 (2005: $15,578,000). Pursuant to the agreement in respect of this acquisition, the consideration was contingent upon the conclusion of certain disputes in which Lotus-CPF was involved.

During the year ended 31st December, 2005, one of these disputes was settled and the consideration was adjusted by US$2,730,000 (equivalent to $21,241,000). Pursuant to the agreement, no further adjustment to the consideration arising from the settlement of these disputes could be made after 9th April, 2005. The present value of the consideration payable amounting to $18,575,000 was adjusted to negative goodwill and was charged to the consolidated income statement for the year ended 31st December, 2005.

(ii) 10% of the consideration was paid upon the completion of the acquisition during the year and the remaining amount is payable in eight half-yearly instalments with first instalment due in April, 2007. The outstanding amount bears interest at LIBOR plus 2% per annum and is secured by 38,960,000 registered shares of Lotus-CPF pledged to the seller, which is a related company, as security for the due and punctual performance of the Group's obligation under a Share Sale and Purchase Agreement dated 27th February, 2006 made between a subsidiary of the Company and the seller.

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32 OBLIGATIONS UNDER FINANCE LEASES

At 31st December, 2006, the Group had obligations under finance leases repayable as follows:

	The Group			
	2006		2005	
	Present value of the minimum lease payments $'000	**Total minimum lease payments $'000**	Present value of the minimum lease payments $'000	Total minimum lease payments $'000
Within 1 year	**2,146**	**23,165**	–	–
After 1 year but within 2 years	**3,177**	**23,542**	–	–
After 2 years but within 5 years	**19,209**	**96,627**	–	–
After 5 years	**185,616**	**327,104**	–	–
	208,002	**447,273**	–	–
	210,148	**470,438**	–	–
Less: total future interest expenses		**(260,290)**		–
Present value of lease obligations		**210,148**		–

33 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group		The Company	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Balance of Profits Tax provision relating to prior years	**–**	791	**–**	–

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33 INCOME TAX IN THE BALANCE SHEET (Continued)

(b) Deferred tax assets and liabilities recognised – the Group

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Cumulative tax losses $'000	Depreciation allowances in excess of the related depreciation $'000	Others $'000	Total $'000
Deferred tax arising from:				
At 1st January, 2005, 31st December, 2005 and 1st January, 2006	–	–	–	–
Acquisition of subsidiaries (note 3)	(17,936)	18,122	(5,639)	(5,453)
Charged to profit or loss (note 8(a))	14,016	(1,503)	(3,138)	9,375
At 31st December, 2006	(3,920)	16,619	(8,777)	3,922

An analysis of net deferred tax asset and liability is set out as follows:

	2006 $'000	2005 $'000
Net deferred tax asset recognised on the balance sheet	**(3,920)**	–
Net deferred tax liability recognised on the balance sheet	**7,842**	–
	3,922	–

(c) Deferred tax assets not recognised – the Group

	2006 $'000	2005 $'000
Tax losses	**773,905**	394,933
Deductible temporary differences	**24,129**	12,803
	798,034	407,736

Deferred tax assets have not been recognised in respect of the above items as it is not probable that future taxable profits against which the above items can be utilised will be available in the relevant tax jurisdictions and entities.

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33 INCOME TAX IN THE BALANCE SHEET (Continued)

(c) Deferred tax assets not recognised – the Group (Continued)

The tax losses, except for the tax losses of the Company which do not expire (note 33(d)), can be carried forward up to five years from the year in which the loss originated, and will expire in the following years:

	2006 $'000	2005 $'000
2006	–	44,975
2007	**19,382**	19,382
2008	**11,392**	11,392
2009	**75,734**	75,734
2010	**165,813**	165,813
2011	**405,501**	–
	677,822	317,296

(d) Deferred tax assets not recognised – the Company

At 31st December, 2006, the Company has not recognised deferred tax assets in respect of cumulative tax losses of $96,083,000 (2005: $77,637,000) as it is not probable that future taxable profits against which the losses can be utilised will be available. The tax losses do not expire under current tax legislation.

34 SHARE CAPITAL

(a) Authorised and issued share capital

	2006 $'000	2005 $'000
Authorised:		
15,000,000,000 ordinary shares of $0.02 each	**300,000**	300,000
Issued and fully paid:		
5,996,614,408 ordinary shares of $0.02 each	**119,932**	119,932

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(b) Terms and numbers of unexpired and unexercised share options at balance sheet date

Details of the unexpired and unexercised share options at balance sheet date are set out in note 36(a) to the financial statements.

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35 RESERVES

(a) The Company

	Share premium (note (c)) $'000	Share option reserve (note(c)) $'000	Accumulated losses $'000	Total $'000
At 1st January, 2005	931,687	–	(673,487)	258,200
Equity-settled share-based transactions	–	50,670	–	50,670
Loss for the year (note 12)	–	–	(179,795)	(179,795)
At 31st December, 2005	931,687	50,670	(853,282)	129,075
At 1st January, 2006	931,687	50,670	(853,282)	129,075
Profit for the year (note 12)	–	–	3,709	3,709
At 31st December, 2006	931,687	50,670	(849,573)	132,784

(b) Distributability of reserves

In accordance with the Company's articles of association, distributions shall be payable out of the profits of the Company. Accordingly, the Company does not have any distributable reserves as at 31st December, 2006 and 2005.

(c) Nature and purpose of reserves

(i) *Share premium*

The application of the share premium account is governed by the Companies Ordinance (Revised) of the Cayman Islands.

(ii) *Revaluation reserve*

The revaluation reserve represents the difference between the Group's share of fair value of the associate's net assets and the Group's interest in associate as determined under accounting policy note 1(e) at the date the associate became a subsidiary of the Group.

(iii) *Share option reserve*

The share option reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share-based payments in note 1(q)(ii).

(iv) *Reorganisation reserve*

The reorganisation reserve of the Group represents the excess amount of the net asset value as at 31st December, 1990 of the Group's former listed holding company, Creative Investment Limited ("CIL"), over the nominal value of the Company's shares issued for the acquisition of 100% equity interest in CIL, pursuant to a Scheme of Arrangement in 1991.

(v) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policy set out in note 1(u).

Notes to the Financial Statements

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35 RESERVES (Continued)

(c) Nature and purpose of reserves (Continued)

(vi) Reserve fund

Pursuant to the relevant laws and regulations for sino-foreign joint venture enterprises, a portion of the profits of the Group's jointly controlled entity operating in the PRC are transferred to the reserve fund. The amounts of profits transferred to the reserve fund are determined by the board of directors of the jointly controlled entity. This fund is restricted as to use and is not available for distribution.

36 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The basis of eligibility of any of the eligible persons to the grant of options shall be determined by the Board of Directors from time to time on the basis of their contribution or potential contribution to the development and growth of the Group. The Scheme became effective on 31st May, 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Under the Scheme, the maximum number of unexercised share options currently permitted to be granted is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under the Scheme to each eligible participant within 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. Notwithstanding the foregoing, the shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the shares in issue from time to time.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of $10 in total by the grantee. The exercise period of the share options granted is determinable by the Board of Directors, which is not later than ten years from the date of the offer of the share options or the expiry date of the Scheme, if earlier. No vesting period is set for each grant of options.

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

The exercise price of the share options is determined by the Board of Directors, but may not be less than the higher of (i) the closing price of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange (the "Daily Quotation Sheets") on the date of the offer of the share options; and (ii) the average closing price of the Company's shares as stated in the Daily Quotation Sheets for the five trading days immediate preceding the date of the offer; and (iii) the nominal value of the Company's share.

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36 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (Continued)

(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

	Exercise price	Number of share options	Vesting conditions	Contractual life of options
Options granted to directors:				
– on 6th June, 2002	$0.07	539,695,296	Immediate from the date of grant	10 years
– on 10th November, 2003	$0.19	539,695,296	Immediate from the date of grant	10 years
– on 24th May, 2005	$0.11	599,661,440	Immediate from the date of grant	10 years
Options granted to an employee:				
– on 6th June, 2002	$0.07	59,966,144	Immediate from the date of grant	10 years
– on 10th November, 2003	$0.19	59,966,144	Immediate from the date of grant	10 years
Total number of share options		1,798,984,320		

Each option entitles the holder to subscribe for one ordinary share in the Company.

(b) The number and weighted average exercise prices of share options are as follows:

	2006		2005	
	Weighted average exercise price	**Number of shares**	Weighted average exercise price	Number of shares
Outstanding at 1st January	**$0.123**	**1,798,984,320**	$0.130	1,199,322,880
Granted during the year	**–**	–	$0.110	599,661,440
Outstanding at 31st December	**$0.123**	**1,798,984,320**	$0.123	1,798,984,320

The options outstanding at 31st December, 2006 had an exercise price of $0.07, $0.11 or $0.19 (2005: $0.07, $0.11 or $0.19) and a weighted average remaining contractual life of 6.9 years (2005: 7.9 years).

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36 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (Continued)

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

Fair value of share options and assumptions

	2005
Fair value at measurement date	$0.085
Share price	$0.110
Exercise price	$0.110
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	68.34%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	10 years
Expected dividends yield	0%
Risk-free interest rate (based on Exchange Fund Note)	3.68%

The expected volatility was determined by using the historical volatility of the Company's share price over the previous 100 days. The expected life used in the model is based on management's best estimate, after taking into account of non-transferability, exercise restrictions and behavioral considerations. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

37 SEGMENT INFORMATION

Business segments

The Group is engaged in retail business which is the sole operating division of the Group. The retail business mainly includes the operation of "cash-and-carry" stores, operation of department store and retailing of consumer products. Both the operation of department store and retailing of consumer products ceased during 2006.

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

Segment information about these business is presented below.

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37 SEGMENT INFORMATION (Continued)

Business segments (Continued)

For the year ended 31st December, 2006:

	Continuing operation		Discontinued operations			
	Retail $'000	Total $'000	Property investment $'000	Property development $'000	Total $'000	Consolidated $'000
TURNOVER						
External revenue	3,482,835	3,482,835	221	–	221	3,483,056
RESULT						
Segment result	(485,648)	(485,648)	(3,419)	–	(3,419)	(489,067)
Interest and unallocated income		13,587			–	13,587
Unallocated expenses		(69,391)			–	(69,391)
Finance costs		(62,462)			–	(62,462)
Share of result of a jointly controlled entity		–		(278)	(278)	(278)
Share of results of associates	3,124	3,124			–	3,124
Gain on disposal of subsidiaries and an associate		39,137			227,268	266,405
(Loss)/profit before taxation		(561,653)			223,571	(338,082)
Taxation		(9,375)			–	(9,375)
(Loss)/profit for the year		(571,028)			223,571	(347,457)

Assets and liabilities at 31st December, 2006:

	Continuing operation Retail $'000	Consolidated $'000
Assets		
Segment assets	2,114,766	2,114,766
Unallocated corporate assets		344,337
Consolidated total assets		2,459,103
Liabilities		
Segment liabilities	1,560,264	1,560,264
Unallocated corporate liabilities		968,218
Consolidated total liabilities		2,528,482
Other information		
Capital expenditure	297,522	297,522
Goodwill arising on acquisition of additional interests in subsidiaries	27,331	27,331
Depreciation of fixed assets and amortisation of land lease premium	142,558	142,558

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37 SEGMENT INFORMATION (Continued)

Business segments (Continued)

For the year ended 31st December, 2005:

	Continuing operation		Discontinued operations			
	Retail $'000	Total $'000	Property investment $'000	Property development $'000	Total $'000	Consolidated $'000
TURNOVER						
External revenue	1,852,753	1,852,753	1,438	–	1,438	1,854,191
RESULT						
Segment result	(252,901)	(252,901)	(13,734)	–	(13,734)	(266,635)
Interest and unallocated income		10,543			–	10,543
Unallocated expenses		(216,648)			–	(216,648)
Finance costs		(22,539)	(1,449)		(1,449)	(23,988)
Share of result of a jointly controlled entity		–		8,566	8,566	8,566
Share of results of associates	(23,981)	(23,981)			–	(23,981)
Adjustment to negative goodwill arising from acquisition of an associate	(18,575)	(18,575)			–	(18,575)
Loss before taxation		(524,101)			(6,617)	(530,718)
Taxation		538			–	538
Loss for the year		(523,563)			(6,617)	(530,180)

Assets and liabilities at 31st December, 2005:

	Continuing operation		Discontinued operations		
	Retail $'000	Others $'000	Property investment $'000	Property development $'000	Consolidated $'000
Assets					
Segment assets	1,072,569	–	26,900	–	1,099,469
Interest in a jointly controlled entity	–	–	–	286,240	286,240
Interests in associates	368,888	–	–	–	368,888
Unallocated corporate assets					152,195
Consolidated total assets					1,906,792
Liabilities					
Segment liabilities	707,974	–	44,288	–	752,262
Unallocated corporate liabilities					814,042
Consolidated total liabilities					1,566,304
Other information					
Capital expenditure	307,463	1,259	–	–	308,722
Goodwill arising on acquisition of additional interests in subsidiaries	57,833	–	–	–	57,833
Depreciation of fixed assets	59,049	2,000	–	–	61,049
Impairment losses on fixed assets	75,044	–	–	–	75,044
Impairment loss on goodwill	59,249	–	–	–	59,249
Impairment loss on intangible assets	10,550	–	–	–	10,550
Loss on fair value adjustment of investment properties	–	–	478	–	478

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37 SEGMENT INFORMATION (Continued)

Geographical segments

In view of the fact that the Group operates mainly in the PRC, no geographical segment information is presented.

38 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and long term deposits. Management monitor the exposures to these credit risks on an ongoing basis.

At the balance sheet date, the Group does not have a concentration of credit risk of the total trade and other receivables. Sales to retail customers are made in cash or via major credit cards.

Long term deposits are normally placed only with counterparties that have a high credit rating. Given their high credit ratings, management does not expect any investment counterparty to fail to meet its obligations.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. Except for the financial guarantees given by the Company as set out in note 39, the Group does not provide any other guarantees which would expose the Group or the Company to credit risk.

(b) Liquidity risk

As at 31st December, 2006, the Group's net current liabilities and net liabilities amounted to approximately $745 million (2005: $514 million) and $69 million (2005: net assets of $340 million) respectively. For the year ended 31st December, 2006, the Group recorded a net cash outflow from operating activities of approximately $96 million (2005: inflow of $14 million), a net cash inflow from investing activities and financing activities of approximately $43 million (2005: outflow of $1 million) and a decrease in cash and cash equivalents of approximately $53 million (2005: increase in $13 million).

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations and obtain adequate finance from external parties or majority shareholder to meet its debt obligations and committed future capital expenditures as and when they fall due.

The directors of the Company have carried out a detailed review of the cash flow forecast of the Group for the twelve months ending 31st December, 2007. Based on such forecast and on the letter of support provided by the majority shareholder (note 1(b)), the directors have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements of the Group during that period. In preparing the cash flow forecast, the directors have considered historical cash requirements of the Group which may impact the operations of the Group during the next twelve-month period. The directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

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38 FINANCIAL INSTRUMENTS (Continued)

(c) Interest rate risk

The Group's exposure to changes in interest rates relates primarily to the Group's cash and cash equivalents, pledged bank deposits, bank loans and consideration payable. The Group does not use financial derivative to hedge against the interest rate risk.

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

The Group

	2006						2005				
	Effective interest rate %	Total $'000	1 year or less $'000	1 – 2 years $'000	2 – 5 years $'000	Over 5 years $'000	Effective interest rate %	Total $'000	1 year or less $'000	1 – 2 years $'000	2 – 5 years $'000
Repricing dates for assets/ (liabilities) which reprice before maturity											
Pledged bank deposits	0.3% – 1.2%	191,124	191,124	-	-	-	0.5% – 1.5%	23,623	23,623	-	-
Cash and cash equivalents	0.3% – 1.2%	34,869	34,869	-	-	-	0.5% – 1.5%	41,497	41,497	-	-
Amount due to related companies	6.84%	(46,642)	(46,642)	-	-	-	-	-	-	-	-
Amount due to an associate	-	-	-	-	-	-	6.84%	(41,340)	(41,340)	-	-
Bank loans	8.11%	(390,000)	(390,000)	-	-	-	7.36%	(343,200)	(343,200)	-	-
Other loans	-	-	-	-	-	-	4.39% – 6.65%	(70,583)	(70,583)	-	-
Consideration payable	7.31%	(217,620)	(217,620)	-	-	-	-	-	-	-	-
		(428,269)	(428,269)	-	-	-		(390,003)	(390,003)	-	-
Maturity dates for assets/ (liabilities) which do not reprice before maturity											
Long term deposits	4.0% – 4.7%	19,800	-	19,800	-	-	-	-	-	-	-
Amount due to related companies	5.58%	(19,800)	(19,800)	-	-	-	-	-	-	-	-
Bank loans	6.14% – 7.00%	(39,600)	(39,600)	-	-	-	5.76% – 6.14%	(14,400)	(14,400)	-	-
Consideration payable	2.5%	(152,660)	-	-	(152,660)	-	2.5%	(249,922)	-	-	(249,922)
Finance lease liabilities	9.8% – 10.03%	(210,148)	-	-	-	(210,148)	-	-	-	-	-
		(402,408)	(59,400)	19,800	(152,660)	(210,148)		(264,322)	(14,400)	-	(249,922)

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38 FINANCIAL INSTRUMENTS (Continued)

(c) Interest rate risk (Continued)

The Company

	2006					2005				
	Effective interest rate %	Total $'000	1 year or less $'000	1 - 2 years $'000	2 - 5 years $'000	Effective interest rate %	Total $'000	1 year or less $'000	1 - 2 years $'000	2 - 5 years $'000
Repricing dates for assets/ (liabilities) which reprice before maturity										
Cash and cash equivalents	0.4% - 1.0%	749	749	-	-	0.5% - 1.0%	916	916	-	-
Other loans	-	-	-	-	-	4.39% - 6.65%	(39,702)	(39,702)	-	-
Bank loans	8.11%	(390,000)	(390,000)	-	-	7.36%	(343,200)	(343,200)	-	-
Amount due to a subsidiary	7.33%	(41,340)	(41,340)	-	-	-	-	-	-	-
Amount due to an associate	-	-	-	-	-	6.84%	(41,340)	(41,340)	-	-
		(430,591)	(430,591)	-	-		(423,326)	(423,326)	-	-

(d) Foreign currency risk

The Group is exposed to foreign currency risk from bank loans that are denominated in United States dollars ("USD"). As HKD is pegged to USD, the Group does not expect any significant movements in the USD/HKD exchange rate.

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31st December, 2006 and 2005 except as follows:

The Group

	2006		2005	
	Carrying amount $'000	Fair value $'000	Carrying amount $'000	Fair value $'000
Consideration payable	(370,280)	(345,111)	(249,922)	(218,958)

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

The Company

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment. Given these terms, it is not meaningful to measure their fair values.

39 CONTINGENT LIABILITIES

As at the balance sheet date, the Company has issued two guarantees to an independent third party in respect of lease arrangements with its subsidiaries which expire in 2025 and a co-guarantee to a bank in respect of a bank loan granted to its subsidiary which expires in August, 2009 or upon repayment of the loan, if earlier. As at the balance sheet date, the directors do not consider it probable that claims will be made against the Company under any of the guarantees. The maximum liability of the Company at the balance sheet date under the guarantees issued is 55% of future minimum lease payments of the two lease agreements entered into by the subsidiaries of RMB55 million (equivalent to $54,450,000) and the outstanding amount of the bank loan owed by its subsidiary of $19,800,000. The company has not recognised any deferred income in respect of the guarantees as the fair values cannot be reliably measured and there was no transaction price.

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40 OPERATING LEASE COMMITMENTS

As lessee

At 31st December, 2006, total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Within 1 year	**226,163**	189,051	**884**	2,123
After 1 year but within 5 years	**307,806**	219,853	**–**	884
After 5 years	**39,127**	–	**–**	–
	573,096	408,904	**884**	3,007

The Group is the lessee in respect of a number of office and store premises held under operating leases. The leases typically run for an initial period up to 20 years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased every 3 to 7 years to reflect market rentals. None of the leases includes contingent rentals.

As lessor

Property rental income earned net of negligible outgoings from subletting of the Group's leased properties during the year amounted to $73,477,000 (2005: $23,842,000). All of the properties held have committed tenants for the next 2 to 5 years.

At 31st December, 2006, the total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	The Group	
	2006	2005
	$'000	$'000
Within 1 year	**28,906**	26,258
After 1 year but within 5 years	**6,450**	14,452
After 5 years	**4,484**	8,370
	39,840	49,080

The leases typically run for an initial period of 3 months to 2 years, with an option to renew the lease when all terms are renegotiated. In addition to the minimum rental payments disclosed above, the tenants have commitments to pay additional rent of a proportion of turnover for certain sub-leased properties if the turnover generated from those sub-leased properties exceed the predetermined levels. Contingent rentals are not included in the above commitments as it is not possible to estimate the amounts which may be payable.

Notes to the Financial Statements

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41 CAPITAL COMMITMENTS

Capital commitments outstanding at 31st December, 2006 not provided for in the financial statements were as follows:

	The Group	
	2006	2005
	$'000	$'000
Contracted for	**31,752**	51,328
Authorised but not contracted for	**68,612**	283,972
	100,364	335,300

All of the above capital commitments were made in respect of the establishment of new "cash-and-carry" stores and renovation work of existing stores.

In addition, the Group's share of the associates' own capital commitments not provided for at 31st December, 2006 was as follows:

	The Group	
	2006	2005
	$'000	$'000
Contracted for	–	20,935
Authorised but not contracted for	–	68,293
	–	89,228

All of the above capital commitments were made by the associates in respect of the establishment of new "cash-and-carry" stores.

42 EMPLOYEE RETIREMENT BENEFITS

The Group has arranged for the Hong Kong employees to join a Mandatory Provident Fund (the "MPF scheme"), a defined contribution scheme managed by an independent trustee. Under the rules of the MPF scheme, each of the Group and the employee make monthly contributions to the scheme at 5% of the employees' gross earnings, subject to a maximum of $1,000 per month per employee. The only obligation of the Group with respect to the MPF scheme is to make the required contributions under the scheme.

Employees of the Group in the PRC participate in several defined contribution retirement schemes organised separately by PRC municipal governments in regions where the major operations of the Group are located. The Group is required to contribute to these schemes at the rates ranging from 10% to 21% (2005: 17% to 21%) of salary costs including certain allowances. A member of the retirement schemes is entitled to retirement benefits equal to a fixed proportion of the salary at the retirement date. The retirement benefit obligations of all existing and future retired staff of the Group are assumed by these schemes.

Notes to the Financial Statements

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43 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions or balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions during the year.

(a) Significant transactions with related companies

	The Group	
	2006	2005
	$'000	$'000
Store merchandise purchased from related companies (note (i))	**72,703**	78,677
Store merchandise purchased from an associate (note (i))	**1,775**	13,151
Store merchandise sold to a related company (note (i))	**(15,066)**	(17,848)
Rental expenses in respect of department store premises payable to a related company (note (ii))	**8,859**	34,404
Rental income in respect of investment properties receivable from a related company (note (iii))	**(221)**	(697)
Rental income in respect of office premises sublet to related companies (note (iii))	**(928)**	(927)
Building management fee receivable from related companies (note (iii))	**(117)**	(231)
Management fee payable to a related company (note (iii))	**2,862**	–
Interest expenses in respect of consideration payable due to a related company (note (iv))	**9,560**	–
Interest expenses in respect of amount due to an associate (note (v))	**515**	1,762
Interest expenses in respect of amounts due to related companies (note (v))	**1,103**	–

Notes:

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

(ii) Rental payment was determined in accordance with the tenancy agreement.

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

(iv) The interest rate and terms of repayment of consideration payable are disclosed in note 31.

(v) The interest rate and terms of repayment of amounts due to an associate and related companies are disclosed in note 28.

Notes to the Financial Statements

For the year ended 31st December, 2006
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43 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 10 and certain of the highest paid employees as disclosed in note 11, is as follows:

	The Group	
	2006	2005
	$'000	$'000
Short-term employee benefits	**12,294**	16,562
Post-employment benefits	**40**	48
Termination benefits	**2,800**	–
Equity compensation benefits	**–**	50,670
	15,134	67,280

Total remuneration is included in "staff costs" (see note 7(b)).

44 NON-ADJUSTING POST BALANCE SHEET EVENTS

On 16th March, 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which will take effect on 1st January, 2008. As a result of the new tax law, it is expected that the income tax rate applicable to the PRC subsidiaries will be reduced from 33% to 25% from 1st January, 2008. The expected financial effect of the new tax law will be reflected in the 2007 financial statements. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the consolidated balance sheet in respect of current tax payable.

Notes to the Financial Statements

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45 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with presentation adopted in the current year's financial statements.

Further details are set out below:

	Income statement for the year ended 31st December, 2005 (note (i)) $'000	Reclassification of loss on disposal of fixed assets $'000	Reclassification of gain on disposal of a subsidiary $'000	Reclassification of allowances from suppliers (note (ii)) $'000	Income statement for the year ended 31st December, 2005 as presented in 2006 Annual Report $'000
Continuing operation					
Turnover	1,852,753				1,852,753
Cost of sales	(1,645,723)			44,180	(1,601,543)
Gross profit	207,030				251,210
Other revenue (note (i))	190,379		(613)	(112,318)	77,448
Other net loss	–	(2,585)	613		(1,972)
Distribution and store operating costs	(439,472)			68,138	(371,334)
Administrative expenses	(272,100)	2,585			(269,515)
Other operating expenses (note (i))	(163,418)				(163,418)
Loss from operations	(477,581)				(477,581)
Finance costs	(22,539)				(22,539)
Share of results of associates	(23,981)				(23,981)
Loss before taxation	(524,101)				(524,101)
Taxation	538				538
Loss for the year from continuing operation	(523,563)				(523,563)
Discontinued operations					
Loss for the year from discontinued operations	(6,617)				(6,617)
Loss for the year	(530,180)				(530,180)

Notes to the Financial Statements

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45 COMPARATIVE FIGURES (Continued)

Notes:

(i) This is extracted from the 2005 Annual Report except that the following items previously shown separately on the face of the consolidated income statement have been grouped in a manner consistent with the current year's presentation:

- Promotion and service income, gross rental income from leasing of store premises and other income are grouped under other revenue.
- Adjustment to negative goodwill arising from acquisition of an associate, impairment loss on property, plant and equipment and other expenses are grouped under other operating expenses.

(ii) Certain rebates recorded in promotion and service income in 2005 financial statements are now presented as a reduction of cost of sales to reflect more appropriately the nature of these rebates.

46 IMMEDIATE AND ULTIMATE HOLDING COMPANIES

At 31st December, 2006, the directors consider the immediate holding company to be C.P. Holding (BVI) Investment Company Limited, which is incorporated in the British Virgin Islands, and ultimate holding company to be Charoen Pokphand Group Company Limited, which is incorporated in the Kingdom of Thailand. None of these entities produces financial statements available for public use.

47 ACCOUNTING ESTIMATES AND JUDGEMENT

Key sources of estimation uncertainty

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 selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing the consolidated financial statements.

Notes 17, 36 and 38 contain information about the assumptions and their risk factors relating to goodwill impairment, fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Going concern

The directors of the Company have given careful consideration to the future liquidity of the Group in light of the Group's net current liabilities and net liabilities of approximately $745 million and $69 million respectively at 31st December, 2006 and its loss from continuing operation of $571 million for the year then ended. The directors consider that it is appropriate to prepare the financial statements using a going concern basis. Further details are set out in notes 1(b) and 38(b).

Should the Group be unable to continue as a going concern, all of the Group's assets and liabilities have to be stated at net realisable value. In particular, the non-current assets and the non-current liabilities have to be reclassified as current assets and current liabilities respectively and provision for contingent liabilities may be required as a result.

Notes to the Financial Statements

For the year ended 31st December, 2006
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47 ACCOUNTING ESTIMATES AND JUDGEMENT (Continued)

(b) Depreciation of fixed assets

Fixed assets are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews annually the estimated useful lives of the assets and their residual values, if any. The useful lives are based on the Group's historical experience with similar assets. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(c) Impairment

If circumstances indicate that the carrying value of interests in subsidiaries, fixed assets, goodwill and other non-current assets may not be recoverable, these assets may be considered "impaired", and an impairment loss may be recognised in accordance with HKAS 36 "Impairment of Assets". The carrying amounts of these assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable, except for goodwill which is tested annually for impairment. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling prices because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

48 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31ST DECEMBER, 2006

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31st December, 2006 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

		Effective for accounting periods beginning on or after
HKFRS 7	Financial instruments: disclosures	1st January, 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1st January, 2007