PARKSON

Parkson Retail Group Limited

stock code:3368

2006 ANNUAL REPORT

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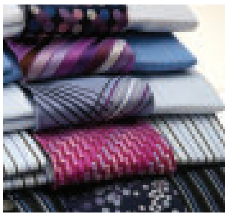
ANNUAL REPORT

Contents



Corporate Profile

Parkson Retail Group Limited, one of the premier foreign-owned retailers in the People's Republic of China (the "PRC"). The Company and its subsidiaries, jointly-controlled entities and associate (hereinafter collectively refer to as the "Group") owns and manages 36 "Parkson" branded department stores and 2 "Xtra" branded supercentres in prime locations in 26 major cities in the PRC including Beijing and Shanghai.

The Group positioned itself at the middle to middle-upper end of the department store sector, offers a wide range of internationally renowned brands of consumer merchandise which can be broadly categorised into 4 categories, namely "fashion and apparel", "cosmetics and accessories", "household, electrical goods and others" and "groceries and perishables". The Group's main focus is on fashion and lifestyle products, in particular the ladies' fashion and cosmetics targeting the young and contemporary markets.

Corporate Information

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

CHENG YOONG CHOONG
MANAGING DIRECTOR

CHEW FOOK SENG
CHIEF EXECUTIVE OFFICER

NON-EXECUTIVE DIRECTOR

TAN SRI CHENG HENG JEM
CHAIRMAN

INDEPENDENT NON-EXECUTIVE DIRETORS

STUDER, WERNER JOSEF
KO TAK FAI, DESMOND
YAU MING KIM, ROBERT

REGISTERED OFFICE

C/O M&C CORPORATE SERVICES LIMITED
PO BOX 309GT
UGLAND HOUSE
SOUTH CHURCH STREET
GEORGE TOWN
GRAND CAYMAN
CAYMAN ISLANDS

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

9TH FLOOR PARKSON PLAZA
No.101 FUXINGMENNEI AVENUE
XICHENG DISTRICT
BEIJING 100031
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

SUITE 1316 PRINCE'S BUILDING
10 CHATER ROAD
CENTRAL
HONG KONG

COMPANY SECRETARY

SENG SZE KA MEE, NATALIA
FCIS, FCS, FHKIoD, EMBA

QUALIFIED ACCOUNTANT

WONG KANG YEAN, CLARENCE
ACCA, CA (MIA)

AUTHORISED REPRESENTATIVES

CHENG YOONG CHOONG
CHEW FOOK SENG

COMPLIANCE ADVISER

BNP PARIBAS PEREGRINE CAPITAL LIMITED

AUDIT COMMITTEE

KO TAK FAI, DESMOND (CHAIRMAN)
STUDER WERNER JOSEF
YAU MING KIM, ROBERT

REMUNERATION COMMITTEE

CHENG YOONG CHOONG (CHAIRMAN)
KO TAK FAI, DESMOND
YAU MING KIM, ROBERT

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

BUTTERFIELD FUND SERVICES (CAYMAN) LIMITED
BUTTERFIELD HOUSE
68 FORT STREET
P.O. BOX 705, GEORGE TOWN
GRAND CAYMAN, CAYMAN ISLANDS
BRITISH WEST INDIES

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

TRICOR INVESTOR SERVICES LIMITED
26TH FLOOR TESBURY CENTRE
28 QUEEN'S ROAD EAST
WANCHAI
HONG KONG

PRINCIPAL BANKERS IN THE PRC

BANK OF CHINA
AGRICULTURAL BANK OF CHINA
INDUSTRIAL AND COMMERCIAL BANK OF CHINA
CHINA MERCHANTS BANK
JPMORGAN CHASE BANK SHANGHAI BRANCH

PRINCIPAL BANKERS IN HONG KONG

BNP PARIBAS HONG KONG BRANCH
STANDARD CHARTERED BANK
(HONG KONG) LIMITED
THE HONG KONG AND SHANGHAI
BANKING CORPORATION LIMITED
UNITED COMMERCIAL BANK

AUDITORS

ERNST & YOUNG
CERTIFIED PUBLIC ACCOUNTANTS

LEGAL ADVISORS

SIMMONS & SIMMONS

WEBSITE ADDRESS

www.parkson.com.cn

Milestones For The Year

- Completed the acquisition of the minority interest in 6 Parkson branded department stores.
- Completed the acquisition of the 100% ownership of two Parkson branded managed stores in Kunming .
- Completed the issuance of 5-years US$200 million high yield bond.
- Voted the Best Asian Bond by Euroweek.
- Voted the Best Asian Corporate Bond by Euroweek.
- Signed 5 new lease agreements for a total additional floor space of approximately 120,000 square meters.

Chairman's Statement

Introduction

The year 2006 was another very successful year for the Group. We reported an impressive set of result with the total operating revenues increased by 79.8% to Renminbi (the "RMB") 2,184.0 million and the profit attributable to our shareholders increased by 85.8% to RMB460.8 million. Earning per share rose 50.9% to RMB0.83. On the back of this successful result, the Board of Directors recommended payment of a final dividend per share of RMB0.27. Together with the interim dividend per share of RMB0.15 declared and paid in the month of August 2006, the full year dividend would amount to RMB0.42 per share or a dividend distribution ratio of 50.3%.

TAN SRI CHENG HENG JEM
CHAIRMAN

Market Overview

The People's Republic of China (the "PRC") economy surged to become the world's fourth-largest economy on the back of decades of solid growth. The economy continued its remarkable growth for the year 2006. As reported by the National Bureau of Statistic of China the Gross Domestic Product (the "GDP") expanded by approximately 10.7% to reach RMB20.9 trillion, led by the strong growth in export, fixed asset investment and domestic consumption.

Decades of solid economic growth has led to strong emergence of middle class, rising disposable income of the PRC consumers and the booming domestic consumption market. Supported by these positive factors, the retail industry expanded solidly by 13.7% in the year 2006 to top RMB7.6 trillion, making the PRC one of the biggest and fastest growing retail markets in the world. The department store sector is believed to have approximately 10% share of the total retail industry, giving us a staggering market size of approximately RMB760 billion.

Looking Forward

Going forward, at macro level the PRC economy will continue its strong and solid growth despite uncertainties in the oil price and the world economy. Amid the central government's continuing efforts to rebalance the economic growth away from fixed asset investment and export towards domestic consumption, the strengthening of the RMB and more importantly the accelerating growth of disposable income, the retail industry is poised to be the main driving force of the future economic growth.

The strong brand equity of Parkson among the middle to middle upper end consumers in the PRC market will ensure that the Group continues to capitalize on the expansion of the retail industry. The liberalization of the foreign ownership in the retail industry and the emergence of various retails formats have brought along increased competition in the retail market. However, the department store sector particularly the lifestyle and fashion orientated department store will continue to be the preferred format of shopping among the increasingly affluent Chinese consumer. The Group will remain firmly focus in the department store sector and with our proven business model, dedicated workforce and healthy financial position, we are confident that we will continue to enhance our leadership position in the market and diligently execute our carefully developed expansion plans.

On behalf of the Board, I would like to express my gratitude to our workforce for their hard work and dedication, my sincere appreciation to our valued customers, shareholders and business associates for their continuing supports. Last but not least, my sincere thanks to the members of the Board of Directors and the senior management for their contribution and devotion to the Group.

TAN SRI CHENG HENG JEM
CHAIRMAN
26 FEBRUARY 2007

Managing Director's Statement

The PRC economy continued its remarkable growth for the year 2006. In line with the strong economic growth and the booming domestic consumption market, the Group made further progresses during the year. The Group achieved a strong double digit Same Store Sales (the "SSS") growth of approximately 17.1% for the year under review. The impressive SSS growth was made possible through attractive promotional activities to increase the traffic flow and our philosophy of innovation by continuously varying our merchandise mix and brand mix to accurately target our intended customers.

CHENG YOONG CHOONG
MANAGING DIRECTOR

As disposable income growth in the PRC is driving the consumption for more upscale branded merchandise, we see opportunities to bring distinctive fashion and affordable luxury brands to our customers. Last year we introduced the likes of "Aquascutum", "Armani Collezioni", "Cartier", "Dunhill", "Hugo Boss" and "Lancel" brands to our Beijing and Shanghai flagship stores.

Besides maintaining a strong SSS growth, the Group continues to execute earning accretive and strategic acquisitions to further expand our business and enhance the earning for our shareholders. The Group acquired in the month of July last year, the minority interest of six Parkson branded department stores through the successful acquisition of the remaining 44% equity interest not already owned in Parkson Retail Development Co., Ltd (the "44% Beijing Parkson"). The acquisition has immediately enhanced the profitability of the Group and allowed the Group greater flexibility in the implementation of Beijing Parkson's business expansion plan.

The Group acquired a 100% ownership of the two Parkson branded managed stores in Kunming, (the "Kunming Stores") in the month of November last year. The acquisition has not only immediately enhanced the profitability of the Group but also complement the Group's long term growth strategy in the south-west region of the PRC, in particular the Yunnan Province.

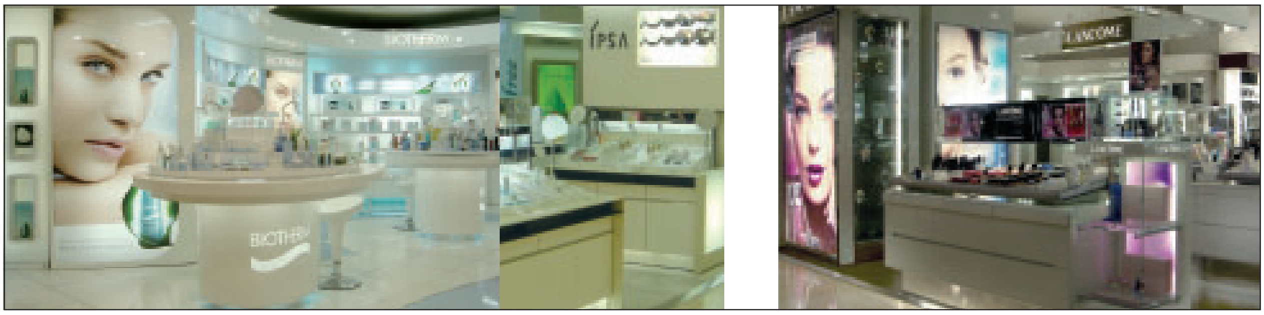
The Group further consolidated our position as one of the leading department store operators in the PRC by signing five new lease arrangements throughout the year to add a total of approximately 120,000 square meters of retailing space to our existing portfolio. The Group targets to roll out all the five new stores in the year 2007.

In November 2006, the Group issued a 5-years US$200 million High Yield Notes (the "High Yield Notes") that carry an annual coupon of 7.875%. The gross proceeds from the High Yield Notes was used to subscribe for a Credit Link Note (the "CLN") issued by JPMorgan Chase Bank N.A., London Branch, and simultaneously JPMorgan Chase Bank N.A., Shanghai Branch extended approximately RMB1.5 billion of Commercial Banking Loans (the "Commercial Loans") to our subsidiaries in the PRC to fund our future expansion plans (the arrangements are collectively known as "Structure Financing"). The Structure Financing will eliminate the Group's exposure to exchange rate and interest rate fluctuations and allows the Group to borrow in the most cost efficient way for its long term fundings needs.

Prospect

The retail industry in the PRC is expected to maintain its strong growth momentum in the near future in line with the economic expansion and the booming domestic consumption. The continuous efforts and policies from the PRC government to increase the disposable incomes and rebalance the economic growth will complement and ensure the sustainable growth in the retail industry.

To capitalize on the anticipated booming retail industry, we strive to continue our proven business model, to upgrade our stores, continue to alter the merchandise mix and brand mix in line with the development in each individual market that we operate to maintain a healthy SSS growth for the existing stores and continue to build on our already strong brand equity to open new stores in existing markets and in new markets. We will also continue to seek for acquisition opportunities that allow us to further consolidate our position in existing markets and to gain a fast entrance into new markets and use it as the platform to quickly expand our presence in those markets.



We will keep pursuing the acquisition on minority interest of our existing stores and the controlling interest of the Parkson branded managed stores at an earning accretive price to enhance the earning for our shareholders.

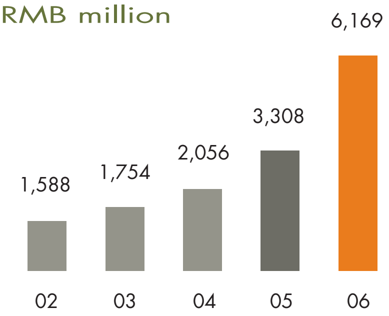
As we move into the year 2007, we remain confident in our strategies, and believe that Parkson Retail Group is well-positioned to consolidate its leadership and increase its market share in the PRC.

Cheng Yoong Choong
Managing Director
26 FEBRUARY 2007

Financial Highlights

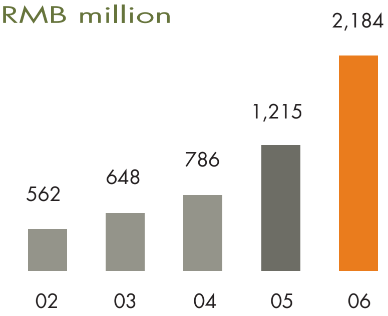
Operating Result (RMB'000)	2002	2003	2004	2005	2006	Change (%)
Gross sales proceeds[1]	1,588,288	1,754,262	2,055,875	3,307,969	6,168,718	86.5%
Operating revenue	561,834	647,773	785,543	1,214,658	2,184,034	79.8%
Profit from operations	128,257	177,970	249,457	397,193	707,913	78.2%
Net profit	73,316	108,913	161,939	274,324	513,154	87.1%
Net profit attributable to the Group	67,342	99,911	152,771	248,012	460,761	85.8%
Basic earnings per share (RMB)[2]	0.15	0.23	0.35	0.55	0.83	50.9%
Interim dividends per share	–	–	–	–	0.15	–
Final dividends per share[3]	–	–	–	0.26	0.27	3.8%
Full year dividends per share	–	–	–	0.26	0.42	61.5%

Gross sales proceeds
RMB million



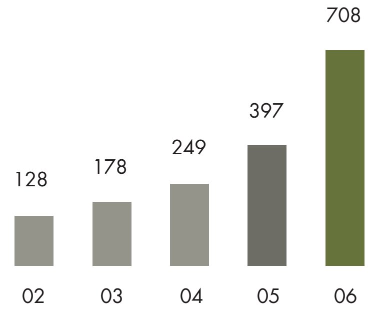
2006 Growth%: 86.5%
Five-year CAGR: 40.4%

Operating revenue
RMB million



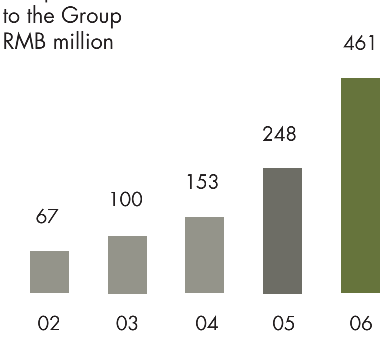
2006 Growth%: 79.8%
Five-year CAGR: 40.4%

Profit from operations
RMB million



2006 Growth%: 78.3%
Five-year CAGR: 53.3%

Net profit attributable
to the Group
RMB million



2006 Growth%: 85.9%
Five-year CAGR: 61.7%

Financial Highlights

Balance sheet summary (RMB'000)	2002	2003	2004	2005	2006
Non current assets	678,783	661,390	638,493	837,724	3,815,228
Current assets	576,030	741,067	890,411	2,413,174	3,659,251
Total assets	1,254,813	1,402,457	1,528,904	3,250,898	7,474,479
Current liabilities	673,226	742,680	700,293	1,173,936	1,680,119
Non current liabilities	111,964	107,627	106,311	203,636	3,474,877
Net assets	469,623	552,150	722,300	1,873,326	2,319,483
Represented by					
Owners' equity	412,699	498,093	655,983	1,780,880	2,227,587
Minority interests	56,924	54,057	66,317	92,446	91,896
Total equity	469,623	552,150	722,300	1,873,326	2,319,483

Notes:

1. Gross Sales proceeds represent the sum of sales proceeds from direct sales and concessionaire sales, income from providing consultancy and management services, rental income and other operating revenues.

2. The calculation of basic earnings per share for the year ended 31 December 2005 is based on the net profit attributable to equity holders of the Group for the year ended 31 December 2005 of approximately RMB248,012,000 and the weighted average of approximately 451,278,904 shares in issue during the year on the assumption that the 441,600,000 shares issued to the parent company pursuant to the Re-organisation had been in issue throughout the year ended 31 December 2005, and as adjusted to reflect the new issue of 110,400,000 shares by way of public offering in issue on 30 November 2005.

3. The Company was incorporated on 3 August 2005 and accordingly, no dividend has been declared or paid by the Company for the years 2002 to 2004.

Management Discussion And Analysis

Total gross sales proceeds and operating revenues

During the year under review, the Group generated a total gross sales proceeds received or receivable of RMB6,168.7 million (comprises direct sales, sales proceeds from concessionaire sales, rental incomes, consultancy and management service fees and other operating revenues). Total gross sales proceeds for the year represent a growth of 86.5% or RMB2,860.7 million from RMB3,308.0 million reported in the same period of last year largely as a result of i) the strong SSS growth of approximately 17.1% ii) full year sales contribution from new stores opened last year (the "New Stores") and Parkson branded managed stores acquired throughout the second half of last year (the "Acquired Group") and iii) the inclusion into this year's accounts, the post acquisition sales performances of the 44% Beijing Parkson and the Kunming Stores. The growth was also partly contributed by the receipt of the PRC government's incentive for dividend reinvested to acquire the 44% Beijing Parkson and the change of arrangement with the concessionaires which resulted in increase recognition of other operating revenues. The growth was however partially offset by the reduction in the consultancy and management service fees due to lesser managed stores within the Group's portfolio after the acquisition of some of the managed stores.

The Group generated total merchandise sales of approximately RMB5,769.9 million. The concessionaire sales contributed approximately 86.9% and the direct sales contributed the balance of 13.1%. The Fashion & Apparel category made up approximately 50.0% of the total merchandise sales, the Cosmetics & Accessories category contributed approximately 28.5%, the Household & Electrical category contributed approximately 9.5% and the balance of approximately 12.0% came from the Groceries and Perishables category.

Commission rate from concessionaire sales was within management's expectation at 20.5%. It was 1.1% lower than the previous year due to the lower commission rate for (i) the New Stores and the Acquired Group and (ii) the Kunming Stores.

Total operating revenues of the Group for the year under review grew by RMB969.4 million to RMB2,184.0 million or 79.8% from the numbers reported in the same period of last year. The strong growth rate was in line with the growth of the total gross sales proceeds and partially offset by the reduction of the consultancy and management service fees.

Total Sales Proceeds And Sales Mix

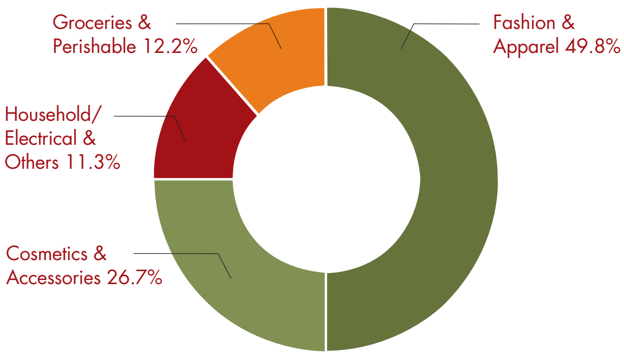
Total sales proceeds

Year (RMB'000)	2005	2006
Direct sales	441,220	758,049
Concessionaire sales	2,670,785	5,011,806
Total sales proceeds	3,112,005	5,769,855

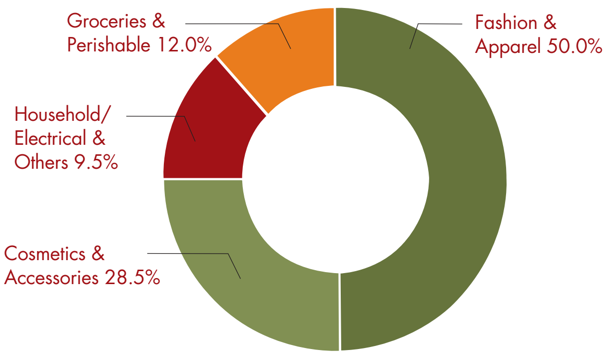
Sales proceeds by categories

Year (RMB'000)	2005	2006
Fashion and apparels	1,550,881	2,884,095
Cosmetics and accessories	830,836	1,645,860
Household, electrical goods and others	351,068	549,098
Groceries and perishables	379,220	690,802
Total sales proceeds	3,112,005	5,769,855

2005 Sales Mix



2006 Sales Mix



Management Discussion And Analysis

Operating Expenses

PURCHASE OF GOODS AND CHANGES IN INVENTORIES

The purchase of goods and changes in inventories refer to the cost of sales for the direct sales. In line with the increase of direct sales, the cost of sales increased to RMB632.3 million, an increase of RMB268.8 million or 74.0% from RMB363.5 million recorded for the same period of last year. The gross profit margin of 16.6% declined marginally by 1.0% from 17.6% recorded for the same period of last year due to the lower gross profit margin of the New Stores, the Acquired Group and the Kunming Stores.

STAFF COSTS

Staff costs increased by RMB76.3 million or 63.4% to RMB196.6 million, the increase was largely contributed by (i) the full year staff cost of the Acquired Group, (ii) the full year staff cost of the New Stores and (iii) the additional staff cost from the 44% Beijing Parkson and Kunming Stores acquisition.

As a percentage to total operating revenues, the staff cost decreased marginally by 0.9% due to improved operating efficiency.

DEPRECIATION AND AMORTISATION

Depreciation and amortisation increased by RMB24.7 million or 38.5% to RMB88.7 million, the increase was largely contributed by (i) the full year depreciation and amortisation cost of the Acquired Group, (ii) the full year depreciation and amortisation cost of New Stores and (iii) the additional depreciation and amortisation cost from the 44% Beijing Parkson and Kunming Stores acquisition.

As a percentage to total operating revenues, depreciation and amortisation cost dropped to 4.1% from 5.3% reported for the same period of last year. The drop is due to the strong increase of the same stores operating revenues and full year operating revenues contribution from New Stores and Acquired Group which are all on long leases and have no building cost and land use rights subject to depreciation and amortisation.

RENTAL EXPENSES

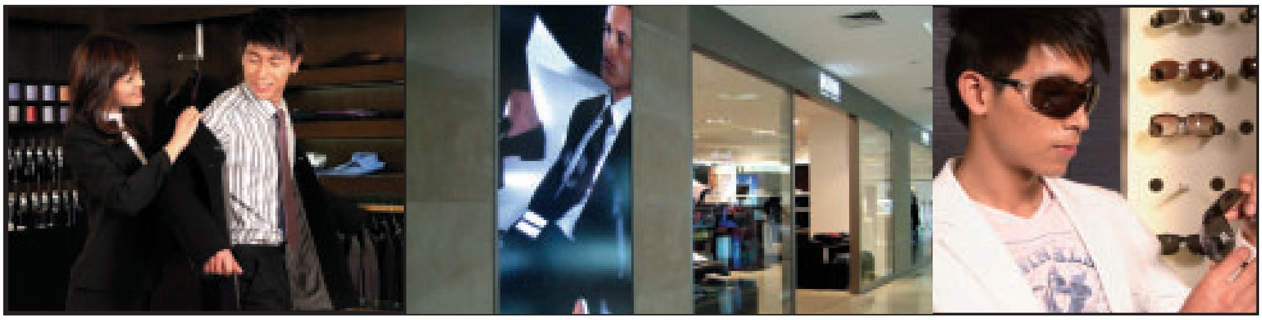
Rental expenses increased by RMB123.2 million or 118.5% to RMB227.1 million. The increase was largely due to the inclusion of i) the full year rental cost for the New Stores and the Acquired Group and ii) additional rental cost from the 44% Beijing Parkson and Kunming Stores acquisition. The increase was also partly due to the increase payment of contingent rent for the performance related lease agreements.

As a percentage to total operating revenues, the rental expenses rose to 10.4%, moved up 1.8% from the same period of last year due largely to the inclusion of full year rental expenses for the New Stores and Acquired Group which are all on long leases as compared to the year 2005 where a substantial portion of the operating revenues recorded were derived from the stores that own the property and there were no related rental expenses.

OTHER OPERATING EXPENSES

Other operating expenses which consist of mainly the utilities cost, marketing and promotional cost, credit card handling expenses, property management cost and general administrative cost increased by RMB165.7 million or 99.9% to RMB331.4 million. Included in the other operating expenses are the exchange loss of approximately RMB13.3 million and the change of arrangement with the concessionaires which resulted in the increase recognition of the operating expenses incurred in direct relation to the increase in other operating revenues recognised. Other than that the increase was generally in line with the improved revenues.

As a percentage to operating revenues, other operating expenses ratio was 15.2%, increased by 1.5%, the increase was mainly due to the factors highlighted in the previous paragraph. The increase was also partly due to the inclusion of full year operating results for the Acquired Group and the New Stores and the heavy promotion cost incurred during the second half of the year 2006.



PROFIT FROM OPERATIONS

Profit from operations increased to RMB707.9 million, an improvement of RMB310.7 million or 78.2%, generally in line with the growth of operating revenues. Profit from operations as a percentage to operating revenues decreased marginally to 32.4% from 32.7% recorded in the same period of last year due to the inclusion of full year performance of the New Stores and the Acquired Group which have lower operating efficiency.

FINANCE INCOME

Finance income, which comprises interest income net of interest expenses increased to RMB23.5 million, an increase of RMB15.1 million or 178.7% from RMB8.4 million recorded for the same period of last year due to the increase interest incomes from the placement of deposits with licensed banks and the interest incomes from the CLN. The increase in interest incomes was however partially offset by the increase of interest expenses in relation to the High Yield Bond and the Commercial Loans.

SHARE OF PROFIT FROM AN ASSOCIATE

This is the share of profit from Shanghai Nine Sea Lion Properties Management Co. Ltd ("Shanghai Lion Property"), an associate of the Company, the share of profit grew from RMB522,000 in 2005 to RMB538,000 in 2006, an increase of RMB16,000 or 3.1%.

INCOME TAX

The Group's income tax expense increased by RMB87.0 million or 66.0% to RMB218.8 million in line with the increase in profit from operations. The increase was however partly offset by the lower effective tax rate of 29.9%, a decline of 2.6% from 32.5% recorded for the same period of last year due to the inclusion of higher amount of non taxable interest income and increase number of stores with preferential tax rate.

NET PROFIT FOR THE YEAR

In line with the increase in revenue, the net profit for the year increased to RMB513.2 million, an improvement of RMB238.8 million or 87.1%. The net profit margin improved to 23.5% from 22.6% recorded in the same period of last year due to the lower effective tax rate, growth of operating revenues and the improved operating efficiency.

PROFIT ATTRIBUTABLE TO THE GROUP

Profit attributable to the Group increased to RMB460.8 million, an increase of RMB212.7 million or 85.8%. This is in line with the increase in operating revenues and the profit from operations.

PROFIT ATTRIBUTABLE TO MINORITY INTERESTS

Profit attributable to minority interests increased by RMB26.1 million or 99.1% to RMB52.4 million due to the increase of net profit for the year and the inclusion of full year net profits from stores within the Acquired Group that have higher percentage of minority interest.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's cash and bank balance increase to RMB3,271.4 million, an increase of RMB1,191.0 million from the balance recorded as at the end of December 2005. The increase is largely due to (i) positive cash flow of RMB866.1 million generated from the operating activities, (ii) RMB1,500.0 million that the Group received from the Structure Financing. The increase was however partially set off by the payment of the year 2005 final dividends of RMB143.5 million, the payment of the year 2006 interim dividends of RMB82.8 million and the payment of RMB840.6 million for the acquisition of the 44% Beijing Parkson and the Kunming Stores. Total debt to equity ratio of the Group expressed as a percentage of interest bearing loans and other borrowings over the total equity of RMB2,319.5 million was 138.7% as at 31 December 2006. However, after taken into account on the net effect of the Structure Financing (excluding the CLN and the High Yield Notes from the calculation), the debt to equity ratio of the Group as at the end of December 2006 was approximately 72.9%.

NET CURRENT ASSETS AND NET ASSETS

The Group's net current assets as at 31 December 2006 was approximately RMB1,979.1 million, an increase of 59.7% or RMB739.9 million from the balance of RMB1,239.2 million recorded as at 31 December 2005 due largely to the proceeds from the Structure Financing and partially offset by the cash payment made for the 44% Beijing Parkson and Kunming Stores acquisition. Net asset rose to RMB2,319.5 million, an increase of RMB446.2 million or 23.8% over the balance as at 31 December 2005 due largely to the net profit contribution for the year 2006 and the revaluation surplus pursuant to the 44% Beijing Parkson acquisition after offsetting the dividends paid during the year.

PLEDGE OF ASSETS

As at 31 December 2006, certain of the Group's property, plant and equipment with an aggregated carrying value of RMB65.8 million and certain of the Group's lease prepayments with an aggregated carrying value of RMB122.6 million were pledged to the banks to secure general banking facilities of the Group.

Shares in certain subsidiaries of the Company were also pledged pursuant to the Structure Financing.

SEGMENTAL INFORMATION

Over 90% of the Group's revenues and contribution to operating profit is attributable to the operation and management of department stores and all of the Group's turnover and contribution to operating profit is attributable to customers in the PRC. Accordingly no analysis of segment information is presented.

EMPLOYEES

As at 31 December 2006, total number of employees for the Group was approximately 5,800. The Group ensures that all levels of employees are paid competitively within the standard in the market and employees are rewarded on performance related basis within the framework of the Group's salary, incentives and bonus scheme.

On 10 January 2007, a total of 8,188,950 share options were granted to 482 eligible employees at an exercise price of Hong Kong Dollars ("HK$") 36.75 per share pursuant to the share option scheme adopted by the Company on 9 November 2005.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2006.

TREASURY POLICIES

The business transactions of the Group were mainly denominated in Renminbi. Therefore, except for the capital market transactions for funding needs, there is limited exposure in foreign exchange risk. Hedging instruments including swaps and forwards have been used in the past and would be used in the future if necessary to minimise the Group's exposure to the foreign exchange rate and the interest rate fluctuation.

In relation to the High Yield Notes issued in November 2006, the Group has simultaneously entered into the Structure Financing arrangement, which include interest rate swaps to eliminate the Group's exposure to exchange rate and interest rate fluctuations. As the result from the use of the interest rate swaps, the Group is now serving a fixed annual interest rate of 7.875% for the High Yield Notes, serving a fixed annual interest rate of 10.30% for the Commercial Loans and receiving a fixed annual interest income at the rate of 9.80% for the CLN. As at 31 December 2006, apart from the Structure Financing, the Group's interest bearing loans were approximately RMB190.9 million serving interest rates between 5.9% to 6.2%.

Debt to equity ratio of th e Group expressed as a percentage of interest bearing loans and other borrowings over the total equity was approximately 138.7% as at 31 December 2006. However, after taken into account on the net effect of the Structure Financing, the debt to equity ratio of the Group was approximately 72.9%.

Biographies of Directors and Senior Management

EXECUTIVE DIRECTORS

CHENG YOONG CHOONG

CHENG Yoong Choong, aged 43, is an Executive Director and the Managing Director of the Company. Mr Cheng is also the chairman of the remuneration committee of the Company and a director of various companies of the Group. He graduated from the University of San Francisco with a Bachelor of Science degree and a Master of Business Administration in 1984. He has been with the Lion Group since 1987 in various capacities in stores operations and merchandising and has been the Chief Operating Officer of the retail division of the Lion Group since 2000. Mr Cheng has been with the Group since its inception. Mr Cheng is actively involved in the Malaysian and PRC retail scenes and was chairman of the Malaysia Retailers Association in 1996. He was a member of the Executive Board of the Intercontinental Group of Department Stores in 1998 and 1999.

Mr Cheng is the nephew of Tan Sri Cheng Heng Jem, the Non-executive Director and Chairman of the Company.

CHEW FOOK SENG

CHEW Fook Seng, aged 55, is an Executive Director and Chief Executive Officer of the Company. He has been the Chief Executive Officer of the companies comprising the Group since 2001. He obtained his Master of Business Administration from the Northland Open University and International Management Centre from Buckingham and received training on retail management in the United States and Japan. He has also travelled extensively to the United States, Japan, Europe, Australia, Hong Kong, Philippines and other parts of the world to explore and realise new business concepts and opportunities.

Mr Chew was with the Emporium Group of departmental stores ("Emporium Group") before joining the Lion Group in 1987 as its senior manager. He was then transferred to the Group upon its establishment in the PRC and was promoted to the position of Executive Director of Retail Division (PRC) in 2001. Mr Chew has more than 10 years of experience working in the PRC retail market.

NON-EXECUTIVE DIRECTOR

TAN SRI CHENG HENG JEM

Tan Sri CHENG Heng Jem, aged 64, is a Non-executive Director and Chairman of the Company. Tan Sri Cheng has more than 35 years of experience in the business operations of the Lion Group of companies ("the Lion Group") encompassing steel, motor and tyre, computer, trading, plantation, property and community development and retail. He oversees the operation of the Lion Group and is responsible for the formulation and monitoring of the overall corporate strategic plans and business development of the Lion Group.

Tan Sri Cheng is the president of The Associated Chinese Chambers of Commerce and Industry of Malaysia and The Chinese Chamber of Commerce and Industry of Kuala Lumpur and Selangor.

Tan Sri Cheng's directorships in public companies are as follows:

- Chairman and Managing Director of Lion Corporation Berhad and Amalgamated Containers Berhad, both public listed company in Malaysia

- Chairman of each of Lion Diversified Holdings Berhad, Silverstone Corporation Berhad and Lion Forest Industries Berhad, all public listed companies in Malaysia

- Director of of Amsteel Corporation Berhad, a public listed company in Malaysia

- Director of Lion Teck Chiang Limited, a public listed company in Singapore

Tan Sri Cheng is the uncle of Mr Cheng Yoong Choong, the Executive Director and the Managing Director of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

STUDER WERNER JOSEF

STUDER Werner Josef, aged 46, was appointed as an Independent Non-executive Director on 9 November 2005, and is a member of the audit committee of the Company. Mr Studer obtained his federal diploma in economics and business administration from SEBA (School for Economics and Business Administration) in Lucerne, Switzerland. Mr Studer is a business economist and holds a Bachelor of Business Administration degree. He serves currently as Executive Director to the Intercontinental Group Department Stores ("IGDS"). The IGDS is a non-profit association which offers a global business platform for leading department stores all over the world. The IGDS comprises more than 33 members now. Prior to joining IGDS, Mr Studer was in various management functions and positions at Hero Company (food manufacturing), Switzerland; Feldschloesschen Company (Brewery), Switzerland, and Migros Company (retailer) in Switzerland. Mr Studer has over 20 years of experience in the fast moving consumer goods ("FMCG") and retail industries.

KO TAK FAI,DESMOND

KO Tak Fai, Desmond, aged 38, was appointed as an Independent Non-executive Director on 9 November 2005, and is the Chairman of the audit committee and a member of the remuneration committee of the Company. Mr Ko became a member of the Institute of Chartered Accountants in England and Wales in 1994. Mr Ko is the Head of Finance for a private group with hotel and property interests in the PRC.

YAU MING KIM, ROBERT

YAU Ming Kim, Robert, aged 68, was appointed as an Independent Non-executive Director on 1 January 2007, and is a member of the audit committee and a member of the remuneration committee of the Company. Mr Yau was the Chief Executive or Managing Director of many major international and local apparel companies since 1971. From 1998 to 2004, he was appointed as the Vice Chairman of Hong Kong Exporters' Association, a member of the Executive Committee of The Hong Kong Shippers' Council and the Garment Advisory Committee of The Hong Kong Trade Development Council.

Mr Yau is currently an INED of Tungtex (Holdings) Company Limited which shares are listed on the Main Board of the Stock Exchange.

SENIOR MANAGEMENT

TAN Hun Meng, aged 45, a Malaysia citizen, is the Chief Operating Officer of Southern Region cum Regional General Manager (Eastern) of the Group. He graduated with a Diploma from Curtin University of Technology, Australia and attended various retail management and senior management courses conducted by Cornell University and other institutions in the United States as well as a university in Australia. Mr Tan has more than 20 years of experience in the retail industry and more than 10 years of experience working in the PRC retail market. He joined the Lion Group in 1987 and the Group in May 1995. Mr Tan was the former General Manager of Sichuan Parkson Retail Development Co., Ltd. and Shanghai Ninesea Parkson Plaza Co., Ltd. ("Shanghai Ninesea Parkson"), PRC before taking up the present position. He is well known within Parkson for his achievements in business turnaround and productivity improvement.

LOW Kim Tuan, aged 51, a Malaysia citizen, is the Chief Operating Officer of Northern Region cum General Manager of the Group. Mr Low holds Executive Diploma in Management Studies from Curtin University of Technology, Australia and has completed an EMBA course at Chung Yuan Christian University, Taiwan, and attended retail management and senior management courses conducted in the USA and Taiwan. He has more than 18 years of experience in the retail industry and more than 10 years of experience working in the PRC retail market. He was with the Emporium Group before joining the Lion Group in 1987 as a regional manager and was promoted to the position of Head Office Merchandising Manager in 1990. He joined the Group upon the establishment of the Group and headed the merchandising department in Beijing before taking up his present position.

HAW Lay Kim, aged 41, a Malaysia citizen, is the Group's General Manager for Legal Department and In-House Counsel in the PRC. Miss Haw graduated with a Bachelor of Laws at National Chengchi University of Taiwan and University of Lancaster, England. She was practising law at Othman Hashim & Co in Malaysia before joining the Lion Group's legal department in August 1993 and has more than 10 years of experience working in the PRC retail market. She joined the Group to lead the Group Legal Department upon the establishment of the Group.

CHUA Lian Mui, Jayne, aged 43, a Singapore citizen, is the Group's General Manager for the Merchandising Division of the Group. Miss Chua holds a Group Diploma in Marketing issued by the London Chamber of Commerce Examinations Board. In her course of work, she attended several courses relating to fashion merchandising and retail. In her previous employment she was trained on fashion buying, merchandising display and management in Singapore and Japan and had travelled extensively to Europe and Asia on buying trips and attending important trade shows. She has more than 20 years of experience in the retail industry and more than 10 years of experience working in the PRC retail market. She joined the Group upon the establishment of the Group as Assistant General Manager. She was transferred in 1997 to lead the Merchandising Division for the Eastern Region before she was promoted to the present position in 2000.

SENIOR MANAGEMENT

WONG Chee Keong, aged 40, a Malaysia citizen, is the General Manager of MIS and Human Resource Department of the Group. Mr Wong obtained his Bachelor of Science from Campbell University of North Carolina, USA. He joined the Lion Group's MIS Department in August 1991, and travelled extensively to China. In August 1996 he was seconded to the Group and headed the MIS department based in Beijing. In 2004 he was promoted to the present position.

CHONG Sui Hiong, Shaun, aged 39, a Malaysia citizen, is the Store Design and Development General Manager of the Group. Mr Chong holds a Diploma in Civil Engineering from University of Technology Malaysia, Bachelor of Science in Industrial and Systems Engineering from University of Southern California and a Master of Business Administration from Rutgers, the State University of New Jersey. He went for further study in Los Angeles, US before joining the Lion Group in 1994 as Project Executive of Store Design and Development. In June 1996 he joined the Retail Division of the Group and headed the Store Design and Development of the Group based in Shanghai before taking up his present position.

LEE Sook Beng, aged 40, a Malaysia citizen, is the Chief Auditor of the Group. Ms Lee holds a certificate from the Institute of Chartered Secretaries and Administrators, UK. She joined the Lion Group's Accounts Department in July 1990. In 1999, she was with TOPS Malaysia Group of companies as Category Manager before joining the Group in January 2000.

QUALIFIED ACCOUNTANT

WONG Kang Yean, Clarence, aged 36, a Malaysia citizen, is the Chief Financial Officer of the Group. He is a registered member of the Association of Chartered Certified Accountants. He is also a chartered accountant with the Malaysian Institute of Accountants. Mr Wong has a number of years of experience in accounting and corporate finance. Prior to joining the Group, Mr Wong was the Chief Financial Officer and Head of the Corporate Finance and Accounts department of Malaysia Land Properties Sdn Bhd through an internal transfer from Far East Consortium International Limited, a listed company on the Stock Exchange of Hong Kong Limited ("Stock Exchange") where he was the Group Corporate Finance Manager and Financial Controller of the overseas operations for more than 3 years. Mr Wong joined the Group as a full-time employee in 2005 and is a member of the Group's senior management team.

Corporate Governance Report

The Company recognises the importance of good corporate governance to its healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices that are appropriate to its records. The Company's corporate governance practices are based on the principles ("Principles") and code provision ("Code Provisions") as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). In the opinion of the Directors, the Company has complied with the code provisions set out in the CG Code throughout the year under review.

BOARD OF DIRECTORS

The Board comprises two (2) Executive Directors, one (1) Non-executive Director and three (3) Independent Non-executive Directors. One-third (1/3) of the Directors shall retire from office at every annual general meeting and all Directors (including Non-executive Directors) are subject to retirement by rotation once every three year in accordance with the Company's Articles of Association and the CG Code.

The Directors' biographical information is set out in the "Biographies of Directors and Senior Management" section on pages 27 to 31.

There is a clear division of responsibilities between the Chairman and the Managing Director to ensure that there is a balance of power and authority. The Chairman is primarily responsible for the orderly conduct and working of the Board whilst the Managing Director, assisted by the Chief Executive Officer, is responsible for the overall operations of the Group and the implementation of the Board's strategies and policies.

Management is responsible for the day-to-day operations of the Group under the leadership of the Managing Director and the Chief Executive Officer.

The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of Independent Non-executive Directors.

The Board reviewed its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

FREQUENCY OF MEETINGS AND ATTENDANCE

Board meeting will be held at least four times a year with additional meetings convened as and when necessary to determine overall strategic directions and objectives and approve interim and annual results and other significant matters.

During the year under review, four (4) Board meetings were held and the Directors' attendances are listed below:

Name of the Director	Number Of Board Meetings Held During The Director's Term Of Office In 2006	Number Of Meetings Attended
Executive Directors:		
CHENG Yoong Choong	4	4
CHEW Fook Seng	4	4
Non-Executive Director:		
Tan Sri CHENG Heng Jem	4	4
Independent Non-Executive Directors:		
FONG Ching, Eddy (resigned on 20 October 2006)	3	3
STUDER Werner Josef	4	4
KO Tak Fai, Desmond	4	4
YAU Ming Kim, Robert (appointed on 1 January 2007)	N/A	N/A

Note: It includes attendances via telephone conference.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"). Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the standard set out in the Model Code throughout the year ended 31 December 2006.

The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the Independent Non-executive Directors independent.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility for preparing the financial statements of the Group.

The report of the auditors of the Company on their reporting responsibilities on the financial statements of the Group is set out in the Auditors' Report on page 61.

AUDITORS' REMUNERATION

For the year ended 31 December 2006, the auditors of the Company received approximately HK$4.9 million for audit services.

INTERNAL CONTROLS

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder's investments and Company's assets, and reviewing the effectiveness of such on an annual basis through the Audit Committee.

The Company has maintained a tailored governance structure with defined lines of responsibility and appropriate delegation of responsibility and authority to the senior management.

The internal auditor, who is independent of the Company's daily operations and accounting functions, is responsible for establishing the Group's internal control framework, covering all material controls including financial, operational and compliance controls. The internal control framework also provides for identification and management of risk.The internal auditor also formulates the annual internal audit plan and procedures, conducts periodic independent reviews on the operations of individual divisions to identify any irregularities and risks, develops action plans and recommendations to address the identified risks, and reports to the Audit Committee on any key findings and progress of the internal audit process. The Audit Committee, in turn, reports to the Board on any material issues and makes recommendations to the Board.

During the year under review, the Board, through the Audit Committee, has conducted continuous review of the effectiveness of the internal control system of the Company.

AUDIT COMMITTEE

In compliance with the CG Code as set out in Appendix 14 to the Listing Rules, the Audit Committee comprises three (3) Independent Non-executive Directors, namely, Mr Studer Werner Josef, Mr Ko Tak Fai, Desmond (Chairman of the Audit Committee), and Mr Yau Ming Kim, Robert (appointed since 1 January 2007).

The principal duties of the Audit Committee include the review and supervision of the Group's statutory audits, interim and annual accounts of the Group and internal control procedures.

The Audit Committee shall meet at least twice a year and the Chief Financial Officer, Chief Internal Auditor, In-House Counsel, the Compliance Officer and a representative of the external auditors of the Company shall normally be invited to attend the meetings. The Company Secretary or his/her nominee shall be the secretary of the Audit Committee.

During the year under review, there were five (5) meetings held by the Audit Committee and the attendances are listed below:

Name Of The Audit Committee Member	Number Of Meetings Held During The Member's Term Of Office In 2006	Number Of Meetings Attended
Independent Non-executive Directors:		
FONG Ching, Eddy (ceased to be a member on 20 October 2006)	4	4
STUDER Werner Josef	5	5
KO Tak Fai, Desmond	5	5
YAU Ming Kim, Robert (became a member on 1 January 2007)	N/A	N/A

Note: It includes attendances via telephone conference.

The Audit Committee reviewed the Group's results for the year 2006.

REMUNERATION COMMITTEE

Pursuant to the requirements of the CG Code, the Company has set up a Remuneration Committee consisting of three (3) members, one of whom is an Executive Director, namely Mr Cheng Yoong Chong (Chairman of the Remuneration Committee), and the other two members are its Independent Non-executive Directors, namely, Mr Ko Tak Fai, Desmond and Mr Yau Ming Kim, Robert (appointed since 1 January 2007).

The Remuneration Committee is responsible to review and develop the Group's policy on remuneration for its Directors (including Executive Directors) so as to ensure that it attracts and retains the Directors needed to manage the Company and the Group effectively. Directors do not participate in decisions regarding their own remuneration.

The Remuneration Committee shall meet at least once a year and at such other times as its chairman shall require. No meeting was held by the Remuneration Committee during the year under review while a meeting has been scheduled to be held in the 2nd quarter of 2007.

Directors' Report

The Board of Directors of the Company is pleased to announce the audited consolidated results of the Company, its subsidiaries, jointly-controlled entities and an associate for the year ended 31 December 2006.

GROUP REORGANISATION

The Company was incorporated with limited liability in the Cayman Islands on 3 August 2005. Pursuant to the Group Reorganisation to rationalise the structure of the Company and its subsidiaries in preparation for the public listing of the Company's shares on the Stock Exchange, the Company became the holding company of the companies now comprising the Group.

Details of the Group Reorganisation are set out in note 1 to the financial statements and the Company's prospectus for the Initial Public Offering dated 17 November 2005. The shares of the Company were listed on the Main Board of the Stock Exchange on 30 November 2005.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 15 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statements on page 62.

FIXED ASSETS

Changes on the Group's fixed assets are disclosed on note 11 of the financial statements.

PROPOSED FINAL DIVIDEND

The Board of Directors recommended the payment of a final dividend for the year of 2006 of RMB0.27 (2005: RMB0.26) per share in cash. The Company declared and paid an interim dividend of RMB0.15 (2005: nil) per share in cash. On the assumption that the approval is obtained during the forthcoming annual general meeting for the payment of the proposed final dividends, the Company shall be paying a full year dividends of RMB0.42 (2005 : RMB0.26) per share in cash for the year 2006, representing approximately 50% of the year's net profit attributable to the Group.

Upon the approval to be obtained from the forthcoming annual general meeting, the final dividends will be payable on or about 31 May 2007 to the shareholders whose name appears on the Register of Members of the Company at close of business on 27 April 2007.

The proposed final dividends will be paid in HK$, such amount to be calculated by reference to the middle rate published by the People's Bank of China for the conversion of Renminbi to HK$ as at 23 April 2007.

SHARE CAPITAL

Details of movements in the Company's share capital for the year ended 31 December 2006 are set out in note 37 to the financial statements.

DIRECTORS

The Directors of the Company as at the date of this annual report are as follows:

Executive Directors

CHENG Yoong Choong	(Managing Director)
CHEW Fook Seng	(Chief Executive Officer)

Directors' Report

NON-EXECUTIVE DIRECTOR

Tan Sri CHENG Heng Jem (Chairman)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Fong Ching, Eddy (resigned on 20 October 2006)
STUDER Werner Josef
KO Tak Fai, Desmond
YAU Ming Kim, Robert (appointed on 1 January 2007)

Details of the profile of each member of the Board are set out in the "Biographies of Directors and Senior Management" section on pages 27 to 29.

Pursuant to Article 114 of the Company's Articles of Association, Mr Yau Ming Kim, Robert, who was appointed during the year will retire at the forthcoming annual general meeting and, being eligible, will offer himself for re-election.

In accordance with Article 130 of the Company's Articles of Association, Mr Chew Fook Seng and Tan Sri Cheng Heng Jem will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Mr Cheng Yoong Choong and Mr Chew Fook Seng have each entered into a service contract with the Company on 9 November 2005 under which they agreed to act as Executive Directors for a term of three years. The appointment may be terminated before such expiry by not less than three months' written notice. Mr Cheng Yoong Choong will receive an annual Director's fee of approximately HK$150,000 under the service contract. Mr Chew Fook Seng will receive an initial annual salary of RMB1,263,000 with bonus and incentive payment at the discretionary of the Board and an annual Director's fee of approximately HK$150,000. Mr Chew Fook Seng will also be entitled to a discretionary bonus as may be decided by the remuneration committee. In the year 2006, Mr Chew's total remuneration was approximately RMB2.77 million.

Tan Sri Cheng Heng Jem has signed a letter of appointment dated 9 November 2005 under which he agreed to act as a Non-executive Directors and will receive an annual Director's fee of approximately HK$150,000.

Mr Studer Werner Josef and Mr Ko Tak Fai, Desmond have each signed a letter of appointment dated 9 November 2005 with the Company under which they agreed to act as Independent Non-executive Directors for the period of one year and shall continue thereafter subject to a maximum of three years unless terminated in accordance with the terms of appointment letters. Mr Yau Ming Kim, Robert has signed a letter of appointment dated 27 December 2006, with the same terms as the other two Independent Non-executive Directors. The annual Director's fee for each Independent Non-executive Director is HK$150,000.

Save as disclosed above, none of the Directors has, nor is it proposed that any of them will have, a service contract with the Company or any of its subsidiaries.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than as disclosed under the "Connected Transactions" section below, no contracts of significance to which the Company, its holding company, subsidiaries or fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

COMPETING BUSINESS INTERESTS OF DIRECTORS

As at 31 December 2006, none of the Directors and Directors of the Company's subsidiaries, or their respective associates had interests in businesses, other than being a director of the Company and/or its subsidiaries and their respective associates, which compete or are likely to compete, either directly or indirectly, with the businesses of the Company and its subsidiaries as required to be disclosed pursuant to the Listing Rules, except for the interests held by Tan Sri Cheng Heng Jem in Lion Diversified Holdings Berhad ("LDHB") which owns 10 department stores in the PRC. These 10 excluded department stores are managed by the Group.

Directors' Report

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2006, the interests of the Directors and Chief Executives of the Company in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Director or Chief Executive is taken or deemed to have under such provisions of the SFO) or which were required to be entered into the register required to be kept by the Company under section 352 of the SFO or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(a) Long positions of Tan Sri Cheng Heng Jem in the share capital of the Company:

Name Of Corporation	Nature Of Interest	Name Of Registered Owner	Name Of Beneficial Owner	Number And Class Of Securities	Approximate Percentage Of Shareholding
Company	Corporate interest	PRG Corporation	PRG Corporation	306,360,000 ordinary shares	55.50%

Note:

1. Tan Sri Cheng Heng Jem, together with his wife, Puan Sri Chan Chau Ha alias Chan Chow Har, through their interest and a series of companies in which they have a substantial interest, are entitled to exercise or control the exercise of more than one third of the voting power at general meetings of LDHB. Since LDHB is entitled to exercise or control the exercise of 100% of the voting power at general meeting of PRG Corporation Limited ("PRG Corporation"), pursuant to the SFO, he is deemed to be interested in the Shares held by PRG Corporation in the Company.

(b) Long positions of Tan Sri Cheng Heng Jem in the share capital of the Company's associated corporations (as defined in the SFO):

Name Of Corporation	Nature Of Interest	Name Of Registered Owner	Name Of Beneficial Owner	Number And Class Of Securities	Approximate Percentage Of Shareholding
PRG Corporation	Corporate interest	LDHB	LDHB	1 ordinary share	100%
Lion Mahkota Parade Sdn. Bhd.	Corporate interest	LDH Management Sdn. Bhd.	LDH Management Sdn. Bhd.	400,000 preference shares	100%
LDHB	Beneficial interest and corporate interest	Tan Sri Cheng Heng Jem and a series of controlled corporations	Tan Sri Cheng Heng Jem and a series of controlled corporations	400,590,930 ordinary shares	57.84%

Note:

1. This represents Tan Sri Cheng Heng Jem's interest as at 31 December 2006. This figure will be increased if any of the debentures referred in sub-paragraph (c) below are converted into shares in LDHB.

The following are the associated corporations (as defined in the SFO) of the Company in which Tan Sri Cheng Heng Jem is deemed interested solely as a result of his controlling interest in LDHB (the figures in brackets represent LDHB's interests in these corporations): Qingdao No. 1 Parkson Co., Ltd. ("Qingdao No 1") (52.60%), Hamba Research & Development Co., Ltd. (98%), Nanning Brilliant Parkson Commercial Co., Ltd. ("Nanning Brilliant") (70%), Dalian Tianhe Parkson Shopping Centre Co., Ltd. (60%) and Aktif-Sunway Sdn. Bhd. (80%).

In relation to the following associated corporations (as defined in the SFO) of the Company which are non wholly-owned subsidiaries of LDHB, Tan Sri Cheng Heng Jem is also deemed interested in the remaining minority interest in those corporations as follows:

Name Of Associated Corporation	LDHB's Interest	Additional Deemed Interest
Lion Mahkota Parade Sdn. Bhd. [D]	99.99%	0.01% [A]
Likom CMS Sdn. Bhd.	99.98%	0.02% [B]
LDH Investment Pte. Ltd.	60%	40% [C]

Notes:

A. Corporate interest through Ayer Keroh Resort Sdn. Bhd. Tan Sri Cheng Heng Jem, through a series of companies in which he has a substantial interest, is entitled to exercise or control the exercise of more than one third of the voting power at general meetings of this company. Accordingly, he is deemed to be interested in the shares held by Ayer Keroh Resort Sdn. Bhd. in Lion Mahkota Parade Sdn. Bhd.

B. Corporate interest through Likom Computer System Sdn. Bhd. Tan Sri Cheng Heng Jem is entitled to exercise or control the exercise of more than one third of the voting power at general meetings of this company. Accordingly, he is deemed to be interested in the shares held by Likom Computer Systems Sdn. Bhd. in Likom CMS Sdn. Bhd.

C. Corporate interest through Lion Asia Investment Pte. Ltd. Tan Sri Cheng Heng Jem, through a series of companies in which he has a substantial interest, is entitled to exercise or control the exercise of more than one third of the voting power at general meetings of this company. Accordingly, he is deemed to be interested in the shares held by Lion Asia Investment Pte. Ltd. in LDH Investment Pte. Ltd.

D. Interest refers to the class of ordinary shares of Lion Mahkota Parade Sdn. Bhd. Interest in the class of preference shares is disclosed in preceding table under sub-paragraph (b) above.

(c) Long Positions of Tan Sri Cheng Heng Jem in the debentures of the Company and its associated corporations (as defined in the SFO):

Tan Sri Cheng Heng Jem has a beneficial interest in 100% of the RM 36 million 5-year 2% redeemable convertible unsecured loan stocks 2004/2009 issued by LDHB ("RCULS").

(d) Long positions of Cheng Yoong Choong in the share capital of the Company's associated corporations (as defined in the SFO):

Name Of Associated Corporation	Nature Of Interest	Name Of Registered Owner	Name Of Beneficial Owner	Number And Class Of Securities	Approximate Percentage Of Shareholding
LDHB	Beneficial interest	Cheng Yoong Choong	Cheng Yoong Choong	998,846 ordinary shares	0.14%

Save as disclosed above, as at the 31 December 2006, none of the Directors or Chief Executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2006, so far as the Directors are aware, each of the following persons, not being a Director or Chief Executive of the Company, had an interest in the Company's shares which falls to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO:

Directors' Report

Name Of Shareholder	Nature Of Interest	Number Of Shares	Percentage Of Shareholding (direct or indirect)
PRG Corporation	Beneficial interest	306,360,000	55.50%
LDHB	Corporate interest	306,360,000 (Note 2)	55.50%
Puan Sri Chan Chau Ha alias Chan Chow Har (Note 3)	Interest of spouse	306,360,000	55.50%
Lion Development (Penang) Sdn. Bhd.	Corporate interest	306,360,000 (Note 4)	55.50%
Pangkor Investments (Cayman Islands) Limited	Beneficial interest	54,648,000	9.9%
Khazanah Nasional Berhad	Corporate interest	54,648,000 (Note 5)	9.9%
JPMorgan Chase & Co.	Beneficial and corporate interest	46,408,400 (Note 6)	8.41%

Notes:

1. All of the above are long positions.

2. PRG Corporation is a wholly-owned subsidiary of LDHB. By virtue of the SFO, LDHB is deemed to be interested in the Shares held by PRG Corporation in the Company.

3. Puan Sri Chan Chau Ha alias Chan Chow Har is the wife of Tan Sri Cheng Heng Jem and is deemed to be interested in 306,360,000 Shares which Tan Sri Cheng Heng Jem is deemed to be interested in for the purposes of the SFO.

4. Lion Development (Penang) Sdn. Bhd., directly and through a series of controlled companies, is entitled to exercise or control the exercise of more than one third of the voting power at general meetings of LDHB. Since LDHB is entitled to exercise or control the exercise of 100% of the voting power at general meetings of PRG Corporation, by virtue of the SFO, Lion Development (Penang) Sdn. Bhd. is deemed to be interested in the Shares held by PRG Corporation in the Company.

5. Pangkor Investments (Cayman Islands) Limited is a wholly-owned subsidiary of Khazanah Nasional Berhad. As such Khazanah Nasional Berhad is deemed to be interested in the 54,648,000 Shares held by Pangkor Investments (Cayman Islands) Limited for the purposes of the SFO.

6. The capacities of JPMorgan Chase & Co. in holding the 46,408,400 shares were as to 46,408,400 shares as investment manager and as to 5,205,900 shares in the lending pool as custodian corporation/ approved lending agent. The corporate interest of JPMorgan Chase & Co. was attributable on account through a number of its wholly owned subsidiaries.

As at 31 December 2006, as far as the Directors are aware, each of the following persons, not being a Director or Chief Executive of the Company, was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group:

Substantial Shareholder	Member of the Group	Percentage of equity interest held
Xinjiang Youhao[1]	Xinjiang Parkson	49%
Wuxi Distribution[2]	Wuxi Parkson	40%
Yangzhou Commercial[3]	Yangzhou Parkson	45%
Shaanxi Chang'an Information[4]	Xi'an Chang'an parkson	49%
Shaanxi Shuang Yi[5]	Xi'an Shidai Parkson	49%
Sichuan Fulin[6]	Mianyang Parkson	40%
Chongqing Wanyou[7]	Chongqing Parkson	30%
Guizhou Shengqi Enterprise[8]	Guizhou Parkson	40%
Anshan Tianxing[9]	Anshan Parkson	49%
Shanghai Nine Sea Industry[10]	Shanghai Lion Property	71%[11]
Shanghai Nine Sea Industry	Shanghai Nine Sea Parkson	29%[11]

Notes:

1. 新疆友好（集團）有限公司(Xinjiang Friendship (Group) Co., Ltd), owns 49% of the equity interest of Xinjiang Youhao Parkson Devlopment Co., Ltd. ("Xinjiang Parkson").

2. 無錫市供銷合作總社(Wuxi Distribution Corporation), owns 40% of the equity interest of Wuxi Sanyang Parkson Plaza Co., Ltd. ("Wuxi Parkson").

3. 揚州商業大廈 (Yangzhou Commercial Plaza), owns 45% of the equity interest of Yangzhou Parkson Plaza Co., Ltd. ("Yangzhou Parkson").

4. (i) 陝西長安信息置業投資有限公司 (Shaanxi Chang'an Information Property Investment Co., Ltd), owns 49% of Xi'an Chang'an Parkson.

   (ii) 長安信息（產業）集團股份有限公司 (Chang'an Information (Property) Group Holding Company Limited), a PRC joint stock company, the shares of which are being listed on the Shanghai Stock Exchange owns 65.45% of the equity interest of Shaanxi Chang'an Information, representing a 32.07% indirect equity interest in Xi'an Chang'an Parkson Store Co., Ltd. ("Xi'an Chang'an Parkson").

5. 陝西雙翼石油化工有限責任公司 (Shaanxi Shuangyi Petroleum and Chemical Company Limited), acquired from Xi'an Xinrun Property Co., Ltd. ("Xian Xinrun") 西安新潤置業有限公司 49% of the equity interest in Xi'an Shidai Parkson Store Co., Ltd. ("Xi'an Shidai Parkson") on 4 September 2006.

6. (i) 四川富監實業集團有限公司 (Sichuan Fulin Industrial Group Co., Ltd.), owns 40% of the equity interest of Mianyang Fulin Parkson Plaza Co., Ltd. ("Mianyang Parkson").

   (ii) 安治富 (An Zhifu), owns 51% of the equity interest in Sichuan Fulin, representing a 20.40% indirect equity interest in Mianyang Parkson.

7. 重慶萬友經濟發展有限責任公司 (Chongqing Wanyou Economic Development Co., Ltd.), owns 30% of the equity interest of Chongqing Wanyou Parkson Plaza Co., Ltd. ("Chongqing Parkson").

8. (i) 貴州神奇實業有限公司 (Guizhou Shenqi Enterprise Co., Ltd.), owns 40% of the equity interst of Guizhou Shenqi Parkson Retail Development Co., Ltd. ("Guizhou Parkson").

   (ii) 張沛 (Zhang Pei), 張之君 (Zhang Zhi Jun) and 張婭 (Zhang Ya), own 30%, 40% and 30% of the equity interest in Guizhou Shenqi Enterprise, respectively, representing a 12%, 16% and 12% indirect equity interest in Guizhou Parkson.

9. (i) 鞍山天興國際置業發展有限公司 (Anshan Tianxing International Properties Development Co., Ltd.), owns 49% of the equity interest of Anshan Tianxing Parkson Shopping Centre Co., Ltd. ("Anshan Parkson").

   (ii) Each of 鞍山市金羽經貿有限公司 (Anshan City Jinyu Jingmao Company Limited) and 香港貿明有限公司 (Praise Shine Company Limited), owns 50% of the equity interest in Anshan Tianxing, representing 24.5% indirect equity interest in Anshan Parkson.

10. 上海九海實業有限公司 (Shanghai Nine Sea Industry Co., Ltd.), where they distribute 65% of Shanghai Lion Property's profits.

11. Shanghai Lion Property and Shanghai Nine Sea Parkson are cooperative joint venture enterprises established under the laws of the PRC. The percentages are calculated based on the voting rights attributable to Shanghai Nine Sea Industry pursuant to the respective co-operative joint venture contracts. The percentages to distributable profits are different.

SHARE OPTION SCHEME

Pursuant to a shareholders' resolution dated 9 November 2005, the Company's share option scheme (the "Scheme") was adopted to attract and retain the best available personnel, to provide additional incentive to the eligible persons and to promote the success of the business of the Group. Details of the Scheme were provided in the Company's prospectus dated 17 November 2005.

Under the Scheme, the Company may offer any employee, Director, consultant, business associate or adviser of the Group options to subscribe for shares in the Company. No consideration is payable upon acceptance of the option by the grantee.

The Scheme is valid and effective for a period of 10 years up to 8 November 2015, after which no further share options will be granted but the provisions of the Scheme shall remain in full force and effect in all other respects. Share options complying with the provisions of the Listing Rules which are granted during the duration of the Scheme and remain unexercised immediately prior to the end of the 10-year period shall continue to be exercisable in accordance with their terms of grant within the share option period for which such share options are granted, notwithstanding the expiry of the Scheme. The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 55,200,000, being 10% of the issued share capital of the Company on 9 November 2005, the date on which the Scheme was adopted (the "Scheme Mandate Limit"). At as the date of this annual report, the total number of shares available for issue under the Scheme is 47,011,050, which represents 8.52% of the total issued share capital of the Company. Unless with the approval from the Company's shareholders at general meeting, the number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any 12 months period is not permitted to exceed 1% of the shares of the Company in issue at any point in time. Options granted to substantial shareholders, Independent Non-executive Directors, or any of their respective associates (including a discretionary trust whose discretionary objects include a substantial shareholder or an Independent Non-executive Director or a company beneficially owned by any substantial shareholder or Independent Non-executive Director of the Company) in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders in general meeting.

Option granted must be taken up within the time limit specified in the offer letter. Options may be exercised at any time during a period commencing on or after the date to be notified by the Board to each grantee which period shall commence not less than 1 year and not to exceed 10 years from the date of grant of the relevant option. The exercise price is determined by the Directors of the Company and will not be less than (a) the closing price of the Company's shares on the date of grant, (b) the average closing of the shares for the 5 business days immediately preceding the date of grant; and (c) the nominal value of the Company's share.

On 10 January 2007 a total of 8,188,950 share options were granted at an exercise price of HK$36.75 per share to 482 eligible employees.

Directors' Report

CONNECTED TRANSACTIONS

The following sets out details of certain connected transactions of the Group.

Financial assistance from the Group to connected persons

Members of the Group have provided financial assistance, in the form of entrusted loans, to certain connected persons of the Group.

1. Entrusted loans of Mianyang Parkson

Mianyang Parkson entered into two interest-bearing entrusted loan agreements on 20 August 2005 and 10 September 2005 with Sichuan Fulin Industrial Group Co., Ltd. ("Sichuan Fulin"), pursuant to which loan facilities of an aggregate amount of RMB12.0 million were made to Sichuan Fulin through China Construction Bank, Mianyang Branch. The loans are due in April 2006 and September 2006, respectively.

Sichuan Fulin is a substantial shareholder of Mianyang Parkson, a subsidiary of the Company and therefore Sichuan Fulin is a connected person of the Company.

Such transactions had been settled upon due date.

2. Entrusted loans of Anshan Parkson

Anshan Parkson entered into two interest-bearing entrusted loan agreements on 22 September 2005 with Anshan Tianxing International Properties Development Co., Ltd ("Anshan Tianxing"), pursuant to which loan facilities of an aggregate amount of RMB70 million were made to Anshan Tianxing through CITIC Industrial Bank, Dalian branch. Both loans are due in September 2006. As security, Anshan Tianxing pledged in favour of Anshan Parkson its dividend in the joint venture and rental receivables for Anshan Parkson's department store.

Anshan Tianxing is a substantial shareholder of Anshan Parkson, a subsidiary of the Company and therefore Anshan Tianxing is a connected person of the Company.

As at the date of this report, a sum of approximately RMB4.1 million had been settled. The Group has commenced legal action against Anshan Tianxing to recover the overdue balance of RMB65.9 million.

CONTINUING CONNECTED TRANSACTIONS

DEED OF NON COMPETITION

A deed of non-competition was entered into between LDHB and the Company on 10 November 2005, under which LDHB has undertaken not to engage, other than through the existing managed stores, in any business of the retail trade in merchandise in department stores, supermarkets, hypermarkets, convenience stores, specialty merchandise stores, supercentres and category killers in the PRC, Hong Kong, Macau and Taiwan. LDHB is a substantial shareholder of the Company and therefore a connected person of the Company.

TRADEMARK LICENSE AGREEMENT

A trademark license agreement was entered into between Shanghai Lion Investment (an indirect wholly-owned subsidiary of the Company) and Parkson Corporation on 9 November 2005, pursuant to which Parkson Corporation granted to Shanghai Lion Investment an exclusive license to use certain trademarks, including the "Parkson" and "Xtra" trademarks for a term of 30 years at the license fee of RMB30,000 per store per annum.

Parkson Corporation is a wholly-owned subsidiary of LDHB (and hence an associate of LDHB).

Pursuant to the trademark license agreement, Shanghai Lion Investment has the right to sub-license the use of trademarks to other entities. Shanghai Lion Investment has entered into a trademark sub-license agreement with each of the stores under the Lion Group as follows:

Sub-licensee	Date Of The Trademark Sub-license Agreement
- Qingdao No 1	9 November 2005
- Laoshan branch of Qingdao No 1	9 November 2005
- Yantai branch of Qingdao No 1	9 November 2005
- Dalian Parkson Retail Development Co., Ltd. ("Dalian Shishang")	9 November 2005
- Nanning Brilliant	9 November 2005
- Changchun Zhonglian Parkson Plaza Co., Ltd. ("Changchun Zhonglian")	9 November 2005
- Tianjin Zhonglian Parkson Commercial Plaza Co., Ltd. ("Tianjin Zhonglian")	9 November 2005
- Shenyang Parkson Shopping Plaza Co., Ltd. ("Shenyang Plaza")	9 November 2005
- Shantou Parkson Commercial Co., Ltd. ("Shantou Commercial")	9 November 2005

Continuing connected transactions exempt from independent shareholders' approval requirement

(A) Lease Agreement

(1) Lease arrangements between Beijing Parkson and China Arts & Crafts (Group) Company ("China Arts & Crafts")

Beijing Parkson entered into three leases with China Arts & Crafts on 1 August 2003, 1 November 2003 and 15 March 2004 (as supplemented on 20 August 2005) pursuant to which China Arts & Crafts agreed to lease premises with a total gross floor area of approximately 20,759 sq.m. located at No. 101 Fuxingmennei Street, Beijing to Beijing Parkson to be used as its place of business.

China Arts & Crafts ceased to be a connected person to the Company since 19 July 2006 upon the completion of the acquisition of the remaining 44% equity interest in Beijing Parkson by Parkson Investment Holdings Co. Ltd., a wholly owned subsidiary of the Company. Hence, the lease agreement was not considered as a continuing connected transaction since 19 July 2006.

For the six months period commencing from 1 January 2006 until 30 June 2006, the rental paid by the Group to China Arts & Crafts amounted to RMB7,528,000.

(2) Lease arrangements between Mianyang Parkson and Sichuan Fulin

Mianyang Parkson entered into two leases with Sichuan Fulin (and its subsidiary) on 7 March 1997 and 20 September 2003 pursuant to which Sichuan Fulin agreed to lease premises with a total gross floor area of approximately 19,860 sq.m. located at Levels 1 to 2, No. 17 Anchang Road, Mianyang, Sichuan to Mianyang Parkson to be used as its place of business.

The term of each lease is 30 and 24 years respectively. The annual rental for the first lease for the first five rental years is RMB5 million, and RMB5.5 million for the sixth to tenth rental years. Thereafter, the rental will be subject to an annual increment of 3%. The rental for the second lease is RMB20,406 per month from 1 April 2004 to 31 March 2014 and the rental for the period from 1 April 2014 to 6 March 2027 is subject to negotiation.

For the year ended 31 December 2006, the annual rental paid by the Group to Sichuan Fulin amounted to RMB7,035,795. This amount exceeds the estimated annual caps of RMB5,745,000 as set out in the Prospectus. This discrepancy arouse because rule no. 17 of the International Financial Report Standard requires a payment for an operating lease to be recognised as an expense on a straight-line basis over the term of the lease; whereas the estimated rental cap of RMB5,745,000 was determined based on the amount to be paid under the leases.

(3) Lease arrangements between Chongqing Parkson and Chongqing Wanyou

Chongqing Parkson entered into two leases with Chongqing Wanyou on 23 January 1996 and 20 September 2000 pursuant to which Chongqing Wanyou agreed to lease premises of a total floor space of approximately 10,800 sq.m. located at No. 77 Chang Jiang Er Road, Tai Ping Yu Zhong District, Chongqing to Chongqing Parkson to be used as its place of business.

The term of each lease is 20 and 25 years respectively. Annual rental for the first lease is calculated as the higher of (a) the basic rent and (b) the turnover rent. The basic rent for the first three rental years is RMB2.8 million, thereafter subject to an annual 3% increment (which is capped at RMB6 million). The turnover rent is calculated at 3% of Chongqing Parkson's annual turnover. For the second lease, the annual rent for the first three rental years is RMB500,000. Thereafter, the annual rent will be the higher of (a) an amount equivalent to 103% of the previous year's rent (capped at RMB1 million) and (b) 3% of turnover.

Chongqing Wanyou is a substantial shareholder of Chongqing Parkson, a subsidiary of the Company, and is therefore a connected person of the Company.

For the year ended 31 December 2006, the rental amount paid by the Group to Chongqing Wanyou amounted to RMB4,933,742.

(4) Lease arrangements between Xi'an Chang'an Parkson and Shaanxi Chang'an Information

Xi'an Chang'an Parkson entered into a lease with Shaanxi Chang'an Information on 9 November 2004 pursuant to which Shaanxi Chang'an Information agreed to lease the premises of a total gross floor space of approximately 24,014 sq.m. located at No. 38 Chang'an Zhong Road, Yanta District, Xi'an to Xi'an Chang'an Parkson to be used as its place of business.

The term of the lease is 15 years. The annual rental is calculated based on 50% of Xi'an Chang'an Parkson's pre-tax gross profits, which is approximately RMB10 million.

Shaanxi Chang'an Information is a substantial shareholder of Xi'an Chang'an Parkson, a subsidiary of the Company, and is therefore a connected person of the Company.

For the year ended 31 December 2006, the annual rental paid by the Group to Shaanxi Chang'an Information amounted to RMB13,403,018. This amount exceeds the estimated annual caps of RMB10,000,000 as set out in the Prospectus. The adjustment in rental amount is due to the fact that the actual performance of Xi'an Shidai for the year ended 31 December 2006 had exceeded the Company's expectations, which give rise to an increase in the profits-linked rental component. An announcement has been made by the Company on 26 February 2007 in relation to the revised annual caps

(5) Lease arrangements between Xi'an Shidai Parkson and Shaanxi Shuangyi

Xi'an Shidai Parkson entered into a lease with Xian Xinrun Property Co., Ltd. ("Xian Xinrun") on 18 August 2004 pursuant to which Xian Xinrun agreed to lease premises of a total gross floor space of approximately 36,084 sq.m. located at Shidaishengdian Edifice, West Street, Xi'an, Shaanxi to Xi'an Shidai Parkson to be used as its place of business. On 20 June 2006, Xi'an Shidai Parkson, Xi'an Xinrun and Shaanxi Shuangyi, entered into a supplemental agreement where the rights and obligations of Xi'an Xinrun under the lease agreement was transferred to Shaanxi Shuangyi.

The term of the lease is 20 years. The annual rent is at 50% of Xi'an Shidai Parkson's pre-tax gross profits, which is approximately RMB8 million.

Shaanxi Shuang Yi is a substantial shareholder of Xi'an Shidai Parkson, a subsidiary of the Company and is therefore a connected person of the Company.

For the year ended 31 December 2006, the annual rental paid by the Group to Shaanxi Shuang Yi amounted to RMB14,931,792. This amount exceeds the estimated annual caps of RMB13,000,000 as set out in the revised annual caps announcement made by the Company on 29 March 2006. The adjustment in rental amount is due to the fact that the actual performance of Xi'an Shidai for the year ended 31 December 2006 had exceeded the Company's expectations, which give rise to an increase in the profits-linked rental component. An announcement has been made by the Company on 26 February 2007 in relation to the revised annual caps.

(6) Lease arrangements between Guizhou Parkson and Guizhou Huawei Real Estate Development Co., Ltd. (Guizhou Huawei)

Guizhou Parkson entered into a lease with Guizhou Huawei on 28 August 2002 pursuant to which Guizhou Huawei agreed to lease the premises of a total gross floor space of 20,826 sq.m. located at No. 118 Zhonghuazhong Road (also known as "No. 117 Zhonghuazhong Road"), Guiyang, Guizhou to Guizhou Parkson to be used as its place of business.

The term of the lease is 20 years. The annual rental comprises two components:

(a) 2% of the annual operating revenue for the part of the premises where jewellry and home appliances are sold and where the supermarket is located; and

(b) 5.5% of the annual operating revenue for other parts of the premises.

Guizhou Huawei is controlled by a company whose issued share capital is held as to more than 30% jointly by Zhang Pei, Zhang Zhi Jun and Zhang Ya, who in turn jointly hold 100% of Guizhou Shenqi Enterprise. Guizhou Shenqi Enterprise is a substantial shareholder of Guizhou Parkson, a subsidiary of the Company. Since Guizhou Huawei is an associate of Zhang Pei, Zhang Zhi Jun and Zhang Ya, who together are connected persons of the Company, Guizhou Huawei is also a connected person of the Company.

For the year ended 31 December 2006, the annual rental paid by the Group to Guizhou Huawei amounted to RMB13,564,536.

(7) Lease arrangements between Anshan Parkson and Anshan Tianxing

Anshan Parkson entered into two leases with Anshan Tianxing on 21 March 2002 (as supplemented by a supplemental lease dated 4 November 2005), and 15 August 2005 pursuant to which Anshan Tianxing agreed to lease premises of a total gross floor space of approximately 42,424 sq.m. (of which 6,920 sq.m. is covered under the supplemental lease) located at No. 88 Erdao Street, Tiedong District, Anshan to Anshan Parkson to be used as its place of business.

The term of the leases is 15 years and 5 years, respectively. The annual rental for the first lease is RMB15 million. Annual rental for the second lease is calculated at 7% of the turnover sales of the store, which amounts to approximately RMB650,000. The annual rental for the premises covered by the supplemental lease is RMB1,500,000.

Anshan Tianxing is a substantial shareholder of Anshan Parkson, a subsidiary of the Company, and is therefore a connected person of the Company.

For the year ended 31 December 2006, the annual rental paid by the Group to Anshan Tianxing amounted to RMB16,849,113, which exceeded the estimated annual cap of RMB15,650,000 as disclosed in the Prospectus and referred to in the Waiver. The discrepancy is due to i) the higher rental paid for the second lease, as the actual performance of Anshan Parkson for the year ended 31 December 2006 exceeded the Company's expectations, which gave rise to an increase in the sales-linked rental component and ii) the inclusion of the annual rent from the supplement lease agreement. An announcement has been made by the Company on 26 February 2007 in relation to the revised annual caps.

(8) Lease arrangements between Xinjiang Parkson and Xinjiang Youhao

Xinjiang Parkson entered into a lease with Xinjiang Youhao on 15 November 2002 pursuant to which Xinjiang Youhao agreed to lease premises of a total gross floor space of 67,507 sq.m. located at No. 30 Youhao South Road, Urumqi, Xinjiang Autonomous Region to Xinjiang Parkson to be used as its place of business.

The term of the lease is 20 years. The annual rental for the periods from 1 January 2003 to 31 December 2003 and 1 January 2004 to 31 December 2004 were RMB21.5 million and RMB23.75 million respectively. For the period from 1 January 2005 to 31 December 2012, the annual rental will be RMB25 million. Thereafter, the rental will be negotiated between the parties based on a formula taking into consideration the PRC consumer price index. Xinjiang Youhao is a substantial shareholder of Xinjiang Parkson, a subsidiary of the Company, and is therefore a connected person of the Company.

For the year ended 31 December 2006, the annual rental paid by the Group to Xinjiang Youhao amounted to RMB24,780,818.

(9) Lease agreement between Xi'an Lucky Parkson and Lucky King (Xi'an) Real Estate Development Co., Ltd ("Xi'an Lifeng")

Xian Lucky Parkson entered into a lease agreement with Xian Lifeng on 24 April 2006 pursuant to which Xi'an Lifeng agreed to lease a premises of a total gross floor area of 22,629 sq.m located at No.6 Jin Hua Nan Road, Beilin District, Xi'an, PRC to Xi'an Lucky Parkson to be used for an operation of a department store.

The term of the lease is for a period of 15 years and the annual rent is base on the following calculation:

If profit before tax is equal to or not more than RMB11 million, the annual rental is calculated at 70% of the profit before tax.

If profit before tax is more than RMB11 million, the annual rent is calculated at 70% of the RMB11 million profit before tax plus 50% on the amount of profit before tax exceeding RMB11 million.

Nevertheless, the above calculation is subjected to a minimum annual rental cap of RMB4 million and maximum annual rental cap of RMB20 million.

For the year ended 31 December 2006, no rental was paid as the property concerned is still until construction and will not be ready until the third quarter of the year 2007.

(B) Management consultancy agreements

(1) Management consultancy agreements with the Lion Group

Shanghai Lion Investment currently provides, and will continue to provide, management consultancy services to certain members of the Lion Group, pursuant to management consultancy agreements between Shanghai Lion Investment and each of the stores under the Lion Group as follows:

Members Of The Lion Group	Date Of The Management Consultancy Agreement
- Qingdao No 1	1 October 2005
- Laoshan branch of Qingdao No 1	1 October 2005
- Yantai branch of Qingdao No 1	10 September 2005
- Dalian Shishang	1 May 2005
- Nanning Brilliant	1 May 2005
- Shenyang Plaza	28 November 2003
- Shantou Commercial	1 June 2005
- Changchun Zhonglian	8 November 2005
- Tianjin Zhonglian	8 November 2005

The above-mentioned members of the Lion Group are, or will be, subsidiaries of LDHB. Since LDHB is a substantial shareholder of the Company, being an associate of LDHB, each of the above-mentioned members of the Lion Group is a connected person of the Company.

For the year ended 31 December 2006, the fees charged for provision of such services amounted to RMB9,260,492.

(2) Management consultancy agreement with Guizhou Shenqi Parkson Shopping Centre Co., Ltd. ("Guizhou Shenqi")

Shanghai Lion Investment entered into a management consultancy agreement with Guizhou Shenqi on 20 January 2000. An annual management fee is calculated based on a combination of fixed percentage of the net sales and a fixed percentage of the profit after tax amount of the store.

Mr Zhang Zhi Jun as a Director of Guizhou Parkson, a subsidiary of the Company, is a connected person of the Company. Mr Zhang Zhi Jun has a 50% interest in Guizhou Shenqi therefore Guizhou Shenqi is an associate of Mr Zhang Zhi Jun. Guizhou Shenqi is therefore a connected person of the Company.

For the year ended 31 December 2006, the fees charged for provision of such services amounted to RMB2,176,360.

The caps in relation to the lease arrangements and management consultancy agreement set out above will not exceed the 2.5% threshold in respect of the applicable percentage ratios under Rule 14A.34 of the Listing Rules.

The above constitute continuing connected transactions under Chapter 14A of the Listing Rules and a waiver from strict compliance with the disclosure and/or shareholders' approval requirements under Rule 14A of the Listing Rules has been granted by the Stock Exchange.

The Directors (including the Independent Non-executive Directors) have reviewed and confirmed that the above continuing connected transactions were:

(i) carried out in the ordinary and usual course of business of the Company;

(ii) carried out on normal commercial terms or on terms no less favourable than those available to or from independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Save as disclosed, the auditors of the Company have confirmed that the above transactions have been approved by the Board of Directors and did not exceed the respective caps stated in the Company's prospectus dated 17 November 2005 and the Company's announcement dated 29 March 2006.

Purchase, Sale or Redemption of Shares

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's Articles of Association although there are no restrictions against such rights under the laws of the Cayman Islands.

Emolument policy and pension schemes

The Group recognises the importance of good relationships with employees. The remuneration payable to employees includes salaries and allowance/bonuses.

The Group also has made contributions to the staff related plans or funds in accordance with the local regulations of the PRC: pension plans, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance.

The Group has been advised by its legal advisers on PRC law that the above arrangements are in compliance with all relevant laws and regulations.

Major customers and suppliers

As the Group is principally engaged in retail sales, none of its customers and suppliers accounted for more than 5% of its turnover in year ended 31 December 2006. None of the Directors or shareholders who owned 5% or more of the issued shares capital of the Company as at 31 December 2006 or any of their respective associates held any interest in any of the five largest customers and suppliers of the company for the year ended 31 December 2006.

Sufficiency of public float

The Company has maintained a sufficient public float throughout the period from the date of listing of shares to 31 December 2006.

Corporate Governance Report

Details of the Company's corporate governance practices are set out in the "Corporate Governance Report" under this annual report.

Post balance sheet events

Details of significant events occurring after the balance sheet date are set out in note 41 to the financial statements.

Auditors

Ernst & Young retire, and being eligible, offer themselves for re-appointment. A resolution will be proposed at the forthcoming annual general meeting to re-appoint Ernst & Young as auditors of the Company.

On behalf of the Board

Cheng Yoong Choong

Managing Director

26 February 2007

Independent Auditors' Report

ERNST & YOUNG

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To the shareholders of Parkson Retail Group Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of Parkson Retail Group Limited (the "Company") set out on pages 62 to 137, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
26 February 2007

Consolidated Income Statement

Year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
Revenues	4	1,942,005	1,131,890
Other operating revenues	4	242,029	82,768
Total operating revenues		2,184,034	1,214,658
Operating expenses			
Purchases of goods and changes in inventories		(632,325)	(363,461)
Staff costs		(196,566)	(120,262)
Depreciation and amortisation		(88,737)	(64,055)
Rental expenses		(227,054)	(103,902)
Other operating expenses		(331,439)	(165,785)
Total operating expenses		(1,476,121)	(817,465)
Profit from operations	5	707,913	397,193
Finance income	6	75,047	14,828
Finance costs	6	(51,509)	(6,383)
Share of profit of an associate		538	522
Profit from operations before income tax		731,989	406,160
Income tax	9	(218,835)	(131,836)
Profit for the year		513,154	274,324
Attributable to:			
Equity holders of the parent		460,761	248,012
Minority interests		52,393	26,312
		513,154	274,324
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Basic	10	RMB0.83	RMB0.55
DIVIDENDS	39		
Interim		82,800	–
Proposed final		149,040	143,520
		231,840	143,520
DIVIDEND PER SHARE	39		
Interim		RMB0.15	–
Proposed final		RMB0.27	RMB0.26
		RMB0.42	RMB0.26

Consolidated Balance Sheet

31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	749,923	581,535
Investment properties	12	227,368	17,394
Lease prepayments	13	431,550	49,066
Intangible assets	14	689,565	82,191
Investment in an associate	17	2,214	2,120
Held-to-maturity investments	18	1,561,740	–
Other assets	19	107,408	72,629
Deferred tax assets	20	45,460	32,789
Total non-current assets		3,815,228	837,724
CURRENT ASSETS			
Inventories	22	109,904	80,938
Trade receivables	23	18,489	16,737
Investments	24	–	1,842
Prepayments, deposits and other receivables	25	259,492	233,250
Cash and cash equivalents	26	3,271,366	2,080,407
Total current assets		3,659,251	2,413,174
CURRENT LIABILITIES			
Interest-bearing bank loans	27	(83,886)	(154,856)
Trade payables	28	(871,618)	(569,003)
Customers' deposits, other payables and accruals	29	(611,097)	(355,448)
Tax payable		(113,518)	(94,629)
Total current liabilities		(1,680,119)	(1,173,936)
NET CURRENT ASSETS		1,979,132	1,239,238
TOTAL ASSETS LESS CURRENT LIABILITIES		5,794,360	2,076,962

	Notes	2006 RMB'000	2005 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	27	(1,607,027)	(79,446)
Long term payables	30	(93,994)	(77,895)
Deferred tax liabilities	20	(247,050)	(46,295)
Senior guaranteed notes	31	(1,526,806)	–
Total non-current liabilities		(3,474,877)	(203,636)
NET ASSETS		2,319,483	1,873,326
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	37	57,436	57,436
Reserves	38(a)	2,170,151	1,723,444
		2,227,587	1,780,880
Minority interests		91,896	92,446
TOTAL EQUITY		2,319,483	1,873,326

Consolidated Statement of Changes in Equity

Year ended 31 December 2006

	Attributable to equity holders of the parent									
	Issued share capital *RMB'000*	Share premium *RMB'000*	Contributed surplus *RMB'000* *note 38(a)(ii)*	PRC reserve funds *RMB'000* *note 38(a)(i)*	Exchange reserve *RMB'000*	Asset revaluation reserve *RMB'000* *note 38(a)(iii)*	Contribution from the owner and retained earnings *RMB'000*	Total *RMB'000*	Minority interests *RMB'000*	Total equity *RMB'000*
At 1 January 2005	–	–	–	24,289	19,201	–	612,493	655,983	66,317	722,300
Exchange realignment	–	–	–	–	(3,741)	–	–	(3,741)	–	(3,741)
Total income and expense for the year recognised directly in equity	–	–	–	–	(3,741)	–	–	(3,741)	–	(3,741)
Profit for the year	–	–	–	–	–	–	248,012	248,012	26,312	274,324
Total income and expense for the year	–	–	–	–	(3,741)	–	248,012	244,271	26,312	270,583
Equity transactions with the owner	–	–	–	–	–	–	3,785	3,785	–	3,785
Contribution from the owner	–	–	–	–	–	–	20,223	20,223	–	20,223
Shares issued for reorganisation	8,335	–	154,442	–	–	–	(162,777)	–	–	–
Issue of new shares upon listing	11,487	1,114,251	–	–	–	–	–	1,125,738	–	1,125,738
Share premium transfer to share capital	37,614	(37,614)	–	–	–	–	–	–	–	–
Share issue expenses	–	(51,673)	–	–	–	–	–	(51,673)	–	(51,673)
Transfer to the PRC reserve funds	–	–	–	19,667	–	–	(19,667)	–	–	–
Acquisitions	–	–	–	–	–	–	–	–	11,847	11,847
Appropriation to owners	–	–	–	–	–	–	(217,447)	(217,447)	(12,030)	(229,477)
At 31 December 2005 and 1 January 2006	57,436	1,024,964*	154,442*	43,956*	15,460*	–	484,622*	1,780,880	92,446	1,873,326
Exchange realignment	–	–	–	–	(11,979)	–	–	(11,979)	–	(11,979)
Business combination (note 21 (i))	–	–	–	–	–	336,312	–	336,312	–	336,312
Tax effect of revaluation	–	–	–	–	–	(112,067)	–	(112,067)	–	(112,067)
Total income and expense for the year recognised directly in equity	–	–	–	–	(11,979)	224,245	–	212,266	–	212,266
Profit for the year	–	–	–	–	–	–	460,761	460,761	52,393	513,154
Total income and expense for the year	–	–	–	–	(11,979)	224,245	460,761	673,027	52,393	725,420
Transfer to the PRC reserve funds	–	–	–	43,364	–	–	(43,364)	–	–	–
Dividends paid *(note 38(b)(iii))*	–	(226,320)	–	–	–	–	–	(226,320)	–	(226,320)
Dividends of subsidiaries	–	–	–	–	–	–	–	–	(52,943)	(52,943)
At 31 December 2006	**57,436**	**798,644***	**154,442***	**87,320***	**3,481***	**224,245***	**902,019***	**2,227,587**	**91,896**	**2,319,483**

* These reserve accounts comprise the consolidated reserves of RMB2,170,151,000 (2005: RMB1,723,444,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2006

	Notes	2006 *RMB'000*	2005 *RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit from operations before income tax		731,989	406,160
Adjustments for:			
Share of profit of an associate		(538)	(522)
Interest income	*6*	(75,047)	(14,828)
Excess over the cost of business combinations	*4*	–	(3,498)
Interest expenses	*6*	51,509	4,614
Depreciation and amortisation	*5*	88,737	64,055
Foreign exchanges losses	*5*	13,273	1,769
Allowance for doubtful debts	*5*	2,454	1,145
Loss on disposal of items of property, plant and equipment	*5*	1,006	324
		813,383	459,219
Decrease/(increase) in other assets		11,255	(72,629)
Increase in inventories		(2,868)	(11,761)
(Increase)/decrease in trade receivables		(2,385)	6,327
Decrease in prepayments, deposits and other receivables		54,709	178,916
Increase in trade payables		198,933	123,116
Increase/(decrease) in customers' deposits, other payables and accruals		51,827	(59,335)
Increase in long term payables		8,904	2,375
Cash generated from operations		1,133,758	626,228
Interest paid		(51,509)	(4,614)
Income tax paid		(216,141)	(100,601)
Net cash inflow from operating activities		866,108	521,013

Consolidated Cash Flow Statement

Year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
Net cash inflow from operating activities		866,108	521,013
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of items of property, plant and equipment		1,260	736
Purchases of items of property, plant and equipment		(74,076)	(43,761)
Acquisition of subsidiaries		(700,769)	30,170
Acquisition of jointly-controlled entities		–	6,767
Acquisition of minority interests		–	(74,800)
Equity transactions with the owner		–	179,163
Decrease in investments		1,842	74,864
Increase in an investment in an associate		–	(520)
Increase in held-to-maturity investments		(1,561,740)	–
Decrease in amounts due from related parties		–	85,169
Decrease in other receivables		4,500	26,898
Dividends received		444	470
Interest received		75,047	14,828
Net cash inflow/(outflow) from investing activities		(2,253,492)	299,984
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		1,500,000	229,200
Repayment of bank loans and other loans		(143,948)	(145,332)
Net proceeds from issuance of senior guaranteed notes		1,526,806	–
Decrease in amounts due to related parties		–	(67,919)
Net proceeds from issuance of new shares upon listing		–	1,074,065
Dividends of subsidiaries		(52,943)	–
Dividends paid	38(b)(iii)	(226,320)	–
Distribution to owners		–	(4,139)
Appropriation to owners		–	(229,477)
Net cash inflow from financing activities		2,603,595	856,398
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,216,211	1,677,395
Cash and cash equivalents at beginning of year		2,080,407	408,522
Exchange differences		(25,252)	(5,510)
CASH AND CASH EQUIVALENTS AT END OF YEAR		3,271,366	2,080,407
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	26	1,899,383	973,345
Non-pledged time deposits with original maturity of less than three months when acquired	26	1,371,983	1,107,062
		3,271,366	2,080,407

Balance Sheet

31 December 2006

	Notes	2006 *RMB'000*	2005 *RMB'000*
NON-CURRENT ASSETS			
Interests in subsidiaries	*15*	1,186,914	575,721
Held-to-maturity investments	*18*	1,561,740	–
Total non-current assets		2,748,654	575,721
CURRENT ASSETS			
Other receivables		19,981	–
Cash and cash equivalents	*26*	202,940	1,079,912
Total current assets		222,921	1,079,912
CURRENT LIABILITIES			
Accruals		(20,490)	(10,907)
NET CURRENT ASSETS		202,431	1,069,005
TOTAL ASSETS LESS CURRENT LIABILITIES		2,951,085	1,644,726
NON-CURRENT LIABILITIES			
Senior guaranteed notes	*31*	(1,526,806)	–
NET ASSETS		1,424,279	1,644,726
EQUITY			
Issued capital	*37*	57,436	57,436
Reserves	*38(b)*	1,366,843	1,587,290
TOTAL EQUITY		1,424,279	1,644,726

1. CORPORATE INFORMATION

As a result of a group restructuring of Lion Diversified Holdings Berhad ("LDHB"), a public limited liability company incorporated and domiciled in Malaysia and the controlling shareholder of the Company, the Company was incorporated in the Cayman Islands on 3 August 2005 with limited liability under the Companies Law of the Cayman Islands. Pursuant to the group reorganisation (the "Reorganisation") in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company has become the holding company of the companies now comprising the Group on 9 November 2005. The shares of the Company have been listed on the Stock Exchange since 30 November 2005. The Company has established a principal place of business in Hong Kong at Suite 1316, Prince's Building, 10 Charter Road Central, Hong Kong.

The Reorganisation has been accounted for as a reorganisation of entities under common control in a manner similar to a pooling of interests, since Tan Sri Cheng Heng Jem, the controlling shareholder of LDHB, controlled the Company and the relevant companies before and after the completion of the Reorganisation. Accordingly, the consolidated income statement and consolidated cash flow statement for the year ended 31 December 2005 include the results and cash flows of the relevant companies since 1 January 2005, or since their respective dates of registration, where this is a shorter period.

During the period from August to November 2005, the Group acquired eight department store entities/businesses (the "Acquired Stores") from certain independent third party vendors. The Acquired Stores principally engaged in the operation of twelve "Parkson" department stores in the PRC. The Group provided department store management services to the Acquired Stores before the acquisitions. The acquisition transactions were accounted for under the purchase method in the Company's 2005 consolidated financial statements.

During the year, the Group was involved in the operation and management of a network of department stores in the People's Republic of China (the "PRC").

2.1 BASIS OF PREPARATION

These financial statements are prepared on the historical cost basis except that investments held for trading are stated at their fair values and the assets and liabilities attributable to Parkson Retail Development Co., Ltd., a previously 56% owned jointly-controlled entity of the Group, were recognised at their fair value at the date of control upon the Group's acquisition of the remaining 44% equity interests on 1 July 2006 (note 21(i)). These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (the "Group") as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from the parent shareholders' equity. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised IFRSs and International Financial Reporting Interpretations Committee ("IFRIC") interpretations during the year. The adoption of these revised standards and interpretations did not have any effect on the financial statements of the Group.

IAS 19 Amendment	–	Employee Benefits
IAS 21 Amendment	–	The Effects of Changes in Foreign Exchange Rates
IAS 39 Amendments	–	Financial Instruments: Recognition and Measurement
IFRIC 4	–	Determining whether an Arrangement contains a Lease
IFRIC 5	–	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6	–	Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in these financial statements:

IAS 1 Amendment	–	Capital Disclosures
IFRS 7	–	Financial Instruments: Disclosures
IFRS 8	–	Operating Segments
IFRIC 7	–	Applying the Restatement Approach under IAS 29 *Financial Reporting in Hyperinflationary Economies*
IFRIC 8	–	Scope of IFRS 2
IFRIC 9	–	Reassessment of Embedded Derivatives
IFRIC 10	–	Interim Financial Reporting and Impairment
IFRIC 11	–	IFRS 2-Group and Treasury Share Transactions
IFRIC 12	–	Service Concession Arrangements

The IAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

IFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of IAS 32.

IFRIC 7, IFRIC 8, IFRIC 9, IFRIC 10, IFRIC 11, IFRIC 12 and IFRS 8 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007, 1 January 2008 and 1 January 2009, respectively.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, it has concluded that while the adoption of the IAS 1 Amendment and IFRS 7 may result in new or amended disclosures, these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – the Group as lessee

The Group has entered into commercial property leases for its department stores business. The Group has determined that the lessor retains all the significant risks and rewards of relevant properties and so accounts for them as operating leases.

Income tax provisions

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is assessed periodically to take into account all the changes in the tax legislations and practices.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was RMB687,763,000 (2005: RMB79,734,000). Further details are given in Note 14.

Depreciation

The Group has estimated the useful lives of the property, plant and equipment and investment properties of 5 to 42 years, after taking into account of their estimated residual values, as set out in the principal accounting policies below. Depreciation of items of property, plant and equipment is calculated on the straight-line basis over their expected useful lives. The carrying amount of items of property, plant and equipment and investment properties as at 31 December 2006 were RMB749,923,000 (2005: RMB581,535,000) and RMB227,368,000 (2005: RMB17,394,000), respectively. Further details are given in note 11 and note 12.

3. PRINCIPAL ACCOUNTING POLICIES

Foreign currencies

These financial statements are presented in Renminbi, which is different from the functional currency of the Company of United States dollars. The Company's consolidated financial statements are presented in Renminbi because management considers that a substantial majority of the group companies are in the PRC and the Group primarily generates and expends cash in Renminbi. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency exchange rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates ruling at the dates of initial transactions. Non-monetary items measured at fair value in a foreign currency is translated using the exchange rates at the date when the fair value was determined.

The functional currencies of overseas subsidiaries and jointly-controlled entities are their respective local currencies. As at the reporting date, the assets and liabilities of these overseas subsidiaries and jointly-controlled entities are translated into the Company's presentation currency at the exchange rates ruling at the balance sheet date and the income statement is translated at the weighted average exchange rates for the year. Exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries and jointly-controlled entities are translated into Renminbi at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries and jointly-controlled entities which arise throughout the year, are translated into Renminbi at the weighted average exchange rates for the year.

During the year, the Company has changed its functional currency from Renminbi to United State dollars because of its new treasury function and the Company has entered into investing and financing transactions which were primarily denominated in United State dollars. The change of functional currency of the Company from Renminbi to United State dollars had no material impact on the Group's consolidated financial statements for the years presented.

Segment reporting

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

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured on the following basis:

- Sale of goods
  Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

- Commissions from concessionaire sales are recognised upon the sale of goods by the relevant stores.

- Promotion income and minimum guaranteed sales commissions are recognised according to the underlying contract terms with concessionaires and as these services have been provided in accordance therewith.

- Interest income is recognised as interest accrues (using the effective interest method by applying the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

- Consultancy and management service fees, credit card handling fees, administration fees and service fees are recognised when the relevant services are rendered.

- Dividends are recognised when the Group's right to receive the payment has been established.

- Rental income, display space leasing fees and equipment leasing income are recognised on a time proportion basis over the terms of the respective leases.

Government grants

Government grants are recognised at their fair values where there is reasonable assurance that the grants will be received and all attaching conditions will be complied with. When a grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated income statement over the expected useful lives of the relevant assets by equal annual instalments. Government grants received where the attaching conditions have not yet been fulfilled are recognised as liabilities.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is provided using the liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in jointly-controlled entities, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in jointly-controlled entities, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the consolidated income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the consolidated income statement on the straight-line basis over the lease terms.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets other than goodwill

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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 the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the consolidated income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investment carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in the consolidated income statement.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Assets carried at amortised cost (continued)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or group of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with IAS 14 Segment Reporting.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost, less accumulated depreciation and any impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the item of property, plant and equipment to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the items of property, plant and equipment, and where the cost of item can be measured reliably, the expenditure is capitalised as an additional cost of that item of property, plant and equipment.

Depreciation of property, plant and equipment is calculated on the straight-line basis over the expected useful lives of the items of property, plant and equipment, after taking into account their estimated residual values of 5% to 10%, as follows:

Buildings	20 – 42 years
Leasehold improvements	5 – 10 years
Motor vehicles	5 years
Equipment and fixtures	5 – 10 years

Construction in progress represents stores and storage facilities under construction, or renovation works in progress and is stated at cost less any impairment losses, and is not depreciated. Cost comprises development and construction expenditure incurred and other direct costs attributable to the development less any accumulated impairment losses. On completion, the relevant assets are transferred to property, plant and equipment at cost less accumulated impairment losses.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use or disposal of the asset. Any gain or loss arising on derecognition of the item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year the item is derecognised.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

Borrowing costs

Borrowing costs are recognised as an expense when incurred.

Lease prepayments

Lease prepayments represent land use rights paid to the PRC government authorities. Land use rights are carried at cost and are charged to the consolidated income statement on the straight-line basis over the respective periods of the rights ranging from 24 to 42 years.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement in the expense category consistent with the function of the intangible asset.

Investment properties

Investment properties are part of a building that are held to earn rental income or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes, or for sale in the ordinary course of business.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Investment properties *(continued)*

Investment properties are measured at cost less accumulated depreciation and provision for any impairment in value. Depreciation is calculated on the straight-line basis over the expected useful life of 42 years.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year in which they arise.

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture; or

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Jointly-controlled entities *(continued)*

The Group's interests in its jointly-controlled entities are accounted for by proportionate consolidation, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis.

Associates

An associate is an entity, not being subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interest in an associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Inventories

Inventories comprise merchandise purchased for resale and consumables and are stated at the lower of cost and net realisable value.

The cost of merchandise is determined on the weighted average basis. The net realisable value is determined based on the estimated selling prices less any estimated costs to be incurred to disposal.

Trade and other receivables

Trade receivables, which generally have credit terms of less than 90 days, are recognised and carried at the original invoice amount less an allowance for any uncollectible amounts.

Other receivables are recognised and carried at cost less an allowance for any uncollectible amounts.

Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated and effective hedging instruments or financial guarantee contract. Gains or losses on investments held for trading are recognised in the consolidated income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded. As at 31 December 2006, no financial assets have been designated as at fair value through profit and loss (2005: Nil).

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Group has the positive intention and ability to hold to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the consolidated income statement when the investments are derecognised or impaired, as well as through the amortisation process. As at 31 December 2006, the company had held-to-maturity investments of RMB1,561,740,000 (2005: Nil).

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; a discounted cash flow analysis or other valuation models.

Cash and cash equivalents

For the purpose of the balance sheets, cash and cash equivalents comprise cash at banks and on hand and short term deposits, which are not restricted as to use and with an original maturity of less than three months when acquired. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Financial liabilities

Financial liabilities in the scope of IAS 39 are classified as either financial liabilities measured at fair value through profit or loss or other financial liabilities at amortised cost.

Financial liabilities including trade and other payables are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains or losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through amortisation process.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

Coupon liabilities

Coupon liabilities are recognised at present value of expenditures expected to be required to settle the obligation based on the bonus points granted to customers in accordance with the announced bonus points scheme and the Group's past experience on the level of redemption of coupons.

Interest-bearing bank loans

All bank loans are initially recognised at the fair value of the consideration received net of directly attributable transaction costs.

After initial recognition, interest-bearing bank loans are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any transaction cost, and any discount or premium on settlement.

Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised, as well as through the amortisation process.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

Contingent liabilities and contingent assets

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

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Contingent liabilities and contingent assets *(continued)*

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

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

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

Employee benefits

Share-based payment transactions

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity settled transactions"). Employees working in the business development group are granted share appreciation rights, which can only be settled in cash ("cash-settled transactions").

In situations where some or all of the goods or services received by the entity as consideration for equity instruments cannot be specifically identified, they are measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received at the grant date. For cash-settled transactions, the liability is measured at each reporting date until settlement.

Equity-settled transactions

The cost of equity-settled transactions with employees, for awards granted after 7 November 2002, is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using an appropriate pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Equity-settled transactions (continued)

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Retirement benefits

Pursuant to the relevant PRC laws and regulations, each of the PRC subsidiaries of the Group is required to participate in a retirement benefits scheme organised by the local municipal government whereby the Group is required to contribute a certain percentage of the salaries of its employees to the retirement benefits scheme. The only obligation of the Group with respect to the retirement benefits scheme is to pay the ongoing required contributions. Contributions made to the defined contribution retirement benefits scheme are charged to the consolidated income statement as incurred.

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting are taken directly to the consolidated income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Derivative financial instruments and hedging *(continued)*

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or

- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the consolidated income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying value of the hedged item and is also recognised in the consolidated income statement.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the consolidated income statement over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest rate method is amortised through the consolidated income statement.

Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedge item is derecognised, the unamortised fair value is recognised immediately in the consolidated income statement.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Derivative financial instruments and hedging *(continued)*

Fair value hedges (continued)

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the consolidated income statement. The changes in the fair value of the hedging instrument are also recognised in the consolidated income statement.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the consolidated income statement.

Amounts taken to equity are transferred to the consolidated income statement when the hedged transaction affects the consolidated income statement, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognised in equity are transferred to the consolidated income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

4. REVENUES AND OTHER OPERATING REVENUES

Revenues

Revenues, which are also Group's turnover, represent the net amount received and receivable for the goods sold by the Group to outside customers, less returns and allowances, commissions from concessionaire sales, consultancy and management service fees, and rental income. An analysis of revenues is presented below:

	2006	2005
	RMB'000	*RMB'000*
Sale of goods – direct sales	758,049	441,220
Commissions from concessionaire sales *(note)*	1,027,122	577,474
Consultancy and management service fees	41,681	47,691
Rental income	115,153	65,505
	1,942,005	1,131,890

Note:

The commissions from concessionaire sales are analysed as follows:

	2006	2005
	RMB'000	*RMB'000*
Gross revenue from concessionaire sales	5,011,806	2,670,785
Commissions from concessionaire sales	1,027,122	577,474

Over 90% of the Group's turnover and contribution to the operating profit is attributable to the operation and management of department stores, over 90% of the Group's turnover and contribution to the operating profit is attributable to customers in the PRC and over 90% of the Group's assets are located in the PRC. Accordingly, no analysis of segment information is presented.

4. REVENUES AND OTHER OPERATING REVENUES *(continued)*

Other operating revenues

	Notes	2006 *RMB'000*	2005 *RMB'000*
Promotion income		**63,279**	19,260
Credit card handling fees		**52,584**	18,737
Equipment leasing income		**8,950**	3,661
Display space leasing fees		**12,697**	6,135
Administration fees		**25,736**	6,203
Service fees		**17,323**	7,260
Government grants	*(i)*	**10,655**	1,500
PRC tax compensations	*(ii)*	**25,914**	3,224
Excess over the cost of business combinations		**–**	3,498
Other income		**24,891**	13,290
		242,029	82,768

Notes:

(i) Various local government grants have been granted to reward the Group for its contributions to the local economy. There were no unfulfilled conditions or contingencies attaching to these government grants.

(ii) The PRC tax compensations were granted to the Group for its reinvestment of dividend income from certain PRC group companies to establish new foreign investment enterprises in the PRC. There were no unfulfilled conditions or contingencies attaching to these tax compensations.

5. PROFIT FROM OPERATIONS

The Group's profit from operations is arrived at after charging/(crediting):

	2006 RMB'000	2005 RMB'000
Cost of inventories recognised as expenses	632,325	363,461
Staff costs excluding directors' remuneration *(note 7)*:		
Wages, salaries and bonuses	158,848	91,983
Pension scheme contributions	15,207	10,147
Social welfare and other costs	19,118	15,476
	193,173	117,606
Depreciation and amortisation	88,737	64,055
Operating lease rentals in respect of leased properties:		
Minimum lease payments	183,887	91,973
Contingent lease payments*	43,167	11,929
	227,054	103,902
Loss on disposal of items of property, plant and equipment	1,006	324
Auditors' remuneration	4,900	3,517
Allowance for doubtful debts	2,454	1,145
Gross rental income in respect of investment properties	(16,978)	(3,432)
Sub-letting of properties:		
Minimum lease payments	(59,032)	(30,371)
Contingent lease payments*	(39,143)	(31,702)
	(98,175)	(62,073)
Total gross rental income	(115,153)	(65,505)
Direct operating expenses arising on rental-earning investment properties	1,411	3,868
Foreign exchange losses	13,273	1,769

* Contingent lease payments are calculated based on a percentage of relevant performance of the tenants pursuant to the rental agreements.

6. FINANCE INCOME/COSTS

	2006	2005
	RMB'000	*RMB'000*
Finance income:		
Interest income from held-to-maturity investments	20,372	–
Bank interest income	49,215	12,147
Interest income from loans receivable	5,460	2,681
	75,047	14,828
Finance costs:		
Senior guaranteed notes	(17,153)	–
Interest expenses on bank loans and other loans, wholly repayable within five years	(34,356)	(4,614)
Foreign exchange losses	–*	(1,769)
	(51,509)	(6,383)

* The amount of foreign exchange loss of RMB13,273,000 for the year ended 31 December 2006 was included in the other operating expenses.

7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2006	2005
	RMB'000	*RMB'000*
Fees	746	156
Other emoluments:		
Salaries, allowances, bonuses and other benefits	2,544	2,414
Pension scheme contributions	103	86
	3,393	2,656

7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(continued)*

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2006	2005
	RMB'000	*RMB'000*
Mr. Fong Ching, Eddy	134	26
Mr. Studer Werner Josef	120	26
Mr. Ko Tak Fai, Desmond	124	26
	378	78

There were no other emoluments payable to the independent non-executive directors for the year ended 31 December 2006 (2005: Nil).

(b) Executive directors and a non-executive director

	Fees	Salaries, allowances, bonuses and other benefits	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
2006				
Executive directors:				
Mr. Cheng Yoong Choong	122	–	–	122
Mr. Chew Fook Seng	124	2,544	103	2,771
	246	2,544	103	2,893
Non-executive director:				
Tan Sri Cheng Heng Jem	122	–	–	122
	368	2,544	103	3,015

7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(continued)*

(b) Executive directors and a non-executive director *(continued)*

	Fees	Salaries, allowances, bonuses and other benefits	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
2005				
Executive directors:				
Mr. Cheng Yoong Choong	26	–	–	26
Mr. Chew Fook Seng	26	2,414	86	2,526
	52	2,414	86	2,552
Non-executive director:				
Tan Sri Cheng Heng Jem	26	–	–	26
	78	2,414	86	2,578

Included in salaries, allowances, bonuses and other benefits was a discretionary bonus of RMB1,281,000 (2005: RMB920,000) to Mr. Chew Fook Seng, a director of Company, for the year ended 31 December 2006. There was no arrangement under which directors waived or agreed to waive any remuneration during the year.

(c) Five highest paid employees

The five highest paid employees during the year included one (2005: one) director, details of whose remuneration are set out above. Details of the remuneration of remaining four (2005: four) non-director, highest paid employees for the year are as follows:

	2006	2005
	RMB'000	*RMB'000*
Salaries, allowances, bonuses and other benefits	**5,612**	6,141
Pension scheme contributions	**202**	221
	5,814	6,362

7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(continued)*

(c) Five highest paid employees *(continued)*

Included in salaries, allowances, bonuses and other benefits were discretionary bonuses of RMB2,202,000 (2005: RMB2,005,000) to the remaining four non-director, highest paid employees for the year ended 31 December 2006.

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	2006	2005
HK$1,000,001 to HK$1,500,000 (equivalent to RMB1,004,001 to RMB1,506,000)	2	3
HK$1,500,001 to HK$2,000,000 (equivalent to RMB1,506,001 to RMB2,008,000)	2	1
	4	4

In the opinion of the directors, the Group has no other key management personnel (as defined in IAS 24, Related Party Disclosures) other than the directors and the five highest paid employees as disclosed above.

8. RETIREMENT BENEFITS SCHEME

All the PRC subsidiaries and jointly-controlled entities of the Group are required to participate in the employee retirement benefits schemes operated by the relevant local government authorities in the PRC. The PRC government is responsible for the pension liability to these retired employees. The Group is required to make contributions for those employees who are registered as permanent residents in the PRC and are within the scope of the relevant PRC regulations at rates ranging from 20% to 22.5% of the employees' salaries for the years ended 31 December 2006 and 2005.

The Group's contributions to pension costs for the year ended 31 December 2006 amounted to approximately RMB15,310,000 (2005: RMB10,233,000).

9. INCOME TAX

The Group is subject to income tax on an entity basis on the profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operates.

Under the relevant PRC income tax law, except for certain preferential treatment available to certain PRC subsidiaries and jointly-controlled entities of the Group, the PRC companies of the Group are subject to corporate income tax at a rate of 33% on their respective taxable income. During the year, eight subsidiaries (2005: five subsidiaries and three jointly-controlled entities) have obtained approval from the relevant PRC tax authorities and were subject to preferential corporate income tax rates or corporate income tax exemptions.

An analysis of the provision for tax in the consolidated income statement is as follows:

	2006 *RMB'000*	2005 *RMB'000*
Current income tax	221,464	130,132
Deferred income tax	(2,629)	1,704
	218,835	131,836

9. INCOME TAX *(continued)*

A reconciliation of the income tax expense applicable to profit from operations before income tax at the statutory income tax rate to the income tax expense at the Group's effective income tax rate, is as follows:

	2006										
	Hong Kong		Singapore		Cayman Islands		British Virgin Islands		Mainland China		Total
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*
Profit/(loss) from operations before income tax	13,360		11,233		11,113		(2,527)		698,810		731,989
Income tax at the statutory income tax rate	2,338	17.5	2,247	20	–	Nil	–	Nil	230,607	33	235,192
Tax losses not recognised	–		–		–		–		1,451		1,451
Tax effect of expenses not deductible for tax purposes	–		–		–		–		7,653		7,653
Tax effect of non-taxable income	(2,338)		(2,247)		–		–		–		(4,585)
Tax effect of preferential tax rates	–		–		–		–		(20,876)		(20,876)
Tax charge for the year	–		–		–		–		218,835		218,835

9. INCOME TAX *(continued)*

	2005										
	Hong Kong		Singapore		Cayman Islands		British Virgin Islands		Mainland China		Total
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*
Profit/(loss) from operations before income tax	8,233		(4,252)		(8,380)		–		410,559		406,160
Income tax at the statutory income tax rate	1,441	17.5	(850)	20	–	Nil	–	Nil	135,484	33	136,075
Tax losses not recognised	–		850		–		–		159		1,009
Tax effect of expenses not deductible for tax purposes	–		9		–		–		8,245		8,254
Tax effect of non-taxable income	(1,441)		–		–		–		–		(1,441)
Tax effect of preferential tax rates	–		–		–		–		(12,061)		(12,061)
Tax charge for the year	–		9		–		–		131,827		131,836

10. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share for the year ended 31 December 2006 is based on the profit for the year attributable to equity holders of the parent for the year ended 31 December 2006 of approximately RMB460,761,000 and 552,000,000 shares in issue during the year.

The calculation of basic earnings per share for the year ended 31 December 2005 was based on the profit for the year attributable to equity holders of the parent for the year ended 31 December 2005 of approximately RMB248,012,000 and the weighted average of approximately 451,278,904 shares in issue during the year on the assumption that the 441,600,000 shares issued to the parent pursuant to the Reorganisation had been in issue throughout the year ended 31 December 2005, and as adjusted to reflect the issue of 110,400,000 new shares by way of public offering in issue on 30 November 2005.

Diluted earnings per share for the years ended 31 December 2006 and 2005 have not been disclosed because no diluting events existed during the two years.

11. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Equipment and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2005, net of accumulated depreciation	275,727	188,578	3,309	75,337	69	543,020
Additions	–	30,745	1,096	11,144	776	43,761
Transfers from construction in progress	–	–	–	66	(66)	–
Acquisitions	3,180	18,350	1,943	31,407	158	55,038
Disposals	–	(383)	(138)	(539)	–	(1,060)
Depreciation charge for the year	(18,043)	(22,885)	(956)	(17,340)	–	(59,224)
At 31 December 2005 and 1 January 2006, net of accumulated depreciation	260,864	214,405	5,254	100,075	937	581,535
Additions	–	18,892	2,493	9,801	42,890	74,076
Transfers from construction in progress	–	13,635	–	10,139	(23,774)	–
Acquisitions	104,470	24,114	1,268	25,381	683	155,916
Asset revaluation (iii)	18,483	–	–	–	–	18,483
Disposals	–	(67)	(178)	(2,021)	–	(2,266)
Depreciation charge for the year	(16,425)	(34,906)	(1,740)	(24,750)	–	(77,821)
At 31 December 2006, net of accumulated depreciation	367,392	236,073	7,097	118,625	20,736	749,923

11. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Group

	Buildings RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Equipment and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2005						
Cost	386,727	283,878	5,525	147,391	69	823,590
Accumulated depreciation	(111,000)	(95,300)	(2,216)	(72,054)	–	(280,570)
Net carrying amount	275,727	188,578	3,309	75,337	69	543,020
At 31 December 2005 and 1 January 2006						
Cost	389,907	352,691	8,570	199,848	937	951,953
Accumulated depreciation	(129,043)	(138,286)	(3,316)	(99,773)	–	(370,418)
Net carrying amount	260,864	214,405	5,254	100,075	937	581,535
At 31 December 2006						
Cost	451,844	419,373	11,981	265,581	20,736	1,169,515
Accumulated depreciation	(84,452)	(183,300)	(4,884)	(146,956)	–	(419,592)
Net carrying amount	367,392	236,073	7,097	118,625	20,736	749,923

Notes:

(i) All of the Group's buildings are located in the PRC.

(ii) Certain of the buildings of the Group in Beijing, the PRC, were pledged as security for bank loans of the Group at 31 December 2006. The aggregate carrying value of the pledged buildings attributable to the Group as at 31 December 2006 amounted to RMB65,781,000.

The aggregate carrying value of the pledged buildings in Xi'an and Beijing attributable to the Group as at 31 December 2005 amounted to RMB63,643,000.

(iii) This represented the fair value adjustment relating to the Group's acquisition of the remaining 44% equity interest in Parkson Retail Development Co., Ltd. (note 21(i)).

12. INVESTMENT PROPERTIES

Group

	Notes	**Buildings** *RMB'000*
At 1 January 2005, net of accumulated depreciation		18,726
Depreciation		(1,332)
At 31 December 2005, net of accumulated depreciation		17,394
Business combination *(note 21(i))*		101,200
Asset revaluation	*(i)*	112,072
Depreciation		(3,298)
At 31 December 2006, net of accumulated depreciation		227,368

		2006 *RMB'000*	2005 *RMB'000*
At 31 December			
Cost		**230,000**	29,600
Accumulated depreciation		**(2,632)**	(12,206)
Net carrying amount		**227,368**	17,394
Fair value at 31 December	*(ii)*	**236,200**	95,477

Notes:

(i) This represented the fair value adjustment relating to the Group's acquisition of the remaining 44% equity interest in Parkson Retail Development Co., Ltd. (note 21(i)).

(ii) The fair value of the investment properties as at each year end was determined based on the valuations performed by Vigers Appraisal & Consulting Limited, an independent firm of professional valuers, on a direct comparison approach and where appropriate on an income capitalisation approach. The fair value represents the amount of market value at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the date of valuation.

(iii) Certain of the investment properties of Parkson Retail Development Co., Ltd. were pledged as security for bank loans of Parkson Retail Development Co., Ltd. and the aggregate carrying value of the pledged investment properties as at 31 December 2005 attributable to the Group amounted to RMB5,215,000. The pledges were released upon the repayment of bank loans during the year.

13. LEASE PREPAYMENTS

Group

	Note	2006 *RMB'000*	2005 *RMB'000*
At 1 January		49,066	51,910
Business combination *(note 21(i))*		183,690	–
Asset revaluation	*(ii)*	205,757	–
Charge for the year		(6,963)	(2,844)
At 31 December		431,550	49,066

Notes:

(i) Lease prepayments represented land use rights paid to the PRC government authorities and are amortised on the straight-line basis over their respective lease periods. The leasehold land is held under medium term lease and is situated in the PRC.

(ii) This represented the fair value adjustment relating to the Group's acquisition of the remaining 44% equity interest in Parkson Retail Development Co., Ltd. (note 21(i)).

(iii) Certain of the lease prepayments of Parkson Retail Development Co., Ltd. were pledged as security for its bank loans. The aggregate carrying value of the pledged lease prepayments attributable to the Group amounted to RMB122,559,000 as at 31 December 2006 (2005: RMB9,721,000).

14. INTANGIBLE ASSETS

Group

The movements of intangible assets are as follows:

	Note	Goodwill	Computer software	Total
		RMB'000	*RMB'000*	*RMB'000*
At 1 January 2005, net of accumulated amortisation		–	3,112	3,112
Business combinations		16,966	–	16,966
Acquisition of minority interest		62,768	–	62,768
Amortisation		–	(655)	(655)
At 31 December 2005 and 1 January 2006, net of accumulated amortisation		79,734	2,457	82,191
Business combinations	*(i)*	608,029	–	608,029
Amortisation		–	(655)	(655)
At 31 December 2006, net of accumulated amortisation		687,763	1,802	689,565
At 1 January 2005				
Cost		–	3,277	3,277
Accumulated amortisation		–	(165)	(165)
Net carrying amount		–	3,112	3,112
At 31 December 2005 and 1 January 2006				
Cost		79,734	3,277	83,011
Accumulated amortisation		–	(820)	(820)
Net carrying amount		79,734	2,457	82,191
At 31 December 2006				
Cost		687,763	3,277	691,040
Accumulated amortisation		–	(1,475)	(1,475)
Net carrying amount		687,763	1,802	689,565

Notes:

(i) This represented the goodwill recognised on the acquisition of an additional 44% equity interest in Parkson Retail Development Co., Ltd. for RMB292,804,000 (note 21(i)) and the acquisition of Asia Victory International Limited for RMB315,225,000 (note 21(ii)).

(ii) Computer software is amortised on the straight-line basis over five years.

14. INTANGIBLE ASSETS *(continued)*

Impairment testing of goodwill

The carrying amount of goodwill has been allocated to the following cash-generating units:

	Notes	31 December 2006 RMB'000	31 December 2005 RMB'000
Xi'an Lucky King Parkson Plaza Co., Ltd.	(a)	57,717	57,717
Parkson Retail Development Co., Ltd.	(b)	302,766	9,962
Chongqing Wanyou Parkson Plaza Co., Ltd.	(c)	2,712	2,712
Shanghai Lion Parkson Investment Consultant Co., Ltd.	(d)	9,343	9,343
Asia Victory International Limited	(e)	315,225	–
		687,763	79,734

Notes:

(a) Xi'an Lucky King Parkson Plaza Co., Ltd. principally engages in the operation of two department stores in Xi'an, the PRC.

(b) Parkson Retail Development Co., Ltd. principally engages in the operation of six department stores in Beijing, Taiyuan, Zhengzhou, Haerbin and Xinjiang, the PRC.

(c) Chongqing Wanyou Parkson Plaza Co., Ltd. principally engages in the operation of two department stores in Chongqing, the PRC.

(d) Shanghai Lion Parkson Investment Consultant Co., Ltd. principally engages in the provision of consultancy and management services in Beijing, the PRC.

(e) Asia Victory International Limited and its subsidiaries principally engage in the operation of two department stores in Kunming, the PRC.

The recoverable amount of each cash-generating unit has been determined based on a value in use calculation. To calculate this, cash flow projections are prepared based on financial budgets as approved by the executive directors which cover a period of four years. The pre-tax discount rate applied to the cash flow projections is 7.9% (2005: 5%). No growth has been projected beyond the four-year period.

14. INTANGIBLE ASSETS *(continued)*

Key assumptions used in the value in use calculations

The following describes the key assumptions of the cash flow projections.

Store revenue:	the bases used to determine the future earnings potential are historical sales and average and expected growth rates of the retail market in the PRC.
Gross margins:	gross margins are based on the average gross margin achieved in the past two years.
Operating expenses:	the bases used to determine the values assigned are the cost of inventories purchased for resale, staff costs, depreciation and amortisation, rental expenses and other operating expenses. The value assigned to the key assumption reflects past experience and management's commitment to maintain the operating expenses to an acceptable level.
Discount rates:	discount rates reflect management's estimate of the risks specific to these entities. In determining appropriate discount rates for each unit, a consideration has been given to the applicable borrowing rates of the respective units in the current year.

Sensitivity to changes in assumptions

With regard to the assessment of value in use of the respective department store cash generating units and the consultancy and management services cash generating unit, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value, including goodwill, of the unit to materially exceed its recoverable amount.

15. INTERESTS IN SUBSIDIARIES

Company

	2006 *RMB'000*	2005 *RMB'000*
Unlisted shares, at cost	**579,041**	579,041
Due from subsidiaries	**611,208**	–
Due to subsidiaries	**(3,335)**	(3,320)
	1,186,914	575,721

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Details of the Company's subsidiaries at 31 December 2006 are set out below:

Company name	Place of incorporation/ registration and operations	Paid-up capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Subsidiaries					
Grand Parkson Retail Group Limited – 百盛商業有限公司	British Virgin Islands	HK$0.5	100	–	Investment holding
Parkson Investment Pte Ltd. – 新加坡金獅百盛投資有限公司	Singapore	S$10,000,000	–	100	Investment holding
Rosenblum Investment Pte Ltd. – 新加坡盛邦投資有限公司	Singapore	S$2	–	100	Investment holding
Exonbury Limited – 香港益盛普利有限公司	Hong Kong	HK$2	–	100	Investment holding
Parkson Supplies Pte Ltd. – 新加坡金獅百盛供應有限公司	Singapore	S$100	–	100	Investment holding

15. INTERESTS IN SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ registration and operations	Paid-up capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Step Summit Limited – 達嶺有限公司	Hong Kong	HK$1	–	100	Investment holding
Hong Kong Fen Chai Investment Limited – 香港豐采投資有限公司	Hong Kong	HK$1	–	100	Investment holding
Shanghai Lion Parkson Investment Consultant Co., Ltd.* – 上海獅貿投資諮詢有限公司	The PRC	USD500,000	–	100	Provision of consultancy and management services
Shanghai Nine Sea Parkson Plaza Co., Ltd.** – 上海九海百盛廣場有限公司	The PRC	USD12,000,000	–	100	Operation of department stores
Shanghai Hongqiao Parkson Development Co., Ltd.* – 上海虹橋百盛商貿有限公司	The PRC	RMB5,000,000	–	100	Operation of department stores
Wuxi Sanyang Parkson Plaza Co., Ltd.*** – 無錫三陽百盛廣場有限公司	The PRC	RMB80,000,000	–	60	Operation of department stores
Xi'an Lucky King Parkson Plaza Co., Ltd.*** – 西安立豐百盛廣場有限公司	The PRC	RMB32,500,000	–	91	Operation of department stores
Beijing Century Parkson E-business Co., Ltd.**** – 北京世紀百盛電子商務有限公司	The PRC	RMB600,000	–	100	Research and development of computer software

15. INTERESTS IN SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ registration and operations	Paid-up capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Chongqing Wanyou Parkson Plaza Co., Ltd.*** – 重慶萬友百盛廣場有限公司	The PRC	RMB30,000,000	–	70	Operation of department stores
Mianyang Fulin Parkson Plaza Co., Ltd. *** – 綿陽富臨百盛廣場有限公司	The PRC	RMB30,000,000	–	60	Operation of department stores
Sichuan Shishang Parkson Retail Development Co., Ltd.* – 四川時尚百盛商業發展有限公司	The PRC	RMB15,000,000	–	100	Operation of department stores
Hefei Parkson Xiaoyao Plaza Co., Ltd.* – 合肥百盛逍遙廣場有限公司	The PRC	RMB8,000,000	–	100	Operation of department stores
Anshan Tianxing Parkson Shopping Centre Co., Ltd. **** – 鞍山天興百盛購物中心有限公司	The PRC	RMB10,000,000	–	51	Operation of department stores
Guizhou Shenqi Parkson Retail Development Co., Ltd. *** – 貴州神奇商業發展有限公司	The PRC	RMB10,000,000	–	60	Operation of department stores
Parkson Investment Holdings Co., Ltd. * – 金獅百盛投資有限公司	The PRC	USD30,000,000	–	100	Investment holding

15. INTERESTS IN SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ registration and operations	Paid-up capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Parkson Retail Development Co., Ltd. * – 百盛商業發展有限公司	The PRC	USD16,680,000	–	100	Operation of department stores
Global Heights Investment Limited – 宇盛投資有限公司	British Virgin Islands	USD1	–	100	Investment holding
Asia Victory International Limited – 華信國際有限公司	British Virgin Islands	USD50,000	–	100	Investment holding
Shunhe International Investment Limited – 順和國際投資有限公司	Hong Kong	HK$10,000	–	100	Investment holding
Kunming Yun Shun He Retail Development Co Ltd.* – 昆明雲順和商業發展有限公司	The PRC	RMB30,000,000	–	100	Operation of department stores

* registered as a wholly-foreign-owned enterprise under the PRC law
** registered as a Sino-foreign cooperative joint venture enterprise under the PRC law
*** registered as a Sino-foreign equity joint venture enterprise under the PRC law
**** registered as a limited liability company under the PRC law

16. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

Particulars of the jointly-controlled entities are as follows:

Company name	Place of registration	Percentage of ownership interest attributable to the Group	Principal activities
Yangzhou Parkson Plaza Co., Ltd. * – 揚州百盛商業大廈有限公司	The PRC	55	Operations of department stores
Xinjiang Youhao Parkson Development Co., Ltd. * – 新疆友好百盛商業發展有限公司	The PRC	51	Operations of department stores
Xi'an Chang'an Parkson Store Co., Ltd.* – 西安長安百盛百貨廣場有限公司	The PRC	51	Operations of department stores
Xi'an Shidai Parkson Store Co., Ltd.* – 西安時代百盛百貨廣場有限公司	The PRC	51	Operations of department stores

* Although the Group has ownership indirectly through subsidiaries of more than half of the voting power of the subject entities, the joint venture agreements establish joint control over the subject entities. The joint venture agreements ensure that no single venturer is in a position to control the activity unilaterally.

16. INTERESTS IN JOINTLY-CONTROLLED ENTITIES *(continued)*

The share of the assets, liabilities, income and expenses of the jointly-controlled entities at 31 December 2006 and 2005 and for the years then ended, which are included in the consolidated financial statements, are as follows:

	2006	2005
	RMB'000	*RMB'000*
Current assets	94,319	301,135
Non-current assets	41,630	346,508
	135,949	647,643
Current liabilities	(74,030)	(432,288)
Non-current liabilities	(1,817)	(88,892)
Net assets	60,102	126,463
Revenues	113,231	370,504
Purchases of goods and changes in inventories	(23,151)	(122,666)
Operating expenses	(69,146)	(134,692)
Finance income/(costs)	951	(1,356)
Profit from operations before income tax	21,885	111,790
Tax	(5,446)	(37,468)
Profit for the year	16,439	74,322

As disclosed in note 21(i), the Group acquired the remaining 44% equity interest in Parkson Retail Development Co., Ltd., a former jointly-controlled entity of the Group, with effect from 1 July 2006. Parkson Retail Development Co., Ltd. was owned as to 56% by the Group and was accounted for as a jointly-controlled entity under the proportional consolidation method until the date of control was obtained by the Group on 1 July 2006. Parkson Retail Development Co., Ltd. became a wholly-owned subsidiary of the Group thereafter and was then fully consolidated to the consolidated financial statements.

17. INVESTMENT IN AN ASSOCIATE

The Group has a 35% equity interest in Shanghai Nine Sea Lion Properties Management Co., Ltd., which engages in providing property management and real estate consulting services.

Particulars of the associate are as follows:

Company name	Particulars of the issued capital held	Place of registration	Percentage of equity interest attributable to the Group	Principal activities
Shanghai Nine Sea Lion Properties Management Co., Ltd. – 上海九海金獅物業管理有限公司	US$165,000	The PRC	35	Property management and real estate consulting services

Group

	2006 *RMB'000*	2005 *RMB'000*
Share of net assets of an associate	2,214	2,120

17. INVESTMENT IN AN ASSOCIATE *(continued)*

The summarised financial information of the Group's associate is as follows:

	2006 *RMB'000*	2005 *RMB'000*
Total assets	10,284	10,462
Total liabilities	3,958	4,405
Net assets	6,326	6,057

	2006 *RMB'000*	2005 *RMB'000*
Revenues	30,606	31,499
Profit from operations before income tax	2,442	2,366
Income tax	(906)	(876)
Profit for the year	1,536	1,490
Share of tax attributable to an associate	317	307
Share of profit of an associate, net of tax	538	522

18. HELD-TO-MATURITY INVESTMENTS

Group and Company

	2006 *RMB'000*	2005 *RMB'000*
Credit linked notes, at amortised cost, unlisted	1,561,740	–

The credit linked notes (the "CLN") were issued by JPMorgan Chase Bank, N.A., London Branch, and have a tenure from 14 November 2006 to 13 November 2011. The CLN bear interest at a rate of 9.8% per annum. Interest is paid semi-annually on 13 May and 13 November of each year, commencing on 13 May 2007.

The payment of interest and repayment of principal of the CLN are subject to the Group's payment of interest and repayment of principal of a series of bank loans as disclosed in note 27(i) to these financial statements.

19. OTHER ASSETS

Group

	Notes	2006 *RMB'000*	2005 *RMB'000*
Guarantee deposits	*(i)*	10,000	10,000
Deferred rental expenses	*(ii)*	97,408	62,629
		107,408	72,629

Notes:

(i) This represented deposits paid to a third party property developer to secure certain retail space to be leased to the Group for setting up new department stores on or after 2010. The guarantee deposits are interest-free and could be converted into rental deposits upon the completion of the property development projects.

(ii) This represented the long term portion of deferred rental expenses paid to China Arts & Crafts (Group) Company, a former joint venture partner, in respect of the lease of certain properties in Beijing for a period of nine years from August 2005.

20. DEFERRED TAX ASSETS AND LIABILITIES

Group

	Balance at 1 January 2005 RMB'000	Recognised in the consolidated income statement RMB'000	Acquisitions RMB'000	Balance at 31 December 2005 RMB'000
Deferred tax assets:				
Pre-operating expenses	–	813	1,046	1,859
Depreciation	4,203	(221)	–	3,982
Accrued rental expenses	9,119	1,532	4,020	14,671
Accrued coupon provision	6,855	1,462	3,960	12,277
	20,177	3,586	9,026	32,789
Deferred tax liabilities:				
Depreciation	(41,005)	(5,290)	–	(46,295)
	(20,828)	(1,704)	9,026	(13,506)

20. DEFERRED TAX ASSETS AND LIABILITIES *(continued)*

	Balance at 1 January 2006	Recognised in the consolidated income statement	Recognised in reserve	Acquisitions	Balance at 31 December 2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax assets:					
Pre-operating expenses	1,859	(712)	–	657	1,804
Depreciation	3,982	(86)	–	3,061	6,957
Accrued rental expenses	14,671	280	–	3,800	18,751
Accrued coupon provision	12,277	3,782	–	1,889	17,948
	32,789	3,264	–	9,407	45,460
Deferred tax liabilities:					
Depreciation	(46,295)	(635)	–	–	(46,930)
Business combination *(note i)*	–	–	–	(88,053)	(88,053)
Asset revaluation *(note ii)*	–	–	(112,067)	–	(112,067)
	(46,295)	(635)	(112,067)	(88,053)	(247,050)
	(13,506)	2,629	(112,067)	(78,646)	(201,590)

Notes:

(i) The deferred tax liability of RMB88,053,000 were recognised on the acquisition of the 44% equity interest in Parkson Retail Development Co., Ltd. (note 21(i)).

(ii) As disclosed in note 21(i), the Group treated the adjustment to those fair values relating to previously held interests of Parkson Retail Development Co., Ltd. as a revaluation. The tax base of these assets was not adjusted to conform to such revalued amounts and accordingly a deferred tax liability of RMB112,067,000 in respect of the revaluation surplus arising from the property, plant and equipment, investment properties and lease prepayments was recognised. Such deferred tax liability was charged to equity as the related revaluation surplus was credited to the equity.

21. BUSINESS COMBINATIONS

(i) Acquisition of an additional 44% equity interest in Parkson Retail Development Co., Ltd. ("Beijing Parkson")

On 26 May 2006, the Group entered into sale and purchase agreements with the respective PRC joint venture partners of Beijing Parkson to acquire the remaining 44% interest in Beijing Parkson (the "Acquisition Transaction") for a total cash consideration of RMB525,078,000. Beijing Parkson was owned as to 56% by the Group and was accounted for as a jointly-controlled entity under the proportional consolidation method until the date of control was obtained by the Group on 1 July 2006. Beijing Parkson became a wholly-owned subsidiary of the Group thereafter.

The Acquisition Transaction gives rise to a business combination and IFRS 3 applies when control is obtained over a former joint venture. Therefore, at the date control was obtained, the Group (1) recognised goodwill of RMB292,804,000, being the difference between the cost of the transaction and the fair value of Beijing Parkson's identifiable net assets at the date control is obtained, for the newly acquired 44% interest; (2) recognised the identifiable assets and liabilities of Beijing Parkson at 100% of their fair values; and (3) deemed any adjustment to those fair values relating to the previously held interests as a revaluation.

Pursuant to item (3) above, a revaluation surplus of RMB336,312,000 comprising the property, plant and equipment, investment properties and lease prepayments of RMB18,483,000, RMB112,072,000 and RMB205,757,000, respectively, and the attributable deferred tax liabilities of RMB112,067,000 was recognised in these financial statements.

21. BUSINESS COMBINATIONS *(continued)*

(i) Acquisition of an additional 44% equity interest in Parkson Retail Development Co., Ltd. ("Beijing Parkson") *(continued)*

The fair values of the identifiable assets and liabilities at the date of acquisition were:

	Fair value recognised on acquisition *RMB'000*	Carrying value *RMB'000*
Property, plant and equipment	141,943	127,420
Investment properties	101,200	13,143
Lease prepayments	183,690	22,025
Other assets	46,034	46,034
Deferred tax assets	9,407	9,407
Inventories	14,635	14,635
Trade receivables	338	338
Prepayments, deposits and other receivables	27,913	27,913
Cash and cash equivalents	133,902	133,902
	659,062	394,817
Interest-bearing bank loans	(100,559)	(100,559)
Trade payables	(103,682)	(103,682)
Tax payable	(13,566)	(13,566)
Customers' deposits, other payables and accruals	(113,733)	(113,736)
Long term payables	(7,195)	(7,195)
Deferred tax liabilities	(88,053)	–
	(426,788)	(338,738)
Fair value of net assets	232,274	56,079
Goodwill arising on the acquisition (note 14(i))	292,804	
Consideration	525,078	

The cash outflow on the acquisition is as follows:	*RMB'000*
Net cash acquired	133,902
Cash paid	(525,078)
Net cash outflow	(391,176)

21. BUSINESS COMBINATIONS *(continued)*

(ii) Acquisition of a 100% interest in Asia Victory International Limited ("Asia Victory")

On 15 November 2006, the Group entered into a sale and purchase agreement with Mr. Kok Lam, an independent third party, to acquire the entire equity interest in Asia Victory for a total cash consideration of RMB315,608,000. Asia Victory and its subsidiaries principally engage in the operation of two department stores in Kunming, the PRC. This acquisition was accounted for under the purchase method and the excess of the consideration over the fair value of the net assets acquired by the Group of RMB315,225,000 was recognised as goodwill (note14(i)).

The fair values of the identifiable assets and liabilities at the date of acquisition were:

	Fair value recognised on acquisition	Carrying value
	RMB'000	*RMB'000*
Property, plant and equipment	13,973	13,973
Inventories	11,463	11,463
Prepayments, deposits and other receivables	59,021	59,021
Cash and cash equivalents	6,015	6,015
	90,472	90,472
Customers' deposits, other payables and accruals	(90,089)	(90,089)
Fair value of net assets	383	383
Goodwill arising on the acquisition (note 14(i))	315,225	
Consideration	315,608	

The cash outflow on the acquisition is as follows:	*RMB'000*
Net cash acquired	6,015
Cash paid	(315,608)
Net cash outflow	(309,593)

Since the date of the acquisitions, the acquired entities have contributed RMB64,106,000 to the net profit of the Group. Had the combinations taken place at the beginning of 2006, the total operating revenues and the profit of the Group would have been RMB2,576,984,000 and RMB575,896,000, respectively.

22. INVENTORIES

Group

	2006	2005
	RMB'000	*RMB'000*
Merchandise, at cost	98,141	71,287
Consumables, at cost	11,763	9,651
	109,904	80,938

23. TRADE RECEIVABLES

Trade receivables are mainly consultancy and management service fees receivable from "Parkson" department stores which have an established trading history with the Group. The Group normally allows a credit period of not more than 90 days to its customers. A provision for doubtful debts is made when there is objective evidence that an impairment loss has been incurred. The Group's trade receivables relate to a number of diversified customers and there is no significant concentration of credit risk. The receivables are interest-free.

An aged analysis of the trade receivables as at the balance sheet date, based on payment due date, is as follows:

Group

	2006	2005
	RMB'000	*RMB'000*
Within 3 months	7,785	6,815
3 to 12 months	4,566	9,876
Over 1 year	7,782	2,845
	20,133	19,536
Less: Allowance for doubtful debts	(1,644)	(2,799)
	18,489	16,737

Included in the balance as at 31 December 2006 are trade receivables from jointly-controlled entities of RMB1,250,000 (2005: RMB1,828,000) and from fellow subsidiaries of RMB12,416,000 (2005: RMB1,416,000) attributable to the consultancy fee income of the Group as disclosed in note 35(ii) below. Such balances are unsecured and interest-free.

24. INVESTMENTS

Group

	2006 RMB'000	2005 RMB'000
Government bond securities, listed	–	1,842

The government bond securities were held for trading and were disposed of during the year. The fair value of the financial assets was determined directly by reference to the published price quotation.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	Notes	2006 *RMB'000*	2005 *RMB'000*
Deposits		31,190	15,426
Prepayments		26,995	10,534
Advances to suppliers		26,600	18,398
Receivables from jointly-controlled entities		–	27,768
Receivables from joint venture partners		–	1,620
Receivables from minority equity holders	*(i)*	72,376	84,276
Designated loans	*(ii)*	19,400	14,900
Other receivables		84,773	60,687
		261,334	233,609
Less: Allowance for doubtful debts		(1,842)	(359)
		259,492	233,250

Notes:

(i) Included in the balance of receivables from the minority equity holders as at 31 December 2006, there were balances of entrusted loans to a PRC joint venture partner of Anshan Tianxiang Parkson Shopping Centre Co., Ltd. which were overdue since 24 September 2006. The overdue principal amount was RMB70 million and the balance of accrued interest as at 31 December 2006 was approximately RMB1.1 million. Directors consider the above-mentioned outstanding balances are fully recoverable because the Group has the right to off-set the outstanding balances against the Group's future rental payments to the borrower.

(ii) The designated loans bear interest at rates ranging from 6.12% to 6.91% (2005: 5.8%) per annum and will mature within one year. The Group has the right to off-set the outstanding designated loan balances against future rental payments to these borrowers.

26. CASH AND CASH EQUIVALENTS

Group

	2006 RMB'000	2005 RMB'000
Short term deposits	1,371,983	1,107,062
Cash and bank balances	1,899,383	973,345
Cash and cash equivalents	3,271,366	2,080,407

The cash and cash equivalents of the Group amounting to RMB3,055,349,000 as at 31 December 2006 (2005: RMB998,677,000) were denominated in Renminbi, which is not freely convertible in the international market. The remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

Company

	2006 RMB'000	2005 RMB'000
Short term deposits	201,640	1,079,062
Cash and bank balances	1,300	850
Cash and cash equivalents	202,940	1,079,912

The bank balances earn interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company and the Group, and earn interest at the respective short term deposit rates.

27. INTEREST-BEARING BANK LOANS

Group

	Notes	2006 *RMB'000*	2005 *RMB'000*
PRC bank loans	*(i)*	1,500,000	–
PRC bank loans, secured	*(ii)*	190,913	234,302
	(iii)	1,690,913	234,302
Bank loans repayable:			
Within one year or on demand		83,886	154,856
In the second year		36,936	19,512
In the third to fifth years		1,570,091	59,934
		1,690,913	234,302
Less: Portion classified as current liabilities		(83,886)	(154,856)
Long term portion		1,607,027	79,446

Notes:

(i) The PRC bank loans from JPMorgan Chase Bank, N.A., Shanghai Branch, have a maturity date on 13 November 2011 and an interest rate equals to the five-year bank loan rate as pronounced by the People's Bank of China plus a spread of 2.35% per annum.

To hedge the Group's interest rate exposure attributable to the PRC bank loans, on 15 November 2006, the Group and JPMorgan Chase Bank, N.A. entered into a series of interest rate swap contracts (note 34). These contracts are cash flow hedges of the expected future interest payments in respect of the above-mentioned PRC bank loans. The net impact of these interest rate swap contracts is to convert the interest expenses from variable to a fixed rate of 10.3%. On each settlement date, the bank loan interest and interest rate swap contracts will be settled simultaneously and on a net basis.

27. INTEREST-BEARING BANK LOANS *(continued)*

(ii) At 31 December 2006, bank loans of approximately RMB190,913,000 (2005: RMB211,902,000) were secured by pledges of a building of RMB65,781,000 (2005: RMB63,643,000), investment properties of nil (2005: RMB5,215,000) and lease prepayments of RMB122,559,000 (2005: RMB9,721,000) and buildings of a minority equity holders.

The effective interest rate for the short term bank loans during the year was 6.138% (2005: 5.6% to 6.2%). The effective interest rate of the long term bank loans during the year was 5.85% (2005: 5.9%).

(iii) As at 31 December 2006 and 2005, all the Group's interest-bearing bank loans were denominated in Renminbi.

(iv) A bank loan balance with principal amount of RMB49,045,470 which attributable to Anshan Tianxing Parkson Shopping Centre Co., Ltd. ("Anshan Parkson"), a subsidiary of the Group, was overdue for repayment since 25 October 2006. The bank loan balance was borrowed to fund the entrusted loans to the PRC joint venture partner of Anshan Parkson as disclosed in note 25(i) above and is secured by the properties of the same joint venture partner. Directors are confident that, in line with the recovery of the entrusted loans, these matters can be resolved without any material impact on the Group's financial position or results.

28. TRADE PAYABLES

An aged analysis of the trade payables is as follows:

Group

	2006	2005
	RMB'000	*RMB'000*
Within 3 months	**838,190**	554,896
3 to 12 months	**26,611**	9,947
Over 1 year	**6,817**	4,160
	871,618	569,003

Note:

Included in the balances as at 31 December 2006 are payables to a fellow subsidiary of RMB1,080,000 (2005: Nil) attributable to the royalty fee expenses of the Group as disclosed in note 35(i) below. The balances were unsecured and interest-free.

29. CUSTOMERS' DEPOSITS, OTHER PAYABLES AND ACCRUALS

Group

	Note	2006 RMB'000	2005 RMB'000
Customers' deposits		161,644	24,229
Payables to joint venture partners		421	13,139
Provision for coupon liabilities	(i)	73,132	44,434
Accrued wages and salaries		79,772	55,141
Other payables and accruals		296,128	218,505
		611,097	355,448

Note:

(i) A reconciliation of the provision for coupon liabilities is as follows:

	2006 RMB'000	2005 RMB'000
At 1 January	44,434	21,198
Business combinations	15,050	3,980
Reorganisation	–	12,417
Arising during the year	66,801	26,198
Utilised	(32,786)	(15,919)
Unused amounts reversed	(20,367)	(3,440)
At 31 December	73,132	44,434

A provision for coupon liabilities is recognised for the expected amount of redemptions of coupons granted during the last two years, based on past experience of the level of redemptions. It is expected that most of these costs will be incurred in the next financial year and all will have been incurred within two years from the balance sheet date. Assumptions used to calculate the provision for coupon liabilities were based on the amount of bonus points outstanding and the current information available about the level of redemptions based on the two-year redemption period.

30. LONG TERM PAYABLES

The long term payables represented the long term portion of accrued rental expenses.

31. SENIOR GUARANTEED NOTES

On 14 November 2006, the Company issued the senior guaranteed notes (the "Notes") in an aggregate principal amount of US$200 million. The Notes were admitted to the Official List of the Singapore Exchange Securities Trading Limited. The Notes are due on 14 November 2011 and bear interest at a rate of 7.875% per annum. Interest is payable semi-annually in arrears on 14 May and 14 November of each year, commencing on 14 May 2007.

The obligations of the Company under the Notes are secured by (i) first priority pledges and share charges of all the ownership interests of the Company, direct and indirect, in certain subsidiaries, including Grand Parkson Retail Group Limited, Parkson Investment Pte Ltd., Exonbury Limited, Parkson Suppliers Pte Ltd., Step Summit Limited, Global Heights Investment Limited, Rosenblum Investments Pte Ltd. and Hong Kong Fen Chai Investment Limited and (ii) a charge over the CLN as disclosed in note 18 to these financial statements.

32. CONTINGENT LIABILITIES

The Group and the Company did not have any significant contingent liabilities as at 31 December 2006.

33. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS

(i) Operating lease arrangements

As lessee

The Group leases certain of its properties under operating lease arrangements. These leases have an average life of between 5 and 20 years and there are no restrictions placed upon the Group by entering into these lease agreements. The annual contingent rental amount is calculated on a percentage of the respective store's turnover.

The Group had the following future minimum rentals payable under non-cancellable operating leases at 31 December.

	2006 *RMB'000*	2005 *RMB'000*
Within one year	174,759	115,166
In the second to fifth years, inclusive	662,496	477,496
After five years	1,529,386	1,322,877
	2,366,641	1,915,539

33. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS *(continued)*

(i) Operating lease arrangements *(continued)*

As lessor

The Group leases out certain of its properties under operating leases. These leases have remaining non-cancellable lease terms of 1 to 10 years. The annual contingent rental amount is calculated on a percentage of the respective store's turnover.

The Group had the following future minimum rentals receivable under non-cancellable operating leases at 31 December.

	2006	2005
	RMB'000	*RMB'000*
Within one year	36,855	26,721
In the second to fifth years, inclusive	61,739	84,172
After five years	19,486	18,356
	118,080	129,249

(ii) In addition to the operating lease arrangements above, the Group had the following capital commitments at 31 December.

	2006	2005
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Leasehold improvements	7,714	–

The Company did not have any significant capital commitments at the balance sheet date.

34. FINANCIAL INSTRUMENTS

Fair values

The financial instruments of the Group mainly consist of cash and cash equivalents, held-to-maturity investments, guarantee deposits, prepayments, deposits and other receivables, trade receivables, trade payables, customers' deposits, other payables, bank loans, senior guaranteed notes and long term payables.

The carrying amounts of the Group's financial instruments classified as current approximated to their fair values as at 31 December 2006.

As at 31 December 2006, the fair values of the held-to-maturity investments, bank loans and the senior guaranteed notes approximated to their carrying values because these financial instruments were issued close to the year end and there were no material fluctuations in the market interest rates during their outstanding periods. The fair values of other long term financial instruments of the Company have been calculated by discounting the expected future cash flows at prevailing interest rates.

Interest rate risk

The following table sets out the carrying amount, by maturity, of the Group's financial instruments that are exposed to interest rate risk:

Year ended 31 December 2006

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Fixed rate						
Held-to-maturity investments	–	–	–	–	1,561,740	1,561,740
Designated loans	19,400	–	–	–	–	19,400
Senior guaranteed notes	–	–	–	–	(1,526,806)	(1,526,806)
PRC bank loans	–	–	–	–	(1,500,000)	(1,500,000)
Interest rate swap contracts*						
Floating rate						
Cash assets	3,271,366	–	–	–	–	3,271,366
PRC bank loans, secured	(83,886)	(36,936)	(39,156)	(30,935)	–	(190,913)

* The effect of the interest rate swap is discussed in note 27(i).

Financial instruments with floating rates are subject to interest rate risk. The interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are non-interest-bearing and are therefore not subject to interest rate risk.

34. FINANCIAL INSTRUMENTS *(continued)*

Interest rate risk *(continued)*

Year ended 31 December 2005

	Within 1 year *RMB'000*	1-2 years *RMB'000*	2-3 years *RMB'000*	3-4 years *RMB'000*	4-5 years *RMB'000*	Total *RMB'000*
Fixed rate						
Designated loans	14,900	–	–	–	–	14,900
Floating rate						
Cash assets	2,080,407	–	–	–	–	2,080,407
PRC bank loans, secured	(154,856)	(19,512)	(20,684)	(21,927)	(17,323)	(234,302)

Credit risk

The cash at banks, short term deposits, held-to-maturity investments, trade receivables and prepayments, deposits and other receivables included in the consolidated financial statements represent the Group's major exposure to the credit risk attributable to the financial instruments. The Group has no other significant concentrations of credit risk.

Hedging activities

Cash flow hedges

As at 31 December 2006, the Group held four interest rate swap contracts which are synthetic financial instruments and designated as hedges of the expected interest payments attributable to the PRC bank loans in a total amount of RMB1,500,000,000 (note 27 (i)).

The interest rate swap contracts have been drafted to match the principal amounts and terms of the relevant bank loan agreements and these synthetic financial instruments will together generate a fixed interest rate bank loan with an effective interest rate of 10.3%.

The Group and JPMorgan Chase Bank, N.A. agreed that the execution of the interest rate swap contracts is non-separable from the performance of the PRC bank loans and the parties have the right and intention to realise the assets and settle the liabilities attributable to the PRC bank loans and the interest rate swap contracts simultaneously and on a net basis.

The cash flow hedges of the expected future interest payments on 13 May and 13 November of each year, commencing on 13 May 2007, were assessed to be highly effective and as at 31 December 2006 there is no unrealised gain or loss in respect of these contracts.

35. RELATED PARTY TRANSACTIONS

The Group had the following significant transactions with related parties during the year:

Continuing transactions:

	Notes	2006 *RMB'000*	2005 *RMB'000*
Royalty fee expenses	*(i)*	1,080	2,421
Consultancy fee income	*(ii)*	11,352	3,423
Property management fee expenses	*(iii)*	9,293	9,293

Notes:

(i) The royalty fee expenses are payable to Parkson Corporation Sdn. Bhd. ("Parkson Corporation"), a fellow subsidiary of the Company, for the Group's entitlement to use the "Parkson" trademark in the PRC. Prior to 9 November 2005, the royalty fee of US$300,000 per annum was charged according to the underlying contract. After 9 November 2005, the royalty fee was charged based on RMB30,000 per annum for each department store owned or managed by the Group.

(ii) The consultancy fee income is received from the jointly-controlled entities of the Group of RMB2,092,000 (2005: RMB2,576,000) and fellow subsidiaries of the Group of RMB9,260,000 (2005: RMB847,000). The consultancy fees are determined according to the underlying contracts.

(iii) The property management fee expenses are payable to Shanghai Nine Sea Lion Properties Management Co., Ltd., an associate of the Company. The property management fee of RMB9,293,000 per annum was charged according to the underlying contracts.

(iv) Details of the Group's outstanding balances with the related parties are disclosed in notes 23 and 28 to these financial statements.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash at banks, short term deposits, held-to-maturity investments, interest bearing bank loans and senior guaranteed notes. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as guarantee deposits, prepayments, deposits and other receivables, trade receivables, trade payables, customers' deposits, other payables and long term payables which arise directly from its operations.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken other than the senior guaranteed notes, held-to-maturity investments, bank loans from JPMorgan Chase Bank, N.A. and related interest rate swaps which were entered into with the purpose of raising finance for the Group's operations.

The main risks arising from the Group's financial instruments are credit risk, interest rate risk, foreign currency risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

(i) Credit risk

The cash at banks, short term deposits, held-to-maturity investments, trade receivables and prepayments, deposits and other receivables included in the consolidated financial statements represent the Group's major exposure to the credit risk attributable to its financial assets. The Group has no other significant concentrations of credit risk.

(ii) Interest rate risk

The interest rate risk attributable to the RMB1,500,000,000 bank loans are hedged by interest rate swap contracts (note 34). The Group has no floating rate bank loans except for the bank loans of RMB190,913,000 as disclosed in note 27 (ii) to the consolidated financial statements and, as a result, it has no significant interest rate risk.

(iii) Foreign currency risk

The Group's businesses are principally conducted in RMB which cannot be freely exchanged into foreign currencies. As at 31 December 2006, a substantial amount of the Group's assets and liabilities was denominated in RMB. Fluctuation of the exchange rates of RMB against other currencies can affect the Group's results of operations.

The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

(iv) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing loans. As at 31 December 2006, the Group had bank loan balances of RMB83,886,000 (2005: RMB154,856,000) which will be matured within 12 months. The directors have reviewed the Group's working capital and capital expenditure requirements and determined that the Group has no significant liquidity risk.

37. SHARE CAPITAL

	Number of ordinary shares	Nominal value	
	'000	*HK$'000*	*RMB'000*
Authorised			
Ordinary shares of HK$0.1 each	1,500,000	150,000	156,000
Issued and fully paid			
At 1 January 2006 and 31 December 2006	552,000	55,200	57,436

There was no change in the authorised and issued capital of the Company during the year.

Subsequent to 31 December 2006, on 10 January 2007, a total of 8,188,950 share options were granted to 482 eligible employees of the Company at an exercise price of HK$36.75 per share pursuant to an employee share option scheme. The options are exercisable for a period from 24 January 2007 to 1 January 2011.

38. RESERVES

(a) Group

The movements in the reserves of the Group are set out in the consolidated statement of changes in equity of the financial statements.

(i) PRC reserve funds

Pursuant to the relevant PRC laws and regulations, Sino-foreign joint venture companies registered in the PRC are required to transfer a certain percentage, as approved by the board of directors, of their profit after income tax, as determined in accordance with PRC accounting rules and regulations, to the reserve fund, the enterprise expansion fund and the employee bonus and welfare fund. These funds are restricted as to use.

Pursuant to the relevant PRC laws and regulations, wholly-owned foreign enterprises ("WOFEs") registered in the PRC are required to transfer not less than 10% of their profit after tax, as determined in accordance with PRC GAAP, to the reserve fund, until the balance of the fund reaches 50% of the registered capital of that company. WOFEs registered in the PRC are required to transfer a certain percentage, as approved by the board of directors, of their profit after income tax to the employee bonus and welfare fund. These funds are restricted as to use.

38. RESERVES *(continued)*

(a) Group *(continued)*

(i) PRC reserve funds (continued)

In accordance with the relevant PRC laws and regulations, PRC domestic companies are required to transfer 10% of their profit after income tax, as determined in accordance with PRC GAAP, to the statutory common reserve, until the balance of the fund reaches 50% of the registered capital of that company. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory common reserve may be used to offset against the accumulated losses, if any. PRC domestic companies are required to transfer 5% to 10% of their profit after tax, as determined under PRC accounting rules and regulations, to the statutory common welfare fund. This fund can only be used to provide staff welfare facilities and other collective benefits to the employees of that company. This fund is non-distributable other than in the event of liquidation.

(ii) Contributed surplus

The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group's reorganisation over the nominal value of the shares of the Company issued in exchange therefore.

(iii) Asset revaluation reserve

Movement in asset revaluation reserve represents the fair value adjustments to the property, plant and equipment, investment properties and lease prepayments which were already owned by the Group before the acquisition of the remaining 44% equity interest in Beijing Parkson (note 21(i)).

38. RESERVES *(continued)*

(b) Company

	Share premium *RMB'000*	Contributed surplus *RMB'000* *note (i)*	Accumulated losses *RMB'000* *note (ii)*	Total *RMB'000*
Loss for the period	–	–	(8,380)	(8,380)
Issue of shares for Reorganisation	–	570,706	–	570,706
Issue of shares upon public listing	1,114,251	–	–	1,114,251
Share premium transfer to share capital	(37,614)	–	–	(37,614)
Share issue costs	(51,673)	–	–	(51,673)
At 31 December 2005	1,024,964	570,706	(8,380)	1,587,290
Profit for the year	–	–	5,873	5,873
Dividends paid (iii)	(226,320)	–	–	(226,320)
At 31 December 2006	**798,644**	**570,706**	**(2,507)**	**1,366,843**

Notes:

(i) Contributed surplus
The contributed surplus of the Company represents the difference between the then combined net asset value of the subsidiaries acquired pursuant to the Reorganisation over the nominal value of the shares of the Company issued in exchange therefore.

(ii) Profit/(loss) attributable to equity holders of the parent
The profit attributable to equity holders of the parent for the year ended 31 December 2006 dealt with in the financial statements of the Company was RMB5,873,000 (2005: loss of RMB8,380,000).

38. RESERVES *(continued)*

(b) Company *(continued)*

(iii) The Company's final dividend for 2005 and interim dividend for 2006 of approximately RMB143,520,000 and RMB82,800,000, respectively were distributed out of the Company's share premium account. Under the Companies Law of the Cayman Islands, the share premium is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

39. DIVIDEND

	2006 *RMB'000*	2005 *RMB'000*
Interim dividend – RMB0.15 (2005: Nil) per ordinary share	82,800	–
Proposed final dividend – RMB0.27 (2005: RMB0.26) per ordinary share	149,040	143,520
	231,840	143,520

The proposed final dividend for the year (not recognised as liability as at 31 December 2006) is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

40. ULTIMATE HOLDING COMPANY

The directors consider PRG Corporation, a limited liability company incorporated in the British Virgin Islands, to be the parent company and Lion Diversified Holdings Berhad, a company incorporated in Malaysia, to be the ultimate holding company.

41. SUBSEQUENT EVENTS

Save as disclosed in note 37, the Group did not have any significant subsequent events taken place subsequent to 31 December 2006.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 26 February 2007.