PARKSON

Retail Group Limited

Stock Code : 3368

2008 ANNUAL REPORT

CORPORATE PROFILE

Parkson Retail Group Limited (the "Company") is one of the first few foreign-owned department store chain operators to establish a presence in the People's Republic of China ("the PRC") market in the early 1990's. Through the Company's subsidiaries, jointly controlled entities and associate (hereinafter collectively refer to as the "Group"), the Group now operates and manages 40 "Parkson" branded department stores and 2 "Xtra" branded supercentres in prime location in 26 cities throughout the PRC.

Consistent market positioning allowed Parkson to enjoy strong brand recognition amongst the middle to middle-upper end consumers. Parkson stores offer wide range of internationally renowned brands of fashion and lifestyle related merchandises focusing on four main categories of merchandise namely, Fashion & Apparel; Cosmetics & Accessories; Household & Electrical; and Groceries & Perishables, targeting the young and contemporary market.

CONTENTS

Added an aggregate retailing area of approximately 111,200 square meters from a combination of new stores opening and acquisition of the managed stores

- New Stores opening
  - – Guizhou Shenqi Parkson Retail Development Co., Ltd. Golden Phoenix Branch ("Guiyang Phoenix Parkson")
  - – Shanghai Xinzhuang Parkson Retail Development Co., Ltd. ("Shanghai Xinzhuang Parkson")
  - – Guizhou Zunyi Parkson Retail Development Co., Ltd ("Zunyi Parkson")
- Completed the acquisition of the property occupied by Anshan Tianxing Parkson Shopping Center Co., Ltd. ("Anshan Parkson")
- Completed the acquisition of the remaining 49% ownership in Xi'an Chang'an Parkson Department Store Co., Ltd. ("Xi'an Chang'an Parkson")
- Completed the acquisition of the remaining 49% ownership in Xi'an Shidai Parkson Store Co., Ltd. ("Xi'an Shidai Parkson")

- Completed the acquisition of the remaining 9% ownership in Xi'an Lucky King Parkson Plaza Co., Ltd. ("Xi'an Lucky King Parkson")
- Completed the acquisition of the 100% ownership in Nanning Brilliant Parkson Commercial Co., Ltd ("Nanning Parkson")
- Completed the acquisition of the 100% ownership in Tianjin Parkson Retail Development Co., Ltd ("Tianjin Parkson")
- Subsequent to the balance sheet date, entered into an agreement to acquire the Suntrans Building in Beijing

> The medium to long term growth prospect of our business remain positive.

TAN SRI CHENG HENG JEM
Chairman

EARNINGS PER SHARE ROSE BY 23.8%

RECORD BREAKING PERFORMANCE DESPITE FINANCIAL CRISIS

48%

Dividends payout ratio

Introduction

The Group once again delivered record breaking performances both in operating revenues and profit attributable to our shareholders despite turbulence and uncertainties in the world economy caused by the financial crisis. Total operating revenues improved by 15.6% to RMB3,536.9 million and the profit attributable to our shareholders increased by 24.4% to RMB841.1 million. Basic earnings per share rose 23.8% to RMB0.302. On the back of the record breaking results, the Board of Directors recommended a final dividends payment of RMB0.085 per share. Together with the interim dividends of RMB0.060 per share declared and paid, the full year dividends would amount to RMB0.145 per share representing a dividends payout ratio of 48.0%.

Total operating revenues improved by 15.6% to RMB3,536.9 million.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS INCREASED BY 24.4%

- Basic earnings per share rose by 23.8% to RMB0.302.
- Proposed final dividends of approximately RMB0.085 per share.
- The full year dividends would amount to RMB0.145 per share.

Looking Forward

Looking ahead, the negative impacts from the financial crisis will continue to affect the world economy with most of the major economies expected to continue in recession for a period of time before we can witness any sign of sustainable recovery. There is no certainty on the depth of the damages caused by the current financial crisis and given the fast changing economic condition, leading economists are divided as to the timing of the economic recovery. However, major economic data indicators around the world such as the unemployment rate, the consumer price index, the asset valuation and others are all pointing towards a worsening economy ahead.

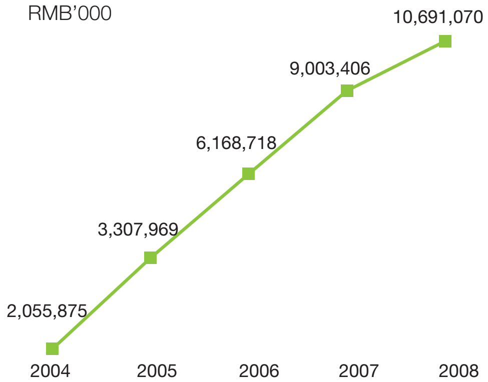
The PRC economic growth slowed to 9% in the year 2008, the PRC government has taken steps and measures to manage and mitigate the adverse impacts to its economy. In this respect, the PRC Government has announced the RMB4 trillion stimulus packages through fiscal spending to fund various development projects in both rural and urban areas with aims to boost domestic demand, reinvigorate industries, enhance the support of science and technology and strengthen social security. We believe the aforesaid measurements will stimulate consumption and drive economic growth and bring enormous business opportunities. In fact most of the leading economists are predicting the PRC economy to

be the only major economy in the world that will enjoy economic growth in the coming 12 months and given its strong foreign exchange reserves and relatively healthy banking system, the PRC government is in position to launch more stimulus packages if necessary. Provided there are no more major external shocks, the PRC economy should be on track to achieve the targeted growth of 8% for the year 2009.

The Group is confident that the medium to long term prospect of our business remain positive but our organic growth will face considerable pressure in the short term. Our healthy balance sheet, strong cash generating business model and our strong brand equity will not only enable the Group to ride through the current economic crisis comfortably but it will also allow the Group to fully capitalise on the current market condition to further expand our business network and emerge stronger after the economic crisis is over.

TAN SRI CHENG HENG JEM
CHAIRMAN
20 February 2009

Gross sales proceeds
RMB'000



total

gross sales proceeds of RMB10,691.1 million.

Managing Director's Statement

"The Group is well-positioned to consolidate our leadership position and emerge stronger after the storm is over."

CHENG YOONG CHOONG
Managing Director

SAME STORE SALES GROWTH OF 12.1%

AN EXTRAORDINARY AND VERY CHALLENGING YEAR

Market and Business Review

The year 2008 has proven to be extraordinary and very challenging for every economy and every industry globally. The unprecedented global financial crisis started by the sub prime lending in the developed economies has not only weakened the global capital markets and banking systems but has also negatively affected the main street economy. We have so far witnessed the bankruptcy and recapitalisation of major corporations and major financial institutions, the collapse of property markets, free fall of equity prices, rising unemployment rate, substantial correction of commodity prices and recession in the developed economies. The PRC economy is not immune from the crisis but the damage is comparatively less severe.

With supports from its healthy banking system, robust domestic consumption market and effective monetary and fiscal policy, the PRC economy for the year under review expanded by a very respectable estimated growth rate of 9.0% despite the macro headwinds. The growth rate has been the slowest in the past 5 years and in line with the deepening crisis in the second half of the year, the PRC economy expanded by less than 8.0% compared to 10.4% in the first six months of the year.

During the year under review, the Group generated a total gross sales proceeds of RMB10,691.1 million.

Managing Director's Statement

Despite slower economic growth rate, the PRC economy continued to generate new middle class families to support the growth of the domestic consumption market. In line with the PRC government's efforts to encourage domestic consumption as the main pillar of the economic growth going forward, the retail industry continued to outgrow the economy expansion for the year 2008 with a nominal growth rate of 21.6% and real growth rate of 15.7%.

During the year under review, the Group executed its stated business plans and strategies to capitalize on the growing retail market with satisfactory successes. Throughout the year, the Group had made necessary adjustment to our operating strategies to stay in touch with the challenging and fast changing operating environment. This resulted in a composite Same Store Sales (the "SSS") growth of 12.1%, through a combination of improved productivity from the more efficient use of the available floor space and increased sales and promotion activities.

In line with the maturity of its stores profile, the Group continued to reinvent and remodel its stores to further enhance the stores image and performance. In this respect, certain potential flagship stores such as Kunming Yun Shun He Retail Development Co., Ltd. ("Kunming Parkson") store, Xi'an Shidai Parkson Store and Anshan Parkson store have been remodeled and reinvented for the introduction of more affordable high end cosmetics and fashion brands. In order to maximise the productivity, we continuously monitor the use of floor space and relocate the premium and high-traffic floor space to high-value and high productivity merchandise whenever opportunities arise.

Both the concessionaire sales and direct sales demonstrated consistent growth of 19.9% and 14.0% respectively. The maturing stores portfolio enables the Group to increase the sales of fashion and fashion related merchandise through the concessionaire model. As a result, the concessionaire sales outgrew the direct sales and accounted for approximately 88.2% of the total merchandise sales.

The Group continued to open new stores to strengthen our operation and network and to further consolidate our position as one of the leading department store owners and operators in this fast growing market. During the year under review, the Group opened the Guiyang Phoenix Parkson store in February, the Shanghai Xinzhuang Parkson store in October and the Zunyi Parkson store in December. In May 2008, the Group entered into an agreement to acquire from Parkson Holdings Berhad ("PHB") the 100% interest in Tianjin Parkson managed store and the 70% controlling interest in Nanning Parkson managed store, the transaction was completed in October 2008. In aggregate, the Group added a total of approximately 111,200 square meters of retailing space to the portfolio of our self-owned stores. As at the end of the year 2008, the Group managed and operated a total of approximately 991,500 square meters of retailing space with approximately 760,000 square meters for self-owned stores and approximately 231,500 square meters for managed stores.

The Group continued to execute its stated strategy to buy out the minority shareholders of the self-owned stores. In March 2008, the Group entered into an agreement to acquire the remaining 49% interest in our jointly controlled entity, Xi'an Shidai Parkson, the transaction was completed in August 2008. In July 2008 we entered into an agreement to acquire the remaining 9% interest in Xi'an Lucky King Parkson and the transaction was completed in August 2008. The Group now owns 100% of all our operations in Xi'an city. In August 2008 we entered into an agreement to acquire the remaining 30% interest in the Nanning Parkson store and the transaction was completed in October 2008.

During the year under review, the Group continued to explore opportunity for acquisition that meet its strategic initiatives and return on capital requirements. Subsequent to the year ended 31 December 2008, the Group entered into a sale and purchase agreement to acquire a shopping complex known as Suntrans Building located in the Chaoyang District of Beijing with a plan to open a full fledge shopping destination that include merchandise offering, entertainment services and amenities services. The store is expected to commence operation before the end of the year 2009.

Managing Director's Statement

In line with our strategy of rationalizing the operation to maximize productivity, we have closed two small stores, one each in Beijing and Changsha ("Discontinued Stores") in the first quarter of the year 2008 upon expiry of the relevant lease agreements as the size of those stores, each less than 10,000 square meters, is no longer productive for the current operating environment. We have decided to concentrate our resources to operate stores with larger floor space to maximise productivity.

The Group continued to look for new locations for the expansion of our business. During the period under review, the Group executed additional lease agreements in preparation of new store openings in the year 2009 and together with the Suntrans Building, the Group is expected to add total retailing space of at least 120,000 square meters to our existing portfolio in the year 2009.

"In the year 2009, we expect to add total retailing space of 120,000 square meters to our existing portfolio."

Prospect

The rippling effects from the financial crisis and the uncertainties on the effectiveness of the measures taken by various governments around the world, in tackling the same will continue to impact the world economy in the coming year. The PRC economy will face considerable challenges as the export sector which is one of the main pillars of its economy, is likely to contract in the coming year as demand from major export markets continue to decline.

The PRC government has used and is expected to continue using a combination of monetary and fiscal policies to mitigate the negative impacts from the slow down of the export sector.

In this aspect, monetary policies such as the interest rate cut and the reduction of bank reserve ratio were introduced to spur consumption to spur consumption and fiscal policies fiscal policies such as the tax rate adjustment, additional public spending on infrastructure projects, environmental projects, medical care projects and educational projects have been and will continue to be launched to create economic activities and jobs. Though the measures and policies introduced so far might not eliminate the negative impacts from the slow down of the export sector, it should at least mitigate the negative effects to the economy and strengthen the economic fundamentals making the PRC economy more resilient to the fast changing external environment.

Looking forward, we believe that the macro headwinds will continue in the immediate term but will eventually go away. We believe that our business growth in the immediate term will be very challenging but we remain cautiously optimistic about the medium to long term prospect of the PRC economy and the retail industry. We believe that with its strong foreign exchange reserves, solid economic foundation and carefully designed macro-economic policies, the PRC economy should be able to ride through this storm comfortably and emerge even stronger than before.

The Group's growth priorities will be on the long term while maintaining the short term performance in line with market conditions. We will continue to improve our operation and to leverage on the current economic crisis to implement our expansion strategy to prepare the Group for the next growth cycle. We will continue to introduce innovative and timely promotion to increase our market share and to focus on cost rationalisation exercise to improve operating leverage. On an annual basis, we will add approximately 15% to 20% of operating area to our existing portfolio through opening of new stores and M&A activities, especially in cities or existing markets where we already have a strong presence and also in relatively affluent cities or new markets to further expand our network and enhance our brand image. The Group will continue to pursue the acquisition of the minority interests of our existing subsidiaries and also opportunities for third party acquisition that meet our strategic initiatives and return on capital requirements, which include the acquisition of competitor stores and the properties currently occupied by our flagship stores or properties which have the potential to become a flagship store.

The development of customer loyalty and the further enhancement of the Parkson brand equity will continue to be our main focus. We will also persist on our operational strategy on improving the productivity and profitability of our existing stores and strive to continue with our proven business model and to reinvent and upgrade our stores when the time is right. We will make alteration to the merchandise mix and brand mix in line with the development in each individual market where we operate and increase the range of products and brands in our stores to provide our customers with more choices, lower prices and greater value merchandises.

We are confident in our business plans and strategies and believe that the Group is well-positioned to consolidate our leadership position and emerge stronger after the storm is over.

CHENG YOONG CHOONG
MANAGING DIRECTOR
20 February 2009

Financial Highlights

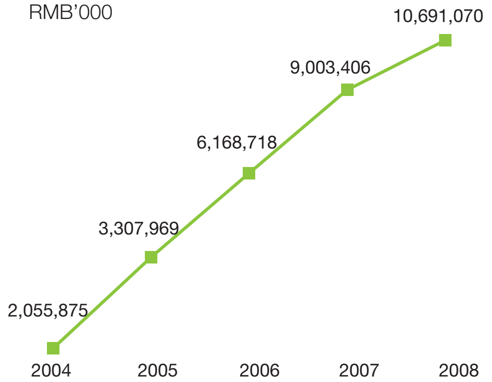
Profit attributable to the Group

Profit attributable to the Group increased to RMB841.1 million, an increase of RMB165.1 million or 24.4%

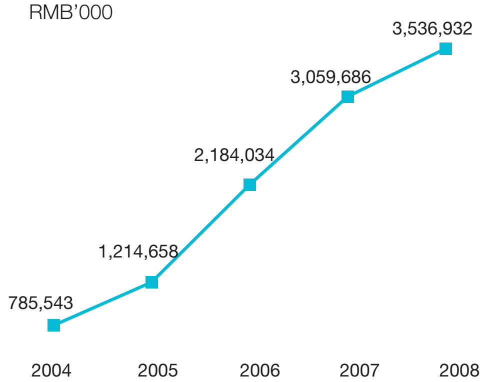
24.4%

Operating Result (RMB'000)	2004	2005	2006	2007	2008	Change (%)
Gross sales proceeds[1]	2,055,875	3,307,969	6,168,718	9,003,406	10,691,070	18.7%
Operating revenue	785,543	1,214,658	2,184,034	3,059,686	3,536,932	15.6%
Profit from operations	249,457	397,193	707,913	1,016,522	1,211,165	19.1%
Profit for the year	161,939	274,324	513,154	727,801	878,372	20.7%
Profit attributable to the Group	152,771	248,012	460,761	676,000	841,142	24.4%
Basic earnings per share (RMB)[2]	0.070	0.110	0.166	0.244	0.302	23.8%
Interim dividends per share	NA	Nil	0.030	0.044	0.060	36.4%
Final dividends per share[3]	NA	0.052	0.054	0.076	0.085	11.8%
Full year dividends per share	NA	0.052	0.084	0.120	0.145	20.8%

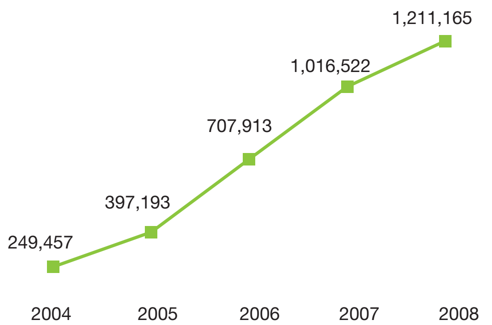
Gross sales proceeds
RMB'000



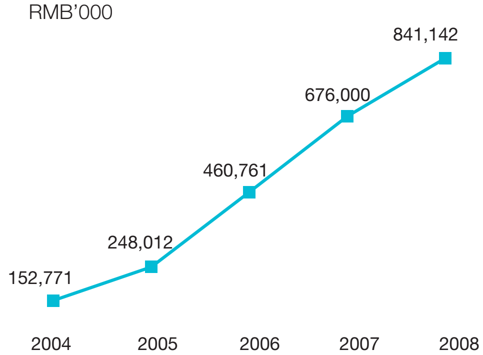
Operating revenue
RMB'000



Profit from operations
RMB'000



Profit attributable to the Group
RMB'000



Full year dividends per share

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 RMB0.145 in cash per share for the year 2008, an increased of 20.8% over last year, representing approximately 48.0% of the 2008's net profit attributable to the Group.

20.8%

Balance sheet summary (RMB'000)	2004	2005	2006	2007	2008
Non current assets	638,493	837,724	3,815,228	4,810,033	5,551,691
Current assets	890,411	2,413,174	3,659,251	4,179,432	4,282,425
Total assets	1,528,904	3,250,898	7,474,479	8,989,465	9,834,116
Current liabilities	700,293	1,173,936	1,680,119	2,003,565	2,408,393
Non current liabilities	106,311	203,636	3,474,877	4,117,825	3,898,418
Net assets	722,300	1,873,326	2,319,483	2,868,075	3,527,305
Represented by					
Owners' equity	655,983	1,780,880	2,227,587	2,789,051	3,446,662
Minority interests	66,317	92,446	91,896	79,024	80,643
Total equity	722,300	1,873,326	2,319,483	2,868,075	3,527,305

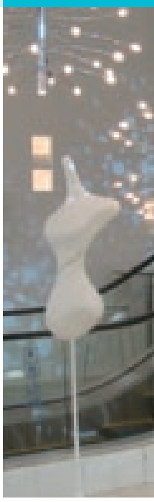
Notes:

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 2008 is based on the profit attributable to equity shareholders of the Company for the year of approximately RMB841,142,000 and the weighted average number of 2,789,549,340 subdivided shares in issue during that year.

   The calculation of basic earnings per share for the year ended 31 December 2007 is based on the profit attributable to equity shareholders of the Company for the year of approximately RMB676,000,000 and the weighted average number of 2,769,680,925 subdivided shares in issue during the year.

3. The Company was incorporated on 3 August 2005 and accordingly, no dividend has been declared or paid by the Company for the years 2003 to 2004.



RMB 10,691.1 million

During the year under review, the Group generated a total gross sales proceeds of RMB10,691.1 million.

Total gross sales proceeds and operating revenues

During the period under review, the Group generated a total gross sales proceeds received or receivable of RMB10,691.1 million (comprises of direct sales, sales proceeds from concessionaire sales, rental incomes, consultancy and management service fees and other operating revenues). Total gross sales proceeds for the period represent a growth of 18.7% or RMB1,687.7 million from RMB9,003.4 million reported in the same period of last year mainly due to (i) the SSS growth of approximately 12.1%, (ii) the inclusion of the full year sales performance of the new stores opened and acquisitions completed in the year 2007 and (iii) the inclusion of the sales performances of the acquisitions completed and new stores opened in the year 2008. The growth was however partly offset by the closure of the Discontinued Stores since the beginning of the year 2008 and the reduction in the consultancy and management service fees due to lesser managed stores within the Group's portfolio.

TOTAL GROSS SALES PROCEEDS INCREASED BY 18.7%

THE GROUP GENERATED TOTAL MERCHANDISE SALES OF APPROXIMATELY RMB10,125.8 million.

The Group generated total merchandise sales of approximately RMB10,125.8 million. The concessionaire sales contributed approximately 88.2% and the direct sales contributed the balance of 11.8%. The Fashion & Apparel category made up approximately 48.7% of the total merchandise sales, the Cosmetics & Accessories category contributed approximately 32.8%, the Household & Electrical category contributed approximately 8.1% and the balance of approximately 10.4% came from the Groceries and Perishables category.

Commission rate from concessionaire sales was within management's expectation at 19.9%, dropped marginally by 0.4% compared to the same period of last year due to the additional discount given away in the second half of the year to drive sales. Direct sales margin improved marginally by 0.4% to 17.5% compared to the same period last year due to strong growth in the cosmetics sales which carry higher margin.

Total operating revenues of the Group for the year under review grew by RMB477.2 million to RMB3,536.9 million or 15.6% from the numbers reported in the same period of last year. The growth rate was in line with the growth of the total gross sales proceeds and partially offset by the closure of the Discontinued Stores and the reduction of the consultancy and management service fees.

Total sales proceeds

The Group generated total merchandise sales of approximately RMB10,125.8 million, an increased of 19.1% over last year. Commission rate from concessionaire sales was within management's expectation at 19.9% and Direct sales margin improved marginally to 17.5%.

19.1%

Total Sales Proceeds and Sales Mix

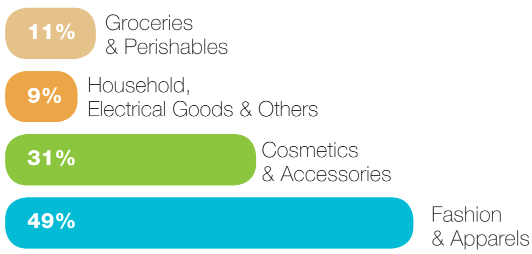
Total sales proceeds (RMB'000)	2007	2008
Direct sales	1,044,130	1,190,126
Concessionaire sales	7,455,218	8,935,689
Total sales proceeds	8,499,348	10,125,815

Sales proceeds by categories (RMB'000)	2007	2008
Fashion and apparels	4,196,691	4,931,272
Cosmetics and accessories	2,610,216	3,321,267
Household, electrical goods and others	736,494	820,191
Groceries and perishables	955,947	1,053,085
Total sales proceeds	8,499,348	10,125,815

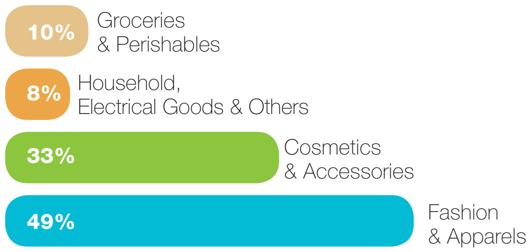
88.2%
Concessionaire Sales

11.8%
Direct Sales

2007 Sales Mix



2008 Sales Mix



Operating Expenses

Purchase of goods and change in inventories

The purchase of goods and change in inventories refer to the cost of sales for the direct sales. In line with the increase of direct sales, the cost of sales rose to RMB982.0 million, an increase of RMB116.3 million or 13.4% from RMB865.7 million recorded for the same period of last year.

Staff costs

Staff costs dropped by RMB3.5 million or 1.3% to RMB264.6 million, the reduction was largely contributed by (i) the absence of the employee share option cost; (ii) the reduction of incentives payable to senior management; (iii) the reduction of bonus payable; and (iv) saving of staff costs in relation to the Discontinued Stores. The reduction was partly offset by (i) the inclusion of the full year staff costs of the new stores opened and acquisitions completed in the year 2007; and (ii) the inclusion of the staff costs for new stores opened and acquisitions completed in the year 2008.

As a percentage to total operating revenues, the staff cost decreased to 7.5% from 8.8% recorded last year.

Depreciation and Amortisation

Depreciation and amortisation increased by RMB38.7 million or 34.0% to RMB152.5 million, the increase was primarily contributed by the (i) the inclusion of full year depreciation and amortisation cost of the new stores opened and acquisitions completed in the year 2007; (ii) inclusion of depreciation cost in relation to the Anshan Parkson property; (iii) the inclusion of depreciation and amortisation cost for the acquisitions completed and new stores opened during the year; and (iv) additional depreciation cost in relation to the remodeled stores.

As a percentage to total operating revenues, depreciation and amortisation cost rose to 4.3% from 3.7% reported for the same period of last year due to the aforesaid reasons.

Rental Expenses

Rental expenses grew by RMB53.8 million or 16.6% to RMB378.5 million, the increase was largely due to the inclusion of full year rental cost for the acquisitions completed and new stores opened in the year 2007 and the inclusion of rental cost for the acquisitions completed and new stores opened during the year. The increase was also partly due to the increase payment of contingent rent for the performance related lease agreements. The increase of rental cost was however partially offset by the saving of rental from the Discontinued Stores and the saving of rental for the Anshan Parkson property which is now self-owned.

As a percentage to total operating revenues, the rental expenses increased marginally to 10.7% from 10.6% recorded in the same period of last year.

Other Operating Expenses

Other operating expenses which consist of mainly the utilities cost, marketing and promotional cost, credit card handling expenses, property management cost, pre-opening expenses of new stores and general administrative cost rose by RMB77.3 million or 16.4% to RMB548.0 million due primarily to (i) the inclusion of pre-opening expenses for new stores opened in the year 2008, in particular for the last quarter of the year; (ii) the inclusion of the full year other operating expenses for the new stores opened and acquisitions completed in the year 2007; (iii) the inclusion of other operating expenses for the acquisitions completed and new stores opened in the year 2008; (iv) additional sales tax and rental tax for rental income in relation to the Anshan Parkson property and (v) the closure cost in relation to the Discontinued Stores.

As a percentage to operating revenues, the ratio increased marginally by 0.1% to 15.5%.

Profit from Operations

Profit from operations rose to RMB1,211.2 million, an improvement of RMB194.6 million or 19.1%, this is generally in line with the growth of operating revenues. Despite a lower same store sales growth, marginal concessionaire rate contraction and one off expenses in relation to the closure of the Discontinued Stores, the Group continued to enjoy operating margin expansion due to the introduction of the cost rationalisation exercise to control the operating expenses. Profit from operations as a percentage to operating revenues improved by 1.0% to 34.2%.

Finance Cost, Net

In November 2006, we entered into a financing arrangement which involved issuance of high yield notes, a subscription of credit link notes with the proceeds of the high yield notes and drawdown of on shore commercial loans (collectively "Structure Financing") to obtain funding for our operating entities in the PRC for business expansion. The effect from the Structure Financing and the interest expense from the additional high yield notes issued in the month of May 2007 ("HYN 07") had resulted in a net interest expense of RMB86.0 million to the group for the period under review compared to net interest expense of RMB73.8 million recorded in the year 2007.

Share of Profit from an Associate

This is the share of profit from Shanghai Nine Sea Lion Properties Management Co. Ltd, an associate of the Company, the share of profit increased from RMB535,000 in the year 2007 to RMB975,000 in the year 2008 due to increase of management income received.

Management Discussion And Analysis

Income Tax

The Group's income tax expense increased by RMB32.3 million or 15.0% to RMB247.8 million due to the increase of profit before income tax and the 5% withholding tax provided in the last quarter of the year for the anticipated dividends distribution to the Company by the PRC subsidiaries from the distributable profit for the year 2008. The effective tax rate was 22.0%, marginally lower by 0.8% from the same period of last year.

Profit for the Year

In line with the increase in revenue, the profit for the year increased to RMB878.4 million, an improvement of RMB150.6 million or 20.7%. The profit margin as a percentage to operating revenues improved by 1.0% to

24.8% from 23.8% recorded in the same period of last year due to the higher operating profit margin and lower effective tax rate, however it was partially offset by the higher net interest expense incurred on the Structure Financing and the HYN07.

Profit Attributable to the Group

Profit attributable to the Group increased to RMB841.1 million, an increase of RMB165.1 million or 24.4%. This is in line with the increase in operating revenues and the profit from operations.

Liquidity and Financial Resources

The cash and short term deposits balance of the Group stood at RMB3,031.5 million as at the end of December 2008, representing an increase of 6.0% from the balance of RMB2,860.2 million recorded as at the end of December 2007. The increase was mainly due to (i) the positive cash flow of RMB1,292.2 million generated from the operating activities; (ii) repayment of entrusted loan of approximately RMB120 million in relation to the Nanchang Parkson acquisition; and (iii) the decrease of investment in principal guaranteed deposits of approximately RMB211.3 million. The increase was however partially offset by (i) payment of dividends of approximately RMB378.2 million to the shareholders of the Company and payment of dividends of approximately RMB36.8 million to the minority shareholders of the Group's subsidiaries; (ii) payment of RMB450.0 million for the acquisition of the Anshan Parkson Property; (iii) payment of approximately RMB61.0 million for the acquisition of the remaining 49% minority interest in Xi'an Chang'an Parkson; (iv) payment of approximately RMB154.0 million for the acquisition of the remaining 49% minority interest in Xi'an Shidai Parkson; (v) payment of approximately RMB55.0 million for the acquisition of the remaining 9% minority interest in Xi'an Lifeng Parkson; (vi) payment of RMB180.0 million for the acquisition of 100% interest in Tianjin Parkson and Nanning Parkson; (vii) maintenance capital expenditures and new store opening capital expenditures of RMB167.8 million and (viii) repayment of bank loan of RMB87.9 million. Including the balance of investment in principal guaranteed deposits, the cash and cash equivalent of the Group amounted to RMB3,649.0 million, increase marginally by 0.2% from the balance of RMB3,641.7 million recorded as at the end of December 2007.

Current Assets and Net Assets

The Group's current assets as at 31 December 2008 was approximately RMB4,282.4 million, an increase of 2.5% or RMB103.0 million from the balance of RMB4,179.4 million recorded as at 31 December 2007. Net asset of the Group as at 31 December 2008 rose to RMB3,527.3 million, an increase of RMB659.2 million or 23.0% over the balance as at 31 December 2007.

Pledge of Assets

As at 31 December 2008, no asset is pledged with any bank or lender.

Segmental Information

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

Employees

As at 31 December 2008, total number of employees for the Group was approximately 6,800. 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.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 31 December 2008.

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 ensure that the Group's exposure to the foreign exchange rate fluctuation and the interest rate fluctuation is minimized.

In relation to the high yield notes issued in November 2006 and May 2007, the Group has simultaneously entered into a Structure Financing arrangement, which include subscription of the credit linked notes as mentioned above and entering into interest rate swaps to eliminate the Group's exposure to exchange rate and interest rate fluctuation.

Total debt to total assets ratio of the Group expressed as a percentage of interest bearing loans and bank borrowings over the total assets was 26.1% as at 31 December 2008 after netting off the effects from the Structure Financing.


VEGETABLE

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 Directors:

KO Tak Fai, Desmond
Werner Josef STUDER
YAU Ming Kim, Robert

Registered Office

c/o Maples 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

Level 28, Three Pacific Place
1 Queen's Road East
Hong Kong

Company Secretary

SENG SZE Ka Mee, Natalia
FCIS, FCS (PE), FHKIoD,
EMBA

Qualified Accountant

WONG Kang Yean, Clarence
FCCA, CA (MIA)

Authorised Representatives

CHENG Yoong Choong
CHEW Fook Seng

Audit Committee

KO Tak Fai, Desmond
(Chairman)
Werner Josef STUDER
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 N.V.,
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

Website

www.parkson.com.cn

Executive Directors

CHENG Yoong Choong, aged 45, 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's of Companies ("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 the 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, aged 58, 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.

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, aged 66, 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 encompassing steel, motor, tyre, computer, retail, trading, plantation, and property and community development. 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, PHB and Silverstone Berhad

– Chairman of Lion Diversified Holdings Berhad, Lion Forest Industries Berhad and Silverstone Corporation Berhad

– Director of Amsteel Corporation Berhad and Lion Teck Chiang Limited

Save for Silverstone Berhad, Silverstone Corporation Berhad and Amsteel Corporation Berhad, all the above companies are public listed companies in Malaysia whilst Lion Teck Chiang Limited is 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

Werner Josef STUDER, aged 49, 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 ("The 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 The 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, aged 41, 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 was a Director for CB Richard Ellis Limited with responsibility for CBRE-Hotels in Greater China.

YAU Ming Kim, Robert, aged 70, 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 Independent Non-executive Director of Tungtex (Holdings) Company Limited which shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Senior Management

TAN Hun Meng, aged 48, 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 Development and 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 53, a Malaysia citizen, is the Chief Operating Officer of Northern Region cum Regional General Manager (Northern) 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 44, 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 practicing 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.

WONG Chee Keong, aged 43, 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 the PRC. 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 42, a Malaysia citizen, is the General Manager for the Merchandising Division 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. In 2007 he was promoted to the present position.

LEE Sook Beng, aged 43, a Malaysia citizen, is the Chief Auditor of the Group. Miss 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.

TAN Guan Soon, aged 41, a Malaysian citizen, is the Assistant General Manager of Merger & Acquisition and Project Development Division of the Group. Mr Tan obtained his Bachelor of Science in Finance from University of Nebraska – Lincoln, USA and a Master of Business Administration from Southern Cross University, Australia. He was appointed as the Financial Controller of The Lion Group's China Brewing Division in July 1997 before joining the Group in April 2004.

ONG Choo Keng, Daryl, aged 41, a Malaysia citizen, is the Assistant General Manager for the Group's Store Design, and Visual Merchandising Department. Mr Ong holds a Diploma in Architecture from Prime Tech Institute, Malaysia. He joined The Lion Group's Visual Merchandising Department in December 1993, and was actively involved in new store design and remodeling projects. In October 2001, he joined the Retail Division of the Group and headed the Visual Merchandising Department based in Shanghai. In 2007 he was promoted to the present position.

Qualified Accountant

WONG Kang Yean, Clarence, aged 39, a Malaysia citizen, is the Chief Financial Officer of the Group. He is a fellow 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 working for Far East Consortium group of companies as the Chief Financial Officer and Head of the Corporate Finance and Accounts department of the Group's operation in Malaysia. Mr Wong joined the Group as a full-time employee in 2005 and is a member of the Group's senior management team.

The Company recognizes the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts in identifying and formulating corporate governance practices appropriate to the Company's records. The Company's corporate governance practices are based on the principles and code provisions 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 their respective office at every annual general meeting and all Directors (including Non-executive Directors) are subject to retirement by rotation once every three years 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 31 to 33.

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 its 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 relevant to the Company's business.

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.

In respect of the Listing Rules requirements regarding the sufficient number of Independent Non-executive Directors and one Independent Non-executive Director with appropriate qualifications, the Company has met these requirements. The Company has received from each of the Independent Non-executive Directors an annual confirmation as regards independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the Independent Non-executive Directors independent.

Frequency of Meetings and Attendance

Board meetings will be held at least four (4) times a year with additional meetings to be convened as and when necessary to determine the overall strategic directions and objectives of the Group 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 2008	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:		
Werner Josef STUDER	4	4
KO Tak Fai, Desmond	4	4
YAU Ming Kim, Robert	4	4

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 2008.

Accountability and Audit

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

The statement 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 pages 64 to 65.

Auditors' Remuneration

For the year ended 31 December 2008, the auditors of the Company received approximately HK$4.2 million for audit services.

Internal controls

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

The Company maintains 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 formulates the annual internal audit plan and procedures, conducts periodic independent reviews on the operations of individual divisions to identify any irregularity and risk, 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 Ko Tak Fai, Desmond (Chairman of the Audit Committee), Mr Werner Josef Studer and Mr Yau Ming Kim, Robert.

The Audit Committee is required, to advise the Board on the appointment and retention of external auditor, to review the external auditors' independence and objectivity, to review quarterly, interim and annual accounts of the Group, to assess the adequacy and effectiveness of internal control, to review the internal audit function 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 four (4) 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 2008	Number of Meetings Attended
Independent Non-executive Directors:		
KO Tak Fai, Desmond	4	4
Werner Josef STUDER	4	4
YAU Ming Kim, Robert	4	4

The Audit Committee reviewed the Group's results for the year 2008.

Remuneration Committee

Pursuant to the requirements of the CG Code, the Company has set up a Remuneration Committee consisting three (3) members, one of whom is an Executive Director, namely Mr Cheng Yoong Choong (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.

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 personnel it requires 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. During the year under review, the Remuneration Committee had one (1) meeting held on 22 May 2008 and the attendances are listed below:

Name of the Remuneration Committee Member	Number of Meetings Held During the Member's Term of Office in 2008	Number of Meetings Attended
Executive Director:		
CHENG Yoong Choong	1	1
Independent Non-executive Directors:		
KO Tak Fai, Desmond	1	1
YAU Ming Kim, Robert	1	1

The Remuneration Committee has reviewed the remuneration policy and the remuneration packages of the Executive Directors and the senior management for the year under review.

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 2008.

Principal Activities

The Company, incorporated with limited liability in the Cayman Islands on 3 August 2005 acts as an investment company. The principal activities of the Group are the operation and management of a network of department stores in the PRC. 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 2008 are set out in the consolidated income statement on page 66.

Fixed Assets

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

Proposed Final Dividends

The Board of Directors recommended the payment of a final dividends for the year of 2008 of RMB0.085 (2007: RMB0.076 per share after adjusting the effect from the subdivision of every existing share of HK$0.10 in the Company into 5 new subdivided shares of HK$0.02 each, which was approved by the Company's shareholders on 4 July 2008 and took effect on 7 July 2008 ("Share Subdivision")) in cash per share. The Company declared and paid an interim dividends of RMB0.060 (2007: RMB0.044 per share after adjusting for the effect from the Share Subdivision) in cash per share. 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 RMB0.145 (2007: RMB0.120 per share after adjusting for the effect from the Share Subdivision) in cash per share for the year 2008, representing approximately 48.0% of the 2008's net profit attributable to the Group. The final dividends will be paid in Hong Kong dollars, such amount is to be calculated by reference to the middle rate published by People's Bank of China for the conversion of Renminbi to Hong Kong dollars as at 22 May 2009.

Upon the approval to be obtained from the forthcoming annual general meeting, the final dividends will be payable on or about 30 June 2009 to the shareholders whose name appears on the Register of Members of the Company at close of business on 22 May 2009.

Share Capital

Details of movements in the Company's share capital for the year ended 31 December 2008 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)

Non-executive Director

Tan Sri CHENG Heng Jem (Chairman)

Independent Non-executive Directors

KO Tak Fai, Desmond
Werner Josef STUDER
YAU Ming Kim, Robert

Details of the profile of each member of the Board are set out in the "Biographies of Directors and Senior Management" section on pages 31 to 33.

In accordance with Article 130 of the Company's Articles of Association, Tan Sri Cheng Heng Jem and Mr Ko Tak Fai, Desmond 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 accepted the extension of the service contract with the Company on 9 November 2008 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 annual salary 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.

Tan Sri Cheng Heng Jem has signed a new letter of appointment dated 9 November 2008 under which he agreed to act as a Non-executive Director for a period of three years and will receive an annual Director's fee of approximately HK$150,000.

Mr Yau Ming Kim, Robert has signed a letter of appointment dated 27 December 2006 with the Company under which he agreed to act as Independent Non-executive Director 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 the appointment letter. Mr Ko Tak Fai, Desmond and Mr Werner Josef Studer have each signed a new letter of appointment dated 7 November 2008 with the Company under which they agreed to act as Independent Non-executive Directors, with the same terms as Mr Yau. 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 under review or at any time during that year.

Competing business interests of Directors

As at 31 December 2008, 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 (through PHB) 6 Parkson branded department stores in the PRC which are managed by the Group. Details of those 6 Parkson branded department stores are set out in the prospectus of the Company issued on 17 November 2005. As mentioned earlier, the Company possessed an option/right of first refusal to acquire all and any of the 6 Parkson branded department stores as and when it deems fit.

Directors' and Chief Executives' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2008, the interests and short positions 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 for Securities Transactions by Directors of Listed Issuers in the Listing Rules ("Model Code"), were set out below. For the avoidance of doubt, as mentioned earlier, as the Share Subdivision had taken effect on 7 July 2008, the number of shares had been adjusted due to the implementation of subdivision of each share of HK$0.1 into 5 shares of HK$0.02 each in the share capital of the Company:

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

Nature of Interest	Name of Registered Owner	Name of Beneficial Owner	Number and Class of Securities	Approximate Percentage of Shareholding
Corporate interest	PRG Corporation	PRG Corporation	1,491,800,000 ordinary shares	53.31%
Corporate interest	East Crest International Limited ("East Crest")	East Crest	9,970,000 ordinary shares	0.35%

Note:

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 PHB. Since PHB 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 1,491,800,000 Shares held by PRG Corporation in the Company. The remaining 9,970,000 Shares are the consideration shares issued to East Crest pursuant to the acquisition of the 70% equity interest in Nanning Parkson and the 100% equity interest in Tianjin Parkson, which was completed in October 2008. The aforesaid consideration shares were included in the calculation of Tan Sri Cheng Heng Jem's long position in the share capital of the Company pursuant to the disclosure requirement for a director's interest in shares of a listed issuer under Part XV of the SFO.

(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 Associated Corporation	Nature of Interest	Name of Registered Owner	Name of Beneficial Owner	Number and Class of Securities	Approximate Percentage of Shareholding
PHB	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	650,100,076 ordinary shares	63.91%
PRG Corporation	Corporate interest	East Crest	East Crest	1 ordinary share	100%
East Crest	Corporate interest	PHB	PHB	1 ordinary share	100%
Parkson Vietnam Investment Holdings Co., Ltd.	Corporate interest	PHB	PHB	2 ordinary shares	100%
Parkson Properties Holdings Co., Ltd.	Corporate interest	PHB	PHB	2 ordinary shares	100%
Prime Yield Holdings Limited	Corporate interest	PHB	PHB	1 ordinary share	100%
Parkson Venture Pte Ltd	Corporate interest	East Crest	East Crest	14,800,000 ordinary shares	100%
Serbadagang Holdings Sdn. Bhd.	Corporate interest	East Crest	East Crest	2 ordinary shares	100%
Sea Coral Limited	Corporate interest	East Crest	East Crest	1 ordinary share	100%

Name of Associated Corporation	Nature of Interest	Name of Registered Owner	Name of Beneficial Owner	Number and Class of Securities	Approximate Percentage of Shareholding
Parkson Corporation Sdn. Bhd.	Corporate interest	East Crest	East Crest	50,000,002 ordinary shares	100%
Parkson HCMC Holdings Co., Ltd.	Corporate interest	Parkson Vietnam Investment Holdings Co., Ltd.	Parkson Vietnam Investment Holdings Co., Ltd.	2 ordinary shares	100%
Parkson HaiPhong Holdings Co., Ltd.	Corporate interest	Parkson Vietnam Investment Holdings Co., Ltd.	Parkson Vietnam Investment Holdings Co., Ltd.	2 ordinary shares	100%
Parkson TSN Holdings Co., Ltd.	Corporate interest	Parkson Vietnam Investment Holdings Co., Ltd.	Parkson Vietnam Investment Holdings Co., Ltd.	2 ordinary shares	100%
Parkson Properties NDT (Emperor) Co., Ltd.	Corporate interest	Parkson Properties Holdings Co., Ltd.	Parkson Properties Holdings Co., Ltd.	2 ordinary shares	100%
Dyna Puncak Sdn. Bhd.	Corporate Interest	Prime Yield Holdings Limited	Prime Yield Holdings Limited	2 ordinary shares	100%
Qingdao No. 1 Parkson Co., Ltd ("Qingdao No. 1")	Corporate interest	Parkson Venture Pte Ltd	Parkson Venture Pte Ltd	118,335,000 registered capital (RMB)	52.95% (in aggregate)
		Serbadagang Holdings Sdn. Bhd.	Serbadagang Holdings Sdn. Bhd.	6,166,580 registered capital (RMB)	
Dalian Tianhe Parkson Shopping Centre Co., Ltd.	Corporate interest	Serbadagang Holdings Sdn. Bhd.	Serbadagang Holdings Sdn. Bhd.	60,000,000 registered capital (RMB)	60%

Name of Associated Corporation	Nature of Interest	Name of Registered Owner	Name of Beneficial Owner	Number and Class of Securities	Approximate Percentage of Shareholding
Dalian Parkson Retail Development Co., Ltd. ("Dalian Shishang")	Corporate interest	Sea Coral Limited	Sea Coral Limited	40,000,000 registered capital (RMB)	100%
Changchun Parkson Retail Development Co., Ltd.	Corporate interest	Sea Coral Limited	Sea Coral Limited	10,000,000 registered capital (RMB)	100%
Parkson Haiphong Co., Ltd	Corporate interest	Parkson Corporation Sdn. Bhd.	Parkson Corporation Sdn. Bhd.	3,650,975.96 capital (USD)	100%
Parkson Vietnam Co., Ltd	Corporate interest	Parkson Corporation Sdn. Bhd.	Parkson Corporation Sdn. Bhd.	7,840,000 capital (USD)	100%
Park Avenue Fashion Sdn. Bhd.	Corporate interest	Parkson Corporation Sdn. Bhd.	Parkson Corporation Sdn. Bhd.	250,002 ordinary shares	100%
Kiara Innovasi Sdn. Bhd.	Corporate Interest	Parkson Corporation Sdn. Bhd.	Parkson Corporation Sdn. Bhd.	2 ordinary shares	100%
Idaman Erajuta Sdn. Bhd.	Corporate Interest	Dyna Puncak Sdn. Bhd.	Dyna Puncak Sdn. Bhd.	2 ordinary shares	100%
Parkson Vietnam Management Services Co., Ltd.	Corporate Interest	Parkson Vietnam Co., Ltd	Parkson Vietnam Co., Ltd	10,000 capital (USD)	100%
Spring Active Sdn. Bhd.	Corporate interest	Idaman Erajuta Sdn. Bhd.	Idaman Erajuta Sdn. Bhd.	2 ordinary shares	100%

(c) Short positions of Tan Sri Cheng Heng Jem 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
PHB	Corporate interest	Tan Sri Cheng Heng Jem and a series of controlled corporations	Tan Sri Cheng Heng Jem and a series of controlled corporations	40,000,142 ordinary shares	3.93%

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

Corporate interest through Excel Step Investments Limited, Tan Sri Cheng Heng Jem is deemed to be interested in 100% of RMB228.8 million nominal value 3.5% redeemable convertible secured loan stocks 2007/2010 issued by PHB as Tan Sri Cheng Heng Jem is entitled to exercise or control the exercise of more than one third of the voting power at the general meetings of Excel Step Investments Limited.

(e) Long positions of Cheng Yoong Choong in the share capital of the Company:

Nature of Interest	Name of Beneficiary	Subject Matter	Number and Class of Securities	Approximate Percentage of Shareholding[2]
Beneficial interest	Cheng Yoong Choong	Option to subscribe for shares[1]	2,275,000 ordinary shares	0.08%

Notes:

1. Offer was made on 10 January 2007 pursuant to the Company's share option scheme adopted on 9 November 2005.

2. Based on the issued and paid up share capital of the Company as at 31 December 2008.

(f) 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
PHB	Beneficial interest	Cheng Yoong Choong	Cheng Yoong Choong	5,935,299 ordinary shares	0.58%

(g) Long positions of Chew Fook Seng in the share capital of the Company:

Nature of Interest	Name of Beneficiary	Subject Matter	Number and Class of Securities	Approximate Percentage of Shareholding[2]
Beneficial interest	Chew Fook Seng	Option to subscribe for shares[1]	750,000 ordinary shares	0.02%

Notes:

1. Offer was made on 10 January 2007 pursuant to the Company's share option scheme adopted on 9 November 2005.

2. Based on the issued and paid up share capital of the Company as at 31 December 2008.

(h) Long positions of Werner Josef Studer in the share capital of the Company:

Nature of Interest	Name of Beneficiary/ Registered Owner	Subject Matter/Name of Beneficial Owner	Number and Class of Securities	Approximate Percentage of Shareholding[2]
Beneficial interest	Werner Josef Studer	Option to subscribe for shares[1]	75,000 ordinary shares	Less than 0.01%
Beneficial interest	Werner Josef Studer	Werner Josef Studer	60,000 ordinary shares	Less than 0.01%

Notes:

1. Offer was made on 10 January 2007 pursuant to the Company's share option scheme adopted on 9 November 2005.

2. Based on the issued and paid up share capital of the Company as at 31 December 2008.

(i) Long positions of Werner Josef Studer 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
PHB	Beneficial interest	Werner Josef Studer	Werner Josef Studer	101,250 ordinary shares	Less than 0.01%

(j) Long positions of Ko Tak Fai, Desmond in the share capital of the Company:

Nature of Interest	Name of Beneficiary	Subject Matter	Number and Class of Securities	Approximate Percentage of Shareholding[2]
Beneficial interest	Ko Tak Fai, Desmond	Option to subscribe for shares[1]	275,000 ordinary shares	Less than 0.01%

Notes:

1. Offer was made on 10 January 2007 pursuant to the Company's share option scheme adopted on 9 November 2005.

2. Based on the issued and paid up share capital of the Company as at 31 December 2008.

Save as disclosed above, as at 31 December 2008, 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 and Short Positions in Shares and Underlying Shares

As at 31 December 2008, so far as the Directors are aware, each of the following persons, not being a Director or Chief Executive of the Company, had interests and short positions in the Company's shares which falls to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Long/Short Positions	Nature of Interest	Number of Shares	Percentage of shareholding (direct or indirect)
PHB	Long	Corporate interest	1,491,800,000* (Note 1)	53.31%
PRG Corporation	Long	Beneficial interest	1,491,800,000* (Note 1)	53.31%
Puan Sri Chan Chau Ha alias Chan Chow Har	Long	Interest of spouse	1,491,800,000* (Note 2)	53.31%
JPMorgan Chase & Co	Long	Beneficial interest, Investment manager and Custodian	357,799,344 (Note 3)	12.78%
	Short	Beneficial interest	500,000	0.01%
Deutsche Bank Aktiengesellschaft	Long	Beneficial interest, Investment manager and Person having a security interest in shares	164,716,807 (Note 4)	5.88%
	Short	Beneficial interest and Person having a security interest in shares	114,790,620 (Note 4)	4.10%

* Adjustment for the Share Subdivision made during the period under review.

Notes:

1. PRG Corporation is a wholly-owned subsidiary of PHB. By virtue of the SFO, PHB is deemed to be interested in the Shares held by PRG Corporation in the Company. The 9,970,000 Shares being the consideration shares issued to East Crest, a wholly-owned subsidiary of PHB due to the completion of the acquisition of the 70% equity interest in Nanning Parkson and the 100% equity interest in Tianjin Parkson were excluded from the calculation of PHB's long positions in the share capital of the Company pursuant to the disclosure requirements for the substantial shareholder's interest in the shares of the listed issuer under Part XV of the SFO. This is in line with the disclosure requirements for a substantial shareholder's interest in the shares of a listed issuer under Part XV of the SFO.

2. 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 1,491,800,000 Shares which Tan Sri Cheng Heng Jem is deemed to be interested in for the purposes of the SFO. Likewise, the 9,970,000 Shares referred to in Note 1 above were excluded from the calculation of the deemed interest of Puan Sri Chan Chau Ha alias Chan Chow Har in the share capital of the Company pursuant to the disclosure requirements for a substantial shareholder's interest in the shares of a listed issuer under Part XV of the SFO.

3. The capacities of JPMorgan Chase & Co. in holding the 357,799,344 Shares (Long position) and 500,000 Shares (Short position) were as to 1,572,000 Shares (Long position) and 500,000 Shares (Short position) as beneficial owner, 268,896,330 Shares (Long position) as investment manager and as to 87,331,014 Shares (Long position) in the lending pool as custodian corporation/approved lending agent. The interest of JPMorgan Chase & Co. was attributable on account through a number of its wholly- owned subsidiaries.

4. The capacities of Deutsche Bank Aktiengesellschaft in holding the 164,716,807 Shares (Long position) and 114,790,620 Shares (Short position) were as to 40,420,897 Shares (Long position) and 21,443,553 Shares (Short position) as beneficial owner, 1,113,250 Shares (Long position) as investment manager, 123,182,660 Shares (Long position) and 93,347,067 Shares (Short position) as a person having a security interest in shares. The interest of Deutsche Bank Aktiengesellschaft was attributable on account through a number of its wholly-owned subsidiaries.

As at 31 December 2008, 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 a member of the Group other than the Company:

Substantial Shareholder	Member of the Group	Percentage of equity interest held
Xinjiang Youhao[1]	Xinjiang Parkson	49%
Wuxi Sunan[2]	Wuxi Parkson	40%
Yangzhou Commercial[3]	Yangzhou Parkson	45%
Chongqing Wanyou[4]	Chongqing Parkson	30%
Guizhou Shengqi Enterprise[5]	Guizhou Parkson	40%
Shanghai Nine Sea Industry[6]	Shanghai Lion Property	71%
Shanghai Nine Sea Industry[7]	Shanghai Nine Sea Parkson	29%

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 Development Co., Ltd. ("Xinjiang Parkson").

2. 無錫蘇南投資擔保有限公司 (Wuxi Sunan Investment Guarantee Co., Ltd.), 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. 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").

5. (i) 貴州神奇實業有限公司 Guizhou Shenqi Enterprise, owns 40% of the equity interest of 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.

6. 上海九海金獅物業管理有限公司 Shanghai Nine Sea Lion Properties Management Co., Ltd.'s ("Shanghai Lion Property") is a cooperative joint venture enterprise established under the laws of the PRC between Shanghai Nine Sea Industry Co., Ltd. ("Shanghai Nine Sea Industry") and Exonbury Limited ("Exonbury"), a wholly-owned subsidiary of the Company. Shanghai Nine Sea Industry is entitled to 71% of the voting rights in the board of Shanghai Lion Property and 65% of its distributable profits. The Group is entitled to 29% of the voting rights in the board of Shanghai Lion Property and 35% of its distributable profits.

7. Shanghai Nine Sea Parkson Plaza Co., Ltd. ("Shanghai Nine Sea Parkson") is a cooperative joint venture enterprise established under the laws of the PRC between Shanghai Nine Sea Industry and Exonbury. Shanghai Nine Sea Industry is entitled to 29% of the voting rights in the board of Shanghai Nine Sea Parkson and a pre-determined distribution of income from Shanghai Nine Sea Parkson. The Group is entitled to 71% of the voting rights in the board of Shanghai Nine Sea Parkson and 100% of its distributed profit after deducting the aforesaid pre-determined distribution of income attributable to Shanghai Nine Sea Industry.

Mr Cheng Yoong Choong and Mr Chew Fook Seng are directors of PRG Corporation, a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO. Save as disclosed above and so far as the Directors are aware, as at 31 December 2008, no other person had an interest or short position in the Company's shares or underlying shares (as the case may be), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was otherwise 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 meetings of the Group.

Share Options Scheme

On 10 January 2007, a total of 8,188,950 share options were granted to 482 eligible employees at nil consideration and with an exercise price of Hong Kong ("HK") $36.75 per share pursuant to an employee share option scheme adopted on the 9 November 2005. In conjunction with the share subdivision on 7 July 2008, each outstanding share option of the Company had been adjusted to 5 share options and the exercise price had been adjusted to HK$7.35 per share. Further information of the share options granted are set out below:

	Exercise Period	Share options granted*	Movement of the share options up to 31 December 2008 lapsed	exercised	outstanding
Lot 1	24 Jan 2007 – 23 Jan 2010	29,778,000	3,000	26,440,500	3,334,500
Lot 2	02 Jan 2008 – 01 Jan 2011	11,166,750	528,000	1,491,000	9,147,750
		40,944,750	531,000	27,931,500	12,482,250

* For the purpose of illustration, we have converted each share option granted on 10 January 2007 into 5 share options after taking effect of the Share Subdivision.

The fair value of the options granted is estimated at the date of grant using a Black-Scholes-Merton option pricing model, taking into account the terms and conditions upon which the options were granted. The 5,955,600 share options (29,778,000 share options after taking effect of the Share Subdivision) granted under Lot 1 are exercisable from 24 January 2007 to 23 January 2010 and have no other vesting conditions. The 2,233,350 share options (11,166,750 share options after taking effect of the Share Subdivision) granted under Lot 2 are exercisable from 2 January 2008 to 1 January 2011 and required an employee service period until 2 January 2008.

Connected Transactions

The following sets out details of certain connected transactions of the Group entered into during the year under review.

1. **Discloseable and connected transaction – acquisition of 49% interest in Xi'an Shidai Parkson**

   The Company owns indirectly 51% equity interest in Xi'an Shidai Parkson through its wholly-owned subsidiary, Xi'an Lucky King Parkson. The remaining 49% equity interest in Xi'an Shidai Parkson is held by Shaanxi Shuangyi Petroleum and Chemical Company Limited ("Shaanxi Shuangyi").

   By a sale and purchase agreement dated 27 March 2008, Shaanxi Shuangyi agreed to sell and the Company agreed to acquire the remaining 49% equity interest in Xi'an Shidai Parkson for a cash consideration of RMB154,000,000.

   Shaanxi Shuangyi ceased to be a connected person to the Company since 20 August 2008 upon the completion of the acquisition of the remaining 49% equity interest in Xi'an Shidai Parkson by Parkson Retail Development Co., Ltd, a wholly-owned subsidiary of the Company.

   For the eight months period commencing 1 January 2008 until 31 August 2008, the rental amount paid by the Group to Shaanxi Shuanyi amounted to RMB19,332,956.

2. **Discloseable and connected transaction – acquisition of 70% interest in Nanning Parkson and 100% interest in Tianjin Parkson**

   By a sale and purchase agreement dated 21 May 2008, the Company, through its wholly-owned subsidiary agreed to acquire from East Crest, the 70% equity interest in Nanning Parkson and the 100% equity interest in Tianjin Parkson for a consideration of RMB240,000,000. The said consideration is payable partly by cash and partly by the Company issuing 1,994,000 ordinary shares of HK$0.10 each at an issue price of HK$67.45 each in favour of East Crest. On 4 July 2008, the Company's shareholders approved the subdivision of every one existing issued and unissued share of HK$0.10 each in the share capital of the Company into 5 subdivided shares of HK$0.02 each ("Share Subdivision"). In light thereof, the consideration shares issued in favour of East Crest upon the completion of the aforesaid acquisition were adjusted to 9,970,000 new subdivided shares of HK$0.02 each. At the relevant issue date, the closing price for the share of the company was HK$8.53.

East Crest is a wholly-owned subsidiary of PHB, which is a substantial shareholder of the Company. Hence, East Crest is a connected person to the Company and the abovementioned acquisition constitutes a connected transaction of the Company.

Continuing Connected transaction

Deed of Non competition

A deed of non-competition was entered into between Lion Diversified Holdings Berhad ("LDHB") and the Company on 10 November 2005 (supplemented and amended on 18 September 2007), 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. Pursuant to a reorganization scheme undertaken by LDHB, LDHB had agreed to consolidate most of its retail business (including most of its existing managed stores in the PRC) into PHB. In light thereof, PHB has entered into an identical deed of non-competition with the Company on 18 September 2007 with respect to those managed stores acquired from LDHB.

PHB is a substantial shareholder of the Company and therefore a connected person of the Company. Both PHB and LDHB are members of The Lion Group which is ultimately controlled by Tan Sri Cheng Heng Jem and hence, LDHB is 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 PHB (and hence an associate of PHB).

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 Shishang	9 November 2005
Shenyang Parkson Shopping Plaza Co., Ltd ("Shenyang Plaza")	9 November 2005
Shantou Parkson Commercial Co., Ltd. ("Shantou Commercial")	9 November 2005

Save for Shenyang Plaza and Shantou Commercial, of which LDHB is in the process of acquiring the same, the above-mentioned members of The Lion Group are the Subsidiaries of PHB, a substantial shareholder of the Company and thus, a Connected Person of the Company. Both PHB and LDHB are members of The Lion Group which is ultimately controlled by Tan Sri Cheng Heng Jem and hence, Lion Group is a Connected Person of the Company.

Continuing connected transactions exempt from independent shareholders' approval requirement

(A) Lease Agreement

(1) Lease arrangements between Chongqing Parkson and Chongqing Wanyou

Chongqing Parkson entered into two leases with Chongqing Wanyou (a 30% substantial shareholder of Chongqing Parkson and therefore, a Connected Person of the Company) 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 ("Demised Premises") to Chongqing Parkson to be used as its place of business. The first lease is meant for the leasing of part of basement 1 till 6th floor of the Demised Premises while the second lease is meant for the leasing of the remaining part of basement 1 of the Demised Premises.

The term of each lease is 20 and 25 years respectively. Annual rent for the first lease is calculated at the higher of (a) the basic rent and (b) the turnover rent. The basic rent for the first three years is RMB2,800,000, thereafter subject to an annual 3% increment (such increment is capped at RMB6,000,000). 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 (i) an amount equivalent to 103% of the previous year's rent (capped at RMB1 million) and (ii) 3% of the annual turnover deriving from the subject matter of the second lease.

For the year ended 31 December 2008, the aggregated rental amount paid by the Group to Chongqing Wanyou amounted to RMB5,238,275.

(2) *Lease arrangements between Guizhou Parkson and Guizhou Huawei and between Guizhou Parkson and Guizhou Shenqi Commercial*

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 Zhonghua Middle Road (also known as "No. 117 Zhonghua Middle Road"), Guiyang, Guizhou to Guizhou Parkson to be used as its place of business.

The term of the lease is 20 years from the commencement of business. The annual rent comprises of two components:

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

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

For the year ended 31 December 2008, the rental amount paid by the Group to Guizhou Huawei amounted to RMB14,639,866.

On 14 June 2007, Guizhou Parkson entered into a lease with Guizhou Shenqi Commercial whereby Guizhou Shenqi Commercial agreed to lease the premises of a total gross floor space of 14,119 sq.m. located at No. 38, Zhonghua Middle Road, Guiyang, Guizhou to Guizhou Parkson to be used as its place of business.

The term of the lease is 20 years. The annual rent is based on the higher of:

(a) Fixed sum of RMB5 million; and

(b) 2% of the Gross Sales Proceeds from gold, jewellery, electrical appliances and merchandises from the super market plus 6% of the Gross Sales Proceeds from other merchandises;

subject to a maximum cap of RMB15 million.

For the year ended 31 December 2008, the rental amount paid by the Group to Guizhou Shenqi Commercial amounted to RMB3,750,000.

Both Guizhou Huawei and Guizhou Shenqi Commercial are Connected Persons to the Company for the following reasons:

(i) Guizhou Huawei
- Zhang Pei, Zhang Zhi Jun and Zhang Ya jointly own 30% of the registered capital of Guizhou Huawei.
- Zhang Pei, Zhang Zhi Jun and Zhang Ya also jointly own 100% equity interest in Guizhou Shenqi Enterprise, a 40% substantial shareholder of Guizhou Parkson.

(ii) Guizhou Shenqi Commercial
- Guizhou Shenqi Enterprise and Guizhou Baiqiang own 49% and 51% equity interest in Guizhou Shenqi Commercial respectively.
- As mentioned above, Zhang Pei, Zhang Zhi Jun and Zhang Ya jointly own 100% equity interest in Guizhou Shenqi Enterprise, a 40% substantial shareholder of Guizhou Parkson.
- Zhang Pei and Zhang Ya jointly own 100% of Guizhou Baiqiang.

Accordingly, both Guizhou Huawei and Guizhou Shenqi Commercial are Associates to Guizhou Shenqi Enterprise, a substantial shareholder of Guizhou Parkson and a Connected Person to the Company. Hence, both Guizhou Huawei and Guizhou Shenqi Commercial are Connected Persons to the Company. Guizhou Huawei, Guizhou Shenqi Commercial, Guizhou Baiqiang and Guizhou Shenqi Enterprise are principally engaged in retail, pharmaceutical and property related businesses.

(3) *Lease arrangement between Xinjiang Parkson and Xinjiang Youhao*

Xinjiang Parkson entered into a lease with Xinjiang Youhao (a 49% substantial shareholder of Xinjiang Parkson and therefore, a Connected Person of the Company) 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 amounts for the periods from 1 January 2003 to 31 December 2003 and 1 January 2004 to 31 December 2004 were RMB21,500,000 and RMB23,750,000 respectively. For the period from 1 January 2005 to 31 December 2012, the annual rent will be RMB25,000,000. Thereafter, the rent will be negotiated between the parties based on a formula taking into consideration the PRC consumer price index.

For the year ended 31 December 2008, the rental amount paid by the Group to Xinjiang Youhao amounted to RMB24,762,494.

(B) *Management consultancy agreements with The Lion Group*

Shanghai Lion Investment currently provides and will continue to provide management consultancy services to the following Managed Stores owned and controlled by certain members of The Lion Group pursuant to the following management consultancy agreements:

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 Parkson[1]	1 May 2005
Shenyang Plaza	28 November 2003
Shantou Parkson	1 June 2005
Tianjin Parkson[1]	8 November 2005

Notes:

1. Ceased to be a connected person to the Company since 9 October 2008 as mentioned above.

Services provided include consultancy on product development, financial advice, marketing and human resources management. An annual management fee based on a fixed percentage of the net sales of the relevant store is payable to Shanghai Lion Investment. The term of each management consultancy agreement is 10 years.

For the year ended 31 December 2008, the management fees received for the provision of the aforesaid services amounted to RMB10,378,111. However, as mentioned above, after the completion of the acquisition of both Tianjin Parkson and Nanning Parkson, they are no longer considered connected persons of the Group. Hence, excluding the aforesaid 2 stores, the total management fees received amounted to RMB7,178,877.

The caps in relation to the lease arrangements and management consultancy agreement set out above did not and 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 Chapter 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 above, 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.

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 2008. None of the Directors or shareholders who owned 5% or more of the issued shares capital of the Company as at 31 December 2008 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 2008.

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 2008.

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
20 February 2009

Independent Auditors' Report

ERNST & YOUNG
安 永

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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 66 to 151, which comprise the consolidated and company balance sheets as at 31 December 2008, 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 2008 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 Accounts
Hong Kong
20 February 2009

Consolidated Income Statement

(Year ended 31 December 2008)

	Notes	2008 RMB'000	2007 RMB'000
Revenues	4	3,137,412	2,726,983
Other operating revenues	4	399,520	332,703
Total operating revenues		3,536,932	3,059,686
Operating expenses			
Purchases of goods and changes in inventories		(982,042)	(865,721)
Staff costs		(264,632)	(268,163)
Depreciation and amortisation		(152,513)	(113,812)
Rental expenses		(378,540)	(324,759)
Other operating expenses		(548,040)	(470,709)
Total operating expenses		(2,325,767)	(2,043,164)
Profit from operations	5	1,211,165	1,016,522
Finance income	6	245,747	253,161
Finance costs	6	(331,757)	(326,966)
Share of profit of an associate		975	535
Profit from operations before income tax		1,126,130	943,252
Income tax	9	(247,758)	(215,451)
Profit for the year		878,372	727,801
Attributable to:			
Equity holders of the parent		841,142	676,000
Minority interests		37,230	51,801
		878,372	727,801
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	10		
Basic		RMB0.302	RMB0.244
Diluted		RMB0.301	RMB0.244
DIVIDENDS	40		
Interim		167,248	121,582
Proposed final		237,822	211,000
		405,070	332,582
DIVIDENDS PER SHARE	40		
Interim		RMB0.060	RMB0.044
Proposed final		RMB0.085	RMB0.076
		RMB0.145	RMB0.120

Consolidated Balance Sheet

(31 December 2008)

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	1,306,004	818,705
Investment properties	12	216,840	222,104
Lease prepayments	13	409,390	420,470
Intangible assets	14	2,101,998	1,562,040
Investment in an associate	17	2,500	2,346
Other assets	18	106,137	248,477
Held-to-maturity investments, unlisted	19	1,366,920	1,460,920
Investment in principal guaranteed deposits	20	–	40,000
Deferred tax assets	21	41,902	34,971
Total non-current assets		5,551,691	4,810,033
CURRENT ASSETS			
Inventories	23	187,890	143,940
Trade receivables	24	20,959	18,974
Prepayments, deposits and other receivables	25	424,562	374,852
Investment in principal guaranteed deposits	20	617,540	781,450
Cash and short-term deposits	26	3,031,474	2,860,216
Total current assets		4,282,425	4,179,432
CURRENT LIABILITIES			
Trade payables	28	(1,325,758)	(1,144,716)
Customers' deposits, other payables and accruals	29	(991,452)	(735,720)
Tax payable		(91,183)	(123,129)
Total current liabilities		(2,408,393)	(2,003,565)
NET CURRENT ASSETS		1,874,032	2,175,867
TOTAL ASSETS LESS CURRENT LIABILITIES		7,425,723	6,985,900

Consolidated Balance Sheet

(31 December 2008)

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	27	(1,333,000)	(1,417,000)
Long term payables	30	(97,236)	(95,628)
Deferred tax liabilities	21	(246,186)	(184,711)
Senior guaranteed notes due November 2011	31	(1,348,302)	(1,435,118)
Senior guaranteed notes due May 2012	31	(842,605)	(897,179)
Derivative financial instruments designated as hedging instruments	35	(31,089)	(88,189)
Total non-current liabilities		(3,898,418)	(4,117,825)
NET ASSETS		3,527,305	2,868,075
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	37	58,133	57,925
Reserves	39(a)	3,388,529	2,731,126
		3,446,662	2,789,051
Minority interests		80, 643	79,024
TOTAL EQUITY		3,527,305	2,868,075

Consolidated Statement of Changes in Equity

(Year ended 31 December 2008)

	Attributable to equity holders of the parent											
	Issued share capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000 Note 39(a)(ii)	PRC reserve funds RMB'000 Note 39(a)(i)	Exchange reserve RMB'000	Hedging reserve RMB'000	Share option reserve RMB'000	Asset revaluation reserve RMB'000 Note 39(a)(iii)	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2007	57,436	798,644	154,442	87,320	3,481	–	–	224,245	902,019	2,227,587	91,896	2,319,483
Effect of change in PRC income tax rate	–	–	–	–	–	–	–	27,167	–	27,167	–	27,167
Net losses on cash flow hedges	–	–	–	–	–	(44,634)	–	–	–	(44,634)	–	(44,634)
Exchange realignment	–	–	–	–	(37,692)	–	–	–	–	(37,692)	–	(37,692)
Total income and expense for the year recognised directly in equity	–	–	–	–	(37,692)	(44,634)	–	27,167	–	(55,159)	–	(55,159)
Profit for the year	–	–	–	–	–	–	–	–	676,000	676,000	51,801	727,801
Total income and expense for the year	–	–	–	–	(37,692)	(44,634)	–	27,167	676,000	620,841	51,801	672,642
Transfer to the PRC reserve funds	–	–	–	61,873	–	–	–	–	(61,873)	–	–	–
Equity-settled share option arrangement	–	–	–	–	–	–	25,442	–	–	25,442	–	25,442
Share options exercised	489	196,077	–	–	–	–	(10,763)	–	–	185,803	–	185,803
Acquisition of minority interests	–	–	–	–	–	–	–	–	–	–	(15,707)	(15,707)
Dividends paid	–	(270,622)	–	–	–	–	–	–	–	(270,622)	–	(270,622)
Dividends of subsidiaries	–	–	–	–	–	–	–	–	–	–	(48,966)	(48,966)
At 31 December 2007	57,925	724,099*	154,442*	149,193*	(34,211)*	(44,634)*	14,679*	251,412*	1,516,146*	2,789,051	79,024	2,868,075

Consolidated Statement of Changes in Equity

(Year ended 31 December 2008)

	Attributable to equity holders of the parent											
	Issued share capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000 Note 39(a)(ii)	PRC reserve funds RMB'000 Note 39(a)(i)	Exchange reserve RMB'000	Hedging reserve RMB'000	Share option reserve RMB'000	Asset revaluation reserve RMB'000 Note 39(a)(iii)	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2008	57,925	724,099	154,442	149,193	(34,211)	(44,634)	14,679	251,412	1,516,146	2,789,051	79,024	2,868,075
Net gains on cash flow hedges	–	–	–	–	–	123,850	–	–	–	123,850	–	123,850
Exchange realignment	–	–	–	–	(16,117)	–	–	–	–	(16,117)	–	(16,117)
Total income and expense for the year recognised directly in equity	–	–	–	–	(16,117)	123,850	–	–	–	107,733	–	107,733
Profit for the year	–	–	–	–	–	–	–	–	841,142	841,142	37,230	878,372
Total income and expense for the year	–	–	–	–	(16,117)	123,850	–	–	841,142	948,875	37,230	986,105
Transfer to the PRC reserve funds	–	–	–	5,865	–	–	–	–	(5,865)	–	–	–
Share options exercised (note 37)	33	13,935	–	–	–	–	(1,788)	–	–	12,180	–	12,180
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	6,183	6,183
Acquisition of minority interests	–	–	–	–	–	–	–	–	–	–	(7,796)	(7,796)
Issue of shares (note 37)	175	74,629	–	–	–	–	–	–	–	74,804	–	74,804
Capital contribution	–	–	–	–	–	–	–	–	–	–	2,800	2,800
Dividends paid	–	(378,248)	–	–	–	–	–	–	–	(378,248)	–	(378,248)
Dividends of subsidiaries	–	–	–	–	–	–	–	–	–	–	(36,798)	(36,798)
At 31 December 2008	58,133	434,415*	154,442*	155,058*	(50,328)*	79,216*	12,891*	251,412*	2,351,423*	3,446,662	80,643	3,527,305

* These reserve accounts comprise the consolidated reserves of RMB3,388,529,000 (2007: RMB2,731,126,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

(Year ended 31 December 2008)

	Notes	2008 RMB'000	2007 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit from operations before income tax		1,126,130	943,252
Adjustments for:			
Share of profit of an associate		(975)	(535)
Interest income	6	(245, 747)	(253,161)
Interest expenses	6	331,757	326,966
Depreciation and amortisation	5	152,513	113,812
Foreign exchanges losses		2,237	807
Equity-settled share option expenses		–	25,442
(Reversal of allowance)/allowance for doubtful debts	5	(2,909)	918
Loss on disposal of items of property, plant and equipment	5	1,190	2,766
		1,364,196	1,160,267
(Increase)/decrease in other assets		(7,960)	14,481
Increase in inventories		(32,760)	(22,648)
Increase in trade receivables		(368)	(1,264)
Increase in prepayments, deposits and other receivables		(6,374)	(49,015)
Increase in trade payables		92,597	204,513
Increase in customers' deposits, other payables and accruals		176,592	36,564
Increase in long term payables		1,608	1,634
Cash generated from operations		1,587,531	1,344,532
Interest paid		(5,544)	(7,269)
Income tax paid		(289,763)	(235,641)
Net cash inflow from operating activities		1,292,224	1,101,622
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of items of property, plant and equipment		1,652	3,400
Purchases of items of property, plant and equipment		(167,768)	(147,961)
Acquisition of subsidiaries		(616,315)	(445,136)
Acquisition of minority interests		(115,000)	(379,928)
Deposit for an acquisition transaction		–	(25,550)
Decrease/(increase) in investment in principal guaranteed deposits		211,260	(821,450)
Decrease/(increase) in an entrusted loan		120,000	(120,000)
Increase in other receivables		–	(6,490)
Dividends received		821	403
Interest received		256,740	209,210
Decrease/(increase) in non-pledged time deposits with original maturity of more than three months when acquired		172,610	(252,366)
Net cash outflow from investing activities		(136,000)	(1,985,868)

Consolidated Cash Flow Statement

(Year ended 31 December 2008)

	Notes	2008 RMB'000	2007 RMB'000
Net cash outflow from investing activities		(136,000)	(1,985,868)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		–	380,775
Repayment of bank loans and other loans		(87,924)	(654,688)
Net proceeds from issuance of senior guaranteed notes due May 2012		–	928,797
Interest paid		(317,372)	(275,203)
Proceeds from issue of shares	37	12,180	185,803
Capital contributions from minority shareholders		2,800	–
Dividends of subsidiaries		(36,798)	(48,966)
Dividends paid		(378,248)	(270,622)
Net cash inflow/(outflow) from financing activities		(805,362)	245,896
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		350,862	(638,350)
Cash and cash equivalents at beginning of year		2,607,850	3,271,366
Effect of foreign exchange rate changes, net		(6,994)	(25,166)
CASH AND CASH EQUIVALENTS AT END OF YEAR		2,951,718	2,607,850
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		540,100	1,310,896
Non-pledged time deposits with original maturity of less than three months when acquired		2,411,618	1,296,954
	26	2,951,718	2,607,850

Balance Sheet

(31 December 2008)

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Interests in subsidiaries	15	1,627,430	1,510,377
Held-to-maturity investments, unlisted	19	1,366,920	1,460,920
Total non-current assets		2,994,350	2,971,297
CURRENT ASSETS			
Other receivables		22,079	41,060
Cash and short-term deposits	26	137,545	632,892
Total current assets		159,624	673,952
CURRENT LIABILITIES			
Accruals		(33,041)	(29,302)
NET CURRENT ASSETS		126,583	644,650
TOTAL ASSETS LESS CURRENT LIABILITIES		3,120,933	3,615,947
NON-CURRENT LIABILITIES			
Senior guaranteed notes due November 2011	31	(1,348,302)	(1,435,118)
Senior guaranteed notes due May 2012	31	(842,605)	(897,179)
Total non-current liabilities		(2,190,907)	(2,332,297)
NET ASSETS		930,026	1,283,650
EQUITY			
Issued capital	37	58,133	57,925
Reserves	39(b)	871,893	1,225,725
TOTAL EQUITY		930,026	1,283,650

1. Corporate Information

The Company was incorporated in the Cayman Islands with limited liability on 3 August 2005. The Company has established a principal place of business in Hong Kong at Suite 1316, Prince's Building, 10 Chater Road, Central, Hong Kong. In the opinion of the directors, the Company's ultimate holding company is Parkson Holdings Berhad, a company incorporated in Malaysia and listed on Bursa Malaysia Securities Berhad.

The principal activities of the Company and its subsidiaries (the "Group") are 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 derivative financial instruments are stated at their fair values. 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 (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries 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 amendments to IFRSs and new International Financial Reporting Interpretations Committee ("IFRIC") interpretations for the first time for the current year's financial statements.

IAS 39 and IFRS 7 Amendments	Amendments to IAS 39 *Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets*
IFRIC 11	*IFRS 2 – Group and Treasury Share Transactions*
IFRIC 12	*Service Concession Arrangements*
IFRIC 14	*IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The adoption of these new interpretations and amendments has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

The principal effects of adopting these new and revised IFRSs are as follows:

(a) Amendments to IAS 39 *Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets*

The amendments to IAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held-to-maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to IFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

2.2 Impact of New and Revised International Financial Reporting Standards (continued)

(b) IFRIC 11 – *IFRS 2 – Group and Treasury Share Transactions*

IFRIC 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group buys the instruments from another party, or the shareholders provide the equity instruments needed. IFRIC 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such arrangements, the interpretation has had no impact on the financial position or results of operations of the Group.

(c) IFRIC 12 – *Service Concession Arrangements*

IFRIC 12 applies to service concession operators and explains how to account for obligation undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

(d) IFRIC 14 – *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

IFRIC 14 addresses how to assess the limit under IAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

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:

IFRS 1 and IAS 27 Amendments	Amendments to IFRS 1 *First-time Adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*[1]
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based payment – Vesting Conditions and Cancellations*[1]
IFRS 3 (Revised)	*Business Combinations*[2]
IFRS 8	*Operating Segments*[1]
IAS 1 (Revised)	*Presentation of Financial Statements*[1]
IAS 23 (Revised)	*Borrowing Costs*[1]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*[2]
IAS 32 and IAS 1 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*[1]
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[2]
IFRIC 13	*Customer Loyalty Programmes*[3]
IFRIC 15	*Agreements for the Construction of Real Estate*[1]
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*[4]
IFRIC 17	*Distribution of Non-cash Assets to Owners*[2]

Apart from the above, IASB has also issued Improvements to IFRSs* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarify wording. Except for the amendment to IFRS 5 which is effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 October 2008
* Improvements to IFRSs contain amendments to IFRS 5, IFRS 7, IAS 1, IAS 8, IAS 10, IAS 16, IAS 18, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41.

2.3 Impact of Issued but not yet Effective International Financial Reporting Standards (continued)

The IAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the separate financial statements. The amendment is applied prospectively only. The IFRS 1 Amendment allows a first-time adopter of IFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements. The Group expects to adopt the IAS 27 Amendment from 1 January 2009. The amendments have no impact on the consolidated financial statements. As the Group is not a first-time adopter of IFRSs, the IFRS 1 Amendment is not applicable to the Group.

The IFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, the amendments are unlikely to have any significant implications on its accounting for share-based payments.

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rate,* IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures.*

The Group expects to adopt IFRS 3 (Revised) and IAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect future acquisitions, loss of control and transactions with minority interests.

IFRS 8, which replaces IAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purpose of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt IFRS 8 from 1 January 2009. The Group has a single operating and reportable segment, i.e. the operation and management of department stores in the PRC.

IAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group expects to adopt IAS 1 (Revised) from 1 January 2009.

2.3 Impact of Issued but not yet Effective International Financial Reporting Standards (continued)

IAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group does not currently incur any borrowing costs related to such assets, the revised standard is unlikely to have any financial impact on the Group.

The IAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfill a number of specified features. HKAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. The amendments are unlikely to have any financial impacts on the Group, as the Group has not issued such instruments.

The amendment to IAS 39 addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. As the Group has not entered into any such hedge, the amendment is unlikely to have any financial impact on the Group.

IFRIC 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. The Group's current accounting policy aligns with the requirement of this interpretation.

IFRIC 15 clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with IAS 11 *Construction Contracts* or an agreement for the sale of goods or services in accordance with IAS 18 *Revenue*. IFRIC 15 will not have an impact on the consolidated financial statement because the Group does not conduct such activity.

IFRIC 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation is unlikely to have any financial impact on the Group.

2.3 Impact of Issued but not yet Effective International Financial Reporting Standards (continued)

IFRIC 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The Group expects to apply the interpretation from 1 January 2010 prospectively. The Interpretation clarifies that (i) a dividends payable should be recognised when the dividends is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividends payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividends paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to IAS 10 *Events after the Balance Sheet Date* and IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any material financial impact on the Group.

Improvements to IFRSs

In May 2008, the IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The Group has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.

(a) IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations:* Clarifies that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest.

(b) IFRS 7 *Financial Instruments: Disclosures:* Removes the reference to "total interest income" as a component of finance costs.

(c) IAS 1 *Presentation of Financial Statements:* Clarifies that assets and liabilities which are classified as held for trading in accordance with IAS 39 are not automatically classified as current in the balance sheet.

(d) IAS 16 *Property, Plant and Equipment:* Replaces the term "net selling price" with "fair value less costs to sell" and the recoverable amount of property, plant and equipment is calculated as the higher of an asset's fair value less costs to sell and its value in use.

In addition, items held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale.

(e) IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance:* Requires government loans granted in the future with no or at a below-market rate of interest to be recognised and measured in accordance with IAS 39 and the benefit of the reduced interest to be accounted for as a government grant.

(f) IAS 27 *Consolidated and Separate Financial Statements:* Requires that when a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

2.3 Impact of Issued but not yet Effective International Financial Reporting Standards (continued)

(g) IAS 28 *Investments in Associates:* Clarifies that an investment in an associate is a single asset for the purpose of conducting the impairment test and that no impairment is separately allocated to goodwill included in the investment balance.

(h) IAS 36 *Impairment of Assets:* When discounted cash flows are used to estimate "fair value less cost to sell", additional disclosure is required about the discount rate, consistent with the disclosures required when the discounted cash flows are used to estimate "value in use".

(i) IAS 38 *Intangible Assets:* Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service.

The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed.

(j) IAS 40 *Investment Property:* Revises the scope such that property being constructed or developed for future as an investment property is classified as an investment property.

2.4 Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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, based on an evaluation of the terms and conditions of the arrangements, that the lessor retains all the significant risks and rewards of relevant properties and so accounts for them as operating leases.

Tax provisions

Determining 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.

2.4 Significant Accounting Judgements, Estimates and Assumptions (continued)

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 non-financial assets

The Group assesses whether there are any indicators of impairment of all non-financial assets at each reporting date. Goodwill and other indefinite life intangibles are tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management must estimate the expected future cash flow from the assets or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

The carrying amount of goodwill at 31 December 2008 was RMB2,101,506,000 (2007: RMB1,560,893,000). Further details of impairment testing of goodwill are given in note 14 to these financial statements.

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 amounts of items of property, plant and equipment and investment properties as at 31 December 2008 were RMB1,306,004,000 (2007: RMB818,705,000) and RMB216,840,000 (2007: RMB222,104,000), respectively. Further details are given in note 11 and note 12 to these financial statements, respectively.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividends yield and making assumptions about them. The assumptions and valuation models used are disclosed in note 38 to these financial statements.

3. Principal Accounting Policies

Foreign currencies

The Group's consolidated financial statements are presented in Renminbi, which is the Group's presentation currency. Each entity in the Group determines its own functional currency, the currency of the primary economic environment in which the entity operates. 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 dates 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 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 are translated using the exchange rates at the date when the fair value was determined.

As at the balance sheet date, the assets and liabilities of each entity in the Group 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.

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 when 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.

- 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.

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.

3. Principal Accounting Policies (continued)

Income tax (continued)

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 goodwill or 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 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.

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.

3. Principal Accounting Policies (continued)

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 the balance sheet date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an 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 investments 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 impairment loss shall be recognised in the consolidated income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

3. Principal Accounting Policies (continued)

Impairment of financial assets (continued)

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 by adjusting the allowance account. 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 and other 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 and significant changes in the technological, market, economic or legal environment that have an adverse effect on 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. The Group performs its annual impairment test of goodwill as at 31 December.

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

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.

3. Principal Accounting Policies (continued)

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:

Land and buildings	20 – 42 years
Leasehold improvements	5 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 expenditures 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.

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 the depreciation method are reviewed, and adjusted if appropriate, at least at each balance sheet date.

3. Principal Accounting Policies (continued)

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. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

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 consolidated 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.

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 consolidated income statement in the year in which they arise.

3. Principal Accounting Policies (continued)

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 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.

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. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

3. Principal Accounting Policies (continued)

Associates

An associate is an entity, not being a 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. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

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 assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivatives is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modified the cash flows that would otherwise be required under the contract.

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

All regular way purchases and sales of financial assets are recognised on the trade date, that 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.

3. Principal Accounting Policies (continued)

Investments and other financial assets (continued)

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 contracts. 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.

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 less allowance for impairment. Amortised 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. 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.

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.

3. Principal Accounting Policies (continued)

Investments and other financial assets (continued)

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 at 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; and other valuation models.

Cash and short term deposits

For the purpose of the balance sheets, cash and short term deposits comprise cash at banks and on hand and short term deposits, which are not restricted as to use. For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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 and interest-bearing loans and borrowings 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.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

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.

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.

3. Principal Accounting Policies (continued)

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 as 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.

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.

3. Principal Accounting Policies (continued)

Derecognition of financial assets and liabilities (continued)

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.

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

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contributes to the success of the Group's operations. Employees (including directors) 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").

In situations where some or all of the goods or services received by the Group 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.

3. Principal Accounting Policies (continued)

Employee benefits (continued)

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 a Black-Scholes-Merton option 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 balance sheet 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.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense if the terms had not been modified. In addition, an 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 benefit scheme organised by the local municipal government whereby the Group is required to contribute a certain percentage of the salaries of its employee to the retirement benefit scheme. The only obligation of the Group with respect to the retirement benefit 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.

3. Principal Accounting Policies (continued)

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.

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 the 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 its 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.

3. Principal Accounting Policies (continued)

Derivative financial instruments and hedging (continued)

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 amount 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 method is used is amortised to 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 hedged item is derecognised, the unamortised fair value is recognised immediately in the consolidated income statement.

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 the 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 gross rental income. An analysis of revenues is presented below:

	2008 RMB'000	2007 RMB'000
Sale of goods – direct sales	1,190,126	1,044,130
Commissions from concessionaire sales (note)	1,781,551	1,511,498
Consultancy and management service fees	29,873	32,558
Gross rental income	135,862	138,797
	3,137,412	2,726,983

Note:

The commissions from concessionaire sales are analysed as follows:

	2008 RMB'000	2007 RMB'000
Gross revenue from concessionaire sales	8,935,689	7,455,218
Commissions from concessionaire sales	1,781,551	1,511,498

Over 90% of the Group's turnover and contribution to the operating profit is attributable to the operation and management of department stores and 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 operating 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	2008 RMB'000	2007 RMB'000
Promotion income		80,994	78,972
Credit card handling fees		133,450	103,882
Equipment leasing income		16,182	15,235
Display space leasing fees		12,387	14,650
Administration fees		52,584	46,137
Service fees		23,473	22,135
Government grants	(i)	9,413	5,262
PRC tax compensations	(ii)	–	3,553
Other income		71,037	42,877
		399,520	332,703

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 for 2007 were granted to the Group for its reinvestment of dividends 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):

	2008 RMB'000	2007 RMB'000
Cost of inventories recognised as expenses	982,042	865,721
Staff costs excluding directors' remuneration (note 7):		
Wages, salaries and bonuses	187,435	186,336
Pension scheme contributions	28,659	16,915
Social welfare and other costs	46,163	35,571
Equity-settled share option expenses	–	20,725
	262,257	259,547
Depreciation and amortisation	152,513	113,812
Operating lease rentals in respect of leased properties:		
Minimum lease payments #	253,168	218,923
Contingent lease payments *	125,372	105,836
	378,540	324,759
Loss on disposal of items of property, plant and equipment	1,190	2,766
Auditors' remuneration	4,812	4,000
(Reversal of allowance)/allowance for doubtful debts	(2,909)	918
Gross rental income in respect of investment properties	(20,997)	(25,444)
Sub-letting of properties:		
Minimum lease payments	(58,374)	(52,205)
Contingent lease payments *	(56,491)	(61,148)
	(114,865)	(113,353)
Total gross rental income	(135,862)	(138,797)
Direct operating expenses arising on rental-earning investment properties	5,264	4,817
Foreign exchange losses	2,237	807

Minimum lease payments of the Group include rental payments for the lease agreements with pre-determined rental payments and minimum guaranteed rental payments for lease agreements with contingent rental payments.

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

6. Finance Income/Costs

	2008 RMB'000	2007 RMB'000
Finance income:		
Interest income from held-to-maturity investments	135,713	148,704
Bank interest income	77,375	76,329
Interest income from loans receivable	3,979	7,603
Interest income from a cross currency interest rate swap arrangement (note)	28,680	20,525
	245,747	253,161
Finance costs:		
Senior guaranteed notes due November 2011	(114,651)	(125,595)
Senior guaranteed notes due May 2012	(63,796)	(41,336)
Interest expenses on bank loans and other loans, wholly repayable within five years	(153,310)	(160,035)
	(331,757)	(326,966)

Note:
As further disclosed in note 31(ii) to these financial statements, the Group has entered into a cross currency interest rate swap arrangement to provide the Group a RMB equivalent fixed rate debt of 3.45% per annum.

7. Directors' and Senior Executives' Emoluments

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

	2008 RMB'000	2007 RMB'000
Fees	840	954
Other emoluments:		
Salaries, allowances, bonuses and other benefits	1,424	2,834
Equity-settled share option expenses	–	4,717
Pension scheme contributions	111	111
	2,375	8,616

In 2007, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 38 to the financial statements. The fair value of such options which has been recognised in the consolidated income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the year ended 31 December 2007 was included in the above directors' remuneration disclosures.

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:

	Fees RMB'000	Equity-settled share option expenses RMB'000	Total RMB'000
2008			
Mr. Werner Josef Studer	140	–	140
Mr. Ko Tak Fai, Desmond	140	–	140
Mr. Yau Ming Kim, Robert	140	–	140
	420	–	420

	Fees RMB'000	Equity-settled share option expenses RMB'000	Total RMB'000
2007			
Mr. Werner Josef Studer	159	175	334
Mr. Ko Tak Fai, Desmond	159	175	334
Mr. Yau Ming Kim, Robert	159	–	159
	477	350	827

There were no other emoluments payable to the independent non-executive directors for the year ended 31 December 2008 (2007: Nil).

7. Directors' and Senior Executives' Emoluments (continued)

(b) Executive directors and a non-executive director

	Fees RMB'000	Salaries, allowances, bonuses and other benefits RMB'000	Equity-settled share option expenses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2008					
Executive directors:					
Mr. Cheng Yoong Choong	140	–	–	–	140
Mr. Chew Fook Seng	140	1,424	–	111	1,675
	280	1,424	–	111	1,815
Non-executive director:					
Tan Sri Cheng Heng Jem	140	–	–	–	140
	420	1,424	–	111	1,955

	Fees RMB'000	Salaries, allowances, bonuses and other benefits RMB'000	Equity-settled share option expenses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2007					
Executive directors:					
Mr. Cheng Yoong Choong	159	–	2,620	–	2,779
Mr. Chew Fook Seng	159	2,834	1,747	111	4,851
	318	2,834	4,367	111	7,630
Non-executive director:					
Tan Sri Cheng Heng Jem	159	–	–	–	159
	477	2,834	4,367	111	7,789

Included in salaries, allowances, bonuses and other benefits was a discretionary bonus of RMB61,000 (2007: RMB1,411,000) to Mr. Chew Fook Seng, a director of Company, for the year ended 31 December 2008. There was no arrangement under which directors waived or agreed to waive any remuneration during the year.

7. Directors' and Senior Executives' Emoluments (continued)

(c) Five highest paid employees

The five highest paid employees during the year included one (2007: two) director, details of whose remuneration are set out above. Details of the remuneration of the remaining four (2007: three) non-director, highest paid employees for the year are as follows:

	2008 RMB'000	2007 RMB'000
Salaries, allowances, bonuses and other benefits	3,916	4,783
Equity-settled share option expenses	–	2,623
Pension scheme contributions	219	166
	4,135	7,572

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

	Number of employees 2008	2007
HK$1,000,001 to HK$1,500,000 (equivalent to RMB881,900 to RMB1,322,850)	4	–
HK$2,000,001 to HK$2,500,000 (equivalent to RMB1,763,800 to RMB2,204,750)	–	1
HK$2,500,001 to HK$3,000,000 (equivalent to RMB2,204,750 to RMB2,645,700)	–	1
HK$3,000,001 to HK$3,500,000 (equivalent to RMB2,645,700 to RMB3,086,650)	–	1
	4	3

In 2007, share options were granted to three non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 38 to the financial statements. The fair value of such options, which has been recognised to the consolidated income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the year ended 31 December 2007 was included in the above non-director, highest paid employees' remuneration disclosures.

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 scheme 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 2008 and 2007.

The Group's contributions to pension costs for the year ended 31 December 2008 amounted to approximately RMB28,770,000 (2007: RMB17,026,000).

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 treatments 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 25% (2007: 33%) on their respective taxable income. During the year, eleven PRC entities of the Group (2007: ten PRC 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:

	Notes	2008 RMB'000	2007 RMB'000
Current income tax		251,675	240,134
Deferred income tax	21	(3,917)	(24,683)
		247,758	215,451

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:

	2008										
	Hong Kong RMB'000	%	Singapore RMB'000	%	Cayman Islands RMB'000	%	British Virgin Islands RMB'000	%	PRC RMB'000	%	Total RMB'000
Profit/(loss) from operations before income tax	(827)		213		(34,799)		(1,368)		1,162,911		1,126,130
Income tax at the statutory income tax rate	(136)	16.5	43	20	–	Nil	–	Nil	290,728	25	290,635
Tax losses not recognised	584		–		–		–		6,388		6,972
Tax effect of expenses not deductible for tax purposes	–		–		–		–		4,050		4,050
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	–		–		–		–		5,500		5,500
Tax effect of non-taxable income	(448)		–		–		–		(1,891)		(2,339)
Tax effect of preferential tax rates	–		–		–		–		(57,060)		(57,060)
Tax charge for the year	–		43		–		–		247,715		247,758

9. Income Tax (continued)

	2007										
	Hong Kong RMB'000	%	Singapore RMB'000	%	Cayman Islands RMB'000	%	British Virgin Islands RMB'000	%	PRC RMB'000	%	Total RMB'000
Profit/(loss) from operations before income tax	2,828		(160)		(14,378)		2,407		952,555		943,252
Income tax at the statutory income tax rate	495	17.5	(32)	20	–	Nil	–	Nil	314,343	33	314,806
Tax losses not recognised	–		57		–		–		4,210		4,267
Effect on change in income tax rate	–		–		–		–		(19,150)		(19,150)
Tax effect of expenses not deductible for tax purposes	–		–		–		–		8,054		8,054
Tax effect of non-taxable income	(495)		–		–		–		–		(495)
Tax effect of preferential tax rates	–		–		–		–		(92,031)		(92,031)
Tax charge for the year	–		25		–		–		215,426		215,451

10. Earnings Per Share Attributable to Equity Holders of the Parent

Basic earnings per share amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, as adjusted to reflect the 1 to 5 subdivision of shares on 4 July 2008. (Note 37(i))

Diluted earnings per share amount for 2008 and 2007 is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, as adjusted to reflect the 1 to 5 subdivision of shares on 4 July 2008 (Note 37(i)) plus the weighted average number of ordinary shares that would be issued at no consideration on the deemed conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2008 RMB'000	2007 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	841,142	676,000

	Number of shares 2008	2007
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	557,909,868	553,936,185
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation as adjusted for the effect of subdivision of shares (Note 37(i))	2,789,549,340	2,769,680,925
Effect of dilution:		
Share options (adjusted for the effect of subdivision of shares (Note 37(i))	4,408,418	5,471,070
Weighted average number of ordinary shares adjusted for the effect of dilution	2,793,957,758	2,775,151,995

11. Property, Plant and Equipment

Group

	Land and 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 2007, net of accumulated depreciation	367,392	236,073	7,097	118,625	20,736	749,923
Additions	–	75,087	707	25,509	46,658	147,961
Transfers from construction in progress	–	47,675	–	7,340	(55,015)	–
Acquisition	–	22,235	308	1,257	–	23,800
Disposals	–	(3,952)	(43)	(2,171)	–	(6,166)
Depreciation charge for the year	(15,997)	(49,499)	(2,114)	(29,203)	–	(96,813)
At 31 December 2007 and 1 January 2008, net of accumulated depreciation	351,395	327,619	5,955	121,357	12,379	818,705
Additions	–	59,010	2,910	20,792	85,056	167,768
Transfers from construction in progress	–	54,187	–	1,410	(55,597)	–
Acquisition	419,846	3,926	161	33,954	–	457,887
Disposals	–	(1,767)	(315)	(760)	–	(2,842)
Depreciation charge for the year	(22,769)	(67,808)	(2,118)	(42,819)	–	(135,514)
At 31 December 2008, net of accumulated depreciation	748,472	375,167	6,593	133,934	41,838	1,306,004

11. Property, Plant and Equipment (continued)

Group

	Land and 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 2007						
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
At 31 December 2007						
Cost	451,844	558,105	12,705	290,456	12,379	1,325,489
Accumulated depreciation	(100,449)	(230,486)	(6,750)	(169,099)	–	(506,784)
Net carrying amount	351,395	327,619	5,955	121,357	12,379	818,705
At 31 December 2008						
Cost	871,690	669,811	14,243	342,023	41,838	1,939,605
Accumulated depreciation	(123,218)	(294,644)	(7,650)	(208,089)	–	(633,601)
Net carrying amount	748,472	375,167	6,593	133,934	41,838	1,306,004

Note:

All of the Group's land and buildings are located in the PRC and the land is held under a medium term lease.

12. Investment Properties

Group

	Buildings RMB'000
At 1 January 2007, net of accumulated depreciation	227,368
Depreciation	(5,264)
At 31 December 2007, net of accumulated depreciation	222,104
Depreciation	(5,264)
At 31 December 2008, net of accumulated depreciation	216,840

12. Investment Properties (continued)

	2008 RMB'000	2007 RMB'000
At 31 December		
Cost	230,000	230,000
Accumulated depreciation	(13,160)	(7,896)
Net carrying amount	216,840	222,104
Fair value at 31 December (note)	236,200	236,200

Note:
The fair value of the investment properties as at 31 December 2006 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.

Based on the prevailing market conditions and rental income attributable to the relevant investment properties, the directors consider that there is no significant change in the fair value between 31 December 2008 and 31 December 2006.

13. Lease Prepayments

Group

	2008 RMB'000	2007 RMB'000
At 1 January	420,470	431,550
Charge for the year	(11,080)	(11,080)
At 31 December	409,390	420,470

Note:
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 a medium term lease and is situated in the PRC.

14. Intangible Assets

Group

The movements of intangible assets are as follows:

	Notes	Goodwill RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2007, net of accumulated amortisation		687,763	1,802	689,565
Business combinations		508,909	–	508,909
Acquisition of minority interests		364,221	–	364,221
Amortisation		–	(655)	(655)
At 31 December 2007 and 1 January 2008, net of accumulated amortisation		1,560,893	1,147	1,562,040
Business combinations	(i)	433,409	–	433,409
Acquisition of minority interests	(ii)	107,204	–	107,204
Amortisation		–	(655)	(655)
At 31 December 2008, net of accumulated amortisation		2,101,506	492	2,101,998
At 1 January 2007				
Cost		687,763	3,277	691,040
Accumulated amortisation		–	(1,475)	(1,475)
Net carrying amount		687,763	1,802	689,565
At 31 December 2007 and 1 January 2008				
Cost		1,560,893	3,277	1,564,170
Accumulated amortisation		–	(2,130)	(2,130)
Net carrying amount		1,560,893	1,147	1,562,040
At 31 December 2008				
Cost		2,101,506	3,277	2,104,783
Accumulated amortisation		–	(2,785)	(2,785)
Net carrying amount		2,101,506	492	2,101,998

14. Intangible Assets (continued)

Notes:

(i) This represented the goodwill recognised on the acquisition of (a) the entire equity interest in Lung Shing International Investment & Development Company Limited ("Lung Shing International") of RMB59,003,000 (note 22(i)), (b) the 49% equity interest in Xi'an Chang'an Parkson Store Co., Ltd. ("Xi'an Chang'an Parkson") of RMB54,672,000 (note 22(ii)), (c) the 49% equity interest in Xi'an Shidai Parkson Store Co., Ltd. ("Xi'an Shidai Parkson") of RMB137,317,000 (note 22(iii)), and (d) the entire equity interest in Jet East Investments Limited ("Jet East") and its subsidiaries of RMB182,417,000 (note 22(iv)).

(ii) The amount comprised goodwill arising from the acquisitions of minority interests of Xi'an Lucky King Parkson Plaza Co., Ltd. ("Lucky King Parkson") of RMB53,387,000 and Nanning Brilliant Parkson Commercial Co., Ltd. ("Nanning Parkson") of RMB53,817,000.

On 2 July 2008, the Group entered into a sale and purchase agreement with Lawrence Wang, an independent third party individual, to acquire the entire issued share capital of Duo Success Investments Limited ("Duo Success") at a consideration of RMB55,000,000. Duo Success is the owner of the entire issued share capital of Huge Return Investment Limited, which in turn owns the 9% equity interest in Lucky King Parkson. The acquisition was completed on 20 August 2008 and Lucky King Parkson became a wholly-owned subsidiary of the Group thereafter.

On 28 August 2008, the Group entered into a sale and purchase agreement with Mr. Kok Lam, an independent third party individual, to acquire the entire issued share capital of Favor Move International Limited ("Favor Move") at a cash consideration of RMB60,000,000. Favor Move is the owner of the entire issued share capital of Hanmen Holdings Limited, which in turn owns the 30% equity interest in Nanning Parkson. The acquisition was completed on 20 October 2008 and Nanning Parkson became a wholly-owned subsidiary of the Group thereafter.

(iii) 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	2008 RMB'000	2007 RMB'000
Lucky King Parkson	(a)	111,104	57,717
Parkson Retail Development Co., Ltd.	(b)	302,766	302,766
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	315,225
Anshan Tianxing Parkson Shopping Centre Co., Ltd.	(f)	272,743	272,743
Jiangxi Kaimei Retail Co., Ltd.	(g)	508,909	508,909
Mianyang Fulin Parkson Plaza Co., Ltd.	(h)	91,478	91,478
Nanning Parkson	(i)	155,066	–
Tianjin Parkson Retail Development Co., Ltd.	(j)	81,168	–
Lung Shing International	(k)	59,003	–
Xi'an Chang'an Parkson	(l)	54,672	–
Xi'an Shidai Parkson	(m)	137,317	–
		2,101,506	1,560,893

Notes:

(a) Lucky King Parkson 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 three 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.

(f) Anshan Tianxing Parkson Shopping Centre Co., Ltd. principally engages in the operation of a department store in Anshan, the PRC.

(g) Jiangxi Kaimei Retail Co., Ltd. principally engages in the operation of a department store in Nanchang, the PRC.

(h) Mianyang Fulin Parkson Plaza Co., Ltd. principally engages in the operation of a department store in Mianyang, the PRC.

14. Intangible Assets (continued)

Impairment testing of goodwill (continued)

(i) Nanning Parkson principally engages in the operation of a department store in Nanning, the PRC.

(j) Tianjin Parkson Retail Development Co., Ltd. ("Tianjin Parkson") principally engages in the operation of a department store in Tianjin, the PRC.

(k) Lung Shing international and its subsidiary principally engage in property investment in Anshan, the PRC.

(l) Xi'an Chang'an Parkson principally engages in the operation of a department store in Xi'an, the PRC.

(m) Xi'an Shidai Parkson principally engages in the operation of a department store in Xi'an, 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 five years. The pre-tax discount rate applied to the cash flow projections is 8.8% (2007: 7.9%). No growth has been projected beyond the five-year period.

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 margins 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

	2008 RMB'000	2007 RMB'000
Unlisted shares, at cost	579,041	579,041
Due from subsidiaries	1,657,202	1,038,209
Due to subsidiaries	(608,813)	(106,873)
	1,627,430	1,510,377

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

Details of the Company's subsidiaries as at 31 December 2008 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
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

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
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	RMB16,800,000	–	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	–	100	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
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	–	100	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	RMB30,000,000	–	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

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
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	–	100	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	RMB17,000,000	–	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
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
Creation (Hong Kong) Investment & Development Limited 創意(香港)投資發展有限公司	Hong Kong	HK$10,000	–	100	Investment holding
Creation International Investment & Development Limited 創意國際投資發展有限公司	British Virgin Islands	USD50,000	–	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
Golden Village Group Limited 金成集團有限公司	British Virgin Islands	USD50,000	–	100	Investment holding
Jiangxi Kaimei Retail Co., Ltd. * 江西凱美實業發展有限公司	The PRC	RMB8,500,000	–	100	Operation of department stores
Lung Shing International Investment & Development Co., Ltd. 隆盛國際投資發展有限公司	British Virgin Islands	USD50,000	–	100	Investment holding
Anshan Lung Shing Property Services Limited * 鞍山隆盛物業服務有限公司	The PRC	USD1,050,000	–	100	Property management
Xi'an Chang'an Parkson Store Co., Ltd. * 西安長安百盛百貨有限公司	The PRC	RMB10,000,000	–	100	Operation of department stores
Xi'an Shidai Parkson Store Co., Ltd. * 西安時代百盛百貨有限公司	The PRC	RMB15,000,000	–	100	Operation of department stores
Shanghai Xinzhuang Parkson Retail Development Co., Ltd. * 上海莘莊百盛商業發展有限公司	The PRC	RMB20,000,000	–	100	Operation of department stores
Nanning Brilliant Parkson Commercial Co., Ltd. * 南寧柏聯百盛商業有限公司	The PRC	RMB20,000,000	–	100	Operation of department stores
Tianjin Parkson Retail Development Co., Ltd. * 天津百盛商業發展有限公司	The PRC	RMB10,000,000	–	100	Operation of department stores
Capital Park Development Limited	British Virgin Islands	USD2	–	100	Investment holding
Capital Park (HK) Investment & Development Limited 凱邦(香港)投資發展有限公司	Hong Kong	HK$1	–	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
Malverest Property International Limited	British Virgin Islands	USD2	–	100	Investment holding
Malverest (Hong Kong) Limited 先鋒(香港)有限公司	Hong Kong	HK$1	–	100	Investment holding
Oroleon International Limited	British Virgin Islands	USD2	–	100	Investment holding
Oroleon (Hong Kong) Limited	Hong Kong	HK$1	–	100	Investment holding
Releoment International Limited	British Virgin Islands	USD2	–	100	Investment holding
Releoment (Hong Kong) Limited	Hong Kong	HK$1	–	100	Investment holding
Leonemas International Limited	British Virgin Islands	USD2	–	100	Investment holding
Leonemas (Hong Kong) Limited	Hong Kong	HK$1	–	100	Investment holding
Duo Success Investments Limited	British Virgin Islands	USD1	–	100	Investment holding
Huge Return Investment Limited 利必多投資有限公司	Hong Kong	HK$1	–	100	Investment holding
Hanmen Holdings Limited 興達集團有限公司	Hong Kong	HK$1	–	100	Investment holding
Favor Move International Limited 好運國際有限公司	British Virgin Islands	USD1	–	100	Investment holding
Jet East Investments Limited 捷東投資有限公司	British Virgin Islands	USD1	–	100	Investment holding
Victory Hope Limited 好勝有限公司	Hong Kong	HK$1	–	100	Investment holding

* 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	Operation 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	Operation of department stores

* Although the Group has ownership 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.

The share of the assets, liabilities, income and expenses of the jointly-controlled entities at 31 December 2008 and 2007 and for the years then ended, which are included in the consolidated financial statements, is as follows:

	2008 RMB'000	2007 RMB'000
Current assets	92,943	144,439
Non-current assets	31,278	37,325
	124,221	181,764
Current liabilities	(62,879)	(95,177)
Non-current liabilities	(1,575)	(1,696)
Net assets	59,767	84,891
Revenues	116,081	147,918
Purchases of goods and changes in inventories	(27,845)	(30,224)
Operating expenses	(60,291)	(85,601)
Finance income	2,191	1,484
Profit from operations before income tax	30,136	33,577
Tax	(7,136)	(4,226)
Profit for the year	23,000	29,351

As disclosed in note 22 (ii) and (iii) to the financial statements, the Group acquired the remaining 49% equity interest in Xi'an Chang'an Parkson and Xi'an Shidai Parkson, from the former jointly-controlled partners of the Group, with effect from 1 January 2008 and 20 August 2008, respectively. Xi'an Chang'an Parkson and Xi'an Shidai Parkson were owned as to 51% by the Group and were accounted for as the jointly-controlled entities under the proportionate consolidation method until the date of control was obtained by the Group.

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

	2008 RMB'000	2007 RMB'000
Share of net assets of an associate	2,500	2,346

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

	2008 RMB'000	2007 RMB'000
Total assets	12,164	11,895
Total liabilities	5,020	5,192
Net assets	7,144	6,703

	2008 RMB'000	2007 RMB'000
Revenues	32,579	31,456
Profit from operations before income tax	3,804	2,282
Income tax	(1,019)	(753)
Profit for the year	2,785	1,529
Share of tax attributable to an associate	357	264
Share of profit of an associate, net of tax	975	535

18. Other Assets

Group

	Notes	2008 RMB'000	2007 RMB'000
Guarantee deposits	(i)	10,000	10,000
Loan receivable	(ii)	5,200	10,000
Lease prepayments	(iii)	90,937	82,977
Investment deposit	(iv)	–	25,500
Entrusted loan	(v)	–	120,000
		106,137	248,477

Notes:

(i) This represented deposits to a third party property developer to secure certain retail spaces 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 the loan to a concessionaire supplier of a department store of the Group. The loan receivable balance is secured and is repayable by monthly installments of RMB400,000 commencing from January 2009. Of the loan receivable balance of RMB10,000,000 in 2007, RMB5,000,000 was interest-free and the remaining RMB5,000,000 bore interest at 3% per annum. The loan balance of RMB4,800,000, which will be receivable in 2009, was reclassified to current assets (note 25).

(iii) This represented the long term portion of lease prepayments.

(iv) The balance in the prior year represented the investment deposit in relation to the purchase of Xi'an Chang'an Parkson (note 22(ii)). The acquisition transaction was completed in 2008.

(v) The entrusted loan in the prior year of RMB120,000,000 was secured by a cash deposit with an equivalent amount in an escrow bank account, bore interest at 6.5% per annum and was fully settled during the year.

19. Held-to-maturity Investments, Unlisted

Group and Company

	2008 RMB'000	2007 RMB'000
Credit linked notes, at amortised cost	1,366,920	1,460,920

The credit linked notes (the "CLN") were issued by JPMorgan Chase Bank, N.A., London Branch, and have a tenor from 14 November 2006 to 13 November 2011. The CLN has a principal value of USD200 million and bears interest at a rate of 9.8% per annum. Interest is payable semi-annually on 13 May and 13 November of each year, commencing on 13 May 2007. The CLN serves as collateral against the senior guaranteed notes due November 2011 (note 31(i)).

Management considers that the CLN was purchased as part of a financing arrangement enabling the Group to obtain RMB denominated interest-bearing bank loans of RMB1,500,000,000 for funding its operations in the PRC. The counterparty's payment of interest and principal on the CLN is subject to the Group's payment of interest and principal on the RMB denominated interest-bearing bank loan (note 27).

20. Investment in Principal Guaranteed Deposits

Group

	Notes	2008 RMB'000	2007 RMB'000
Non-current			
Investment in principal guaranteed deposits, in a licensed bank in the PRC, at amortised cost	(i)	–	40,000
Current			
Investment in principal guaranteed deposits, in licensed banks in the PRC, at amortised cost	(ii)	617,540	781,450

Notes:

(i) The non-current investment in principal guaranteed deposits as at 31 December 2007 will mature on 11 December 2009, bear interest at applicable bank deposit rates and were transferred to current assets as at 31 December 2008.

(ii) These investment in principal guaranteed deposits have terms of less than one year and have expected annual rates of return up to six percent. Pursuant to the underlying contracts or notices, the investment in principal guaranteed deposits are capital guaranteed upon the maturity date.

21. Deferred Tax Assets and Liabilities

Group

	Balance at 1 January 2008 RMB'000	Recognised in the consolidated income statement RMB'000	Acquisitions RMB'000	Balance at 31 December 2008 RMB'000
Deferred tax assets:				
Pre-operating expenses	1,302	(562)	326	1,066
Depreciation	4,788	(299)	–	4,489
Accrued rental expenses	12,356	3,243	–	15,599
Accrued coupon provision	16,525	4,007	216	20,748
	34,971	6,389	542	41,902
Deferred tax liabilities:				
Depreciation	(33,104)	3,028	–	(30,076)
Business combination	(66,707)	–	(59,003)	(125,710)
Asset revaluation	(84,900)	–	–	(84,900)
Withholding taxes	–	(5,500)	–	(5,500)
	(184,711)	(2,472)	(59,003)	(246,186)
	(149,740)	3,917	(58,461)	(204,284)

21. Deferred Tax Assets and Liabilities (continued)

Group

	Balance at 1 January 2007 RMB'000	Recognised in the consolidated income statement RMB'000	Recognised in reserves RMB'000	Acquisitions RMB'000	Balance at 31 December 2007 RMB'000
Deferred tax assets:					
Pre-operating expenses	1,804	(502)	–	–	1,302
Depreciation	6,957	(2,169)	–	–	4,788
Accrued rental expenses	18,751	(6,395)	–	–	12,356
Accrued coupon provision	17,948	(1,423)	–	–	16,525
	45,460	(10,489)	–	–	34,971
Deferred tax liabilities:					
Depreciation	(46,930)	13,826	–	–	(33,104)
Business combination	(88,053)	21,346	–	–	(66,707)
Asset revaluation	(112,067)	–	27,167	–	(84,900)
	(247,050)	35,172	27,167	–	(184,711)
	(201,590)	24,683	27,167	–	(149,740)

The Group also has tax losses arising in the PRC of RMB48,663,000 (2007: RMB12,787,000) that will expire within five years for offsetting against future taxable profit. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. The Group has a majority of its intermediate holding companies incorporated in Hong Kong or Singapore and the applicable rate is 5%. The Group also has some intermediate holding companies which incorporated in the British Virgin Islands and the applicable rate is 10%.

22. Business Combinations

(i) Acquisition of a 100% equity interest in Lung Shing International

On 20 April 2007, the Group entered into a sale and purchase agreement with Mr. Li Zhong Yong, an independent third party individual, to acquire the 100% equity interest in Lung Shing International at a consideration of RMB454,774,000. The principal activities of Lung Shing International are provision of property management service and property investment, and it owns the land use right and the property in Anshan where the Group operates its department store.

The acquisition of Lung Shing International was accounted for under the purchase method and the excess of the consideration of RMB454,774,000 over the fair value of the net assets acquired by the Group of RMB395,771,000 was recognised as goodwill of RMB59,003,000 (note 14).

The fair values of the identifiable assets and liabilities of Lung Shing International at the date of acquisition on 21 January 2008 were:

	Fair value recognised on acquisition RMB'000	Carrying value RMB'000
Property, plant and equipment	450,000	191,277
Prepayments, deposits and other receivables	2,209	2,209
Cash and cash equivalents	10,889	10,889
	463,098	204,375
Tax payable	(423)	(423)
Customers' deposits, other payables and accruals	(7,901)	(7,901)
Deferred tax liabilities	(59,003)	–
	(67,327)	(8,324)
Fair value of net assets	395,771	196,051
Goodwill arising on the acquisition (note 14)	59,003	
Consideration by cash	454,774	

The cash outflow on the acquisition is as follows:

	RMB'000
Cash consideration	(454,774)
Cash and bank balances acquired	10,889
	(443,885)

22. Business Combinations (continued)

(ii) Acquisition of an additional 49% equity interest in Xi'an Chang'an Parkson

On 27 September 2007, the Group entered into a sale and purchase agreement with an independent third party to acquire its 49% equity interest in Xi'an Chang'an Parkson at a consideration of RMB61,000,000. Xi'an Chang'an Parkson owns and operates a department store in Xi'an. Xi'an Chang'an Parkson was owned as to 51% by the Group and was accounted for as a jointly-controlled entity under proportionate consolidation method until the date of control was obtained by the Group. Xi'an Chang'an Parkson later became a wholly-owned subsidiary of the Group in August 2008 after the completion of acquisition of the remaining 9% of minority interests in Lucky King Parkson which owned 51% equity interest in Xi'an Chang'an Parkson.

The acquisition transaction was accounted for under the purchase method and the excess of the consideration of RMB61,000,000 over the fair value of the net assets acquired by the Group of RMB6,328,000 was recognised as goodwill of RMB54,672,000 (note 14).

The fair values of the acquired identifiable assets and liabilities of Xi'an Chang'an Parkson at the date of acquisition on 1 January 2008 were:

	Fair value recognised on acquisition RMB'000	Carrying value RMB'000
Property, plant and equipment	1,534	1,534
Inventories	665	665
Prepayments, deposits and other receivables	6,367	6,367
Deferred tax assets	216	216
Cash and cash equivalents	25,394	25,394
	34,176	34,176
Trade payables	(11,036)	(11,036)
Tax payable	(1,050)	(1,050)
Customers' deposits, other payables and accruals	(15,762)	(15,762)
	(27,848)	(27,848)
Fair value of net assets	6,328	6,328
Goodwill arising on the acquisition (note 14)	54,672	
Satisfied by cash	61,000	

The cash outflow on the acquisition is as follows:

	RMB'000
Cash consideration	(61,000)
Cash and bank balances acquired	25,394
	(35,606)

22. Business Combinations (continued)

(iii) Acquisition of additional 49% equity interest in Xi'an Shidai Parkson

On 27 March 2008, the Group entered into a sale and purchase agreement with an independent third party to acquire the 49% equity interest in Xi'an Shidai Parkson at a consideration of RMB154,000,000. Xi'an Shidai Parkson owns and operates a department store in Xi'an. Xi'an Shidai Parkson was owned as to 51% by the Group and was accounted for as a jointly-controlled entity under proportionate consolidation method until the date of control was obtained by the Group. Xi'an Shidai Parkson later became a wholly-owned subsidiary of the Group in August 2008 after the completion of acquisition of the remaining 9% of minority interests in Lucky King Parkson which owned 51% equity interest in Xi'an Shidai Parkson.

The acquisition transaction was accounted for under the purchase method and the excess of the consideration of RMB154,000,000 over the fair value of the net assets acquired by the Group of RMB16,683,000 was recognised as goodwill of RMB137,317,000 (note 14).

The fair values of the acquired identifiable assets and liabilities of Xi'an Shidai Parkson at the date of acquisition on 20 August 2008 were:

	Fair value recognised on acquisition RMB'000	Carrying value RMB'000
Property, plant and equipment	1,411	1,411
Investment deposit	7,350	7,350
Inventories	645	645
Prepayments, deposits and other receivables	7,217	7,217
Deferred tax assets	326	326
Cash and cash equivalents	25,636	25,636
	42,585	42,585
Trade payables	(13,671)	(13,671)
Tax payable	(572)	(572)
Customers' deposits, other payables and accruals	(11,659)	(11,659)
	(25,902)	(25,902)
Fair value of net assets	16,683	16,683
Goodwill arising on the acquisition (note 14)	137,317	
Satisfied by cash	154,000	

The cash outflow on the acquisition is as follows:

	RMB'000
Cash consideration	(154,000)
Cash and bank balances acquired	25,636
	(128,364)

22. Business Combinations (continued)

(iv) Acquisition of the entire equity interest in Jet East

On 21 May 2008, the Group entered into a sale and purchase agreement with East Crest International Limited, a fellow subsidiary of the Company, to acquire the entire interest in Jet East at a total consideration of RMB194,810,000 which was satisfied by cash of RMB120,006,000 and the issuance of 9,970,000 new ordinary shares of the Company, as adjusted for the effect of subdivision of shares (Note 37(i)) with a notional amount of HK$85,044,100 (equivalent to approximately RMB74,804,000) at the market closing price of HK$8.53 per share on 9 October 2008.

Jet East is the owner of the entire interest in Victory Hope Limited, which in turn is the owner of the 70% equity interest in Nanning Parkson and the 100% equity interest in Tianjin Parkson. Nanning Parkson and Tianjin Parkson owns and operates a department store in Nanning and Tianjin, respectively. The acquisition was completed on 9 October 2008.

The fair values of the acquired identifiable assets and liabilities of Jet East and its subsidiaries at the date of acquisitions on 9 October 2008 were:

	Fair value recognised on acquisition RMB'000	Carrying value RMB'000
Property, plant and equipment	4,942	4,942
Inventories	9,880	9,880
Prepayments, deposits and other receivables	32,444	32,444
Cash and cash equivalents	86,046	86,046
	133,312	133,312
Trade payables	(63,738)	(63,738)
Tax payable	(4,097)	(4,097)
Customers' deposits, other payables and accruals	(42,977)	(42,977)
Interest-bearing bank loans	(3,924)	(3,924)
Minority interest	(6,183)	(6,183)
	(120,919)	(120,919)
Fair value of net assets	12,393	12,393
Goodwill arising on the acquisitions (note 14)	182,417	
Total Consideration	194,810	
Considerations satisfied by:		
Cash	120,006	
Issuance of shares	74,804	
	194,810	

22. Business Combinations (continued)

(iv) Acquisition of the entire equity interest in Jet East (continued)

The cash outflow on these acquisitions is as follows:

	RMB'000
Cash consideration	(120,006)
Cash and bank balances acquired	86,046
	(33,960)

Since their acquisition, Lung Shing International, Xi'an Chang'an Parkson, Xi'an Shidai Parkson, and Jet East and its subsidiaries contributed RMB108,454,000 to the Group's turnover and RMB41,465,000 to the consolidated profit for the year ended 31 December 2008.

Had the combinations taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been RMB3,287,240,000 and RMB912,208,000, respectively.

23. Inventories

Group

	2008 RMB'000	2007 RMB'000
Merchandise, at cost	173,093	128,975
Consumables, at cost	14,797	14,965
	187,890	143,940

24. 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 occurred. 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 the payment due date, is as follows:

Group

	2008 RMB'000	2007 RMB'000
Within 3 months	12,360	11,822
3 to 12 months	1,722	2,064
Over 1 year	6,877	6,705
	20,959	20,591
Provision for impairment	–	(1,617)
	20,959	18,974

Included in the balance as at 31 December 2008 are trade receivables from jointly-controlled entities of RMB517,000 (2007: RMB852,000) and from fellow subsidiaries of RMB9,488,000 (2007: RMB9,994,000) which are attributable to the consultancy fee income of the Group as disclosed in note 36(ii) below. Such balances are unsecured and interest-free.

The movements in provision for impairment of trade receivables are as follows:

Group

	2008 RMB'000	2007 RMB'000
At 1 January	1,617	1,644
Charged for the year	–	779
Amount written off	–	(806)
Amount reversed	(1,617)	–
	–	1,617

24. Trade Receivables (continued)

The aged analysis of trade receivables that are not considered to be impaired is as follows:

Group

	2008 RMB'000	2007 RMB'000
Neither past due nor impaired	12,360	11,822
Less than 3 months past due	979	1,017
Over 3 months past due	7,620	6,135
	20,959	18,974

Receivables that were past due but not impaired related to mainly receivables from fellow subsidiaries and corporate customers which have long business relationship with the Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary at this stage because there has not been a significant change in credit quality of the individual debtors and the balances are considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

25. Prepayments, Deposits and Other Receivables

Group

	Notes	2008 RMB'000	2007 RMB'000
Deposits		52,755	36,833
Lease prepayments		89,920	73,915
Other prepayments		24,068	16,531
Advances to suppliers		69,687	46,810
Receivables from a minority equity holder		3,588	1,288
Designated loans	(i)	14,630	17,421
Credit card sales receivables		88,959	108,072
Interest receivables		32,958	43,951
Tax refund receivables		210	9,970
Loan receivable	18 (ii)	4,800	–
Other receivables		43,570	21,936
		425,145	376,727
Less: Allowance for doubtful debts		(583)	(1,875)
		424,562	374,852

(i) These designated loans bear interest at rates ranging from 0.72% to 7.65% (2007: 6.12% to 7.65%) per annum and will mature within one year. The Group has the right to offset the outstanding designated loan balances against future rental payments to these borrowers.

Included in the balance as at 31 December 2008, there were designated loans to a fellow subsidiary of RMB4,000,000 (2007: Nil). Such balances were unsecured, interest-bearing and were fully settled on 6 January 2009.

26. Cash and Short-term Deposits

Group

	2008 RMB'000	2007 RMB'000
Cash and bank balances	540,100	1,310,896
Short-term deposits	2,491,374	1,549,320
	3,031,474	2,860,216

The cash and bank balances, and short-term deposits of the Group amounting to RMB2,877,140,000 as at 31 December 2008 (2007: RMB1,953,327,000) were denominated in Renminbi, which are 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

	2008 RMB'000	2007 RMB'000
Cash and bank balances	52,587	1,280
Short-term deposits	84,958	631,612
	137,545	632,892

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and twelve months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following at 31 December:

Group

	2008 RMB'000	2007 RMB'000
Cash and bank balances	540,100	1,310,896
Short-term deposits	2,491,374	1,549,320
	3,031,474	2,860,216
Less: Non-pledged time deposits with original maturity of more than three months when acquired	(79,756)	(252,366)
Cash and cash equivalents	2,951,718	2,607,850

27. Interest-bearing Bank Loans

Group

	Notes	2008 RMB'000	2007 RMB'000
Bank loans – non-current	(i)	1,333,000	1,417,000
Bank loans repayable:			
In the third to fifth years		1,333,000	1,417,000

Note:

(i) The bank loans from JPMorgan Chase Bank, N.A., Shanghai Branch (the "Bank") were issued on 14 November 2006 and mature on 13 November 2011. Interest payable on the bank loans is equal 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 manage the Group's interest rate exposure attributable to the bank loans, the Group entered into interest rate swap contracts with the Bank and JP Morgan Chase Bank, N.A. Hong Kong with an aggregate nominal amount of RMB1,500,000,000 on 15 November 2006 (note 35).

In addition, pursuant to the agreements, the Bank is entitled to request the Group to reduce the aggregate amount of bank loans outstanding to reflect the reduction in the RMB equivalent amount of the CLN which is denominated in USD (note 19). As a result of the appreciation in the RMB in relation to the USD, the Group repaid RMB84,000,000 (2007: RMB83,000,000) of the bank loans during 2008.

As at 31 December 2008 and 2007, all the Group's interest-bearing bank loans were denominated in RMB.

28. Trade Payables

An aged analysis of the trade payables is as follows:

Group

	2008 RMB'000	2007 RMB'000
Within 3 months	1,259,753	1,086,409
3 to 12 months	51,806	46,724
Over 1 year	14,199	11,583
	1,325,758	1,144,716

29. Customers' Deposits, Other Payables and Accruals

Group

	2008 RMB'000	2007 RMB'000
Customers' deposits	440,499	258,621
Payables to joint venture partners	–	92
Provision for coupon liabilities (note)	89,922	75,080
Accrued salaries and bonuses	29,909	60,894
Other tax payables	112,648	106,258
Deposits from suppliers	69,019	50,632
Construction fee payables	22,344	20,950
Rental payables	62,494	18,126
Accrued interest	37,221	36,380
Other payables and accruals	127,396	108,687
	991,452	735,720

Note:

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

	2008 RMB'000	2007 RMB'000
At 1 January	75,080	73,132
Business combinations	9,404	5,117
Arising during the year	122,666	67,265
Utilised	(95,776)	(57,520)
Unused amounts reversed	(21,452)	(12,914)
At 31 December	89,922	75,080

A provision for coupon liabilities is recognised based on the amount of bonus points outstanding as at the balance sheet date. The outstanding bonus points are redeemable in the next two financial years from the balance sheet date.

30. Long Term Payables

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

31. Senior Guaranteed Notes Due November 2011 and Senior Guaranteed Notes Due May 2012

Group and Company

	Notes	2008 RMB'000	2007 RMB'000
Senior guaranteed notes due November 2011, listed	(i)	1,348,302	1,435,118
Senior guaranteed notes due May 2012, listed	(ii)	842,605	897,179

Notes:

(i) On 14 November 2006, the Company issued the senior guaranteed notes due November 2011 (the "SGN2011") in an aggregate principal amount of USD200 million. The SGN2011 were admitted to the Official List of the Singapore Exchange Securities Trading Limited. The SGN2011 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 SGN2011 are secured by (i) first priority pledges and share charges of all the ownership interests in certain subsidiaries of the Company and (ii) a charge over the CLN as disclosed in note 19 to these financial statements.

(ii) On 30 May 2007, the Company issued senior guaranteed notes due May 2012 (the "SGN2012") in an aggregate principal amount of USD125 million. The SGN2012 were admitted to the Official List of the Singapore Exchange Securities Trading Limited. The SGN2012 are due on 30 May 2012 and bear interest at a rate of 7.125% per annum. Interest is payable semi-annually in arrears on 30 May and 30 November of each year, commencing on 30 November 2007. The Company has the option to redeem 35% of the SGN2012 through proceeds from equity offerings before 30 May 2010 at a redemption price (expressed as a percentage of the principal amount) equal to 107.125%. After 30 May 2010, the Company has the option to redeem all or part of the SGN2012 at a redemption of 103.5625% in year 2010 and 101.78125% thereafter.

The obligations of the Company under the SGN2012 are guaranteed by certain of the Company's subsidiaries.

Furthermore, the Group has entered into a cross currency interest rate swap arrangement with the Bank. The purpose of the swap arrangements is to provide the Group with a RMB equivalent fixed rate debt of RMB956,630,000 and an interest rate of 3.45% per annum, as further detailed in note 35 to the financial statements. At settlement, the Group's obligation under the SGN2012 and attributable derivative financial instruments designated as hedging instruments will equal to a RMB equivalent fixed amount of RMB956,630,000.

32. Contingent Liabilities

The Group and the Company did not have any significant contingent liabilities as at 31 December 2008.

33. Operating Lease Arrangements and Commitments

(i) Operating lease arrangements

As lessee

The Group leases certain of its properties and equipment under operating lease arrangements. These leases have non-cancellable lease terms ranging from 5 and 20 years and there are no restrictions placed upon the Group by entering into these lease agreements.

As at the balance sheet date, the Group had the following future minimum rentals payable under non-cancellable operating leases:

	2008 RMB'000	2007 RMB'000
Within one year	386,169	271,244
In the second to fifth years, inclusive	1,574,493	1,085,017
After five years	3,465,558	3,110,518
	5,426,220	4,466,779

A lease that is cancellable only upon the occurrence of some remote contingency is a non-cancellable operating lease as defined under the IFRS. Pursuant to the relevant lease agreements, the Group is entitled to terminate the underlying lease agreement if the attributable department store business has incurred losses in excess of a prescribed amount or such department store will not be in a position to continue its business because of the losses.

In addition to the above, the annual contingent rental amount is chargeable at a percentage of the respective stores' turnover.

As lessor

The Group leases out certain of its properties under operating leases. These leases have remaining non-cancellable lease terms ranging from 1 to 10 years.

As at the balance sheet date, the Group had the following future minimum rentals receivable under non-cancellable operating leases:

	2008 RMB'000	2007 RMB'000
Within one year	41,266	48,845
In the second to fifth years, inclusive	64,377	76,398
After five years	19,716	33,473
	125,359	158,716

In addition to the above, the annual contingent rental amount is calculated on a percentage of the respective tenants's turnover.

33. Operating Lease Arrangements and Commitments (continued)

(ii) In addition to the operating lease arrangements above, the Group had the following capital commitments at the balance sheet date:

	2008 RMB'000	2007 RMB'000
Contracted, but not provided for:		
Leasehold improvements	17,391	16,570

(iii) Acquisition commitments

	2008 RMB'000	2007 RMB'000
Acquisition of minority interest in Xi'an Chang'an Parkson	–	35,500
Acquisition of Lung Shing International	–	450,000
	–	485,500

34. Financial Risk Management Objectives and Policies

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

The Group also enters into held-to-maturity investments and derivative transactions, primarily interest rate swaps and cross currency interest rate swap. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

It is, and has been throughout the period under review, the Group's policy that no trading in derivatives shall be undertaken other than the interest rate swaps as mentioned above.

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the long-term debt obligations with floating interest rates and the notional amount of the interest rate swaps in excess of the RMB loan balance of RMB1,333,000,000 which amounted to RMB167,000,000.

The Group's policy is to manage its interest cost using fixed interest rate debts or structured fixed interest rate borrowings through interest rate swaps (note 27(i)).

34. Financial Risk Management Objectives and Policies (continued)

Foreign currency risk

As the Group's debt financing is mainly in USD while the Group has significant investments and operations in the PRC, the Group's balance sheet can be affected significantly by movements in the USD/RMB exchange rates. The Group seeks to mitigate the effect of this currency exposure by structured derivative transactions, primarily a cross currency interest rate swap. The purpose is to manage the currency risks arising from the Group's operations and its sources of finance.

The Group also has transactional currency exposures. Such exposure arises from sales and purchases by an operating unit in currencies other than the unit's functional currency. The Group currently does not have hedging policy for transactional currency exposures. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

A reasonably possible change of 5% in the exchange rate between USD and RMB as at balance sheet date would have no material impact on the Group's profit or loss and equity.

Credit risk

The Group trades on credit only with third parties who have an established trading history with the Group and who have no history of default. It is the Group's policy that new customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in note 24.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, short term deposits, investment in principal guaranteed deposits, prepayments, deposits and other receivables and held-to-maturity investments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of such financial instruments.

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 borrowings. As at 31 December 2008, the Group did not have bank loan and notes (2007: Nil) 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.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2008 based on contractual or expected undiscounted payments.

34. Financial Risk Management Objectives and Policies (continued)

Year ended 31 December 2008

	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
Senior guaranteed notes due November 2011	–	–	1,348,302	–	–	1,348,302
Senior guaranteed notes due May 2012	–	–	–	842,605	–	842,605
PRC bank loans	–	–	1,333,000	–	–	1,333,000
Trade payables	1,325,758	–	–	–	–	1,325,758
Customers' deposits, other payables and accruals	991,452	–	–	–	–	991,452

Year ended 31 December 2007

	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
Senior guaranteed notes due November 2011	–	–	–	1,435,118	–	1,435,118
Senior guaranteed notes due May 2012	–	–	–	–	897,179	897,179
PRC bank loans	–	–	–	1,417,000	–	1,417,000
Trade payables	1,144,716	–	–	–	–	1,144,716
Customers' deposits, other payables and accruals	735,720	–	–	–	–	735,720

Note:

Refer to note 35 to these financial statements for the effect of the interest rate swap arrangements.

34. Financial Risk Management Objectives and Policies (continued)

Capital management

The primary objective of the Group's capital management is to ensure that it maintains the Group's stability and growth.

The Group regularly reviews and manages its capital structure and makes adjustments to it, taking into consideration of changes in economic conditions, future capital requirements of the Group, prevailing and projected profitability and operating cash flows, projected capital expenditures and projected strategic investment opportunities.

The Group monitors capital using a gearing ratio, which is net debt divided by the total adjusted capital plus net debt. Net debt includes interest-bearing bank loans, long term payables, senior guaranteed notes due November 2011, senior guaranteed notes due May 2012, trade payables, Customers' deposits, other payables and accruals less cash and short-term deposits. Capital includes equity attributable to equity holders of the parent less the hedging reserve. The gearing ratios as at the balance sheet dates were as follows:

	2008 RMB'000	2007 RMB'000
Interest-bearing bank loans	1,333,000	1,417,000
Long term payables	97,236	95,628
Senior guaranteed notes due November 2011	1,348,302	1,435,118
Senior guaranteed notes due May 2012	842,605	897,179
Trade payables	1,325,758	1,144,716
Customers' deposits, other payables and accruals	991,452	735,720
Less: Cash and short-term deposits	(3,031,474)	(2,860,216)
Net debt	2,906,879	2,865,145
Equity attributable to equity holders of the parent	3,446,662	2,789,051
Less: Hedging reserve	(79,216)	44,634
Total capital	3,367,446	2,833,685
Capital and net debt	6,274,325	5,698,830
Gearing ratio	46%	50%

35. Financial Instruments

Fair values

Set out below is a comparison by category of the carrying amounts of all of the Group's financial instruments that are carried in the financial statements:

Group

	Carrying amount		Fair value	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Financial assets				
Loans and receivables				
Cash and short-term deposits	3,031,474	2,860,216	3,031,474	2,860,216
Financial assets included in prepayments, deposits and other receivables	14,630	17,421	14,630	17,421
Trade receivables	20,959	18,974	20,959	18,974
Investment in principal guaranteed deposits	617,540	821,450	617,540	821,450
Entrusted loan	–	120,000	–	120,000
Held-to-maturity investments	1,366,920	1,460,920	1,366,920	1,460,920
Financial liabilities				
Financial liabilities at amortised cost				
Trade payables	1,325,758	1,144,716	1,325,758	1,144,716
Interest-bearing loans and borrowings:				
PRC bank loans	1,333,000	1,417,000	1,333,000	1,417,000
Senior guaranteed notes due November 2011	1,348,302	1,435,118	1,246,989	1,435,118
Senior guaranteed notes due May 2012	842,605	897,179	749,620	897,179
Financial liabilities at fair value through profit or loss				
Derivative financial instruments designated as hedging instruments (note 5)	31,089	88,189	31,089	88,189

The carrying amounts of the Group's financial instruments which are classified as current approximate to their fair values as at 31 December 2008. The fair values of the bank loans, derivative financial instruments designated as hedging instruments and other financial assets have been calculated using market interest rates.

35. Financial Instruments (continued)

Hedging activities

Cash flow hedges

Cash flow hedges are used to mitigate the Group's exposure to changes in cash flows attributable to interest rate fluctuations associated with interest and principal payments on the Group's variable rate interest bearing bank loans (note 27) and currency fluctuations associated with interest and principal payments on the SGN2012 (note 31(ii)). Effective changes in the fair value of these cash flow hedging instruments are recognised in the hedging reserve in the consolidated balance sheet. The effective changes are then recognised in finance costs in the period that the forecasted cash flows of the hedged item impacts profit.

The Group entered into interest rate swap contracts with an aggregate notional amount of RMB1,500,000,000 with the Bank and JP Morgan Chase Bank, N.A. Hong Kong to convert the Group's variable rate bank loans (note 27) to a fixed rate of 10.3% per annum. On each settlement date, the bank loan interest and interest rate swap contracts are settled simultaneously.

In addition, the Group entered into a cross currency interest rate swap arrangement with the Bank to convert the Group's SGN2012 of USD125 million to an RMB equivalent fixed rate debt of RMB956,630,000 with an interest rate of 3.45% per annum.

At 31 December 2008, these hedges were in a liability position and had a total fair value of RMB31,089,000 (2007: RMB88,189,000), which was recorded in derivative financial instruments designated as hedging instruments in the consolidated balance sheet.

All derivative financial instruments are recorded at fair value on the consolidated balance sheet. Changes in fair value of derivatives that are not designated as cash flow hedging instruments are recognised in the income statement.

The Group is exposed to counterparty credit risk on its derivative financial instruments and only enters into derivative transactions with well-established financial institutions. Therefore, the counterparty credit risk with respect to derivative financial instruments is minimal.

36. Related Party Transactions

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

Continuing transactions:

	Notes	2008 RMB'000	2007 RMB'000
Royalty fee expenses	(i)	1,175	1,085
Consultancy fee income	(ii)	11,820	12,935
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. 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 or receivable from the jointly-controlled entities of the Group of RMB1,442,000 (2007: RMB2,150,000) and fellow subsidiaries of the Group of RMB10,378,000 (2007: RMB10,785,000). 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 24 and 25 to these financial statements.

The royalty fee expenses payable to a fellow subsidiary and consultancy fee income received or receivable from fellow subsidiaries also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

37. Share Capital

	Notes	Number of ordinary shares '000	Nominal value HK$'000	RMB'000
Authorised:				
Ordinary shares of HK$0.02 each		7,500,000	150,000	156,000
Issued and fully paid:				
At 1 January 2008		557,219	55,722	57,925
Subdivision of shares	(i)	2,228,876	–	–
Shares issued for the acquisition for subsidiaries	(ii)	9,970	199	175
Share options exercised	(iii)	1,837	36	33
At 31 December 2008		2,797,902	55,957	58,133

Notes:

(i) On 4 July 2008, the shareholders of the Company passed an ordinary resolution to approve the subdivision of each of the existing issued and unissued shares of HK$0.10 each in the capital of the Company into 5 subdivided shares of HK$0.02 each (the "Subdivided Shares"). At 31 December 2008, the authorised share capital of the Company comprised 2,797,902,000 issued Subdivided Shares and 4,702,098,000 unissued Subdivided Shares of HK$0.02 each.

(ii) On 9 October 2008, 9,970,000 Subdivided Shares were issued as a part of the consideration for the acquisition of Jet East and its subsidiaries (note 22(iv)). The value of the consideration is determined to be HK$85,044,100 (equivalent to approximately RMB74,804,000) based on the closing market price on 9 October 2008.

(iii) During the year, 1,837,000 share options were exercised for 1,837,000 Subdivided Shares at HK$7.35 per share. This gave rise to net proceeds from issue of shares amounting to approximately HK$13,502,000 (equivalent to approximately RMB12,180,000). The share options were granted under the share option scheme disclosed in note 38 to the financial statements.

38. Share Option Scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees, consultant, business associate or adviser of the Group. The Scheme became effective on 9 November 2005 and was 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.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company on 9 November 2005. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to substantial shareholders, independent non-executive directors, or any of their 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 shares of the Company in issue at any time or with an aggregate value in excess of HK$5,000,000, within any 12 months period, are subject to shareholders' approval in advance in a general meeting.

Options 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 of directors 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. No consideration is payable upon acceptance of the option by the grantee.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company's share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

On 10 January 2007, a total of 40,944,750 share options (as adjusted for the effect of subdivision of shares) were granted to 482 eligible employees, including directors and chief executives, of the Company at nil consideration and with an exercise price of HK$7.35 per share (as adjusted for the effect of subdivision of shares) pursuant to the Scheme. No share options were granted in 2008.

The fair value of the share options granted was RMB25,442,000 and the Group recognised a share option expense of HK$25,442,000 during the year ended 31 December 2007.

38. Share Option Scheme (continued)

The fair value of the options granted is estimated at the date of grant using a Black-Scholes-Merton option pricing model, taking into account the terms and conditions upon which the options were granted. The 29,778,000 share options (as adjusted for the effect of subdivision of shares) granted under Lot 1 are exercisable from 24 January 2007 to 23 January 2010 and have no other vesting conditions. The 11,166,750 share options (as adjusted for the effect of subdivision of shares) granted under Lot 2 are exercisable from 2 January 2008 to 1 January 2011 and required an employee service period until 2 January 2008.

The fair value of options granted during the year ended 31 December 2007 was estimated on the date of grant using the following assumptions:

Dividends yield (%)	0.77 – 1.56
Expected volatility (%)	25.79 – 35.94
Risk-free interest rate (%)	3.638 – 3.648
Expected life (year)	0.5 – 1.5
Share price (HK$) (as adjusted for the effect of subdivision of shares)	8.85

The 1,837,000 share options exercised during the year resulted in the issue of 1,837,000 ordinary shares of the Company and new share capital of RMB33,000 and share premium of RMB13,935,000 (before issue expenses), as further detailed in note 39 to the financial statements.

	As adjusted for share subdivision			
	2008		2007	
	Weighted average exercise price per share HK$	Number of options	Weighted average exercise price per share HK$	Number of options
At 1 January	7.35	14,359,750	7.35	–
Granted during the year	7.35	–	7.35	40,944,750
Exercised during the year	7.35	(1,837,000)	7.35	(26,094,500)
Expired during the year	7.35	(40,500)	7.35	(490,500)
At 31 December		12,482,250		14,359,750

At the balance sheet date, the Company had 12,482,250 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 12,482,250 additional ordinary shares of the Company and additional share capital of HK$250,000 (equivalent to approximately RMB220,000) and share premium of HK$91,495,000 (equivalent to approximately RMB80,689,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 12,242,250 share options outstanding under the Scheme, which represented approximately 0.4% of the Company's shares in issue as at that date.

39. 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 generally accepted accounting principles in the PRC (the "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.

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.

(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

The asset revaluation reserve represented 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 Parkson Retail Development Co., Ltd. in 2006.

39. Reserves (continued)

(b) Company

	Share premium RMB'000	Contributed surplus RMB'000 Note (i)	Exchange reserve RMB'000	Accumulated losses RMB'000 Note (ii)	Share option reserve RMB'000	Total RMB'000
At 1 January 2007	798,644	570,706	–	(2,507)	–	1,366,843
Exchange realignment	–	–	(66,514)	–	–	(66,514)
Loss for the year	–	–	–	(14,738)	–	(14,738)
Equity-settled share option arrangements	–	–	–	–	25,442	25,442
Share options exercised	196,077	–	–	–	(10,763)	185,314
Dividends paid	(270,622)	–	–	–	–	(270,622)
At 31 December 2007	724,099	570,706	(66,514)	(17,245)	14,679	1,225,725
Exchange realignment	–	–	(35,560)	–	–	(35,560)
Loss for the year	–	–	–	(26,800)	–	(26,800)
Share options exercised	13,935	–	–	–	(1,788)	12,147
Shares issued for the acquisition of subsidiaries	74,629	–	–	–	–	74,629
Dividends paid (note iii)	(378,248)	–	–	–	–	(378,248)
At 31 December 2008	434,415	570,706	(102,074)	(44,045)	12,891	871,893

39. Reserves (continued)

(b) Company (continued)

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) Loss attributable to equity holders of the parent

The loss attributable to equity holders of the parent for the year ended 31 December 2008 dealt with in the financial statements of the Company was RMB26,800,000 (2007: RMB14,738,000).

(iii) The Company's final dividends for 2007 and interim dividends for 2008 of approximately RMB211,000,000 and RMB167,248,000, 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 dividends 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.

40. Dividends

	2008 RMB'000	2007 RMB'000
Interim – RMB0.060 (2007: RMB0.044) per ordinary share	167,248	121,582
Proposed final – RMB0.085 (2007: RMB0.076) per ordinary share	237,822	211,000
	405,070	332,582

The proposed final dividends for the year (not recognised as liability as at 31 December 2008) is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

41. Subsequent Events

On 15 January 2009, the Company announced that the Group entered into a sale and purchase agreement to acquire the building ownership right and the land use right in Suntrans Building which located in Beijing, the PRC, for a cash consideration of RMB1,128,000,000 (subject to adjustment based on the actual gross floor area of the building). The building is still under construction and the vendor undertakes to handover the completed building to the Group on or before 5 September 2009.

Save as event disclosed above, the Group did not have any significant subsequent events taken place subsequent to 31 December 2008.

42. Approval of the Financial Statements

The consolidated financial statements were approved and authorised for issue by the board of directors on 20 February 2009.