PARKSON

2005
ANNUAL REPORT

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Corporate Profile

The Company was incorporated in the Cayman Islands with limited liability on 3 August 2005 and the Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30 November 2005. The Company underwent a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Company and its subsidiaries, jointly controlled entities and associate (hereinafter collectively referred to as the "Group") in preparation for the listing.

The Company became the holding company of the Group on 9 November 2005. It is principally engaged in the ownership and operation of a large national network of department stores and supercentres in the People's Republic of China (the "PRC") under the brands of "Parkson" and "Xtra".

The Group owns and manages 37 "Parkson" branded department stores and 2 "Xtra" branded supercentres in prime locations in 26 major cities in the PRC including Beijing, Shanghai, Chongqing and Xi'an. The Group has positioned itself at the middle to middle-upper end of the department store sector, offers a wide range of internationally renowned brands of consumer merchandise which can be broadly categorised into 4 categories, namely "fashion and apparel", "cosmetics and accessories", "household, electrical goods and others" and "groceries and perishables". The Group's main focus is on fashion "lifestyle" products, in particular the ladies' fashion and cosmetics targeting the young and contemporary markets.


IPSA
shu uemura

Corporate Information

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

CHENG YOONG CHOONG
(MANAGING DIRECTOR)

CHEW FOOK SENG
(CHIEF EXECUTIVE OFFICER)

NON-EXECUTIVE DIRECTOR

TAN SRI CHENG HENG JEM
(CHAIRMAN)

INDEPENDENT NON-EXECUTIVE DIRECTORS

FONG CHING, EDDY
STUDER WERNER JOSEF
KO TAK FAI, DESMOND

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

LEVEL 28, THREE PACIFIC PLACE
1 QUEEN'S ROAD EAST
HONG KONG

COMPANY SECRETARY

SENG SZE KA MEE, NATALIA
FCIS, FCS, FHKIoD

QUALIFIED ACCOUNTANT

WONG KANG YEAN CLARENCE
ACCA, CA (MIA)

AUTHORISED REPRESENTATIVES

CHENG YOONG CHOONG
CHEW FOOK SENG

COMPLIANCE ADVISER

BNP PARIBAS PEREGRINE CAPITAL LIMITED

AUDIT COMMITTEE

FONG CHING, EDDY (CHAIRMAN)
STUDER WERNER JOSEF
KO TAK FAI, DESMOND

REMUNERATION COMMITTEE

CHENG YOONG CHOONG (CHAIRMAN)
FONG CHING, EDDY
KO TAK FAI, DESMOND

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

PRINCIPAL BANKERS IN HONG KONG

BNP PARIBAS HONG KONG BRANCH
STANDARD CHARTERED BANK (HONG KONG) LIMITED

AUDITORS

ERNST & YOUNG
CERTIFIED PUBLIC ACCOUNTANTS

LEGAL ADVISORS

SIMMONS & SIMMONS

WEBSITE

WWW.PARKSON.COM.CN

Milestones

New Stores

Self owned stores

ZHENGZHOU

Opened in January 2005
Located in a prime commercial district in Zhengzhou City.

HAERBIN

Opened in April 2005
Located in a prime commercial district in Haerbin City.

SICHUAN

Opened in December 2005
Located in a prime commercial district in Chengdu City.

Managed store

KUNMING

Renmin Road Managed Store
Opened in February 2005
Located in a prime commercial district in Kunming City.

- Listed on the Main Board of the Stock Exchange of Hong Kong Limited on 30 November 2005.
- Voted the BEST MID-CAP IPO in The Asset Asian Awards 2005.

ASSET ASIAN AWARDS 2005
THE Asset
TRIPLE A

- Together with Impact HongKong Foundation and the Group's vendors, the Group raised a total of RMB10 million for Lifeline Express to battle eye disease in the rural areas of the PRC.
- In Hong Kong, the Group contributed HK$1 million to The Community Chest for Corporate and Employee Contribution Programme.
- The Group's efforts and initiatives in giving back to the communities are recognized by the PRC customers.

Chairman's Statement

Introduction

This is the first annual report of the Group after the listing of the Company's shares on the Stock Exchange on 30 November 2005. We are pleased to report that 2005 was another very successful and record-breaking year for the Group. We reported an increase of 54.6% on our operating revenue and a 62.3% increase in net profits attributable to the shareholders. On the back of this successful result the Board has recommended a final dividend payment of RMB 0.26 per share.

Business History

The "Parkson" brand was introduced to the PRC market in 1994 when the PRC government started to allow foreign brands to operate in Beijing and the Special Economic Zones. Our first Parkson store located in Fuxingmennei Avenue, Beijing was opened in the same year and we positioned our store in the middle to middle-upper end of the department stores sector. The "Parkson" brand is the pioneer among the foreign brands operating in the PRC market and we enjoyed the first-mover advantage.

We faced strong challenges during the early years of our operation. The department store business is a much localised business and being a new foreign entrant in this challenging and competitive market, we spent the early years learning and adopting to the local culture and demands of the PRC market.

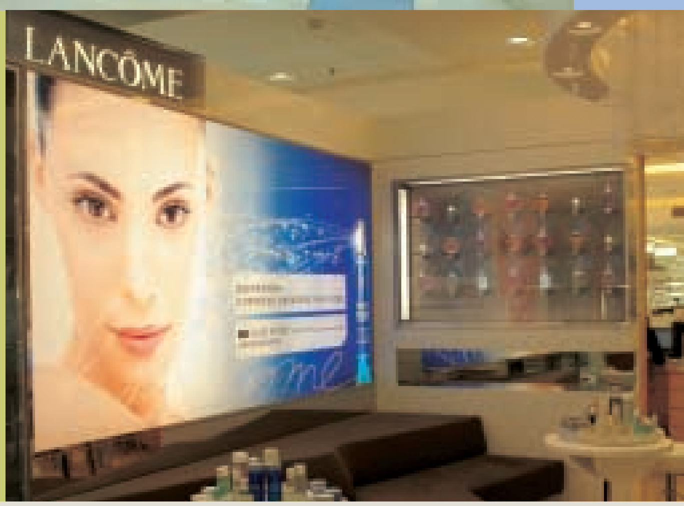
Having the right merchandise mix and brand mix in our stores, offering products with high quality and good value, providing personalised services and the ability to create strong loyalty to the "Parkson" brand has been crucial to the success of our business in this huge but diverse market.

TAN SRI CHENG HENG JEM
CHAIRMAN

The valuable experiences accumulated from operating in South East Asian countries with similar diverse market conditions allowed our dedicated and committed management team to ride through the challenges, continued to expand our business and created a strong brand loyalty for Parkson.

Without doubt we are now one of the biggest department store operators in the PRC and we have the most complete network of operating and managing 39 stores covering 26 major cities in the PRC.

Market Overview



The PRC economy has been registering impressive growth for the past two decades. In line with this rapid economy and strong gross domestic product ("GDP") per capita growth, the living standard and purchasing power of the PRC population improved, leading to a booming domestic consumption market. According to the report released by the National Bureau of Statistics of China, the retail industry grew by approximately 12.9% during the year under review to RMB6.7 trillion. The department store sector is believed to have approximately 10% market share of the retail industry with a total market size of approximately RMB670.0 billion.

The recently announced "eleventh five-year plan" by the PRC government is expected to further stimulate domestic consumption. The retail industry will emerge as one of the main beneficiaries of such plan. Home to approximately 1.3 billion increasingly affluent consumers, the department store sector will be at the forefront of this domestic consumption boom.

Looking Forward

Looking forward into 2006, the PRC economy is expected to continue its rapid growth even on the back of uncertainties on oil price, interest rates and the exchange rates of Renminbi ("RMB"). The coming year will see the Group strive to further strengthen its position as a leading department store operator in the PRC. The Group will continue its expansion plan steadily, consistently upgrade the merchandise in response to the changes in market demand, continue to refurbish and reinvent the stores and work closely with our suppliers to introduce new brands and new product lines to the market.

The coming year is not without challenge to the Group. The liberalisation of the foreign ownership in the retail-industry is expected to bring along the emergence of various formats of retail or retail related businesses. However, we believe that the department store sector, in particular the lifestyle and fashion orientated department store would continue to be the preferred format of shopping for the PRC population.

The Group is confident that with our proven business model, experienced management team, strong brand equity and healthy financial position, we are able to continue our growth, maintain our position as one of the leading department store operators in the PRC and maximise returns to our shareholders.

On behalf of the Board, I would like to express my sincere gratitude to the staff for their hard work and dedication, my sincere thanks to the shareholders and our business associates for their support. Last but not least, I would like to express my appreciation to the Board members and the senior officers for their close cooperation, contribution and devotion to the Group.

TAN SRI CHENG HENG JEM
CHAIRMAN
31 MARCH 2006

Managing Director's Statement

The year 2005 was a year of growth, progress and accomplishment for our Group on all fronts. We made considerable progress towards advancing our financial and business objectives. The Group achieved an impressive growth in revenue and profit during the year under review on the back of the continuously rapid economy and strong per capita GDP growth across the PRC, leading to an increasingly strong demand by affluent consumers in fashion and lifestyle related products.

Our operating revenue improved by 54.6% to RMB1,214.7 million, and our comparable store sales were up 19.1%. Our net profit increased by 69.4% to RMB274.3 million and our net profit margin of 22.6% remains amongst the highest in the industry. Profits attributable to the Company (excluding minority interests) increased by 62.3% to RMB248.0 million, and basic earnings per share improved to RMB0.55, an improvement of 57.1% from previous year.

Cash from continuing operating activities before financing and investing activities totaled more than RMB520.0 million and together with the net proceeds of RMB1,074.1 million raised from our initial public offering ("IPO"), the cash position of the Group at the end of the year improved to more than RMB2.0 billion, enabling the Group to pay a cash dividend and providing cash for our immediate expansion plans through new store openings and potential acquisitions in the coming months.

To share the benefits of these fruitful results with our shareholders, the Board has recommended payment of a final dividend of RMB0.26 per share in full to all the shareholders.

CHENG YOONG CHOONG
MANAGING DIRECTOR

Corporate Development

On the corporate front, our IPO was a big success, thanks to the efforts and diligence of our staff and the professional parties. The Hong Kong public offering portion of our IPO achieved a subscription rate of more than 40 times. The Company was successfully listed on 30 November 2005 and raised RMB1,074.1 million in new capital to expand our business in view of the opportunities in the coming years.

Our successful listing on the Stock Exchange also improved the visibility of the "Parkson" brand internationally. We believe that Parkson is today the most recognised brand of department store operator in the PRC amongst the international and domestic community.

Business Review

On the business front, during the year under review, we further improved our business model, merchandise mix and brand mix with great success. We continued to expand our businesses in the PRC through the opening of new stores and the acquisitions of managed stores.

Our new stores in Haerbin, Zhengzhou and Chengdu with an aggregated retailing space of approximately 105,000 square metres further consolidated our position as a leading department store operator and strengthened our nationwide network. The liberalisation by the PRC government on foreign ownership in the retail industry provided more flexibility to our expansion plans and enabled the Group to now have 100% ownership of our stores.

One of the key areas that we focused on in the year 2005 was the change of sales mix in our stores. Encouraged by the revenue trend that reflects an excitement about the increasing demand for the lifestyle and fashion related products, we entered the year 2005 determined to make adjustment to the sales mix in our stores by focusing on the "fashion and apparel" and "cosmetics and accessories" categories which produce higher revenue and gross margin per square meter. The results for the year 2005 have been very fruitful with the combined sales of these two categories of products improved by 71.6% from the previous year, a higher rate of increase compare to the 60.9% increase in total sales. As a percentage to total sales, the combined sales of these two categories of products also improved to 76.5% from 72.4% recorded in the previous year.

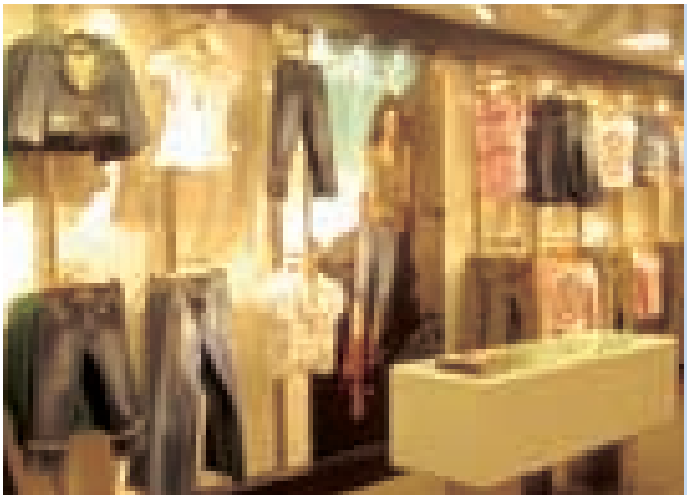
On the merchandising front, we continued with our policy of listening to our customers and offered brands and innovative product lines in our stores with their opinions and preferences in mind. We believe that such customers orientated merchandising approach delivers value and helps to further differentiate our stores from our competitors making Parkson Stores true retail magnets for the discerning customers.

Refurbishing and reinventing our existing stores continued to be one of our top priorities. We invested RMB40.0 million to refurbish and reinvent our department stores in order to ensure that Parkson stores remain firmly attached to the middle to middle-upper market segment in the fast growing and dynamic cities in the PRC.

Last year, we continued to build the "Parkson" brand through aggressive advertising campaigns and we issued the co-branded credit card with the China Merchant Bank to further enhance the already strong loyalty to the "Parkson" brand. Members of our strong Parkson Loyalty card program increased to 3.0 million and the newly introduced co-branded credit card with China Merchant Bank has attracted more than 100,000 card members and is growing very strongly.

Prospects

Our strong performances and accomplishments in the year 2005 have set the stage to deliver another great year for Parkson in the year 2006.



We will remain firmly focused in the department store business in the PRC, expanding our retailing floor space steadily by opening new stores and through acquisitions. We intend to open few new stores in the year 2006, some in new cities to further strengthen our strong network and others in cities that already have Parkson stores to further consolidate our leadership position. We will also continue to explore acquisition opportunities in cities that meet our strategic initiatives and return on capital requirements. Our strong financial and cash position has provided the backbone for our expansion plan and our existing equity and capital structure is well positioned for further capital needs if necessary.

In Parkson, we believe in innovation. In the coming years, we will further upgrade our stores profile and image in line with the changing demand of the increasingly affluent consumers in the PRC. We have allocated between RMB60 million to RMB80 million for such maintenance capital expenditure.

Throughout Parkson's long history of business establishment both in the PRC and other markets, we have built good relationships with many global brand names. Looking into the year 2006, we will continue to refine our merchandise and brand mix and add excitement to our merchandise assortments through introduction of high quality and good value brands and innovative product lines to meet the demand of our increasingly affluent customers.

The key factors to the success of Parkson in the PRC are our well-established brand, our promise of value and convenience and our focus on our core customers, the young and trendy.

We believe that "Parkson" is now a brand name synonymous with lifestyle and fashion to the increasingly affluent middle to middle-upper consumers in the PRC.

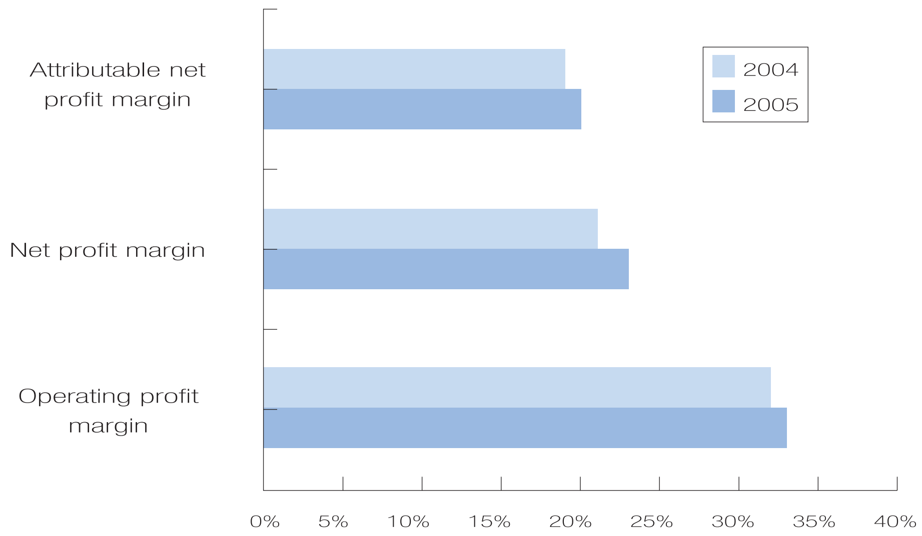
Going forward, we are committed to further strengthen and reinforce our leadership position as the premiere department store in the PRC.

I want to thank all our business associates, partners and suppliers for their support, the Board member for their guidances and directions, the senior officers and all of our staff for their hard work. I would like to take this opportunity to also thank our shareholders for their confidence in us. I assure you that we remain committed to managing our business both ethically and responsibly and to representing the best interests of our shareholders through good corporate governance.

CHENG YOONG CHOONG
MANAGING DIRECTOR
31 MARCH 2006

Financial Highlights

OPERATING RESULT (RMB'000)	2002	2003	2004	2005	Change (%)	2005 ("Proforma")[1]
Gross sales proceeds[2]	1,588,288	1,754,262	2,055,875	3,307,969	60.9	4,622,995
Operating revenue	561,834	647,773	785,543	1,214,658	54.6	1,637,523
Profit from operations	128,257	177,970	249,457	397,193	59.2	473,709
Net profit	73,316	108,913	161,939	274,324	69.4	331,722
Net profit attributable to the Company	67,342	99,911	152,771	248,012	62.3	290,715
Basic earnings per share (RMB)	0.15	0.23	0.35	0.55	57.1	0.64
Final dividends per share[3]	—	—	—	0.26	NA	0.26



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

NOTES:

1. The Proforma Financial information ("Proforma") has been prepared by the Directors solely for illustrative purpose to provide information on how the financial information of the Group that would have been attained had the acquisition of stores in the year 2005 pursuant to the Group Reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange was completed on 1 January 2004.

2. 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.

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

4. The calculation of basic earnings per share for the year ended 31 December 2005 is based on the net profit attributable to equity holders of the Group for the year ended 31 December 2005 of approximately RMB 248,012,000 and the weighted average of approximately 451,278,904 shares in issue during the year on the assumption that the 441,600,000 shares issued to the parent pursuant to the Reorganisation had been in issue throughout the year ended 31 December 2005, and as adjusted to reflect the new issue of 110,400,000 shares by way of public offering in issue on 30 November 2005.

Management Discussion and Analysis

Financial Review

REVENUE AND SALES PROCEEDS

During the year 2005, operating revenue of the Group grew to approximately RMB1,214.7 million, a growth of approximately 54.6% or RMB429.2 million from RMB785.5 million recorded in the year 2004. The impressive growth rate was contributed by the same store revenue growth of approximately 19.1%, revenue contribution from the new stores opened in the year 2005 and post acquisition revenue of approximately RMB184.8 million contributed by stores acquired in the year 2005 pursuant to the Group Reorganisation.

Direct sales increased by approximately RMB148.4 million or 50.7% from RMB292.8 million recorded in the year 2004 to RMB441.2 million recorded in the year 2005. This increase is generally in line with the increase in total operating revenue, however at a slower pace due to the strong increase in the other categories of operating revenue. Commission from concessionaire sales improved to RMB577.5 million, an improvement of approximately 61.5% or RMB219.9 million from RMB357.6 million recorded in the year 2004. The increase was a result of strong sales performance of concessionaire brands in our stores despite the marginal decline of rates from 22.0% recorded in the year 2004 to 21.6% recorded in the year 2005, which was due to the lower commission rates from the new stores opened and stores acquired during the financial year. Consultancy and management service fees remain close to the year 2004 at approximately RMB47.7 million. Rental income grew to RMB65.5 million, a growth of RMB13.1 million or 25.0% from RMB52.4 million recorded in the year 2004 due to the increased floor space leased out by the new stores opened and stores acquired in the financial year. Other operating revenue during the year improved to RMB82.8 million from RMB35.5 million recorded in the year 2004, a growth of approximately 133.2% or RMB47.3 million. This growth was mainly driven by the increase of promotional income and the credit card handling fees.

The Group generated total gross sales proceeds received or receivable worth approximately RMB3,308.0 million. (comprising of direct sales, sales proceeds from concessionaire sales, rental incomes, consultancy and management service fees and other operating revenue). Gross sales proceeds for the year represent a growth of 60.9% or RMB1,252.1 million from RMB2,055.9 million recorded in the year 2004.

On a Proforma basis, the revenue of the Group grew by RMB409.7 million or 33.4% from RMB1,227.8 million recorded in the year 2004 to RMB1,637.5 million recorded in the year 2005. The same store revenues growth was approximately 22.3% and new stores opened contributed the balance of the growth. Gross sales proceeds in the year 2005 grew by approximately 29.2% to RMB4,623.0 million from RMB3,578.5 million recorded in the year 2004. Commission rate of concessionaire sales improved from 19.6% recorded in the year 2004 to 20.7% recorded in the year 2005 due to the increase commission rate charged by the maturing stores.

PURCHASE OF GOODS AND CHANGE IN INVENTORIES

"Purchase of goods and change in inventories" refer to the costs of sales for the direct sales. In line with the increase in direct sales, the costs of sales increased to RMB363.5 million, an increase of RMB119.8 million or 49.2% from RMB243.7 million recorded in the year 2004. The gross profit margin of 17.6% improved marginally by 0.8% from 16.8% recorded in the year 2004. The improvement was due to the lower purchasing costs resulting from the increase of direct sales volume.

STAFF COSTS

Staff costs for the year increased by RMB50.5 million or 72.3% to RMB120.3 million from RMB69.8 million recorded in the year 2004. The increase was contributed by the inclusion of staff costs for (i) the new stores opened and stores acquired during the year, (ii) the increase in staff force for the store design and business development department in line with the business expansion plans and (iii) the additional provision for incentives in line with the increase of revenue and profitability for the year 2005.

DEPRECIATION AND AMORTISATION

Depreciation and amortisation increased by RMB12.0 million or 23.0% to RMB64.1 million from RMB52.1 million recorded in the year 2004. The increase was contributed by the inclusion of depreciation cost for the new stores opened and the stores acquired during the year.

RENTAL EXPENSES

Rental expenses increased by RMB50.7 million or 95.3% to RMB103.9 million from RMB53.2 million recorded in the year 2004. The increase was due to the inclusion of the rental cost for the new stores opened and the stores acquired during the year, in particular the rental expenses of the newly opened Zhengzhou, Haerbin and Sichuan stores in the year 2005.

OTHER OPERATING EXPENSES

Other operating expenses which consist mainly of utilities cost, marketing and promotional cost, property management cost, general administrative cost and others increased by RMB48.5 million or 41.3% to RMB165.8 million from RMB117.3 million recorded in the year 2004. The increase is generally in line with the improved revenue and the inclusion of other operating expenses from the new stores opened and the stores acquired during the year.

PROFIT FROM OPERATIONS

Profit from operations increased to RMB397.2 million, an improvement of RMB147.7 million or 59.2% from RMB249.5 million recorded in the year 2004. This is generally in line with the revenue growth and improved operating efficiency of the stores. As a result, profit from operations as a percentage to revenue also improved marginally to 32.7% from 31.8% recorded in the year 2004. The stores acquired in the year 2005 pursuant to the Group Reorganisation contributed approximately RMB41.5 million or 10.4% to the total profit from operations of the Group.

On a Proforma basis, profit from operations increased to RMB473.7 million, an improvement of RMB190.2 million or 67.1% from RMB283.5 million recorded in the year 2004. Profit from operations as a percentage to revenue also improved to 28.9% from 23.1% recorded in the same period of last year in line with the improved operating efficiency of the maturing stores.

FINANCE INCOME

Finance income, which comprises of interest income, foreign currency exchange losses and net of interest expenses increased to RMB8.4 million, an increase of RMB5.4 million or 180.0% from RMB3.0 million recorded in the year 2004 due to the increased interest incomes from the placement of deposit with licensed banks in Hong Kong and the PRC following the IPO.

SHARE OF PROFIT FROM AN ASSOCIATE

Our share of profit from Shanghai Nine Sea Lion Properties Management Co. Ltd, an associate of the Company, the share of profit grew from RMB0.4 million in 2004 to RMB0.5 million in 2005, an increase of RMB0.1 million or 25.0%.

INCOME TAX

The Group's income tax expenses increased by RMB40.8 million or 44.8% from RMB91.0 million recorded in the year 2004 to RMB131.8 million in the year 2005. The increase was due to the overall increase in the profit from operation before income tax. This increase of income tax expense was however partly offset by the lower effective tax rate of 32.5% in the year 2005, a decline of 3.5% from 36.0% recorded in the year 2004 as a result of the inclusion of higher portion of non tax-deductible expenses in the year 2004 and the inclusion of profit from the stores with preferential tax rate such as the Guizhou, Xi'an Chang'an and Xi'an Shidai acquired in the year 2005.

NET PROFIT FOR THE YEAR

In line with the increase in revenue, the net profit for the year increased to RMB274.3 million, an improvement of RMB112.4 million or 69.4% from RMB161.9 million recorded in the year 2004. The net profit margin improved to 22.6% from 20.6% recorded in the year 2004 due to the lower effective tax rate and the improved operating efficiency that resulted in the higher revenue growth rate than the growth rate of operating expenses. The stores acquired in the year 2005 pursuant to the Group Reorganisation contributed approximately RMB32.5 million or 11.9% to the net profit of the Group.

PROFIT ATTRIBUTABLE TO THE COMPANY

Profit attributable to the Company increased to RMB248.0 million, an increase of RMB95.2 million or 62.3% from RMB152.8 million recorded in the year 2004. This is in line with the increase in revenue and the profit from operations for the year. The stores acquired in the year 2005 pursuant to the Group Reorganisation contributed approximately RMB26.4 million or 10.7% to the total profit attributable to the Company.

On a Proforma basis, profit attributable to the Company rose from RMB150.6 million recorded in the year 2004 to RMB290.7 million in the year 2005, an increase of RMB140.1 million or 93.0%, in line with the increase in revenue and profit from operations.

PROFIT ATTRIBUTABLE TO MINORITY INTERESTS

Profit attributable to minority interests increased by RMB17.1 million or 185.9% to RMB26.3 million from RMB9.2 million recorded in the year 2004 due to the increase of net profit for the year and the inclusion of profit from stores with higher percentage of minority interests.

LIQUIDITY AND FINANCIAL RESOURCES

With the net proceeds of approximately RMB1,074.1 million raised from the issue of new shares, the cash balance at the beginning of the year of RMB408.5 million and the net cash generated from operating and investing and other financing activities during the year of RMB597.8 million, the Group's cash and bank balance as at 31 December 2005 rose to RMB2,080.4 million. The Group was in net cash position of RMB1,846.1 million even after netting off the bank loans of approximately RMB234.3 million. Total debt to equity ratio of the Group expressed as a percentage of bank and other borrowings over the total net asset of RMB1,873.3 million was 12.5% as at 31 December 2005.

WORKING CAPITAL AND NET ASSET

The Group's working capital as at 31 December 2005 was approximately RMB1,239.2 million, a substantial increase of 551.9% or RMB1,049.1 million from the balance of RMB190.1 million recorded as at 31 December 2004. Net asset rose to RMB1,873.3 million, an increase of RMB1,151.0 million or 159.3% over the balance as at 31 December 2004 of RMB722.3 million.

PLEDGE OF ASSETS

As at 31 December 2005, certain of the Group's property, plant and equipment with an aggregate carrying value of RMB63.6 million, lease prepayments with an aggregate carrying value of RMB9.7 million and investment properties with an aggregate carrying value of RMB5.2 million were pledged to the banks to secure general banking facilities of the Group.

USE OF PROCEEDS FROM LISTING AND SUBSEQUENT EVENT

Up to 31 December 2005, the Company has yet to utilise any of the proceeds from the issue of new shares. The proceeds are all deposited with licensed bank in Hong Kong as short term deposits earning interests at rates between 3.7% to 3.8% per annum. There have been no change of intended use of proceeds stated in the IPO prospectus dated 17 November 2005.

The RMB50.0 million deposits paid pursuant to the signing of the PRC preliminary framework agreement dated 23 January 2006, which was duly announced on 25 January 2006 for the possible acquisition of the minority interest in Beijing Parkson, was paid out of the Group's operating cash flow from its PRC operations.

Total Sales Proceeds And Sales Mix

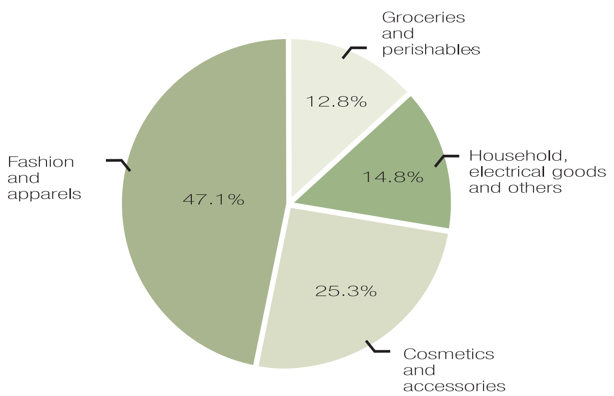
Total sales proceeds

Year (RMB'000)	2004	2005
Direct sales	292,842	441,220
Concessionaire sales	1,627,924	2,670,785
Total sales proceeds	1,920,766	3,112,005

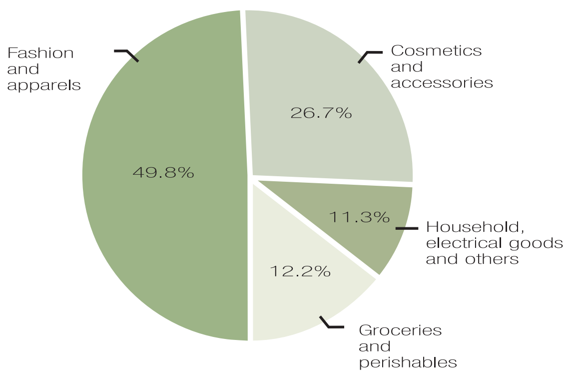
Sales proceeds by categories

Year (RMB'000)	2004	2005
Fashion and apparels	905,504	1,550,881
Cosmetics and accessories	485,147	830,836
Household, electrical goods and others	283,768	351,068
Groceries and perishables	246,347	379,220
Total sales proceeds	1,920,766	3,112,005

2004 Sales Mix



2005 Sales Mix



Segmental information

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

Employees

As at 31 December 2005, the total number of employees for the Group was approximately 5,000. The Group ensures that all levels of employees are paid competitively by reference to the market and employees are rewarded on performance related basis within the framework of the Group's salary, incentives and bonus scheme.

1,420,000 shares of the Company were subscribed by the employees on a preferential basis at an issue price of HK$9.80 per share on listing of the Company in November 2005.

No option has been granted since the date of the adoption of employee share option scheme by the Company on 9 November 2005.

Contingent Liabilities

On 17 February 2005, Beijing Parkson, a jointly-controlled entity of the Group, provided a corporate guarantee of RMB20.0 million (RMB11.2 million attributable to the Group) in favour of a bank in the PRC in respect of a bank loan to China Arts & Crafts (Group) Company.

The underlying loans were due and fully repaid in February 2006.

Save as disclosed above, the Group did not have any significant contingent liabilities as at 31 December 2005.

Treasury Policies

The Group has limited foreign exchange exposure. More than 95% of the Group's revenue and income are derived in RMB. Hedging instruments including swaps and forwards will be used if necessary to ensure that the Group's exposure to fluctuation of foreign exchange rate is minimised.

The Group maintains a low gearing policy in line with our light asset business model, the balance of bank and other borrowings as at the end of last year was approximately RMB234.3 million serving interest rates ranging from 5.6% to 6.2%. Debt to equity ratio of the Group expressed as a percentage of bank and other borrowings over the total net asset as at 31 December 2005 was approximately 12.5%.

Biographies of Directors and Senior Management

EXECUTIVE DIRECTORS

CHENG YOONG CHOONG

CHENG Yoong Choong, aged 42, is an Executive Director and the Managing Director of the Company. Mr Cheng is also a member of the remuneration committee of the Company. He graduated from the University of San Francisco with a Bachelor of Science degree and a Master of Business Administration in 1984. He has been with the Lion Group since 1987 in various capacities in stores operations and merchandising and has been the Chief Operating Officer of the retail division of the Lion Group since 2000. Mr Cheng has been with the Group since its inception. Mr Cheng is actively involved in the Malaysian and the 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

CHEW Fook Seng, aged 54, is an Executive Director and Chief Executive Officer of the Company. He has been the Chief Executive Officer of the companies comprising the Group since 2001. He obtained his Master of Business Administration from the Northland Open University and International Management Centre from Buckingham and received training on retail management in the United States and Japan. He has also travelled extensively to the United States, Japan, Europe, Australia, Hong Kong, Philippines and other parts of the world to explore and realise new business concepts and opportunities.

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

NON-EXECUTIVE DIRECTOR

TAN SRI CHENG HENG JEM

Tan Sri CHENG Heng Jem, aged 63, is a Non-executive Director and the Chairman of the Company. Tan Sri Cheng has more than 30 years of experience in the business operations of the Lion Group encompassing steel, motor and tyres, computer, trading, pulp and paper, plantation, property and community development and retail. He oversees the operation of the Lion Group and is responsible for the formulation and monitoring of the overall corporate strategic plans and business development of the 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 of each of Lion Diversified Holdings Berhad, Silverstone Corporation Berhad and Lion Forest Industries Berhad, all public listed companies in Malaysia

- Director of each of Amsteel Corporation Berhad and Amalgamated Containers Berhad, both public listed companies in Malaysia

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

- Chairman and managing director of Lion Corporation Berhad, a public listed company in Malaysia

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

FONG CHING, EDDY

FONG Ching, Eddy, aged 59, was appointed as an Independent Non-executive Director on 9 November 2005. He was also appointed as the chairman of the audit committee and a member of the remuneration committee. Mr Fong was formerly a partner of the international accounting firm PricewaterhouseCoopers. He is currently an Independent Non-executive director of each of China Resources Power Holdings Company Limited, SUNeVision Holdings Limited and Tradelink Electronic Commerce Limited and a non-executive director of Li Ning Company Limited, all listed on the Stock Exchange. Apart from pursuing a professional career, Mr Fong is active in public and community services in Hong Kong. He is currently a Non-executive director of the Securities and Futures Commission, a Director of Hong Kong Applied Science and Technology Research Institute Company Limited and a Council Member of the Open University of Hong Kong. Mr Fong was appointed as a Justice of the Peace in 1996 and awarded Silver Bauhinia star in 2000 by the Government of the Hong Kong Special Administrative Region of the PRC. Mr Fong graduated from University of Kent in the United Kingdom and was conferred Honorary Doctor of Civil Law in 1997.

STUDER WERNER JOSEF

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

KO TAK FAI, DESMOND

KO Tak Fai, Desmond, aged 37, was appointed as an Independent Non-executive Director on 9 November 2005, and is a member of the audit committee and a member of the remuneration committee of the Company. Mr Ko became a member of the Institute of Chartered Accountants in England and Wales in 1994. Mr Ko is the Head of Finance for a private group with hotel and property interests in the PRC. He is currently an Independent Non-executive Director of Mobile Telecom Network (Holdings) Limited which shares are listed on the Growth Enterprise Market of the Stock Exchange and a Non-executive Director of Core Solutions Limited.

SENIOR MANAGEMENT

TAN HUN MENG

TAN Hun Meng, aged 44, 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

LOW Kim Tuan, aged 50, a Malaysia citizen, is the Chief Operating Officer of Northern Region cum General Manager of the Group. Mr Low holds Executive Diploma in Management Studies from Curtin University of Technology, Australia and has completed an EMBA course at Chung Yuan Christian University, Taiwan, and attended retail management and senior management courses conducted in the USA and Taiwan. He has more than 18 years of experience in the retail industry and more than 10 years of experience working in the PRC retail market. He was with the Emporium Group before joining the Lion Group in 1987 as a regional manager and was promoted to the position of Head Office Merchandising Manager in 1990. He joined the Group upon the establishment of the Group and headed the merchandising department in Beijing before taking up his present position.

HAW LAY KIM

HAW Lay Kim, aged 40, 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.

CHUA LIAN MUI, JAYNE

CHUA Lian Mui, Jayne, aged 42, a Singapore citizen, is the Group's General Manager for the Merchandising Division of the Group. Miss Chua holds a Group Diploma in Marketing issued by the London Chamber of Commerce Examinations Board. In her course of work, she attended several courses relating to fashion merchandising and retail. In her previous employment, she was trained on fashion buying, merchandising display and management in Singapore and Japan and had travelled extensively to Europe and Asia on buying trips and attending important trade shows. She has more than 20 years of experience in the retail industry and more than 10 years of experience working in the PRC retail market. She joined the Group upon the establishment of the Group as an Assistant General Manager. She was transferred in 1997 to lead the Merchandising Division for the Eastern Region before she was promoted to the present position in 2000.

WONG CHEE KEONG

WONG Chee Keong, aged 39, 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

CHONG Sui Hiong, Shaun, aged 38, a Malaysia citizen, is the Store Design and Development General Manager of the Group. Mr Chong holds a Diploma in Civil Engineering from University of Technology Malaysia, Bachelor of Science in Industrial and Systems Engineering from University of Southern California and a Master of Business Administration from Rutgers, the State University of New Jersey. He went for further study in Los Angeles, US before joining the Lion Group in 1994 as Project Executive Store Design and Development. In June 1996, he joined the Retail Division of the Group and headed the Store Design and Development of the Group based in Shanghai before taking up his present position.

LEE SOOK BENG

LEE Sook Beng, aged 39, a Malaysia citizen, is the Chief Auditor of the Group. Ms Lee holds a certificate from the Institute of Chartered Secretaries and Administrators, UK. She joined the Lion Group's Accounts Department in July 1990. In 1999, she was with TOPS Malaysia as Category Manager before joining the Group in January 2000.

QUALIFIED ACCOUNTANT

WONG KANG YEAN, CLARENCE

WONG Kang Yean, Clarence, aged 35, a Malaysia citizen, is the Chief Financial Officer of the Group. He is a registered member of the Association of Chartered Certified Accountants. He is also a chartered accountant with the Malaysian Institute of Accountants. Mr Wong has a number of years of experience in accounting and corporate finance. Prior to joining the Group, Mr Wong was the Chief Financial Officer and Head of the Corporate Finance and Accounts department of Malaysia Land Properties Sdn Bhd through an internal transfer from Far East Consortium International Limited, a listed company on the Stock Exchange where he was the Group Corporate Finance Manager and Financial Controller of the overseas operations for more than three years. Mr Wong joined the Group as a full-time employee in 2005 and is a member of the Group's senior management team.

Corporate Governance Report

In the opinion of the Directors, the Company has complied with the code provision set out in the Code on Corporate Governance Practice (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on Stock Exchange of Hong Kong Limited ("Listing Rules") since 30 November 2005 (its listing date) up until 31 December 2005, save for the code provision on internal controls, which are to be implemented for accounting periods on or after 1 July 2005 pursuant to the CG Code.

Board of Directors

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

The Directors' biographical information is set out in the "Biographies of Directors and Senior Management" section on pages 23 to 24.

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.

Frequency of Meetings and Attendance

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

Two Board meetings were held on 9 November 2005 and 23 February 2006. All of the Directors attended the meetings.

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"). The Directors have complied with the standards set out in the Model Code from the period 30 November 2005 up until 31 December 2005.

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

Accountability and Audit

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

The 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 page 47.

Auditors' Remuneration

For the year ended 31 December 2005, the auditors of the Company received approximately HK$3.4 million for audit services.

Audit Committee

The Company established the Audit Committee pursuant to a resolution of the Directors passed on 9 November 2005 in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The Audit Committee comprises three Independent Non-executive Directors, namely, Mr Fong Ching, Eddy (Chairman of the Audit Committee), Mr Studer Werner Josef and Mr Ko Tak Fai, Desmond.

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

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

After the listing of the Company's shares on the Stock Exchange on 30 November 2005, there was one meeting held by the Audit Committee on 23 February 2006 with an attendance rate of 100%. The Audit Committee reviewed the Group's results for the year 2005.

Remuneration Committee

Pursuant to the requirements of the CG Code, the Company has set up a Remuneration Committee consisting of three members, one of whom is an Executive Director, namely Mr Cheng Yoong Chong, and the other two members were selected by the Board from amongst its Independent Non-executive Directors, namely, Mr Fong Ching, Eddy and Mr Ko Tak Fai, Desmond.

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

The Remuneration Committee shall meet at least once a year and at such other times as its chairman shall require. No meeting was held by the Remuneration Committee after the listing of the Company's shares on the Stock Exchange on 30 November 2005.

Directors' Report

The Board of Directors of the Company is pleased to announce the audited consolidated results of the Company, its subsidiaries, jointly-controlled entities and an associate for the year ended 31 December 2005.

Group Reorganisation

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

Details of the Group Reorganisation are set out in note 1 to the financial statements. The shares of the Company were listed on the Main Board of the Stock Exchange on 30 November 2005.

Principal activities

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

Results and appropriations

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 48.

Fixed assets

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

Proposed Final Dividend

The Board of Directors recommended the payment of final dividends for the full year of 2005 of RMB0.26 (2004:Nil) per share in cash. The proposed final dividends will be paid in Hong Kong dollars, such amount to be calculated by reference to the middle rate published by the People's Bank of China for the conversion of Renminbi to Hong Kong dollars as at 24 April 2006,

The Company was incorporated on 3 August 2005 and accordingly, no dividend has been declared or paid by the Company for the year 2004. However, certain members of the Group in aggregate declared dividend of approximately RMB12.6 million for the year 2004.

Upon the approval to be obtained from the forthcoming annual general meeting, the final dividends will be payable on or about 4 May 2006 to the shareholders whose name appear on the Register of Members of the Company at close of business on 28 April 2006.

Share capital

Details of movements in the Company's share capital for the year ended 31 December 2005 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

FONG Ching, Eddy
STUDER Werner Josef
KO Tak Fai, Desmond

Details of the profile of each member of the Board are set out in the "Biographies of Directors and Senior Management" section on pages 23 to 24.

All Directors were appointed in 2005, and in accordance with Article 114 of the Company's Article of Association, they shall retire at the forthcoming annual general meeting and shall be eligible for re-election.

In accordance with Article 130 of the Company's Articles of Association, the Directors of the Company shall be subject to retirement by rotation at least once every three years and shall be eligible for re-election.

Directors' Service Contracts

Each of Mr Cheng Yoong Choong and Mr Chew Fook Seng entered into a service contract with the Company on 9 November 2005 under which they agreed to act as Executive Directors for a term of three years. The appointment may be terminated before such expiry by not less than three months' written notice. Under these service contracts, Mr Cheng Yoong Choong will receive an annual Director's fee of approximately HK$150,000 while Mr Chew Fook Seng will receive an initial annual salary of RMB1,273,440 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. Mr Chew Fook Seng's total remuneration for the year 2005 was approximately RMB2.6 million.

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

Each of Mr Fong Ching, Eddy, Mr Studer Werner Josef and Mr Ko Tak Fai, Desmond has signed a letter of appointment dated 9 November 2005 with the Company under which each of them agreed to act as Independent Non-executive Directors for period of one year and shall continue thereafter subject to a maximum of three years unless terminated in accordance with the terms of appointment letters. The initial 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' Report

Directors' interests in contracts of significance

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

Competing business interests of directors

As at 31 December 2005, none of the Directors and directors of the Company's subsidiaries, or their respective associates had interests in businesses, other than being a director of the Company and/or its subsidiaries and their respective associates, which compete or are likely to compete, either directly or indirectly, with the businesses of the Company and its subsidiaries as required to be disclosed pursuant to the Listing Rules, except for the interests held by Tan Sri Cheng Heng Jem in Lion Diversified Holdings Berhad ("LDHB") which owns 11 department stores in the PRC. These 11 excluded department stores are managed by the Group.

Directors' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2005, the interests and short positions of the Directors 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 provision of the SFO) or which were required to be entered into the register required to be kept by the Company under section 352 of the SFO or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(A) LONG POSITIONS OF TAN SRI CHENG HENG JEM IN THE SHARE CAPITAL OF THE COMPANY:

Name of corporation	Nature of interest	Name of registered owner	Name of beneficial owner	Number and class of securities	Approximate percentage of shareholding
Company	Corporate interest	PRG Corporation 1	PRG Corporation	361,560,000 ordinary shares	65.50%

Note:

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

(B) LONG POSITIONS OF TAN SRI CHENG HENG JEM IN THE SHARE CAPITAL OF THE COMPANY'S ASSOCIATED CORPORATION (AS DEFINED IN THE SFO):

Name of corporation	Nature of interest	Name of registered owner	Name of beneficial owner	Number and class of securities	Approximate percentage of shareholding
PRG Corporation	Corporate interest	LDHB	LDHB	1 ordinary share	100%
Lion Mahkota Parade Sdn. Bhd.	Corporate interest	LDH Management Sdn. Bhd.	LDH Management Sdn. Bhd.	400,000 preference shares	100%
LDHB	Beneficial interest and corporate interest	Tan Sri Cheng Heng Jem and a series of controlled corporations	Tan Sri Cheng Heng Jem and a series of controlled corporations	374,532,096 ordinary shares	59.80%[1]

Note:

1. This represents Tan Sri Cheng Heng Jem's interest as at 31 December 2005. This figure will be increase if any of the debentures referred in sub-paragraph (c) below are converted into shares in LDHB.

The following are the associated corporations (as defined in the SFO) of the Company in which Tan Sri Cheng Heng Jem is deemed interested solely as a result of his controlling interest in LDHB (the figures in brackets represent LDHB's interests in these corporations): Qingdao No. 1 Parkson Co., Ltd. (52.60%), Hamba Research & Development Co., Ltd. (98%), Nanning Brilliant Parkson Plaza Co., Ltd. (51%), Dalian Tianhe Parkson Shopping Centre Co., Ltd. (60%), Aktif-Sunway Sdn. Bhd. (80%) and Inner Mongolia Leader Parkson Plaza Co., Ltd. (25%).

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

Name of associated corporation	LDHB's interest	Additional deemed interest
Lion Mahkota Parade Sdn. Bhd.[D]	99.99%	0.01% [A]
Likom CMS Sdn. Bhd.	99.98%	0.02% [B]
LDH Investment Pte. Ltd.	60%	40% [C]

Notes:

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

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

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

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

Directors' Report

(C) LONG POSITIONS OF TAN SRI CHENG HENG JEM IN THE DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (AS DEFINED IN THE SFO):

Through beneficial RM36.0 million (41.91%) and corporate interests, Tan Sri Cheng Heng Jem is deemed to be interested in 100% of the RM85.9 million 2% redeemable convertible unsecured loan stock due 31 May 2009 issued by LDHB ("RCULS") as follows:

— corporate interest[1] (through Amsteel Corporation Berhad) in 55.35% of the RCULS;

— corporate interest[2] (through Lion Industries Corporation Berhad) in 2.74% of the RCULS.

In addition, Tan Sri Cheng Heng Jem has a beneficial interest in the RCULS held by Amsteel Corporation Berhad and Lion Industries Corporation Berhad (amounting in aggregate to 58.09% of the RCULS in issue) as follows:

— option granted by Amsteel Corporation Berhad to Tan Sri Cheng Heng Jem to acquire 55.35% of the RCULS held by Amsteel Corporation Berhad;

— option granted by Lion Industries Corporation Berhad to Tan Sri Cheng Heng Jem to acquire 2.74% of the RCULS.

The above options are and will remain exercisable until 15 December 2006.

Through corporate interest, Tan Sri Cheng Heng Jem is interested in 99.99% of the RM9.44 million 2% irredeemable convertible unsecured loan stock due 31 May 2009 issued by LDHB ("ICULS") as follows:

— corporate interest[3] (through Narajaya Sdn. Bhd.) in 99.99% of the ICULS.

Notes:

1. Corporate interest through Amsteel Corporation Berhad. Tan Sri Cheng Heng Jem is entitled to exercise or control the exercise of more than one third of the voting power at general meetings of this company. Accordingly, Tan Sri Cheng Heng Jem is interested in the RCULS held by Amsteel Corporation Berhad.
2. Corporate interest through Lion Industries Corporation Berhad. Tan Sri Cheng Heng Jem is entitled to exercise or control the exercise of more than one third of the voting power at general meetings of this company. Accordingly, Tan Sri Cheng Heng Jem is interested in the RCULS held by Lion Industries Corporation Berhad.
3. Corporate interest through Narajaya Sdn. Bhd. Tan Sri Cheng Heng Jem is entitled to exercise or control the exercise of more than one third of the voting power at general meetings of this company. Accordingly, Tan Sri Cheng Heng Jem is interested in the ICULS held by Narajaya Sdn. Bhd.
4. The percentage figures given above with respect to the RCULS and the ICULS are as at the 31 December 2005. These figures will change upon the exercise of any of these debentures.

(D) LONG POSITIONS OF CHENG YOONG CHOONG IN THE SHARE CAPITAL OF THE COMPANY'S ASSOCIATED CORPORATIONS (AS DEFINED IN THE SFO)

Name of corporation	Nature of interest	Name of registered owner	Name of beneficial owner	Number and class of securities	Approximate percentage of shareholding
LDHB	Beneficial interest	Cheng Yoong Choong	Cheng Yoong Choong	1,373,846 ordinary shares	0.22%

Save as disclosed above, as at the 31 December 2005, none of the Directors of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial shareholders' Interests in Shares and Underlying Shares

As at 31 December 2005, so far as the Directors are aware, each of the following persons, not being a Director of the Company, had an interest in the Company's shares which falls to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO:

Name of shareholder	Nature of interest	Number of shares	Percentage of shareholding (direct or indirect)
PRG Corporation	Beneficial interest	361,560,000	65.50%
LDHB	Corporate interest	361,560,000 *(Note 2)*	65.50%
Tan Sri Cheng Heng Jem	Corporate interest	361,560,000 *(Note 3)*	65.50%
Puan Sri Chan Chau Ha alias Chan Chow Har *(Note 4)*	Interest of spouse	361,560,000	65.50%
Lion Development (Penang) Sdn. Bhd.	Corporate interest	361,560,000 *(Note 5)*	65.50%
Pangkor Investments (Cayman Islands) Limited	Beneficial interest	54,648,000	9.9%
Khazanah Nasional Berhad	Corporate interest	54,648,000 *(Note 6)*	9.9%

Directors' Report

Notes:

1. All of the above are long positions.
2. PRG Corporation is a wholly-owned subsidiary of LDHB. By virtue of the SFO, LDHB is deemed to be interested in the Shares held by PRG Corporation in the Company.
3. Tan Sri Cheng Heng Jem together with his wife, Puan Sri Chan Chau Ha alias Chan Chow Har, through their direct interest and a series of companies wherein they have a substantial interest, is entitled to exercise or control the exercise of more than one third of the voting power at general meetings of LDHB. Since LDHB is entitled to exercise or control the exercise of 100% of the voting power at general meetings of PRG Corporation, by virtue of the SFO, Tan Sri Cheng Heng Jem is deemed to be interested in the Shares held by PRG Corporation in the Company.
4. 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 361,560,000 Shares which Tan Sri Cheng Heng Jem is deemed to be interested in for the purposes of the SFO.
5. Lion Development (Penang) Sdn. Bhd., directly and through a series of controlled companies, is entitled to exercise or control the exercise of more than one third of the voting power at general meetings of LDHB. Since LDHB is entitled to exercise or control the exercise of 100% of the voting power at general meetings of PRG Corporation, by virtue of the SFO, Lion Development (Penang) Sdn. Bhd. is deemed to be interested in the Shares held by PRG Corporation in the Company.
6. Pangkor Investments (Cayman Islands) Limited is a wholly-owned subsidiary of Khazanah Nasional Berhad. As such Khazanah Nasional Berhad is deemed to be interested in the 54,648,000 Shares held by Pangkor Investments (Cayman Islands) Limited for the purposes of the SFO.

As at 31 December 2005, so far as the Directors are aware, each of the following persons, not being a Director 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 meetings of members of the Group:

Substantial Shareholder	Member of the Group	Percentage of equity interest held
China Arts & Crafts[1]	Beijing Parkson	44%
Xinjiang Youhao[2]	Xinjiang Parkson	49%
Wuxi Distribution[3]	Wuxi Parkson	40%
Yangzhou Commercial[4]	Yangzhou Parkson	45%
Shannxi Chang'an Information[5]	Xi'an Chang'an parkson	49%
Xi'an Xinrun[6]	Xi'an Shidai Parkson	49%
Sichuan Fulin[7]	Mianyang Parkson	40%
Chongqing Wanyou[8]	Chongqing Parkson	30%
Guizhou Shengqi Enterprise[9]	Guizhou Parkson	40%
Anshan Tianxing[10]	Anshan Parkson	49%
Shanghai Nine Sea Industry[11]	Shanghai Lion Property	71%[12]
Shanghai Nine Sea Industry	Shanghai Nine Sea Parkson	29%[12]

Notes:

1. 中國工藝美術（集團）公司 (China Arts & Crafts (Group) Company), owns 44% of the equity interest of Beijing Parkson.
2. 新疆友好（集團）股份有限公司 (Xinjiang Friendship (Group) Co., Ltd), owns 49% of the equity interest of Xinjiang Parkson.
3. 無錫市供銷合作總社 (Wuxi Distribution Corporation), owns 40% of the equity interest of Wuxi Parkson.
4. 揚州商業大廈 (Yangzhou Commercial Plaza), owns 45% of the equity interest of Yangzhou Parkson.

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

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

6. (i) 西安新潤置業有限公司 (Xi'an Xinrun Property Co., Ltd.), owns 49% of the equity interest of Xi'an Shidai Parkson.

   (ii) 陝西雙翼石油化工有限責任公司 (Shaanxi Shuangyi Petroleum and Chemical Company Limited), owns 39.1% of the equity interest in Xi'an Xinrun, representing a 19.16% indirect equity interest in Xi'an Shidai Parkson.

7. (i) 四川富臨實業集團有限公司 (Sichuan Fulin Industrial Group Co., Ltd.), owns 40% of the equity interest of Mianyang Parkson.

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

8. 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 Parkson.

9. (i) 貴州神奇實業有限公司 (Guizhou Shenqi Enterprise Co., Ltd.), 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.

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

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

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

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

Connected transactions

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

FINANCIAL ASSISTANCE FROM THE GROUP TO CONNECTED PERSONS

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

1. Guarantee

   Beijing Parkson entered into a guarantee on 17 February 2005 with respect to the outstanding bank debt of China Arts & Crafts (Group) Company ("China Arts & Crafts"). The underlying loan amounts to RMB20.0 million. The underlying loan was due and fully repaid in February 2006.

   China Arts & Crafts is a substantial shareholder of Beijing Parkson, a subsidiary of the Company and therefore China Arts & Crafts is a connected person of the Company.

2. Entrusted loans of Mianyang Parkson

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

Directors' Report

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

3. Entrusted loans of Anshan Parkson

Anshan Parkson entered into two interest-bearing entrusted loan agreements on 22 September 2005 with Anshan Tianxing International Properties Development Co., Ltd ("Anshan Tianxing"), pursuant to which loan facilities of an aggregate amount of RMB70 million were made to Anshan Tianxing through CITIC Industrial Bank, Dalian branch. Both loans are due in September 2006.

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

FINANCIAL ASSISTANCE TO THE GROUP BY A CONNECTED PERSON

China Arts & Crafts has guaranteed outstanding bank debts owed by Beijing Parkson pursuant to a guarantee entered into on 30 June 2005. The underlying loan amounts to RMB70 million. The loan has been fully repaid by Beijing Parkson on December 2005 and March 2006.

PRELIMINARY FRAMEWORK AGREEMENT

On 23 January 2006, Shanghai Lion Investment, an indirect wholly-owned subsidiary of the Company, China Arts & Crafts, China Arts & Crafts Culture Company ("China Arts & Crafts Culture") and Arts & Crafts Exhibition Company ("Arts & Crafts Exhibition Company") (collectively "China Arts & Crafts Companies") entered into the preliminary framework agreement, under which China Arts & Crafts, China Arts & Crafts Culture and Arts & Crafts Exhibition agreed to offer their 44% interest in Beijing Parkson for sale, and to seek the approval for such sale from the relevant regulatory authorities in the PRC, and in consideration of the initiation by the China Arts & Crafts Companies of the PRC approval process of the sale of interest in Beijing Parkson, Shanghai Lion Investment agreed to pay the China Arts & Crafts Companies a refundable deposit of RMB110 million.

The deposit will be secured by a share pledge. Pending registration of the share pledge, the deposit is secured by an enforcement-of-debt undertaking.

China Arts & Crafts, together with its wholly-owned subsidiaries China Arts & Crafts Culture and Arts & Crafts Exhibition, are substantial shareholders of Beijing Parkson and therefore are connected persons of the Company.

Continuing connected transactions

DEED OF NON COMPETITION

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

TRADEMARK LICENSE AGREEMENT

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

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

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

Sub-licensee	Date of the trademark sub-license agreement
- Qingdao No 1	9 November 2005
- Laoshan branch of Qingdao No 1	9 November 2005
- Yantai branch of Qingdao No 1	9 November 2005
- Dalian Shishang	9 November 2005
- Dalian Tianhe	25 November 1999 (note 1)
- Shenyang branch of Dalian Tianhe	9 November 2005
- Nanning Brilliant	9 November 2005
- Changchun Zhonglian	9 November 2005
- Tianjin Zhonglian	9 November 2005
- Shenyang Plaza	9 November 2005
- Shantou Commercial	9 November 2005

Note:

1. This sub license agreement was entered into pursuant to arrangements preceding the trademark license agreement dated 9 November 2005.

Directors' Report

CONTINUING CONNECTED TRANSACTIONS EXEMPT FROM INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENT

(A) *Lease Agreement*

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

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

The term of each lease is 20, 20 and 19 years respectively. Annual rent of the first lease is RMB1.7 million for the period from 1 August 2003 to 31 July 2004 and RMB2 million for the period from 1 August, 2004 to 31 July 2008. Thereafter, rent will be reviewed annually based on prevailing market rates but such increase shall not exceed 15% of the previous year's rent. Annual rent for the second lease is approximately RMB16 million. The rent will be reviewed every 5 years according to the PRC consumer price index but in any event the increase shall not be more than 15% of the previous year's rental. Annual rent for the third lease is RMB830,000 for the first year, subject to an annual increment of RMB20,000 for the second to fifth rental year. Thereafter, the rent will be reviewed every five years based on prevailing market rates.

The three leases were supplemented by a supplemental lease agreement dated 20 August 2005 under which it was agreed that the aggregate annual rental amounts under the three leases for the following 9 years be amended to RMB137,370,000. Such amount will be prepaid by Beijing Parkson in one lump sum. The one-off prepayment of rent for the period of 9 years represents commercially attractive rental terms for Beijing Parkson.

For the year ended 31 December 2005, the rental amount paid by the Group to China Arts & Crafts amounted to RMB18,181,932. This amount exceeds the estimated annual caps or RMB18,024,000 as set out in the Prospectus. The discrepancy is due to the use of rounding factors in estimating the rental cap. An announcement has been made by the Company on 29 March 2006 in relation to the revised annual cap.

(2) Lease arrangements between Mianyang Parkson and Sichuan Fulin

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

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

For the year ended 31 December 2005, the aggregate reported rental amount paid and payable by the Group to Sichuan Fulin amounted to RMB6,283,098. The slight discrepancy between the cap of RMB5,745,000 and the reported figures of RMB6,283,098 in the company's audited accounts is due to the requirement pursuant to rule no.17 of the International Financial Reporting Standards, that a payment made under an operating lease is to be recognised as an expense on a straight-line basis over the term of the lease, however the estimated rental cap of RMB5,745,000 was determined based on the actual amount to be paid under the lease agreement.

(3) Lease arrangements between Chongqing Parkson and Chongqing Wanyou Economic Development Co., Ltd. ("Chongqing Wanyou")

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

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

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

For the year ended 31 December 2005, the rental amount paid by the Group to Chongqing Wanyou amounted to RMB5,104,852.

(4) Lease arrangements between Xi'an Chang'an Parkson and Shaanxi Chang'an Information Property Investment Co., Ltd. ("Shaanxi Chang'an Information")

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

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

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

For the year ended 31 December 2005, the rental amount paid by the Group to Shaanxi Chang'an Information amounted to RMB8,373,784.

Directors' Report

(5) Lease arrangements between Xi'an Shidai Parkson and Xi'an Xinrun Property Co., Ltd. ("Xi'an Xinrun")

Xi'an Shidai Parkson entered into a lease with Xi'an Xinrun on 18 August 2004 pursuant to which Xi'an Xinrun agreed to lease premises of a total gross floor space of approximately 36,084 sq.m. located at Shidaishengdian Edifice, West Street, Xi'an, Shanxi to Xi'an Shidai Parkson to be used as its place of business.

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

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

For the year ended 31 December 2005, the rental amount paid by the Group to Xi'an Xinrun amounted to RMB8,818,447. This amount exceeds the estimated annual caps of RMB8,000,000 as set out in the Prospectus. The adjustment in rental amount is due to the fact that the actual performance of Xi'an Shidai for the year ended 31 December 2005 had exceeded the Company's expectations, which give rise to an increase in the profits-linked rental component.

The company has revised the annual caps of the rental amount for the years ending 31 December 2006 and 31 December 2007 from RMB 8,000,000 for each year to RMB13,000,000 and RMB16,000,000 respectively. The caps are determined based on the management's expectation on the growth of Xi'an Shidai Parkson with reference to the store's. age profile, the geographical location of the store and retail industry growth in the PRC. An announcement has been made by the Company on 29 March 2006 in relation to the revised annual caps.

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

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

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

(a) 2% of the annual operating revenue 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 operating revenue for other parts of the premises.

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

For the year ended 31 December 2005, the rental amount paid by the Group to Guizhou Huawei amounted to RMB12,673,469. This amount exceeds the estimated annual caps of RMB12,034,000 as set out in the Prospectus. The adjustment in rental amount is due to the fact that the actual performance of Guizhou Parkson for the year ended 31 December 2005 had exceeded the Company's expectations, which give rise to an increase in the profits-linked rental component.

The company has revised the annual caps for the rental amount for the years ending 31 December 2006 and 31 December 2007 from RMB13,120,000 and RMB14,170,000 to RMB16,000,000 and RMB19,000,000 respectively. The caps are determined based on the management's expectation on the growth of Guizhou Parkson with reference to the store's. age profile, the geographical location of the store and retail industry growth in the PRC. An announcement has been made by the Company on 29 March 2006 in relation to the revised annual caps.

(7) Lease arrangements between Anshan Parkson and Anshan Tianxing International Properties Development Co., Ltd. ("Anshan Tianxing")

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

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

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

For the year ended 31 December 2005, the rental amount paid by the Group to Anshan Tianxing amounted to RMB15,483,164.

(8) Lease arrangements between Xinjiang Parkson and Xinjiang Friendship (Group) Co., Ltd. ("Xinjiang Youhao")

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

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

Xinjiang Youhao is a substantial shareholder of Xinjiang Parkson, a subsidiary of the Company, and is therefore a connected person of the Company.

For the year ended 31 December 2005, the rental amount paid by the Group to Xinjiang Youhao amounted to RMB24,762,500.

Directors' Report

(B) *Management consultancy agreements*

(1) Management consultancy agreements with the Lion Group

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

Members of the Lion Group	**Date of the management consultancy agreement**
Qingdao No. 1	1 October 2005
Laoshan branch of Qingdao No. 1	1 October 2005
Yantai branch of Qingdao No. 1	10 September 2005
Dalian Shishang	1 May 2005
Dalian Tianhe	January 1999
Shenyang branch of Dalian Tianhe	1 October 2005
Nanning Brilliant	1 May 2005
Shenyang Plaza	28 November 2003
Shantou Commercial	1 June 2005
Changchun Zhonglian	8 November 2005
Tianjin Zhonglian	8 November 2005
Beijing Zhongtai	yet to commence operation

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

For the year ended 31 December 2005, the fees charged for provision of such services amounted to RMB7,309,454.

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

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

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

For the year ended 31 December 2005, the fees charged for provision of such services amounted to RMB2,017,818.This amount exceeds the estimated caps of RMB1,856,000 as set out in the Prospectus. This discrepancy arose because the net sales and profit after tax of Guizhou Shenqi for the year ended 31 December 2005 exceeded the Company's expectations, which gave rise to an increase in the revenue-linked and profits-linked management fees.

The company has revised the annual caps for the management fees for the years ending 31 December 2006 and 31 December 2007 from RMB2,071,000 and RMB2,210,000 to RMB2,500,000 and RMB3,000,000 respectively. The caps are determined based on the management's expectation on the growth of the Guizhou Shenqi with reference to the Store's age profile, the geographical location of the store and retail industry growth in the PRC.

An announcement has been made by the Company on 29 March 2006 in relation to the revised annual caps.

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

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

The Directors (including the Independent Non-executive Directors) have reviewed and confirmed that the above 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.

Directors' Report

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 2005. None of the Directors or shareholders who owned 5% or more of the issued shares capital of the Company as at 31 December 2005 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 2005.

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 2005.

Donations

During the year, together with Impact HongKong Foundation and the Group's vendors, the Group raised a total of RMB10 million for Lifeline Express to battle eye disease in the rural areas of the PRC.

In Hong Kong, the Group contributed HK$1 million to The Community chest for Corporate and Employee Contribution Programme.

Corporate Governance Report

In the opinion of the Directors, the Company has complied with the code provision set out in the CG Code contained in Appendix 14 of the Listing Rules since 30 November 2005 (its listing date) up until 31 December 2005, save for the code provision on internal controls, which are to be implemented for accounting period on or after 1 July 2005 pursuant to the CG Code.

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

During the year, Ernst & Young has been appointed as auditors of the Company. 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

23 February 2006

Auditors' Report

To the members
Parkson Retail Group Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 48 to 106 which have been prepared in accordance with International Financial Reporting Standards.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion 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.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our 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 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Hong Kong
23 February 2006

Consolidated Income Statement

Year ended 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
Revenues	4	1,131,890	750,038
Other operating revenues	4	82,768	35,505
Total operating revenues		1,214,658	785,543
Operating expenses			
Purchases of goods and changes in inventories		(363,461)	(243,686)
Staff costs		(120,262)	(69,805)
Depreciation and amortisation		(64,055)	(52,070)
Rental expenses		(103,902)	(53,215)
Other operating expenses		(165,785)	(117,310)
Total operating expenses		(817,465)	(536,086)
Profit from operations	5	397,193	249,457
Finance income	6	8,445	3,014
Share of profit from an associate		522	449
Profit from operations before income tax		406,160	252,920
Income tax	9	(131,836)	(90,981)
Net profit for the year		274,324	161,939
Attributable to:			
Equity holders of the parent		248,012	152,771
Minority interests		26,312	9,168
		274,324	161,939
Earnings per share — basic	10	RMB0.55	RMB0.35
Proposed final dividend	39	143,520	—

Consolidated Balance Sheet

31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	581,535	543,020
Intangible assets	12	82,191	3,112
Lease prepayments	13	49,066	51,910
Investment properties	14	17,394	18,726
Investment in an associate	17	2,120	1,548
Other financial assets	18	72,629	—
Deferred tax assets	19	32,789	20,177
		837,724	638,493
CURRENT ASSETS			
Inventories	21	80,938	36,952
Trade receivables	22	16,737	23,920
Investments	23	1,842	76,706
Prepayments, deposits and other receivables	24	233,250	259,142
Due from related parties	25	—	85,169
Cash and cash equivalents	26	2,080,407	408,522
		2,413,174	890,411
CURRENT LIABILITIES			
Interest-bearing loans and borrowings	27	(154,856)	(60,434)
Trade payables	28	(569,003)	(245,504)
Customers' deposits, other payables and accruals	29	(355,448)	(263,300)
Tax payable		(94,629)	(53,623)
Due to related parties	30	—	(77,432)
		(1,173,936)	(700,293)
NET CURRENT ASSETS		1,239,238	190,118
TOTAL ASSETS LESS CURRENT LIABILITIES		2,076,962	828,611
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	27	(79,446)	—
Long term payables	31	(77,895)	(65,306)
Deferred tax liabilities	19	(46,295)	(41,005)
		(203,636)	(106,311)
NET ASSETS		1,873,326	722,300
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	37	57,436	—
Reserves	38A	1,723,444	655,983
		1,780,880	655,983
Minority interests		92,446	66,317
TOTAL EQUITY		1,873,326	722,300

Consolidated Statement of Changes in Equity

Year ended 31 December 2005

	Attributable to equity holders of the Company								
	Issued share capital RMB'000 note 37	Share premium RMB'000	Contributed surplus RMB'000 note 38 A(ii)	PRC reserve funds RMB'000 note 38	Exchange reserve RMB'000	Contribution from owner and retained earnings RMB'000 note 38	Total RMB'000	Minority interest RMB'000	Total equity RMB'000
At 1 January 2004	—	—	—	14,172	16,402	467,519	498,093	54,057	552,150
Changes in the exchange reserve	—	—	—	—	2,799	—	2,799	—	2,799
Total income and expense for the year recognised directly in equity	—	—	—	—	2,799	—	2,799	—	2,799
Net profit for the year	—	—	—	—	—	152,771	152,771	9,168	161,939
Total income and expense for the year	—	—	—	—	2,799	152,771	155,570	9,168	164,738
Transfer to the PRC reserve funds	—	—	—	10,117	—	(10,117)	—	—	—
Contribution from the owner (note 38A(iii))	—	—	—	—	—	9,000	9,000	9,000	18,000
Appropriation to owners (note 38A(v))	—	—	—	—	—	(6,680)	(6,680)	(5,908)	(12,588)
At 31 December 2004 and 1 January 2005	—	—	—	24,289	19,201	612,493	655,983	66,317	722,300
Changes in the exchange reserve	—	—	—	—	(3,741)	—	(3,741)	—	(3,741)
Total income and expense for the year recognised directly in equity	—	—	—	—	(3,741)	—	(3,741)	—	(3,741)
Net profit for the year	—	—	—	—	—	248,012	248,012	26,312	274,324
Total income and expenses for the year	—	—	—	—	(3,741)	248,012	244,271	26,312	270,583
Equity transactions with the owner (note 38A(iv))	—	—	—	—	—	3,785	3,785	—	3,785
Contribution from the owner (note 38A(iii))	—	—	—	—	—	20,223	20,223	—	20,223
Shares issued for Reorganisation	8,335	—	154,442	—	—	(162,777)	—	—	—
Issue of new shares upon listing (note 37(v))	11,487	1,114,251	—	—	—	—	1,125,738	—	1,125,738
Share premium transfer to share capital (note 37(iv))	37,614	(37,614)	—	—	—	—	—	—	—
Share issue expenses	—	(51,673)	—	—	—	—	(51,673)	—	(51,673)
Transfer to the PRC reserve funds	—	—	—	19,667	—	(19,667)	—	—	—
Acquisitions	—	—	—	—	—	—	—	11,847	11,847
Appropriation to owners (note 38A(v))	—	—	—	—	—	(217,447)	(217,447)	(12,030)	(229,477)
At 31 December 2005	**57,436**	**1,024,964**	**154,442**	**43,956**	**15,460**	**484,622**	**1,780,880**	**92,446**	**1,873,326**

Consolidated Cash Flow Statement

Year ended 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit from operations before income tax		406,160	252,920
Adjustments for:			
Share of profit of an associate		(522)	(449)
Interest income	6	(14,828)	(5,778)
Excess over the cost of business combinations	4	(3,498)	—
Interest expenses	6	4,614	1,946
Depreciation and amortisation	5	64,055	52,070
Exchange losses	6	1,769	818
Allowance for doubtful debts	5	1,145	5,526
Loss on disposal of fixed assets		324	2,340
Operating profit before working capital changes		459,219	309,393
Increase in other financial assets		(72,629)	—
Decrease/(increase) in inventories		(11,761)	328
Decrease/(increase) in trade receivables		6,327	(6,891)
Decrease/(increase) in prepayments, deposits and other receivables		178,916	(63,932)
Decrease in amounts due from related parties		—	80
Increase in trade payables		123,116	24,141
Decrease in customers' deposits, other payables and accruals		(59,335)	(26,125)
Increase in amounts due to related parties		—	1,323
Increase in long-term payables		2,375	5,393
Cash generated from operating activities		626,228	243,710
Interest paid		(4,614)	(1,946)
Income tax paid		(100,601)	(71,101)
Net cash inflow from operating activities		521,013	170,663

	Notes	2005 RMB'000	2004 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of items of property, plant and equipment		736	6,244
Purchases of items of property, plant and equipment		(43,761)	(31,680)
Purchases of intangible assets		—	(3,277)
Acquisition of businesses	20(iii)	30,170	—
Acquisition of jointly-controlled entities	20(ii)	6,767	—
Acquisition of minority interests	12(ii)	(74,800)	—
Equity transactions with the owner	1	179,163	—
Net decrease/(increase) in investments		74,864	(29,977)
Increase in an investment in an associate		(520)	—
Decrease in non-trade related amounts due from related parties		85,169	80,797
Decrease/(increase) in non-trade related other receivables		26,898	(49,724)
Dividends received		470	323
Interest received		14,828	5,778
Net cash inflow/(outflow) from investing activities		299,984	(21,516)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		229,200	33,600
Repayment of bank loans and other loans		(145,332)	(18,245)
Decrease in non-trade related amounts due to related parties		(67,919)	(86,344)
Cash contribution from owners		—	9,000
Capital contribution from a minority shareholder		—	9,000
Net proceeds from issuance of new shares upon listing		1,074,065	—
Distribution to owners	38A(iii)	(4,139)	—
Appropriation to owners	38A(v)	(229,477)	(12,588)
Net cash inflow/(outflow) from financing activities		856,398	(65,577)
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,677,395	83,570
Cash and cash equivalents at beginning of year		408,522	322,971
Exchange differences		(5,510)	1,981
CASH AND CASH EQUIVALENTS AT END OF YEAR		2,080,407	408,522
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	26	973,345	408,522
Non-pledged time deposits with original maturity of less than three months when acquired	26	1,107,062	—
		2,080,407	408,522

Balance Sheet

31 December 2005

	Notes	2005 RMB'000
NON-CURRENT ASSETS		
Interest in subsidiaries	15	575,721
CURRENT ASSETS		
Cash and cash equivalents	26	1,079,912
CURRENT LIABILITIES		
Accruals		(10,907)
NET CURRENT ASSETS		1,069,005
NET ASSETS		1,644,726
EQUITY		
Issued capital	37	57,436
Reserves	38B	1,587,290
TOTAL EQUITY		1,644,726

Notes to Financial Statements

31 December 2005

1. CORPORATE INFORMATION/GROUP REORGANISATION AND BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

As a result of a group restructuring of Lion Diversified Holdings Berhad ("LDHB"), a public limited liability company incorporated and domiciled in Malaysia and the controlling shareholder of the Company, the Company was incorporated in the Cayman Islands on 3 August 2005 with limited liability under the Companies Law of the Cayman Islands. Pursuant to the group reorganisation (the "Reorganisation") in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company has become the holding company of the companies now comprising the Group on 9 November 2005 through a share swap transaction. The shares of the Company have been listed on the Stock Exchange with effect from 30 November 2005. The Company has established a principal place of business in Hong Kong at Level 28, Three Pacific Place, 1 Queen's Road East, Central, Hong Kong.

The Reorganisation of the Relevant Companies, as defined below, has been accounted for as a reorganisation of entities under common control in a manner similar to a pooling of interests, since Tan Sri Cheng Heng Jem, the controlling shareholder of LDHB, controlled the Company and the Relevant Companies before and after the completion of the Reorganisation. Accordingly, the consolidated income statement and consolidated cash flow statement include the results and cash flows of the Relevant Companies as if the current group structure had been in existence since 1 January 2004, or since their respective dates of registration, where this is a shorter period. The consolidated balance sheet of the Group as at 31 December 2004 has been prepared to present the assets and liabilities of the Relevant Companies as if the current group structure had been in existence as at that date.

The Relevant Companies include:
Parkson Investment Pte Ltd. (新加坡金獅百盛投資有限公司)
Rosenblum Investment Pte Ltd. (新加坡盛邦投資有限公司)
Exonbury Limited (香港益盛普利有限公司)
Parkson Supplies Pte Ltd. (新加坡金獅百盛供應有限公司)
Shanghai Lion Parkson Investment Consultant Co., Ltd. (上海獅貿投資咨詢有限公司)
Shanghai Nine Sea Parkson Plaza Co., Ltd. (上海九海百盛廣場有限公司)
Wuxi Sanyang Parkson Plaza Co., Ltd. (無錫三陽百盛廣場有限公司)
Xi'an Lucky King Parkson Plaza Co., Ltd. (西安立豐百盛廣場有限公司)
Beijing Century Parkson E-business Co., Ltd. (北京世紀百盛電子商務有限公司)
Chongqing Wanyou Parkson Plaza Co., Ltd. (重慶萬友百盛廣場有限公司)
Mianyang Fulin Parkson Plaza Co., Ltd. (綿陽富臨百盛廣場有限公司)
Yangzhou Parkson Plaza Co., Ltd. (揚州百盛商業大廈有限公司)
Parkson Retail Development Co., Ltd. (百盛商業發展有限公司)
Xinjiang Youhao Parkson Development Co., Ltd. (新疆友好百盛商業發展有限公司)
Shanghai Nine Sea Lion Properties Management Co., Ltd. (上海九海金獅物業管理有限公司)

Particulars of the Relevant Companies are set out in notes 15, 16 and 17 to these financial statements.

Notes to Financial Statements

31 December 2005

1. CORPORATE INFORMATION/GROUP REORGANISATION AND BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (continued)

In August 2005, LDHB and an independent third party vendor entered into a sale and purchase agreement to acquire Step Summit Limited and its subsidiaries, including Guizhou Shenqi Parkson Retail Development Co., Ltd., Hefei Parkson Xiaoyao Plaza Co., Ltd and Shanghai Hongqiao Parkson Development Co., Ltd (collectively the "Step Summit Group") for a total cash consideration of USD65.4 million (approximately equivalent in RMB527,778,000). Pursuant to the Reorganisation, the entire equity interest of the Step Summit Group was transferred to the Group through the share swap transaction for a consideration determined based on the net asset value of RMB3,785,000 of the underlying companies. The net asset value of the identifiable assets and liabilities of the Step Summit Group which transferred to the Group on 1 October 2005 is:

	RMB'000
Property, plant and equipment	28,766
Deferred tax assets	4,163
Inventories	17,708
Trade receivables	289
Prepayments, deposits and other receivables	86,204
Cash and cash equivalents	179,163
	316,293
Interest-bearing loans and borrowings	(50,000)
Trade payables	(120,479)
Tax payable	(10,675)
Customers' deposits, other payables and accruals	(95,058)
Provision for coupon liabilities (note 29)	(12,417)
Minority interest	(23,879)
	(312,508)
	3,785

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

2.1 BASIS OF PREPARATION

These financial statements are prepared on the historical cost basis except that investments held for trading are stated at their fair values. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

The Group has early adopted all applicable new and revised International Financial Reporting Standards, which are effective for accounting periods beginning on 1 January 2005, with effect from 1 January 2004.

STATEMENT OF COMPLIANCE

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

BASIS OF CONSOLIDATION

These 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 Company, using consistent accounting policies.

All significant intra-group balances and transactions are eliminated on consolidation.

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.

Notes to Financial Statements

31 December 2005

2.2 IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERNATIONAL ACCOUNTING STANDARDS

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

IAS 1 Amendment	—	Capital Disclosures
IAS 19 Amendment	—	Actuarial Gains and Losses, Group Plans and Disclosures
IAS 21 Amendment	—	Net Investment in a Foreign Operation
IAS 39 Amendment	—	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
IAS 39 Amendment	—	The Fair Value Option
IAS 39 & IFRS 4 Amendments	—	Financial Guarantee Contracts
IFRSs 1 & 6 Amendments	—	First-time Adoption of IFRSs and Exploration for and Evaluation of Mineral Resources
IFRS 6	—	Exploration for and Evaluation of Mineral Resources
IFRS 7	—	Financial Instruments: Disclosures
IFRIC - Int 4	—	Determining whether an Arrangement contains a Lease
IFRIC - Int 5	—	Rights to Interests arising from Decommissioning, Restoration and Environment Rehabilitation Funds
IFRIC - Int 6	—	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
IFRIC - Int 7	—	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC - Int 8	—	Scope of IFRS 2

2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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:

Inventories

The Group does not have a general provisioning policy on inventories based on ageing given the nature of inventories and purchase return or exchange protections from suppliers. However, operational procedures have been in place to monitor this risk as a majority of working capital is devoted to inventories. Procedurewise, the Company reviews its inventory ageing listing on a periodical basis, which involves a comparison of the carrying value of the aged inventories with the respective net realisable value. The purpose is to ascertain whether allowance is required to be made in the financial statements for any obsolete and slow-moving inventories. In addition, physical counts are carried out on a periodical basis in order to determine whether allowance is needed in respect of any obsolete and defective inventories identified. In this regard, the Group is satisfied no provision for obsolete and slow-moving inventories is required as at 31 December 2005.

Income tax provisions

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

ESTIMATION UNCERTAINTY

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:

Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Depreciation

The Group has estimated the useful life of the property, plant and equipment of 5 to 30 years, after taking into account of their estimated residual value, as set out in the principal accounting policies below. Depreciation of property, plant and equipment is calculated on the straight-line basis over its expected useful life.

Notes to Financial Statements

31 December 2005

3. PRINCIPAL ACCOUNTING POLICIES

FOREIGN CURRENCIES

These financial statements are presented in Renminbi, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate ruling at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency is translated using the exchange rates at the date when the fair value was determined.

The functional currencies of overseas subsidiaries and jointly-controlled entities are their respective local currencies. As at the reporting date, the assets and liabilities of these overseas subsidiaries and jointly-controlled entities are translated into the Company's presentation currency at the exchange rates ruling at the balance sheet date and the consolidated 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 are translated into Renminbi at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries, 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 is engaged 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 rewards that are different from those of other segments.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

REVENUE RECOGNITION

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

- Sale of goods

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

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

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

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

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

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

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

GOVERNMENT GRANTS

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

Notes to Financial Statements

31 December 2005

3. PRINCIPAL ACCOUNTING POLICIES (continued)

EMPLOYEE BENEFITS

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

(ii) Contributions to defined contribution retirement plans are recognised as an expense in the consolidated income statement as incurred.

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

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

INCOME TAX

Current tax

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

Deferred tax

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

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

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

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

3. PRINCIPAL ACCOUNTING POLICIES (continued)

INCOME TAX (continued)

Deferred tax (continued)

Deferred income 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 income 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 income 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 income tax asset to be utilised. Unrecognised deferred income 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 income 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.

Income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated income statement.

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.

Notes to Financial Statements

31 December 2005

3. PRINCIPAL ACCOUNTING POLICIES (continued)

RELATED PARTIES

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

(a) directly, or indirectly through one or more intermediaries, the party: (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the entity 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); or

(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 the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on the straight-line basis over the lease terms.

IMPAIRMENT OF ASSETS

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.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

IMPAIRMENT OF ASSETS (continued)

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss 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.

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

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

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

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3. PRINCIPAL ACCOUNTING POLICIES (continued)

GOODWILL

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

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

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with IAS 14 Segment Reporting.

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.

PROPERTY, PLANT AND EQUIPMENT

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

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, the expenditure is capitalised as an additional cost of that items of property, plant and equipment.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

PROPERTY, PLANT AND EQUIPMENT (continued)

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

Buildings	20-30 years
Leasehold improvements	5-10 years
Motor vehicles	5 years
Equipment and fixtures	5-10 years

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

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 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.

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 30 years.

INTANGIBLE ASSETS (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against profits 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.

Notes to Financial Statements

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3. PRINCIPAL ACCOUNTING POLICIES (continued)

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 30 years.

The carrying values of investment properties are reviewed for impairment either annually, or whenever events or changes in circumstances indicate that the carrying values may not be recoverable, whichever is earlier. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the investment properties are written down to their recoverable amounts. Impairment losses are recognised in the consolidated income statement.

An investment property shall be derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

SUBSIDIARIES

A subsidiary is a company 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 impairment losses.

Minority interests represent the interests of outside shareholders in the Company's subsidiaries, and are presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity.

JOINT VENTURES

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

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

A joint venture is treated as:

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

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

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

3. PRINCIPAL ACCOUNTING POLICIES (continued)

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.

ASSOCIATES

The Group's investment in its associate is accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a jointly-controlled entity of the Group. Under the equity method, the investment in an associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value. The consolidated income statement reflects the Group's share of the post-acquisition results of the associate.

INVENTORIES

Inventories comprise merchandise purchased for resale 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.

Consumables are stated at cost less any impairment losses.

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.

An estimate for doubtful debts is made when there is objective evidence that collection of the full amount is no longer probable. Bad debts are written off when identified.

INVESTMENTS AND OTHER FINANCIAL ASSETS

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or 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 determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e the date that the Group commits to purchase 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.

Notes to Financial Statements

31 December 2005

3. PRINCIPAL ACCOUNTING POLICIES (continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (continued)

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through 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 are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on investments held for trading are recognised in the consolidated income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. 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.

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

CASH AND CASH EQUIVALENTS

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

FINANCIAL LIABILITIES

Financial liabilities in the scope of IAS 39 are classified as either financial liabilities measured at fair value through profit or loss or other financial liabilities. All financial liabilities are classified on initial recognition and measured initially at fair value, plus in the case of other financial liabilities, directly attributable to transaction costs. Financial liabilities at fair value through profit or loss include financial liabilities held for trading and those designated as at fair value through profit or loss on initial recognition. Financial liabilities designated at fair value through profit or loss are carried at fair value and any gains and losses from changes in fair value are recognised in the consolidated income statement. Other financial liabilities are carried at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in the consolidated income statement over the period of the other financial liabilities using the effective interest method.

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 provided 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 determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

COUPON LIABILITIES

Coupon liabilities are recognised at fair value based on the bonus points granted to customers in accordance with the announced bonus points scheme and the Group's past experience on the level of redemption of coupons.

INTEREST-BEARING LOANS AND BORROWINGS

All loans and borrowings are initially recognised at the fair value of the consideration received net of directly attributable transaction cost.

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

Gains and losses are recognised in the profit or loss when liabilities are derecognised, as well as through the amortisation process.

Notes to Financial Statements

31 December 2005

3. PRINCIPAL ACCOUNTING POLICIES (continued)

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets

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

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

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

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

Financial liabilities

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

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

3. PRINCIPAL ACCOUNTING POLICIES (continued)

CONTINGENT LIABILITIES AND CONTINGENT ASSETS

A contingent liability is a possible obligation that arises from past events. The existence of a contingent liability 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 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. The existence of a contingent asset 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 financial statements when an inflow of economic benefits is probable. When an inflow is virtually certain, an asset is recognised.

Notes to Financial Statements

31 December 2005

4. REVENUES AND OTHER OPERATING REVENUES

REVENUES

Revenues, which is 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 rental income. An analysis of revenues is presented below:

	2005 RMB'000	2004 RMB'000
Sales of goods — direct sales	441,220	292,842
Commissions from concessionaire sales *(note)*	577,474	357,592
Consultancy and management service fees	47,691	47,220
Rental income	65,505	52,384
	1,131,890	750,038

Note:

The commissions from concessionaire sales are analysed as follows:

	2005 RMB'000	2004 RMB'000
Gross revenue from concessionaire sales	2,670,785	1,627,924
Commissions from concessionaire sales	577,474	357,592

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

OTHER OPERATING REVENUES

	Notes	2005 RMB'000	2004 RMB'000
Promotion income		19,260	5,007
Credit card handling fees		18,737	11,469
Equipment leasing income		3,661	1,053
Display space leasing fees		6,135	4,887
Administration fees		6,203	2,699
Service fees		7,260	2,897
Government grants	(i)	4,724	—
Excess over the cost of business combinations	(ii)	3,498	—
Other income		13,290	7,493
		82,768	35,505

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 excess over the cost of business combinations was recognised on the acquisitions of two jointly-controlled entities of the Group as described in note 20(ii) to the financial statements.

5. PROFIT FROM OPERATIONS

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

	2005 RMB'000	2004 RMB'000
Cost of inventories recognised as expenses	363,461	243,686
Staff costs excluding directors' remuneration *(note 7)*:		
Wages, salaries and bonuses	91,983	51,491
Pension costs	10,147	5,512
Social welfare and other costs	15,476	10,556
	117,606	67,559
Depreciation and amortisation	64,055	52,070
Operating lease rentals in respect of leased properties:		
Minimum lease payments	91,973	53,215
Contingent lease payments*	11,929	—
	103,902	53,215
Loss on disposal of items of property, plant and equipment	324	2,340
Auditors' remuneration	3,517	—
Allowance for doubtful debts	1,145	5,526
Gain on disposal of short term listed investments	(1,180)	(1,604)
Gross rental income in respect of:		
Investment properties	(3,432)	(2,520)
Sub-letting of properties:		
Minimum lease payments	(30,371)	(17,957)
Contingent lease payments*	(31,702)	(31,907)
	(62,073)	(49,864)
Total gross rental income	(65,505)	(52,384)
Less: direct operating expenses	3,868	3,590
Net rental income	(61,637)	(48,794)
Excess over the cost of business combinations	(3,498)	—

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

Notes to Financial Statements

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6. FINANCE INCOME

	2005 RMB'000	2004 RMB'000
Interest expenses on bank and other loans, wholly repayable within five years	(4,614)	(1,946)
Interest income	14,828	5,778
Exchange losses	(1,769)	(818)
	8,445	3,014

7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and Section161 of the Hong Kong Companies Ordinance, is as follows:

	2005 RMB'000	2004 RMB'000
Fees	156	—
Other emoluments:		
Salaries, allowances, bonuses and other benefits	2,414	2,160
Pension scheme contributions	86	86
	2,656	2,246

(A) INDEPENDENT NON-EXECUTIVE DIRECTORS

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

	2005 RMB'000	2004 RMB'000
Mr. Fong Ching, Eddy	26	—
Mr. Studer Werner Josef	26	—
Mr. Ko Tak Fai, Desmond	26	—
	78	—

There were no other emoluments payable to the independent non-executive directors for the year ended 31 December 2005 (2004: Nil).

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

(B) EXECUTIVE DIRECTORS AND A NON-EXECUTIVE DIRECTOR

	Fees	Salaries, allowances, bonuses and other benefits	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
2005				
Executive directors:				
Mr. Cheng Yoong Choong	26	—	—	26
Mr. Chew Fook Seng	26	2,414	86	2,526
	52	2,414	86	2,552
Non-executive director:				
Tan Sri Cheng Heng Jem	26	—	—	26
	78	2,414	86	2,578
2004				
Executive directors:				
Mr. Cheng Yoong Choong	—	—	—	—
Mr. Chew Fook Seng	—	2,160	86	2,246
	—	2,160	86	2,246
Non-executive director:				
Tan Sri Cheng Heng Jem	—	—	—	—
	—	2,160	86	2,246

Included in the salaries, allowances, bonuses and other benefits were discretionary bonus of RMB920,000 (2004: RMB888,000) to a director for the year ended 31 December 2005. There was no arrangement under which directors or supervisors waived or agreed to waive any remuneration during the year.

Notes to Financial Statements

31 December 2005

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

(C) FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2004: one) director, details of whose remuneration are set out above. Details of the remuneration of remaining four (2004: four) non-director, highest paid employees for the year are as follows:

	2005 RMB'000	2004 RMB'000
Salaries, allowances, bonuses and other benefits	6,141	6,046
Pension scheme contributions	221	221
	6,362	6,267

Included in the salaries, allowances, bonuses and other benefits were discretionary bonus of RMB2,005,000 (2004: RMB1,780,000) to the remaining four non-director, highest paid employees for the year ended 31 December 2005.

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

	2005	2004
HK$ 1,000,001 to HK$ 1,500,000 (equivalent to RMB1,040,001 to RMB1,560,000)	3	3
HK$ 1,500,001 to HK$ 2,000,000 (equivalent to RMB1,560,001 to RMB2,080,000)	1	1
	4	4

The Company has no other key management personnel (as defined in International Accounting Standards 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 pension schemes operated by the relevant local government authorities in the PRC. The PRC government is responsible for the pension liability to these retired employees. The Group is required to make contributions for those employees who are registered as permanent residents in the PRC and are within the scope of the relevant PRC regulations at rates ranging from 20% to 22.5% of the employees' salaries for the years ended 31 December 2005 and 2004.

The Group's contributions to pension costs for the year ended 31 December 2005 amounted to approximately RMB10,233,000 (2004: RMB5,598,000).

9. INCOME TAX

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

Under the relevant PRC income tax law, except for certain preferential treatment available to certain PRC subsidiaries and jointly-controlled entities of the Group, the PRC companies of the Group are subject to corporate income tax at a rate of 33% on their respective taxable income. For 2004 and 2005, after obtaining approval from the relevant PRC tax authorities, five subsidiaries and three jointly-controlled entities 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:

	2005 RMB'000	2004 RMB'000
Current income tax	130,132	88,364
Deferred income tax	1,704	2,617
	131,836	90,981

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:

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

Notes to Financial Statements

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9. INCOME TAX (continued)

	2004										
							British				
					Cayman		Virgin		Mainland		
	Hong Kong		Singapore		Islands		Islands		China		Total
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000
Profit/(loss) from operations before income tax	(375)		(625)		—		—		253,920		252,920
Income tax at the statutory income tax rate	(66)	17.5	(138)	22	—	Nil	—	Nil	83,794	33	83,590
Tax losses not recognised	66		138		—		—		1,627		1,831
Tax effect of expenses not deductible for tax purposes	—		9		—		—		9,587		9,596
Tax effect of preferential tax rates	—		—		—		—		(4,036)		(4,036)
	—		9		—		—		90,972		90,981

10. EARNINGS PER SHARE

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

The calculation of basic earnings per share for the year ended 31 December 2004 is based on the net profit attributable to equity holders of the parent for the year ended 31 December 2004 of approximately RMB152,771,000 and the assumption that the 441,600,000 shares issued to the parent pursuant to the Reorganisation had been in issue throughout the year ended 31 December 2004.

Diluted earnings per share for the years ended 31 December 2005 and 2004 have not been disclosed because no diluting events existed during the two years.

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Motor vehicles	Equipment and fixtures	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2004, net of accumulated depreciation	283,035	185,785	2,942	91,331	4,560	567,653
Additions	10,520	12,914	1,186	5,982	1,078	31,680
Transfers from construction in progress	—	4,571	—	998	(5,569)	—
Disposals	—	(33)	(160)	(8,391)	—	(8,584)
Depreciation charge for the year	(17,828)	(14,659)	(659)	(14,583)	—	(47,729)
At 31 December 2004 and 1 January 2005, net of accumulated depreciation	275,727	188,578	3,309	75,337	69	543,020
Additions	—	30,745	1,096	11,144	776	43,761
Transfers from construction in progress	—	—	—	66	(66)	—
Acquisitions	3,180	18,350	1,943	31,407	158	55,038
Disposals	—	(383)	(138)	(539)	—	(1,060)
Depreciation charge for the year	(18,043)	(22,885)	(956)	(17,340)	—	(59,224)
At 31 December 2005, net of accumulated depreciation	260,864	214,405	5,254	100,075	937	581,535
At 1 January 2004						
Cost	376,207	266,426	4,649	155,956	4,560	807,798
Accumulated depreciation	(93,172)	(80,641)	(1,707)	(64,625)	—	(240,145)
Net carrying amount	283,035	185,785	2,942	91,331	4,560	567,653
At 31 December 2004 and 1 January 2005						
Cost	386,727	283,878	5,525	147,391	69	823,590
Accumulated depreciation	(111,000)	(95,300)	(2,216)	(72,054)	—	(280,570)
Net carrying amount	275,727	188,578	3,309	75,337	69	543,020
At 31 December 2005						
Cost	389,907	352,691	8,570	199,848	937	951,953
Accumulated depreciation	(129,043)	(138,286)	(3,316)	(99,773)	—	(370,418)
Net carrying amount	260,864	214,405	5,254	100,075	937	581,535

Notes:

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

(ii) Certain of the buildings of the Group and Parkson Retail Development Co., Ltd. ("Beijing Parkson"), a jointly-controlled entity of the Group, in Xi'an and Beijing, the PRC, were pledged as security for bank loans of the Group, and Beijing Parkson at 31 December 2005. The aggregate carrying value of the pledged buildings attributable to the Group as at 31 December 2005 amounted to RMB63,643,000 (2004: RMB68,146,000).

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31 December 2005

12. INTANGIBLE ASSETS

The movement of intangible assets is as follows:

	Notes	Goodwill RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2004,				
net of accumulated amortisation		—	—	—
Additions		—	3,277	3,277
Amortisation provided for the year		—	(165)	(165)
At 31 December 2004				
and 1 January 2005,				
net of accumulated amortisation		—	3,112	3,112
Business combinations and acquisitions				
of jointly-controlled entities	(i)	16,966	—	16,966
Acquisition of minority interests	(ii)	62,768	—	62,768
Amortisation provided for the year	(iii)	—	(655)	(655)
At 31 December 2005,				
net of accumulated amortisation		79,734	2,457	82,191
At 1 January 2004				
Cost		—	—	—
Accumulated amortisation		—	—	—
Net carrying amount		—	—	—
At 31 December 2004 and 1 January 2005				
Net carrying amount				
Cost		—	3,277	3,277
Accumulated amortisation		—	(165)	(165)
Net carrying amount		—	3,112	3,112
At 31 December 2005				
Cost		79,734	3,277	83,011
Accumulated amortisation		—	(820)	(820)
Net carrying amount		79,734	2,457	82,191

12. INTANGIBLE ASSETS (continued)

Notes:

(i) The carrying amount of goodwill arising from business combinations and acquisitions of jointly-controlled entities represented the aggregate balance of goodwill of RMB16,966,000 recognised on the acquisition of Xi'an Parkson Shopping Centre Co., Ltd. of RMB4,292,000 (note 20 (i)), Chongqing Wanyou Store Plaza Co., Ltd., Beijing Shopping Centre and Shanxi Zhongyue Parkson Commercial & Trading Co., Ltd of RMB12,674,000 (note 20 (iii)).

(ii) The carrying amount of goodwill from the acquisitions of minority interests represented the aggregate balance of goodwill recognised on the acquisition of Beijing Century Parkson E-business Co., Ltd. ("Century Parkson") of RMB9,343,000 and Xi'an Lucky King Parkson Plaza Co., Ltd. ("Xi'an Lucky Parkson") of RMB53,425,000.

On 1 January 2005, the Group acquired, from a minority equity holder, an additional 49% equity interest in Century Parkson, a subsidiary of the Group, for a cash consideration of RMB9,800,000. The excess of the consideration over the carrying value of the net assets acquired by the Group of RMB9,343,000 was recognised as goodwill. Century Parkson became a 100% owned subsidiary of the Group thereafter.

On 1 October 2005, the Group acquired, from a minority equity holder, an additional 40% equity interest in Xi'an Lucky Parkson, a subsidiary of the Group, for a cash consideration of RMB65,000,000. The excess of the consideration over the carrying value of the net assets acquired by the Group of RMB53,425,000 was recognised as goodwill. Xi'an Lucky Parkson became a 91% owned subsidiary of the Group thereafter.

(iii) Computer software is stated in the consolidated balance sheet at cost less accumulated amortisation and impairment losses. Amortisation of computer software is charged to expenses on the straight-line basis over its estimated useful life of five years.

Impairment testing of goodwill

Goodwill acquired has been allocated to the cash-generating units, including Xi'an Lucky Parkson, Beijing Parkson, Chongqing Wanyou Parkson Plaza Co., Ltd, Shanghai Lion Parkson Investment Consultant Co., Ltd. and Hong Kong Fen Chai Investment Limited of RMB4,292,000, RMB9,962,000, RMB2,712,000, RMB9,343,000 and RMB53,425,000, respectively.

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 based on financial budgets as approved by the senior management which cover a period of one year. The discount rate applied to the cash flow projections beyond the one-year period is 5.0%. No growth has been projected beyond the one-year period.

Key assumptions used in the value in use calculation

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

Store revenue — the bases used to determine the future earning potential are historical sales and average and expected growth rate of the retail market in the PRC.

Operating expenses — the bases used to determine the values assigned are cost of inventories purchased for resale, staff costs, depreciation and amortisation, rental expenses and other operating expenses. Value assigned to the key assumption reflects past experience and management commitment to maintain its operating expenses to an acceptable level.

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13. LEASE PREPAYMENTS

Lease prepayments represented land use rights paid to the PRC governmental authorities and are amortised on the straight-line basis over their respective lease periods.

Certain of the lease prepayments of Beijing Parkson in Beijing, the PRC, were pledged as security for bank loans of Beijing Parkson as at 31 December 2005. The aggregate carrying value of the pledged lease prepayments attributable to the Group amounted to RMB9,721,000 as at 31 December 2005 (31 December 2004: RMB8,359,000).

14. INVESTMENT PROPERTIES

	Building RMB'000
At 1 January 2004, net of accumulated depreciation	20,058
Depreciation	(1,332)
At 31 December 2004, net of accumulated depreciation	18,726
Depreciation	(1,332)
At 31 December 2005, net of accumulated depreciation	17,394
At 31 December 2004	
Cost	29,600
Accumulated depreciation	(10,874)
Net carrying amount	18,726
Fair value at 31December 2004	137,995
At 31 December 2005	
Cost	29,600
Accumulated depreciation	(12,206)
Net carrying amount	17,394
Fair value at 31 December 2005	**95,477**

Certain of the investment properties of Beijing Parkson in Beijing, the PRC, were pledged as security for bank loans of Beijing Parkson. The aggregate carrying value of the pledged investment properties attributable to the Group amounted to RMB5,215,000 as at 31 December 2005 (31 December 2004: RMB17,349,000).

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

15. INTERESTS IN SUBSIDIARIES

Company

	2005 RMB'000
Unlisted shares, at cost	579,041
Due to subsidiaries	(3,320)
	575,721

The amount due to subsidiaries is unsecured, interest free and has no fixed terms of repayment.

Details of the Company's subsidiaries at 31 December 2005 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/ Hong Kong	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

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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
Hong Kong Fen Chai Investment Limited - 香港豐采投資有限公司	Hong Kong	HK$1	—	100	Investment holding
Shanghai Lion Parkson Investment Consultant Co., Ltd.* - 上海獅貿投資咨詢有限公司	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	Operations of department stores
Shanghai Hongqiao Parkson Development Co., Ltd.* - 上海虹橋百盛商貿有限公司	The PRC	RMB5,000,000	—	100	Operations 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	Operations of department stores
Xi'an Lucky King Parkson Plaza Co., Ltd.*** - 西安立豐百盛廣場有限公司	The PRC	RMB32,500,000	—	91	Operations of department stores
Beijing Century Parkson E-business Co., Ltd.* - 北京世紀百盛電子商務有限公司	The PRC	RMB600,000	—	100	Research and development of computer software

15. INTERESTS IN SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration and operations	Paid-up capital	Percentage of equity interest attributable to the Company Direct %	Indirect %	Principal activities
Chongqing Wanyou Parkson Plaza Co., Ltd.*** - 重慶萬友百盛廣場有限公司	The PRC	RMB 30,000,000	—	70	Operations of department stores
Mianyang Fulin Parkson Plaza Co., Ltd.*** - 綿陽富臨百盛廣場有限公司	The PRC	RMB 30,000,000	—	60	Operations 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	RMB 2,183,284	—	100	Operations of department stores
Hefei Parkson Xiaoyao Plaza Co., Ltd.* - 合肥百盛逍遙廣場有限公司	The PRC	RMB 8,000,000	—	100	Operations of department stores
Anshan Tianxing Parkson Shopping Centre Co., Ltd.**** - 鞍山天興百盛購物中心有限公司	The PRC	RMB 10,000,000	—	51	Operations of department stores
Guizhou Shenqi Parkson Retail Development Co., Ltd.*** - 貴州神奇百盛商業發展有限公司	The PRC	RMB 10,000,000	—	60	Operations of department stores

None of the Company's subsidiaries are audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

* *registered as a wholly-foreign-owned enterprise under PRC Law*
** *registered as a sino-foreign cooperative joint venture enterprise under PRC Law*
*** *registered as a sino-foreign equity joint venture enterprise under PRC Law*
**** *registered as a limited liability company under PRC Law*

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16. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

Particulars of the jointly-controlled entities are as follows:

Company name	Place of registration	Percentage of equity interest attributable to the Group 2004 %	2005 %	Principal activities
Yangzhou Parkson Plaza Co., Ltd. * - 揚州百盛商業大廈有限公司	The PRC	55	55	Operations of department stores
Parkson Retail Development Co., Ltd.* - 百盛商業發展有限公司	The PRC	56	56	Operations of department stores
Xinjiang Youhao Parkson Development Co., Ltd. - 新疆友好百盛商業發展有限公司	The PRC	29	29	Operations of department stores
Xi'an Chang'an Parkson Store Co., Ltd.* - 西安長安百盛百貨廣場有限公司	The PRC	—	51	Operations of department stores
Xi'an Shidai Parkson Store Co., Ltd.* - 西安時代百盛百貨廣場有限公司	The PRC	—	51	Operations of department stores

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

16. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

As at 31 December 2005, the Group's proportionate share of the assets, liabilities, revenues and expenses of the jointly-controlled entities is as follows:

	2005 RMB'000	2004 RMB'000
Current assets	301,135	137,288
Non-current assets	346,508	267,664
	647,643	404,952
Current liabilities	(432,288)	(300,537)
Non-current liabilities	(88,892)	(4,797)
Net assets	126,463	99,618
Revenues	370,504	283,474
Purchases of goods and changes in inventories	(122,666)	(104,067)
Operating expenses	(134,692)	(110,472)
Finance income/(costs)	(1,356)	1,214
Profit before tax	111,790	70,149
Tax	(37,468)	(26,014)
Net profit	74,322	44,135

17. INVESTMENT IN AN ASSOCIATE

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

Particulars of the associate are as follows:

Company name	Particulars of paid-up 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	USD165,000	The PRC	35	Property management and real estate consulting services

	2005 RMB'000	2004 RMB'000
Share of net assets of an associate	2,120	1,548

Notes to Financial Statement

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17. INVESTMENT IN AN ASSOCIATE (continued)

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

	2005 RMB'000	2004 RMB'000
Total assets	10,462	8,531
Total liabilities	4,405	4,108
Net assets	6,057	4,423
Revenue	31,499	29,479
Profit before income tax	2,366	2,096
Income tax	(876)	(814)
Net profit	1,490	1,282
Share of tax attributable to an associate	307	285
Share of profit from an associate	522	449

18. OTHER FINANCIAL ASSETS

	Notes	2005 RMB'000	2004 RMB'000
Guarantee deposits	(i)	10,000	—
Deferred rental expenses	(ii)	62,629	—
		72,629	—

Notes:

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

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

19. DEFERRED INCOME TAX ASSETS AND LIABILITIES

	Balance at 1 January 2004 RMB'000	Recognised in the consolidated income statement RMB'000	Acquisitions RMB'000	Balance at 31 December 2004 RMB'000
Deferred income tax assets:				
Depreciation	4,424	(221)	—	4,203
Accrued rental expenses	8,446	673	—	9,119
Accrued coupon provision	4,633	2,222	—	6,855
	17,503	2,674	—	20,177
Deferred income tax liability:				
Depreciation	(35,714)	(5,291)	—	(41,005)
	(18,211)	(2,617)	—	(20,828)

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

The Group has unprovided deferred income tax assets attributable to bad debt provisions amounting to RMB3,859,000 as at 31 December 2005 (31 December 2004: RMB3,705,000).

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20. ACQUISITIONS

(i) Acquisition of a department store operation from Xi'an Parkson Shopping Centre Co., Ltd.

In January 2005, the Group entered into a sale and purchase agreement with Xi'an Parkson Shopping Centre Co., Ltd. ("Xi'an Parkson Shopping Centre"), an unrelated third party, to acquire the business and relevant assets and liabilities of a department store in Xi'an for a cash consideration of RMB1. This acquisition was accounted for under the purchase method and the excess of the consideration over the fair value of the net liabilities acquired by the Group of RMB4,292,000 was recognised as goodwill (note 12(i)).

The fair value of the acquired identifiable assets and liabilities at the date of acquisition is:

	Fair value recognised on acquisition RMB'000	Carrying value RMB'000
Property, plant and equipment	7,971	8,286
Inventories	4,118	4,118
Prepayments, deposits and other receivables	69,642	71,515
	81,731	83,919
Interest-bearing loans and borrowings	(40,000)	(40,000)
Trade payables	(33,194)	(33,194)
Customers' deposits, other payables and accruals	(12,829)	(10,725)
	(86,023)	(83,919)
Fair value of net liabilities	(4,292)	
Goodwill arising on acquisition *(note 12(i))*	4,292	
Consideration	—	

20. ACQUISITIONS (continued)

(ii) Acquisitions of Xi'an Chang'an Parkson Store Co., Ltd. ("Xi'an Chang'an Parkson") and Xi'an Shidai Parkson Store Co., Ltd. ("Xi'an Shidai Parkson").

In May 2005, the Group entered into sale and purchase agreements with Xi'an Parkson Shopping Centre to acquire 51% equity interests in each of Xi'an Chang'an Parkson and Xi'an Shidai Parkson for a total cash consideration of RMB 12,750,000. These acquisitions were accounted for under the purchase method and the excess of the fair value of the net assets acquired by the Group over the cash consideration of RMB3,498,000 was recognised as excess over the cost of business combinations and credited to the consolidated income statement (note 4(ii)) for the year ended 31 December 2005.

The fair value of the identifiable assets and liabilities at the date of acquisitions is:

	Fair value recognised on acquisition RMB'000	Carrying value RMB'000
Property, plant and equipment	7,326	7,326
Deferred tax assets	359	359
Inventories	2,089	2,089
Prepayments, deposits and other receivables	6,097	6,097
Cash and cash equivalents	19,517	19,517
	35,388	35,388
Trade payables	(10,788)	(10,788)
Customers' deposits, other payables and accruals	(8,352)	(8,352)
	(19,140)	(19,140)
Fair value of net assets	16,248	16,248
Excess over the cost of business combinations *(note 4(ii))*	(3,498)	
Consideration	12,750	

The cash inflow on the acquisitions is as follows:

	RMB'000
Net cash acquired with the jointly controlled entities	19,517
Cash paid	(12,750)
Net cash inflow	6,767

Xi'an Chang'an Parkson and Xi'an Shidai Parkson are accounted for by the Group as jointly-controlled entities since the date of the acquisitions.

Notes to Financial Statement

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20. ACQUISITIONS (continued)

(iii) Acquisitions of Chongqing Wanyou Store Plaza Co., Ltd. ("Chongqing Wanyou Plaza"), Beijing Shopping Centre and Shanxi Zhongyue Parkson Commercial & Trading Co., Ltd. ("Shanxi Zhongyue").

In August 2005, the Group entered into sale and purchase agreements with each of Chongqing Wanyou Plaza, Beijing Shopping Centre and Shanxi Zhongyue, unrelated third party vendors, to acquire the underlying department store businesses and the relevant assets and liabilities for cash considerations of RMB1, RMB1 and RMB10,000,000 (RMB5,600,000 attributable to the Group), respectively. These acquisitions were accounted for under the purchase method and the excess of the consideration over the fair value of the net liabilities acquired by the Group of RMB12,674,000 was recognised as goodwill (note 12(i)).

The fair value of the identifiable assets and liabilities at the date of acquisitions is:

	Fair value recognised on acquisition RMB'000	Carrying value RMB'000
Property, plant and equipment	10,975	12,197
Deferred tax assets	4,504	4,504
Inventories	8,310	8,310
Prepayments, deposits and other receivables	17,979	17,979
Cash and cash equivalents	35,770	35,770
	77,538	78,760
Trade payables	(35,922)	(35,922)
Customers' deposits, other payables and accruals	(37,676)	(37,676)
Tax payable	(800)	(800)
Long term payables	(10,214)	(10,214)
	(84,612)	(84,612)
Fair value of net liabilities	(7,074)	(5,852)
Goodwill arising on the acquisitions *(note 12(i))*	12,674	
Consideration	5,600	

The cash inflow on the acquisitions is as follows:	RMB'000
Net cash acquired with the businesses	35,770
Cash paid	(5,600)
Net cash inflow	30,170

20. ACQUISITIONS (continued)

Since the date of the acquisitions, the acquired entities together with the Step Summit Group (as defined in note 1 to the financial statements) have contributed RMB41,852,000 to the net profit of the Group. If the aforesaid transactions had taken place at the beginning of 2005, the net profit attributable to the equity holders of the Company would have been RMB290,715,000 and total operating revenues would have been RMB1,637,523,000.

21. INVENTORIES

	2005 RMB'000	2004 RMB'000
Merchandise, at cost	71,287	32,855
Consumables, at cost	9,651	4,097
	80,938	36,952

22. TRADE RECEIVABLES

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

An aged analysis of the trade receivables is as follows:

	2005 RMB'000	2004 RMB'000
Within 3 months	6,815	12,715
3 to 12 months	9,876	11,205
Over 1 year	2,845	1,751
	19,536	25,671
Less: Allowance for doubtful debts	(2,799)	(1,751)
	16,737	23,920

Included in the balances were trade receivables from jointly-controlled entities of RMB1,828,000 as at 31 December 2005 (31 December 2004: RMB8,983,000). The balances were unsecured and interest free.

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23. INVESTMENTS

	Notes	2005 RMB'000	2004 RMB'000
Government bond securities, listed	(i)	1,842	3,720
Designated investments	(ii)	—	72,986
		1,842	76,706

Notes:

(i) Government bond securities are held for trading financial assets.

(ii) Designated investments represented the Group's investments in the PRC government bond securities through China International Capital Corporation Limited. The balance as at 31 December 2004 was fully recovered by the Group during 2005.

The fair value of the investments were determined with reference to published price quotation.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	2005 RMB'000	2004 RMB'000
Deposits		15,426	11,322
Prepayments		10,534	2,077
Advances to suppliers		18,398	8,525
Receivables from jointly-controlled entities		27,768	38,140
Receivables from joint venture partners		1,620	20,124
Receivables from minority equity holders		84,276	33,843
Other receivables	(i)	75,587	161,863
		233,609	275,894
Less: Allowance for doubtful debts	(ii)	(359)	(16,752)
		233,250	259,142

Notes:

(i) Included in the other receivables was a designated loan amounting to RMB14,900,000 as at 31 December 2005 (31 December 2004: RMB57,400,000) to a landlord of the Group. The designated loan bears interest at a rate of 5.8% (2004: ranging from 4.9% to 6.0%) per annum and will mature within one year, and is guaranteed by a third party landlord and is secured the Group's right to off-set the outstanding designated loan balance against future rental payments to the borrower.

(ii) During the year ended 31 December 2005, the Group wrote off the other receivables and the corresponding allowance for doubtful debts amounting to RMB16,490,000 because of the liquidation of the counter parties.

25. DUE FROM RELATED PARTIES

	2005 RMB'000	2004 RMB'000
Due from fellow subsidiaries	—	7,497
Due from ultimate holding company	—	77,672
	—	85,169

The balances as at 31 December 2004 were unsecured and interest free. The balances were fully settled in 2005.

26. CASH AND CASH EQUIVALENTS

Group

	2005 RMB'000	2004 RMB'000
Short-term deposits	1,107,062	—
Cash and bank balances	973,345	408,522
Cash and cash equivalents	2,080,407	408,522

Cash and cash equivalents of the Group aggregating RMB 998,677,000 as at 31 December 2005 (2004: RMB401,726,000) were denominated in Renminbi, which is not freely convertible in the international market. The remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

Company

	2005 RMB'000
Short-term deposits	1,079,062
Cash and bank balances	850
Cash and cash equivalents	1,079,912

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

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31 December 2005

27. INTEREST-BEARING LOANS AND BORROWINGS

	2005 RMB'000	2004 RMB'000
Bank loans, secured	234,302	16,800
Other loans:		
Secured	—	31,634
Unsecured	—	12,000
	—	43,634
Bank loans repayable:		
Within one year or on demand	154,856	16,800
In the second year	19,512	—
In the third to fifth years	59,934	—
	234,302	16,800
Other loans repayable:		
Within one year or on demand	—	43,634
Total bank and other loans	234,302	60,434
Less: Portion classified as current liabilities	(154,856)	(60,434)
Long term portion	79,446	—

At 31 December 2005, bank loans of approximately RMB211,902,000 were secured by pledges of the attributable amounts of the buildings of RMB63,643,000, lease prepayments of RMB9,721,000 and investment properties of RMB5,215,000 of the Group and Beijing Parkson, and buildings of a minority equity holder (31 December 2004: Nil). In addition, bank loans of approximately RMB 22,400,000 were guaranteed by a joint venture partner of the Group (31 December 2004: RMB16,800,000).

The annual interest rates of the short-term bank loans during the year varied from 5.6% to 6.2% (2004: 4.5% to 6.4%). The annual interest rate of the long term bank loans during the year was 5.9% (2004: Nil). As at 31 December 2005 and 2004, the Group's interest-bearing bank loans were denominated in Renminbi.

The other loans at 31 December 2004 represented the amounts due to Serbadagang Holdings Sdn. Bhd. ("Serbadagang"), a fellow subsidiary of the Company, which bore interest at 5% per annum and were fully repaid by the Group on 9 March 2005.

28. TRADE PAYABLES

An aged analysis of the trade payables is as follows:

	2005 RMB'000	2004 RMB'000
Within 3 months	554,896	242,069
3 to 12 months	9,947	503
Over 1 year	4,160	2,932
	569,003	245,504

29. CUSTOMERS' DEPOSITS, OTHER PAYABLES AND ACCRUALS

	2005 RMB'000	2004 RMB'000
Customers' deposits	24,229	8,333
Payables to joint venture partners	13,139	24,605
Provision for coupon liabilities*	44,434	21,198
Accrued wages and salaries	55,141	28,736
Other payables and accruals	218,505	180,428
	355,448	263,300

* A reconciliation in balance of provision for coupon liabilities is as follow:

	RMB'000
At 31 December 2004 and 1 January 2005	21,198
Business combinations and acquisitions of jointly-controlled entities	3,980
Acquisition of Step Summit Group (note 1)	12,417
Arising during the year	26,198
Utilised	(15,919)
Unused amounts reversed	(3,440)
At 31 December 2005	44,434

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

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30. DUE TO RELATED PARTIES

	2005 RMB'000	2004 RMB'000
Due to fellow subsidiaries	—	34,821
Due to the ultimate holding company	—	42,611
	—	77,432

The balances as at 31 December 2004 were unsecured and interest free. The balances were fully settled in 2005.

31. LONG TERM PAYABLES

The long term payables represented the long term portion of accrued rental expenses and are stated at amortised cost.

32. CONTINGENT LIABILITIES

On 17 February 2005, Beijing Parkson, a jointly-controlled entity of the Group, entered into an agreement to provide a corporate guarantee of RMB20 million (RMB11.2 million attributable to the Group) in favour of a bank in the PRC in respect of a bank loan to China Arts & Crafts (Group) Company.

Save as disclosed above, the Group did not have any significant contingent liabilities as at 31 December 2005.

33. COMMITMENTS

(i) Operating lease commitments

Operating lease commitments — Group as leasee

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

The Group had the following future minimum rentals payable under non-cancellable operating leases:

	2005 RMB'000	2004 RMB'000
Within one year	115,166	68,348
In the second to fifth years, inclusive	477,496	347,525
After five years	1,322,877	1,277,389
	1,915,539	1,693,262

Operating lease commitments — Group as lessor

The Group leases out certain of its properties under operating leases. These leases have remaining non-cancellable lease terms of 5 to 10 years. The annual contingent rental amount is calculated on a percentage of the respective store's turnover.

The Group had the following future minimum rentals receivable under non-cancellable operating leases:

	2005 RMB'000	2004 RMB'000
Within one year	26,721	23,545
In the second to fifth years, inclusive	84,172	39,959
After five years	18,356	21,329
	129,249	84,833

(ii) The Group did not have any significant capital commitments at the end of 31 December 2005 and 2004.

Notes to Financial Statement

31 December 2005

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

The financial instruments of the Group mainly consist of cash and cash equivalents, other financial assets, prepayments, deposits and other receivables, trade receivables, trade payables, customers' deposits, other payables, bank loans and long term payables.

The carrying amounts of the Group's financial instruments were stated approximately at their fair value as at 31 December 2005.

Fair value estimates are made at a specific point in time and based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

35. RELATED PARTY TRANSACTIONS

In addition to such transactions and balances which are disclosed in note 27 to the financial statements, the Group had the following significant transactions with related parties:

Continuing transactions:

	Notes	2005 RMB'000	2004 RMB'000
Royalty fee expenses	(i)	2,421	2,483
Consultancy fee income	(ii)	3,423	11,430
Property management fee expenses	(iii)	9,293	9,293

Notes:

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

(ii) Consultancy fee income is received from the jointly-controlled entities of the Group of RMB2,576,000 (2004: RMB10,506,000) and Qingdao No.1 Parkson Co., Ltd, a fellow subsidiary of the Company, of RMB847,000 (2004: RMB924,000). The consultancy fee income charged is in accordance with the underlying contracts.

(iii) 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 RMB 9,293,000 per annum was charged according to the underlying contracts.

35. RELATED PARTY TRANSACTIONS (continued)

Discontinued transactions:

	Note	2005 RMB'000	2004 RMB'000
Interest expenses	(i)	408	1,678

Note:

(i) Interest expenses were payable on the balance due to Serbadagang, which was fully repaid on 9 March 2005.

36. CONCENTRATION OF RISKS

The Group is exposed to credit risk, interest rate risk and foreign currency risk, as further explained below.

(I) CREDIT RISK

The Group's cash and cash equivalents of RMB998,677,000 are deposited with banks in the PRC.

The Group has credit policies in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The carrying amount of cash at bank balances, other financial assets, trade receivables, prepayments, deposits and other receivables included in the financial statements represent the Group's maximum exposure to the credit risk attributable to its financial assets. The Group has no other significant concentrations of credit risk attributable to the financial instruments.

(II) INTEREST RATE RISK

The Group has no loans except for the bank and other loans disclosed in note 27 to the financial statements and, as a result, it has no significant interest rate risk.

(III) FOREIGN CURRENCY RISK

The Group's businesses are principally conducted in Renminbi which cannot be freely exchanged into foreign currencies. As at 31 December 2005, a substantial majority amount of the Group's assets and liabilities were denominated in Renminbi.

Notes to Financial Statement

31 December 2005

37. SHARE CAPITAL

	Notes	Number of ordinary shares	Nominal value	
		'000	HK$'000	RMB'000
Authorised:				
At incorporation on 3 August 2005	(i)	3,900	390	406
Increase in authorised capital	(ii)	1,496,100	149,610	155,594
		1,500,000	150,000	156,000
Issued and fully paid:				
At incorporation on 3 August 2005	(i)	—	—	—
Shares issued for Reorganisation	(iii)	80,100	8,010	8,335
Share capitalisation	(iv)	361,500	36,150	37,614
New issue on public listing	(v)	110,400	11,040	11,487
		552,000	55,200	57,436

Notes:

(i) The Company was incorporated on 3 August 2005 with an authorised share capital of HK$390,000 divided into 3,900,000 ordinary shares of HK$0.10 each. One share was allotted and issued at par to the initial subscriber of the Company, and this share was subsequently transferred to PRG Corporation Limited ("PRG Corporation"), a wholly-owned subsidiary of LDHB, on 11 August 2005.

(ii) Pursuant to written resolutions of the then sole shareholder of the Company passed on 9 November 2005, the authorised share capital of the Company was increased from HK$390,000 to HK$150,000,000 by creation of an additional 1,496,100,000 ordinary shares of HK$0.10 each ranking pari passu in all respects with the existing shares.

(iii) On 17 November 2005, as part of the Reorganisation, the Company issued 80,100,000 ordinary shares of HK$0.10 each to PRG Corporation as a share swap transaction to acquire the Relevant Companies as mentioned in note 1 to these financial statements. After the share swap transaction, PRG Corporation became the parent company of the Company. 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 was accounted for as the contributed surplus of the Group (note 38A (ii)).

(iv) As part of the Reorganisation, the Company issued 361,500,000 ordinary shares of HK$0.10 each to its parent pursuant to the resolution passed on 9 November 2005. The issued share capital of RMB37,614,000 was capitalised from the share premium arising from the Company's public offering.

(v) On 30 November 2005, 110,400,000 ordinary shares of HK$0.10 each were issued to the public at HK$9.80 each for a total cash consideration of HK$1,081,920,000 (equivalent to RMB1,125,738,000).

38. RESERVES

(A) Group

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

(i) *PRC reserve funds*

Pursuant to the relevant PRC laws and regulations, Sino-foreign jointly-controlled entities 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 GAAP, to the reserve fund, the enterprise expansion fund and the employee bonus and welfare fund. These funds are restricted as to use.

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

In accordance with the relevant PRC laws and regulations, PRC domestic companies are required to transfer 10% of their profits 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 accumulated losses, if any. PRC domestic companies are required to transfer 5% to 10% of net profit, as determined under PRC accounting regulations, to the statutory common welfare fund. This fund can only be used to provide staff welfare facilities and other collective benefits to the employees of that company. This fund is non-distributable other than in the event of liquidation.

(ii) *Contributed surplus*

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

(iii) *Contribution from the owner*

Contribution from the owner in 2005 represented the aggregate amount of net assets contributed from LDHB to the Group pursuant to the Reorganisation. Net cash outflow of approximately RMB4,139,000 was resulted from the transaction.

Contribution from the owner in 2004 represented the aggregate amount of the contributed capital in respect of the formation of the subsidiaries and jointly-controlled entities of the Group.

Notes to Financial Statement

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38. RESERVES (continued)

(A) Group (continued)

(iv) Equity transactions with the owner

Equity transactions with the owner represented the acquisition of the Step Summit Group from LDHB as described in note 1 to these financial statements.

(v) Appropriation to owners

The Company was incorporated on 3 August 2005 and no dividend has been paid or declared by the Company during the period from 3 August 2005 to 31 December 2005.

Appropriation to owners during the years ended 31 December 2005 and 2004 represented the profit appropriation made by certain of the Company's subsidiaries or jointly-controlled entities.

(B) Company

	Notes	Share premium RMB'000	Contributed surplus RMB'000 note (i)	Retained earnings RMB'000 note (ii)	Total RMB'000
Net loss for the period		—	—	(8,380)	(8,380)
Issuance of shares for Reorganisation	37(iii)	—	570,706	—	570,706
Issuance of shares upon public listing	37(v)	1,114,251	—	—	1,114,251
Share premium transfer to share capital	37(iv)	(37,614)	—	—	(37,614)
Share issue expenses		(51,673)	—	—	(51,673)
At 31 December 2005		1,024,964	570,706	(8,380)	1,587,290

(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) Net loss from ordinary activities

The net loss from ordinary activities for the year ended 31 December 2005 dealt with in the financial statements of the Company, was RMB8,380,000 (2004: Nil).

39. DIVIDEND

	2005 RMB'000	2004 RMB'000
Proposed final dividend - RMB 0.26 per share	143,520	—

The proposed final dividend for the year (not recognised as a liability as at 31 December 2005) is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

40. ULTIMATE HOLDING COMPANY

The directors consider Lion Diversified Holdings Berhad, a company incorporated in Malaysia, to be the ultimate holding company.

41. SUBSEQUENT EVENTS

On 23 January 2006, the Group and China Arts & Crafts (Group) Company ("China Arts & Crafts") entered into a conditional sale and purchase agreement (the "Agreement") under which China Arts & Crafts agreed to transfer its 44% equity interest in Beijing Parkson subject to the approval from the relevant government authorities in the PRC. The Group agreed to pay China Arts & Crafts a refundable deposit of RMB110 million (the "Deposit"). The Deposit was secured by a share pledge, a withholding of dividends and other arrangements as prescribed in the Agreement. In the event the Group fails in its bid for the 44% equity interest and/or the necessary PRC approvals are not obtained, the Deposit will be refunded to the Group.

As at the date of this report, a refundable deposit of RMB50,000,000 was paid by the Group. The minimum consideration for the 44% equity interest has not yet been determined and remains subject to the valuation process to be carried out by a valuer appointed by the China Arts & Crafts and to be approved by the relevant governmental authorities in accordance with the PRC laws and regulations.

Save as disclosed above, the Group did not have any significant subsequent events taken place subsequent to 31 December 2005.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 February 2006.