

# 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 discretion 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.

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## 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% <sup>1</sup>

*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. <sup>D</sup>	99.99%	0.01% <sup>A</sup>
Likom CMS Sdn. Bhd.	99.98%	0.02% <sup>B</sup>
LDH Investment Pte. Ltd.	60%	40% <sup>C</sup>

*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.

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## (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<sup>1</sup> (through Amsteel Corporation Berhad) in 55.35% of the RCULS;
- corporate interest<sup>2</sup> (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<sup>3</sup> (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 ( <i>Note 2</i> )	65.50%
Tan Sri Cheng Heng Jem	Corporate interest	361,560,000 ( <i>Note 3</i> )	65.50%
Puan Sri Chan Chau Ha alias Chan Chow Har ( <i>Note 4</i> )	Interest of spouse	361,560,000	65.50%
Lion Development (Penang) Sdn. Bhd.	Corporate interest	361,560,000 ( <i>Note 5</i> )	65.50%
Pangkor Investments (Cayman Islands) Limited	Beneficial interest	54,648,000	9.9%
Khazanah Nasional Berhad	Corporate interest	54,648,000 ( <i>Note 6</i> )	9.9%

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## Notes:

- All of the above are long positions.
- 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.
- 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.
- 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.
- 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.
- 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 <sup>1</sup>	Beijing Parkson	44%
Xinjiang Youhao <sup>2</sup>	Xinjiang Parkson	49%
Wuxi Distribution <sup>3</sup>	Wuxi Parkson	40%
Yangzhou Commercial <sup>4</sup>	Yangzhou Parkson	45%
Shannxi Chang'an Information <sup>5</sup>	Xi'an Chang'an parkson	49%
Xi'an Xinrun <sup>6</sup>	Xi'an Shidai Parkson	49%
Sichuan Fulin <sup>7</sup>	Mianyang Parkson	40%
Chongqing Wanyou <sup>8</sup>	Chongqing Parkson	30%
Guizhou Shengqi Enterprise <sup>9</sup>	Guizhou Parkson	40%
Anshan Tianxing <sup>10</sup>	Anshan Parkson	49%
Shanghai Nine Sea Industry <sup>11</sup>	Shanghai Lion Property	71% <sup>12</sup>
Shanghai Nine Sea Industry	Shanghai Nine Sea Parkson	29% <sup>12</sup>

## Notes:

- 中國工藝美術（集團）公司 (China Arts & Crafts (Group) Company), owns 44% of the equity interest of Beijing Parkson.
- 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.
- 無錫市供銷合作總社 (Wuxi Distribution Corporation), owns 40% of the equity interest of Wuxi Parkson.
- 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 香港寶明有限公司 (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.



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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:

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

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## 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:

<b>Members of the Lion Group</b>	<b>Date of the management consultancy agreement</b>
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