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.

Notes to Financial Statements

31 December 2005

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

31 December 2005

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.

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.

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3. PRINCIPAL ACCOUNTING POLICIES (continued)

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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.

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.

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.

Notes to Financial Statements

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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.*

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).

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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.

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).

Notes to Financial Statements

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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

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.

Notes to Financial Statement

31 December 2005

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).

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

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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.

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.

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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

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

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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
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*

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 %	Percentage of equity interest attributable to the Group 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.*

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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

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.

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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).

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	—	

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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.

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

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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.

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.

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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.

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.

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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.

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.

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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.

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.

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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.

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).

Notes to Financial Statement

31 December 2005

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.

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).

Notes to Financial Statement

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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.