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# Directors' Report

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

## GROUP REORGANISATION

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

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

## PRINCIPAL ACTIVITIES

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

## RESULTS AND APPROPRIATIONS

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

## FIXED ASSETS

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

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## PROPOSED FINAL DIVIDEND

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

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

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

## SHARE CAPITAL

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

## DIRECTORS

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

### Executive Directors

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

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## NON-EXECUTIVE DIRECTOR

Tan Sri CHENG Heng Jem ( Chairman )

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Fong Ching, Eddy ( resigned on 20 October 2006 )

STUDER Werner Josef

KO Tak Fai, Desmond

YAU Ming Kim, Robert ( appointed on 1 January 2007 )

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

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

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

## DIRECTORS' SERVICE CONTRACTS

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

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

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

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

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

## COMPETING BUSINESS INTERESTS OF DIRECTORS

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

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# Directors' Report

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

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

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

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

### Note:

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

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

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

**Note:**

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

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

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

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

## Notes:

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

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

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

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

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

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

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

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

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

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

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



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

## Notes:

1. All of the above are long positions.
2. PRG Corporation is a wholly-owned subsidiary of LDHB. By virtue of the SFO, LDHB is deemed to be interested in the Shares held by PRG Corporation in the Company.
3. Puan Sri Chan Chau Ha alias Chan Chow Har is the wife of Tan Sri Cheng Heng Jem and is deemed to be interested in 306,360,000 Shares which Tan Sri Cheng Heng Jem is deemed to be interested in for the purposes of the SFO.
4. Lion Development ( Penang ) Sdn. Bhd., directly and through a series of controlled companies, is entitled to exercise or control the exercise of more than one third of the voting power at general meetings of LDHB. Since LDHB is entitled to exercise or control the exercise of 100% of the voting power at general meetings of PRG Corporation, by virtue of the SFO, Lion Development ( Penang ) Sdn. Bhd. is deemed to be interested in the Shares held by PRG Corporation in the Company.

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5. Pangkor Investments ( Cayman Islands ) Limited is a wholly-owned subsidiary of Khazanah Nasional Berhad. As such Khazanah Nasional Berhad is deemed to be interested in the 54,648,000 Shares held by Pangkor Investments ( Cayman Islands ) Limited for the purposes of the SFO.
  6. The capacities of JPMorgan Chase & Co. in holding the 46,408,400 shares were as to 46,408,400 shares as investment manager and as to 5,205,900 shares in the lending pool as custodian corporation/ approved lending agent. The corporate interest of JPMorgan Chase & Co. was attributable on account through a number of its wholly owned subsidiaries.

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

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

## Notes:

1. 新疆友好（集團）有限公司( Xinjiang Friendship ( Group ) Co., Ltd ), owns 49% of the equity interest of Xinjiang Youhao Parkson Development Co., Ltd. ( "Xinjiang Parkson" ).
2. 無錫市供銷合作總社( Wuxi Distribution Corporation ), owns 40% of the equity interest of Wuxi Sanyang Parkson Plaza Co., Ltd. ( "Wuxi Parkson" ).
3. 揚州商業大廈 ( Yangzhou Commercial Plaza ), owns 45% of the equity interest of Yangzhou Parkson Plaza Co., Ltd. ( "Yangzhou Parkson" ).

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4. (i) 陝西長安信息置業投資有限公司 ( Shaanxi Chang'an Information Property Investment Co., Ltd ), owns 49% of Xi'an Chang'an Parkson.  
(ii) 長安信息 (產業) 集團股份有限公司 ( Chang'an Information ( Property ) Group Holding Company Limited ), a PRC joint stock company, the shares of which are being listed on the Shanghai Stock Exchange owns 65.45% of the equity interest of Shaanxi Chang'an Information, representing a 32.07% indirect equity interest in Xi'an Chang'an Parkson Store Co., Ltd. ( "Xi'an Chang'an Parkson" ).
5. 陝西雙翼石油化工有限責任公司 ( Shaanxi Shuangyi Petroleum and Chemical Company Limited ), acquired from Xi'an Xinrun Property Co., Ltd. ( "Xian Xinrun" ) 西安新潤置業有限公司 49% of the equity interest in Xi'an Shidai Parkson Store Co., Ltd. ( "Xi'an Shidai Parkson" ) on 4 September 2006.
6. (i) 四川富監實業集團有限公司 ( Sichuan Fulin Industrial Group Co., Ltd. ), owns 40% of the equity interest of Mianyang Fulin Parkson Plaza Co., Ltd. ( "Mianyang Parkson" ).  
(ii) 安治富 ( An Zhifu ), owns 51% of the equity interest in Sichuan Fulin, representing a 20.40% indirect equity interest in Mianyang Parkson.
7. 重慶萬友經濟發展有限責任公司 ( Chongqing Wanyou Economic Development Co., Ltd. ), owns 30% of the equity interest of Chongqing Wanyou Parkson Plaza Co., Ltd. ( "Chongqing Parkson" ).
8. (i) 貴州神奇實業有限公司 ( Guizhou Shenqi Enterprise Co., Ltd. ), owns 40% of the equity interest of Guizhou Shenqi Parkson Retail Development Co., Ltd. ( "Guizhou Parkson" ).  
(ii) 張沛 ( Zhang Pei ), 張之君 ( Zhang Zhi Jun ) and 張姪 ( Zhang Ya ), own 30%, 40% and 30% of the equity interest in Guizhou Shenqi Enterprise, respectively, representing a 12%, 16% and 12% indirect equity interest in Guizhou Parkson.
9. (i) 鞍山天興國際置業發展有限公司 ( Anshan Tianxing International Properties Development Co., Ltd. ), owns 49% of the equity interest of Anshan Tianxing Parkson Shopping Centre Co., Ltd. ( "Anshan Parkson" ).  
(ii) Each of 鞍山市金羽經貿有限公司 ( Anshan City Jinyu Jingmao Company Limited ) and 香港賢明有限公司 ( Praise Shine Company Limited ), owns 50% of the equity interest in Anshan Tianxing, representing 24.5% indirect equity interest in Anshan Parkson.
10. 上海九海實業有限公司 ( Shanghai Nine Sea Industry Co., Ltd. ), where they distribute 65% of Shanghai Lion Property's profits.
11. Shanghai Lion Property and Shanghai Nine Sea Parkson are cooperative joint venture enterprises established under the laws of the PRC. The percentages are calculated based on the voting rights attributable to Shanghai Nine Sea Industry pursuant to the respective co-operative joint venture contracts. The percentages to distributable profits are different.

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## SHARE OPTION SCHEME

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

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

The Scheme is valid and effective for a period of 10 years up to 8 November 2015, after which no further share options will be granted but the provisions of the Scheme shall remain in full force and effect in all other respects. Share options complying with the provisions of the Listing Rules which are granted during the duration of the Scheme and remain unexercised immediately prior to the end of the 10-year period shall continue to be exercisable in accordance with their terms of grant within the share option period for which such share options are granted, notwithstanding the expiry of the Scheme. The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 55,200,000, being 10% of the issued share capital of the Company on 9 November 2005, the date on which the Scheme was adopted ( the "Scheme Mandate Limit" ). At as the date of this annual report, the total number of shares available for issue under the Scheme is 47,011,050, which represents 8.52% of the total issued share capital

of the Company. Unless with the approval from the Company's shareholders at general meeting, the number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any 12 months period is not permitted to exceed 1% of the shares of the Company in issue at any point in time. Options granted to substantial shareholders, Independent Non-executive Directors, or any of their respective associates ( including a discretionary trust whose discretionary objects include a substantial shareholder or an Independent Non-executive Director or a company beneficially owned by any substantial shareholder or Independent Non-executive Director of the Company ) in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5,000,000 must be approved in advance by the Company's shareholders in general meeting.

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

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

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## CONNECTED TRANSACTIONS

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

### Financial assistance from the Group to connected persons

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

#### 1. Entrusted loans of Mianyang Parkson

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

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

Such transactions had been settled upon due date.

#### 2. Entrusted loans of Anshan Parkson

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

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

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

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## CONTINUING CONNECTED TRANSACTIONS

### DEED OF NON COMPETITION

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

### TRADEMARK LICENSE AGREEMENT

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

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

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

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

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## Continuing connected transactions exempt from independent shareholders' approval requirement

### ( A ) Lease Agreement

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

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

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

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

#### ( 2 ) Lease arrangements between Mianyang Parkson and Sichuan Fulin

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

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

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

### ( 3 ) Lease arrangements between Chongqing Parkson and Chongqing Wanyou

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

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

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

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

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

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



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# Directors' Report

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

( 7 ) Lease arrangements between Anshan Parkson and Anshan Tianxing

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

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

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# Directors' Report

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

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

## ( 8 ) Lease arrangements between Xinjiang Parkson and Xinjiang Youhao

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

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

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

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

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

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

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

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

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

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

## ( B ) Management consultancy agreements

### ( 1 ) Management consultancy agreements with the Lion Group

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

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

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

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

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# Directors' Report

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

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

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

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

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

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

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

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

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

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

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

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## Purchase, Sale or Redemption of Shares

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

## Pre-emptive rights

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

## Emolument policy and pension schemes

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

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

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

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# Directors' Report

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## Major customers and suppliers

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

## Sufficiency of public float

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

## Corporate Governance Report

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

## Post balance sheet events

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

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## Auditors

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

On behalf of the Board

**Cheng Yoong Choong**

Managing Director

26 February 2007