1. CORPORATE INFORMATION

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. The shares of the Company have been listed on the Stock Exchange since 30 November 2005. The Company has established a principal place of business in Hong Kong at Suite 1316, Prince's Building, 10 Charter Road Central, Hong Kong.

The Reorganisation 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 for the year ended 31 December 2005 include the results and cash flows of the relevant companies since 1 January 2005, or since their respective dates of registration, where this is a shorter period.

During the period from August to November 2005, the Group acquired eight department store entities/businesses (the "Acquired Stores") from certain independent third party vendors. The Acquired Stores principally engaged in the operation of twelve "Parkson" department stores in the PRC. The Group provided department store management services to the Acquired Stores before the acquisitions. The acquisition transactions were accounted for under the purchase method in the Company's 2005 consolidated financial statements.

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

2.1 BASIS OF PREPARATION

These financial statements are prepared on the historical cost basis except that investments held for trading are stated at their fair values and the assets and liabilities attributable to Parkson Retail Development Co., Ltd., a previously 56% owned jointly-controlled entity of the Group, were recognised at their fair value at the date of control upon the Group's acquisition of the remaining 44% equity interests on 1 July 2006 (note 21(i)). These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Statement of compliance

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

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (the "Group") as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from the parent shareholders' equity. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised IFRSs and International Financial Reporting Interpretations Committee ("IFRIC") interpretations during the year. The adoption of these revised standards and interpretations did not have any effect on the financial statements of the Group.

IAS 19 Amendment	–	Employee Benefits
IAS 21 Amendment	–	The Effects of Changes in Foreign Exchange Rates
IAS 39 Amendments	–	Financial Instruments: Recognition and Measurement
IFRIC 4	–	Determining whether an Arrangement contains a Lease
IFRIC 5	–	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6	–	Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IAS 1 Amendment	–	Capital Disclosures
IFRS 7	–	Financial Instruments: Disclosures
IFRS 8	–	Operating Segments
IFRIC 7	–	Applying the Restatement Approach under IAS 29 *Financial Reporting in Hyperinflationary Economies*
IFRIC 8	–	Scope of IFRS 2
IFRIC 9	–	Reassessment of Embedded Derivatives
IFRIC 10	–	Interim Financial Reporting and Impairment
IFRIC 11	–	IFRS 2-Group and Treasury Share Transactions
IFRIC 12	–	Service Concession Arrangements

The IAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

IFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of IAS 32.

IFRIC 7, IFRIC 8, IFRIC 9, IFRIC 10, IFRIC 11, IFRIC 12 and IFRS 8 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007, 1 January 2008 and 1 January 2009, respectively.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, it has concluded that while the adoption of the IAS 1 Amendment and IFRS 7 may result in new or amended disclosures, these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – the Group as lessee

The Group has entered into commercial property leases for its department stores business. The Group has determined that the lessor retains all the significant risks and rewards of relevant properties and so accounts for them as operating leases.

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.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of 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 management 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. The carrying amount of goodwill at 31 December 2006 was RMB687,763,000 (2005: RMB79,734,000). Further details are given in Note 14.

Depreciation

The Group has estimated the useful lives of the property, plant and equipment and investment properties of 5 to 42 years, after taking into account of their estimated residual values, as set out in the principal accounting policies below. Depreciation of items of property, plant and equipment is calculated on the straight-line basis over their expected useful lives. The carrying amount of items of property, plant and equipment and investment properties as at 31 December 2006 were RMB749,923,000 (2005: RMB581,535,000) and RMB227,368,000 (2005: RMB17,394,000), respectively. Further details are given in note 11 and note 12.

3. PRINCIPAL ACCOUNTING POLICIES

Foreign currencies

These financial statements are presented in Renminbi, which is different from the functional currency of the Company of United States dollars. The Company's consolidated financial statements are presented in Renminbi because management considers that a substantial majority of the group companies are in the PRC and the Group primarily generates and expends cash in Renminbi. 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 transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates ruling at the dates of initial transactions. Non-monetary items measured at fair value in a foreign currency 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 income statement is translated at the weighted average exchange rates for the year. Exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries and jointly-controlled entities are translated into Renminbi at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries and jointly-controlled entities which arise throughout the year, are translated into Renminbi at the weighted average exchange rates for the year.

During the year, the Company has changed its functional currency from Renminbi to United State dollars because of its new treasury function and the Company has entered into investing and financing transactions which were primarily denominated in United State dollars. The change of functional currency of the Company from Renminbi to United State dollars had no material impact on the Group's consolidated financial statements for the years presented.

Segment reporting

A segment is a distinguishable component of the Group that engages either in providing products or services (a business segment), or in providing products or services within a particular economic environment (a geographical segment). Each segment is subject to risks and return that are different from those of other segments.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and 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 lives of the relevant assets by equal annual instalments. Government grants received where the attaching conditions have not yet been fulfilled are recognised as liabilities.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax

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

Deferred tax

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

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

- where the deferred tax liability arises from 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.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

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

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in jointly-controlled entities, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the consolidated income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the consolidated income statement on the straight-line basis over the lease terms.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets other than goodwill

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the consolidated income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at 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 the consolidated income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investment 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 the consolidated income statement.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Assets carried at amortised cost (continued)

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.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Goodwill

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

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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

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.

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

Property, plant and equipment

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

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the item of property, plant and equipment to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the items of property, plant and equipment, and where the cost of item can be measured reliably, the expenditure is capitalised as an additional cost of that item of property, plant and equipment.

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

Buildings	20 – 42 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 losses, 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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use or disposal of the asset. Any gain or loss arising on derecognition of the item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year the item is derecognised.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

Borrowing costs

Borrowing costs are recognised as an expense when incurred.

Lease prepayments

Lease prepayments represent land use rights paid to the PRC government authorities. Land use rights are carried at cost and are charged to the consolidated income statement on the straight-line basis over the respective periods of the rights ranging from 24 to 42 years.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement in the expense category consistent with the function of the intangible asset.

Investment properties

Investment properties are part of a building that are held to earn rental income or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes, or for sale in the ordinary course of business.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Investment properties *(continued)*

Investment properties are measured at cost less accumulated depreciation and provision for any impairment in value. Depreciation is calculated on the straight-line basis over the expected useful life of 42 years.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year in which they arise.

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

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

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture 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.

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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Jointly-controlled entities *(continued)*

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

An associate is an entity, not being subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interest in an associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Inventories

Inventories comprise merchandise purchased for resale and consumables and are stated at the lower of cost and net realisable value.

The cost of merchandise is determined on the weighted average basis. The net realisable value is determined based on the estimated selling prices less any estimated costs to be incurred to disposal.

Trade and other receivables

Trade receivables, which generally have credit terms of less than 90 days, are recognised and carried at the original invoice amount less an allowance for any uncollectible amounts.

Other receivables are recognised and carried at cost less an allowance for any uncollectible amounts.

Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated and effective hedging instruments or financial guarantee contract. Gains or losses on investments held for trading are recognised in the consolidated income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded. As at 31 December 2006, no financial assets have been designated as at fair value through profit and loss (2005: Nil).

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Group has the positive intention and ability to hold to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the consolidated income statement when the investments are derecognised or impaired, as well as through the amortisation process. As at 31 December 2006, the company had held-to-maturity investments of RMB1,561,740,000 (2005: Nil).

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business 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; a discounted cash flow analysis or other valuation 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 and with an original maturity of less than three months when acquired. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, 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 at amortised cost.

Financial liabilities including trade and other payables are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains or losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through amortisation process.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

Coupon liabilities

Coupon liabilities are recognised at present value of expenditures expected to be required to settle the obligation based on the bonus points granted to customers in accordance with the announced bonus points scheme and the Group's past experience on the level of redemption of coupons.

Interest-bearing bank loans

All bank loans are initially recognised at the fair value of the consideration received net of directly attributable transaction costs.

After initial recognition, interest-bearing bank loans 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 consolidated income statement when the liabilities are derecognised, as well as through the amortisation process.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events, for which existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required, or that the amount of the obligation cannot be measured reliably.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Contingent liabilities and contingent assets *(continued)*

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that an outflow is probable, a contingent liability will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events, for which existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When an inflow is virtually certain, an asset is recognised.

Employee benefits

Share-based payment transactions

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity settled transactions"). Employees working in the business development group are granted share appreciation rights, which can only be settled in cash ("cash-settled transactions").

In situations where some or all of the goods or services received by the entity as consideration for equity instruments cannot be specifically identified, they are measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received at the grant date. For cash-settled transactions, the liability is measured at each reporting date until settlement.

Equity-settled transactions

The cost of equity-settled transactions with employees, for awards granted after 7 November 2002, is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using an appropriate pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Equity-settled transactions (continued)

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Retirement benefits

Pursuant to the relevant PRC laws and regulations, each of the PRC subsidiaries of the Group is required to participate in a retirement 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.

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting are taken directly to the consolidated income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Derivative financial instruments and hedging *(continued)*

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or

- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the consolidated income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying value of the hedged item and is also recognised in the consolidated income statement.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the consolidated income statement over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest rate method is amortised through the consolidated income statement.

Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedge item is derecognised, the unamortised fair value is recognised immediately in the consolidated income statement.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Derivative financial instruments and hedging *(continued)*

Fair value hedges (continued)

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the consolidated income statement. The changes in the fair value of the hedging instrument are also recognised in the consolidated income statement.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the consolidated income statement.

Amounts taken to equity are transferred to the consolidated income statement when the hedged transaction affects the consolidated income statement, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognised in equity are transferred to the consolidated income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

4. REVENUES AND OTHER OPERATING REVENUES

Revenues

Revenues, which are also 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:

	2006	2005
	RMB'000	*RMB'000*
Sale of goods – direct sales	758,049	441,220
Commissions from concessionaire sales *(note)*	1,027,122	577,474
Consultancy and management service fees	41,681	47,691
Rental income	115,153	65,505
	1,942,005	1,131,890

Note:

The commissions from concessionaire sales are analysed as follows:

	2006	2005
	RMB'000	*RMB'000*
Gross revenue from concessionaire sales	5,011,806	2,670,785
Commissions from concessionaire sales	1,027,122	577,474

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

4. REVENUES AND OTHER OPERATING REVENUES *(continued)*

Other operating revenues

	Notes	**2006** *RMB'000*	2005 *RMB'000*
Promotion income		**63,279**	19,260
Credit card handling fees		**52,584**	18,737
Equipment leasing income		**8,950**	3,661
Display space leasing fees		**12,697**	6,135
Administration fees		**25,736**	6,203
Service fees		**17,323**	7,260
Government grants	*(i)*	**10,655**	1,500
PRC tax compensations	*(ii)*	**25,914**	3,224
Excess over the cost of business combinations		**–**	3,498
Other income		**24,891**	13,290
		242,029	82,768

Notes:

(i) Various local government grants have been granted to reward the Group for its contributions to the local economy. There were no unfulfilled conditions or contingencies attaching to these government grants.

(ii) The PRC tax compensations were granted to the Group for its reinvestment of dividend income from certain PRC group companies to establish new foreign investment enterprises in the PRC. There were no unfulfilled conditions or contingencies attaching to these tax compensations.

5. PROFIT FROM OPERATIONS

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

	2006 RMB'000	2005 RMB'000
Cost of inventories recognised as expenses	632,325	363,461
Staff costs excluding directors' remuneration *(note 7)*:		
Wages, salaries and bonuses	158,848	91,983
Pension scheme contributions	15,207	10,147
Social welfare and other costs	19,118	15,476
	193,173	117,606
Depreciation and amortisation	88,737	64,055
Operating lease rentals in respect of leased properties:		
Minimum lease payments	183,887	91,973
Contingent lease payments*	43,167	11,929
	227,054	103,902
Loss on disposal of items of property, plant and equipment	1,006	324
Auditors' remuneration	4,900	3,517
Allowance for doubtful debts	2,454	1,145
Gross rental income in respect of investment properties	(16,978)	(3,432)
Sub-letting of properties:		
Minimum lease payments	(59,032)	(30,371)
Contingent lease payments*	(39,143)	(31,702)
	(98,175)	(62,073)
Total gross rental income	(115,153)	(65,505)
Direct operating expenses arising on rental-earning investment properties	1,411	3,868
Foreign exchange losses	13,273	1,769

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

6. FINANCE INCOME/COSTS

	2006 *RMB'000*	2005 *RMB'000*
Finance income:		
Interest income from held-to-maturity investments	20,372	–
Bank interest income	49,215	12,147
Interest income from loans receivable	5,460	2,681
	75,047	14,828
Finance costs:		
Senior guaranteed notes	(17,153)	–
Interest expenses on bank loans and other loans, wholly repayable within five years	(34,356)	(4,614)
Foreign exchange losses	–*	(1,769)
	(51,509)	(6,383)

* The amount of foreign exchange loss of RMB13,273,000 for the year ended 31 December 2006 was included in the other operating expenses.

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 Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2006 *RMB'000*	2005 *RMB'000*
Fees	746	156
Other emoluments:		
Salaries, allowances, bonuses and other benefits	2,544	2,414
Pension scheme contributions	103	86
	3,393	2,656

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

(a) Independent non-executive directors

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

	2006	2005
	RMB'000	*RMB'000*
Mr. Fong Ching, Eddy	134	26
Mr. Studer Werner Josef	120	26
Mr. Ko Tak Fai, Desmond	124	26
	378	78

There were no other emoluments payable to the independent non-executive directors for the year ended 31 December 2006 (2005: Nil).

(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*
2006				
Executive directors:				
Mr. Cheng Yoong Choong	122	–	–	122
Mr. Chew Fook Seng	124	2,544	103	2,771
	246	2,544	103	2,893
Non-executive director:				
Tan Sri Cheng Heng Jem	122	–	–	122
	368	2,544	103	3,015

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

(b) Executive directors and a non-executive director *(continued)*

	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

Included in salaries, allowances, bonuses and other benefits was a discretionary bonus of RMB1,281,000 (2005: RMB920,000) to Mr. Chew Fook Seng, a director of Company, for the year ended 31 December 2006. There was no arrangement under which directors waived or agreed to waive any remuneration during the year.

(c) Five highest paid employees

The five highest paid employees during the year included one (2005: one) director, details of whose remuneration are set out above. Details of the remuneration of remaining four (2005: four) non-director, highest paid employees for the year are as follows:

	2006	2005
	RMB'000	*RMB'000*
Salaries, allowances, bonuses and other benefits	5,612	6,141
Pension scheme contributions	202	221
	5,814	6,362

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

(c) Five highest paid employees *(continued)*

Included in salaries, allowances, bonuses and other benefits were discretionary bonuses of RMB2,202,000 (2005: RMB2,005,000) to the remaining four non-director, highest paid employees for the year ended 31 December 2006.

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

	2006	2005
HK$1,000,001 to HK$1,500,000 (equivalent to RMB1,004,001 to RMB1,506,000)	2	3
HK$1,500,001 to HK$2,000,000 (equivalent to RMB1,506,001 to RMB2,008,000)	2	1
	4	4

In the opinion of the directors, the Group has no other key management personnel (as defined in IAS 24, Related Party Disclosures) other than the directors and the five highest paid employees as disclosed above.

8. RETIREMENT BENEFITS SCHEME

All the PRC subsidiaries and jointly-controlled entities of the Group are required to participate in the employee retirement benefits 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 2006 and 2005.

The Group's contributions to pension costs for the year ended 31 December 2006 amounted to approximately RMB15,310,000 (2005: RMB10,233,000).

9. INCOME TAX

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

Under the relevant PRC income tax law, except for certain preferential treatment available to certain PRC subsidiaries and jointly-controlled entities of the Group, the PRC companies of the Group are subject to corporate income tax at a rate of 33% on their respective taxable income. During the year, eight subsidiaries (2005: five subsidiaries and three jointly-controlled entities) have obtained approval from the relevant PRC tax authorities and were subject to preferential corporate income tax rates or corporate income tax exemptions.

An analysis of the provision for tax in the consolidated income statement is as follows:

	2006	2005
	RMB'000	*RMB'000*
Current income tax	221,464	130,132
Deferred income tax	(2,629)	1,704
	218,835	131,836

9. INCOME TAX *(continued)*

A reconciliation of the income tax expense applicable to profit from operations before income tax at the statutory income tax rate to the income tax expense at the Group's effective income tax rate, is as follows:

	2006										
	Hong Kong		Singapore		Cayman Islands		British Virgin Islands		Mainland China		Total
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*
Profit/(loss) from operations before income tax	13,360		11,233		11,113		(2,527)		698,810		731,989
Income tax at the statutory income tax rate	2,338	17.5	2,247	20	–	Nil	–	Nil	230,607	33	235,192
Tax losses not recognised	–		–		–		–		1,451		1,451
Tax effect of expenses not deductible for tax purposes	–		–		–		–		7,653		7,653
Tax effect of non-taxable income	(2,338)		(2,247)		–		–		–		(4,585)
Tax effect of preferential tax rates	–		–		–		–		(20,876)		(20,876)
Tax charge for the year	–		–		–		–		218,835		218,835

9. INCOME TAX *(continued)*

	2005										
	Hong Kong		Singapore		Cayman Islands		British Virgin Islands		Mainland China		Total
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*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)
Tax charge for the year	–		9		–		–		131,827		131,836

10. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share for the year ended 31 December 2006 is based on the profit for the year attributable to equity holders of the parent for the year ended 31 December 2006 of approximately RMB460,761,000 and 552,000,000 shares in issue during the year.

The calculation of basic earnings per share for the year ended 31 December 2005 was based on the profit for the year 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 issue of 110,400,000 new shares by way of public offering in issue on 30 November 2005.

Diluted earnings per share for the years ended 31 December 2006 and 2005 have not been disclosed because no diluting events existed during the two years.

11. PROPERTY, PLANT AND EQUIPMENT

Group

	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 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 and 1 January 2006, net of accumulated depreciation	260,864	214,405	5,254	100,075	937	581,535
Additions	–	18,892	2,493	9,801	42,890	74,076
Transfers from construction in progress	–	13,635	–	10,139	(23,774)	–
Acquisitions	104,470	24,114	1,268	25,381	683	155,916
Asset revaluation (iii)	18,483	–	–	–	–	18,483
Disposals	–	(67)	(178)	(2,021)	–	(2,266)
Depreciation charge for the year	(16,425)	(34,906)	(1,740)	(24,750)	–	(77,821)
At 31 December 2006, net of accumulated depreciation	367,392	236,073	7,097	118,625	20,736	749,923

11. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Group

	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 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 and 1 January 2006						
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
At 31 December 2006						
Cost	451,844	419,373	11,981	265,581	20,736	1,169,515
Accumulated depreciation	(84,452)	(183,300)	(4,884)	(146,956)	–	(419,592)
Net carrying amount	367,392	236,073	7,097	118,625	20,736	749,923

Notes:

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

(ii) Certain of the buildings of the Group in Beijing, the PRC, were pledged as security for bank loans of the Group at 31 December 2006. The aggregate carrying value of the pledged buildings attributable to the Group as at 31 December 2006 amounted to RMB65,781,000.

The aggregate carrying value of the pledged buildings in Xi'an and Beijing attributable to the Group as at 31 December 2005 amounted to RMB63,643,000.

(iii) This represented the fair value adjustment relating to the Group's acquisition of the remaining 44% equity interest in Parkson Retail Development Co., Ltd. (note 21(i)).

12. INVESTMENT PROPERTIES

Group

	Notes	Buildings RMB'000
At 1 January 2005, net of accumulated depreciation		18,726
Depreciation		(1,332)
At 31 December 2005, net of accumulated depreciation		17,394
Business combination *(note 21(i))*		101,200
Asset revaluation	*(i)*	112,072
Depreciation		(3,298)
At 31 December 2006, net of accumulated depreciation		227,368

	Notes	2006 RMB'000	2005 RMB'000
At 31 December			
Cost		**230,000**	29,600
Accumulated depreciation		**(2,632)**	(12,206)
Net carrying amount		**227,368**	17,394
Fair value at 31 December	*(ii)*	**236,200**	95,477

Notes:

(i) This represented the fair value adjustment relating to the Group's acquisition of the remaining 44% equity interest in Parkson Retail Development Co., Ltd. (note 21(i)).

(ii) 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.

(iii) Certain of the investment properties of Parkson Retail Development Co., Ltd. were pledged as security for bank loans of Parkson Retail Development Co., Ltd. and the aggregate carrying value of the pledged investment properties as at 31 December 2005 attributable to the Group amounted to RMB5,215,000. The pledges were released upon the repayment of bank loans during the year.

13. LEASE PREPAYMENTS

Group

	Note	2006	2005
		RMB'000	*RMB'000*
At 1 January		49,066	51,910
Business combination *(note 21(i))*		183,690	–
Asset revaluation	*(ii)*	205,757	–
Charge for the year		(6,963)	(2,844)
At 31 December		431,550	49,066

Notes:

(i) Lease prepayments represented land use rights paid to the PRC government authorities and are amortised on the straight-line basis over their respective lease periods. The leasehold land is held under medium term lease and is situated in the PRC.

(ii) This represented the fair value adjustment relating to the Group's acquisition of the remaining 44% equity interest in Parkson Retail Development Co., Ltd. (note 21(i)).

(iii) Certain of the lease prepayments of Parkson Retail Development Co., Ltd. were pledged as security for its bank loans. The aggregate carrying value of the pledged lease prepayments attributable to the Group amounted to RMB122,559,000 as at 31 December 2006 (2005: RMB9,721,000).

14. INTANGIBLE ASSETS

Group

The movements of intangible assets are as follows:

	Note	Goodwill	Computer software	Total
		RMB'000	RMB'000	RMB'000
At 1 January 2005, net of accumulated amortisation		–	3,112	3,112
Business combinations		16,966	–	16,966
Acquisition of minority interest		62,768	–	62,768
Amortisation		–	(655)	(655)
At 31 December 2005 and 1 January 2006, net of accumulated amortisation		79,734	2,457	82,191
Business combinations	(i)	608,029	–	608,029
Amortisation		–	(655)	(655)
At 31 December 2006, net of accumulated amortisation		687,763	1,802	689,565
At 1 January 2005				
Cost		–	3,277	3,277
Accumulated amortisation		–	(165)	(165)
Net carrying amount		–	3,112	3,112
At 31 December 2005 and 1 January 2006				
Cost		79,734	3,277	83,011
Accumulated amortisation		–	(820)	(820)
Net carrying amount		79,734	2,457	82,191
At 31 December 2006				
Cost		687,763	3,277	691,040
Accumulated amortisation		–	(1,475)	(1,475)
Net carrying amount		687,763	1,802	689,565

Notes:

(i) This represented the goodwill recognised on the acquisition of an additional 44% equity interest in Parkson Retail Development Co., Ltd. for RMB292,804,000 (note 21(i)) and the acquisition of Asia Victory International Limited for RMB315,225,000 (note 21(ii)).

(ii) Computer software is amortised on the straight-line basis over five years.

14. INTANGIBLE ASSETS *(continued)*

Impairment testing of goodwill

The carrying amount of goodwill has been allocated to the following cash-generating units:

	Notes	31 December 2006 RMB'000	31 December 2005 RMB'000
Xi'an Lucky King Parkson Plaza Co., Ltd.	(a)	57,717	57,717
Parkson Retail Development Co., Ltd.	(b)	302,766	9,962
Chongqing Wanyou Parkson Plaza Co., Ltd.	(c)	2,712	2,712
Shanghai Lion Parkson Investment Consultant Co., Ltd.	(d)	9,343	9,343
Asia Victory International Limited	(e)	315,225	–
		687,763	79,734

Notes:

(a) Xi'an Lucky King Parkson Plaza Co., Ltd. principally engages in the operation of two department stores in Xi'an, the PRC.

(b) Parkson Retail Development Co., Ltd. principally engages in the operation of six department stores in Beijing, Taiyuan, Zhengzhou, Haerbin and Xinjiang, the PRC.

(c) Chongqing Wanyou Parkson Plaza Co., Ltd. principally engages in the operation of two department stores in Chongqing, the PRC.

(d) Shanghai Lion Parkson Investment Consultant Co., Ltd. principally engages in the provision of consultancy and management services in Beijing, the PRC.

(e) Asia Victory International Limited and its subsidiaries principally engage in the operation of two department stores in Kunming, the PRC.

The recoverable amount of each cash-generating unit has been determined based on a value in use calculation. To calculate this, cash flow projections are prepared based on financial budgets as approved by the executive directors which cover a period of four years. The pre-tax discount rate applied to the cash flow projections is 7.9% (2005: 5%). No growth has been projected beyond the four-year period.

14. INTANGIBLE ASSETS *(continued)*

Key assumptions used in the value in use calculations

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

Store revenue:	the bases used to determine the future earnings potential are historical sales and average and expected growth rates of the retail market in the PRC.
Gross margins:	gross margins are based on the average gross margin achieved in the past two years.
Operating expenses:	the bases used to determine the values assigned are the cost of inventories purchased for resale, staff costs, depreciation and amortisation, rental expenses and other operating expenses. The value assigned to the key assumption reflects past experience and management's commitment to maintain the operating expenses to an acceptable level.
Discount rates:	discount rates reflect management's estimate of the risks specific to these entities. In determining appropriate discount rates for each unit, a consideration has been given to the applicable borrowing rates of the respective units in the current year.

Sensitivity to changes in assumptions

With regard to the assessment of value in use of the respective department store cash generating units and the consultancy and management services cash generating unit, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value, including goodwill, of the unit to materially exceed its recoverable amount.

15. INTERESTS IN SUBSIDIARIES

Company

	2006 RMB'000	2005 RMB'000
Unlisted shares, at cost	579,041	579,041
Due from subsidiaries	611,208	–
Due to subsidiaries	(3,335)	(3,320)
	1,186,914	575,721

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

Details of the Company's subsidiaries at 31 December 2006 are set out below:

Company name	Place of incorporation/ registration and operations	Paid-up capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Subsidiaries					
Grand Parkson Retail Group Limited – 百盛商業有限公司	British Virgin Islands	HK$0.5	100	–	Investment holding
Parkson Investment Pte Ltd. – 新加坡金獅百盛投資有限公司	Singapore	S$10,000,000	–	100	Investment holding
Rosenblum Investment Pte Ltd. – 新加坡盛邦投資有限公司	Singapore	S$2	–	100	Investment holding
Exonbury Limited – 香港益盛普利有限公司	Hong Kong	HK$2	–	100	Investment holding
Parkson Supplies Pte Ltd. – 新加坡金獅百盛供應有限公司	Singapore	S$100	–	100	Investment holding

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
Step Summit Limited – 達嶺有限公司	Hong Kong	HK$1	–	100	Investment holding
Hong Kong Fen Chai Investment Limited – 香港豐采投資有限公司	Hong Kong	HK$1	–	100	Investment holding
Shanghai Lion Parkson Investment Consultant Co., Ltd.* – 上海獅貿投資諮詢有限公司	The PRC	USD500,000	–	100	Provision of consultancy and management services
Shanghai Nine Sea Parkson Plaza Co., Ltd.** – 上海九海百盛廣場有限公司	The PRC	USD12,000,000	–	100	Operation of department stores
Shanghai Hongqiao Parkson Development Co., Ltd.* – 上海虹橋百盛商貿有限公司	The PRC	RMB5,000,000	–	100	Operation of department stores
Wuxi Sanyang Parkson Plaza Co., Ltd.*** – 無錫三陽百盛廣場有限公司	The PRC	RMB80,000,000	–	60	Operation of department stores
Xi'an Lucky King Parkson Plaza Co., Ltd.*** – 西安立豐百盛廣場有限公司	The PRC	RMB32,500,000	–	91	Operation of department stores
Beijing Century Parkson E-business Co., Ltd.**** – 北京世紀百盛電子商務有限公司	The PRC	RMB600,000	–	100	Research and development of computer software

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	RMB30,000,000	–	70	Operation of department stores
Mianyang Fulin Parkson Plaza Co., Ltd. *** – 綿陽富臨百盛廣場有限公司	The PRC	RMB30,000,000	–	60	Operation of department stores
Sichuan Shishang Parkson Retail Development Co., Ltd.* – 四川時尚百盛商業發展有限公司	The PRC	RMB15,000,000	–	100	Operation of department stores
Hefei Parkson Xiaoyao Plaza Co., Ltd.* – 合肥百盛逍遙廣場有限公司	The PRC	RMB8,000,000	–	100	Operation of department stores
Anshan Tianxing Parkson Shopping Centre Co., Ltd. **** – 鞍山天興百盛購物中心有限公司	The PRC	RMB10,000,000	–	51	Operation of department stores
Guizhou Shenqi Parkson Retail Development Co., Ltd. *** – 貴州神奇商業發展有限公司	The PRC	RMB10,000,000	–	60	Operation of department stores
Parkson Investment Holdings Co., Ltd. * – 金獅百盛投資有限公司	The PRC	USD30,000,000	–	100	Investment holding

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
Parkson Retail Development Co., Ltd. * – 百盛商業發展有限公司	The PRC	USD16,680,000	–	100	Operation of department stores
Global Heights Investment Limited – 宇盛投資有限公司	British Virgin Islands	USD1	–	100	Investment holding
Asia Victory International Limited – 華信國際有限公司	British Virgin Islands	USD50,000	–	100	Investment holding
Shunhe International Investment Limited – 順和國際投資有限公司	Hong Kong	HK$10,000	–	100	Investment holding
Kunming Yun Shun He Retail Development Co Ltd.* – 昆明雲順和商業發展有限公司	The PRC	RMB30,000,000	–	100	Operation of department stores

* registered as a wholly-foreign-owned enterprise under the PRC law
** registered as a Sino-foreign cooperative joint venture enterprise under the PRC law
*** registered as a Sino-foreign equity joint venture enterprise under the PRC law
**** registered as a limited liability company under the PRC law

16. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

Particulars of the jointly-controlled entities are as follows:

Company name	Place of registration	Percentage of ownership interest attributable to the Group	Principal activities
Yangzhou Parkson Plaza Co., Ltd. * – 揚州百盛商業大廈有限公司	The PRC	55	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	51	Operations of department stores
Xi'an Chang'an Parkson Store Co., Ltd.* – 西安長安百盛百貨廣場有限公司	The PRC	51	Operations of department stores
Xi'an Shidai Parkson Store Co., Ltd.* – 西安時代百盛百貨廣場有限公司	The PRC	51	Operations of department stores

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

16. INTERESTS IN JOINTLY-CONTROLLED ENTITIES *(continued)*

The share of the assets, liabilities, income and expenses of the jointly-controlled entities at 31 December 2006 and 2005 and for the years then ended, which are included in the consolidated financial statements, are as follows:

	2006	2005
	RMB'000	*RMB'000*
Current assets	94,319	301,135
Non-current assets	41,630	346,508
	135,949	647,643
Current liabilities	(74,030)	(432,288)
Non-current liabilities	(1,817)	(88,892)
Net assets	60,102	126,463
Revenues	113,231	370,504
Purchases of goods and changes in inventories	(23,151)	(122,666)
Operating expenses	(69,146)	(134,692)
Finance income/(costs)	951	(1,356)
Profit from operations before income tax	21,885	111,790
Tax	(5,446)	(37,468)
Profit for the year	16,439	74,322

As disclosed in note 21(i), the Group acquired the remaining 44% equity interest in Parkson Retail Development Co., Ltd., a former jointly-controlled entity of the Group, with effect from 1 July 2006. Parkson Retail Development Co., Ltd. was owned as to 56% by the Group and was accounted for as a jointly-controlled entity under the proportional consolidation method until the date of control was obtained by the Group on 1 July 2006. Parkson Retail Development Co., Ltd. became a wholly-owned subsidiary of the Group thereafter and was then fully consolidated to the consolidated financial statements.

17. INVESTMENT IN AN ASSOCIATE

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

Particulars of the associate are as follows:

Company name	Particulars of the issued capital held	Place of registration	Percentage of equity interest attributable to the Group	Principal activities
Shanghai Nine Sea Lion Properties Management Co., Ltd. – 上海九海金獅物業管理有限公司	US$165,000	The PRC	35	Property management and real estate consulting services

Group

	2006 *RMB'000*	2005 *RMB'000*
Share of net assets of an associate	2,214	2,120

17. INVESTMENT IN AN ASSOCIATE *(continued)*

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

	2006 *RMB'000*	2005 *RMB'000*
Total assets	10,284	10,462
Total liabilities	3,958	4,405
Net assets	6,326	6,057

	2006 *RMB'000*	2005 *RMB'000*
Revenues	30,606	31,499
Profit from operations before income tax	2,442	2,366
Income tax	(906)	(876)
Profit for the year	1,536	1,490
Share of tax attributable to an associate	317	307
Share of profit of an associate, net of tax	538	522

18. HELD-TO-MATURITY INVESTMENTS

Group and Company

	2006	2005
	RMB'000	*RMB'000*
Credit linked notes, at amortised cost, unlisted	1,561,740	–

The credit linked notes (the "CLN") were issued by JPMorgan Chase Bank, N.A., London Branch, and have a tenure from 14 November 2006 to 13 November 2011. The CLN bear interest at a rate of 9.8% per annum. Interest is paid semi-annually on 13 May and 13 November of each year, commencing on 13 May 2007.

The payment of interest and repayment of principal of the CLN are subject to the Group's payment of interest and repayment of principal of a series of bank loans as disclosed in note 27(i) to these financial statements.

19. OTHER ASSETS

Group

	Notes	2006	2005
		RMB'000	*RMB'000*
Guarantee deposits	*(i)*	10,000	10,000
Deferred rental expenses	*(ii)*	97,408	62,629
		107,408	72,629

Notes:

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

20. DEFERRED TAX ASSETS AND LIABILITIES

Group

	Balance at 1 January 2005	Recognised in the consolidated income statement	Acquisitions	Balance at 31 December 2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred 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 tax liabilities:				
Depreciation	(41,005)	(5,290)	–	(46,295)
	(20,828)	(1,704)	9,026	(13,506)

20. DEFERRED TAX ASSETS AND LIABILITIES *(continued)*

	Balance at 1 January 2006 RMB'000	Recognised in the consolidated income statement RMB'000	Recognised in reserve RMB'000	Acquisitions RMB'000	Balance at 31 December 2006 RMB'000
Deferred tax assets:					
Pre-operating expenses	1,859	(712)	–	657	1,804
Depreciation	3,982	(86)	–	3,061	6,957
Accrued rental expenses	14,671	280	–	3,800	18,751
Accrued coupon provision	12,277	3,782	–	1,889	17,948
	32,789	3,264	–	9,407	45,460
Deferred tax liabilities:					
Depreciation	(46,295)	(635)	–	–	(46,930)
Business combination *(note i)*	–	–	–	(88,053)	(88,053)
Asset revaluation *(note ii)*	–	–	(112,067)	–	(112,067)
	(46,295)	(635)	(112,067)	(88,053)	(247,050)
	(13,506)	2,629	(112,067)	(78,646)	(201,590)

Notes:

(i) The deferred tax liability of RMB88,053,000 were recognised on the acquisition of the 44% equity interest in Parkson Retail Development Co., Ltd. (note 21(i)).

(ii) As disclosed in note 21(i), the Group treated the adjustment to those fair values relating to previously held interests of Parkson Retail Development Co., Ltd. as a revaluation. The tax base of these assets was not adjusted to conform to such revalued amounts and accordingly a deferred tax liability of RMB112,067,000 in respect of the revaluation surplus arising from the property, plant and equipment, investment properties and lease prepayments was recognised. Such deferred tax liability was charged to equity as the related revaluation surplus was credited to the equity.

21. BUSINESS COMBINATIONS

(i) Acquisition of an additional 44% equity interest in Parkson Retail Development Co., Ltd. ("Beijing Parkson")

On 26 May 2006, the Group entered into sale and purchase agreements with the respective PRC joint venture partners of Beijing Parkson to acquire the remaining 44% interest in Beijing Parkson (the "Acquisition Transaction") for a total cash consideration of RMB525,078,000. Beijing Parkson was owned as to 56% by the Group and was accounted for as a jointly-controlled entity under the proportional consolidation method until the date of control was obtained by the Group on 1 July 2006. Beijing Parkson became a wholly-owned subsidiary of the Group thereafter.

The Acquisition Transaction gives rise to a business combination and IFRS 3 applies when control is obtained over a former joint venture. Therefore, at the date control was obtained, the Group (1) recognised goodwill of RMB292,804,000, being the difference between the cost of the transaction and the fair value of Beijing Parkson's identifiable net assets at the date control is obtained, for the newly acquired 44% interest; (2) recognised the identifiable assets and liabilities of Beijing Parkson at 100% of their fair values; and (3) deemed any adjustment to those fair values relating to the previously held interests as a revaluation.

Pursuant to item (3) above, a revaluation surplus of RMB336,312,000 comprising the property, plant and equipment, investment properties and lease prepayments of RMB18,483,000, RMB112,072,000 and RMB205,757,000, respectively, and the attributable deferred tax liabilities of RMB112,067,000 was recognised in these financial statements.

21. BUSINESS COMBINATIONS *(continued)*

(i) Acquisition of an additional 44% equity interest in Parkson Retail Development Co., Ltd. ("Beijing Parkson") *(continued)*

The fair values of the identifiable assets and liabilities at the date of acquisition were:

	Fair value recognised on acquisition *RMB'000*	Carrying value *RMB'000*
Property, plant and equipment	141,943	127,420
Investment properties	101,200	13,143
Lease prepayments	183,690	22,025
Other assets	46,034	46,034
Deferred tax assets	9,407	9,407
Inventories	14,635	14,635
Trade receivables	338	338
Prepayments, deposits and other receivables	27,913	27,913
Cash and cash equivalents	133,902	133,902
	659,062	394,817
Interest-bearing bank loans	(100,559)	(100,559)
Trade payables	(103,682)	(103,682)
Tax payable	(13,566)	(13,566)
Customers' deposits, other payables and accruals	(113,733)	(113,736)
Long term payables	(7,195)	(7,195)
Deferred tax liabilities	(88,053)	–
	(426,788)	(338,738)
Fair value of net assets	232,274	56,079
Goodwill arising on the acquisition (note 14(i))	292,804	
Consideration	525,078	

The cash outflow on the acquisition is as follows:

	RMB'000
Net cash acquired	133,902
Cash paid	(525,078)
Net cash outflow	(391,176)

21. BUSINESS COMBINATIONS *(continued)*

(ii) Acquisition of a 100% interest in Asia Victory International Limited ("Asia Victory")

On 15 November 2006, the Group entered into a sale and purchase agreement with Mr. Kok Lam, an independent third party, to acquire the entire equity interest in Asia Victory for a total cash consideration of RMB315,608,000. Asia Victory and its subsidiaries principally engage in the operation of two department stores in Kunming, the PRC. This acquisition was accounted for under the purchase method and the excess of the consideration over the fair value of the net assets acquired by the Group of RMB315,225,000 was recognised as goodwill (note14(i)).

The fair values of the identifiable assets and liabilities at the date of acquisition were:

	Fair value recognised on acquisition *RMB'000*	Carrying value *RMB'000*
Property, plant and equipment	13,973	13,973
Inventories	11,463	11,463
Prepayments, deposits and other receivables	59,021	59,021
Cash and cash equivalents	6,015	6,015
	90,472	90,472
Customers' deposits, other payables and accruals	(90,089)	(90,089)
Fair value of net assets	383	383
Goodwill arising on the acquisition (note 14(i))	315,225	
Consideration	315,608	

The cash outflow on the acquisition is as follows:	*RMB'000*
Net cash acquired	6,015
Cash paid	(315,608)
Net cash outflow	(309,593)

Since the date of the acquisitions, the acquired entities have contributed RMB64,106,000 to the net profit of the Group. Had the combinations taken place at the beginning of 2006, the total operating revenues and the profit of the Group would have been RMB2,576,984,000 and RMB575,896,000, respectively.

22. INVENTORIES

Group

	2006	2005
	RMB'000	*RMB'000*
Merchandise, at cost	98,141	71,287
Consumables, at cost	11,763	9,651
	109,904	80,938

23. 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 and there is no significant concentration of credit risk. The receivables are interest-free.

An aged analysis of the trade receivables as at the balance sheet date, based on payment due date, is as follows:

Group

	2006	2005
	RMB'000	*RMB'000*
Within 3 months	7,785	6,815
3 to 12 months	4,566	9,876
Over 1 year	7,782	2,845
	20,133	19,536
Less: Allowance for doubtful debts	(1,644)	(2,799)
	18,489	16,737

Included in the balance as at 31 December 2006 are trade receivables from jointly-controlled entities of RMB1,250,000 (2005: RMB1,828,000) and from fellow subsidiaries of RMB12,416,000 (2005: RMB1,416,000) attributable to the consultancy fee income of the Group as disclosed in note 35(ii) below. Such balances are unsecured and interest-free.

24. INVESTMENTS

Group

	2006	2005
	RMB'000	*RMB'000*
Government bond securities, listed	–	1,842

The government bond securities were held for trading and were disposed of during the year. The fair value of the financial assets was determined directly by reference to the published price quotation.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	Notes	2006	2005
		RMB'000	*RMB'000*
Deposits		31,190	15,426
Prepayments		26,995	10,534
Advances to suppliers		26,600	18,398
Receivables from jointly-controlled entities		–	27,768
Receivables from joint venture partners		–	1,620
Receivables from minority equity holders	*(i)*	72,376	84,276
Designated loans	*(ii)*	19,400	14,900
Other receivables		84,773	60,687
		261,334	233,609
Less: Allowance for doubtful debts		(1,842)	(359)
		259,492	233,250

Notes:

(i) Included in the balance of receivables from the minority equity holders as at 31 December 2006, there were balances of entrusted loans to a PRC joint venture partner of Anshan Tianxiang Parkson Shopping Centre Co., Ltd. which were overdue since 24 September 2006. The overdue principal amount was RMB70 million and the balance of accrued interest as at 31 December 2006 was approximately RMB1.1 million. Directors consider the above-mentioned outstanding balances are fully recoverable because the Group has the right to off-set the outstanding balances against the Group's future rental payments to the borrower.

(ii) The designated loans bear interest at rates ranging from 6.12% to 6.91% (2005: 5.8%) per annum and will mature within one year. The Group has the right to off-set the outstanding designated loan balances against future rental payments to these borrowers.

26. CASH AND CASH EQUIVALENTS

Group

	2006	2005
	RMB'000	*RMB'000*
Short term deposits	1,371,983	1,107,062
Cash and bank balances	1,899,383	973,345
Cash and cash equivalents	3,271,366	2,080,407

The cash and cash equivalents of the Group amounting to RMB3,055,349,000 as at 31 December 2006 (2005: RMB998,677,000) 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

	2006	2005
	RMB'000	*RMB'000*
Short term deposits	201,640	1,079,062
Cash and bank balances	1,300	850
Cash and cash equivalents	202,940	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 BANK LOANS

Group

	Notes	2006 *RMB'000*	2005 *RMB'000*
PRC bank loans	*(i)*	1,500,000	–
PRC bank loans, secured	*(ii)*	190,913	234,302
	(iii)	1,690,913	234,302
Bank loans repayable:			
Within one year or on demand		83,886	154,856
In the second year		36,936	19,512
In the third to fifth years		1,570,091	59,934
		1,690,913	234,302
Less: Portion classified as current liabilities		(83,886)	(154,856)
Long term portion		1,607,027	79,446

Notes:

(i) The PRC bank loans from JPMorgan Chase Bank, N.A., Shanghai Branch, have a maturity date on 13 November 2011 and an interest rate equals to the five-year bank loan rate as pronounced by the People's Bank of China plus a spread of 2.35% per annum.

To hedge the Group's interest rate exposure attributable to the PRC bank loans, on 15 November 2006, the Group and JPMorgan Chase Bank, N.A. entered into a series of interest rate swap contracts (note 34). These contracts are cash flow hedges of the expected future interest payments in respect of the above-mentioned PRC bank loans. The net impact of these interest rate swap contracts is to convert the interest expenses from variable to a fixed rate of 10.3%. On each settlement date, the bank loan interest and interest rate swap contracts will be settled simultaneously and on a net basis.

27. INTEREST-BEARING BANK LOANS *(continued)*

(ii) At 31 December 2006, bank loans of approximately RMB190,913,000 (2005: RMB211,902,000) were secured by pledges of a building of RMB65,781,000 (2005: RMB63,643,000), investment properties of nil (2005: RMB5,215,000) and lease prepayments of RMB122,559,000 (2005: RMB9,721,000) and buildings of a minority equity holders.

The effective interest rate for the short term bank loans during the year was 6.138% (2005: 5.6% to 6.2%). The effective interest rate of the long term bank loans during the year was 5.85% (2005: 5.9%).

(iii) As at 31 December 2006 and 2005, all the Group's interest-bearing bank loans were denominated in Renminbi.

(iv) A bank loan balance with principal amount of RMB49,045,470 which attributable to Anshan Tianxing Parkson Shopping Centre Co., Ltd. ("Anshan Parkson"), a subsidiary of the Group, was overdue for repayment since 25 October 2006. The bank loan balance was borrowed to fund the entrusted loans to the PRC joint venture partner of Anshan Parkson as disclosed in note 25(i) above and is secured by the properties of the same joint venture partner. Directors are confident that, in line with the recovery of the entrusted loans, these matters can be resolved without any material impact on the Group's financial position or results.

28. TRADE PAYABLES

An aged analysis of the trade payables is as follows:

Group

	2006 *RMB'000*	2005 *RMB'000*
Within 3 months	838,190	554,896
3 to 12 months	26,611	9,947
Over 1 year	6,817	4,160
	871,618	569,003

Note:

Included in the balances as at 31 December 2006 are payables to a fellow subsidiary of RMB1,080,000 (2005: Nil) attributable to the royalty fee expenses of the Group as disclosed in note 35(i) below. The balances were unsecured and interest-free.

29. CUSTOMERS' DEPOSITS, OTHER PAYABLES AND ACCRUALS

Group

	Note	2006 RMB'000	2005 RMB'000
Customers' deposits		161,644	24,229
Payables to joint venture partners		421	13,139
Provision for coupon liabilities	(i)	73,132	44,434
Accrued wages and salaries		79,772	55,141
Other payables and accruals		296,128	218,505
		611,097	355,448

Note:

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

	2006 RMB'000	2005 RMB'000
At 1 January	44,434	21,198
Business combinations	15,050	3,980
Reorganisation	–	12,417
Arising during the year	66,801	26,198
Utilised	(32,786)	(15,919)
Unused amounts reversed	(20,367)	(3,440)
At 31 December	73,132	44,434

A provision for coupon liabilities is recognised for the expected amount of redemptions 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 points outstanding and the current information available about the level of redemptions based on the two-year redemption period.

30. LONG TERM PAYABLES

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

31. SENIOR GUARANTEED NOTES

On 14 November 2006, the Company issued the senior guaranteed notes (the "Notes") in an aggregate principal amount of US$200 million. The Notes were admitted to the Official List of the Singapore Exchange Securities Trading Limited. The Notes are due on 14 November 2011 and bear interest at a rate of 7.875% per annum. Interest is payable semi-annually in arrears on 14 May and 14 November of each year, commencing on 14 May 2007.

The obligations of the Company under the Notes are secured by (i) first priority pledges and share charges of all the ownership interests of the Company, direct and indirect, in certain subsidiaries, including Grand Parkson Retail Group Limited, Parkson Investment Pte Ltd., Exonbury Limited, Parkson Suppliers Pte Ltd., Step Summit Limited, Global Heights Investment Limited, Rosenblum Investments Pte Ltd. and Hong Kong Fen Chai Investment Limited and (ii) a charge over the CLN as disclosed in note 18 to these financial statements.

32. CONTINGENT LIABILITIES

The Group and the Company did not have any significant contingent liabilities as at 31 December 2006.

33. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS

(i) Operating lease arrangements

As lessee

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 at 31 December.

	2006	2005
	RMB'000	*RMB'000*
Within one year	174,759	115,166
In the second to fifth years, inclusive	662,496	477,496
After five years	1,529,386	1,322,877
	2,366,641	1,915,539

33. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS *(continued)*

(i) Operating lease arrangements *(continued)*

As lessor

The Group leases out certain of its properties under operating leases. These leases have remaining non-cancellable lease terms of 1 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 at 31 December.

	2006 *RMB'000*	2005 *RMB'000*
Within one year	36,855	26,721
In the second to fifth years, inclusive	61,739	84,172
After five years	19,486	18,356
	118,080	129,249

(ii) In addition to the operating lease arrangements above, the Group had the following capital commitments at 31 December.

	2006 *RMB'000*	2005 *RMB'000*
Contracted, but not provided for:		
Leasehold improvements	7,714	–

The Company did not have any significant capital commitments at the balance sheet date.

34. FINANCIAL INSTRUMENTS

Fair values

The financial instruments of the Group mainly consist of cash and cash equivalents, held-to-maturity investments, guarantee deposits, prepayments, deposits and other receivables, trade receivables, trade payables, customers' deposits, other payables, bank loans, senior guaranteed notes and long term payables.

The carrying amounts of the Group's financial instruments classified as current approximated to their fair values as at 31 December 2006.

As at 31 December 2006, the fair values of the held-to-maturity investments, bank loans and the senior guaranteed notes approximated to their carrying values because these financial instruments were issued close to the year end and there were no material fluctuations in the market interest rates during their outstanding periods. The fair values of other long term financial instruments of the Company have been calculated by discounting the expected future cash flows at prevailing interest rates.

Interest rate risk

The following table sets out the carrying amount, by maturity, of the Group's financial instruments that are exposed to interest rate risk:

Year ended 31 December 2006

	Within 1 year *RMB'000*	1-2 years *RMB'000*	2-3 years *RMB'000*	3-4 years *RMB'000*	4-5 years *RMB'000*	Total *RMB'000*
Fixed rate						
Held-to-maturity investments	–	–	–	–	1,561,740	1,561,740
Designated loans	19,400	–	–	–	–	19,400
Senior guaranteed notes	–	–	–	–	(1,526,806)	(1,526,806)
PRC bank loans	–	–	–	–	(1,500,000)	(1,500,000)
Interest rate swap contracts*						
Floating rate						
Cash assets	3,271,366	–	–	–	–	3,271,366
PRC bank loans, secured	(83,886)	(36,936)	(39,156)	(30,935)	–	(190,913)

* The effect of the interest rate swap is discussed in note 27(i).

Financial instruments with floating rates are subject to interest rate risk. The interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are non-interest-bearing and are therefore not subject to interest rate risk.

34. FINANCIAL INSTRUMENTS *(continued)*

Interest rate risk *(continued)*

Year ended 31 December 2005

	Within 1 year RMB'000	1-2 years RMB'000	2-3 years RMB'000	3-4 years RMB'000	4-5 years RMB'000	Total RMB'000
Fixed rate						
Designated loans	14,900	–	–	–	–	14,900
Floating rate						
Cash assets	2,080,407	–	–	–	–	2,080,407
PRC bank loans, secured	(154,856)	(19,512)	(20,684)	(21,927)	(17,323)	(234,302)

Credit risk

The cash at banks, short term deposits, held-to-maturity investments, trade receivables and prepayments, deposits and other receivables included in the consolidated financial statements represent the Group's major exposure to the credit risk attributable to the financial instruments. The Group has no other significant concentrations of credit risk.

Hedging activities

Cash flow hedges

As at 31 December 2006, the Group held four interest rate swap contracts which are synthetic financial instruments and designated as hedges of the expected interest payments attributable to the PRC bank loans in a total amount of RMB1,500,000,000 (note 27 (i)).

The interest rate swap contracts have been drafted to match the principal amounts and terms of the relevant bank loan agreements and these synthetic financial instruments will together generate a fixed interest rate bank loan with an effective interest rate of 10.3%.

The Group and JPMorgan Chase Bank, N.A. agreed that the execution of the interest rate swap contracts is non-separable from the performance of the PRC bank loans and the parties have the right and intention to realise the assets and settle the liabilities attributable to the PRC bank loans and the interest rate swap contracts simultaneously and on a net basis.

The cash flow hedges of the expected future interest payments on 13 May and 13 November of each year, commencing on 13 May 2007, were assessed to be highly effective and as at 31 December 2006 there is no unrealised gain or loss in respect of these contracts.

35. RELATED PARTY TRANSACTIONS

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

Continuing transactions:

	Notes	2006 *RMB'000*	2005 *RMB'000*
Royalty fee expenses	*(i)*	1,080	2,421
Consultancy fee income	*(ii)*	11,352	3,423
Property management fee expenses	*(iii)*	9,293	9,293

Notes:

(i) The royalty fee expenses are payable to Parkson Corporation Sdn. Bhd. ("Parkson Corporation"), a fellow subsidiary of the Company, for the Group's entitlement to use the "Parkson" trademark in the PRC. 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) The consultancy fee income is received from the jointly-controlled entities of the Group of RMB2,092,000 (2005: RMB2,576,000) and fellow subsidiaries of the Group of RMB9,260,000 (2005: RMB847,000). The consultancy fees are determined according to the underlying contracts.

(iii) The property management fee expenses are payable to Shanghai Nine Sea Lion Properties Management Co., Ltd., an associate of the Company. The property management fee of RMB9,293,000 per annum was charged according to the underlying contracts.

(iv) Details of the Group's outstanding balances with the related parties are disclosed in notes 23 and 28 to these financial statements.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken other than the senior guaranteed notes, held-to-maturity investments, bank loans from JPMorgan Chase Bank, N.A. and related interest rate swaps which were entered into with the purpose of raising finance for the Group's operations.

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

(i) Credit risk

The cash at banks, short term deposits, held-to-maturity investments, trade receivables and prepayments, deposits and other receivables included in the consolidated financial statements represent the Group's major exposure to the credit risk attributable to its financial assets. The Group has no other significant concentrations of credit risk.

(ii) Interest rate risk

The interest rate risk attributable to the RMB1,500,000,000 bank loans are hedged by interest rate swap contracts (note 34). The Group has no floating rate bank loans except for the bank loans of RMB190,913,000 as disclosed in note 27 (ii) to the consolidated 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 RMB which cannot be freely exchanged into foreign currencies. As at 31 December 2006, a substantial amount of the Group's assets and liabilities was denominated in RMB. Fluctuation of the exchange rates of RMB against other currencies can affect the Group's results of operations.

The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

(iv) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing loans. As at 31 December 2006, the Group had bank loan balances of RMB83,886,000 (2005: RMB154,856,000) which will be matured within 12 months. The directors have reviewed the Group's working capital and capital expenditure requirements and determined that the Group has no significant liquidity risk.

37. SHARE CAPITAL

	Number of ordinary shares	Nominal value	
	'000	*HK$'000*	*RMB'000*
Authorised			
Ordinary shares of HK$0.1 each	1,500,000	150,000	156,000
Issued and fully paid			
At 1 January 2006 and 31 December 2006	552,000	55,200	57,436

There was no change in the authorised and issued capital of the Company during the year.

Subsequent to 31 December 2006, on 10 January 2007, a total of 8,188,950 share options were granted to 482 eligible employees of the Company at an exercise price of HK$36.75 per share pursuant to an employee share option scheme. The options are exercisable for a period from 24 January 2007 to 1 January 2011.

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 joint venture companies registered in the PRC are required to transfer a certain percentage, as approved by the board of directors, of their profit after income tax, as determined in accordance with PRC accounting rules and regulations, to the reserve fund, the enterprise expansion fund and the employee bonus and welfare fund. These funds are restricted as to use.

Pursuant to the relevant PRC laws and regulations, wholly-owned foreign enterprises ("WOFEs") registered in the PRC are required to transfer not less than 10% of their profit after tax, as determined in accordance with 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.

38. RESERVES *(continued)*

(a) Group *(continued)*

(i) PRC reserve funds (continued)

In accordance with the relevant PRC laws and regulations, PRC domestic companies are required to transfer 10% of their profit after income tax, as determined in accordance with PRC GAAP, to the statutory common reserve, until the balance of the fund reaches 50% of the registered capital of that company. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory common reserve may be used to offset against the accumulated losses, if any. PRC domestic companies are required to transfer 5% to 10% of their profit after tax, as determined under PRC accounting rules and 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 therefore.

(iii) Asset revaluation reserve

Movement in asset revaluation reserve represents the fair value adjustments to the property, plant and equipment, investment properties and lease prepayments which were already owned by the Group before the acquisition of the remaining 44% equity interest in Beijing Parkson (note 21(i)).

38. RESERVES *(continued)*

(b) Company

	Share premium *RMB'000*	Contributed surplus *RMB'000* *note (i)*	Accumulated losses *RMB'000* *note (ii)*	Total *RMB'000*
Loss for the period	–	–	(8,380)	(8,380)
Issue of shares for Reorganisation	–	570,706	–	570,706
Issue of shares upon public listing	1,114,251	–	–	1,114,251
Share premium transfer to share capital	(37,614)	–	–	(37,614)
Share issue costs	(51,673)	–	–	(51,673)
At 31 December 2005	1,024,964	570,706	(8,380)	1,587,290
Profit for the year	–	–	5,873	5,873
Dividends paid (iii)	(226,320)	–	–	(226,320)
At 31 December 2006	**798,644**	**570,706**	**(2,507)**	**1,366,843**

Notes:

(i) Contributed surplus
The contributed surplus of the Company represents the difference between the then combined net asset value of the subsidiaries acquired pursuant to the Reorganisation over the nominal value of the shares of the Company issued in exchange therefore.

(ii) Profit/(loss) attributable to equity holders of the parent
The profit attributable to equity holders of the parent for the year ended 31 December 2006 dealt with in the financial statements of the Company was RMB5,873,000 (2005: loss of RMB8,380,000).

38. RESERVES *(continued)*

(b) Company *(continued)*

(iii) The Company's final dividend for 2005 and interim dividend for 2006 of approximately RMB143,520,000 and RMB82,800,000, respectively were distributed out of the Company's share premium account. Under the Companies Law of the Cayman Islands, the share premium is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

39. DIVIDEND

	2006 *RMB'000*	2005 *RMB'000*
Interim dividend – RMB0.15 (2005: Nil) per ordinary share	82,800	–
Proposed final dividend – RMB0.27 (2005: RMB0.26) per ordinary share	149,040	143,520
	231,840	143,520

The proposed final dividend for the year (not recognised as liability as at 31 December 2006) is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

40. ULTIMATE HOLDING COMPANY

The directors consider PRG Corporation, a limited liability company incorporated in the British Virgin Islands, to be the parent company and Lion Diversified Holdings Berhad, a company incorporated in Malaysia, to be the ultimate holding company.

41. SUBSEQUENT EVENTS

Save as disclosed in note 37, the Group did not have any significant subsequent events taken place subsequent to 31 December 2006.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 26 February 2007.