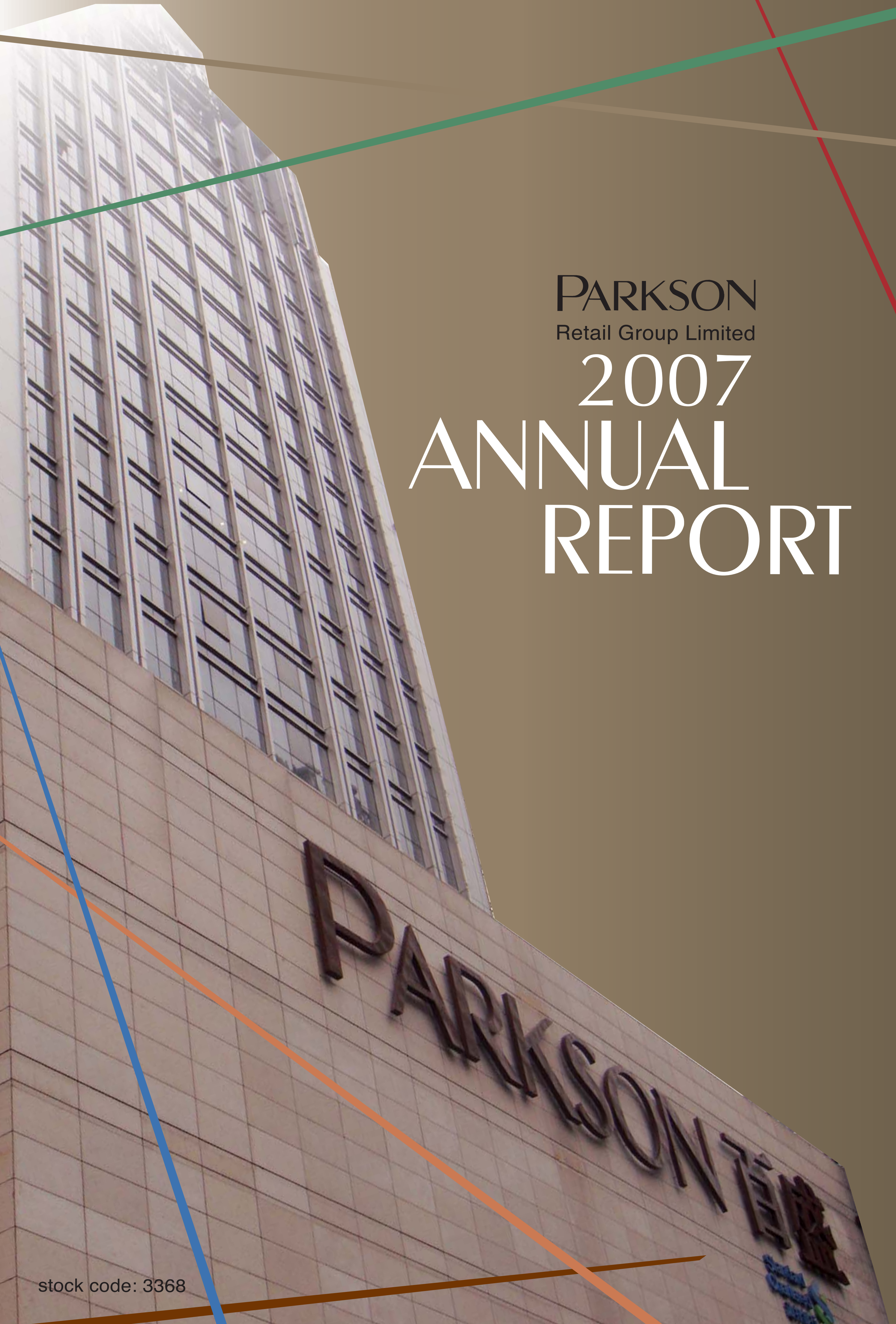
PARKSON
Retail Group Limited

2007 ANNUAL REPORT



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2007
ANNUAL REPORT

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Corporate Profile

Parkson Retail Group Limited (the "Company") is one of the first few foreign-owned department store chain operators to establish a presence in the People's Republic of China ("the PRC") market in the early 1990's. Through the Company's subsidiaries, jointly controlled entities and associate (hereinafter collectively refer to as the "Group"), the Group now owns and operates 39 "Parkson" branded department stores and 2"Xtra" branded supercentres in prime location in 26 cities throughout the PRC.

Consistent market positioning allowed Parkson to enjoy strong brand recognition amongst the middle to middle-upper end consumers. Parkson stores offer wide range of internationally reowned brands of fashion and lifestyle related merchandises focusing on four main categories of merchandise namely, Fashion & Apparel; Cosmetics & Accessories; Household & Electrical; and Groceries & Perishables, targeting the young and contemporary market.

Corporate Information

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

CHENG YOONG CHOONG
(MANAGING DIRECTOR)
CHEW FOOK SENG
(CHIEF EXECUTIVE OFFICER)

NON-EXECUTIVE DIRECTOR

TAN SRI CHENG HENG JEM
(CHAIRMAN)

INDEPENDENT NON-EXECUTIVE DIRETORS

KO TAK FAI, DESMOND
WERNER JOSEF STUDER
YAU MING KIM, ROBERT

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

SUITE 1316, PRINCE'S BUILDING
10 CHATER ROAD
CENTRAL
HONG KONG

COMPANY SECRETARY

SENG SZE KA MEE, NATALIA
FCIS (PE), FCS, FHKIoD, EMBA

QUALIFIED ACCOUNTANT

WONG KANG YEAN, CLARENCE
ACCA, CA (MIA)

AUTHORISED REPRESENTATIVES

CHENG YOONG CHOONG
CHEW FOOK SENG

AUDIT COMMITTEE

KO TAK FAI, DESMOND (CHAIRMAN)
WERNER JOSEF STUDER
YAU MING KIM, ROBERT

REMUNERATION COMMITTEE

CHENG YOONG CHOONG (CHAIRMAN)
KO TAK FAI, DESMOND
YAU MING KIM, ROBERT

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

BUTTERFIELD FUND SERVICES (CAYMAN)
LIMITED
BUTTERFIELD HOUSE
68 FORT STREET
P.O. BOX 705, GEORGE TOWN
GRAND CAYMAN, CAYMAN ISLANDS
BRITISH WEST INDIES

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

TRICOR INVESTOR SERVICES LIMITED
26TH FLOOR TESBURY CENTRE
28 QUEEN'S ROAD EAST
WANCHAI
HONG KONG

PRINCIPAL BANKERS IN CHINA

BANK OF CHINA
AGRICULTURAL BANK OF CHINA
INDUSTRIAL AND COMMERCIAL BANK OF
CHINA
CHINA MERCHANTS BANK
JPMORGAN CHASE BANK N. V., SHANGHAI
BRANCH

PRINCIPAL BANKERS IN HONG KONG

BNP PARIBAS HONG KONG BRANCH
STANDARD CHARTERED BANK
(HONG KONG) LIMITED
THE HONG KONG AND SHANGHAI
BANKING CORPORATION LIMITED
UNITED COMMERCIAL BANK

AUDITORS

ERNST & YOUNG
CERTIFIED PUBLIC ACCOUNTANTS

WEBSITE ADDRESS

www.parkson.com.cn

Milestones for Year 2007

- Completed the acquisition of the minority interest in 2 Parkson branded department stores.

- Completed the acquisition of the 100% ownership of the Jiangxi K&M store in Nanchang city.

- Completed the issuance of 5-years US$125 million high yield notes.

- Opened 3 new stores with an aggregate gross floor area of approximately 65,000 square meters.

Chairman's Statement

Introduction

The year 2007 marked another outstanding year for the Group. We continued to report record breaking performances in the operating revenues and profit attributable to our shareholders. Total operating revenues improved by 40.1% to RMB3,059.7 million and the profit attributable to the shareholders increased by 46.7% to RMB676.0 million. Earning per share rose 47.0% to RMB1.22. On the back of this record breaking result, the Board of Directors recommended a final dividend payment of RMB0.38 per share. Together with the interim dividend per share of RMB0.22 declared and paid, the full year dividend would amount to RMB0.60 per share representing a dividend payout ratio of 49.2%.

TAN SRI CHENG HENG JEM
CHAIRMAN

Market Overview

The PRC economy continued its rapid growth in the year 2007, as reported by the National Bureau of Statistic of China, the Gross Domestic Product (the "GDP") for the year expanded by approximately 11.4%. The GDP expansion was driven by the continuous growth in the export sector, the fixed asset investment sector and the impressive growth recorded by the domestic consumption sector with the retail industry in particular having expanded by more than 16.8% in the year 2007, outgrowing the economy for the second consecutive year.

Supported by strong economic fundamentals and ongoing market-friendly measures implemented by the PRC Government, the Renminbi has in the year of 2007 appreciated by approximately 7% against the greenback providing an extra boost to the already buoyant domestic consumer market which in turn drives the expansion of the retail industry. The retail market of the PRC in the year 2007 was worth more than RMB8.9 trillion and ranked amongst the top 5 retail markets in the world.

Looking Forward

Despite the uncertainties and threats facing the world economy due to the credit market and financial market crisis in the United States of America, the economic outlook in the PRC remains robust and should maintain its growth momentum going forward. The anticipated slow down on the export sector and the fixed asset investment sector of the economy will be largely offset by the continuing strong growth in the domestic consumption sector which is expected to benefit from the continuous efforts by the government to encourage domestic consumption in particular the retail industry as the engine of economic growth going forward. Changing demographic with the strong emergence of middle class with higher spending power should further support the efforts from the government.

The strong brand equity of Parkson supported by our deep understanding about the PRC retail market and our strong performance in the year 2007 has reassured our ongoing retail expansion initiative will enable us to further capitalize on the growing retail market. We will remain firmly focus in the department store sector and diligently execute our carefully developed expansion plans. In this respect, while we continue to place priorities in the major cities in the PRC, where the Parkson brand is already strong, considerate efforts will also be employed in developing high potential markets in the 2nd and 3rd tier cities in the PRC.

Although we are pleased with the progress we have made in the year 2007, we believe that the year 2008 will be a challenging year for the Group to maintain our growth. The liberalisation of the foreign ownership in the retail industry has brought along the emergence of various retail formats that present increased competition to the existing retail operators. However we believe that the organised modern department store format remains the preferred format of shopping among the younger generation of middle class with higher spending power. We are committed to remain focus in this retail format and our middle to middle upper end market positioning. We will continue to improve further by riding on our brand equity in the PRC, our proven business model and our track records of delivering healthy growth rates, as we places a great deal of emphasis on procuring a greater return to our shareholders and business partners.

Lastly, on behalf of the Board, I would like to express my heartiest gratitude to our workforce for their hard work and dedication, my sincere appreciation to our valued customers, shareholders and the business associates for their continuous support and my personal appreciation to my fellow members of the Board and the senior management, for their contribution and devotion to the Group.

TAN SRI CHENG HENG JEM
CHAIRMAN
22 FERUARY 2008

Managing Director's Statement

CHENG YOONG CHOONG
MANAGING DIRECTOR

Market and Business Review

The Group's gross sales proceeds increased by 46.0% to reach RMB9.0 billion with the Same Store Sales (the "SSS") growth coming in strongly at approximately 18.4% for the year under review. The impressive SSS growth was achieved through a combination of effective promotional activities to increase customer traffic, our philosophy of innovation by introducing quality branded new products with higher value to our loyal customers and continuously re-aligning our use of floor spaces, relocating high value and productive merchandises to premium and high traffic floor spaces whenever the opportunities arise.

The Group continued to enlarge our market share and improved our network through new stores opening and earnings-accretive acquisitions. During the year under review, we opened one new store each in Beijing and Xi'an to consolidate our leadership position in the respective retail markets and we also opened our flagship store in Chengdu in December 2007 to increase our market share. We continued to execute acquisitions that enhanced the earnings for our shareholders. We acquired in the month of April 2007, the Jiangxi K&M store in Nanchang city, the capital city of Jiangxi province and successfully rebranded the store to Nanchang Parkson in the month of September of the same year. The management will make use of the strong reputation and foundation of the store in Nanchang city as the platform to further expand our network in Jiangxi province.

In the month of June 2007, we successfully acquired the remaining 49% interest in Anshan Parkson department store not already owned by the Group. Anshan Parkson has been performing remarkably well since its opening in the year 2001 and is currently our flagship store for the north east region. In conjunction with the acquisition of the 49% interest in Anshan Parkson, we have also acquired 100% interest of the land use right and property use right of the properties that Anshan Parkson is occupying and the acquisition was completed in the month of January 2008. The acquisition of Anshan properties is in line with the Group's intention to acquire strategic locations of our flagship stores.

In the month of October 2007, we completed the acquisition of the remaining 40% interest in Mianyang Parkson department store not already owned by the Group and in the month of September 2007, we entered into a sale and purchase agreement to acquire the remaining 49% interest in Xi'an Chang'an Parkson department store not already owned by the Group. Completion is expected to be in the first half of the year 2008.

As at the end of December 2007, we operate and manage a total of 41 stores across 26 cities in the PRC. Out of the 41 stores, 29 are self-owned stores in which we have at least a majority equity stake. The remaining 12 stores (10 Parkson branded department stores and 2 Xtra supercenter stores) belong to our related companies and/are managed by us. We possessed an option/right of first refusal to acquire all and any of the 10 Parkson branded department stores as and when we deem fit. Total retailing space under the Group's operation and management is approximately 906,000 square meters with the self-owned stores account for approximately 610,000 square meters and the managed stores account for the remaining 296,000 square meters.

The Group continues to look for new location for the expansion of its operation and network and to further consolidate its position as the leading department store owner and operator in this fast growing market. During the period under discussion, the Group had executed 3 additional lease agreements that will add a total of approximately 68,000 square meter of retailing space to our existing portfolio.

Prospect

We expect the PRC economy to maintain its strong growth in the coming years and the domestic consumption market is expected to be the key driver to the growth as it is benefiting not only from the strong emergence of middle class but it is also benefiting from the government's continuing policy to rebalance the economic growth away from export and fixed asset investments toward domestic consumption, which is expected to be the main pillar of the economy going forward.

Retail industry will continue to be one of the key beneficiaries of the booming domestic consumption market. The increasingly affluent younger middle class consumers with high discretionary buying power make the organized modern department store format one of the strongest growing retail formats. The market provides significant and exciting opportunities to modern department store chain operators with good geographical coverage and track record. With our strong brand equity and deep understanding of the PRC retail market, Parkson is well positioned to continue to capitalize on the strong demand for high quality branded fashion and lifestyle products among the increasingly trendy and affluent PRC consumers.



The Group will continue its expansion plans through both growing organically and acquisitions. We will continue to improve customer loyalty by further developing the Parkson brand through constantly reinventing our stores, introducing innovative brands and new product lines to the market and consistently changing the merchandise mix and brand mix in our stores to be in line with the development of each individual market where we operate in order to maintain a healthy SSS growth.

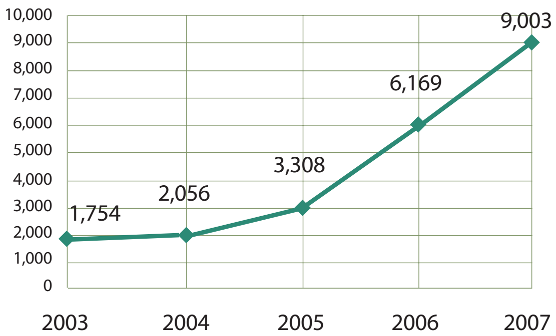
The Group aims to add not less than 15% of floor space to our portfolio annually through new stores opening in the future. At least 5 new stores with total gross floor area of more than 130,000 square meters and total retailing space of approximately 105,000 square meters are confirmed to be opened in the year 2008 with the possibility of more. On the acquisition front, the Group will continue to focus on our 3 prongs acquisition strategies of acquiring the minority interest of our existing subsidiaries and the controlling interest of the managed stores at earnings accretive pricing and continue to explore the opportunities for third party acquisitions that meet our strategic initiatives and return on capital requirements.

CHENG YOONG CHOONG
MANAGING DIRECTOR
22 FEBRUARY 2008

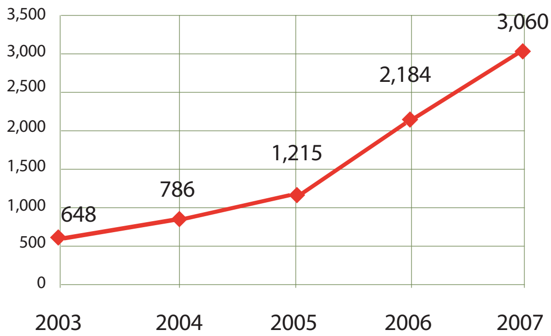
Financial Highlights

Operating Result (RMB'000)	2003	2004	2005	2006	2007	Change (%)
Gross sales proceeds[1]	1,754,262	2,055,875	3,307,969	6,168,718	9,003,406	46.0 %
Operating revenue	647,773	785,543	1,214,658	2,184,034	3,059,686	40.1 %
Profit from operations	177,970	249,457	397,193	707,913	1,016,522	43.6 %
Net profit	108,913	161,939	274,324	513,154	727,801	41.8 %
Net profit attributable to the Group	99,911	152,771	248,012	460,761	676,000	46.7 %
Basic earnings per share (RMB) [2]	0.23	0.35	0.55	0.83	1.22	47.0 %
Interim dividends per share	NA	NA	NA	0.15	0.22	46.7 %
Final dividends per share [3]	NA	NA	0.26	0.27	0.38	40.7 %
Full year dividends per share	NA	NA	0.26	0.42	0.60	42.9 %

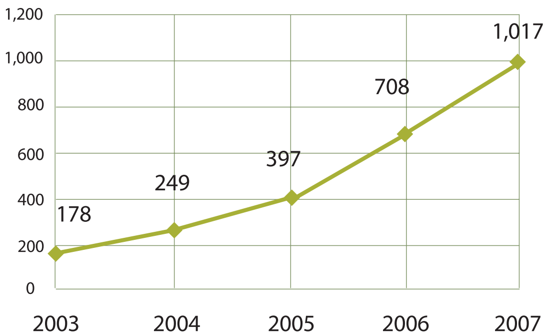
Gross sales proceeds
RMB million



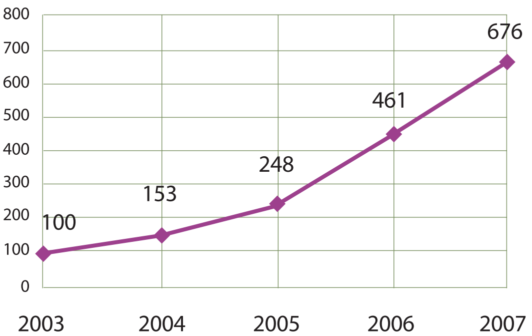
Operating revenue
RMB million



Profit from operations
RMB million



Net profit attributable to the group
RMB million



Balance sheet summary

(RMB'000)	2003	2004	2005	2006	2007
Non current assets	661,390	638,493	837,724	3,815,228	4,810,033
Current assets	741,067	890,411	2,413,174	3,659,251	4,179,432
Total assets	1,402,457	1,528,904	3,250,898	7,474,479	8,989,465
Current liabilities	742,680	700,293	1,173,936	1,680,119	2,003,565
Non current liabilities	107,627	106,311	203,636	3,474,877	4,117,825
Net assets	552,150	722,300	1,873,326	2,319,483	2,868,075
Represented by					
Owners' equity	498,093	655,983	1,780,880	2,227,587	2,789,051
Minority interests	54,057	66,317	92,446	91,896	79,024
Total equity	552,150	722,300	1,873,326	2,319,483	2,868,075

Notes:

1. Gross Sales proceeds represent the sum of sales proceeds from direct sales and concessionaire sales, income from providing consultancy and management services, rental income and other operating revenues.

2. The calculation of basic earnings per share for the year ended 31 December 2007 was based on the net profit attributable to equity holders of the Group for the year ended 31 December 2007 of approximately RMB676,000,000 and weighted average of approximately 553,936,185 shares in issue during the year.

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

3. The Company was incorporated on 3 August 2005 and accordingly, no dividend has been declared or paid by the Company for the years 2003 to 2004.

Management Discussion And Analysis

Total gross sales proceeds and operating revenues

During the year under review, the Group generated a total gross sales proceeds received or receivable of RMB9,003.4 million (comprising direct sales, sales proceeds from concessionaire sales, rental incomes, consultancy and management service fees and other operating revenues). Total gross sales proceeds for the said period represent a growth of 46.0% or RMB2,834.7 million from RMB6,168.7 million reported in the same period of the year 2006. This is mainly due to (i) the strong SSS growth of approximately 18.4%(ii) the inclusion of the full year sales performance of the acquisitions completed in the second half of the year 2006 and (iii) the inclusion of the sales performances of the acquisitions completed and new stores opened in the year 2007. The growth was also partly contributed by the change in the manner in which we recognized certain other operating revenues received or receivable from our concessionaires. We now recognized these other operating revenues on a gross basis at their full amount and we also recognize the corresponding expenses in full as other operating expenses.

The growth was however partially offset by the reduction in the consultancy and management service fees due to lesser managed stores within the Group's portfolio and the reduction of tax incentives granted by the PRC government from the reinvestment of dividend incomes. We received reduced tax incentives of RMB3.5 million in the first half of the year 2007. This represents a reduction of RMB22.4 million from RMB25.9 million received in the year 2006 (RMB3.0 million received in the third quarter and the balance of RMB22.9 million received in the last quarter of the year 2006).

The Group generated total merchandise sales of approximately RMB8,499.3 million. The concessionaire sales contributed approximately 87.7% and the direct sales contributed the balance of 12.3%. The Fashion & Apparels category made up approximately 49.4% of the total merchandise sales, the Cosmetics & Accessories category contributed approximately 30.7%, the Household & Electrical category contributed approximately 8.7% and the balance of approximately 11.2% came from the Groceries and Perishables category.

Commission rate from concessionaire sales was within management's expectation at 20.3%. Direct sales margin improved marginally by 0.5% to 17.1% compared to the same period in the year 2006.

Total operating revenues of the Group for the year under review grew by RMB875.7 million to RMB3,059.7 million or 40.1% from the numbers reported in the same period of the year 2006. The strong growth rate was in line with the growth of the total gross sales proceeds, but it was partially offset by the reduction of the consultancy and management service fees. The growth of operating revenues was also partially offset by the reduction of tax incentives granted by the PRC government from the reinvestment of dividend incomes. We received reduced tax incentives of RMB3.5 million in the first half of the year 2007. This represents a reduction of RMB22.4 million from RMB25.9 million received in the year 2006 (RMB3.0 million received in the third quarter and the balance of RMB22.9 million received in the last quarter of the year 2006).

Total Sales Proceeds And Sales Mix

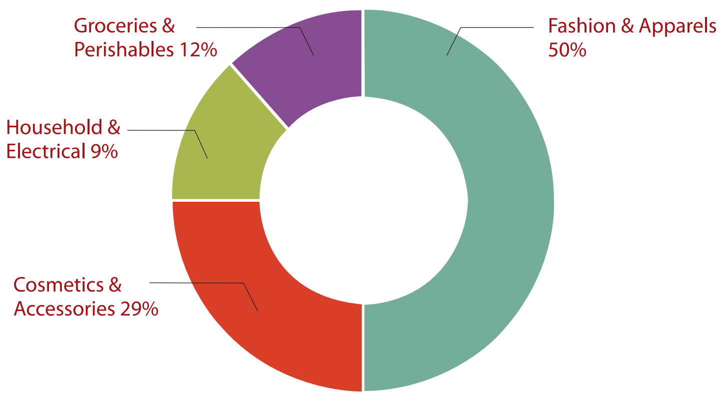
Total sales proceeds

(RMB'000)	2006	2007
Direct sales	758,049	1,044,130
Concessionaire sales	5,011,806	7,455,218
Total sales proceeds	5,769,855	8,499,348

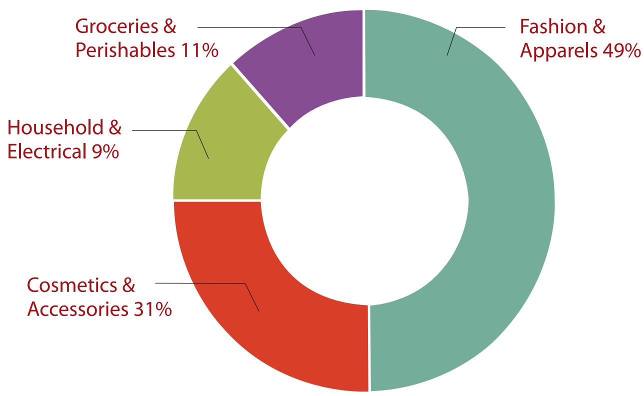
Sales proceeds by categories

(RMB'000)	2006	2007
Fashion and apparels	2,884,095	4,196,691
Cosmetics and accessories	1,645,860	2,610,216
Household and electrical goods	549,098	736,494
Groceries and perishables	690,802	955,947
Total sales proceeds	5,769,855	8,499,348

2006 Sales Mix



2007 Sales Mix



Operating Expenses

PURCHASE OF GOODS AND CHANGES IN INVENTORIES

The purchase of goods and changes in inventories refer to the cost of sales for the direct sales. In line with the increase of direct sales, the cost of sales increased to RMB865.7 million, an increase of RMB233.4 million or 36.9% from RMB632.3 million recorded for the same period of the year 2006. The gross profit margin of 17.1% improved marginally by 0.5% from 16.6% recorded for the same period of the year 2006.

STAFF COSTS

Staff costs increased by RMB71.6 million or 36.4% to RMB268.2 million, the increase was largely contributed by (i) the inclusion of the employee share option costs of RMB25.4 million for the share options granted and vested during the year 2007 or to be vested in the year 2008; (ii) the full year staff costs from the acquisitions completed in the second half of the year 2006 and (iii) the inclusion of staff costs for the acquisitions completed and new stores opened during the year 2007.

As a percentage to total operating revenues, the staff costs decreased marginally to 8.8% from 9.0% recorded in year 2006. However, excluding the employee share options costs the ratio stood at 7.9% representing a substantial improvement of 1.1%.

DEPRECIATION AND AMORTISATION

Depreciation and amortisation increased by RMB25.1 million or 28.3% to RMB113.8 million, the increase was primarily contributed by the full year depreciation and amortisation costs for the acquisitions completed in the second half of year 2006 and the inclusion of depreciation and amortisation costs for the acquisitions completed and new stores opened during the year 2007.

As a percentage to total operating revenues, depreciation and amortisation costs dropped to 3.7% from 4.1% reported for the same period of the year 2006. The drop is in line with the strong increase in comparative store operating revenues growth.

RENTAL EXPENSES

Rental expenses increased by RMB97.7 million or 43.0% to RMB324.8 million, the increase was largely due to the inclusion of the full year rental cost for the acquisitions completed in the second half of the year 2006 and the inclusion of rental cost for the acquisitions completed and new stores opened during the year 2007. The increase was also partly due to the increase payment of contingent rent for the performance related lease agreements.

As a percentage to total operating revenues, the rental expenses increased marginally to 10.6% from 10.4% recorded in the same period of the year 2006.

OTHER OPERATING EXPENSES

Other operating expenses which consist of mainly the utilities costs, marketing and promotional costs, credit card handling expenses, property management costs, pre-opening expenses of new stores and general administrative costs rose by RMB139.3 million or 42.0% to RMB470.7 million due to (i) the change in the manner in which we recognised certain other operating expenses as previously discussed in the total gross sales proceeds and operating revenues section (ii) the inclusion of pre-opening expenses of RMB10.2 million for new stores opened in the year 2007 (iii) inclusion of the full year other operating expenses for the acquisitions completed in the second half of the year 2006 and (iv) inclusion of the other operating expenses for the acquisitions completed and new stores opened in the year 2007.

As a percentage to total operating revenues, the ratio increased marginally by 0.2% from the same period of the year 2006 to 15.4% mainly due to the aforesaid reasons.

PROFIT FROM OPERATIONS

Profit from operations increased to RMB1,016.5 million, an improvement of RMB308.6 million or 43.6%, this is generally in line with the growth of operating revenues. The increase was however partly offset by the employee share options costs of approximately RMB25.4 million of which RMB12.7 million was recorded in the second half of the year 2007 and new store pre-opening expenses of approximately RMB10.2 million of which RMB8.9 million was recorded in the last quarter of the year 2007. Profit from operations as a percentage to total operating revenues improved marginally by 0.8% to 33.2% due to better operating efficiency of the stores.

FINANCE INCOME/(COSTS), NET

In November 2006, we entered into a financing arrangement which includes issuance of high yield notes, a subscription of a credit link notes with the proceeds of the high yield notes and drawdown of on shore commercial loans (collectively "Structure Financing") to obtain funding for our operating entities in the People's Republic of China for business expansion. The effect from the Structure Financing and the interest expense from the additional high yield notes issued in the month of May 2007 ("HYN 07") has resulted in a net interest expense of RMB73.8 million to the Group for the period under review compared to net interest income of RMB23.5 million for the same period in the year 2006.

SHARE OF PROFIT FROM AN ASSOCIATE

This is the share of profit from Shanghai Nine Sea Lion Properties Management Co. Ltd, an associate of the Company, the share of profit dropped from RMB538,000 in the year 2006 to RMB535,000 in the year 2007 due to reduction of management income received.

INCOME TAX

The Group's income tax expenses decreased by RMB3.4 million or 1.5% to RMB218.8 million due to the lower effective tax rate of 22.8%, a decline of 7.1% from 29.9% recorded for the same period of year 2006 due to the inclusion of higher amount of non taxable interest income, the previous years tax refund from the inland revenue department and increase number of stores with preferential tax rate.

NET PROFIT FOR THE YEAR

In line with the increase in revenue, the net profit for the year 2007 increased to RMB727.8 million, an improvement of RMB214.6 million or 41.8%. The net profit margin improved marginally to 23.8% from 23.5% recorded in the same period of the year 2006 due to the higher profitability and lower effective tax rate, however it was partially offset by the higher net interest expense incurred on the Structure Financing and the HYN07.

PROFIT ATTRIBUTABLE TO THE GROUP

Profit attributable to the Group for the year 2007 increased to RMB676.0 million, an increase of RMB215.2 million or 46.7%. This is in line with the increase in operating revenues and the profit from operations.

LIQUIDITY AND FINANCIAL RESOURCES

The cash and short-term deposits balance of the Group stood at RMB2,860.2 million as at the end of December 2007, representing a reduction of 12.6% from the balance of RMB3,271.4 million recorded as at the end of December 2006. The reduction was mainly due to the (i) payment of dividends of approximately RMB270.6 million to the shareholders of the Group and payment of dividends of approximately RMB49.0 million to the minority shareholders of the Group's subsidiaries (ii) payment of an aggregated RMB790.0 million for the acquisition of the remaining 49% minority interest in Anshan Parkson and the acquisition of 100% in the Nanchang Parkson store (iii) payment of approximately RMB100.0 million for the acquisition of the remaining 40% minority interest in Mianyang Parkson and payment of RMB25.5 million deposit for the acquisition of 49% minority interest of Xi'an Chang'an Parkson not already owned by the Group (iv) entrusted loan arrangement of approximately RMB120.0 million in relation to the acquisition of Nanchang Parkson store (v) increase in principle protected investment deposit of RMB821.5 million with local licensed banks, (vi) maintenance capital expenditures and new store opening capital expenditures of RMB148.0 million and (vii) repayment of bank loan of RMB654.7 million. The reduction was however offset by the positive cash flow of approximately RMB1,101.6 million generated from the operating activities and the net proceeds of RMB928.8 million from the issuance of HYN07. The Group was at net cash position of RMB1,239.3 million after netting off the effect from the Structure Financing and the HYN07. Total debt to total assets ratio of the Group expressed as a percentage of interest bearing loans and bank borrowings over the total assets was 31.9% as at 31 December 2007 after netting off the effects from the Structure Financing.

NET CURRENT ASSETS AND NET ASSETS

The Group's net current assets as at 31 December 2007 was approximately RMB2,175.9 million, an increase of 9.9% or RMB196.8 million from the balance of RMB1,979.1 million recorded as at 31 December 2006. Net asset of the Group as at 31 December 2007 rose to RMB2,868.1 million, an increase of RMB548.6 million or 23.7% over the balance as at 31 December 2006.

PLEDGE OF ASSETS

As at 31 December 2007, save for the shares in certain subsidiaries of the Company which were pledged pursuant to the Structure Financing, no other asset is pledged to the bank or lender.

SEGMENTAL INFORMATION

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

EMPLOYEES

As at 31 December 2007, the total number of employees of the Group was approximately 6,700. The Group ensures that all levels of employees are paid competitively within the standard in the market and employees are rewarded on performance related basis within the framework of the Group's salary, incentives and bonus scheme.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2007.

TREASURY POLICIES

The business transactions of the Group were mainly denominated in Renminbi. Therefore, except for the capital market transactions for funding needs, there is limited exposure in foreign exchange risk. Hedging instruments including swaps and forwards have been used in the past and would be used in the future, if necessary, to ensure that the Group's exposure to the foreign exchange rate fluctuation and the interest rate fluctuation is minimized.

In relation to the high yield notes issued in November 2006 and May 2007, the Group has simultaneously entered into a Structure Financing arrangement, which include subscription of the credit linked notes as mentioned above and entering into interest rate swaps to eliminate the Group's exposure to exchange rate and interest rate fluctuation.

Total debt to total assets ratio of the Group expressed as a percentage of interest bearing loans and bank borrowings over the total assets was 31.9% as at 31 December 2007 after netting off the effects from the Structure Financing.

Biographies of Directors and Senior Management

EXECUTIVE DIRECTORS

CHENG YOONG CHOONG

CHENG Yoong Choong, aged 44, is an Executive Director and the Managing Director of the Company. Mr Cheng is also the Chairman of the remuneration committee of the Company and a director of various companies of the Group. He graduated from the University of San Francisco with a Bachelor of Science degree and a Master of Business Administration in 1984. He has been with the Lion Group since 1987 in various capacities in stores operations and merchandising and has been the Chief Operating Officer of the retail division of the Lion Group since 2000. Mr Cheng has been with the Group since its inception. Mr Cheng is actively involved in the Malaysian and PRC retail scenes and was the chairman of the Malaysia Retailers Association in 1996. He was a member of the Executive Board of the Intercontinental Group of Department Stores in 1998 and 1999.

Mr Cheng is the nephew of Tan Sri Cheng Heng Jem, the Non-executive Director and Chairman of the Company.

CHEW FOOK SENG

CHEW Fook Seng, aged 57, is an Executive Director and Chief Executive Officer of the Company. He has been the Chief Executive Officer of the companies comprising the Group since 2001. He obtained his Master of Business Administration from the Northland Open University and International Management Centre from Buckingham and received training on retail management in the United States and Japan.

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

NON-EXECUTIVE DIRECTOR

TAN SRI CHENG HENG JEM

Tan Sri CHENG Heng Jem, aged 65, is a Non-executive Director and Chairman of the Company. Tan Sri Cheng has more than 35 years of experience in the business operations of the Lion Group encompassing steel, motor, tyre, computer, retail, trading, plantation and property and community development. He oversees the operation of the Lion Group and is responsible for the formulation and monitoring of the overall corporate strategic plans and business development of the Lion Group.

Tan Sri Cheng is the President of The Associated Chinese Chambers of Commerce and Industry of Malaysia and The Chinese Chamber of Commerce and Industry of Kuala Lumpur and Selangor.

Tan Sri Cheng's directorships in public companies are as follows:

– Chairman and Managing Director of Lion Corporation Berhad, Parkson Holdings Berhad ("PHB") and Silverstone Berhad

– Chairman of Lion Diversified Holdings Berhad, Lion Forest Industries Berhad and Silverstone Corporation Berhad

– Director of Amsteel Corporation Berhad

– Director of Lion Teck Chiang Limited

Save for Silverstone Berhad, Silverstone Corporation Berhad and Amsteel Corporation Berhad, all the above companies are public listed companies in Malaysia whilst Lion Teck Chiang Limited is a public listed company in Singapore.

Tan Sri Cheng is the uncle of Mr Cheng Yoong Choong, the Executive Director and the Managing Director of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

WERNER JOSEF STUDER

Werner Josef STUDER, aged 48, was appointed as an Independent Non-executive Director on 9 November 2005, and is a member of the audit committee of the Company. Mr Studer obtained his federal diploma in economics and business administration from SEBA (School for Economics and Business Administration) in Lucerne, Switzerland. Mr Studer is a business economist and holds a Bachelor of Business Administration degree. He serves currently as Executive Director to the Intercontinental Group Department Stores ("The IGDS"). The IGDS is a non-profit association which offers a global business platform for leading department stores all over the world. The IGDS comprises more than 33 members now. Prior to joining The IGDS, Mr Studer was in various management functions and positions at Hero Company (food manufacturing), Switzerland; Feldschloesschen Company (Brewery), Switzerland, and Migros Company (retailer) in Switzerland. Mr Studer has over 20 years of experience in the fast moving consumer goods ("FMCG") and retail industries.

KO TAK FAI, DESMOND

KO Tak Fai, Desmond, aged 40, was appointed as an Independent Non-executive Director on 9 November 2005, and is the Chairman of the audit committee and a member of the remuneration committee of the Company. Mr Ko became a member of the Institute of Chartered Accountants in England and Wales in 1994. Mr Ko is a Director for CB Richard Ellis Limited with responsibility for CBRE-Hotels in Greater China.

YAU MING KIM, ROBERT

YAU Ming Kim, Robert, aged 69, was appointed as an Independent Non-executive Director on 1 January 2007, and is a member of the audit committee and a member of the remuneration committee of the Company. Mr Yau was the Chief Executive or Managing Director of many major international and local apparel companies since 1971. From 1998 to 2004, he was appointed as the Vice Chairman of Hong Kong Exporters' Association, a member of the Executive Committee of The Hong Kong Shippers' Council and the Garment Advisory Committee of The Hong Kong Trade Development Council.

Mr Yau is currently an Independent Non-executive Director of Tungtex (Holdings) Company Limited which shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

SENIOR MANAGEMENT

TAN Hun Meng, aged 47, a Malaysia citizen, is the Chief Operating Officer of Southern Region cum Regional General Manager (Eastern) of the Group. He graduated with a Diploma from Curtin University of Technology, Australia and attended various retail management and senior management courses conducted by Cornell University and other institutions in the United States as well as a university in Australia. Mr Tan has more than 20 years of experience in the retail industry and more than 10 years of experience working in the PRC retail market. He joined the Lion Group in 1987 and the Group in May 1995. Mr Tan was the former General Manager of Sichuan Parkson Retail Development Co., Ltd. and Shanghai Ninesea Parkson Plaza Co., Ltd., PRC before taking up the present position. He is well known within Parkson for his achievements in business turnaround and productivity improvement.

LOW Kim Tuan, aged 52, a Malaysia citizen, is the Chief Operating Officer of Northern Region cum Regional General Manager (Northern) of the Group. Mr Low holds Executive Diploma in Management Studies from Curtin University of Technology, Australia and has completed an EMBA course at Chung Yuan Christian University, Taiwan, and attended retail management and senior management courses conducted in the USA and Taiwan. He has more than 18 years of experience in the retail industry and more than 10 years of experience working in the PRC retail market. He was with the Emporium Group before joining the Lion Group in 1987 as a regional manager and was promoted to the position of Head Office Merchandising Manager in 1990. He joined the Group upon the establishment of the Group and headed the merchandising department in Beijing before taking up his present position.

HAW Lay Kim, aged 43, a Malaysia citizen, is the Group's General Manager for Legal Department and In-House Counsel in the PRC. Ms Haw graduated with a Bachelor of Laws at National Chengchi University of Taiwan and University of Lancaster, England. She was practicing law at Othman Hashim & Co in Malaysia before joining the Lion Group's legal department in August 1993 and has more than 10 years of experience working in the PRC retail market. She joined the Group to lead the Group Legal Department upon the establishment of the Group.

WONG Chee Keong, aged 42, a Malaysia citizen, is the General Manager of MIS and Human Resource Department of the Group. Mr Wong obtained his Bachelor of Science from Campbell University of North Carolina, USA. He joined the Lion Group's MIS Department in August 1991, and travelled extensively to China. In August 1996 he was seconded to the Group and headed the MIS department based in Beijing. In 2004 he was promoted to the present position.

CHONG Sui Hiong, Shaun, aged 41, a Malaysia citizen, is the General Manager for the Mercandising Division of the Group. Mr Chong holds a Diploma in Civil Engineering from University of Technology Malaysia, Bachelor of Science in Industrial and Systems Engineering from University of Southern California and a Master of Business Administration from Rutgers, the State University of New Jersey. He went for further study in Los Angeles, US before joining the Lion Group in 1994 as Project Executive of Store Design and Development. In June 1996 he joined the Retail Division of the Group and headed the Store Design and Development of the Group based in Shanghai. In 2007 he was promoted to the present position.

LEE Sook Beng, aged 42, a Malaysia citizen, is the Chief Auditor of the Group. Ms Lee holds a certificate from the Institute of Chartered Secretaries and Administrators, UK. She joined the Lion Group's Accounts Department in July 1990. In 1999, she was with TOPS Malaysia Group of companies as Category Manager before joining the Group in January 2000.

TAN Guan Soon, aged 40, a Malaysian citizen, is the Assistant General Manager of Merger & Acquisition and Project Development Division of the Group. Mr Tan obtained his Bachelor of Science in Finance from University of Nebraska–Lincoln, USA and a Master of Business Administration from Southern Cross University, Australia. He joined the Lion Group's China Brewing division of the Lion Group as Financial Controller in July 1997 before joining the Group in April 2004.

ONG Choo Keng, Daryl, aged 40, a Malaysia citizen, is the Assistant General Manager for the Store Design and Visual Merchandising Division of the Group. Mr Ong holds a Diploma in Architecture from Prime Tech Institute, Malaysia. He joined the Lion Group's Visual Merchandising in December 1993, and was actively involved with new store design and remodeling projects. In October 2001, he joined the Retail Division of the Group and headed the Visual Merchandising Department based in Shanghai. He was promoted to the present position in 2007.

QUALIFIED ACCOUNTANT

WONG Kang Yean, Clarence, aged 38, a Malaysia citizen, is the Chief Financial Officer of the Group. He is a registered member of the Association of Chartered Certified Accountants. He is also a Chartered Accountant with the Malaysian Institute of Accountants. Mr Wong has a number of years of experience in accounting and corporate finance. Prior to joining the Group, Mr Wong was the Chief Financial Officer and Head of the Corporate Finance and Accounts department of Malaysia Land Properties Sdn. Bhd. through an internal transfer from Far East Consortium International Limited, a listed company on the Stock Exchange where he was the Group Corporate Finance Manager and Financial Controller of the overseas operations for more than 3 years. Mr Wong joined the Group as a full - time employee in 2005 and is a member of the Group's senior management team.

Corporate Governance Report

The Company recognizes the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts in identifying and formulating corporate governance practices appropriate to the Company's records. The Company's corporate governance practices are based on the principles and code provisions set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange(" Listing Rules "). In the opinion of the Directors, the Company has complied with the code provisions set out in the CG Code throughout the year under review.

BOARD OF DIRECTORS

The Board comprises two (2) Executive Directors, one (1) Non-executive Director and three (3) Independent Non-executive Directors. One-third (1/3) of the Directors shall retire from their respective office at every annual general meeting and all Directors (including Nonexecutive Directors) are subject to retirement by rotation once every three years in accordance with the Company's Articles of Association and the CG Code.

The Directors' biographical information is set out in the "Biographies of Directors and Senior Management" section on pages 24 to 26.

There is a clear division of responsibilities between the Chairman and the Managing Director to ensure that there is a balance of power and authority. The Chairman is primarily responsible for the orderly conduct and working of the Board whilst the Managing Director, assisted by the Chief Executive Officer, is responsible for the overall operations of the Group and the implementation of the Board's strategies and policies.

Management is responsible for the day-to-day operations of the Group under the leadership of the Managing Director and the Chief Executive Officer.

The Board as a whole is responsible for reviewing its composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of Independent Non-executive Directors.

The Board reviewed its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience relevant to the Company's business.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

In respect of the Listing Rules requirements regarding the sufficient number of Independent Non - executive Directors and one Independent Non-executive Director with appropriate qualifications, the Company has met these requirements. The Company has received from each of the Independent Non-executive Directors an annual confirmation as regards independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the Independent Non-executive Directors independent.

FREQUENCY OF MEETINGS AND ATTENDANCE

Board meeting will be held at least four (4) times a year with additional meetings to be convened as and when necessary to determine the overall strategic directions and objectives of the Group and approve interim and annual results and other significant matters.

During the year under review, four (4) Board meetings were held and the Directors' attendances are listed below:

Name of the Director	Number Of Board Meetings Held During The Director's Term Of Office In 2007	Number Of Meetings Attended
Executive Directors:		
CHENG Yoong Choong	4	4
CHEW Fook Seng	4	4
Non-Executive Director:		
Tan Sri CHENG Heng Jem	4	4
Independent Non-Executive Directors:		
Werner Josef STUDER	4	4
KO Tak Fai, Desmond	4	4
YAU Ming Kim, Robert	4	4

Note: It includes attendances via telephone conference.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"). Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the standard set out in the Model Code throughout the year ended 31 December 2007.

ACCOUNTABILITY AND AUDIT

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

The statement of the auditors of the Company on their reporting responsibilities on the financial statements of the Group is set out in the Auditors' Report on pages 63 to 64.

AUDITORS' REMUNERATION

For the year ended 31 December 2007, the auditors of the Company received approximately HK$4.0 million for audit services.

INTERNAL CONTROLS

The Board is responsible for maintaining an adequate internal control system to safeguard the Company's shareholder's investments and the Company's assets, and reviewing the effectiveness of such system on an annual basis through the Audit Committee. The Company maintains a tailored governance structure with defined lines of responsibility and appropriate delegation of responsibility and authority to the senior management.

The internal auditor, who is independent of the Company's daily operations and accounting functions, is responsible for establishing the Group's internal control framework, covering all material controls including financial, operational and compliance controls. The internal control framework also provides for identification and management of risk. The internal auditor formulates the annual internal audit plan and procedures, conducts periodic independent reviews on the operations of individual divisions to identify any irregularity and risk, develops action plans and recommendations to address the identified risks, and reports to the Audit Committee on any key findings and progress of the internal audit process. The Audit Committee, in turn, reports to the Board on any material issues and makes recommendations to the Board.

During the year under review, the Board, through the Audit Committee, has conducted continuous review of the effectiveness of the internal control system of the Company.

AUDIT COMMITTEE

In compliance with the CG Code as set out in Appendix 14 to the Listing Rules, the Audit Committee comprises three (3) Independent Non-executive Directors, namely, Mr Ko Tak Fai, Desmond (Chairman of the Audit Committee), Mr Werner Josef Studer and Mr Yau Ming Kim, Robert.

The Audit Committee is required: to advise the Board on the appointment and retention of external auditor, to review the external auditors' independence and objectivity, to review quarterly, interim and annual accounts of the Group, to access the adequacy and effectiveness of internal control, to review the internal audit function and internal control procedures.

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

During the year under review, there were four (4) meetings held by the Audit Committee and the attendances are listed below:

Name of The Audit Committee Member	Number Of Meetings Held During The Member's Term Of Office In 2007	Number Of Meetings Attended
Independent Non-executive Directors:		
KO Tak Fai, Desmond	4	4
Werner Josef STUDER	4	4
YAU Ming Kim, Robert	4	4

The Audit Committee reviewed the Group's results for the year 2007.

REMUNERATION COMMITTEE

Pursuant to the requirements of the CG Code, the Company has set up a Remuneration Committee consisting of three (3) members, one of whom is an Executive Director, namely Mr Cheng Yoong Choong (Chairman of the Remuneration Committee), and the other two members are its Independent Non-executive Directors, namely, Mr Ko Tak Fai, Desmond and Mr Yau Ming Kim, Robert.

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

The Remuneration Committee shall meet at least once a year and at such other times as its chairman shall require. During the year under review, the Remuneration Committee had one (1) meeting held on 17 May 2007 and the attendances are listed below:

Name of The Remuneration Committee Member	Number Of Meetings Held During The Member's Term Of Office In 2007	Number Of Meetings Attended
Executive Director:		
CHENG Yoong Choong	1	1
Independent Non-executive Directors:		
KO Tak Fai, Desmond	1	1
YAU Ming Kim, Robert	1	1

The Remuneration Committee has reviewed the remuneration policy and the remuneration packages of the Executive Directors and the senior management for the year under review.

Directors' Report

The Board of Directors of the Company is pleased to announce the audited consolidated results of the Company, its subsidiaries, jointly-controlled entities and an associate for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company, incorporated with limited liability in the Cayman Islands on 3 August 2005 acts as an investment company. The principal activities of the Group are the operation and management of a network of department stores in the PRC. The activities of its principal subsidiaries are set out in note 15 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 65.

FIXED ASSETS

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

PROPOSED FINAL DIVIDENDS

Upon the approval to be obtained from the forthcoming annual general meeting, the final dividends will be payable on or about 30 June 2008 to the shareholders whose name appears on the Register of Members of the Company at close of business on 22 May 2008.

The Board of Directors recommended the payment of a final dividend for the year of 2007 of RMB0.38 (2006: RMB0.27) per share in cash. The Company declared and paid an interim dividend of RMB0.22 (2006: RMB0.15) per share in cash. On the assumption that the approval will be obtained at the forthcoming annual general meeting for the payment of the proposed final dividends, the Company will be paying a full year dividends of RMB0.60 (2006: RMB0.42) per share in cash for the year 2007, representing approximately 49.2% of the year's net profit attributable to the Group.

The proposed final dividends will be paid in Hong Kong dollars, such amount to be calculated by reference to the middle rate published by the People's Bank of China for the conversion of Renminbi to Hong Kong dollars as at 19 May 2008.

SHARE CAPITAL

Details of movements in the Company's share capital for the year ended 31 December 2007 are set out in note 37 to the financial statements.

DIRECTORS

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

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTOR

Tan Sri CHENG Heng Jem (Chairman)

INDEPENDENT NON-EXECUTIVE DIRECTORS

KO Tak Fai, Desmond
Werner Josef STUDER
YAU Ming Kim, Robert

Details of the profile of each member of the Board are set out in the "Biographies of Directors and Senior Management" section on pages 24 to 26.

In accordance with Article 130 of the Company's Articles of Association, Mr Cheng Yoong Choong and Mr Werner Josef Studer will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

DIRECTOR'S SERVICE CONTRACTS

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

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

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

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

DIRECTOR'S INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

COMPETING BUSINESS INTERESTS OF DIRECTORS

As at 31 December 2007, none of the Directors and Directors of the Company's subsidiaries, or their respective associates had interests in businesses, other than being a director of the Company and/or its subsidiaries and their respective associates, which compete or are likely to compete, either directly or indirectly, with the businesses of the Company and its subsidiaries as required to be disclosed pursuant to the Listing Rules, except for the interests held by Tan Sri Cheng Heng Jem in (through PHB) 8 Parkson branded department stores in the PRC which are managed by the Group. Details of those 8 Parkson branded department stores are set out in the prospectus of the Company issued on 17 November 2005. As mentioned earlier, the Company possessed an option/right of first refusal to acquire all and any of the 8 Parkson branded department stores as and when it deems fit.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2007, the interests and short positions of the Directors and Chief Executives of the Company in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Director or Chief Executive is taken or deemed to have under such provisions of the SFO) or which were required to be entered into the register required to be kept by the Company under section 352 of the SFO or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

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

Name of Corporation	Nature of Interest	Name of Registered Owner	Name of Beneficial Owner	Number and Class of Securities	Approximate Percentage of Shareholding
Company	Corporate interest	PRG Corporation	PRG Corporation	306,360,000 ordinary shares	54.98 %

Note:

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

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

Name of Associated Corporation	Nature of Interest	Name of Registered Owner	Name of Beneficial Owner	Number and Class of Securities	Approximate Percentage of Shareholding
PHB	Beneficial interest and corporate interest	Tan Sri Cheng Heng Jem and a series of controlled corporations	Tan Sri Cheng Heng Jem and a series of controlled corporations	691,298,906 ordinary shares	71.37 %
PRG Corporation	Corporate interest	East Crest International Limited	East Crest International Limited	1 ordinary share	100%
East Crest International Limited	Corporate interest	PHB	PHB	1 ordinary share	100%
Parkson Vietnam Investment Holdings Co., Ltd.	Corporate interest	PHB	PHB	2 ordinary shares	100%
Parkson Properties Holdings Co., Ltd.	Corporate interest	PHB	PHB	2 ordinary shares	100%
Parkson Venture Pte. Ltd.	Corporate interest	East Crest International Limited	East Crest International Limited	14,800,000 ordinary shares	100%
Serbadagang Holdings Sdn. Bhd.	Corporate interest	East Crest International Limited	East Crest International Limited	2 ordinary shares	100%

Name of Associated Corporation	Nature of Interest	Name of Registered Owner	Name of Beneficial Owner	Number and Class of Securities	Approximate Percentage of Shareholding
Sea Coral Limited	Corporate interest	East Crest International Limited	East Crest International Limited	1 ordinary share	100%
Parkson Corporation Sdn. Bhd.	Corporate interest	East Crest International Limited	East Crest International Limited	50,000,002 ordinary shares	100%
Parkson HCMC Holdings Co., Ltd.	Corporate interest	Parkson Vietnam Investment Holdings Co., Ltd.	Parkson Vietnam Investment Holdings Co., Ltd.	2 ordinary shares	100%
Parkson HaiPhong Holdings Co., Ltd.	Corporate interest	Parkson Vietnam Investment Holdings Co., Ltd.	Parkson Vietnam Investment Holdings Co., Ltd.	2 ordinary shares	100%
Parkson TSN Holdings Co., Ltd.	Corporate interest	Parkson Vietnam Investment Holdings Co., Ltd.	Parkson Vietnam Investment Holdings Co., Ltd.	2 ordinary shares	100%
Parkson Properties NDT (Emperor) Co., Ltd.	Corporate interest	Parkson Properties Holdings Co., Ltd.	Parkson Properties Holdings Co., Ltd.	2 ordinary shares	100%
Qingdao No.1 Parkson Co., Ltd. ("Qingdao No.1")	Corporate interest	Parkson Venture Pte. Ltd.	Parkson Venture Pte. Ltd.	124,501,580 ordinary shares	52.95%
Dalian Tianhe Parkson Shopping Centre Co., Ltd.	Corporate interest	Serbadagang Holdings Sdn. Bhd.	Serbadagang Holdings Sdn. Bhd.	60,000,000 registered capital (RMB)	60%

Name of Associated Corporation	Nature of Interest	Name of Registered Owner	Name of Beneficial Owner	Number and Class of Securities	Approximate Percentage of Shareholding
Nanning Brilliant Parkson Commercial Co., Ltd. ("Nanning Brilliant")	Corporate interest	Sea Coral Limited	Sea Coral Limited	14,000,000 Registered capital (RMB)	70%
Dalian Parkson Retail Development Co., Ltd.	Corporate interest	Sea Coral Limited	Sea Coral Limited	60,000,000 registered capital (RMB)	100%
Tianjin Parkson Retail Development Co., Ltd.	Corporate interest	Sea Coral Limited	Sea Coral Limited	10,000,000 registered capital (RMB)	100%
Changchun Parkson Retail Development Co., Ltd.	Corporate interest	Sea Coral Limited	Sea Coral Limited	10,000,000 registered capital (RMB)	100%
Jet East Investments Limited	Corporate interest	Sea Coral Limited	Sea Coral Limited	1 ordinary share	100%
Parkson HaiPhong Co., Ltd.	Corporate interest	Parkson Corporation Sdn. Bhd.	Parkson Corporation Sdn. Bhd.	2,140,975.96 capital (USD)	100%
Parkson Vietnam Co., Ltd.	Corporate interest	Parkson Corporation Sdn. Bhd.	Parkson Corporation Sdn. Bhd.	7,840,000 capital (USD)	100%
Park Avenue Fashion Sdn. Bhd.	Corporate interest	Parkson Corporation Sdn. Bhd.	Parkson Corporation Sdn. Bhd.	250,002 ordinary shares	100%

Name of Associated Corporation	Nature of Interest	Name of Registered Owner	Name of Beneficial Owner	Number and Class of Securities	Approximate Percentage of Shareholding
Spring Active Sdn. Bhd.	Corporate interest	Parkson Corporation Sdn. Bhd.	Parkson Corporation Sdn. Bhd.	2 ordinary shares	100%

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

Name of Associated Corporation	Nature of Interest	Name of Registered Owner	Name of Beneficial Owner	Number and Class of Securities	Approximate Percentage of Shareholding
PHB	Corporate interest	Tan Sri Cheng Heng Jem and a series of controlled corporations	Tan Sri Cheng Heng Jem and a series of controlled corporations	40,000,142 ordinary shares	4.12%

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

Corporate interest through Excel Step Investments Limited, Tan Sri Cheng Heng Jem is deemed to be interested in 100% of RM500 million nominal value 3.5% redeemable convertible secured loan stocks 2007/2010 issued by PHB as Tan Sri Cheng Heng Jem is entitled to exercise or control the exercise of more than one third of the voting power at the general meetings of Excel Step Investments Limited.

(e) Long positions of Cheng Yoong Choong in the share capital of the Company:

Name of Corporation	Nature of Interest	Name of Beneficiary	Subject Matter	Number and Class of Securities	Approximate Percentage of Shareholding[2]
Company	Beneficial interest	Cheng Yoong Choong	Option to subscribe for shares[1]	455,000 ordinary shares	0.08%

Note:

1. Offer was made on 10 January 2007 pursuant to the Company's share option scheme adopted on 9 November 2005.

2. Based on the issued and paid up share capital of the Company as at 31 December 2007.

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

Name of Associated Corporation	Nature of Interest	Name of Registered Owner	Name of Beneficial Owner	Number and Class of Securities	Approximate Percentage of Shareholding
PHB	Beneficial interest	Cheng Yoong Choong	Cheng Yoong Choong	1,298,499 ordinary shares	0.13%

(g) Long positions of Chew Fook Seng in the share capital of the Company:

Name of Corporation	Nature of Interest	Name of Beneficiary	Subject Matter	Number and Class of Securities	Approximate Percentage of Shareholding[2]
Company	Beneficial interest	Chew Fook Seng	Option to subscribe for shares[1]	150,000 ordinary shares	0.02%

Notes:

1. Offer was made on 10 January 2007 pursuant to the Company's share option scheme adopted on 9 November 2005.

2. Based on the issued and paid up share capital of the Company as at 31 December 2007.

(h) Long positions of Werner Josef Studer in the share capital of the Company:

Name of Corporation	Nature of Interest	Name of Beneficiary	Subject Matter	Number and Class of Securities	Approximate Percentage of Shareholding[2]
Company	Beneficial interest	Werner Josef Studer	Option to subscribe for shares[1]	15,000 ordinary shares	Less than 0.01%

Notes:

1. Offer was made on 10 January 2007 pursuant to the Company's share option scheme adopted on 9 November 2005.

2. Based on the issued and paid up share capital of the Company as at 31 December 2007.

(i) Long positions of Werner Josef Studer in the share capital of the Company's associated corporations (as defined in the SFO):

Name of Associated Corporation	Nature of Interest	Nature of Registered Owner	Name of Beneficial Owner	Number and Class of Securities	Approximate Percentage of Shareholding
PHB	Beneficial interest	Werner Josef Studer	Werner Josef Studer	101,250 ordinary shares	0.01%

(j) Long positions of Ko Tak Fai, Desmond in the share capital of the Company:

Name of Corporation	Nature of Interest	Name of Beneficiary	Subject Matter	Number and Class of Securities	Approximate Percentage of Shareholding[2]
Company	Beneficial interest	Ko Tak Fai, Desmond	Option to subscribe for shares[1]	55,000 ordinary shares	Less than 0.01%

Notes:

1. Offer was made on 10 January 2007 pursuant to the Company's share option scheme adopted on 9 November 2005.

2. Based on the issued and paid up share capital of the Company as at 31 December 2007.

Save as disclosed above, as at 31 December 2007, none of the Directors or Chief Executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2007, so far as the Directors are aware, each of the following persons, not being a Director or Chief Executive of the Company, had interests and short positions in the Company's shares which falls to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Long/Short position	Nature of interest	Number of shares	Percentage of shareholding (direct or indirect)
PRG Corporation	Long	Beneficial interest	306,360,000	54.98 %
PHB	Long	Corporate interest	306,360,000 (Note 1)	54.98 %
Puan Sri Chan Chau Ha alias Chan Chow Har (Note 2)	Long	Interest of spouse	306,360,000	54.98 %
Lion Development (Penang) Sdn. Bhd.	Long	Corporate interest	306,360,000 (Note 3)	54.98 %
Pangkor Investments (Cayman Islands) Limited	Long	Beneficial interest	54,648,000	9.80 %
Khazanah Nasional Berhad	Long	Corporate interest	54,648,000 (Note 4)	9.80%
JPMorgan Chase & Co.	Long	Beneficial interest, Investment manager and Custodian	61,014,262 (Note 5)	10.94 %
	Short	Beneficial interest	353,600	0.06%

Notes:

1. PRG Corporation is a wholly-owned subsidiary of PHB. By virtue of the SFO, PHB is deemed to be interested in the Shares held by PRG Corporation in the Company.

2. Puan Sri Chan Chau Ha alias Chan Chow Har is the wife of Tan Sri Cheng Heng Jem and is deemed to be interested in 306,360,000 Shares which Tan Sri Cheng Heng Jem is deemed to be interested in for the purposes of the SFO.

3. Lion Development (Penang) Sdn. Bhd., directly and through a series of controlled companies, is entitled to exercise or control the exercise of more than one third of the voting power at general meetings of PHB. Since PHB is entitled to exercise or control the exercise of 100% of the voting power at general meetings of PRG Corporation, by virtue of the SFO, Lion Development (Penang) Sdn. Bhd. is deemed to be interested in the Shares held by PRG Corporation in the Company.

4. Pangkor Investments (Cayman Islands) Limited is a wholly-owned subsidiary of Khazanah Nasional Berhad. As such Khazanah Nasional Berhad is deemed to be interested in the 54,648,000 Shares held by Pangkor Investments (Cayman Islands) Limited for the purposes of the SFO.

5. The capacities of JPMorgan Chase & Co. in holding the 61,014,262 shares (Long position) were as to 354,000 shares as beneficial owner, 50,911,500 shares as investment manager and 9,748,762 shares in the lending pool as custodian corporation/approved lending agent. The corporate interest of JPMorgan Chase & Co. was attributable on account through a number of its wholly-owned subsidiaries.

As at 31 December 2007, as far as the Directors are aware, each of the following persons, not being a Director or Chief Executive of the Company, was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of a member of the Group other than the Company:

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

Notes:

1. 新疆友好(集團)有限公司 (Xinjiang Friendship (Group) Co., Ltd.) owns 49% of the equity interest of Xinjiang Youhao Parkson Development Co., Ltd. ("Xinjiang Parkson").

2. 無錫市供銷合作總社 (Wuxi Distribution Corporation) owned 40% of the equity interest of Wuxi Sanyang Parkson Plaza Co., Ltd. ("Wuxi Parkson"). The said 40% equity interest in Wuxi Parkson was later transferred to 無錫蘇南投資擔保有限公司 (Wuxi Sunan Investment Guarantee Co., Ltd.) in February 2008.

3. 揚州商業大廈 (Yangzhou Commercial Plaza) owns 45% of the equity interest of Yangzhou Parkson Plaza Co., Ltd. ("Yangzhou Parkson").

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

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

5. 陝西雙翼石油化工有限責任公司 (Shaanxi Shuangyi Petroleum and Chemical Company Limited) acquired from Xi'an Xinrun Property Co., Ltd. ("Xian Xinrun") 西安新潤置業有限公司 49% of the equity interest in Xi'an Shidai Parkson Store Co., Ltd. ("Xi'an Shidai Parkson") on 4 September 2006.

6. 重慶萬友經濟發展有限責任公司 (Chongqing Wanyou Economic Development Co., Ltd.) owns 30% of the equity interest of Chongqing Wanyou Parkson Plaza Co., Ltd. ("Chongqing Parkson").

7. (i) 貴州神奇實業有限公司 (Guizhou Shenqi Enterprise Co., Ltd.) owns 40% of the equity interest of Guizhou Shenqi Parkson Retail Development Co., Ltd. ("Guizhou Parkson").

   (ii) 張沛 (Zhang Pei), 張之君 (Zhang Zhi Jun) and 張婭 (Zhang Ya), each owns 30%, 40% and 30% of the equity interest in Guizhou Shenqi Enterprise respectively, representing a 12%, 16% and 12% indirect equity interest in Guizhou Parkson.

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

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

Mr Cheng Yoong Choong and Mr Chew Fook Seng are directors of PRG Corporation, a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO. Save as disclosed above and so far as the Directors are aware, as at 31 December 2007, no other person had an interest or short position in the Company's shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was otherwise directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Group.

SHARE OPTION SCHEME

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

On 10 January 2007, the Company offered an aggregate number of 8,188,950 options to 482 of its eligible employees (including directors) to subscribe for 8,188,950 ordinary shares in the Company at the exercise price of HK$36.75 per share.

The fair value of the options granted is estimated at the date of grant using a Black-Scholes-Merton option pricing model, taking into account the terms and conditions upon which the options were granted. The 5,955,600 share options granted under Lot 1 are exercisable from 24 January 2007 to 23 January 2010 and have no other vesting conditions. The 2,233,350 share options granted under Lot 2 are exercisable from 2 January 2008 to 1 January 2011 and required an employee service period until 2 January 2008.

	Exercise Period	Granted on 10/1/2007	Exercised during the period	Lapsed during the Period	Outstanding at 31/12/2007
			No. of Options		
Directors					
Cheng Yoong Choong	24/1/2007 – 23/1/2010	600,000	370,000	—	230,000
	2/1/2008 – 1/1/2011	225,000	—	—	225,000
Chew Fook Seng	24/1/2007 – 23/1/2010	400,000	400,000	—	—
	2/1/2008 – 1/1/2011	150,000	—	—	150,000
Ko Tak Fai, Desmond	24/1/2007 – 23/1/2010	40,000	—	—	40,000
	2/1/2008 – 1/1/2011	15,000	—	—	15,000
Werner Josef Studer	24/1/2007 – 23/1/2010	40,000	40,000	—	—
	2/1/2008 – 1/1/2011	15,000	—	—	15,000
Sub-total		1,485,000	810,000	—	675,000
Eligible employees	24/1/2007 – 23/1/2010	4,875,600	4,408,900	300	466,400
	2/1/2008 – 1/1/2011	1,828,350	—	97,800	1,730,550
Sub-total		6,703,950	4,408,900	98,100	2,196,950
Grand Total		8,188,950	5,218,900	98,100	2,871,950

Notes:

1. The closing price of the share immediately before the date of grant of the options was HK$35.40.

2. In respect of the options which were exercised during the period between 24 January 2007 and 23 January 2010, the weighted average closing price of the share immediately before the date which the option were exercised was HK$64.47.

3. During the period, no share options were cancelled under the Scheme.

CONNECTED TRANSACTIONS

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

Financial assistance from the Group to connected persons

Anshan Parkson entered into two interest-bearing entrusted loan agreements on 22 September 2005 with Anshan Tianxing International Properties Development Co., Ltd. ("Anshan Tianxing") pursuant to which loan facilities of an aggregate amount of RMB70 million ("Loan") were made to Anshan Tianxing through CITIC Industrial Bank, Dalian branch. Both loans are due in September 2006. The Loan was fully settled on 4 July 2007 as part of the composite settlement under the sale and purchase agreement dated 20 April 2007 for the acquisition of the remaining 49% equity interests in Anshan Parkson and the 100% equity interest in the Anshan Properties, the details of which are set out in note 14(ii) to the Financial Statements and paragraph 2 below.

CONTINUING CONNECTED TRANSACTIONS

Deed of Non competition

A deed of non-competition was entered into between Lion Diversified Holdings Berhad ("LDHB") and the Company on 10 November 2005 (supplemented and amended on 18 September 2007), under which LDHB has undertaken not to engage, other than through the existing managed stores, in any business of the retail trade in merchandise in department stores, supermarkets, hypermarkets, convenience stores, specialty merchandise stores, supercentres and category killers in the PRC, Hong Kong, Macau and Taiwan. Pursuant to a reorganization scheme undertaken by LDHB, LDHB had agreed to consolidate most of its retail business (including most of its existing managed stores in the PRC) into PHB. In light thereof, PHB has entered into an identical deed of non-competition with the Company on 18 September 2007 with respect to those managed stores acquired from LDHB.

PHB is a substantial shareholder of the Company and therefore a connected person of the Company. Both PHB and LDHB are members of the Lion Group which is ultimately controlled by Tan Sri Cheng Heng Jem and hence, LDHB is a connected person of the Company.

Trademark license agreement

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

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

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

Sub-licensee	Date of the trademark sub-license agreement
– Qingdao No.1	9 November 2005
– Laoshan branch of Qingdao No.1	9 November 2005
– Yantai branch of Qingdao No.1	9 November 2005
– Dalian Parkson Retail Development Co., Ltd ("Dalian Shishang")	9 November 2005
– Nanning Brilliant	9 November 2005
– Changchun Zhonglian Parkson Plaza Co., Ltd. (Changchun Zhonglian")[1]	9 November 2005
– Tianjin Zhonglian Parkson Commercial Plaza Co., Ltd ("Tianjin Zhonglian")	9 November 2005
– Shenyang Parkson Shopping Plaza Co., Ltd ("Shenyang Plaza")	9 November 2005
– Shantou Parkson Commercial Co., Ltd. ("Shantou Commercial")	9 November 2005

Note:

(1) Ceased operation in May 2007.

Continuing connected transactions exempt from independent shareholders' approval requirement

(A) Lease Agreement

(1) Lease arrangements between Mianyang Parkson and Sichuan Fulin

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

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

Sichuan Fulin ceased to be a connected person to the Company since 31 October 2007 upon the completion of the acquisition of the remaining 40% equity interest in Sichuan Parkson by Shanghai Hongqiao Parkson Development Co., Ltd, a wholly owned subsidiary of the Company. Hence, the lease agreement was not considered as a continuing connected transaction since 31 October 2007.

For the 10 months period commencing 1 January 2007 until 31 October 2007, the rental amount paid by the Group to Sichuan Fulin amounted to RMB5,688,078.

(2) Lease arrangements between Anshan Parkson and Anshan Tianxing

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

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

Anshan Tianxing ceased to be a connected person to the Company since 22 June 2007 upon the completion of the acquisition of the remaining 49% equity interest in Anshan Parkson by Grand Parkson Retail Group Limited, a wholly owned subsidiary of the Company. Hence, the lease agreement was not considered as a continuing connected transaction since 22 June 2007.

For the 6 months period commencing 1 January 2007 until 30 June 2007, the rental amount paid by the Group to Anshan Tianxing amounted to RMB8,292,497.

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

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

The term of each lease is 20 and 25 years respectively. Annual rent for the first lease is calculated at the higher of (a) the basic rent and (b) the turnover rent. The basic rent for the first three rental years is RMB2.8 million, thereafter subject to an annual 3% increment (such increment capped at RMB6.0 million). The turnover rent is calculated at 3% of Chongqing Parkson's annual turnover. For the second lease, the annual rent for the first three rental years is RMB500,000. Thereafter, the annual rent will be the higher of (a) an amount equivalent to 103% of the previous year's rent (capped at RMB1.0 million) and (b) 3% of turnover.

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

For the year ended 31 December 2007, the rental amount paid by the Group to Chongqing Wanyou amounted to RMB5,102,271.

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

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

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

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

For the year ended 31 December 2007, the annual rental amount paid by the Group to Shaanxi Chang'an Information amounted to RMB19,663,075. This amount exceeds the estimated annual caps of RMB17,000,000 as set out in the revised annual caps announcement made by the Company on 26 February 2007. The discrepancy is due to the fact that the actual performance of Xi'an Chang'an Parkson for the year ended 31 December 2007 had exceeded the Company's expectation, which gave rise to an increase in the profits-linked rental component. An announcement has been made by the Company on 25 February 2008 in compliance with the relevant requirements under Chapter 14A of the Listing Rules.

(5) Lease arrangements between Xi'an Shidai Parkson and Shaanxi Shuangyi Petroleum and Chemical Company Limited ("Shaanxi Shuangyi")

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

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

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

For the year ended 31 December 2007, the annual rental amount paid by the Group to Shaanxi Shuangyi amounted to RMB22,181,221. This amount exceeds the estimated annual caps of RMB19,000,000 as set out in the revised annual caps announcement made by the Company on 26 February 2007. The adjustment in rental amount is due to the fact that the actual performance of Xi'an Shidai for the year ended 31 December 2007 had exceeded the Company's expectations, which give rise to an increase in the profits-linked rental component. An announcement has been made by the Company on 25 February 2008 in compliance with the relevant requirements under Chapter 14A of the Listing Rules.

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

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

The term of the lease is 20 years. The annual rent comprises of two components: (a) 2% of the annual operating revenue for the part of the premises where jewellry and home appliances are sold and where the supermarket is located; and (b) 5.5% of the annual operating revenue for other parts of the premises.

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

For the year ended 31 December 2007, the rental amount paid by the Group to Guizhou Huawei amounted to RMB14,912,423.

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

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

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

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

For the year ended 31 December 2007, the rental amount paid by the Group to Xinjiang Youhao amounted to RMB24,762,494.

(8) Lease arrangement between Guizhou Parkson and Guizhou Shenqi Commercial Development Co. Ltd. ("Guizhou Shenqi Commercial")

Guizhou Parkson entered into a lease with Guizhou Shenqi Commercial on 14 June 2007 pursuant to which Guizhou Shenqi Commercial agreed to lease the premises of a total gross floor space of 14,119 sq.m. comprising part of Level 1 and the entire Level 2 to Level 6 of Guiyang Golden Phoenix Plaza located at No. 38, Zhonghua Middle Road, Guiyang City, Guizhou to Guizhou Parkson to be used as its place of business.

The term of the lease is 20 years from the date of commencement of business. The annual rent is based on either:

(a) fixed sum of RMB5.0 million; or
(b) 2% of the Gross Sales Proceeds from gold, jewellery, electrical appliances and merchandises from the super market plus 6% of the Gross Sales Proceeds from other merchandises,

whichever is the higher.

Notwithstanding the above, the annual rent payable under the said lease is subject to the maximum cap of RMB15.0 million.

The Company currently owns 60% of the equity interest in Guizhou Parkson through its wholly-owned subsidiary, Step Summit Limited while the remaining 40% equity interest is currently held by Guizhou Shenqi Enterprise Co. Ltd ("Guizhou Shenqi Enterprise"). Guizhou Shenqi Enterprise is a substantial shareholder of Guizhou Parkson and is therefore a connected person of the Company for the purposes of Chapter 14A of the Listing Rules.

Guizhou Shenqi Enterprise and Guizhou Baiqiang Investment Co. Ltd ("Guizhou Baiqiang") holds 49% and 51% equity interest in Guizhou Shenqi Commercial respectively. Zhang Pei, Zhang Zhi Jun and Zhang Ya collectively own 100% of Guizhou Shenqi Enterprise. Zhang Pei and Zhang Ya collectively own 100% of Guizhou Baiqiang; therefore both Guizhou Baiqiang and Guizhou Shenqi Commercial are associates to Guizhou Shenqi Enterprise and connected persons to the Company for the purposes of Chapter 14A of the Listing Rules.

For the year ended 31 December 2007, there was no rental paid to Guizhou Shenqi Commercial as Guizhou Parkson has yet to commence business at the said demised premises.

(B) Management consultancy agreements

Management consultancy agreements with the Lion Group

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

Members of the Lion Group	Date of the management consultancy agreement
Qingdao No. 1	1 October 2005
Laoshan branch of Qingdao No. 1	1 October 2005
Yantai branch of Qingdao No. 1	10 September 2005
Dalian Shishang	1 May 2005
Nanning Brilliant	1 May 2005
Shenyang Plaza	28 November 2003
Shantou Commercial	1 June 2005
Changchun Zhonglian[1]	8 November 2005
Tianjin Zhonglian	8 November 2005

Note:

(1) Ceased operation in May 2007.

Services provided include consultancy on product development, financial advice, marketing and human resources management. An annual management fee based on a fixed percentage of the net sales of the relevant store is payable to Shanghai Lion Investment. The term of each management consultancy agreement is 10 years.

Save for Shenyang Plaza and Shantou Commercial, of which LDHB is in the process of acquiring the same, the above-mentioned members of the Lion Group are the subsidiaries of PHB, a substantial shareholder of the Company and thus, a connected person of the Company. Both PHB and LDHB are members of the Lion Group which is ultimately controlled by Tan Sri Cheng Heng Jem and hence, Lion Group is a connected person of the Company.

For the year ended 31 December 2007, the management fees received for the provision of such services amounted to RMB10,785,138.

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

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

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

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

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

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

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

PURCHASE, SALE OR REDEMPTION OF SHARES

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

PRE-EMPTIVE RIGHT

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

EMOLUMENT POLICY AND PENSION SCHEMES

The Group recognises the importance of good relationships with employees.

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

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

MAJOR CUSTOMERS AND SUPPLIERS

As the Group is principally engaged in retail sales, none of its customers and suppliers accounted for more than 5% of its turnover in year ended 31 December 2007. None of the Directors or shareholders who owned 5% or more of the issued shares capital of the Company as at 31 December 2007 or any of their respective associates held any interest in any of the five largest customers and suppliers of the Company for the year ended 31 December 2007.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the period from the date of listing of shares to 31 December 2007.

CORPORATE GOVERNANCE REPORT

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

POST BALANCE SHEET EVENTS

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

AUDITORS

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

On behalf of the Board
Cheng Yoong Choong
Managing Director
22 February 2008

Independent Auditors' Report

ERNST & YOUNG

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

We have audited the financial statements of Parkson Retail Group Limited (the "Company") set out on pages 65 to 146, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
22 February 2008

Consolidated Income Statement

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Revenues	4	2,726,983	1,942,005
Other operating revenues	4	332,703	242,029
Total operating revenues		3,059,686	2,184,034
Operating expenses			
Purchases of goods and changes in inventories		(865,721)	(632,325)
Staff costs		(268,163)	(196,566)
Depreciation and amortisation		(113,812)	(88,737)
Rental expenses		(324,759)	(227,054)
Other operating expenses		(470,709)	(331,439)
Total operating expenses		(2,043,164)	(1,476,121)
Profit from operations	5	1,016,522	707,913
Finance income	6	253,161	75,047
Finance costs	6	(326,966)	(51,509)
Share of profit of an associate		535	538
Profit from operations before income tax		943,252	731,989
Income tax	9	(215,451)	(218,835)
Profit for the year		727,801	513,154
Attributable to:			
Equity holders of the parent		676,000	460,761
Minority interests		51,801	52,393
		727,801	513,154

	Notes	2007	2006
		RMB'000	RMB'000
EARNINGS PER SHARE ATTRIBUTABLE TO			
EQUITY HOLDERS OF THE PARENT	10		
Basic		RMB1.22	RMB0.83
Diluted		RMB1.22	N/A
DIVIDENDS	40		
Interim		121,582	82,800
Proposed final		211,000	149,040
		332,582	231,840
DIVIDEND PER SHARE	40		
Interim		RMB0.22	RMB0.15
Proposed final		RMB0.38	RMB0.27
		RMB0.60	RMB0.42

Consolidated Balance Sheet

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	818,705	749,923
Investment properties	12	222,104	227,368
Lease prepayments	13	420,470	431,550
Intangible assets	14	1,562,040	689,565
Investment in an associate	17	2,346	2,214
Other assets	18	248,477	107,408
Held-to-maturity investments, unlisted	19	1,460,920	1,561,740
Investment deposits	20	40,000	—
Deferred tax assets	21	34,971	45,460
Total non-current assets		4,810,033	3,815,228
CURRENT ASSETS			
Inventories	23	143,940	109,904
Trade receivables	24	18,974	18,489
Prepayments, deposits and other receivables	25	374,852	259,492
Investment deposits	20	781,450	—
Cash and short-term deposits	26	2,860,216	3,271,366
Total current assets		4,179,432	3,659,251
CURRENT LIABILITIES			
Interest-bearing bank loans	27	—	(83,886)
Trade payables	28	(1,144,716)	(871,618)
Customers' deposits, other payables and accruals	29	(735,720)	(611,097)
Tax payable		(123,129)	(113,518)
Total current liabilities		(2,003,565)	(1,680,119)
NET CURRENT ASSETS		2,175,867	1,979,132
TOTAL ASSETS LESS CURRENT LIABILITIES		6,985,900	5,794,360

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	27	(1,417,000)	(1,607,027)
Long term payables	30	(95,628)	(93,994)
Deferred tax liabilities	21	(184,711)	(247,050)
Senior guaranteed notes	31	(1,435,118)	(1,526,806)
Senior notes	31	(897,179)	—
Derivative financial instruments designated as hedging instruments	35	(88,189)	—
Total non-current liabilities		(4,117,825)	(3,474,877)
NET ASSETS		2,868,075	2,319,483
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	37	57,925	57,436
Reserves	39(a)	2,731,126	2,170,151
		2,789,051	2,227,587
Minority interests		79,024	91,896
TOTAL EQUITY		2,868,075	2,319,483

Consolidated Statement of Changes In Equity

Year ended 31 December 2007

	Attributable to equity holders of the parent											
	Issued share capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000 Note 39 (a)(ii)	PRC reserve funds RMB'000 Note 39(a)(i)	Exchange reserve RMB'000	Hedging reserve RMB'000	Share option reserve RMB'000	Asset revaluation reserve RMB'000 Note 39 (a)(iii)	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2006	57,436	1,024,964	154,442	43,956	15,460	—	—	—	484,622	1,780,880	92,446	1,873,326
Exchange realignment	—	—	—	—	(11,979)	—	—	—	—	(11,979)	—	(11,979)
Business combination	—	—	—	—	—	—	—	336,312	—	336,312	—	336,312
Tax effect of revaluation	—	—	—	—	—	—	—	(112,067)	—	(112,067)	—	(112,067)
Total income and expense for the year recognised directly in equity	—	—	—	—	(11,979)	—	—	224,245	—	212,266	—	212,266
Profit for the year	—	—	—	—	—	—	—	—	460,761	460,761	52,393	513,154
Total income and expense for the year	—	—	—	—	(11,979)	—	—	224,245	460,761	673,027	52,393	725,420
Transfer to the PRC reserve funds	—	—	—	43,364	—	—	—	—	(43,364)	—	—	—
Dividends paid	—	(226,320)	—	—	—	—	—	—	—	(226,320)	—	(226,320)
Dividends of subsidiaries	—	—	—	—	—	—	—	—	—	—	(52,943)	(52,943)
At 31 December 2006	57,436	798,644*	154,442*	87,320*	3,481*	—*	—*	224,245*	902,019*	2,227,587	91,896	2,319,483

	Attributable to equity holders of the parent											
	Issued share capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000 Note 39 (a)(ii)	PRC reserve funds RMB'000 Note 39(a)(i)	Exchange reserve RMB'000	Hedging reserve RMB'000	Share option reserve RMB'000	Asset revaluation reserve RMB'000 Note 39 (a)(iii)	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2007	57,436	798,644	154,442	87,320	3,481	–	–	224,245	902,019	2,227,587	91,896	2,319,483
Effect of change in PRC income tax rate	–	–	–	–	–	–	–	27,167	–	27,167	–	27,167
Net losses on cash flow hedges	–	–	–	–	–	(44,634)	–	–	–	(44,634)	–	(44,634)
Exchange realignment	–	–	–	–	(37,692)	–	–	–	–	(37,692)	–	(37,692)
Total income and expense for the year recognised directly in equity	–	–	–	–	(37,692)	(44,634)	–	27,167	–	(55,159)	–	(55,159)
Profit for the year	–	–	–	–	–	–	–	–	676,000	676,000	51,801	727,801
Total income and expense for the year	–	–	–	–	(37,692)	(44,634)	–	27,167	676,000	620,841	51,801	672,642
Transfer to the PRC reserve funds	–	–	–	61,873	–	–	–	–	(61,873)	–	–	–
Employee share-based arrangements (note 38)	–	–	–	–	–	–	25,442	–	–	25,442	–	25,442
Employee share options exercised (note 37)	489	196,077	–	–	–	–	(10,763)	–	–	185,803	–	185,803
Acquisition of minority interests	–	–	–	–	–	–	–	–	–	–	(15,707)	(15,707)
Dividends paid	–	(270,622)	–	–	–	–	–	–	–	(270,622)	–	(270,622)
Dividends of subsidiaries	–	–	–	–	–	–	–	–	–	–	(48,966)	(48,966)
At 31 December 2007	57,925	724,099*	154,442*	149,193*	(34,211)*	(44,634)*	14,679*	251,412*	1,516,146*	2,789,051	79,024	2,868,075

* These reserve accounts comprise the consolidated reserves of RMB2,731,126,000 (2006: RMB2,170,151,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit from operations before income tax		943,252	731,989
Adjustments for:			
Share of profit of an associate		(535)	(538)
Interest income	6	(253,161)	(75,047)
Interest expenses	6	326,966	51,509
Depreciation and amortisation	5	113,812	88,737
Foreign exchanges losses		807	13,273
Equity-settled share option expenses		25,442	—
Allowance for doubtful debts	5	918	2,454
Loss on disposal of items of property, plant and equipment	5	2,766	1,006
		1,160,267	813,383
Decrease in other assets		14,481	11,255
Increase in inventories		(22,648)	(2,868)
Increase in trade receivables		(1,264)	(2,385)
(Increase)/decrease in prepayments, deposits and other receivables		(49,015)	54,709
Increase in trade payables		204,513	198,933
Increase in customers' deposits, other payables and accruals		36,564	51,827
Increase in long-term payables		1,634	8,904
Cash generated from operations		1,344,532	1,133,758
Interest paid		(7,269)	(51,509)
Income tax paid		(235,641)	(216,141)
Net cash inflow from operating activities		1,101,622	866,108
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of items of property, plant and equipment		3,400	1,260
Purchases of items of property, plant and equipment		(147,961)	(74,076)
Acquisition of subsidiaries		(445,136)	(700,769)
Acquisition of minority interests		(379,928)	—
Deposit for an acquisition transaction		(25,550)	—
Decrease in investments		—	1,842
Increase in held-to-maturity investments		—	(1,561,740)
Increase in investment deposits		(821,450)	—
Increase in an entrusted loan		(120,000)	—
(Increase)/decrease in other receivables		(6,490)	4,500
Dividends received		403	444
Interest received		209,210	75,047
Increase in non-pledged time deposits with original maturity of more than three months when acquired		(252,366)	—
Net cash outflow from investing activities		(1,985,868)	(2,253,492)

	Notes	2007 RMB'000	2006 RMB'000
Net cash outflow from investing activities		(1,985,868)	(2,253,492)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		380,775	1,500,000
Repayment of bank loans and other loans		(654,688)	(143,948)
Net proceeds from issuance of senior guaranteed notes		—	1,526,806
Net proceeds from issuance of senior notes		928,797	—
Interest paid		(275,203)	—
Proceeds from issue of shares	37	185,803	—
Dividends of subsidiaries		(48,966)	(52,943)
Dividends paid		(270,622)	(226,320)
Net cash inflow from financing activities		245,896	2,603,595
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(638,350)	1,216,211
Cash and cash equivalents at beginning of year		3,271,366	2,080,407
Exchange differences		(25,166)	(25,252)
CASH AND CASH EQUIVALENTS AT END OF YEAR		2,607,850	3,271,366
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	26	1,310,896	1,899,383
Non-pledged time deposits with original maturity of less than three months when acquired	26	1,296,954	1,371,983
		2,607,850	3,271,366

Balance Sheet

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Interests in subsidiaries	15	1,510,377	1,186,914
Held-to-maturity investments	19	1,460,920	1,561,740
Total non-current assets		2,971,297	2,748,654
CURRENT ASSETS			
Other receivables		41,060	19,981
Cash and short-term deposits	26	632,892	202,940
Total current assets		673,952	222,921
CURRENT LIABILITIES			
Accruals		(29,302)	(20,490)
NET CURRENT ASSETS		644,650	202,431
TOTAL ASSETS LESS CURRENT LIABILITIES		3,615,947	2,951,085
NON-CURRENT LIABILITIES			
Senior guaranteed notes	31	(1,435,118)	(1,526,806)
Senior notes	31	(897,179)	—
Total non-current liabilities		(2,332,297)	(1,526,806)
NET ASSETS		1,283,650	1,424,279
EQUITY			
Issued capital	37	57,925	57,436
Reserves	39(b)	1,225,725	1,366,843
TOTAL EQUITY		1,283,650	1,424,279

Notes to Financial Statements

31 December 2007

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands with limited liability on 3 August 2005. The Company has established a principal place of business in Hong Kong at Suite 1316, Prince's Building, 10 Chater Road, Central, Hong Kong. In the opinion of the directors, the Company's ultimate holding company is Parkson Holdings Berhad, a company incorporated in Malaysia and listed on Bursa Malaysia Securities Berhad.

The principal activities of the Company and its subsidiaries (the "Group") are 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 derivative financial instruments which are stated at their fair values. 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.

Basis of consolidation

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

All intra-group balances, transactions, incomes 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. Except for IFRS 7 and IAS 1 Amendment, the adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group.

IAS 1 Amendment	– Capital Disclosures
IFRS 7	– Financial Instruments: Disclosures
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

IFRS 7 - *Financial Instruments: Disclosures*
This 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. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

Amendment to IAS 1 Presentation of financial Statements - *Capital Disclosures*
This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 34 to the financial statements.

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:

IFRS 8	– Operating Segments
IAS 23(Revised)	– Borrowing Costs
IFRIC 11	– IFRS 2 - Group and Treasury Share Transactions
IFRIC 12	– Service Concession Arrangements
IFRIC 13	– Customer Loyalty Programmes
IFRIC 14	– IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC 11, IFRIC 12, IFRIC 13, IFRIC 14, IAS 23(Revised) and IFRS 8 shall be applied for annual period beginning on or after 1 March 2007, 1 January 2008, 1 July 2008, 1 January 2008, 1 January 2009 and 1 January 2009, respectively.

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

IFRS 8, which will replace IAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purpose of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group has a single operating and reportable segment, i.e. the operation and management of department stores in the PRC.

IAS 23(Revised) has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional provisions in the revised standard, the Group shall apply the revised standard on a prospective basis to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

IFRIC 11 requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity acquires the instruments from another party, or the shareholders provide the equity instruments needed. The Group currently has no such arrangement.

IFRIC 12 requires an operator under public-to-private service concession arrangement to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. The Group currently has no such arrangement.

IFRIC 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. The Group's current accounting policy aligns with the requirement of this interpretation.

IFRIC 14 addresses how to assess the limit under IAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contribution in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists. The Group currently has no defined benefit scheme.

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 IFRS 8 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

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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.

Tax provisions

Determining 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 non-financial assets

The Group assesses whether there are any indicators of impairment of all non-financial assets at each reporting date. Goodwill and other indefinite life intangibles are tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management must estimate the expected future cash flow from the assets or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

The carrying amount of goodwill at 31 December 2007 was RMB1,560,893,000 (2006: RMB687,763,000). Further details of impairment testing of goodwill are given in note 14 to these financial statements.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

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 amounts of items of property, plant and equipment and investment properties as at 31 December 2007 were RMB818,705,000 (2006: RMB749,923,000) and RMB222,104,000 (2006: RMB227,368,000), respectively. Further details are given in note 11 and note 12 to these financial statements.

Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of option, volatility and dividend yield and making assumptions about them. The assumptions and valuation model used are disclosed in note 38 to these financial statements.

3. PRINCIPAL ACCOUNTING POLICIES

Foreign currencies

The Company's consolidated financial statements are presented in Renminbi, which is the Group's presentation currency. Each entity in the Group determines its own functional currency, the currency of the primary economic environment in which the entity operates. 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 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 are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date, the assets and liabilities of each entity in the Group 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.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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.

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.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and when 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.

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

3. PRINCIPAL ACCOUNTING POLICIES (continued)

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 installments. Government grants received where the attaching conditions have not yet been fulfilled are recognised as liabilities.

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

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax (continued)

Deferred 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.

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.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

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.

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.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments 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 impairment loss shall be recognised in the consolidated income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

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 by adjusting the allowance account. 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 and other 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 and significant changes in the technological, market economic or legal environment that have an adverse effect on 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.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December.

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

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Property, plant and equipment

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

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Depreciation of property, plant and equipment is calculated on the straight-line basis over the expected useful 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.

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.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

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 consolidated 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.

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 consolidated 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.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

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.

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. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interest in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

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. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

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 assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivatives is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modified the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each balance sheet date.

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 2007, no financial assets have been designated as at fair value through profit or loss (2006: Nil).

Held-to-maturity investment

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 less allowance for impairment. Amortised 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. 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.

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 at 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 and short term deposits

For the purpose of the balance sheets, cash and cash equivalents comprise cash at banks and on hand and short term deposits, which are not restricted as to use. For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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 and interest-bearing loans and borrowings 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.

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.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Derecognition of financial assets and liabilities (continued)

Financial assets (continued)

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except 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.

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.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contributes to the success of the Group's operations. Employees (including directors) 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").

In situations where some or all of the goods or services received by the Group 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.

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 a Black-Scholes-Merton option pricing model, further details of which are given in note 38 to these financial statements.

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 balance sheet 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.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense if the terms had not been modified. In addition, an 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.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

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.

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 the 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.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedging (continued)

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 amount 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.

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 the Group's turnover, represent the net amount received and receivable for the goods sold by the Group to outside customers, less returns and allowances, commissions from concessionaire sales, consultancy and management service fees, and rental income. An analysis of revenues is presented below:

	2007 RMB'000	2006 RMB'000
Sale of goods – direct sales	1,044,130	758,049
Commissions from concessionaire sales (note)	1,511,498	1,027,122
Consultancy and management service fees	32,558	41,681
Rental income	138,797	115,153
	2,726,983	1,942,005

Note:

The commissions from concessionaire sales are analysed as follows:

	2007 RMB'000	2006 RMB'000
Gross revenue from concessionaire sales	7,455,218	5,011,806
Commissions from concessionaire sales	1,511,498	1,027,122

Over 90% of the Group's turnover and contribution to the operating profit is attributable to the operation and management of department stores and 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 operating 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	2007 RMB'000	2006 RMB'000
Promotion income		78,972	63,279
Credit card handling fees		103,882	52,584
Equipment leasing income		15,235	8,950
Display space leasing fees		14,650	12,697
Administration fees		46,137	25,736
Service fees		22,135	17,323
Government grants	(i)	5,262	10,655
PRC tax compensations	(ii)	3,553	25,914
Other income		42,877	24,891
		332,703	242,029

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):

	2007 RMB'000	2006 RMB'000
Cost of inventories recognised as expenses	865,721	632,325
Staff costs excluding directors' remuneration (note 7):		
Wages, salaries and bonuses	186,336	158,848
Pension scheme contributions	16,915	15,207
Social welfare and other costs	35,571	19,118
Equity-settled share option expenses	20,725	—
	259,547	193,173
Depreciation and amortisation	113,812	88,737
Operating lease rentals in respect of leased properties:		
Minimum lease payments	218,923	183,887
Contingent lease payments *	105,836	43,167
	324,759	227,054
Loss on disposal of items of property, plant and equipment	2,766	1,006
Auditors' remuneration	4,000	4,900
Allowance for doubtful debts	918	2,454
Gross rental income in respect of investment properties	(25,444)	(16,978)
Sub-letting of properties:		
Minimum lease payments	(52,205)	(59,032)
Contingent lease payments *	(61,148)	(39,143)
	(113,353)	(98,175)
Total gross rental income	(138,797)	(115,153)
Direct operating expenses arising on rental-earning investment properties	4,817	1,411
Foreign exchange losses	807	13,273

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

6. FINANCE INCOME/COSTS

	2007 RMB'000	2006 RMB'000
Finance income:		
Interest income from held-to-maturity investments	148,704	20,372
Bank interest income	76,329	49,215
Interest income from loans receivable	7,603	5,460
Interest income from interest rate swap arrangements (note)	20,525	—
	253,161	75,047
Finance costs:		
Senior guaranteed notes	(125,595)	(17,153)
Senior notes	(41,336)	—
Interest expenses on bank loans and other loans, wholly repayable within five years	(160,035)	(34,356)
	(326,966)	(51,509)

Note:

As further disclosed in note 31(ii) to these financial statements, the Group has entered into interest rate swap arrangements. The purpose of the swap arrangements is to provide the Group a RMB equivalent fixed rate debt of 3.45% per annum.

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:

	2007 RMB'000	2006 RMB'000
Fees	954	746
Other emoluments:		
Salaries, allowances, bonuses and other benefits	2,834	2,544
Employee share option benefits	4,717	—
Pension scheme contributions	111	103
	8,616	3,393

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 38 to the financial statements. The fair value of such options which has been recognised in the consolidated income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

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:

	Fees RMB'000	Employee share option benefits RMB'000	Total RMB'000
2007			
Mr. Studer Werner Josef	159	175	334
Mr. Ko Tak Fai, Desmond	159	175	334
Mr. Yau Ming Kim, Robert	159	—	159
	477	350	827

	Fees RMB'000	Employee share option benefits RMB'000	Total RMB'000
2006			
Mr. Fong Ching, Eddy	134	—	134
Mr. Studer Werner Josef	120	—	120
Mr. Ko Tak Fai, Desmond	124	—	124
	378	—	378

There were no other emoluments payable to the independent non-executive directors for the year ended 31 December 2007 (2006: Nil).

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

(b) Executive directors and a non-executive director

	Fees RMB'000	Salaries, allowances, bonuses and other benefits RMB'000	Employee share option benefits RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2007					
Executive directors:					
Mr. Cheng Yoong Choong	159	—	2,620	—	2,779
Mr. Chew Fook Seng	159	2,834	1,747	111	4,851
	318	2,834	4,367	111	7,630
Non-executive director:					
Tan Sri Cheng Heng Jem	159	—	—	—	159
	477	2,834	4,367	111	7,789

	Fees RMB'000	Salaries, allowances, bonuses and other benefits RMB'000	Employee share option benefits RMB'000	Pension scheme contributions RMB'000	Total 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

Included in salaries, allowance, bonuses and other benefits was a discretionary bonus of RMB 1,411,000 (2006: RMB 1,281,000) to Mr. Chew Fook Seng, a director of Company, for the year ended 31 December 2007. There was no arrangement under which directors waived or agreed to waive any remuneration during the year.

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

(c) Five highest paid employees

The five highest paid employees during the year included two (2006: one) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining three (2006: four) non-director, highest paid employees for the year are as follows:

	2007 RMB'000	2006 RMB'000
Salaries, allowances, bonuses and other benefits	4,783	5,612
Employee share option benefits	2,623	—
Pension scheme contributions	166	202
	7,572	5,814

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

	2007	2006
HK$1,000,001 to HK$1,500,000 (equivalent to RMB936,400 to RMB1,404,600)	–	2
HK$1,500,001 to HK$2,000,000 (equivalent to RMB1,404,600 to RMB1,872,800)	–	2
HK$2,000,001 to HK$2,500,000 (equivalent to RMB1,872,800 to RMB2,341,000)	1	—
HK$2,500,001 to HK$3,000,000 (equivalent to RMB2,341,000 to RMB2,809,200)	1	—
HK$3,000,001 to HK$3,500,000 (equivalent to RMB2,809,200 to RMB3,277,400)	1	—
	3	4

During the year, share options were granted to three non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 38 to the financial statements. The fair value of such options, which has been recognised to the consolidated income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

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 scheme 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 2007 and 2006.

The Group's contributions to pension costs for the year ended 31 December 2007 amounted to approximately RMB17,026,000 (2006: RMB15,310,000).

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, fifteen PRC entities of the Group (2006: eight) 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:

	Note	2007 RMB'000	2006 RMB'000
Current income tax		240,134	221,464
Deferred income tax	21	(24,683)	(2,629)
		215,451	218,835

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:

	2007										
							British Virgin				
	Hong Kong		Singapore		Cayman Islands		Islands		PRC		Total
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000
Profit/(loss) from operations before income tax	2,828		(160)		(14,378)		2,407		952,555		943,252
Income tax at the statutory income tax rate	495	17.5	(32)	20	–	Nil	–	Nil	314,343	33	314,806
Tax losses not recognised	–		57		–		–		4,210		4,267
Effect on change in income tax rate	–		–		–		–		(19,150)		(19,150)
Tax effect of expenses not deductible for tax purposes	–		–		–		–		8,054		8,054
Tax effect of non-taxable income	(495)		–		–		–		–		(495)
Tax effect of preferential tax rates	–		–		–		–		(92,031)		(92,031)
Tax charge for the year	–		25		–		–		215,426		215,451

	2006										
							British Virgin				
	Hong Kong		Singapore		Cayman Islands		Islands		PRC		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

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

Basic earnings per share amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amount for year 2007 is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued at no consideration on the deemed conversion of all the dilutive potential ordinary shares into ordinary shares. No diluted earnings per share amount is presented for the year ended 31 December 2006 because no diluting events existed during that year.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2007 RMB'000	2006 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	676,000	460,761

	Number of shares 2007	 2006
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	553,936,185	552,000,000
Effect of dilution:		
Share options	1,094,214	—
Weighted average number of ordinary shares adjusted for the effect of dilution	555,030,399	552,000,000

11. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Equipment and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
At 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	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 and 1 January 2007, net of accumulated depreciation	367,392	236,073	7,097	118,625	20,736	749,923
Additions	—	75,087	707	25,509	46,658	147,961
Transfers from construction in progress	—	47,675	—	7,340	(55,015)	—
Acquisition	—	22,235	308	1,257	—	23,800
Disposals	—	(3,952)	(43)	(2,171)	—	(6,166)
Depreciation charge for the year	(15,997)	(49,499)	(2,114)	(29,203)	—	(96,813)
At 31 December 2007, net of accumulated depreciation	351,395	327,619	5,955	121,357	12,379	818,705

11. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Buildings RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Equipment and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
At 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 and 1 January 2007						
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
At 31 December 2007						
Cost	451,844	558,105	12,705	290,456	12,379	1,325,489
Accumulated depreciation	(100,449)	(230,486)	(6,750)	(169,099)	—	(506,784)
Net carrying amount	351,395	327,619	5,955	121,357	12,379	818,705

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 pledges were released upon the repayment of the relevant bank loans during the year.

12. INVESTMENT PROPERTIES

Group

	Buildings RMB'000
At 1 January 2006, net of accumulated depreciation	17,394
Business combination	101,200
Asset revaluation	112,072
Depreciation	(3,298)
At 31 December 2006, net of accumulated depreciation	227,368
Depreciation	(5,264)
At 31 December 2007, net of accumulated depreciation	222,104

	2007 RMB'000	2006 RMB'000
At 31 December		
Cost	230,000	230,000
Accumulated depreciation	(7,896)	(2,632)
Net carrying amount	222,104	227,368
Fair value at 31 December (note)	236,200	236,200

Note:

The fair value of the investment properties as at 31 December 2006 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.

Based on the prevailing market conditions and rental income attributable to the relevant investment properties, the directors consider that there is no significant change in the fair value between 31 December 2007 and 31 December 2006.

13. LEASE PREPAYMENTS

Group

	2007 RMB'000	2006 RMB'000
At 1 January	431,550	49,066
Business combination	—	183,690
Asset revaluation	—	205,757
Charge for the year	(11,080)	(6,963)
At 31 December	420,470	431,550

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 are held under a medium term lease and are situated in the PRC.

(ii) 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. The pledges were released upon the repayment of relevant bank loans during the year.

14. INTANGIBLE ASSETS

Group

The movements of intangible assets are as follows:

	Notes	Goodwill RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2006, net of accumulated amortisation		79,734	2,457	82,191
Business combinations		608,029	—	608,029
Amortisation		—	(655)	(655)
At 31 December 2006 and 1 January 2007, net of accumulated amortisation		687,763	1,802	689,565
Business combinations	(i)	508,909	—	508,909
Acquisition of minority interests	(ii)	364,221	—	364,221
Amortisation		—	(655)	(655)
At 31 December 2007, net of accumulated amortisation		1,560,893	1,147	1,562,040
At 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 and 1 January 2007				
Cost		687,763	3,277	691,040
Accumulated amortisation		—	(1,475)	(1,475)
Net carrying amount		687,763	1,802	689,565
At 31 December 2007				
Cost		1,560,893	3,277	1,564,170
Accumulated amortisation		—	(2,130)	(2,130)
Net carrying amount		1,560,893	1,147	1,562,040

14. INTANGIBLE ASSETS (continued)

Notes:

(i) This represented the goodwill recognised on the acquisition of the entire interest in Golden Village Group Limited ("Golden Village"), as further detailed in note 22 to the financial statements.

(ii) The amount comprised goodwill arising from the acquisition of minority interests of Anshan Tianxing Parkson Shopping Centre Co., Ltd. ("Anshan Parkson") of RMB272,743,000 and Mianyang Fulin Parkson Plaza Co., Ltd. ("Mianyang Parkson") of RMB91,478,000.

On 20 April 2007, the Group has entered into a sale and purchase agreement with Mr Li Zhong Yong, a third party individual (the "Vendor"), to acquire (a) the 49% equity interest in Anshan Parkson at a consideration of RMB280 million; and (b) the 100% interest in land use right and the properties occupied by Anshan Parkson for its department store business ("Anshan Properties") at a consideration of RMB450 million. The acquisition of the 49% equity interest in Anshan Parkson was completed on 22 June 2007 and Anshan Parkson became a wholly-owned subsidiary of the Group thereafter. The transaction contemplated in item (b) was completed subsequent to the balance sheet date on 21 January 2008 , as further detailed in note 41 to the financial statements.

On 21 May 2007, the Group has entered into a sale and purchase agreement with Sichuan Fulin Industrial Group Co., Ltd., a third party, to acquire the remaining 40% equity interest in Mianyang Parkson at a consideration of RMB99,928,800. The acquisition was completed on 31 October 2007 and Mianyang Parkson became a wholly-owned subsidiary of the Group thereafter.

(iii) Computer software is amortised on 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	2007 RMB'000	2006 RMB'000
Xi'an Lucky King Parkson Plaza Co., Ltd.	(a)	57,717	57,717
Parkson Retail Development Co., Ltd.	(b)	302,766	302,766
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	315,225
Anshan Parkson	(f)	272,743	—
Jiangxi Kaimei Retail Co., Ltd.	(g)	508,909	—
Mianyang Parkson	(h)	91,478	—
		1,560,893	687,763

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.

(f) Anshan Parkson principally engages in the operation of a department store in Anshan, the PRC.

(g) Jiangxi Kaimei Retail Co., Ltd. principally engages in the operation of a department store in Nanchang, the PRC.

(h) Mianyang Parkson principally engages in the operation of a department store in Mianyang, the PRC.

14. INTANGIBLE ASSETS (continued)

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. No growth has been projected beyond the four-year period. The pre-tax discount rate applied to the cash flow projections is 7.9% (2006: 7.9%).

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 margins 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

	2007 RMB'000	2006 RMB'000
Unlisted shares, at cost	579,041	579,041
Due from subsidiaries	1,038,209	611,208
Due to subsidiaries	(106,873)	(3,335)
	1,510,377	1,186,914

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

Details of the Company's subsidiaries as at 31 December 2007 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
Step Summit Limited －達嶺有限公司	Hong Kong	HK$1	—	100	Investment holding
Hong Kong Fen Chai Investment Limited －香港豐禾投資有限公司	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

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
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	RMB16,800,000	—	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
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	—	100	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	RMB30,000,000	—	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	—	100	Operation of department stores

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
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
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
Creation (Hong Kong) Investment & Development Limited –創意（香港）投資發展有限公司	Hong Kong	HK$10,000	—	100	Investment holding
Creation International Investment & Development Limited –創意國際投資發展有限公司	British Virgin Islands	USD50,000	—	100	Investment holding
Golden Village Group Limited –金成集團有限公司	British Virgin Islands	USD50,000	—	100	Investment holding
Jiangxi Kaimei Retail Co., Ltd. –江西凱美實業發展有限公司 *	The PRC	RMB8,500,000	—	100	Operation of department stores

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
Capital Park Development Limited	British Virgin Islands	USD2	—	100	Investment holding
Capital Park (HK) Investment & Development Limited －凱邦（香港）投資發展有限公司	Hong Kong	HK$1	—	100	Investment holding
Malverest Property International Limited	British Virgin Islands	USD2	—	100	Investment holding
Malverest (Hong Kong) Limited －先鋒（香港）有限公司	Hong Kong	HK$1	—	100	Investment holding
Oroleon International Limited	British Virgin Islands	USD2	—	100	Investment holding
Oroleon (Hong Kong) Limited	Hong Kong	HK$1	—	100	Investment holding
Releomont International Limited	British Virgin Islands	USD2	—	100	Investment holding
Releomont (Hong Kong) Limited	Hong Kong	HK$1	—	100	Investment holding
Leonemas International Limited	British Virgin Islands	USD2	—	100	Investment holding
Leonemas (Hong Kong) Limited	Hong Kong	HK$1	—	100	Investment holding

* 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	Operation 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	Operation of department stores
Xi'an Chang'an Parkson Store Co., Ltd.* —西安長安百盛百貨有限公司	The PRC	51	Operation of department stores
Xi'an Shidai Parkson Store Co., Ltd.* —西安時代百盛百貨有限公司	The PRC	51	Operation of department stores

* Although the Group has ownership 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 2007 and 2006 and for the years then ended, which are included in the consolidated financial statements, are as follows:

	2007 RMB'000	2006 RMB'000
Current assets	144,439	94,319
Non-current assets	37,325	41,630
	181,764	135,949
Current liabilities	(95,177)	(74,030)
Non-current liabilities	(1,696)	(1,817)
Net assets	84,891	60,102
Revenues	147,918	113,231
Purchases of goods and changes in inventories	(30,224)	(23,151)
Operating expenses	(85,601)	(69,146)
Finance income	1,484	951
Profit from operations before income tax	33,577	21,885
Tax	(4,226)	(5,446)
Profit for the year	29,351	16,439

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. 一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

17. INVESTMENT IN AN ASSOCIATE (continued)

Group

	2007 RMB'000	2006 RMB'000
Share of net assets of an associate	2,346	2,214

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

	2007 RMB'000	2006 RMB'000
Total assets	11,895	10,284
Total liabilities	5,192	3,958
Net assets	6,703	6,326

	2007 RMB'000	2006 RMB'000
Revenues	31,456	30,606
Profit from operations before income tax	2,282	2,442
Income tax	(753)	(906)
Profit for the year	1,529	1,536
Share of tax attributable to an associate	264	317
Share of profit of an associate, net of tax	535	538

18. OTHER ASSETS

Group

	Notes	2007 RMB'000	2006 RMB'000
Guarantee deposits	(i)	10,000	10,000
Loan receivable	(ii)	10,000	—
Lease prepayments	(iii)	82,977	97,408
Investment deposit	33(iii)	25,500	—
Entrusted loan	(iv)	120,000	—
		248,477	107,408

Notes:

(i) This represented deposits to a third party property developer to secure certain retail spaces 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 a loan to a concessionaire supplier of a new department store of the Group. The loan receivable is secured and is repayable through monthly installments of RMB400,000 commencing from January 2009. Of the loan receivable balance of RMB10,000,000, RMB5,000,000 is interest-free and the remaining RMB5,000,000 bears interest at 3% per annum.

(iii) This represented the long term portion of lease prepayments 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.

(iv) The entrusted loan of RMB120,000,000 is secured by a cash deposit with an equivalent amount in an escrow bank account, bears interest at 6.5% per annum and is repayable on or before 27 December 2009, as further detailed in note 22 to the financial statements.

19. HELD-TO-MATURITY INVESTMENTS, UNLISTED

Group and Company

	2007 RMB'000	2006 RMB'000
Credit linked notes, at amortised cost	1,460,920	1,561,740

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

Management considers the subscription of the CLN is part of a financing arrangement enabling the Group to obtain RMB funding for its operating entities in the PRC at a cost effective and operational effective manner. This note should be read in conjunction to note 27(i) and note 31(i) to these financial statements.

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

20. INVESTMENT DEPOSITS

Group

	Notes	2007 RMB'000	2006 RMB'000
Non-current			
Investment deposits, in a licensed bank in PRC, at amortised cost	(i)	40,000	—
Current			
Investment deposits, in licensed banks in PRC, at amortised cost	(ii)	781,450	—

Notes:

(i) The investment deposits will mature on 11 December 2009 and bear interest at applicable bank deposit rates. Pursuant to the underlying contracts, the investment deposits are capital guaranteed upon maturity date.

(ii) These investment deposits have terms of within six months and have expected annual rate of return up to five percent. Pursuant to the underlying contracts, the investment deposits are capital guaranteed upon maturity date.

21. DEFERRED TAX ASSETS AND LIABILITIES

Group

	Balance at 1 January 2006 RMB'000	Recognised in the consolidated income statement RMB'000	Recognised in reserves 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	—	—	—	(88,053)	(88,053)
Asset revaluation	—	—	(112,067)	—	(112,067)
	(46,295)	(635)	(112,067)	(88,053)	(247,050)
	(13,506)	2,629	(112,067)	(78,646)	(201,590)

	Balance at 1 January 2007 RMB'000	Recognised in the consolidated income statement RMB'000	Recognised in reserves RMB'000	Acquisitions RMB'000	Balance at 31 December 2007 RMB'000
Deferred tax assets:					
Pre-operating expenses	1,804	(502)	—	—	1,302
Depreciation	6,957	(2,169)	—	—	4,788
Accrued rental expenses	18,751	(6,395)	—	—	12,356
Accrued coupon provision	17,948	(1,423)	—	—	16,525
	45,460	(10,489)	—	—	34,971
Deferred tax liabilities:					
Depreciation	(46,930)	13,826	—	—	(33,104)
Business combination	(88,053)	21,346	—	—	(66,707)
Asset revaluation	(112,067)	—	27,167	—	(84,900)
	(247,050)	35,172	27,167	—	(184,711)
	(201,590)	24,683	27,167	—	(149,740)

21. DEFERRED TAX ASSETS AND LIABILITIES (continued)

Note:

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law"), which will be effective from 1 January 2008. Under the New CIT Law, the corporate income tax rate applicable to the domestic companies from 1 January 2008 will be decreased from 33% to 25% or progressively increased from 15% to 25% within five years. This unification in enterprise income tax rate will directly reduce or increase the Group's effective tax rate prospectively from 2008. According to IAS 12, the deferred tax assets and deferred tax liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The change in the corporate income tax rate has the following impact on the results and financial position of the Group for year ended 31 December 2007:

	RMB'000
Decrease in income tax expenses	(21,853)
Decrease in deferred tax assets	(10,870)
Decrease in deferred tax liabilities	59,890
Increase in asset revaluation reserve	(27,167)

22. BUSINESS COMBINATION

On 21 March 2007, the Group has entered into a sale and purchase agreement with an independent third party, Millionlink Pacific Limited ("Millionlink"), to acquire the latter's entire interest in Golden Village at a total cash consideration of RMB510,000,000. Golden Village is the owner of the entire equity interest in a PRC company, Jiangxi Kaimei Retail Co., Ltd. ("Jiangxi Kaimei"). Jiangxi Kaimei owns and operates a department store in Nanchang, the PRC ("Jiangxi Kaimei store").

The acquisition transaction was accounted for under the purchase method and the excess of the consideration of RMB510,000,000 over the fair value of the net assets acquired by the Group of RMB1,091,000 was recognised as goodwill of RMB508,909,000 (note 14).

In addition, pursuant to the sale and purchase agreement, the Group granted an entrusted loan of RMB120,000,000 to a related company of Millionlink through a PRC bank. This entrusted loan is secured by a cash deposit with equivalent amount in an escrow bank account which was established by Millionlink in favor of the Group. The sole purpose of the entrusted loan is to release the relevant mortgage in respect of the department store buildings in which the Jiangxi Kaimei store operated. Please refer to note 18 (iv) for the terms of the entrusted loan.

22. BUSINESS COMBINATION (continued)

The fair values of the identifiable assets and liabilities of Golden Village at the date of acquisition on 15 April 2007 were:

	Fair value recognised on acquisition RMB'000	Carrying value RMB'000
Property, plant and equipment	23,800	23,800
Inventories	11,388	11,388
Prepayments, deposits and other receivables	27,333	27,333
Cash and cash equivalents	64,864	64,864
	127,385	127,385
Trade payables	(68,585)	(68,585)
Tax payable	(5,118)	(5,118)
Dividend payable	(13,383)	(13,383)
Customers' deposits, other payables and accruals	(39,208)	(39,208)
	(126,294)	(126,294)
Fair value of net assets	1,091	1,091
Goodwill arising on the acquisition (note 14)	508,909	
Consideration	510,000	

The cash flow on the acquisition is as follows:	RMB'000
Net cash acquired	64,864
Cash paid	(510,000)
Net cash outflow	(445,136)

It was impracticable to disclose the revenue and profit of the combined entity for the year as though the acquisition had taken place at the beginning of the period. Because the relevant information is not available to the Group.

23. INVENTORIES

Group

	2007 RMB'000	2006 RMB'000
Merchandise, at cost	128,975	98,141
Consumables, at cost	14,965	11,763
	143,940	109,904

24. 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 the payment due date, is as follow:

Group

	2007 RMB'000	2006 RMB'000
Within 3 months	11,822	7,785
3 to 12 months	2,064	4,566
Over 1 year	6,705	7,782
	20,591	20,133
Provision for impairment	(1,617)	(1,644)
	18,974	18,489

Included in the balance as at 31 December 2007 are trade receivables from jointly-controlled entities of RMB852,000 (2006: RMB1,250,000) and from fellow subsidiaries of RMB9,994,000 (2006: RMB12,416,000) which are attributable to the consultancy fee income of the Group as disclosed in note 36(ii) to these financial statements. Such balances are unsecured and interest-free.

24. TRADE RECEIVABLES (continued)

The movements in provision for impairment of trade receivables are as follows:

Group

	2007 RMB'000	2006 RMB'000
At 1 January	1,644	2,799
Charged for the year	779	—
Amount written off	(806)	—
Amount reversed	—	(1,155)
	1,617	1,644

The aged analysis of trade receivables that are not considered to be impaired is as follows:

Group

	2007 RMB'000	2006 RMB'000
Neither past due nor impaired	11,822	7,785
Less than 3 months past due	1,017	428
Over 3 months past due	6,135	10,276
	18,974	18,489

Receivables that were past due but not impaired related to mainly receivables from fellow subsidiaries and corporate customers which have long business relationship with the Group. The directors are of the opinion that no provision for impairment is necessary at this stage because there has not been a significant change in credit quality of the individual debtor and the balances are considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	Notes	2007 RMB'000	2006 RMB'000
Deposits		36,833	31,190
Lease prepayments		73,915	15,026
Other prepayments		16,531	11,969
Advances to suppliers		46,810	26,600
Entrusted loans to a minority equity holder	(i)	—	71,088
Receivables from a minority equity holder		1,288	1,288
Designated loans	(ii)	17,421	19,400
Credit card sales receivables		108,072	45,049
Interest receivables		43,951	19,982
Tax refund receivables		9,970	—
Other receivables		21,936	19,742
		376,727	261,334
Less: Allowance for doubtful debts		(1,875)	(1,842)
		374,852	259,492

(i) The balance at 31 December 2006 represented entrusted loans to the minority equity holder of Anshan Parkson and such balance was settled during the year.

(ii) These designated loans bear interest at rates ranging from 6.12% to 7.65% (2006: 6.12% to 6.91%) per annum and will mature within one year. The Group has the right to offset the outstanding designated loan balances against future rental payments to these borrowers.

26. CASH AND SHORT-TERM DEPOSITS

Group

	2007 RMB'000	2006 RMB'000
Cash and bank balances	1,310,896	1,899,383
Short-term deposits	1,549,320	1,371,983
	2,860,216	3,271,366

The cash and bank balances, and short-term deposits of the Group amounting to RMB1,953,327,000 as at 31 December 2007 (2006: RMB3,055,349,000) were denominated in Renminbi, which are 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

	2007 RMB'000	2006 RMB'000
Cash and bank balances	1,280	1,300
Short-term deposits	631,612	201,640
	632,892	202,940

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and twelve months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following at 31 December:

Group

	2007 RMB'000	2006 RMB'000
Cash and bank balances	2,607,850	3,271,366
Short-term deposits	252,366	—
	2,860,216	3,271,366
Less: Non-pledged time deposits with original maturity of more than three months when acquired	(252,366)	—
Cash and cash equivalents	2,607,850	3,271,366

27. INTEREST-BEARING BANK LOANS

Group

	Notes	2007 RMB'000	2006 RMB'000
Bank loans	(i)	1,417,000	1,500,000
Bank loans, secured		—	190,913
	(ii)	1,417,000	1,690,913
Bank loans repayable:			
Within one year or on demand		—	83,886
In the second year		—	36,936
In the third to fifth years		1,417,000	1,570,091
		1,417,000	1,690,913
Less: Portion classified as current liabilities		—	(83,886)
Long term portion		1,417,000	1,607,027

Notes:

(i) The bank loans from JPMorgan Chase Bank, N.A., Shanghai Branch (the "Bank"), have a maturity date on 13 November 2011 and an interest rate equal 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 manage the Group's interest rate exposure attributable to the bank loans, on 15 November 2006, the Group and JPMorgan Chase Bank, N.A. entered into a series of interest rate swap contracts with aggregate nominal amount of RMB1,500,000,000 (note 35). The purpose of these interest rate swap contracts is to convert the Group's interest expenses from variable to a fixed rate of 10.3%. On each settlement date, the bank loan interest and interest rate swap contracts are settled simultaneously.

In addition, pursuant to the loan agreement, the Bank is entitled to request the Group to reduce the outstanding loan balance to reflect the reduction in the Renminbi equivalent amount of the CLN as set out in note 19 to the financial statements. The Group repaid RMB83 million of the bank loans during 2007.

(ii) As at 31 December 2007 and 2006, all the Group's interest-bearing bank loans were denominated in Renminbi.

28. TRADE PAYABLES

An aged analysis of the trade payables is as follows:

Group

	2007	2006
	RMB'000	RMB'000
Within 3 months	1,086,409	838,190
3 to 12 months	46,724	26,611
Over 1 year	11,583	6,817
	1,144,716	871,618

Note:

Included in the balances as at 31 December 2007 are payables to a fellow subsidiary of RMB2,165,000 (2006: RMB1,080,000) which are attributable to the royalty fee expenses of the Group as disclosed in note 36(i) to these financial statements. The balances are unsecured, interest-free and are normally settled on 90-day terms.

29. CUSTOMERS' DEPOSITS, OTHER PAYABLES AND ACCRUALS

Group

	2007 RMB'000	2006 RMB'000
Customers' deposits	258,621	161,644
Payables to joint venture partners	92	421
Provision for coupon liabilities (note)	75,080	73,132
Accrued salaries and bonus	60,894	79,772
Other tax payables	106,258	83,541
Deposits from suppliers	50,632	37,559
Construction fee payables	20,950	8,544
Rental payables	18,126	10,898
Accrued interests	36,380	35,195
Other payables and accruals	108,687	120,391
	735,720	611,097

Note:

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

	2007 RMB'000	2006 RMB'000
At 1 January	73,132	44,434
Business combinations	5,117	15,050
Arising during the year	67,265	66,801
Utilised	(57,520)	(32,786)
Unused amounts reversed	(12,914)	(20,367)
At 31 December	75,080	73,132

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 AND SENIOR NOTES

Group and Company

	Notes	2007 RMB'000	2006 RMB'000
Senior guaranteed notes, listed	(i)	1,435,118	1,526,806
Senior notes, listed	(ii)	897,179	—

Notes:

(i) On 14 November 2006, the Company issued the senior guaranteed notes in an aggregate principal amount of US$200 million. The senior guaranteed notes were admitted to the Official List of the Singapore Exchange Securities Trading Limited. The senior guaranteed 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 senior guaranteed 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 of the Company and (ii) a charge over the CLN as disclosed in note 19 to these financial statements.

(ii) On 30 May 2007, the Company issued the senior notes (the "Notes") in an aggregate principal amount of US$125 million. The Notes were admitted to the Official List of the Singapore Exchange Securities Trading Limited. The Notes are due on 30 May 2012 and bear interest at a rate of 7.125% per annum. Interest is payable semi-annually in arrears on 30 May and 30 November of each year, commencing on 30 November 2007. The Company has the option to redeem 35% of the Notes through proceeds from equity offerings before 30 May 2010 and the option to redeem all or part of the Notes in a manner prescribed by the agreements.

The obligations of the Company under the Notes are guaranteed by certain of the Company's subsidiaries.

Furthermore, the Group has entered into cross currency interest rate swap arrangements with the Bank. The purpose of the swap arrangements is to provide the Group with a RMB equivalent fixed rate debt of RMB956,630,000 and interest rate of 3.45% per annum, as further detailed in note 35 to the financial statements. At settlement, the Group's obligation under the Notes and attributable derivative financial instruments designated as hedging instruments will equal to a RMB equivalent fixed amount of RMB956,630,000.

32. CONTINGENT LIABILITIES

The Group and the Company did not have any significant contingent liabilities as at 31 December 2007.

33. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS

(i) Operating lease arrangements

As lessee

The Group leases certain of its properties and equipment under operating lease arrangements. These leases have non-cancellable lease terms ranging from 5 and 20 years and there are no restrictions placed upon the Group by entering into these lease agreements.

As at the balance sheet dates, the Group had the following future minimum rentals payable under non-cancellable operating leases:

	2007 RMB'000	2006 RMB'000
Within one year	271,244	174,759
In the second to fifth years, inclusive	1,085,017	662,496
After five years	3,110,518	1,529,386
	4,466,779	2,366,641

A lease that is cancellable only upon the occurrence of some remote contingency is a non-cancellable operating lease as defined under the IFRSs. Pursuant to the relevant lease agreements, the Group is entitled to terminate the underlying lease agreement if the attributable department store business has incurred losses in excess of a prescribed amount or such department store will not be in a position to continue its business because of the losses.

In addition to the above, the annual contingent rental amount is chargeable on a percentage of the respective stores' turnover.

33. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS (continued)

(i) Operating lease arrangements

As lessor

The Group leases out certain of its properties under operating leases. These leases have remaining non-cancellable lease terms ranging from 1 to 10 years.

As at the balance sheet dates, the Group had the following future minimum rentals receivable under non-cancellable operating leases:

	2007 RMB'000	2006 RMB'000
Within one year	48,845	36,855
In the second to fifth years, inclusive	76,398	61,739
After five years	33,473	19,486
	158,716	118,080

In addition to the above, the annual contingent rental amount is calculated on a percentage of the respective tenants' turnover.

(ii) In addition to the operating lease arrangements above, the Group had the following capital commitments at the balance sheet dates:

	2007 RMB'000	2006 RMB'000
Contracted, but not provided for:		
Leasehold improvements	16,570	7,714

(iii) Acquisition commitments

As at 31 December 2007, the Group had the following acquisition commitments:

	2007 RMB'000	2006 RMB'000
Acquisition of the minority interest in Xi'an Chang'an Parkson Store Co., Ltd. ("Xi'an Chang'an Parkson") (note)	35,500	—
Acquisition of Anshan Properties (note 14(ii))	450,000	—
	485,500	—

33. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS (continued)

(iii) Acquisition commitments (continued)

Note:

On 27 September 2007, the Group entered into a sale and purchase agreement with Shaanxi Chang'an Information Property Investment Co., Ltd. ("Shaanxi Chang'an Information") to acquire its 49% equity interest in Xi'an Chang'an Parkson at a consideration of RMB61,000,000. Xi'an Chang'an Parkson is a jointly controlled entity of the Group (note 16).

The execution of the transaction is subject to the fulfillment of certain precedent conditions, including approval from the PRC government authorities. Management expects the transaction will be completed in the first half of year 2008.

As at 31 December 2007, the Group paid an investment deposit amounting to RMB25,500,000 (note 18) in relation to this acquisition.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities, other than derivatives, comprise interest-bearing bank loans, notes, trade payables and other payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as prepayments, deposits and other receivables, trade receivables and short-term deposits which arise directly from its operations.

The Group also enters into held-to-maturity investments and hedging derivative transactions, primarily interest rate swaps. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

It is, and has been throughout the period under review, the Group's policy that no trading in derivatives shall be undertaken.

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the long-term debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using fixed interest rate debts or structured fixed interest rate borrowings (note 27(i)). As at 31 December 2007, the Group did not have long-term debt obligations with floating interest rates. Accordingly, the Group has no significant interest rate risk.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

As a result of the Group's debt financing are mainly in United States dollar while the Group has significant investments and operations in the PRC, the Group's balance sheet can be affected significantly by movements in the United State dollar/RMB exchange rates. The Group seeks to mitigate the effect of this currency exposure by structured derivative transactions, primarily cross currency interest rate swaps. The purpose is to manage the currency risks arising from the Group's operations and its sources of finance.

The Group also has transactional currency exposures. Such exposure arises from sales and purchases by an operating unit in currencies other than the unit's functional currency. The Group currently does not have hedging policy for transactional currency exposures. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Management estimates that a reasonable possible change from 5% to 8% in exchange rate between United States Dollar and RMB per annum would have no significant impact on the Group's profit before tax and equity as at 31 December 2007.

Credit risk

The Group trades on credit only with third parties who have an established trading history with the Group and who have no history of default. It is the Group's policy that new customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in note 24 to these financial statements.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, short term deposits, investment deposits, prepayments, deposits and other receivables and held-to-maturity investments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of such financial instruments.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of its financial instruments, financial assets and liabilities and projected cash flows from operations.

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 borrowings. As at 31 December 2007, the Group did not have bank loan and notes (2006: RMB83,886,000) which will mature 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.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2007 based on contractual or expected undiscounted payments.

Year ended 31 December 2007

	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
Senior guaranteed notes	—	—	—	1,435,118	—	1,435,118
Senior notes	—	—	—	—	897,179	897,179
PRC bank loans	—	—	—	1,417,000	—	1,417,000
Trade payables	1,144,716	—	—	—	—	1,144,716
Customers' deposits, other payables and accruals	735,720	—	—	—	—	735,720

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
Senior guaranteed notes	—	—	—	—	1,526,806	1,526,806
PRC bank loans	—	—	—	—	1,500,000	1,500,000
Trade payables	871,618	—	—	—	—	871,618
Customers' deposits, other payables and accruals	611,097	—	—	—	—	611,097
PRC bank loans, secured	83,886	36,936	39,156	30,935	—	190,913

Note:

Refer to note 35 to these financial statements for the effect of the interest rate swap arrangements.

Capital management

The primary objective of the Group's capital management is to maintain the Group's stability and growth.

The Group regularly reviews and manages its capital structure and makes adjustments to it, taking into consideration of changes in economic conditions, future capital requirements of the Group, prevailing and projected profitability and operating cash flows, projected capital expenditures and projected strategic investment opportunities.

35. FINANCIAL INSTRUMENTS

Fair values

Set out below is a comparison by category of carrying amounts of all of the Group's financial instruments that are carried in the financial statements:

	Carrying amount		Fair value	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Cash and short-term deposits	2,860,216	3,271,366	2,860,216	3,271,366
Designated loans	17,421	19,400	17,421	19,400
Held-to-maturity investments	1,460,920	1,561,740	1,460,920	1,561,740
Investment deposits	821,450	—	821,450	—
Entrusted loan	120,000	—	120,000	—
Financial liabilities				
Interest-bearing loans and borrowings:				
Floating rate PRC bank loan, secured	—	(190,913)	—	(190,913)
Fixed rate PRC bank loan	(1,417,000)	(1,500,000)	(1,417,000)	(1,500,000)
Senior guaranteed notes	(1,435,118)	(1,526,806)	(1,435,118)	(1,526,806)
Senior notes (note 31(ii))	(897,179)	—	(897,179)	—
Derivative financial instruments designated as hedging instruments (note 31(ii))	(88,189)	—	(88,189)	—

The carrying amounts of the Group's financial instruments which are classified as current approximate to their fair values as at 31 December 2007. The fair values of the bank loans, the senior guaranteed notes, senior notes, derivative financial instruments designated as hedging instruments and other financial assets have been calculated using market interest rates.

Hedging activities

Cash flow hedges

As at 31 December 2007, the Group had interest rate swap and cross currency interest rate swap arrangements in place with a notional amount of RMB1,500,000,000 (note 27(i)) and USD125 million (note 31(ii)), respectively. The swap arrangements are designated as cash flow hedges of the foreign currency risk and interest rate risk attributable to the underlying debts. The purpose of the swap arrangements is to provide the Group with RMB1,500,000,000 and RMB equivalent fixed interest rate debts of RMB956,630,000, respectively.

The cash flow hedges of the expected future cash flows were assessed to be highly effective as at 31 December 2007 in respect of the interest rate swap arrangements. It is the Company's financial risk management policy to closely monitor the hedging effectiveness of the hedging instruments and to update the notional amount of the interest rate swap agreements to maintain the hedging effectiveness.

36. RELATED PARTY TRANSACTIONS

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

Continuing transactions:

	Notes	2007 RMB'000	2006 RMB'000
Royalty fee expenses	(i)	1,085	1,080
Consultancy fee income	(ii)	12,935	11,352
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. 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 or receivable from the jointly-controlled entities of the Group of RMB2,150,000 (2006: RMB2,092,000) and fellow subsidiaries of the Group of RMB10,785,000 (2006: RMB9,260,000). 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 24 and 28 to these financial statements.

37. SHARE CAPITAL

	Number of ordinary shares '000	Nominal value 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 2007	552,000	55,200	57,436
Share options exercised (note)	5,219	522	489
At 31 December 2007	557,219	55,722	57,925

Note:

During the year, 5,218,900 share options were exercised for the same amount of shares at HK$36.75 per share. This gives rise to net proceeds from issue of shares amounting to approximately HK$192 million (equivalent to approximately RMB185,803,000). The share options were granted under an employee share option scheme disclosed in note 38 to the financial statements.

38. EMPLOYEE SHARE-BASED ARRANGEMENTS

On 10 January 2007, a total of 8,188,950 share options were granted to 482 eligible employees, including directors and the chief executive, of the Company at nil consideration and with an exercise price of HK$36.75 per share pursuant to an employee share option scheme (the "Scheme").

The fair value of the share options granted during the year was RMB25,442,000 and the Group recognised share option expenses of RMB25,442,000 during the year ended 31 December 2007.

The fair value of the options granted is estimated at the date of grant using a Black-Scholes-Merton option pricing model, taking into account the terms and conditions upon which the options were granted. The 5,955,600 share options granted under Lot 1 are exercisable from 24 January 2007 to 23 January 2010 and have no other vesting conditions. The 2,233,350 share options granted under Lot 2 are exercisable from 2 January 2008 to 1 January 2011 and required an employee service period until 2 January 2008.

38. EMPLOYEE SHARE-BASED ARRANGEMENTS (continued)

The fair value of options granted during the year ended 31 December 2007 was estimated on the date of grant using the following assumptions:

Dividend yield (%)	0.77 – 1.56
Expected volatility (%)	25.79 – 35.94
Risk-free interest rate (%)	3.638 – 3.648
Expected life (year)	0.5 – 1.5
Share price (HK$)	44.24

The 5,218,900 share options exercised resulted in the issue of 5,218,900 ordinary shares of the Company and new share capital of RMB488,698 and share premium of RMB196,076,935 (before issue expenses), as further detailed in note 39 to the financial statements.

At the balance sheet date, the Company had 2,871,950 share options outstanding under the Scheme and 98,100 share options had lapsed. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 2,871,950 additional ordinary shares of the Company and additional share capital of HK$287,195 (equivalent to approximately RMB269,000) and share premium of HK$105,256,968 (equivalent to approximately RMB98,563,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 2,760,350 share options outstanding under the Scheme, which represented approximately 0.5% of the Company's shares in issue as at that date.

39. 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 general accepted accounting principles in the PRC (the "PRC GAAP"), to the reserve fund, until the balance of the fund reaches 50% of the registered capital of that company. WOFEs registered in the PRC are required to transfer a certain percentage, as approved by the board of directors, of their profit after income tax to the employee bonus and welfare fund. These funds are restricted as to use.

In accordance with the relevant PRC laws and regulations, PRC domestic companies are required to transfer 10% of their 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.

(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

The asset revaluation reserve represented 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 Parkson Retail Development Co., Ltd. in 2006.

39. RESERVES (continued)

(b) Company

	Share premium RMB'000	Contributed surplus RMB'000 Note (i)	Exchange reserve RMB'000	Accumulated losses RMB'000 Note (ii)	Share option reserve RMB'000	Total RMB'000
At 1 January 2006	1,024,964	570,706	—	(8,380)	—	1,587,290
Profit for the year	—	—	—	5,873	—	5,873
Dividends paid	(226,320)	—	—	—	—	(226,320)
At 31 December 2006	798,644	570,706	—	(2,507)	—	1,366,843
Exchange realignment	—	—	(66,514)	—	—	(66,514)
Loss for the year	—	—	—	(14,738)	—	(14,738)
Equity-settled share option arrangements	—	—	—	—	25,442	25,442
Equity share options exercised	196,077	—	—	—	(10,763)	185,314
Dividends paid (note iii)	(270,622)	—	—	—	—	(270,622)
At 31 December 2007	724,099	570,706	(66,514)	(17,245)	14,679	1,225,725

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 loss attributable to equity holders of the parent for the year ended 31 December 2007 dealt with in the financial statements of the Company was RMB14,738,000 (2006: Profit of RMB5,873,000).

(iii) The Company's final dividend for 2006 and interim dividend for 2007 of approximately RMB149,040,000 and RMB121,582,000, 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.

40. DIVIDENDS

	2007 RMB'000	2006 RMB'000
Interim – RMB0.22 (2006: RMB0.15) per ordinary share	121,582	82,800
Proposed final – RMB0.38 (2006: RMB0.27) per ordinary share	211,000	149,040
	332,582	231,840

The proposed final dividend for the year (not recognised as liability as at 31 December 2007) is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

41. SUBSEQUENT EVENTS

According to an announcement of the Company dated 22 January 2008, the acquisition of the entire interest in the Anshan Properties (note 14(ii)) was duly completed on 21 January 2008.

Save as the event disclosed above, the Group did not have any significant subsequent events taken place subsequent to 31 December 2007.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 22 February 2008.