Intime Department Store (Group) Company Limited
銀泰百貨(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1833

2007 Annual Report

Intime Department Store (Group) Company Limited

CONTENTS

Corporate Profile

Intime Department Store (Group) Company Limited (the "Company") was incorporated in the Cayman Islands with limited liability on 8 November 2006. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 20 March 2007. Pursuant to a reorganization arrangement of the Company and its subsidiaries (together the "Group") in preparation for the listing on the Stock Exchange (the "Reorganization"), the Company became the holding company of the domestic operating entities engaging in department store business and their subsidiaries.

The Group commenced its department store business in 1998 when its first department store was established in Hangzhou, namely the Hangzhou Wulin store. After nine years of development, the Group has developed into a large-scale department store chain in Zhejiang province and holds equity interests in two domestic listed department store companies — Baida Group Co., Ltd. ("Baida") and Wuhan Department Store Group Co., Ltd. ("Wushang"). In June 2007, the Group commenced to have significant influence over Wushang by having board representation on its board of directors and accounted for the investment in Wushang as investment in an associate.

The Group currently operates eight department stores, including seven department stores located in the principal cities within Zhejiang province, with two stores in Hangzhou, three in Ningbo, one each in Wenzhou, Jinhua, and one store located in Wuhan, Hubei province. The Group has become the largest department store chain in Zhejiang province in terms of sales. In terms of sales per square meter, the operating results of the Group's flagship Hangzhou Wulin store outperform its peers within Zhejiang province. In January 2008, the Group signed a management contract with Baida to manage the Baida department store, located next to its flagship Hangzhou Wulin store, from 1 March 2008 to 28 February 2028.

The Group sets "Bring you a new lifestyle" as its motto and has traditionally targeted young and modern families as major customers. The Group positions its merchandize in the range of medium to high-end market with a commitment to offer excellent shopping experiences. With increasing sales floor area under management, the Group is gradually broadening its range of merchandise and service offerings to include high end to luxury retailing, as well as more comprehensive, richer shopping-related amenities and services.

Corporate Information

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CHOW Hok Lim *(FCCA, CPA, CFA)*

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CHOW Joseph
CHEN Dagang

REMUNERATION COMMITTEE

CHING Siu Leung *(Chairman)*
CHEN Dagang
CHOW Joseph

NOMINATION COMMITTEE

XIN Xiangdong *(Chairman)*
LEE Lawrence
CHOW Joseph

STRATEGIC DEVELOPMENT COMMITTEE

SHEN Guojun *(Chairman)*
CHING Siu Leung
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Ernst & Young
Certified Public Accountants

Financial Highlights

A summary of the results and assets, liabilities and equity of the Group for the last five financial years is set out below:

	Year ended 31 December				
	2003	2004	2005	2006	**2007**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Operating Results					
Revenue	248,619	325,706	477,964	676,342	**884,059**
Profit before Income tax	89,082	148,030	202,139	300,623	**512,469**
Profit for the year	56,861	93,528	136,156	219,509	**374,856**
Profit attributable to:					
— Equity holders of the parent	30,705	50,506	85,970	206,406	**378,368**
— Minority interests	26,156	43,022	50,186	13,103	**(3,512)**
Full year dividends per share (RMB)	N/A*	N/A*	N/A*	N/A*	**0.064**
Basic earnings per share (RMB)	N/A**	N/A**	N/A**	0.15	**0.22**
Diluted earnings per share (RMB)	N/A***	N/A***	N/A***	N/A***	**0.22**
	As at 31 December				
Assets and Liabilities					
Total assets	838,106	913,388	1,481,507	2,246,099	**6,195,272**
Total liabilities	(670,019)	(700,298)	(1,003,645)	(1,337,691)	**(2,152,106)**
Total equity	168,087	213,090	477,862	908,408	**4,043,166**
— Owners' equity	91,547	115,795	300,639	908,408	**3,873,557**
— Minority interests	76,540	97,295	177,223	—	**169,609**

* No dividend has been paid by the Company since its incorporation in year 2006.

** No basic earnings per share for year 2003, 2004 and 2005 is presented since the Company's shares were issued in year 2006.

*** No diluted earnings per share for year 2003, 2004, 2005 and 2006 is presented since no diluting events existed during those years.

Chairman's Statement

INTRODUCTION

2007 was a landmark year in the Group's history of development. With great effort of the Group and various parties, the Company was successfully listed on the Stock Exchange on 20 March 2007. The shares of the Company were well-received by investors. As a result, we were able to strengthen our equity base, improve capital structure, and substantially expand our shareholder network.

The Group's revenue in 2007 was approximately RMB884,059,000, representing an increase of approximately 30.7% over the previous year. Consolidated profit attributable to equity holders of the parent was approximately RMB378,368,000, representing an increase of approximately 83.3% over the previous year. Basic earnings per share improved by 46.7% to RMB0.22.

In view of the Group's strong financial performance, the board of directors of the Company (the "Board") has proposed a final dividend of RMB0.064 per share, which will be subject to approval by the shareholders at the forthcoming annual general meeting of the Company.

MARKET AND BUSINESS OVERVIEW

According to information published by the National Bureau of Statistics of China, the PRC economy continued to grow steadily and rapidly with a GDP growth of 11.4% in 2007. Underpinned by rising disposable incomes of urban households and the widespread pursuit of higher-quality lifestyle, the national total retail sales of consumer goods reached RMB8,921.0 billion, representing an increase of 16.8% over the previous year. The growth in total retail sales of consumer goods surpassed that of GDP.

The Group has continued to operate under a favorable business environment in Zhejiang province. In 2007, the GDP of Zhejiang province increased to RMB1,863.8 billion, representing an increase of 14.5% over the previous year. Such an increase outpaced the national GDP growth by about 3%. The per capita annual disposable income of urban household in Zhejiang province surged by approximately 12.6% to over RMB20,574, trailed only behind Shanghai and Beijing. Driven by the residents' increasing consumption power, the total retail sales of consumer goods in Zhejiang province has risen to about RMB621.4 billion, representing a strong growth 16.7% from the corresponding period of last year.

STRATEGIES

To take advantage of development opportunities in the PRC department store industry, the Group continued to grow and expand under a clearly-defined business strategy, including, building on its local strength to further expand its leadership presence in Zhejiang province; making selective acquisitions and alliances to quickly establish critical positions in new regional markets; establishing a nation-wide department store chain on the foundation of cross-regional dominance and competitiveness.

The Group believes regionalization is the characteristics of the current supplier network in the PRC's department store industry, and in either its affluent home market of Zhejiang province or other newly entered markets, the Group has focused on both the standalone competitiveness of each single store, and the aggregated potential market share of all its stores in the same region. The Group also actively seeks acquisition opportunities, including strategic retail premises, projects under development, and existing department store operation at attractive valuation and with great improvement potential. In particular, acquisition plays an important role in the Company's entry into new markets to quickly establish strong market positioning. Through the fast yet steady business expansion in 2007 and early 2008, the Group has laid solid groundwork for its progression towards the goal of becoming one of the top nationwide department store chains in China.

The Group and its management team believe there are advantages and disadvantages of either owning or leasing department store premises. To achieve an ideal balance among long-term operational stability, resource allocation and pace of expansion, the Group adopts a general policy of acquiring/developing core department store properties in strategic locations at appropriate cost, and leasing other premises under reasonably defined lease schedule to give the Group sufficient operational leverage and certain flexibility. As the consumption power of the general public in the PRC increases, in terms of both total spending and average purchasing, the Group is gradually broadening its range of merchandise and service offerings to include high end to luxury retailing, and increasing the average operating floor area of its new department stores to offer broader and deeper range of products, more comprehensive shopping amenities, and enriched customer services.

OPERATIONAL REVIEW

In 2007, the Group's department stores achieved a strong revenue growth rate of 30.7% and gross sales proceeds growth rate of 25.8%, with the effective same store sales growth maintained at a high rate of 17.2%. This was the result of new store openings, continuous improvement in operational efficiency, better merchandise mix and brand selection, friendlier customer services and more organized sales and promotional campaigns, in a background of continuous growth in retail consumption.

The Group further strengthened its position as the leading department store operator in Zhejiang province by opening Jinhua Fuhua store, Wenzhou Shimao store, Ningbo Wanda store and Hangzhou Linping store in January 2007, February 2007, September 2007 and December 2007, respectively. In addition, leveraging on its increasingly strong partnership with Wushang, the Group has begun expansion in Hubei province by acquiring the Wuhan Shiji store in December 2007, which is scheduled to be rebranded as Intime Shiji store in April 2008. These 5 new stores added a total 134,872 square meters of retail space to our existing store portfolio. In addition, the Group has entered into a joint-venture agreement with a leading foreign retail franchise, Lotte Shopping Company Limited ("Lotte"), the largest department store operator in the Republic of Korea, to jointly operate a department store located in Wangfujing, Beijing. The Intime Lotte store will become the largest single department store in Beijing with a gross floor area of approximately 75,000 square meters and is scheduled to open in June 2008. Through such cooperation, the Group expects to acquire world-class retail operation and management expertise and enhance the Group's operation and management standards.

The term of the lease for the premises at which our Ningbo store No. 1 is located has been successfully extended to 31 March 2025 from the original termination date of 31 July 2017. This revised lease term will further enable the Company to conduct the Group's business on a long term basis with security of tenure. In addition, the Group obtained the Building Ownership Certificate in respect of the Group's office premise located at Room 701, No. 528 Yan'an Road, Hangzhou, Zhejiang province, PRC in August 2007.

Chairman's Statement

During the year under review, the Group has made significant progress in forging business cooperation and exploiting synergies with Wushang and Baida. In 2007, the Company further strengthened its relationship with Wushang by nominating two members to the board of directors of Wushang. The Group currently owns 22.62% equity interest in Wushang, which is the largest department store group in Hubei province. The Group will continue to explore opportunities for further cooperation and integration with Wushang.

In January 2008, the Group signed a management contract with Baida to manage the Hangzhou Baida department store from 1 March 2008 to 28 February 2028. The significance of the contract is long-term and multi-fold. In addition to potential earning improvement as a result of the income from the management fee and profit sharing, the Group will be managing the Hangzhou Baida department store together with the Group's flagship Hangzhou Wulin store and the directors of the Company (the "Directors") believe this will lead to great synergy from cost reduction, brand allocation optimisation and efficiency improvement. Together with the to-be-constructed 14,000 square meters phase 2 and the parking garage with 400 plus parking spaces, the combined Hangzhou Wulin and Baida operation will effectively become a mega store of approximately 91,000 square meters in the busiest shopping strip in Hangzhou. With the opportunity to manage the Group's flagship store and the Baida department store as a whole, the Group is confident to look into a new growth era.

OUTLOOK

Looking into 2008, the Group will continue to enhance its core competitive edge, expand store footprint and further secure its leadership position in the Zhejiang province. Building on a solid network of future operational spots, the Group will concentrate on executing its expansion blueprint, meanwhile continuing to explore opportunities to strengthen market share and coverage. The Group will also continue to work closely with the management of companies in which it holds minority interests for mutually beneficial business integration. As part of its long-term strategy, the Group will continue to seek acquisition opportunities, targeting strategic retail assets, commercial properties and businesses of attractive department stores, with a goal to extend its existing regional dominance and to gradually establish a leading nation-wide department store chain. In parallel with business scale expansion, the Group increasingly focuses on improving and perfecting cross-platform operational efficiency, management effectiveness, and compatibility and robustness of supporting infrastructure. In the next step of its development roadmap, the Group plans not only to expand its scale and business coverage, but also to replicate and at the same time breakthrough from its previous achievements in operation and management standards.

ACKNOWLEDGEMENT

I would like to take this opportunity to express my sincere gratitude to our Board members and management team, and to all the employees, business partners, customers and shareholders of the Group, for their continuous support and contribution to the Group.

Shen Guojun
Chairman
10 April 2008

Management Discussion and Analysis

FINANCIAL REVIEW

Following the success in 2006, the Group's business continued to achieve significant growth in 2007. For the year ended 31 December 2007, the revenue of the Group amounted to approximately RMB884,059,000, representing an increase of approximately 30.7% as compared with the previous year. Profit attributable to the shareholders increased by approximately 83% to approximately RMB378,368,000. Basic earnings per share was approximately RMB0.22 (2006: RMB0.15).

Total gross sales proceeds and revenue

	Year ended 31 December			
	2007		2006	
	RMB (m)	**%**	RMB (m)	%
Sales of goods — direct sales	**225.6**	**25.5**	196.9	29.1
Commission from concessionaire sales	**643.4**	**72.8**	472.6	69.9
Rental income	**15.0**	**1.7**	6.8	1.0
Total	**884.0**	**100.0**	676.3	100.0

For the year ended 31 December 2007, total gross sales proceeds of the Group (that is, aggregate proceeds from direct sales and gross revenue from concessionaire sales) was approximately RMB3,459.9 million, representing an increase of approximately 25.8% from approximately RMB2,750.5 million in 2006. This increase was primarily attributable to the opening of the Jinhua Fuhua store and Wenzhou Shimao store in early 2007, the rapid growth in sales in the two Ningbo stores, and the steady growth in sales in Hangzhou Wulin store. In respect of total gross sales proceeds contributed by all stores of the Group, Hangzhou Wulin Store accounted for approximately 51.2% of total gross sales proceeds, or approximately RMB1,770,256,000, Ningbo Store No. 1 and No. 2 contributed approximately 34.5%, and Jinhua Fuhua store and Wenzhou Shimao store contributed approximately 12% of the total gross sales proceeds of the Group, respectively.

The Group derives revenue from commissions from concessionaire sales, direct sales of goods and rental income. For concessionaire sales, the Group allows the concessionaires to establish sales counters in its department store and charges them a percentage of their gross sales proceeds. For direct sales, the Group purchases merchandise from the direct sales suppliers and resells the merchandise in its stores.

In 2007, commission from concessionaire sales and revenue from direct sales accounted for approximately 73% and 26% of the Group's revenue, respectively (2006: 70% and 29%). The increase in contribution of the concessionaire sales was due to the increase in commission rates and the shift of product mix during the year. The Group will conduct regular reviews on the performance of the Group's suppliers and concessionaires, with an aim to enhance and strengthen product portfolios and provide better shopping choices to its customers.

Management Discussion and Analysis

Other operating income and gains

The Group's other operating income were approximately RMB136,449,000, representing an increase of approximately 336% as compared to 2006. The increase was largely due to the significant increase in one-off interest income derived from the over-subscription funds received in connection with the listing of the Company's shares on the Stock Exchange in March 2007 and the interest income derived from the listing proceeds.

The Group's other net gains increased to approximately RMB83,385,000, from approximately RMB1,642,000 in 2006. The significant increase resulted from the gains on the disposal of available-for-sale investments.

Purchase of goods and change in inventories

The Group's purchases of goods and changes in inventories increased to approximately RMB173,932,000 in 2007 from approximately RMB149,868,000 in 2006, representing an increase of approximately 16%. The increase was mainly due to the increased demand for inventories driven by sales of goods in 2007. The direct sales gross profit margin was 23% which remained at the similar level of last year.

Staff costs

The Group's staff costs increased by RMB28,075,000 or 49% to RMB85,033,000, which was primarily attributable to an increase in head count associated with the opening of new stores in Zhejiang province and the preparation for the opening of additional stores, and the increase in wages. The increase was also partly due to the grant of share options to the directors and senior management during the year. Staff costs as a percentage of revenue was 9.6%, representing an increase of 1.2% from 8.4% in 2006.

Depreciation and amortization

The Group's depreciation and amortization increased to RMB40,650,000 in 2007 from RMB20,578,000 in 2006, representing an increase of 98%. The increase was primarily attributable to the inclusion of depreciation cost, amortization of leasehold improvement and land use rights for the new stores opened in Ningbo, Wenzhou and Jinhua.


Other expenses

Other expenses of the Group in 2007 was approximately RMB253,187,000, representing an increase of approximately 47% from approximately RMB172,213,000 in 2006. The increase was mainly due to the one-off expenses for the listing of shares of the Company on the Stock Exchange in March 2007 and the increase of rental expenses for the opening of new stores in 2007.

Finance costs

The Group's finance costs increased from approximately RMB33,534,000 in 2006 to approximately RMB47,725,000 in 2007, representing an increase of 42%. The increase was mainly due to the increase in interest expense resulting from the increase in average short-term bank borrowings used to finance the holding of strategic minority investments and the development need of business operations during the year.

Share of profit of an associate

The share of profit of an associate represented the Group's interest in Wushang, an associate of the Group. The Group had maintained a 22.62% equity interest in Wushang as at the end of 31 December 2007. The disclosure of Wushang as an associate for the year (which was classified as available-for-sale investments in 2006) was largely attributable to the commencement of the exercise of significant influence through board presentation in Wushang since mid-2007.

Income tax expense

The Group's income tax expense increased by RMB56,499,000 or 70% to RMB137,613,000, which was in line with the increase in operating profit. Effective tax rate of the Group for the year remained at the same level as last year at 27%.

Profit attributable to equity holders of the parent

Profit attributable to equity holders of the parent for 2007 was approximately RMB378,368,000, representing an increase of 83% from approximately RMB206,406,000 in 2006. Margin of profit attributable to equity holders of the parent for the year was 42.8%, representing an increase of 12.3% from 30.5% in 2006.

Minority Interests

The minority interests of the Group changed from a gain position of RMB13,103,000 in 2006 to a loss position of RMB3,512,000 in 2007. This was resulted from the share of loss of some of the Group's subsidiaries.

Liquidity and financial resources

As at 31 December 2007, total borrowings were approximately RMB450 million, which represented a decrease of approximately 31%, or RMB199 million. The drop was largely due to the partial repayment of some bank loans. All of the borrowings were short-term bank borrowings and denominated in RMB.

The following table sets forth the borrowings of the Group as at 31 December 2007 and 2006.

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
Current		
— unsecured bank borrowings	**150,000**	70,000
— guaranteed bank borrowings	**—**	429,000
— secured bank borrowings	**300,000**	150,000
	450,000	649,000

The following table sets forth the maturity of the borrowings.

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
Within 6 months	**400,000**	314,000
Between 7 to 12 months	**50,000**	335,000
	450,000	649,000

The following table sets forth the effective interest rates per annum for the borrowings at the respective balance sheet dates.

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
Short-term bank borrowings	**6.03%—7.29%**	5.02%—6.73%

The following table sets forth the exposure of borrowings to interest rate changes and the contractual repricing dates.

	6 months or less	7 to 12 months	Total
	RMB'000	RMB'000	RMB'000
31 December 2006			
Total borrowings	169,000	480,000	649,000
31 December 2007			
Total borrowings	400,000	50,000	450,000

The Group has following undrawn banking facilities:

	2007	2006
	RMB'000	RMB'000
At floating rate:		
Expiring within 1 years	—	10,000
Expiring within 2 to 3 years, inclusive	1,224,050	1,475,050
	1,224,050	1,485,050

The Group did not use financial instruments for hedging purposes for the year ended 31 December 2007.

At 31 December 2007 and 2006, the cash and cash equivalents of the Group were deonomiated in the following currencies:

	2007	2006
	RMB'000	RMB'000
RMB	587,046	269,801
US$	94,887	48,060
HK$	95,218	—
	777,151	317,861

The Group's cash and cash equivalents amounted to RMB777.2 million, an increase of RMB459.3 million from the balance recorded at the end of December 2006. This increase was mainly as a result of the cash inflow of RMB2,441.1 million of proceeds from the issuance of new shares. The increase was partially offset by the cash outflow of the followings: i) the purchase of property, plant and equipment of RMB693.9 million, ii) the acquisition of subsidiaries of RMB317.7 million, iii) the loans made to third parties of RMB316.1 million, iv) the advances to third parties of RMB299.8 million, v) the acquisition of prepaid land lease payments of RMB223.6 million and vi) the advances to related parties of RMB220.6 million.

Management Discussion and Analysis

Net current liabilities

The net current liabilities position of approximately RMB588,188,000 as of 31 December 2006 has been decreased to approximately RMB83,654,000 as of 31 December 2007. Such reduction was mainly contributed by the cash inflow from operating activities and proceeds from the issuance of new shares.

Net gearing ratio

The net gearing ratio is defined as net debt (represented by borrowings net of cash and cash equivalents) divided by equity. As at 31 December 2007, total equity of the Group amounted to approximately RMB4,043,166,000 (2006: RMB908,408,000); borrowings were approximately RMB450,000,000 (2006: RMB649,000,000); cash and cash equivalents were approximately RMB777,151,000 (2006: RMB317,861,000). The Group was at net cash position at the end of 2007, which is a substantial improvement from about a net gearing ratio of 36.5% as at 31 December 2006.

Pledge of assets

Certain buildings, investment properties and land use rights with carrying amount of approximately RMB176,640,000 had been pledged to the Industrial and Commercial Bank of China to obtain bank facilities of RMB1,524,050,000.

Interest rate risk

Interest rate risk exposure of the Group is mainly related to the impacts of interest rate fluctuations on interest-bearing assets and liabilities such as bank deposits, existing (interest-bearing) loans and future borrowing needs. As at 31 December 2007, the total outstanding balance of interest-bearing bank loans was RMB450,000,000. The Group currently has not used any derivatives to hedge the interest rate risk.

Foreign exchange risk

Substantially all the revenue and expenses of the Group are settled in RMB. Most of the assets and liabilities of the Group are denominated in RMB except proceeds from the listing which were denominated in Hong Kong dollars. The fluctuation of RMB will expose the Group to foreign exchange risk. The Group has not used any derivatives to hedge the potential foreign exchange risk.

Staff and remuneration policy

As at 31 December 2007, the Group has about 1,533 employees. The Group strives to offer a good working environment, a diversified range of training programs as well as an attractive remuneration package to its employees. The Group endeavours to motivate its staff with performance-based remuneration. On top of basic salary, staff with outstanding performance will be rewarded by way of cash bonuses, share options, honorary awards or a combination of all the above to further align the interests of its employees and the Company, to attract talented individuals, and to create long-term incentive for its staff.

COMMITMENTS

(a) As lessor

The Group leases its investment properties and subleases its leased assets under operating lease arrangements, with leases negotiated for terms ranging from one to ten years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2007	2006
	RMB'000	RMB'000
Within one year	**8,191**	6,186
In the second to fifth years, inclusive	**12,545**	9,876
After five years	**12,643**	1,041
	33,379	17,103

The amounts above include future minimum sublease payments expected to be received under non-cancellable sublease amounting to RMB27,730,000 (2006: RMB10,297,000) as at 31 December 2007.

(b) As lessee

The Group leases certain of its stores and office premises under non-cancellable operating lease agreements.

At 31 December 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2007	2006
	RMB'000	RMB'000
Within one year	**110,684**	43,920
In the second to fifth years, inclusive	**676,739**	466,258
After five years	**1,756,648**	1,110,220
	2,544,071	1,620,398

(c) Capital commitment

In addition to the operating lease commitments stated above, the Group had the following capital commitments at the balance sheet date:

	2007 RMB'000	2006 RMB'000
Contracted, but not provided for:		
Land and buildings	**227,813**	14,000
Equity interests (i)	**903,668**	—
Capital contributions payable to jointly-controlled entity (ii)	**73,046**	78,087
	1,204,527	92,087

(i) The amount of equity interest payable mainly refers to the agreements entered on 20 December 2007 to acquire a 50% equity interest of Hangzhou Hubin International Commercial Development Co., Ltd. ("Hubin International") and Hangzhou Xin Hubin Commercial Development Co., Ltd. ("Xin Hubin") The remaining consideration of approximately RMB895,668,000 will be paid subsequent to the balance sheet date.

(ii) The amount of capital contributions payable to jointly-controlled entity refers to the joint venture agreement entered on 31 October 2006 with Lotte to operate a department store located in Wangfujing, Beijing. Each joint venture partners agrees to contribute USD10,000,000 to the joint venture and owns 50% of its equity interest.

The Group will fund the capital commitment through a variety of means, including but not limited to, cash on hand, cash from operations, bank borrowings, loans and disposal of investment securities or a combination of any of these means.

CONTINGENT LIABILITIES

The following table set out contingent liabilities not provided for in the consolidated financial statements as at 31 December 2007.

	2007 RMB'000	2006 RMB'000
Guarantees to related parties (i)	**–**	20,000

(i) As at 31 December 2006, Zhejiang Intime Department Store Co, Ltd. ("Zhejiang Intime") provided a guarantee amounting to RMB20,000,000 in respect of a loan granted by a bank to Wenzhou Yintai Department Store Co., Ltd. ("Wenzhou Yintai"). The relevant loan and interest was repaid by Wenzhou Yintai on 25 February 2007 and the guarantee was released.

(ii) On 8 November 2007, 嘉興銀泰投資管理有限公司 (Jiaxing Intime Investment and Management Co., Ltd.) ("Jiaxing Intime") and 銀泰百貨有限公司 (Intime Department Store Co., Ltd.) ("Shanghai Intime") entered into a joint venture contract with 嘉興市文化名城投資集團有限公司 (Jiaxing City Culture Mingcheng Investment Group Company Limited) ("Jiaxing Culture"), a third party, to establish a joint venture company, Jiaxing Meiwan.

Jiaxing Meiwan has a registered capital of RMB400,000,000. Jiaxing Intime and Shanghai Intime each contributed RMB120,000,000 in cash, which in aggregate will represent a 60% equity interest in Jiaxing Meiwan. Jiaxing Culture will contribute RMB160,000,000 by way of transferring title of property with total gross floor area of approximately 20,000 square meters (the "Injected Property") into Jiaxing Meiwan, which will represent 40% of equity interest in the joint venture.

Pursuant to the joint venture contract, Jiaxing Intime and Shanghai Intime shall guarantee a return to Jiaxing Culture in either of the following circumstances:

(a) if Jiaxing Meiwan is unable to be listed on any stock exchange within three years from its establishment, and if Jiaxing Culture intends to transfer the 40% equity interest it held in Jiaxing Meiwan, Jiaxing Intime and Shanghai Intime shall pay Jiaxing Culture the difference between RMB160,000,000 and the market value of the Injected Property at the time of transfer of the 40% equity interest held by Jiaxing Culture, but in any event, the market value to be used to determine such payment shall not be less than RMB9,000/square meter in respect of the Injected Property; or

(b) if Jiaxing Meiwan is successfully listed on a stock exchange within three years but the total market value of the equity interests Jiaxing Culture holds in the listed company at the time of listing is less than the then market value of the Injected Property, Jiaxing Intime and Shanghai Intime will pay Jiaxing Culture the difference between the then market value of the Injected Property at the time of listing and the current market value of the Injected Property of approximately RMB160,000,000, but in any event, the market value to be used to determine such payment shall not be less than RMB9,000/square meter in respect of the Injected Property.

As at 31 December 2007, Jiaxing Culture has not yet made its capital injection into Jiaxing Meiwan.

INVESTMENTS IN LISTED SHARES

The Group currently holds minority stakes in companies with department store operations listed in the PRC, which is one of the Group's means of implementing one of its growth strategies, namely selectively acquiring attractive department store assets. Additionally, the Group also holds minority interest in a supplier listed in Hong Kong.

Management Discussion and Analysis

The following table sets out the Group's interests as of 31 December 2007 in, and relevant summary information relating to Baida, Wushang, CITIC Development – Shenyang Commercial Building Co., Ltd., ("Shenyang Commercial Building") and China Dongxiang (Group) Co., Ltd. ("China Dongxiang").

Investment	The Group's shareholding	Main Business	Geographical location
Baida	27.48%	Owns and operates a department store called "Hangzhou Bai Huo Da Lou" (Baida Department Store)	Hangzhou, capital of Zhejiang province
Wushang	22.62%	Operates five department stores and owns three of the properties at which its stores are located	Wuhan, capital of Hubei province
Shenyang Commercial Building	4.93%	Owns and operates a department store	Shenyang, capital of Liaoning province
China Dongxiang	1.44%	Design, development, marketing and wholesale of branded sportswear in the PRC	PRC

As at 31 December 2007, the Group had invested an aggregate of approximately RMB1,084.6 million in Baida, Wushang, Shenyang Commercial Building and China Dongxiang. The Group has financed its investments primarily through bank borrowings, cash generated from operations and equity contributions from shareholders.

Current status of and outlook for the Group's existing investments

Baida

In January 2008, the Group signed a management contract with Baida Group to manage the Hangzhou Baida Department Store for twenty years starting from 1 March 2008. This future long-term relationship represents a new milestone of business cooperation with Baida.

The Group believes it is necessary to maintain a certain level of holding in Baida to strengthen the business cooperation with Baida and secure smooth implementation of the management contract.

The share price of Baida has risen from RMB10.3 as at 31 December 2006 to RMB17.88 as at 31 December 2007.

Wushang

Given Wushang's size and leading position in Wuhan and Hubei province, a market which the Group believes has significant potential for the department store industry, the Group believes that cooperation between the Group and Wushang could bring significant operating synergies as well as provide the Group with an opportunity to enter into a new market through a partner whose local experience and leading position the Group could leverage on.

The Group believes that its current holding in Wushang should in time allow it to exert the necessary influence over and forge business cooperation with Wushang through various means. In 2007, the Group appointed two members to present on the board of Wushang. This marked the exercise of the significant influence on Wushang's management and operations and hence Wushang was classified as an associate during the year. The Group will continue to explore opportunities for further cooperation and integration with Wushang.

The share price of Wushang has risen from RMB5.74 as at 31 December 2006 to RMB18.65 as at 31 December 2007. In 2007, the share of profit from Wushang amounted to RMB9,103,000.

Shenyang Commercial Building

The Group believes that its investments in Shenyang Commercial Building could bring potential opportunity of cooperation with the department store, which could generate significant operating synergies as well as provide the Group with a window to enter into a new market through a partner whose local experience the Group could leverage on.

The share price of Shenyang Commercial Building has risen from RMB10.02 as at 31 December 2006 to RMB16.9 as at 31 December 2007.

China Dongxiang

The strategic investment in China Dongxiang was made with a view to foster supply-chain collaboration and development.

The share price of China Dongxiang has risen from the IPO share price of HKD3.98 as at 10 October 2006 to HKD5.79 as at 31 December 2007.

IMPORTANT ACQUISITIONS

As part of the Group's strategy to actively expand the geographical coverage of its department store network, the Group made the following important acquisitions during the year:

Hiwell Property

On 10 September 2007, 杭州銀泰投資管理有限公司 (Intime Investment Management Co., Ltd.) ("Intime Investment Management"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement and a loan assignment agreement with 浙江浙聯房產集團有限公司 (Zhejiang Zhelian Property Group Company Limited) ("Zhelian Property"), pursuant to which Intime Investment Management has agreed to acquire and Zhelian Property has agreed to sell: 1) a 33% equity interest in 杭州海威房地產開發有限公司 (Hiwell Real Estate Company Limited) ("Hiwell Real Estate") for a total cash consideration of RMB33,000,000.00 and; 2) the outstanding shareholder's loan made by Zhelian Property to Hiwell Real Estate for a total cash consideration of RMB204,808,370.96. Through the acquisition, the Group intends to acquire the department store property currently under development by Hiwell Real Estate and plans to use it to expand and further enhance the Group's market leadership position in Hangzhou retail market.

Jiaxing Properties

On 8 November 2007, Jiaxing Intime and Shanghai Intime, the wholly-owned subsidiaries of the Company, entered into a joint venture contract with Jiaxing Culture to establish a joint venture company in Jiaxing City, Zhejiang province (the "Joint Venture"). The Joint Venture will have a registered capital of RMB400,000,000 and a total investment amount of RMB800,000,000. Jiaxing Intime and Shanghai Intime will each contribute RMB120,000,000 in cash, which will represent an aggregate of 60% of the equity interest in the Joint Venture. Jiaxing Culture will contribute RMB160,000,000 by way of property injection, which will represent 40% of equity interest in the Joint Venture. The Joint Venture will be principally engaged in the holding and developing of the properties and operating and management of the department stores and retail outlets situated at Meiwan Street, Jiaxing City, Zhejiang province. The properties are located at a prime commercial location in Jiaxing City and are to be developed into one of the major shopping areas. The Board believes that the properties will be a strategic new addition to the Group and will be beneficial to the Group as a whole in expanding its presence in the retail market in Zhejiang province.

Hangzhou Pacific Commercial Centre

On 14 November 2007, 杭州銀泰北山企業管理有限公司 (Hangzhou Intime North Hill Enterprise Management Co., Ltd.) ("Hangzhou North Hill") and North Hill Holdings Ltd. ("North Hill"), the wholly-owned subsidiaries of the Company, entered into a series of transactions, namely, (1) the Zhelian Investment Management Capital Increase Agreement with Wang Shunli, Wang Shungen and 浙江浙聯投資管理有限公司 (Zhejiang Zhelian Investment and Management Co., Ltd.) ("Zhelian Investment Management") to subscribe for a 50% equity interest in Zhelian Investment Management for an aggregate consideration of RMB100,000,000; (2) a loan assignment agreement with Zhelian Property to acquire the rights and benefits in respect of an outstanding loan of RMB200,000,000 owed by Zhelian Investment Management to Zhelian Property and (3) a sale and purchase agreement with South City Group Limited to acquire the entire equity interest in Million Energy Holdings Limited for an aggregate consideration of RMB200,000,000. The Xintai Capital Increase Framework Agreement dated 10 April 2007 with the shareholders of Zhelian Property and 杭州新泰房地產開發有限公司 (Hangzhou Xintai Property Development Co., Ltd.) was terminated.

The consideration for the abovementioned acquisitions have been determined after arm's length negotiation between the parties and was based on the current market value of the Property Development (Hangzhou Pacific Commercial Centre), which will be the sole principal asset owned by Zhelian Investment Management. The Property Development is a shopping complex located in a prime commercial location in Hangzhou city. The Board believes that the Property Development will be a strategic new addition to the department store chain currently operated by the Group and will be beneficial to the Group as a whole in expanding and further enhancing its market leadership position in the retail market in Zhejiang province.

Hubin Properties

On 20 December 2007, Hangzhou North Hill, a wholly-owned subsidiary of the Company, was successful in its bid for a 50% equity interest in each of Hubin International and Xin Hubin, at a price of RMB1,053,467,873.58, which includes repayment by Hangzhou North Hill of 50% of a construction bank loan of Hubin International and a commission paid to the Hangzhou Enterprise Property Rights Exchange. Both Hubin International and the Xin Hubin are engaged in the operation and management of commercial and tourist attraction areas of the Hubin District, Hangzhou, Zhejiang province, PRC. They own properties which are in the process of redevelopment into key commercial and tourist attraction areas in the Hubin District. The Board believes that the properties will be strategic new additions to the department store chain currently operated by the Group and will be beneficial to the Group as a whole in expanding and further enhancing its market leadership position in the retail market in Hangzhou.

FUTURE PROSPECTS

The Board believes that the achievements of the Group and the future growth potential of the Company rely on the combination of various strengths of the Company, including:

- Strong brand recognition;
- Prime store locations;
- Highly experienced and capable management team;
- Strong market positioning capabilities;
- Sound business model;
- Economies of scale from the Group’s regional leadership position;
- Advanced management information systems; and
- Excellent customer service and loyal customer base.

The demand in the department store retail market in the PRC is significant and is growing rapidly, but this gives rise to more intense competition. Since regionalization occurs in the department store industry and supply channels in the PRC, the Company will continue to consolidate its leading position in the Zhejiang province and selectively enter new markets and strive to become the leader of the markets to gradually establish a nation-wide chain through regional predominance. The Company will take the following proactive business strategies to enhance shareholder value:

Management Discussion and Analysis

Continue increasing sales per square meter, revenue and profit from the Group's existing stores

The Group plans to continue focusing on increasing sales per square meter, revenue and profit from its existing stores by consolidating its position in the cities where it is a leader, by continuing to focus on identifying fashion trends and constantly monitoring and adjusting its mix of concessionaires and direct sales suppliers, and by increasing sales floor area through internal adjustments and constructions. In addition, the Group intends to further enhance its management of its concessionaires and direct sales suppliers by strengthening its established relationships with them. The Group believes that through its partnership with its concessionaires and direct sales suppliers, the Group will continue to receive their support, which will benefit customers of the Group through improved mix and availability of new merchandise. In addition, the Group plans to continue to negotiate directly with brand owners as opposed to distributors as the Group believes that this strategy can achieve more favorable terms to the Group.

In terms of attracting new and retaining existing customers, the Group intends to continue to hold promotional activities to draw existing and new customers into its stores, expand its loyal customer base by promoting the customer loyalty program to new customers and by improving the customer loyalty program to retain existing customers, and further extend product offerings to include higher-end fashion with stronger brand recognitions.

Further consolidating the Group's leading position in Zhejiang province

The Group aims to further consolidate its position in Zhejiang province by capitalizing on its experience and understanding of the market to systematically expand its presence in Zhejiang province. In Zhejiang province, the Group has established stores in the strategic cities of Hangzhou, Ningbo, Wenzhou and Jinhua, and plans to strengthen its positions in these core cities by opening additional stores. In addition, the Group believes that it will be able, and plans to, leverage on its existing position in these regional centres, its experiences in its existing markets and its brand name to open stores in additional cities in Zhejiang province. Through signing new leases or entering into joint ventures, the Group has secured premises in second-tier cities of Jiaxing and Yiwu in Zhejiang province and schedule to open new stores in the next one to two years. Meanwhile, the Group continues to seek other appropriate sites in Zhejiang province for additional store openings. The Group's strategy is to open new stores only if it is able to secure prime locations, as the Group believes that location is critical to the success of a store. In addition to location, when determining potential sites for new stores, the Group will take into account other factors, including available store space, local population, per capita disposable income, competition and the development plan of the city. The Group plans to establish a leading position in all of its markets.

Replicate market leadership and competitiveness outside Zhejiang province

The Group plans to actively expand the geographical coverage of its department store network by leveraging on its position and experience in Zhejiang province to open new stores in selective cities outside Zhejiang province where it believes it can become a market leader. The Group schedules to open its planned store in Wangfujing, one of the primary shopping areas in Beijing with a long history of commerce. Beijing is also one of the most attractive retail markets in China. Leveraging on its equity investment in and cooperative relationship with Wushang, the Group has also plans to extend its market reach in Hubei province. Other than acquiring the Wuhan Shiji store in 2007, the Group also acquired a retail property in E'zhou and plans to open the E'zhou store in 2008, and acquired a piece of land in Hankou of Wuhan city to develop a future

Intime department store in Hankou in the next three years. With these near-term and long-term development projects, and increasing cooperation with Wushang, the Group believes it is on track to replicate its Zhejiang leadership advantage in Hubei province.

Selectively acquiring attractive department store assets to quickly establish competitive position in entering new market

As part of the Group's strategy to actively expand the geographical coverage of its department store network, the Group plans to make selective acquisitions of existing store operations or properties for future store openings. The Group believes that expansion through selective acquisitions allows it to leverage on the experience and established operations of the target in its local market, thereby enabling the Group to establish a presence faster and more effectively. In January and February of 2008, the Group entered into joint venture agreements to operate South Station shopping plaza in Shanghai and to operate Zhonghuan Plaza in Xi'an of Shanxi province, and schedules to open Intime department stores on these premises in 2008. In March 2008, the Group acquired a piece of land in Zhengzhou to develop the first Intime department store in Zhengzhou of Henan province in the next three years. The Group believes that adhering to its market-entry strategy will help it achieve the aim in establishing the Group as a leader in the market where it establishes a presence. When the Group acquires an existing store, it will use it as a base to expand and quickly achieve competitive position and market share in the region. The Group believes that this strategy will enable it to build a national department store network rapidly. Furthermore, as another approach of implementing this expansion strategy, the Group may also acquire minority interests in attractive department store companies or assets which may provide opportunities for business cooperation, resulting in operational synergies, and potential future integration with such companies.

Forming strategic alliances with leading international department store operators to further enhance the Group's management capabilities

The Group plans to further enhance its management capabilities by cooperating or forming joint ventures and strategic alliances with leading international department stores that have strong management experience and capabilities. The Group has entered into a joint venture agreement with Lotte, a leading department store operator in Korea, to jointly operate a department store in Wangfujing, Beijing, which it expects to commence operations in 2008. In addition, the Group intends to enter into strategic alliances with leading international department store operators that can enhance its management capabilities in areas such as merchandizing, customer relations and human resources. The Group believes that by developing superior management capabilities and international best practices, coupled with its knowledge and experience in operating in the PRC, the Group will have a strong advantage over its competitors.

The Group will fund its future development and expansion strategies as set out in the above paragraphs through a variety of means, including but not limited to, cash on hand (including the proceeds from its initial public offering of shares in 2007), cash from operations, bank borrowings and disposal of investment securities.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Shen Guojun, 45, Chairman and executive Director of the Company since November 2006, is responsible for the Group's overall management. Mr. Shen has served as chairman of the board of directors of Intime International since February 2006, and as chairman of Zhejiang Intime and Shanghai Intime since their establishment in 1997 and 2005, respectively. Also, Mr. Shen had in the past, during the period between 1998 and 2006, held indirect investments in department store businesses in Dalian, Chongqing and Shenyang. Mr. Shen has also acted as an independent director of Shanghai Tongda Venture Capital Co. Ltd, which is listed on the Shanghai Stock Exchange. He has extensive experience in the department store industry, real estate industry and capital markets and has been engaged in the department store business for over eight years. Since December 1996, Mr. Shen has served as chairman of China Yintai Holdings Company Limited. From July 1988 to November 1996, he worked for China Construction Bank group in various management roles. Mr. Shen obtained a Master's degree in Economics from Zhongnan University of Finance and Economics.

Mr. Ching Siu Leung, 44, was appointed as the Vice Chairman and executive Director of the Company in February 2007. He has extensive experience in the department store industry, real estate industry and capital markets. He was appointed as the Vice Chairman and executive director of Intime International in February 2006. He has served as the director of strategy and investment at Zhejiang Intime since 2000, and was appointed as a director of Zhejiang Intime in May 2005. Mr. Ching assumed the position of director of China Yintai Holdings Company Limited in October 1999, and has served as its President from 2003 to 2006. He was the General Manager of Hong Kong Grand Rise Investment Limited from April 1993 to September 1999.

NON-EXECUTIVE DIRECTOR

Mr. Xin Xiangdong, 51, was appointed as a non-executive Director of the Company in February 2007. Mr. Xin has many years' experience in investment and capital markets. He has been a director of Zhejiang Insigma Technology (Group) Co., Ltd since May 2005. From October 2004 he was the Chairman of the Board of Science City Development Public Co., Ltd., which is listed on the Shenzhen Stock Exchange. From May 2001 until April 2004, Mr. Xin was the Vice General Manager of Minsheng Investment Credit Assurance Co., Ltd and Shanghai Shenhua Holdings Co., Ltd. From June 2000 to May 2001, he was the Senior Vice General Manager of Beijing Langxin Information System Co., Ltd. Mr. Xin received his Master's degree in Economics from Huadong Normal University.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chen Dagang, 54, was appointed as an independent non-executive Director of the Company in February 2007. Mr. Chen was a vice chairman of CITIC Securities (HK) Co. Ltd. Prior to joining CITIC Securities (HK) Co. Ltd., he was the General Counsel of the CSRC from October 2000 to November 2006. He was an executive director and Chief Executive Officer of China Everbright Technology Ltd. from 1997 to 2000 and an executive director of China Everbright International Ltd. from 1996 to 2000. Mr. Chen was also a deputy director and director of the Department of Legal Affairs at the CSRC from 1993 to 1995. Mr. Chen obtained a Bachelor degree in Law from Peking University, a Master degree in Law from University of Illinois and a Doctorate degree in Jurisprudence from New York University. Mr. Chen is also an arbitrator under China International Economic and Trade Arbitration Commission.

Mr. Lawrence Lee, 42, was appointed as an independent non-executive Director of the Company in February 2007. Mr. Lee has over 14 years of experience in corporate finance, financial advisory and management, accounting, and auditing. Mr. Lee is the Chief Financial Officer of Hong Kong listed Kasen International Holdings Limited ("Kasen"). He is also an associate member of the Association of Chartered Certified Accountants. Mr. Lee is currently a director of Synutra International, Inc, a company whose shares are quoted on the Over-the-Counter Bulletin Board. Before joining Kasen, Mr. Lee served from 2001 to 2004 as Chief Financial Officer at Eagle Brand Holdings Limited, a company listed on the Singapore Stock Exchange. He also worked as a financial controller at the Korean division of Exel Plc in the United Kingdom between 1999 to 2001 and was the senior auditor of the London international business headquarters of Waste Management Inc. in the United States from 1995 to 1996. Mr. Lee received a Bachelor degree in Management and Engineering from the Beijing Institute of Technology and a Master degree in Accounting and Finance from the London School of Economics.

Mr. Joseph Chow, 44, was appointed as an independent non-executive Director of the Company in February 2007. Mr. Chow is also an independent non-executive director of Kasen. Mr. Chow has accumulated ample experience and knowledge in formulating and monitoring investment strategies through his roles as chief financial officer of various companies and his senior managerial roles in various financial institutions' investment related functions. Mr. Chow was the Chief Financial Officer of China Netcom (Holdings) Company Limited ("China Netcom") for three years from October 2001, director of strategic planning with Bombardier Capital Inc. ("Bombardier Capital"), and vice president of international operations with Citigroup. China Netcom is one of China's largest telecommunication service providers, and Mr. Chow participated in substantially all of its strategic decision making process during that period. Mr. Chow also headed China Netcom's strategic equity investment operations and was involved in investments in ten joint ventures by China Netcom. While he was the head of Bombardier Capital's strategic planning division, Mr. Chow oversaw its strategic planning and expansion. In his role as Vice President of CitiCapital, now part of Citigroup, Mr. Chow led his team to evaluate potential acquisition opportunities and executed over US$10 billion worth of mergers and acquisitions transactions in North America, Europe and Asia. While at Citigroup, Mr. Chow was also involved in monitoring the quality and performance of a US$12 billion international loan portfolio. Mr. Chow obtained a Bachelor of Arts degree in political science from Nanjing Institute of International Relations, and a Master of Business Administration from the University of Maryland at College Park.

SENIOR MANAGEMENT

Mr. Zhou Minghai, 37, President of the Company since February 2007, was appointed as the President of Intime International in February 2006. He has been an executive director of Zhejiang Intime since 2004. During 2000 to 2004, he held senior management positions at China Putian Information Industry (Group) Company. Mr. Zhou was a director of Eastern Communications Co., Ltd., a company listed on the Shanghai Stock Exchange, from May 2001 to September 2004. He received a Doctorate degree in management from Shanghai Fudan University.

Mr. Chen Xiaodong, 38, Vice President of the Company since February 2007 and Chief Operating Officer of the Company since July 2007, has also served as the Vice President of Intime International since November 2006. Mr. Chen has more than ten years of experience in financial management and capital markets. He held various managerial positions in both public listed and private companies prior to his appointment to the Company. Notably, he was the Vice Chairman and President of Science City Development Public Co., Ltd, a company listed on the Shenzhen Stock Exchange, from September 2004. He was also the Assistant General Manager of the Investment Management Department of China Everbright Holdings Company Limited, from May 2001 to August 2004. Mr. Chen obtained a Bachelor degree in Economics from Zhongshan University and a Master degree in Business Administration from Murdoch University, Australia.

Directors and Senior Management

Mr. Wang Gang, 45, Vice President of the Company since July 2007, has also served as the General Manager of East China Region and General Manager of Zhejiang Intime since April 2008. Mr. Wang is responsible for department store operation of the Company. Mr. Wang joined Zhejiang Intime in 1997 as the Manager of Planning Department. Between 2002 and 2007, Mr. Wang held the position of Deputy General Manager of Zhejiang Intime. Mr. Wang graduated from Business Administration Department of Zhejiang University of Technology.

Mr. Wang Chun, 48, Vice President of the Company since July 2007. He is responsible for the business development of the Company. Before joining the Company, he was the General Manager of 湖北新一佳超市公司 (Hubei Xinyijia Supermarket), Vice General Manager of 武漢中百集團股份有限公司 (Wuhan Zhongbai Group Co., Ltd.), General Manager of 中百集團百貨分公司 (Zhongbai Group Department Stores), Vice General Manager of 中心百貨大樓 (Zhongxin Department Store), Manager of 武漢工業品集團東方公司 (Wuhan Industrial Product Eastern Group Ltd.). He holds a Master degree from Huazhong University of Science and Technology. He is also a senior economist.

Mr. Wang Liyong, 48, Vice President of the Company since July 2007. Mr. Wang is responsible for construction development of the Company. He joined Zhejiang Intime in 1997 and held the position of Deputy General Manager of Zhejiang Intime from 1997 to 2003. Mr. Wang graduated from Zhejiang Jiaotong College.

Mr. Yuen Fei, 37, Vice President of the Company since July 2007 and Chief Financial Officer of the Company since November 2007. He is responsible for the Company's financial management and capital market transactions. Before joining the Company, he was Senior Vice President of Capital Markets of Panva Gas Holdings Ltd. from 2004 to 2007, and before that, he had been working in multinational conglomerate and consulting companies in the U.S. for 6 years, specializing in strategy & corporate finance. He holds a Bachelor degree in Material Science from Tsinghua University, a MBA degree from Yale School of Management. He is also a CFA Charterholder.

Mr. Yu Guangha, 37, Vice President of the Company since November 2007. He is responsible for branding and merchandising and products management of the Company. Before joining the Company, he was the Vice General Manager of 深圳茂業商廈有限公司 (Shenzhen Maoye Shangsha Co., Ltd.) and the General Manager of a number of its subsidiary department stores. He was responsible for branding and merchandising, sales planning, new stores development etc. Before that, he had worked at a number of domestically and internationally recognized brands of clothing, shoes manufacturers and agency companies. He had 12 years of international brand operation and management experience. He is specialized in the execution and development of brands to enter into retail market and the operation and management of department stores and shopping centres. He is an excellent graduate of Nantong University with a degree of Bachelor of Engineering in textiles engineering.

Mr. Chow Hok Lim, 42, was appointed as Company Secretary and Qualified Accountant of the Company in February 2007. Mr. Chow was the Assistant Vice President of the Finance & Treasury Department of BOC International Holdings Co. Ltd. from March 2006 to December 2006. Prior to that, he was the Deputy Manager of the Accounts Division of Bank of China Group Investment Ltd. from July 2005 to March 2006. Mr. Chow was the Manager of the Finance Department of China Everbright Holdings Co., Ltd. from April 1998 to July 2005. Mr. Chow holds a Master degree in Business Administration from the University of Manchester, England and is a member of Hong Kong Institute of Certified Public Accountants and a member of Association of Chartered Certified Accountant, England.

The Company is dedicated to maintaining and ensuring high standards of corporate governance practices. The Company emphasizes the importance of maintaining a quality Board with a balanced skill set, better transparency, an effective accountability system and internal controls in order to enhance shareholders' value.

The Directors consider that the Company has complied with the Code on Corporate Governance Practice (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") since 20 March 2007, the date of listing of the shares of the Company up to 31 December 2007 (the "Relevant Period"), except for:

(1) the deviation from the Code Provision A.2.1, which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Shen Guojun, the founder of the Group, is the chairman and an executive Director of the Company. With Mr. Shen's extensive experience in the department store industry, he is responsible for the overall management of the Group. The Board considers that vesting the roles and duties of chairman and chief executive in the same person, namely Mr. Shen, who possesses such extensive experience, is appropriate at this stage. The Board believes that Mr. Shen's responsibilities as chairman and executive Director allow him to apply his extensive experience in the best interests of the Company; and

(2) the deviation from the Code Provision E.1.2, which stipulates that the chairman of the Board should attend and chair the annual general meeting of the Company. Mr. Shen, the chairman of the Company, did not attend and chair the 2007 Annual General Meeting held on 6 June 2007 as he was away on business trip overseas at that time.

THE BOARD OF DIRECTORS

The Board is responsible for the overall development and guidance of the Group. It formulates business strategies and policies for the Group and overseas the effectiveness of the management strategies to maximize long-term shareholder value. The Group's management team takes charge of the daily operations of the Group.

Every Director has acted in good faith and with due diligence in the best interests of the shareholders of the Company and to maximize the performance of the Group. The Board primarily performs the following duties:

(i) formulate long-term business strategies;

(ii) approve annual budgets;

(iii) review operating and financial performance;

(iv) discuss and approve acquisition opportunities, investments and significant capital expenses;

(v) approve the appointment of Directors and the Company Secretary; and

(vi) monitor the performance of the Group's management.

The Chairman is responsible for the well-regulated management and operation of the Board. The executive Directors (including the Chairman) also take charge of the operations of the Company.

The members of the Board include two executive Directors, namely Mr. Shen Guojun and Mr. Ching Siu Leung, one non-executive Director, namely Mr. Xin Xiangdong and three independent non-executive Directors, namely Mr. Chen Dagang, Mr. Lawrence Lee and Mr. Joseph Chow. Mr. Shen Guojun is the Chairman.

Biographical details of the Directors' are set out in the section headed "Directors and Senior Management" in this annual report.

All of the Directors were appointed for a term of three years with effect from 24 February 2007. In accordance with the articles of association of the Company (the "Articles"), one third in number of the Directors shall retire from office by rotation at each annual general meeting of the Company and may offer themselves for re-election at the annual general meeting.

Board meeting will be held at least four times a year with additional meetings convened as and when necessary to determine overall strategic directions and objectives and approve interim and annual result and other significant matters. During the Relevant Period, 10 Board meetings were held to discuss and approve the financial performance/results of the Group, report, discuss and resolve for the ordinary business and operation matters, and the corporate development and decisions. Before a Board meeting is convened, relevant documents will be sent to the Directors for their review pursuant to the Listing Rules and the Code. Their individual attendance of the 10 Board meetings was as follows:

Mr. Shen Guojun (10/10), Mr. Ching Siu Leung (10/10), Mr. Xin Xiangdong (10/10), Mr. Chen Dagang (10/10), Mr. Lawrence Lee (10/10) and Mr. Joseph Chow (10/10).

The Board has established four committees to oversee particular aspects of the Company's affairs, namely the Remuneration Committee, the Nomination Committee, the Audit Committee and the Strategic Development Committee. A brief description of the functions of and other relevant information regarding these committees are set out below.

REMUNERATION COMMITTEE

The Remuneration Committee was established, and its written terms of reference were adopted, by the Board on 24 February 2007 in compliance with the Code. The Remuneration Committee comprises three members, namely executive Director Mr. Ching Siu Leung and independent non-executive Directors Mr. Chen Dagang and Mr. Joseph Chow. The Remuneration Committee is chaired by Mr. Ching Siu Leung.

The primary duties of the Remuneration Committee include (without limitation):

(i) making recommendations to the Board on the policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration;

(ii) determining the terms of the specific remuneration package of the Directors and senior management;

(iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by Directors from time to time; and

(iv) considering and approving the grant of share options to eligible participants pursuant to the Share Option Scheme adopted by the Company.

The primary aim of the remuneration policy of the Company is to enable the Company to motivate and retain executive Directors and senior management by comparing their performance against corporate goals and objectives when determining appropriate compensation to them. The principal elements of the remuneration package include basic salary, allowances, discretionary bonus, retirement scheme contribution and share options. In determining guidelines for each compensation element, the Company refers to the comparable remuneration standard in the market.

Non-executive Directors are compensated with the primary aim to fairly represent their efforts and time dedicated to the Board and Committee meetings. The fees of non-executive Directors are subject to annual assessment and recommendation by management and reviewed by the Remuneration Committee. In determining the level of fees of non-executive Directors, account is taken of facts such as directors' fees paid by comparable companies, and time commitment and responsibilities of the non-executive Directors.

The amount of remuneration paid to each Director for the year ended 31 December 2007 is set out on pages 84 to 85.

During the Relevant Period, 3 meetings of the Remuneration Committee were held. Their individual attendance was as follows:

Mr. Ching Siu Leung (3/3), Mr. Chen Dagang (3/3) and Mr. Joseph Chow (3/3).

During the Relevant Period, the Remuneration Committee had reviewed the remuneration packages for all the Directors and senior management, including the grant of options under the Share Option Scheme adopted by the Company.

NOMINATION COMMITTEE

The Nomination Committee was established, and its written terms of reference adopted, by the Board on 24 February 2007 in accordance with the Code. The Nomination Committee comprises three members, namely non-executive Director Mr. Xin Xiangdong and independent non-executive Directors Mr. Lawrence Lee and Mr. Joseph Chow. Mr. Xin Xiangdong is the chairman of the Nomination Committee.

The primary duties of the Nomination Committee include (without limitation):

(i) regularly reviewing the structure, size and composition (including the skills, knowledge and experience) required of the Board and making recommendations to the Board with regard to any proposed changes;

(ii) identifying individuals suitably qualified to become Directors and selecting or making recommendations to the Board on the selection of individuals nominated for directorship; and

(iii) assessing the independence of independent non-executive Directors.

During the Relevant Period, 1 meeting of the Nomination Committee was held. Their individual attendance was as follows:

Mr. Xin Xiangdong (1/1), Mr. Lawrence Lee (1/1), Mr. Joseph Chow (1/1).

During the Relevant Period, the Nomination Committee had considered the retirement by rotation and re-election of Directors in accordance with the Articles of Association of the Company.

AUDIT COMMITTEE

The Audit Committee was established, and its written terms of reference adopted, by the Board on 24 February 2007 in accordance with the Code. The Audit Committee comprises three members, all of whom are independent non-executive Directors, namely Mr. Lawrence Lee, Mr. Joseph Chow and Mr. Chen Dagang. Mr. Lawrence Lee is the chairman of the Audit Committee.

The primary duties of the Audit Committee include (without limitation):

(i) assisting the Board in providing an independent review of the effectiveness of the Company's financial reporting process, internal controls and risk management system,

(ii) overseeing the audit process; and

(iii) performing other duties and responsibilities as assigned by the Board.

During the Relevant Period, 4 meetings of the Audit Committee were held. Their individual attendance was as follows:

Mr. Lawrence Lee (4/4), Mr. Joseph Chow (4/4) and Mr. Chen Dagang (4/4).

During the Relevant Period, the Audit Committee had reviewed the Group's interim and annual results and internal control system, and considered the change in auditors of the Company.

STRATEGIC DEVELOPMENT COMMITTEE

The Strategic Development Committee was established, and its written terms of reference adopted, by the Board on 24 February 2007. The Strategic Development Committee comprises three members, namely executive Directors Mr. Shen Guojun and Mr. Ching Siu Leung and independent non-executive Director Mr. Joseph Chow. Mr. Shen Guojun is the chairman of the Strategic Development Committee.

The primary duty of the Strategic Development Committee is to develop and evaluate the effectiveness of the Company's strategic plans by reviewing and assessing proposals for consideration by the Board regarding:

(i) strategic development plans;

(ii) capital allocation plans;

(iii) organic expansion plans;

(iv) merger and acquisition plans; and

(v) significant investment and financing plans.

Since its establishment up to the date of this annual report, the Strategic Development Committee had frequently held meeting to discuss business and development strategy of the Company.

DIRECTORS' RESPONSIBILITIES FOR PREPARING ACCOUNTS

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

AUDITORS

The auditor of the Company is Ernst & Young. For the year ended 31 December 2007, the remuneration paid by the Company to the external auditors for the performance of audit services was approximately RMB2,080,000. No non-audit service was provided by Ernst & Young for the year ended 31 December 2007.

The report 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 41 to 42.

The Audit Committee is responsible for making recommendations to the Board as to the appointment, re-appointment and removal of the external auditors, which is subject to the approval by the Board of Directors and at the general meetings of the Company by its shareholders.

Certain factors the Audit Committee will take account of when assessing the external auditors include the audit performance, quality and objectivity and independence of the auditors.

Corporate Governance Report

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issues (the "Model Code") as set out in the Appendix 10 to the Listing Rules as the code of conduct to regulate securities transactions by Directors of the Company. Having made specific enquiries of all Directors, all of them confirmed that they have strictly complied with the Model Code during the Relevant Period.

INTERNAL CONTROL

The Board is responsible for maintaining sound and effective internal control systems for the Group in order to safeguard the Group's assets and shareholders' interests, as well as for reviewing the effectiveness of such systems. The Board will from time to time conduct a review of the Group's internal control system. During the year ended 31 December 2007, the Board through the Audit Committee reviewed the overall effectiveness of the Company's system of internal control over financial, operational and compliance issues, risk management process, information systems security, scope and quality of management's monitoring of risks and effectiveness of financial reporting and compliance with the Listing Rules. The Board concluded that in general, the Group has set up a sound control environment and installed necessary control mechanisms to monitor and correct non-compliance.

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The Articles contain the rights of shareholders to demand and the procedures for a poll voting on resolutions at shareholders' meetings. Details of such rights to demand a poll and the poll procedures are included in all circulars in relation to shareholders' meetings and will be explained during the proceedings of shareholders' meetings. In case poll voting is conducted, the poll results will be posted on the websites of the Stock Exchange and the Company.

The general meetings of the Company provide a forum for communication between the shareholders and the Board. The Board and external auditors attend the general meetings to answer shareholders' questions.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular communication and dialogue with shareholders, investors and analysts. Enquiries from investors are dealt with in an informative and timely manner.

As a channel to further promote effective communication, the Group maintains a website at http://www.intime.com.cn where the Company's announcements, business developments and operations, financial information and other information are posted.

The Board is pleased to present its annual report, together with the audited financial statements of the Group for the year ended 31 December 2007 set out in the Auditors' Report contained in this annual report (the "Financial Statements").

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Group is principally engaged in the operation and management of department stores in the PRC. The Company is a holding company and the Group's business operations and activities are carried out by its principal operating subsidiaries, namely Zhejiang Intime and Shanghai Intime.

The Group's revenue and net profits attributable to the shareholders during the year are set out on page 43 and Note 4 to the Financial Statements.

RESULTS AND DISTRIBUTION

The results of the Group for the year ended 31 December 2007 are set out in the Financial Statements included in the Auditors' Report.

Subject to approval by shareholders at the forthcoming annual general meeting of the Company, the Directors recommend the payment of a final dividend of RMB0.064 (2006: nil) per ordinary share in respect of the year ended 31 December 2007.

FIXED ASSETS

Details of the fixed assets of the Group are set out in Note 14 to the Financial Statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on pages 46 to 47 and Note 35 to the Financial Statements.

SHARE CAPITAL

Movement in the share capital of the Company are set out in Note 34 to the Financial Statements.

BANK BORROWINGS

Bank borrowings of the Group as at 31 December 2007 amounted to RMB450,000,000. Particulars of the borrowings are set out in Note 31 to the Financial Statements.

DONATIONS

Donations made by the Group during the year amounted to RMB281,685.

Report of the Directors

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors:
Mr. Shen Guojun *(Chairman)*
Mr. Ching Siu Leung

Non-executive Director:
Mr. Xin Xiangdong

Independent non-executive Directors:
Mr. Chen Dagang
Mr. Lawrence Lee
Mr. Joseph Chow

All of the Directors were appointed for a term of three years with effect from 24 February 2007. In accordance with the Articles, one third in number of the total number of Directors shall retire from office by rotation at the conclusion of each annual general meeting of the Company and may offer themselves for re-election at that annual general meeting.

The Company has received from each of its independent non-executive Directors the confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Board considers the independent non-executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has a service contract with the Company or any of its subsidiaries which is not terminable within one year without payment of compensation other than statutory compensation.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management are set out in the section headed "Directors and Senior Management" in this annual report.

PENSION SCHEMES

Employees of the Group's subsidiaries in Mainland China are required to participate in defined contribution retirement schemes administered and operated by the local municipal government. The Group's subsidiaries in Mainland China contribute funds to the retirement schemes to fund the retirement benefits of the employees which are calculated on certain percentage of the average employee salary as agreed by the local municipal government. Such retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees. The Group has no further obligations for the actual payment of post-retirement benefits beyond the contributions.

The Group's contributions to retirement benefit schemes charged to the consolidated income statement for the year ended 31 December 2007 were RMB11,469,000.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in Note 42 to the Financial Statements, no director had a significant beneficial interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2007, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the 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 the Directors and chief executive were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules were as follows:

Name of Directors	Nature of Interest	Number and class of securities [(2)]	Approximate percentage of interest in such corporation
Mr. Shen Guojun	Interest of controlled corporations [(1)]	L769,652,255	42.75%
Mr. Ching Siu Leung	Beneficial owner [(3)]	L2,200,000	0.12%

Notes:

(1) Mr. Shen Guojun is the beneficial owner of the entire share capital of Fortune Achieve Group Ltd., which in turn is the beneficial owner of the entire issued share capital of Glory Bless Limited, which in turn is the beneficial owner of the entire issued share capital of Intime International Holdings Limited, which holds 769,652,255 Shares.

(2) The Letter "L" denotes the person's long position in such Shares.

(3) Mr. Ching was granted options under the Company's Share Option Scheme on 21 March 2007 exercisable in respect of a total of 2,200,000 shares in the Company over a vesting period.

Save as disclosed above, as at 31 December 2007, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the 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 the Directors and chief executive were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the

SFO, to be recorded in the register therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at the 31 December 2007, so far as is known to any Director or chief executive of the Company, the persons (other than the Directors and the chief executive of the Company) who had interests or short positions in the shares or 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 or, which were directly or indirectly, interested in 10% of more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group were as follows:

Name of shareholders	Nature of Interest	Number and class of securities[(1)(2)]	Approximate percentage of interest in such corporation
Fortune Achieve Group Ltd. [(3)]	Interested of controlled corporations	L769,652,255	42.75%
Glory Bless Limited [(3)]	Interested of controlled corporation	L769,652,255	42.75%
Intime International Holdings Limited [(3)]	Beneficial Owner	L769,652,255	42.75%
Warburg Pincus & Co. [(4)]	Interested of controlled corporations	L405,000,000	22.50%
Warburg Pincus Partners LLC [(4)]	Interested of controlled corporations	L405,000,000	22.50%
Warburg Pincus IX, LLC [(4)]	Interested of controlled corporation	L202,500,000	11.25%
Warburg Pincus Private Equity IX, L.P. [(4)]	Beneficial Owner	L202,500,000	11.25%
Warburg Pincus International Partners, L.P. [(4)]	Beneficial Owner	L194,100,300	10.78%
UBS AG [(5)]	Refer to Note 5 below	L107,437,000	5.97%
JPMorgan Chase & Co. [(6)]	Refer to Note 6 below	L90,460,666	5.03%
		P13,821,666	0.77%

Notes:

(1) The letter "L" denotes the person's long position in such Shares.

(2) The letter "P" denotes the person's lending pool in such Shares.

(3) Mr. Shen Guojun is the beneficial owner of the entire issued share capital of Fortune Achieve Group Ltd., which in turn is the beneficial owner of the entire issued share capital of Glory Bless Limited, which in turn is the beneficial owner of the entire issued share capital of Intime International Holdings Limited, which holds 769,652,255 Shares. Mr. Shen Guojun is a director in each of Fortune Achieve Group Ltd., Glory Bless Limited and Intime International Holdings Limited. Mr. Ching Siu Leung and Mr. Xin Xiangdong are also directors of Intime International Holdings Limited.

(4) Warburg Pincus Private Equity IX, L.P. and Warbury Pincus International Partners, L.P. are part of the Warburg Pincus Funds. The direct general partner of Warburg Pincus Private Equity IX, L.P. is Warburg Pincus IX, LLC. Warburg Pincus IX, LLC is therefore deemed to be interested in the Shares of held by Warburg Pincus Private Equity IX, L.P. The controlling entity of the Warburg Pincus Funds is Warburg Pincus Partners LLC, which is a subsidiary of Warburg Pincus & Co. Each of Warburg Pincus Partners LLC and Warburg Pincus & Co. is therefore deemed to be interested in the Shares held by the Warburg Pincus Funds, which includes Warburg Pincus International Partners, L.P. and Warburg Pincus Private Equity IX, L.P. as well as five other funds.

(5) UBS AG held 18,388,000 Shares as beneficial owner, has security interest in another 82,219,000 Shares and interested in another 6,830,000 Shares held by corporations controlled by it.

(6) JPMorgan Chase & Co. held 220,000 Shares as beneficial owner, 76,419,000 Shares in the capacity as investment manager and 13,821,666 Shares as custodian or approved lending agent.

Save as disclosed above, as at 31 December 2007, so far is known to the Directors or the chief executive of the Company, no other person (not being a Director or chief executive of the Company) had any interests or short positions in the shares, underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or, who were 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 any other member of the Group.

CONNECTED TRANSACTIONS

Acquisition of a 70% Equity Interest in Hangzhou Linping

On 12 December 2007, Zhejiang Intime, a wholly-owned subsidiary of the Company entered into a sale and purchase agreement with 杭州銀泰購物中心有限公司 (Hangzhou Intime Shopping Centre Co., Ltd.) (“Hangzhou Intime”) to acquire a 70% equity interest in 杭州臨平銀泰百貨有限公司 (Hangzhou Linping Intime Shopping Centre Co., Ltd.) (“Hangzhou Linping”) for a total cash consideration of RMB7,000,000. Hangzhou Linping is principally engaged in the development and management of department stores in the PRC. Mr. Shen, the owner of a 75% equity interest in 中國銀泰投資有限公司 (China Yintai Holdings Co., Ltd.) (“China Yintai”), which in turn owns a 44% in Hangzhou Intime, is an executive Director and chairman of the Company and pursuant to the Listing Rules, Hangzhou Intime is a connected person of the Company.

Hangzhou Linping is principally engaged in the business of operation and management of the Linping Liqun Department Store, which is located at a prime commercial district in Hangzhou. This acquisition is consistent with the market position and strategy of the Group to develop and operate medium to high-end department stores. The Board believes that the Linping Liqun Department Store will be a strategic new addition to the Group and will be beneficial to the Group as a whole in expanding its presence in the retail market in the Hangzhou city.

Rental Advance Payment Agreement

As disclosed in the section headed “Our Business” of the Company’s prospectus dated 7 March 2007 in which it was disclosed that its wholly-owned subsidiary, Zhejiang Intime, entered into a joint venture agreement with Lotte to jointly own and operate a department store in Jixiang Center, Wangfujing, Beijing, which is expected to commence operations in mid-2008. As the joint venture partners are in the process of obtaining the various government approvals to establish the joint venture and in order to ensure the availability of Jixiang Center, each of the joint venture partners subsequently entered into a pre-rental agreement with 北京吉祥大廈有限公司 (Beijing Jixiang Real Estate Co., Ltd.) (“Jixiang Real Estate”) to rent Jixiang Center (“Pre-rental Agreement”). According to the Pre-rental Agreement, upon the establishment of the joint venture, all rights and obligations under the Pre-rental Agreement will be transferred from the joint venture partners to the joint venture. The Pre-rental Agreement provides that Jixiang Real Estate will lease Jixiang Center to the joint venture partners for a period of ten years, commencing in March 2008, at a daily rent of RMB3.45 per square meter.

On 12 December 2007, Zhejiang Intime entered into a rental advance payment agreement with Jixiang Real Estate, pursuant to which Jixiang Real Estate has agreed to provide a fixed discount of 12% per annum to Zhejiang Intime on the 50% portion of the total rent payable by Zhejiang Intime under the Pre-rental Agreement discounted to the present value as at 6 December 2007, on the condition that Zhejiang Intime makes a lump sum advance payment of RMB107,012,268 on or before 31 December 2007. It is the intention of the parties to both the Pre-rental Agreement and the Rental Advance Payment Agreement that if the joint venture falls through for any reason, all parties will not proceed with the rental of Jixiang Center and the entire lump sum payment of RMB107,012,268, plus interests, will be refunded to Zhejiang Intime. Mr. Shen, the owner of a 75% equity interest in China Yintai, which in turn owns a 71% equity interest in Jixiang Real Estate, is an executive director and chairman of the Company and pursuant to the Listing Rules, Jixiang Real Estate is connected person of the Company.

The terms of the Rental Advance Payment Agreement have been determined after arm's length negotiation between the parties. The parties to the Rental Advance Payment Agreement also made reference to a property valuation report of Jixiang Center dated 11 December 2007 prepared by Asset Appraisal Ltd., an independent third party valuer. According to the property valuation report, Jixiang Center has a total gross floor area of 75,551 square meters and a unit value of approximately RMB3.5 per square meter per day. The Directors consider that the benefits enjoyed by the Group from the fixed discount of 12% per annum on the 50% of the portion of the total rent payable by Zhejiang Intime discounted to the present value as at 6 December 2007 provided in Rental Advance Payment Agreement is significantly greater than the possible amount of interest earned for the same amount of money over the same period of time at the best fixed deposit rate currently offered by banks in Hong Kong or in China for Hong Kong dollar or Renminbi, as the case may be.

SHARE OPTION SCHEME

Pursuant to the Company's share option scheme approved by the resolution of the Company's shareholders dated 24 February 2007, the Company may grant options to any employee, management member or director the Company, or any of the Company's subsidiaries and third party service providers (the "Scheme"). The purpose of the Scheme is to attract skilled and experienced personnel, to incentivise them to remain within the Group and to give effect to the Group's customer-focused corporate culture, and to motivate them to strive for the Group's future development and expansion, by providing them with the opportunity to acquire equity interests in the Company. The amount payable on acceptance of an option is HK$1.00. Details of the Scheme were provided in the Company's prospectus dated 7 March 2007.

The Scheme will remain valid for a period of ten years commencing on 20 March 2007, after which no further share options will be granted but the provisions of the Scheme shall remain in full force and effect in other respects. Share options complying with the provisions of the Listing Rules which are granted during the duration of the Scheme and remain unexercised immediately prior to the end of the 10-year period shall continue to be exercisable in accordance with their terms of grant within the share option period for which share options are granted, notwithstanding the expiry of the Scheme.

The maximum number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue as the date of listing of shares of the Company (such 10% representing 180,000,000 shares), without prior approval from the Company's shareholders. No option may be granted to any one person such that the total number of shares issued and to be issued upon the exercise of the Options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company's issued share capital from time to time, unless the approval of our shareholders is obtained. Options granted to a substantial shareholder or an independent non-executive director or any of their respective associates in the 12-month period in excess of 0.1% of the Company's issued share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Option granted must be taken up within the time limit specified in the offer letter. The period with which the Options must be exercised will be specified by the Company at the time of grant and must expire no later than 10 years from the date of grant of the Option (being the date on which the board makes a written offer of grant of the Option to the relevant proposed beneficiary) unless the Company obtains specified shareholder's approval in relation to such grant. The exercise price for the shares under the Share Option Scheme will not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant; and (iii) the nominal value of a share.

As at 31 December 2007, a total of 13,600,000 share options were granted on the weighted average exercise price HKD6.51 per share to director and eligible employees and none of them were exercised.

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.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2007, none of the Directors or their respective associates had any business or interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

PRE-EMPTIVE RIGHT

There is no provision for pre-emptive rights under the Articles and the laws of the Cayman Islands do not impose any limitations on such rights.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this annual report.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 5.

MAJOR CUSTOMERS AND SUPPLIERS

None of the customers of the Group accounted for over 5% of the turnover of the Group for the year ended 31 December 2007, as the Group is mainly engaged in retail business. In addition, none of the Directors, shareholders or their respective associates who owns more than 5% of the issued share capital of the Company, has any interest in any of the Group's five largest customers and suppliers for the year ended 31 December 2007.

For the financial year ended 31 December 2007, gross revenue from concessionaire sales from the five largest concessionaires in the aggregate accounted for approximately 7.67%, and from the five largest direct sales suppliers in the aggregate accounted for approximately 3.81%, of our total sales proceeds.

CONTINGENT LIABILITIES AND COMMITMENTS

Details of the contingent liabilities and commitments of the Group are set out in Notes 38 and 41 respectively, to the Financial Statements.

SUBSEQUENT EVENTS

Details of the subsequent events of the Group are set out in Note 45 to the Financial Statements.

AUDITORS

During the year, PricewaterhouseCoopers resigned as the auditors of the Company with effect from 24 July 2007. On the extraordinary general meeting of the Company held on 31 August 2007, Ernst & Young were appointed by the shareholders of the Company as the auditors of the Company for the financial year ended 31 December 2007. The Financial Statements have been audited by Ernst & Young. A resolution for reappointment of Ernst & Young as the auditors of the Company will be proposed at the forthcoming annual general meeting.

By order of the Board
Intime Department Store (Group) Company Limited
Shen Guojun
Chairman

China, 10 April, 2008.

ERNST & YOUNG
安永會計師事務所

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

INDEPENDENT AUDITORS' REPORT
To the shareholders of Intime Department Store (Group) Company Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of Intime Department Store (Group) Company Limited set out on pages 43 to 144, 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 Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants 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 Hong Kong 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
10 April 2008

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Revenue	4	**884,059**	676,342
Other income and gains	5	**219,834**	32,918
Purchases of goods and changes in inventories	6	**(173,932)**	(149,868)
Staff costs	6	**(85,033)**	(56,958)
Depreciation and amortization	6	**(40,650)**	(20,578)
Other expenses	6	**(253,187)**	(172,213)
Gain on receipt of shares in a listed company	23	**—**	24,514
Finance costs	7	**(47,725)**	(33,534)
Share of profit of an associate	21	**9,103**	—
Profit before tax		**512,469**	300,623
Tax	8	**(137,613)**	(81,114)
Profit for the year		**374,856**	219,509
Attributable to:			
Equity holders of the parent	11	**378,368**	206,406
Minority interests		**(3,512)**	13,103
		374,856	219,509
Dividends			
Proposed final	12	**115,200**	—
Earnings per share attributable to ordinary equity holders of the parent (expressed in RMB per share)			
Basic			
— For profit for the year	13	**0.22**	0.15
Diluted			
— For profit for the year	13	**0.22**	N/A

Consolidated Balance Sheet

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,084,277**	147,019
Investment properties	15	**1,508**	6,490
Prepaid land lease payments	16	**985,074**	64,034
Goodwill	17	**166,934**	—
Other intangible assets	18	**462**	286
Prepaid rental	19	**2,375**	3,325
Interest in an associate	21	**435,172**	—
Investment deposits	22	**210,800**	—
Available-for-sale investments	23	**1,564,097**	1,459,474
Deferred tax assets	24	**4,103**	1,106
Total non-current assets		**4,454,802**	1,681,734
CURRENT ASSETS			
Inventories	25	**33,954**	25,763
Prepayments, deposits and other receivables	26	**287,792**	134,836
Loans and receivables	27	**322,989**	—
Due from related parties	42(c)	**29,420**	50,746
Prepayments to related parties	42(d)	**204,193**	—
Held-to-maturity investments	28	**—**	20,000
Cash in transit	29	**84,971**	15,159
Cash and cash equivalents	30	**777,151**	317,861
Total current assets		**1,740,470**	564,365
CURRENT LIABILITIES			
Trade payables	32	**436,379**	269,708
Other payables and accruals	33	**850,276**	200,167
Interest-bearing bank borrowings	31	**450,000**	649,000
Due to related parties	42(e)	**3,965**	8,871
Tax payable		**83,504**	24,807
Total current liabilities		**1,824,124**	1,152,553
NET CURRENT LIABILITIES		**(83,654)**	(588,188)

Consolidated Balance Sheet (Continued)

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,371,148**	1,093,546
NON-CURRENT LIABILITIES			
Deferred tax liabilities	24	**327,982**	185,138
Total non-current liabilities		**327,982**	185,138
NET ASSETS		**4,043,166**	908,408
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	34	**140**	105
Reserves	35	**3,758,217**	908,303
Proposed final dividend	12	**115,200**	—
		3,873,557	908,408
Minority interests		**169,609**	—
Total equity		**4,043,166**	908,408

Shen Guojun
Chairman

Ching Siu Leung
Executive Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2007

		Attributable to the equity holders of the parent									
	Notes	Issued capital RMB'000 (note 34)	Merger reserve RMB'000	Capital reserve RMB'000	Reserve for fair value changes of available-for-sale investments RMB'000 (note 23)	Statutory reserves RMB'000 (note 35)	Retained profits RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2006		105	211,695	20,162	8,846	27,872	32,014	(55)	300,639	177,223	477,862
Change in fair value of available-for-sale investments, net of tax		–	–	–	345,484	–	–	–	345,484	–	345,484
Exchange realignment		–	–	–	–	–	–	(202)	(202)	–	(202)
Total income and expense recognized directly in equity		–	–	–	345,484	–	–	(202)	345,282	–	345,282
Profit for the year		–	–	–	–	–	206,406	–	206,406	13,103	219,509
Total income and expense for the year		–	–	–	345,484	–	206,406	(202)	551,688	13,103	564,791
Capital contribution from equity holders of subsidiaries		–	29,284	–	–	–	–	–	29,284	60,716	90,000
Distributions to equity holders of the Company		–	(55,084)	–	–	–	–	–	(55,084)	–	(55,084)
Waiver of a shareholder's loan	(note 42(b))	–	–	51,655	–	–	–	–	51,655	–	51,655
Acquisition of minority interests		–	114,000	62,025	–	–	–	–	176,025	(251,042)	(75,017)
Dividends paid by group companies to their then equity holders		–	–	–	–	–	(145,799)	–	(145,799)	–	(145,799)
Transfer from retained profits		–	–	–	–	17,754	(17,754)	–	–	–	–
At 31 December 2006		105	299,895	133,842	354,330	45,626	74,867	(257)	908,408	–	908,408

Consolidated Statement of Changes in Equity (Continued)

Year ended 31 December 2007

	Notes	Attributable to the equity holders of the parent												
		Issued capital	Share premium	Merger reserve	Capital reserve	Reserve for fair value changes of available-for-sale investments	Statutory reserves	Retained profits	Exchange fluctuation reserve	Option	Proposed final dividend	Total	Minority interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(note 34)	(note 35)			(note 23)	(note 35)			(note 36)	(note 12)			
At 1 January 2007		105	–	299,895	133,842	354,330	45,626	74,867	(257)	–	–	908,408	–	908,408
Change in fair value of available-for-sale investments, net of tax														
– Group		–	–	–	–	1,510,841	–	–	–	–	–	1,510,841	–	1,510,841
– Associate company		–	–	–	–	525	–	–	–	–	–	525	–	525
Effect of changes in tax rates for provision for deferred taxation on fair value changes on available-for-sale investments		–	–	–	–	28,346	–	–	–	–	–	28,346	–	28,346
Reversal of previously recognized fair value changes on available-for-sale investments upon transfer to interest in an associate		–	–	–	–	(1,152,982)	–	–	–	–	–	(1,152,982)	–	(1,152,982)
Disposal of available-for -sale investments		–	–	–	–	(60,436)	–	–	–	–	–	(60,436)	–	(60,436)
Exchange realignment		–	–	–	–	–	–	–	(64,183)	–	–	(64,183)	–	(64,183)
Total income and expense recognized directly in equity		–	–	–	–	326,294	–	–	(64,183)	–	–	262,111	–	262,111
Profit/(loss) for the year		–	–	–	–	–	–	378,368	–	–	–	378,368	(3,512)	374,856
Total income and expense for the year		–	–	–	–	326,294	–	378,368	(64,183)	–	–	640,479	(3,512)	636,967
Acquisition of subsidiaries		–	–	–	–	–	–	–	–	–	–	–	160,321	160,321
Capital contribution from the minority shareholders		–	–	–	–	–	–	–	–	–	–	–	12,800	12,800
Issue of shares		35	2,403,703	–	–	–	–	–	–	–	–	2,403,738	–	2,403,738
Share issue expenses		–	(84,822)	–	–	–	–	–	–	–	–	(84,822)	–	(84,822)
Equity-settled share option arrangements	(note 36)	–	–	–	–	–	–	–	–	5,754	–	5,754	–	5,754
Transfer to capital reserve		–	–	(299,895)	299,895	–	–	–	–	–	–	–	–	–
Proposed final 2007 dividend	(note 12)	–	–	–	–	–	–	(115,200)	–	–	115,200	–	–	–
Transfer from retained profits		–	–	–	–	–	26,110	(26,110)	–	–	–	–	–	–
At 31 December 2007		140	2,318,881	–	433,737	680,624	71,736	311,925	(64,440)	5,754	115,200	3,873,557	169,609	4,043,166

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**512,469**	300,623
Adjustments for:			
— Share of profit of an associate	21	**(9,103)**	—
— Depreciation of property, plant and equipment	14	**36,164**	17,866
— Depreciation of investment properties	15	**384**	494
— Amortization of prepaid land lease payments	16	**3,961**	2,147
— Amortization of other intangible assets	18	**141**	71
— Amortization of prepaid rental	19	**950**	475
— Loss on disposal of property, plant and equipment	5	**1,003**	38
— Fair value gain transferred from equity on disposal of available-for-sale investments	5	**(80,582)**	(1,680)
— Gain on disposal of held-to-maturity investments	5	**(2,000)**	—
— Gain on receipt of shares in a listed company		**—**	(24,514)
— Equity-settled share option expense	6	**5,754**	—
— Dividend income from available-for-sale listed investments	5	**(9,594)**	(6,455)
— Interest income	5	**(99,938)**	(7,160)
— Finance costs	7	**47,725**	35,147
— Gain arising from a business combination	5	**(1,806)**	—
		405,528	317,052
Increase/(decrease) in prepayments, deposits and other receivables and due from related parties		**47,202**	(39,732)
(Increase)/decrease in cash in transit		**(69,812)**	8,847
Increase in inventories		**(5,547)**	(3,495)
Increase in trade payables		**128,523**	60,607
Increase in advances from customers		**119,997**	57,374
Increase/(decrease) in amounts due to related parties		**(4,906)**	8,871
Increase/(decrease) in other payables and accruals		**(15,040)**	26,194
Cash generated from operations		**605,945**	435,718
Interest paid		**(46,746)**	(35,147)
Income tax paid		**(84,484)**	(85,409)
Net cash inflow from operating activities		**474,715**	315,162

Consolidated Cash Flow Statement

(Continued)

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**55,709**	7,160
Purchases of property, plant and equipment		**(693,867)**	(72,195)
Purchases of available-for-sale investments	23	**(195,224)**	(605,901)
Purchases of other intangible assets		**(270)**	(69)
Purchases of held-to-maturity investments		**–**	(20,000)
Proceeds from disposal of held-to-maturity investments		**22,000**	–
Acquisition of subsidiaries net off cash acquired	37	**(317,658)**	–
Acquisition of prepaid land lease payments		**(223,617)**	–
Dividend received	5	**9,594**	6,455
Deposits paid for investments		**(210,800)**	–
Proceeds from disposal of property, plant and equipment		**1,677**	8
Proceeds from disposal of available-for-sale investments		**114,215**	5,918
Acquisition of minority interests		**–**	(75,017)
Advances to third parties	26	**(299,762)**	–
Repayment of advances to third parties		**115,672**	30,000
Advances to related parties		**(220,613)**	(236,415)
Repayment from related parties		**37,746**	571,564
Loans made to third parties	27	**(316,086)**	–
Net cash outflow from investing activities		**(2,121,284)**	(388,492)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	34(a)	**2,441,064**	–
Share issue expenses	34(a)	**(84,822)**	–
Capital contribution from minority shareholders		**12,800**	–
Capital contribution from then equity holders of subsidiaries		**–**	90,000
Distributions to equity holders of the Company		**–**	(55,084)
Proceeds from interest-bearing bank borrowings		**1,455,000**	774,000
Repayments of interest-bearing bank borrowings		**(1,654,000)**	(444,000)
Repayments of other borrowings		**–**	(200,000)
Release of restricted cash		**–**	62,416
Proceeds from related party borrowings		**–**	213,089
Repayment of related party borrowings		**–**	(247,535)
Net cash inflow from financing activities		**2,170,042**	192,886
INCREASE IN CASH AND CASH EQUIVALENTS		**523,473**	119,556
Cash and cash equivalents at beginning of the year		**317,861**	198,305
Effect of foreign exchange rate changes, net		**(64,183)**	–
CASH AND CASH EQUIVALENTS AT END OF YEAR	30	**777,151**	317,861

Balance Sheet

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSET			
Interests in subsidiaries	20	**908,408**	908,408
Due from subsidiaries	20	**2,188,743**	—
Available-for-sale investments	23	**107,308**	—
Total non-current assets		**3,204,459**	908,408
CURRENT ASSET			
Dividend receivable		**100,000**	—
Prepayments, deposits and other receivables	26	**1,218**	—
Cash and cash equivalents	30	**88,828**	—
Total current assets		**190,046**	—
CURRENT LIABILITIES			
Other payables and accruals	33	**863**	—
Total current liabilities		**863**	—
NET CURRENT ASSETS		**189,183**	—
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,393,642**	908,408
NON-CURRENT LIABILITIES			
Due to subsidiaries	20	**37,352**	—
Total non-current liabilities		**37,352**	—
NET ASSETS		**3,356,290**	908,408
EQUITY			
Issued capital	34	**140**	105
Reserves	35	**3,240,950**	908,303
Proposed final dividend	12	**115,200**	—
Total equity		**3,356,290**	908,408

Shen Guojun
Chairman

Ching Siu Leung
Executive Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2007

1. CORPORATE INFORMATION

Intime Department Store (Group) Company Limited (the "Company") was incorporated in the Cayman Islands on 8 November 2006 as an exempted company with limited liability under the Cayman Islands Companies Law. The address of the Company's registered office is M&C Corporate Services Limited, P.O. Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands. The Company and its subsidiaries (together the "Group") are principally engaged in the operation and management of department stores in the People's Republic of China (the "PRC").

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 20 March 2007.

In the opinion of the directors, the ultimate holding company of the Company is Fortune Achieve Group Ltd. a company incorporated in West Samoa. The intermediate holding company of the Company is Intime International Holdings Limited ("Intime International"), a company incorporated in the Cayman Islands.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investments, which have been measured at fair value. These consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

To prepare for the global offering and listing of the Company's shares, the Group underwent a group reorganization (the "Reorganization"). Pursuant to the Reorganization, which was completed on 30 December 2006, the Company acquired the entire equity interests in North Hill Holdings Limited ("North Hill") and River Three Holdings Limited ("River Three") (together with their subsidiaries, referred to as the "Operating Group") by issuing 1,349,900,000 shares of United States dollar ("US$") 0.00001 each to their common shareholder, Intime International, and became the holding company of the Operating Group. Details of the Reorganization are set out in the prospectus of the Company dated 7 March 2007.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

The Reorganization involved companies under common control. Accordingly, these consolidated financial statements for the year ended 31 December 2006 have been prepared using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by HKICPA.

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2007. The results of subsidiaries are 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 in the consolidated financial statements for the year ended 31 December 2007. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the parent entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognized as an equity transaction.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

HKFRS 7	*Financial Instruments: Disclosures*
HKAS 1 Amendment	*Capital Disclosures*
HK(IFRIC)-Int 8	*Scope of HKFRS 2*
HK(IFRIC)-Int 9	*Reassessment of Embedded Derivatives*
HK(IFRIC)-Int 10	*Interim Financial Reporting and Impairment*

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) **HKFRS 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.

(b) **Amendment to HKAS 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 44 to the financial statements.

(c) **HK(IFRIC)-Int 8 *Scope of HKFRS 2***

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued equity instruments to its employees in accordance with the Company's share option scheme, the interpretation has had no effect on these financial statements.

(d) **HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives***

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

(e) **HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment***

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective, in these financial statements.

HKFRS 8	*Operating Segments*[1]
HKAS 23 (Revised)	*Borrowing Costs*[1]
HK(IFRIC)-Int 11	*HKFRS 2 — Group and Treasury Share Transactions*[2]
HK(IFRIC)-Int 12	*Service Concession Arrangements*[4]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*[3]
HK(IFRIC)-Int 14	*HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*[4]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 March 2007
[3] Effective for annual periods beginning on or after 1 July 2008
[4] Effective for annual periods beginning on or after 1 January 2008

HKFRS 8, which will replace HKAS 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 purposes 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 expects to adopt HKFRS 8 from 1 January 2009.

HKAS 23 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. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. The Group is in the process of making an assessment of the impact of this interpretation upon initial application.

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

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognize 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. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 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 is in the process of making an assessment of the impact of this interpretation upon initial application.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognized as an asset, in particular, when a minimum funding requirement exists. As the Group currently has no employee benefits scheme, HK(IFRIC)-Int 14 is not applicable to the Group and therefore is unlikely to have any financial impact on the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Merger accounting for common control combination

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under control of the controlling party.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Merger accounting for common control combination (continued)

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognized for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, whichever is shorter, regardless of the date of the common control combination.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealized gains on transactions between combining entities or businesses are eliminated on consolidation.

Transaction costs, including professional fees, registration fees, costs of furnishing shareholders with information, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting are recognized as an expense in the period in which they are incurred.

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.

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.

Transactions with minority interests

Minority interests represent interests in the results and net assets of the subsidiaries comprising the Group which are attributable to outside equity holders.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Transactions with minority interests (continued)

After the control of a subsidiary has been obtained, changes in equity interests in that subsidiary that do not result in a loss of control are treated as transactions with minority interests in their capacity as equity holders. No gain or loss is recognized in the income statements with respect to such changes. The carrying amount of the minority interests is adjusted to reflect the change in the Group's interests in the subsidiary's net assets. Any difference between the amount by which the minority interests are so adjusted and the fair value of the consideration paid or received is recognized directly in equity attributable to equity holders of the parent.

Associates

An associate is an entity, not being a 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 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. The Group's share of the post-acquisition results and reserves of an associate is included in the consolidated income statement and consolidated reserves, respectively. Unrealized gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate, except where unrealized losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of an associate, which was not previously eliminated or recognized in the consolidated reserves, is included as part of the Group's interest in the associate.

The results of an associate are included in the Group's income statement to the extent of dividends received and receivable. The Group's interest in an associate is treated as a non-current asset and is stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries and an associate represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognized in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of an associate, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

The carrying amount of 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 groups of units.

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

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.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries and an associate (previously referred to as negative goodwill), after reassessment, is recognized immediately in the income statement.

The excess for an associate is included in the Group's share of the associate's profits or losses in the period in which the investment is acquired.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, deferred tax assets, employee benefits assets, financial assets, investment properties, goodwill and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, 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, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets other than goodwill (continued)

An impairment loss is recognized only if the carrying amount of an asset exceeds 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. An impairment loss is charged to the income statement in the period in which it arises 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 recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization), had no impairment loss been recognized for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

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); or

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

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

Property, plant and equipment and depreciation

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 asset 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 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 an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4.75%
Decorations	20% to 33.33%
Machinery	9.5% to 19%
Vehicles	7.92% to 19%
Furniture, fittings & equipment	19% to 31.67%
Leasehold improvements	20% to 33.33%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

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

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the income statement in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/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. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at historical 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 20 years.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Any investment property shall be derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its carrying amount at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as an investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it will be reclassified and subsequently accounted for as an investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, the carrying amount of this item at the date of transfer is recognized as the cost of an investment property for accounting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

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 income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognized on the straight-line basis over the lease term.

Investments and other financial assets

Financial assets in the scope of HKAS 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 recognized 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 derivative 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 modifies the cash flows that would otherwise be required under the contract.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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

All regular way purchases and sales of financial assets are recognized on the trade date, that 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. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognized in the income statement. The net fair value gain or loss recognized in the income statement does not include any dividends on these financial assets, which are recognized in accordance with the policy set out for "Revenue recognition" below.

Financial assets 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 assets or recognising gains or losses on them on a different basis; (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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized 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 recognized in the income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortized cost less any allowance for impairment. Amortized cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. Gains and losses are recognized in the income statement when the investments are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively, and are recognized in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognized in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the reserve for fair value changes of available-for-sale investments.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

During the current year, the Group's available-for-sale investment was reclassified as an investment in an associate when the Group commences to have significant influence over the investee. Upon the transfer, any existing amount of the reserve for fair value changes of available-for-sale investments relating to the investment was reversed and the investment was accounted for using the equity method accounting.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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 and other valuation models.

Impairment of financial assets

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

Assets carried at amortized cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized 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 is reduced through the use of an allowance account. The amount of the impairment loss is recognized in the 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 recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the income statement, to the extent that the carrying value of the asset does not exceed its amortized 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 derecognized when they are assessed as uncollectible.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired;

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

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.

Derecognition of financial liabilities

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

When 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 a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Financial liabilities at amortized cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, amounts due to the related parties and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortized cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognized within "finance costs" in the income statement.

Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

Inventories

Inventories comprise merchandises purchased for resale and are stated at the lower of cost and net realisable value. Cost of merchandise is determined using the first-in, first-out method. The cost of merchandise comprises purchase cost of goods and other direct costs. Net realisable value is based on the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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 that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Provisions for product warranties granted by the Group on certain products are recognized based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

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

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax liabilities are recognized 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 interests in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward 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 carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences 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 interests in subsidiaries and associates, deferred tax assets are only recognized 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. Conversely, previously unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized 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 income statement over the expected useful life of the relevant asset by equal annual instalments deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Coupon liabilities

Coupon liabilities are recognized as a deduction from revenue based on the fair value of bonus points or coupons granted to customers in accordance with the announced bonus point scheme and the Group's past experience on the level of redemption of coupons, and are recorded in other payables.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, estimated returns, rebates and discounts, and after eliminating sales within the Group. Revenue is recognized as follows:

(a) Sales of goods — retail

Sales of goods are recognized when a group entity sells a product to the customers. Retail sales are usually in cash or by debit card or by credit card.

(b) Commission revenue

Commission revenue from concessionaire sales is recognized upon the sale of goods by the relevant stores.

(c) Rental income and display space leasing income

These incomes are recognized on a time proportion basis over the terms of the respective leases.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(d) Other service incomes

Other service incomes including administration fee and credit card handling fee are recognized in the accounting period in which the services are rendered, by reference to the completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(e) Promotion income

Promotion income is recognized according to the underlying contract terms with concessionaires and as the service is provided in accordance herewith.

(f) Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognized using the original effective interest rate.

(g) Dividend income

Dividend income is recognized when the right to receive payment has been established.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute 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 equity instruments are issued and some or all of the goods or services received by the Group as consideration cannot be specifically identified, the unidentifiable goods or services 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions (continued)

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a Black-Scholes-Merton model, further details of which are given in note 36 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognized, 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 recognized 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 income statement for a period represents the movement in the cumulative expense recognized as at the beginning and end of that period.

No expense is recognized 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, as a minimum an expense is recognized as if the terms had not been modified. In addition, an expense is recognized 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 recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and is 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits

Pension obligations

The Group companies operating in Mainland China participate in defined contribution retirement benefit plans organized by the relevant government authorities for its employees in Mainland China and contribute to these plans based on certain percentage of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans.

The Group has no further obligation for post-retirement benefits beyond the contributions made. The contributions to these plans are recognized as employee benefit expenses when incurred.

Housing benefits

Employees of the Group companies operating in Mainland China are entitled to participate in government-sponsored housing funds. The Group contributes to these funds based on certain percentages of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. The Group's liability in respect of these funds is limited to the contribution payable in each period. Contributions to the funds are expensed as incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Other borrowing costs are recognized as expenses in the income statement in the period in which they are incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognized as a liability.

Foreign currencies

These financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency 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 with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognized in the income statement. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the 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.

The functional currencies of the Company and certain subsidiaries, is the Hong Kong Dollar ("HK$"). As at the balance sheet date, the assets and liabilities of these companies are translated into the presentation currency of the Group (RMB) at the exchange rates ruling at the balance sheet date, and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, 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 recognized in the financial statements:

Available-for-sale financial assets

The Group's management determines the classification of the Group's equity investments according to its ability to exercise control or influence on the investee companies. The respective accounting treatments under the Group's accounting policies are set out in note 2.4 above.

Certain equity investments in which the Group holds more than 20% but less than 50% of their voting power and over which the Group is not able to exercise significant influence, are classified by management as available-for-sale financial assets. When determining whether the Group has significant influence over these companies, management takes into consideration whether:

(a) the Group has representative on the board of directors or an equivalent governing body of these companies;

(b) the Group can participate in the policy-making processes of these companies, including participation in decision making such as dividends or other distributions;

(c) there are any material transactions between the Group and these companies;

(d) there are any interchange of managerial personnel between the Group and these companies;

(e) the Group provides any essential technical information to these companies; and

(f) there are any substantial or majority ownership by other investors which can significantly impair the Group's ability to exercise its influence over these companies.

Management reassesses the classification of each equity investment based on the above criteria at each balance sheet date or when there are events or changes in circumstances which affect the Group's ability to exercise control or influence over the investee companies.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Operating lease commitments — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2007 was RMB166,934,000 (2006: Nil). More details are given in note 17.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognized tax losses at 31 December 2007 was RMB2,769,000 (2006: Nil). There was no material amount of unrecognized tax losses at 31 December 2007 (2006: Nil). Further details are contained in note 24 to the financial statements.

Impairment of available-for-sale investments

The Group classifies certain assets as available-for-sale and recognizes movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognized in the income statement. At 31 December 2007, no impairment losses have been recognized for available-for-sale assets (2006: Nil). The carrying amount of available-for-sale assets was RMB1,564,097,000 (2006: RMB1,459,474,000) (note 23).

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and the related depreciation charge for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation charge in the future periods.

Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in customer taste or competitor actions in response to severe consumer product industry cycles. Management reassesses these estimates at each balance sheet date.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of other receivables and amounts due from related parties

The Group's management estimates the provision for impairment of other receivables and amounts due from related parties by assessing their recoverability based on credit history and the prevailing market condition. This requires the use of estimates and judgements. Management reassesses the provision at each balance sheet date.

Provisions are applied to other receivables and amounts due from related parties where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimates, such difference will affect the carrying values of other receivables and amounts due from related parties and thus impairment charge in the period in which such estimates are changed.

Income taxes

The Group is primarily subject to income taxes in Mainland China. There are certain transactions and calculations for which the ultimate tax determination is uncertain. Where the final outcome of tax assessment is different from the carrying amounts of tax provision, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4. REVENUE AND SEGMENT INFORMATION

	2007 RMB'000	2006 RMB'000
Sales of goods — direct sale	**225,641**	196,927
Commissions from concessionaire sales	**643,414**	472,630
Rental income	**15,004**	6,785
— Rental income from investment properties	**3,429**	3,353
— Sublease rental income	**10,692**	2,985
— Contingent rental income	**883**	447
	884,059	676,342

The commissions from concessionaire sales are analyzed as follows:

	2007 RMB'000	2006 RMB'000
Gross revenue from concessionaire sales	**3,234,298**	2,553,600
Commissions from concessionaire sales	**643,414**	472,630

The direct sales and gross revenue from concessionaire sales are mainly settled in cash, debit card, or credit card. The Group has no fixed credit policy.

The Group is mainly engaged in the operation and management of department stores in Mainland China. All the Group's operations are carried out in Mainland China. In addition, most of the Group's revenue and operating profits are generated from business relating to the operation and management of department stores. Therefore no business segment or geographical segment is presented.

5. OTHER INCOME AND GAINS

	2007 RMB'000	2006 RMB'000
Other income		
Interest income from bank deposits	**55,709**	7,160
Interest income from loans and receivables (note 27)	**6,903**	—
Interest income from over subscription funds of new shares	**37,326**	—
Advertisement and promotion administration income	**17,248**	14,077
Credit card handling income	**1,296**	1,640
Dividend income from available-for-sale listed investments	**9,594**	6,455
Subsidy income	**4,161**	—
Others	**4,212**	1,944
	136,449	31,276
Gains/(Losses)		
Losses on disposal of property, plant and equipment	**(1,003)**	(38)
Fair vale gains, net:		
Available-for-sale investments transferred from equity on disposal	**80,582**	1,680
Gain on disposal of held-to-maturity investments (note 28)	**2,000**	—
Gain arising from a business combination (note 37(a))	**1,806**	—
	83,385	1,642
	219,834	32,918

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	2007 RMB'000	2006 RMB'000
Purchases of and changes in inventories	**173,932**	149,868
Depreciation and amortization	**40,650**	20,578
Staff costs (including directors' remuneration (note 9))	**85,033**	56,958
— Wages, salaries and bonuses	**61,855**	44,890
— Pension costs — defined contribution schemes (note)	**11,469**	4,742
— Welfare, medical and other benefits	**5,955**	7,326
— Equity-settled share option expense (note 36)	**5,754**	—
Utility expenses	**31,995**	25,353
Store rental expenses	**77,514**	41,722
Credit card charges	**26,086**	17,066
Advertising expenses	**22,581**	17,184
Auditors' remuneration	**2,080**	1,600
Professional service charges	**25,675**	23,572
Other tax expenses	**20,132**	13,637

Note:

Employees of the Group's subsidiaries in Mainland China are required to participate in defined contribution retirement schemes administered and operated by the local municipal government. The Group's subsidiaries in Mainland China contribute funds to the retirement scheme to fund the retirement benefits of the employees which are calculated on certain percentage of the average employee salary as agreed by the local municipal government. Such retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees. The Group has no further obligations for the actual payment of post-retirement benefits beyond the contributions.

7. FINANCE COSTS

	2007 RMB'000	2006 RMB'000
Interest expenses on bank loans wholly repayable within five years	**47,725**	35,147
Foreign exchange gain	**—**	(1,613)
	47,725	33,534

8. TAX

	2007 RMB'000	2006 RMB'000
Current income tax — PRC	**142,571**	73,532
Deferred taxation (note 24)	**(4,958)**	7,582
	137,613	81,114

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Islands Companies Law and is exempted from the payment of Cayman Islands income tax. North Hill and River Three were incorporated in British Virgin Islands ("BVI") as exempted companies with limited liability under the Company Law of BVI and is exempted from the payment of BVI income tax.

The subsidiaries established in the PRC are subject to corporate income tax ("CIT") at the rate of 33% (2006: 33%) during the year except for Intime Department Store Co., Ltd. ("Shanghai Intime") and Ningbo High-Tech Zone Guo Ruan Technology Company Limited ("Ningbo Guoruan").

The head office of Shanghai Intime is located at Pudong New Area of Shanghai City, and the applicable income tax rate for the head office of Shanghai Intime is 15% (2006: 15%). The Ningbo and Ningbo Tianyi branches of Shanghai Intime are situated at Ningbo City, and are subject to CIT at a rate of 33% (2006: 33%) during the year.

Pursuant to the applicable income tax laws and regulations of the PRC, a new technology development enterprise established in an approved new technology development zone is entitled to a preferential tax rate of 15% (2006: 15%). In addition, such entity is exempted from PRC corporate income tax for three years from its registration date, and is entitled to a 50% reduction in income tax rate for the succeeding three years. In accordance with the approval from the relevant PRC tax authority, Ningbo Guoruan was granted an income tax exemption for the three years from 2005 to 2007 and a 50% reduction in income tax rate for the three years from 2008 to 2010.

8. TAX (continued)

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 became effective from 1 January 2008. Under the New CIT Law, the corporate income tax rate applicable to domestic companies from 1 January 2008 will be either decreased from 33% to 25% or progressively increased from 15% to 25% within five years. This unification in the corporate income tax rate will directly reduce or increase the Group's effective tax rate prospectively from 2008. According to HKAS 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 realized or the liability is settled. As a result, management of the Company estimated that the change in the corporate income tax rate has had the following impact on the results and financial position of the Group for the year ended 31 December 2007:

	2007 RMB'000
Decrease in deferred tax liabilities (note 24)	**30,307**

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2007 RMB'000	2006 RMB'000
Profit before tax	**512,469**	300,623
Tax at the statutory tax rate	**169,115**	99,206
Lower tax rates for specific provinces or local authority	**(38,804)**	(18,357)
Profits attributable to an associate	**(3,004)**	—
Income not subject to tax	**(3,166)**	(2,130)
Expenses not deductible for tax	**13,472**	2,395
Tax charge at the Group's effective rate	**137,613**	81,114

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules of The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2007	2006
	RMB'000	RMB'000
Fees	**561**	—
Other emoluments:		
Salaries, allowance and benefits in kind	**1,873**	—
Employee share option benefits	**1,010**	—
	2,883	—
	3,444	—

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option schemes of the Company, further details of which are set out in note 36 to the financial statements. The fair value of such options which has been recognized in the 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.

(a) Independent non-executive directors

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

	2007	2006
	RMB'000	RMB'000
Mr. CHEN Dagang	**187**	
Mr. LEE Lawrence	**187**	—
Mr. CHOW Joseph	**187**	—
	561	—

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

9. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and a non-executive director

	Salaries, allowances and benefits in kind RMB'000	Employee share option benefits RMB'000	Total remuneration RMB'000
2007			
Executive directors:			
Mr. SHEN Guojun	937	–	937
Mr. CHING Siu Leung	468	1,010	1,478
	1,405	1,010	2,415
Non-executive director:			
Mr. XIN Xiangdong	468	–	468
	1,873	1,010	2,883

No emoluments were paid to the directors of the Company during the year 2006.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2006: Nil).

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2006: Nil) director, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining four (2006: five) non-director, highest paid employees for the year are as follows:

	2007 RMB'000	2006 RMB'000
Salary, allowances and benefits in kind	**1,188**	1,190
Discretionary bonus	**1,184**	1,682
Contribution to retirement benefit plan	**175**	261
Employee share option benefits	**2,388**	—
	4,935	3,133

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

	Number of employees	
	2007	2006
Nil to RMB1,000,000	**1**	5
RMB1,000,001 to RMB1,500,000	**2**	—
RMB1,500,001 to RMB2,000,000	**1**	—
	4	5

During the year, share options were granted to the above non-directors, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 36 to the financial statements. The fair value of such options which has been recognized to the 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.

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2007 includes a profit of RMB150,368,000 (2006: Nil) which has been dealt with in the financial statements of the Company (note 35).

12. DIVIDENDS

	2007	2006
	RMB'000	RMB'000
Proposed final — RMB0.064 per ordinary share	**115,200**	—

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

No dividend has been paid by the Company since its incorporation. Dividends disclosed in the consolidated statement of changes in equity for the year 2006 represent the dividends declared by the companies comprising the Group out of their retained profits to their then equity holders. The rates of dividend and the number of shares ranking for dividends are not presented, as such information is not considered meaningful for the purpose of these financial statements. All dividends declared for the year ended 31 December 2006 totalling amounting to RMB145,799,000 had been settled prior to 31 December 2006.

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year. For 2006, the 1,350,000,000 shares were deemed to have been in issue throughout that year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the weight average number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of or conversion of all dilutive potential ordinary shares into ordinary shares.

A diluted earnings per share amount for the year ended 31 December 2006 has not been disclosed as no diluting events existed during that year.

13. EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT (continued)

The calculations of basic and diluted earnings per share are based on:

	2007 RMB'000	2006 RMB'000
Earnings		
Profit attributable to equity holders of the parent	**378,368**	206,406

	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	**1,706,250,000**	1,350,000,000
Effect of dilution — weighted average number of ordinary shares:		
Share options	**1,691,763**	N/A
Weighted average number of ordinary shares used in diluted earnings per share calculation	**1,707,941,763**	N/A

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Decorations RMB'000	Machinery RMB'000	Vehicles RMB'000	Furniture, fittings & equipment RMB'000	Leasehold improve-ments RMB'000	Construc-tion in progress RMB'000	Total RMB'000
31 December 2007								
At 31 December 2006 and at 1 January 2007:								
Cost	182,628	3,800	50,360	4,289	6,155	17,591	4,003	268,826
Accumulated depreciation	(70,683)	(1,732)	(37,861)	(2,062)	(3,529)	(5,940)	–	(121,807)
Net carrying amount	111,945	2,068	12,499	2,227	2,626	11,651	4,003	147,019
At 1January 2007, net of accumulated deprecation	111,945	2,068	12,499	2,227	2,626	11,651	4,003	147,019
Additions	8,060	–	3,473	3,202	4,391	98,436	472,972	590,534
Acquisition of subsidiaries (note 37)	–	–	–	280	705	9,293	370,692	380,970
Depreciation provided during the year	(9,243)	(722)	(3,954)	(664)	(1,706)	(19,875)	–	(36,164)
Transfer from investment properties (note 15)	4,986	–	–	–	–	–	–	4,986
Transfer to investment properties (note 15)	(388)	–	–	–	–	–	–	(388)
Transfers	2,812	–	–	–	903	1,308	(5,023)	–
Disposals	(843)	–	(722)	–	(387)	(728)	–	(2,680)
At 31 December 2007, net of accumulated depreciation	117,329	1,346	11,296	5,045	6,532	100,085	842,644	1,084,277
At 31 December 2007:								
Cost	198,936	3,800	48,111	8,076	12,489	146,601	842,644	1,260,657
Accumulated depreciation	(81,607)	(2,454)	(36,815)	(3,031)	(5,957)	(46,516)	–	(176,380)
Net carrying amount	117,329	1,346	11,296	5,045	6,532	100,085	842,644	1,084,277

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Buildings RMB'000	Decorations RMB'000	Machinery RMB'000	Vehicles RMB'000	Furniture, fittings & equipment RMB'000	Leasehold improve-ments RMB'000	Construc-tion in progress RMB'000	Total RMB'000
31 December 2006								
At 1 January 2006:								
Cost	183,138	2,507	50,133	2,833	4,808	16,775	–	260,194
Accumulated depreciation	(61,537)	(1,501)	(34,422)	(1,593)	(2,450)	(2,516)	–	(104,019)
Net carrying amount	121,601	1,006	15,711	1,240	2,358	14,259	–	156,175
At 1 January 2006, net of accumulated depreciation	121,601	1,006	15,711	1,240	2,358	14,259	–	156,175
Additions	–	1,293	227	1,580	1,347	816	4,003	9,266
Depreciation provided during the year	(9,146)	(231)	(3,439)	(547)	(1,079)	(3,424)	–	(17,866)
Transfer to investment properties (note 15)	(510)	–	–	–	–	–	–	(510)
Disposals	–	–	–	(46)	–	–	–	(46)
At 31 December 2006, net of accumulated depreciation	111,945	2,068	12,499	2,227	2,626	11,651	4,003	147,019
At 31 December 2006:								
Cost	182,628	3,800	50,360	4,289	6,155	17,591	4,003	268,826
Accumulated depreciation	(70,683)	(1,732)	(37,861)	(2,062)	(3,529)	(5,940)	–	(121,807)
Net carrying amount	111,945	2,068	12,499	2,227	2,626	11,651	4,003	147,019

Buildings of the Group are located in Hangzhou, Zhejiang Province, the PRC.

The Group pledged certain of its buildings in September 2006 to secure the Group's banking facilities (note 31(b)). The carrying amounts of these pledged buildings as at 31 December 2007 were approximately RMB113,243,000 (2006: RMB107,516,000).

15. INVESTMENT PROPERTIES

Group

	2007 RMB'000	2006 RMB'000
Carrying amount at 1 January	**6,490**	6,474
Transfer (to)/from owner-occupied property (note 14)	**(4,598)**	510
Depreciation for the year	**(384)**	(494)
Carrying amount at 31 December	**1,508**	6,490
Fair value	**30,143**	57,130

The Group's investment properties are principally comprised of department store buildings held for long term rental yields and located in Hangzhou, Zhejiang Province, the PRC, with lease periods from two to seven years.

The fair value of investment properties as at each balance sheet date for disclosure purpose above is estimated by the Company's directors based on the discounted cash flow of estimated future rental income.

The Group pledged certain of its investment properties in September 2006 to secure the Group's banking facilities (note 31(b)). The carrying amounts of these pledged investment properties as at 31 December 2007 were approximately RMB1,508,000 (2006: RMB6,490,000).

16. PREPAID LAND LEASE PAYMENTS

Group

	2007	2006
	RMB'000	RMB'000
Carrying amount at 1 January	**64,034**	66,181
Addition	**319,617**	—
Acquisition of subsidiaries (note 37)	**605,384**	—
Amortization for the year	**(3,961)**	(2,147)
Carrying amount at 31 December	**985,074**	64,034

The Group's leasehold lands are located in Hangzhou, Zhejiang Province, and Wuhan, Hubei Province, the PRC with lease periods from 32 to 50 years.

The transfer of the ownership certificate of the land located in Wuhan, Hubei Province, the PRC, with a carrying amount of RMB130,675,000 as at 31 December 2007, is in progress. The Group's management anticipates that the ownership certificate will be obtained in the near future.

The Group pledged its prepaid land lease payments in September 2006 to secure the Group's banking facilities (note 31(b)). The carrying amounts of these pledged prepaid land lease payments as at 31 December 2007 were approximately RMB61,889,000 (2006: RMB64,034,000).

17. GOODWILL

Group

	RMB'000
Cost at 1 January 2007	**–**
Acquisition of subsidiaries (note 37(b), (c) and (d))	**166,934**
Impairment during the year	**–**
Cost and net carrying amount at 31 December 2007	**166,934**

17. GOODWILL (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating unit for impairment testing:

Department stores cash-generating unit

The recoverable amount of the department store cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a 10-year period approved by senior management. The discount rate applied to the cash flow projections is 7.5% and cash flows beyond the 10-year period are extrapolated using a growth rate of 3.8% which is the same as the long term average growth rate of the department stores industry.

The carrying amount of goodwill allocated to the cash-generating unit is as follows:

	2007 RMB'000
Carrying amount of goodwill	**166,934**

Key assumptions were used in the value in use calculation of the department stores cash-generating unit for 31 December 2007. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted income — The basis used to determine the value assigned to income is the average income achieved in the year immediately before the budget year, increased for expected efficiency improvements and expected market development.

Discount rates — The discount rates used are before tax and reflect specific risks relating to the relevant unit.

18. OTHER INTANGIBLE ASSETS

Group

	Computer software RMB'000
31 December 2007	
Cost at 1 January 2007, net of accumulated amortization	**286**
Additions	**317**
Amortization provided during the year	**(141)**
At 31 December 2007	**462**
At 31 December 2007:	
Cost	**1,153**
Accumulated amortization	**(691)**
Net carrying amount	**462**
31 December 2006	
Cost at 1 January 2006, net of accumulated amortization	288
Additions	69
Amortization provided during the year	(71)
At 31 December 2006	286
At 31 December 2006:	
Cost	407
Accumulated amortization	(121)
Net carrying amount	286

19. PREPAID RENTAL

Group

	RMB'000
31 December 2007	
Cost at 1 January 2007, net of accumulated amortization	**3,325**
Amortization provided during the year	**(950)**
At 31 December 2007	**2,375**
At 31 December 2007:	
Cost	**4,750**
Accumulated amortization	**(1,425)**
Net carrying amount	**3,325**
Less: Current portion (note 26)	**(950)**
Non-current portion of prepaid rental	**2,375**
31 December 2006	
Cost at 1 January 2006, net of accumulated amortization	4,750
Amortization provided during the year	(475)
At 31 December 2006	4,275
At 31 December 2006:	
Cost	4,750
Accumulated amortization	(475)
Net carrying amount	4,275
Less: Current portion (note 26)	(950)
Non-current portion of prepaid rental	3,325

20. INTERESTS IN SUBSIDIARIES

Company

	2007 RMB'000	2006 RMB'000
Unlisted shares, at cost	**908,408**	908,408

The amount due from and to subsidiaries included in the Company's non-current assets and non-current liabilities of RMB2,188,743,000 (2006: Nil) and RMB37,352,000 (2006: Nil), respectively, are unsecured and interest-free, and have no fixed repayment terms. The carrying amounts of these amounts due from/to subsidiaries approximated to their fair values.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and kind of legal entity	Nominal value of issued ordinary/ registered and share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
North Hill	BVI, limited liability company	US$1	100%	—	Investment holding
River Three	BVI, limited liability company	US$1	100%	—	Investment holding and trade mark management
Hangzhou Intime North Hill Enterprise Management Co., Ltd. ("Hangzhou North Hill")	Mainland China, wholly-foreign-owned enterprise	US$ 28,000,000	—	100%	Investment holding
Hangzhou Intime Investment and Management Co., Ltd. ("Intime Investment Management")	Mainland China, wholly-foreign-owned enterprise	US$ 48,000,000	—	100%	Investment holding

20. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and kind of legal entity	Nominal value of issued ordinary/ registered and share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Jiaxing Intime Investment and Management Co., Ltd. ("Jiaxing Intime")	Mainland China, wholly-foreign-owned enterprise	US$ 48,000,000	—	100%	Investment holding
Zhejiang Intime Department Store Co., Ltd. ("Zhejiang Intime")	Mainland China, wholly-foreign-owned enterprise	RMB 500,000,000	—	100%	Operation and management of department stores and investment holding
Shanghai Intime	Mainland China, wholly-foreign-owned enterprise	RMB 300,000,000	—	100%	Operation and management of department stores and investment holding
Zhejiang Wenzhou Intime Department Store Co., Ltd.	Mainland China, limited liability company	RMB 30,000,000	—	100%	Operation and management of department stores
Jinhua Intime Shopping Mall Co., Ltd.	Mainland China, limited liability company	RMB 30,000,000	—	60%	Operation and management of department stores
Zhejiang Intime Department Store (Jinhua) Co., Ltd.	Mainland China, limited liability company	RMB 30,000,000	—	100%	Operation and management of department stores

20. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and kind of legal entity	Nominal value of issued ordinary/ registered and share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Hubei Intime Business Development Co., Ltd. ("Wuhan Intime")	Mainland China, limited liability company	RMB 150,000,000	—	100%	Investment holding
Jiaxing Intime Meiwan Xintiandi Investment and Management Co., Ltd. ("Jiaxing Meiwan")	Mainland China, limited liability company	RMB 240,000,000	—	100%*	Investment and business management
Yinzhou Intime Department Store Company Co., Ltd. ("Yinzhou Intime")	Mainland China, limited liability company	RMB 20,000,000	—	100%	Operation and management department stores
Ningbo Guoruan	Mainland China, limited liability company	RMB 1,000,000	—	100%	Software development
Hangzhou Intime Outlets Commercial Development Co., Ltd. ("Hangzhou Outlets")	Mainland China, limited liability company	RMB 20,000,000	—	100%	Investment holding
Zhejiang Zhelian Investment and Management Co., Ltd. ("Zhelian Investment Management")	Mainland China, limited liability company	RMB 10,000,000	—	50%**	Investment holding and property development

20. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and kind of legal entity	Nominal value of issued ordinary/ registered and share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Hangzhou Yinxi Intime Department Store Co., Ltd. ("Yinxi Intime")	Mainland China, limited liability company	RMB 36,000,000	—	50%**	Operation and management department stores
Ezhou Intime Department Store & Trade Company Limited ("E'zhou Intime")	Mainland China, limited liability company	RMB 10,000,000	—	92%	Operation and management of department stores
CYTS Wuhan Hankou Hotel Asset Management Company Limited ("Hankou Hotel")	Mainland China, limited liability company	RMB 20,000,000	—	90%	Hotel management, development and sales of property
Hubei Intime Department Store Co., Ltd ("Hubei Intime")	Mainland China, limited liability company	RMB 50,000,000	—	50%**	Operation and management of department stores
Hangzhou Linping Intime Shopping Center Co., Ltd. ("Hangzhou Linping")	Mainland China, limited liability company	RMB 10,000,000	—	70%	Operation and management of department stores

* Jiaxing Meiwan has a registered capital of RMB400,000,000. As at 31 December 2007, the Group had contributed RMB240,000,000 of cash into Jiaxing Meiwan, which represent a 60% equity interest in Jiaxing Meiwan. Since at 31 December 2007, Jiaxing City Culture Mingcheng Investment Group Company Limited ("Jiaxing Culture"), the 40% equity investor had not yet made its 40% contribution into Jiaxing Meiwan, Jiaxing Meiwan was accounted as a 100% subsidiary of the Group.

** These companies are accounted for as subsidiaries of the Group as the Group is able to control their financial and operating policies.

During the year, the Group acquired Zhelian Investment Management, Hankou Hotel, Hubei Intime and Hangzhou Linping. Further details of these acquisitions are included in note 37 to the financial statements.

21. INTEREST IN AN ASSOCIATE

Group

	2007 **RMB'000**	2006 RMB'000
Shares listed in PRC, at cost		
— Share of net assets on acquisition	**290,954**	—
— Goodwill on acquisition	**134,590**	—
	425,544	—
Accumulated share of reserves and post acquisition results	**9,628**	—
	435,172	—
Market value of listed shares	**2,139,749**	—

Particulars of the associate are as follows:

Name	**Particulars of issued shares held**	**Place of registration**	**Percentage of ownership interest attributable to the Group**	**Principal activities**
Wuhan Department Store Group Co., Ltd. ("Wushang")	114,736,865 tradable ordinary shares of RMB1 each	PRC	22.62%	Operation and management of supermarkets and department stores

21. INTEREST IN AN ASSOCIATE (continued)

Group (continued)

The following table illustrates the summarised financial information of the Group's associate extracted from its financial statements. The information on the income statement is for the period from 1 July 2007 to 31 December 2007 during which the Group have significant influence over Wushang.

	2007 RMB'000
Assets	4,586,023
Liabilities	3,113,030
Gross revenue from concessionaire sales and other revenues	2,698,268
Profit	40,244

22. INVESTMENT DEPOSITS

Group

	2007 RMB'000	2006 RMB'000
Hiwell Real Estate Company Limited ("Hiwell Real Estate") (note(i))	33,000	—
Wuhan Guo Shang Lian Commercial Development Co., Ltd (武漢國商聯商業發展有限公司 ("Wuhan Commercial")) (note(ii))	20,000	—
Hangzhou Enterprise Property Rights Exchange (note(iii))	157,800	—
	210,800	—

Note:

(i) On 10 September 2007, Intime Investment Management entered into a sale and purchase agreement with Zhejiang Zhelian Property Group Company Limited ("Zhelian Property"), pursuant to which Intime Investment Management has agreed to purchase a 33% equity interest in Hiwell Real Estate from Zhelian Property for a total cash consideration of RMB33,000,000. As at 31 December 2007, the consideration has been fully paid.

On 30 November 2007, Intime Investment Management entered into a loan assignment agreement with Zhelian Property, pursuant to which Intime Investment Management has agreed to acquire a loan due Zhelian Property to Hiwell Real Estate for a total cash consideration of approximately RMB204,808,000, which has been fully paid as at 31 December 2007. The interest of such loan is 5.40% per annum. The loan has no fixed repayment terms (note 27).

22. INVESTMENT DEPOSITS (continued)

Group (continued)

Note: (continued)

As at 31 December 2007, the legal titles of the 33% equity interest of Hiwell Real Estate has not been transferred to Intime Investment Management.

(ii) In December 2007, Wuhan Intime and E'zhou Intime have entered into an agreement with Wuhan Commercial to acquire the remaining 50% in Hubei Intime, a 50% owned subsidiary of the Group (note 37(c)), for a consideration of RMB28,000,000. As at 31 December 2007, Wuhan Intime has prepaid RMB20,000,000. The remaining consideration of RMB8,000,000 has been paid subsequent to the balance sheet date (note 41).

(iii) On 20 December 2007, Hangzhou North Hill entered into an agreement with Hangzhou Shangcheng District Asset Management Co., Ltd., (杭州上城區資產經營有限公司"Hangzhou Asset Management") and Hangzhou Shangcheng District Financial Development Co. Ltd. (杭州市上城區財務開發公司) , pursuant to which Hangzhou North Hill agreed to acquire a 50% equity interest of Hangzhou Hubin International Commercial Development Co., Ltd. ("Hubin International") for a consideration of approximately RMB749,293,000.

On the same day, Hangzhou North Hill entered into an agreement with Hangzhou Asset Management to acquire a 50% equity interest in Hangzhou Xin Hubin Commercial Development Co., Ltd. ("Xin Hubin") for a consideration of approximately RMB301,544,000. In addition, a RMB2,631,000 commission will be paid to Hangzhou Enterprise Property Rights Exchange, through which the title of equity interest of Hubin International and Xin Hubin will be transferred into Hangzhou North Hill. As at 31 December 2007, Hangzhou North Hill has prepaid RMB157,800,000 to Hangzhou Enterprise Property Rights Exchange. The remaining consideration of approximately RMB895,668,000 will be paid subsequent to the balance sheet date (note 41).

23. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Listed equity investments, at fair value:				
Hong Kong	**107,308**	—	**107,308**	—
Mainland China	**1,456,789**	1,459,474	**—**	—
	1,564,097	1,459,474	**107,308**	—

23. AVAILABLE-FOR-SALE INVESTMENTS (continued)

During the year, the gross gain of the Group's available-for-sale investments recognized directly in equity amounted to RMB1,986,467,000 (2006: RMB515,649,000), of which RMB80,582,000 (note 5) was transferred to and recognized in the income statement for the current year (2006: RMB1,680,000).

The above investments consist of investments in equity securities which were designated as available-for-sale investments and have no fixed maturity date or coupon rate.

The movements of the available-for-sale investments during the years 2007 and 2006 are as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
At beginning of year	**1,459,474**	276,819	**–**	–
Additions	**195,224**	646,730	**107,308**	–
Disposals	**(114,215)**	(4,238)	**–**	–
Revaluation surplus transferred to equity	**1,986,467**	515,649	**–**	–
Reversal of fair value changes upon transfer to interest in an associate (note(i)) (note 21)	**(1,962,853)**	–	**–**	–
Gain on receipt of shares of a listed company	**–**	24,514	**–**	–
At end of year	**1,564,097**	1,459,474	**107,308**	–

Notes:

(i) On 20 June 2007, the Group commenced to have significant influence over Wushang as the Company had one representative appointed as a director of Wushang. Accordingly, the Group made a reversal of previously recognized revaluation surplus together with deferred tax liabilities on its investment in Wushang and accounted for its investment in Wushang as an interest in an associate.

23. AVAILABLE-FOR-SALE INVESTMENTS (continued)

Note: (continued)

Available-for-sale investments include equity interests in the following companies of which A-shares are listed on stock exchanges in Mainland China and H shares are listed on the Stock Exchange in Hong Kong. Those A-share companies established in Mainland China are principally engaged in the operation and management of department stores:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
H-share tradable shares:				—
— China Dongxiang (Group) Co., Ltd. (note(ii))	**107,308**	—	**107,308**	—
A-share tradable shares:			**—**	—
— Baida Group Co., Ltd. ("Baida") (note(iii))	**1,037,040**	667,132	**—**	—
— Wushang	**—**	481,705	**—**	—
— Citic Development — Shenyang Commercial Building (Group) Co., Ltd. ("Shenyang Commercial Building") (note(iv))	**232,490**	40,272	**—**	—
A-share restricted tradable shares:			**—**	
— Wushang	**—**	164,475	**—**	
A-share non-tradable shares:			**—**	—
— Baida (iii)	**187,259**	105,890	**—**	—
	1,564,097	1,459,474	**107,308**	—

(ii) As at 31 December 2007, the Group held a 1.44% equity interest in China Dongxiang (Group) Co., Ltd.

(iii) As at 31 December 2007, the Group held a 27.48% equity interest in Baida. However, the Group's directors do not regard Baida as an associate of the Group on the grounds that the Company has no representatives in the board of directors of Baida and has no participation in decision making of its financial and operating policies. Accordingly, the Group does not exercise any significant influence over Baida.

(iv) As at 31 December 2007, the Group held a 4.93% equity interests in Shenyang Commercial Building.

The fair values of listed equity investments are based on quoted market prices. The fair values of listed but restricted tradable available-for-sale equity investments have been estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the discount rate for lack of marketability of 65%. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated balance sheet, and the related changes in fair values, which are recorded in the consolidated equity, are reasonable, and that they were the most appropriate values at the balance sheet date.

24. DEFERRED TAX

Group

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	Accruals RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2006	415	183	598
Recognized in the income statement (note 8)	691	(183)	508
At 31 December 2006	1,106	—	1,106
Recognized in the income statement (note 8)	228	2,769	2,997
At 31 December 2007	1,334	2,769	4,103

24. DEFERRED TAX (continued)

Group (continued)

Deferred tax liabilities

	Available-for-sale investments RMB'000	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Total RMB'000
At 1 January 2006	6,883	—	6,883
Recognized in the income statement (note 8)	8,090	—	8,090
Charged to equity	170,165	—	170,165
At 31 December 2006	185,138	—	185,138
Recognized in the income statement (note 8)	(1,961)	—	(1,961)
Charged to equity	474,056	—	474,056
Acquisition of subsidiaries (note 37 (a) and (b))	—	103,568	103,568
Reversal upon disposal	(20,146)	—	(20,146)
Effects of changes in tax rates charged to equity (note 8)	(28,346)	—	(28,346)
Reversal upon transfer to interest in an associate	(384,327)	—	(384,327)
At 31 December 2007	224,414	103,568	327,982

As at 31 December 2007, the Group had no significant unrecognized deferred tax assets and liabilities.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

25. INVENTORIES

Group

	2007 **RMB'000**	2006 RMB'000
Store merchandise — at cost	**33,954**	25,763

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		**Company**	
	2007 **RMB'000**	2006 RMB'000	**2007** **RMB'000**	2006 RMB'000
Deposits and prepayments for purchase of properties (note(a))	**13,152**	39,754	**—**	—
Intention money paid for potential investments	**24,090**	—	**—**	—
Deposits for purchases of available-for-sale investments	**—**	1,569	**—**	—
Rental deposits	**20,228**	45,332	**—**	—
Prepaid rental	**22,033**	950	**—**	—
Advances to suppliers	**24,071**	38,097	**—**	—
Advances to third parties (note(b))	**160,000**	5,000	**—**	—
Others	**24,218**	4,134	**1,218**	—
	287,792	134,836	**1,218**	—

Notes:

(a) Prepayments for purchases of properties during the current year amounting to RMB13,152,000 represents the over paid amounts to a property agency with respect to the purchases of a property in Wuhan.

(b) The advances to third parties include an initial investment deposit during the current year amounting to RMB110,000,000 pursuant to a letter of intent with a third party. Subsequent to the balance sheet date, the letter of intent has been terminated and the deposit has been subsequently collected.

The carrying amounts of deposits and other receivables approximate to their fair values.

27. LOANS AND RECEIVABLES

Group

During the year, the Group made interest-bearing borrowings to the third parties as follows:

	2007 RMB'000	2006 RMB'000
Principal due from:		
— Hiwell Real Estate (note 22 (i))	204,808	—
— Well Beauty International Limited ("Well Beauty") (note(i))	111,278	—
	316,086	—
Interest receivable due from: (note 5)		
— Hiwell Real Estate	3,380	—
— Well Beauty	3,523	—
	6,903	—
	322,989	—

Note:

(i) On 8 August 2007, North Hill entered into a loan agreement with Well Beauty, pursuant to which North Hill offered a loan with principal of US$14,700,000 and earns interest at 8.25% per annum. The maturity date of the loan is 31 December 2008.

28. HELD-TO-MATURITY INVESTMENTS

Group

	2007 RMB'000	2006 RMB'000
Private securities investment fund	—	20,000

This represented an investment in a private securities investment fund on 6 December 2006. Upon the maturity date of 5 December 2007, the principal of RMB20,000,000 together with a gain of RMB2,000,000 (note 5) has been fully collected.

29. CASH IN TRANSIT

Group

	2007 RMB'000	2006 RMB'000
Cash in transit	**84,971**	15,159

Cash in transit represents the sales proceeds settled by debit cards or credit cards, which have yet to be credited by the banks to the Group.

30. CASH AND CASH EQUIVALENTS

	Group		Company	
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
Cash and bank balances	**777,151**	317,861	**88,828**	—

At 31 December 2007 and 2006, the cash and cash equivalents were denominated in the following currencies:

	Group		Company	
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
RMB	**587,046**	269,801	**–**	—
US$	**94,887**	48,060	**–**	—
HK$	**95,218**	—	**88,828**	—
	777,151	317,861	**88,828**	—

At the balance sheet date, the cash and bank balances of the Group denominated in US$ and HK$ amounted to RMB94,887,000 and RMB95,218,000 (2006: RMB48,060,000 and nil), respectively.

30. CASH AND CASH EQUIVALENTS (continued)

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

31. INTEREST-BEARING BANK BORROWINGS

Group

	2007	2006
	RMB'000	RMB'000
Current		
— Unsecured bank borrowings	**150,000**	70,000
— Guaranteed bank borrowings (note(a))	**—**	429,000
— Secured bank borrowings (note(b))	**300,000**	150,000
	450,000	649,000

Notes:

(a) As at 31 December 2006, the Group's guaranteed bank borrowings were guaranteed by China Yintai Holdings Co., Ltd. ("China Yintai"). During year 2007, the borrowings were fully settled.

(b) Secured bank borrowings as at 31 December 2007 were secured by certain of the Group's buildings, investment properties and prepaid land lease payments, the total carrying amount of which at 31 December was RMB176,640,000 (2006: RMB178,040,000) (note 14, 15 and 16).

(c) The effective interest rates per annum at the respective balance sheet dates are as follows:

	2007	2006
Short-term bank borrowings	**6.03%–7.29%**	5.02%–6.73%

(d) The carrying amounts of all borrowings as at 31 December 2007 and 2006 approximated to their fair values. All borrowings are denominated in RMB.

31. INTEREST-BEARING BANK BORROWINGS (continued)

Group (continued)

Notes: (continued)

(e) The Group has following undrawn banking facilities:

	2007 RMB'000	2006 RMB'000
At floating rate:		
Expiring within 1 year	–	10,000
Expiring within 2 to 3 years, inclusive	1,224,050	1,475,050
	1,224,050	1,485,050

The Group's banking facilities expiring within one year are annual facilities subject to review in the following year.

The Group's banking facilities expiring within two to three years were secured by certain buildings (note 14), investment properties (note 15) and prepaid land lease payments (note 16) of the Group.

(f) The exposure of borrowings to interest rate changes and the contractual repricing dates are as follows:

	6 months or less RMB'000	7–12 months RMB'000	Total RMB'000
31 December 2006			
Total borrowings	169,000	480,000	649,000
31 December 2007			
Total borrowings	**400,000**	**50,000**	**450,000**

31. INTEREST-BEARING BANK BORROWINGS (continued)

Group (continued)

Notes: (continued)

(g) The maturity of borrowings is as follows:

	2007 RMB'000	2006 RMB'000
Within 6 months	**400,000**	314,000
Between 7 to 12 months	**50,000**	335,000
	450,000	649,000

32. TRADE PAYABLES

Group

	2007 RMB'000	2006 RMB'000
Trade payables	**436,379**	269,708

Trade payables as at the respective balance sheet dates were denominated in RMB, and were aged within 60 days.

The carrying amounts of trade payables approximated to their fair values.

33. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Payables for purchase of property, plant and equipment and prepaid land lease payments	**157,065**	—	**—**	—
Advance from customers	**222,956**	102,959	**—**	—
Other liabilities to local government	**21,446**	13,651	**—**	—
Other tax payables	**61,962**	45,618	**—**	—
Bonus and welfare payables	**22,739**	12,205	**—**	—
Deposits received from suppliers/ concessionaires	**29,920**	4,039	**—**	—
Accruals	**12,166**	3,459	**—**	—
Payables for purchase of equity interests (note 37(b))	**295,000**	—	**—**	—
Others	**27,022**	18,236	**863**	—
	850,276	200,167	**863**	—

The carrying amounts of other payables approximate to their fair values.

34. SHARE CAPITAL

	Authorized		
	Number of shares	US$	RMB
Upon incorporation of the Company on 8 November 2006	50,000	50,000	393,500
Share subdivision on 30 December 2006 and at 31 December 2007	5,000,000,000	50,000	393,500

	Issued and fully paid up		
	Number of shares	US$	RMB'000
As at 31 December 2006	1,350,000,000	13,500	105
Issue of shares pursuant to a placing and public offer (note(a))	450,000,000	4,500	35
As at 31 December 2007	**1,800,000,000**	**18,000**	**140**

As disclosed in note 2.1 above, these consolidated financial statements have been prepared using the principle of merger accounting. Accordingly, the issued share capital of RMB105,435 comprising 1,350,000,000 shares of US$0.00001 each as at 31 December 2006 described above is deemed to have been in issue throughout 2006.

Note:

(a) On 20 March 2007, the Company issued 450,000,000 shares of US$0.00001 each through a placing and public offer of the Company's shares in Hong Kong (the "New Issue") for a consideration of HK$5.39 per share, totalling approximately HK$2,425,500,000 (approximately RMB2,401,585,000). The share issue costs were approximately HK$110,418,000 (approximately RMB109,240,000).

35. RESERVES

Group

Statutory reserves

Prior to their conversion into wholly-foreign-owned enterprises in 2006, the subsidiaries of the Company established in the PRC shall appropriate 10% of their annual statutory net profit (after offsetting any prior years' losses) to the statutory reserve fund account in accordance with the PRC Company Law and their articles of association. When the balance of such reserve fund reaches 50% of the share capital of each entity, any further appropriation is optional. The statutory reserve fund can be utilized to offset prior years' losses or to increase capital after proper approval. However, except for offsetting prior years' losses, such statutory reserve fund must be maintained at a minimum of 25% of share capital after such usage.

In addition to the above, these subsidiaries are also required to appropriate 5% to 10% of their annual statutory net profit (after offsetting any prior years' losses) to the statutory welfare fund to be utilized for employees' common welfare in accordance with the PRC Company Law and the subsidiaries articles of association.

Upon conversion of the Group's PRC subsidiaries into wholly-foreign-owned enterprises in 2006, these subsidiaries are no longer required to appropriate the net profit to statutory reserve fund and statutory welfare fund. Pursuant to the relevant PRC Law and the revised articles of association of these subsidiaries, they are required to appropriate 10% of their statutory net profit to the enterprise expansion fund. The enterprise expansion fund can only be used to increase the capital of Group companies or to expand their production operations upon approval by the relevant authority.

35. RESERVES (continued)

Company

	Share premium RMB'000	Contributed surplus RMB'000 (note i)	Reserve for fair value changes of available-for-sale investments RMB'000	Option RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 1 January 2006	–	–	–	–	–	–	–	–
Effect of reorganization	–	908,303	–	–	–	–	–	908,303
At 31 December 2006	–	908,303	–	–	–	–	–	908,303
Change in fair value of available-for-sale investments	–	–	30,378	–	–	–	–	30,378
Exchange realignment	–	–	–	–	(57,534)	–	–	(57,534)
Profit for the year	–	–	–	–	–	150,368	–	150,368
Issue of new shares	2,403,703	–	–	–	–	–	–	2,403,703
Share issue cost	(84,822)	–	–	–	–	–	–	(84,822)
Equity-settled share option arrangements (note 36)	–	–	–	5,754	–	–	–	5,754
Proposed final dividend	–	–	–	–	–	(115,200)	115,200	–
At 31 December 2007	**2,318,881**	**908,303**	**30,378**	**5,754**	**(57,534)**	**35,168**	**115,200**	**3,356,150**

Note:

(i) Contributed surplus of the Company arose when the Company issued 1,349,900,000 shares of US$0.00001 each to Intime International in exchange for the entire issued share capital of North Hil and River Three in connection with the Reorganization. This surplus represents the difference between the nominal value of the Company's shares issued and the value of net assets of the subsidiaries acquired.

36. SHARE OPTION SCHEME

The share option scheme was approved pursuant to a resolution passed by the Company's shareholders at an extraordinary general meeting held on 24 February, 2007. According to this share option scheme, the directors may invite the Group's employees, senior management, directors and other eligible participants to take up share options of the Company. The subscription price is determined by the directors and will be determined according to the higher of (i) the average official closing price of the shares on the Stock Exchange for the five trading days immediately preceding the relevant offer date and (ii) the official closing price of the shares on the Stock Exchange on the relevant offer date. Options granted become vested after certain period. An option may be exercised in accordance with the terms of the share option scheme any time during a period to be notified by the board to each grantee or to be resolved by the board at the time of grant.

The maximum number of shares in respect of which options may be granted under the share option scheme when aggregated with the maximum number of shares in respect of which options over shares or other securities may be granted by the group under any other scheme shall not exceed 10% of the issued share capital (representing 180,000,000 shares). Options lapsed in accordance with the terms of the option scheme shall not be counted for the purpose of calculating the 10% limit. Any further grant of share options in excess of this limit is subject to the approval of the Company's shareholders.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the year:

	2007	
	Weighted average exercise price HK$ per share	**Number of options '000**
At 1 January	**—**	**—**
Granted during the year	**6.51**	**13,600**
At 31 December	**6.51**	**13,600**

36. SHARE OPTION SCHEME (continued)

The exercise prices and exercise periods of the share options outstanding as at 31 December 2007 are as follows:

Number of options '000	Exercise price HK$ per share	Exercise period
11,600	6.44	22 March 2008 to 21 March 2011
1,000	6.67	17 July 2008 to 16 July 2011
1,000	7.14	13 November 2008 to 12 November 2011
13,600		

The fair value of options granted during the year was approximately RMB18,384,000 (2006: Nil), of which the Group recognized a share option expense of RMB5,754,000 (2006: Nil) during the year ended 31 December 2007 (note 6).

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using the Black-Scholes-Merton option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2007
Dividend yield (%)	2%
Expected volatility (%)	34.62%—40.43%
Risk-free interest rate (%)	3.19%–4.56%
Expected life of options (year)	1.5–4.5
Weighted average share price (HK$)	6.51

The volatility measured at the standard deviation of expected share price returns is based on statistical analyses of comparable listed companies in the same industry.

37. BUSINESS COMBINATIONS

(a) On 5 November 2007, the Group acquired a 90% interests in Hankou Hotel from third parties (the "Sellers"). Hankou Hotel was in the pre-operating stage as at 31 December 2007. The purchase consideration for the acquisition was in the form of cash, amounting to RMB18,000,000 and was paid on 27 December 2007. In addition, the Group has also taken over a shareholder's loan of RMB108,000,000 from the Sellers. The loan is interest-free and has no fixed repayment terms. As at 31 December 2007, RMB99,000,000 has been paid to the Sellers.

The fair values of the identifiable assets and liabilities of Hankou Hotel as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	Fair value recognized on acquisition RMB'000	Carrying amount RMB'000
Prepaid land lease payments	16	130,675	128,000
Other payables and accruals		(108,000)	(108,000)
Deferred tax liabilities	24	(669)	—
Net assets		22,006	20,000
10% minority interests		(2,200)	
Net assets acquired		19,806	
Excess over the cost of a business combination	5	(1,806)	
Satisfied by cash		18,000	

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration paid	(18,000)
Cash paid for a shareholder's loan assumed	(99,000)
Cash and cash equivalents acquired	—
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(117,000)

37. BUSINESS COMBINATIONS (continued)

(b) During the year, the Group entered into certain agreements ("the Agreements") with third parties ("the Sellers") to acquire from the Sellers 50% and 100% equity interests of two wholly-owned subsidiaries, namely, Zhelian Investment Management and Million Energy Holdings Limited ("Million Energy") for a consideration of RMB100,000,000 and RMB200,000,000, respectively. In addition, the Group has taken over from the Sellers a shareholder's loan of RMB200,000,000 which has been paid to the Sellers as at 31 December 2007. Zhelian Investment Management and Million Energy are engaged in the development of premises used for the operation of department stores located in Hangzhou.

As at 31 December 2007, RMB5,000,000 relating to the acquisition of a 50% interest of Zhelian Investment Management was paid, while the remaining balance of RMB95,000,000 and the consideration for acquiring Million Energy have not yet been paid. The Group has obtained the legal ownership of the 50% equity of Zhelian Investment Management.

The directors of the Company are of the opinion that the acquisition of Zhelian Investment Management and Million Energy is for the sole purpose of acquiring department store business in Hangzhou and should therefore be considered as one transaction.

The fair values of the identifiable assets and liabilities of Zhelian Investment Management and Million Energy as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	Fair value recognized on acquisition RMB'000	Carrying amount RMB'000
Property, plant and equipment	14	370,719	370,719
Prepaid land lease payments	16	474,709	63,111
Prepayments, deposits and other receivables		26,000	26,000
Cash and cash equivalents		5,470	5,470
Trade payables		(703)	(703)
Other payables and accruals		(457,678)	(457,678)
Deferred tax liabilities	24	(102,899)	—
Net assets		315,618	6,919
50% minority interests		(157,809)	
Net assets acquired		157,809	
Goodwill on acquisition	17	142,191	
Satisfied by cash		300,000	

37. BUSINESS COMBINATIONS (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration paid	(5,000)
Cash paid for a shareholder's loan assumed	(200,000)
Cash and cash equivalents acquired	5,470
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(199,530)

(c) On 14 November 2007, the Group acquired 50% interest in Hubei Intime from a third party. Hubei Intime is engaged in operating a department store in Hubei Province, the PRC. The purchase consideration for the acquisition was in the form of cash amounting to RMB22,000,000, which was fully paid in December 2007.

The fair values of the identifiable assets and liabilities of Hubei Intime as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	Fair value recognized on acquisition RMB'000	Carrying amount RMB'000
Property, plant and equipment	14	10,004	10,004
Inventories		1,559	1,559
Prepayments, deposits and other receivables		13,457	13,457
Cash and cash equivalents		2,464	2,464
Trade payables		(24,653)	(24,653)
Other payables and accruals		(7,688)	(7,688)
Tax payable		(440)	(440)
Net assets		(5,297)	(5,297)
50% minority interests		2,648	
Net assets acquired		(2,649)	
Goodwill on acquisition	17	24,649	
Satisfied by cash		22,000	

37. BUSINESS COMBINATIONS (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration paid	(22,000)
Cash and cash equivalents acquired	2,464
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(19,536)

(d) On November 2007, the Group acquired a 70% interests in Hangzhou Linping from Hangzhou Intime Shopping Centre Co., Ltd. ("Hangzhou Intime"). Hangzhou Linping is engaged in operating a department store in Mainland China. The purchase consideration for the acquisition was in the form of cash amounting to RMB7,000,000, of which RMB3,035,000 was paid in December 2007.

The fair values of the identifiable assets and liabilities of Hangzhou Linping as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	Fair value recognized on acquisition RMB'000	Carrying amount RMB'000
Property, plant and equipment	14	247	247
Inventories		1,085	1,085
Prepayments, deposits and other receivables		4,941	4,941
Cash and cash equivalents		21,443	21,443
Trade payables		(12,792)	(12,792)
Other payables and accruals		(4,888)	(4,888)
Tax payable		(170)	(170)
Net assets		9,866	9,866
30% minority interests		(2,960)	
Net assets acquired		6,906	
Goodwill on acquisition	17	94	
Satisfied by cash		7,000	

37. BUSINESS COMBINATION (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration paid	(3,035)
Cash and cash equivalents acquired	21,443
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	18,408

38. CONTINGENT LIABILITIES

	2007 RMB'000	2006 RMB'000
Guarantees to related parties (note(i))	–	20,000

Notes:

(i) As at 31 December 2006, Zhejiang Intime provided a guarantee amounting to RMB20,000,000 in respect of a loan granted by a bank to Wenzhou Yintai Department Store Co., Ltd. ("Wenzhou Yintai"). The relevant loan and interest was repaid by Wenzhou Yintai on 25 February 2007 and the guarantee was released.

(ii) On 8 November 2007, Jiaxing Intime and Shanghai Intime entered into a joint venture contract with Jiaxing Culture, a third party, to establish a joint venture company, Jiaxing Meiwan.

Jiaxing Meiwan has a registered capital of RMB400,000,000. Jiaxing Intime and Shanghai Intime each contributed RMB120,000,000 in cash, which in aggregate will represent a 60% equity interest in Jiaxing Meiwan. Jiaxing Culture will contribute RMB160,000,000 by way of transferring title of property with total gross floor area of approximately 20,000 square meters (the "Injected Property") into Jiaxing Meiwan, which will represent 40% of equity interest in the joint venture.

38. CONTINGENT LIABILITIES (continued)

Pursuant to the joint venture contract, Jiaxing Intime and Shanghai Intime shall guarantee a return to Jiaxing Culture in either of the following circumstances:

(a) if Jiaxing Meiwan is unable to be listed on any stock exchange within three years from its establishment, and if Jiaxing Culture intends to transfer the 40% equity interest it held in Jiaxing Meiwan, Jiaxing Intime and Shanghai Intime shall pay Jiaxing Culture the difference between RMB160,000,000 and the market value of the Injected Property at the time of transfer of the 40% equity interest held by Jiaxing Culture, but in any event, the market value to be used to determine such payment shall not be less than RMB9,000/square meter in respect of the Injected Property; or

(b) if Jiaxing Meiwan is successfully listed on a stock exchange within three years but the total market value of the equity interests Jiaxing Culture holds in the listed company at the time of listing is less than the then market value of the Injected Property, Jiaxing Intime and Shanghai Intime will pay Jiaxing Culture the difference between the then market value of the Injected Property at the time of listing and the current market value of the Injected Property of approximately RMB160,000,000, but in any event, the market value to be used to determine such payment shall not be less than RMB9,000/square meter in respect of the Injected Property.

As at 31 December 2007, Jiaxing Culture has not yet made its capital injection into Jiaxing Meiwan.

39. PLEDGE OF ASSETS

Details of the Group's bank loans and facilities, which are secured by the assets of the Group, are included in note 14, note 15 and note 16.

40. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 15) and subleases its leased assets under operating lease arrangements for terms ranging from one to ten years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2007 **RMB'000**	2006 RMB'000
Within one year	**8,191**	6,186
In the second to fifth years, inclusive	**12,545**	9,876
After five years	**12,643**	1,041
	33,379	17,103

The amounts above include future minimum sublease payments expected to be received under non-cancellable sublease amounting to RMB27,730,000 (2006: RMB10,297,000) as at 31 December 2007.

(b) As lessee

The Group leases certain of its stores and office premises under non-cancellable operating lease agreements.

At 31 December 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2007 **RMB'000**	2006 RMB'000
Within one year	**110,684**	43,920
In the second to fifth years, inclusive	**676,739**	466,258
After five years	**1,756,648**	1,110,220
	2,544,071	1,620,398

41. COMMITMENTS

In addition to the operating lease commitments detailed in note 40(b) above, the Group had the following capital commitments at the balance sheet date:

	2007 RMB'000	2006 RMB'000
Contracted, but not provided for:		
Land and buildings	**227,813**	14,000
Equity interests (note 22 (ii) and (iii))	**903,668**	—
Capital contributions payable to a jointly-controlled entity (note (i))	**73,046**	78,087
	1,204,527	92,087

Note:

(i) On 31 October 2006, Zhejiang Intime and Lotte Shopping Company Limited ("Lotte") entered into a joint venture agreement to establish a joint venture in the PRC with a registered capital of US$20,000,000 to operate a department store in Mainland China. Each joint venture partner agrees to contribute US$10,000,000 to the joint venture and owns 50% of its equity interest. The term of the joint venture is for a period of 30 years. In addition, to secure operating premises for the joint venture, Zhejiang Intime and Lotte entered into a lease contract with Beijing Jixiang Real Estate Co., Ltd. ("Jixiang Real Estate"), for the rental of a building for 10 years tentatively starting from 25 March 2008 with annual minimum lease payments of RMB95,100,000 (the "Pre-rental Agreement"). Upon the establishment of the joint venture, all rights and obligations under the lease contract will be transferred to the joint venture. This lease commitment has been included in note 40 (b) above.

42. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(a) Name and relationship of related parties

Name	Relationship
Mr. Shen Guojun	Ultimate controlling shareholder of the Company
Intime International	Intermediate holding company of the Company
Warburg Pincus	Shareholder of the Company
Glory Bless Limited ("Glory Bless")	Controlled by the ultimate controlling shareholder
China Yintai	Controlled by the ultimate controlling shareholder
Silvertie Holding Co., Ltd. ("Silvertie Holding")	20.63% of its shares were held by China Yintai
Jixiang Real Estate	Subsidiary of China Yintai
Wenzhou Yintai	Subsidiary of China Yintai
Jinhua Yintai Department Store Co., Ltd. ("Jinhua Yintai")	Subsidiary of China Yintai
Hangzhou Intime	Associate of China Yintai
Beijing Lotte Intime Co., Ltd. ("Beijing Lotte Intime")	Jointly-controlled entity

42. RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties

The following transactions were carried out with related parties:

	2007 RMB'000	2006 RMB'000
Renal expense and management fee:		
— Silvertie Holding (note(i))	**27,390**	27,414
Advances to related parties:		
— Jixiang Real Estate (note(ii))	**97,181**	—
— China Yintai	**—**	170,612
— Wenzhou Yintai	**—**	30,538
— Jinhua Yintai	**—**	35,265
	97,181	236,415
Purchase of inventories from a related party:		
— Wenzhou Yintai	**5,797**	—
Prepayment of rental		
— Jixiang Real Estate (note(iii))	**107,012**	—
Purchase of a subsidiary from a related party:		
— Hangzhou Intime (note 37(d))	**7,000**	—
Payment made on behalf of a related party:		
— Beijing Lotte Intime (note(iv))	**16,420**	—
Repayment from related parties:		
— China Yintai	**—**	541,494
— Jinhua Yintai	**—**	10,070
— Wenzhou Yintai	**—**	20,000
	—	571,564

42. RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties (continued)

	2007 RMB'000	2006 RMB'000
Borrowings from related parties:		
— Intime International	–	51,655
— Warburg Pincus	–	161,434
	–	213,089
Repayment to a related party:		
— Glory Bless	–	247,535
Guarantee to a related party:		
— Wenzhou Yintai	–	20,000
Guarantee from a related party:		
— China Yintai	–	339,000
Waiver of a shareholder's loan:		
— Intime International	–	51,655
Interest income from:		
— China Yintai	–	1,984
Interest expense:		
— Warburg Pincus	–	8,106

Notes:

(i) Pursuant to an agreement between Shanghai Intime and Silvertie Holding signed on 31 March 2005, Shanghai Intime leased certain floors of a building from Silvertie Holding for its operations.

(ii) Zhejiang Intime and Lotte have entered into a joint venture agreement to establish Beijing Lotte Intime. Beijing Lotte Intime will lease certain premises for its shopping mall operations from Jixiang Real Estate (note 41 (i)). Since Beijing Lotte Intime was not yet established as at 31 December 2007, in order to ensure the availability of premises, the Group made advances to Jixiang Real Estate on behalf of Beijing Lotte Intime as prepaid rental deposit, and the decoration of the premises where the shopping mall Beijing Lotte Intime will operate amounted to approximately RMB35,681,000 and RMB61,500,000 respectively.

42. RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties (continued)

Notes: (continued)

(iii) In relation to the Pre-rental Agreement, on 12 December 2007, Zhejiang Intime entered into a rental advance payment agreement (the "Rental Advance Payment Agreement") with Jixiang Real Estate. As stipulated in the agreement, Jixiang Real Estate has agreed to provide a fixed discount of 12% per annum to Zhejiang Intime on a 50% portion of the total rent of 32 months. Zhejiang Intime made the advance payment of approximately RMB107,012,000 to Jixiang Real Estate at 31 December 2007.

(iv) Pursuant to an agreement between Zhejiang Intime and Beijing Lotte Intime, the Group paid decoration expense for the new store leased from Jixiang Real Estate on behalf of Beijing Lotte Intime of RMB16,420,000.

(c) Due from related parties

The Group had the following significant balances due from related parties at the balance sheet date:

	2007	2006
	RMB'000	RMB'000
Due from related parties		
— Silvertie Holding (note(i))	**13,000**	13,000
— Wenzhou Yintai	**—**	10,538
— Jinhua Yintai	**—**	25,195
— Hangzhou Intime	**—**	2,013
— Beijing Lotte Intime (note(b)(iv))	**16,420**	—
	29,420	50,746

Note:

(i) The amount due from Silvertie Holding includes a deposit of RMB6,500,000 and prepaid rental of RMB6,500,000 in connection with a lease agreement between Shanghai Intime and Silvertie Holding entered into on 31 March 2005.

All the amounts due from related parties are denominated in RMB, are unsecured and interest-free, have no pre-determined term of repayment, and are expected to be received within 12 months after the respective balance sheet date.

42. RELATED PARTY TRANSACTIONS (continued)

(c) Due from related parties (continued)

The maximum outstanding amounts due from related parties during the year, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

	2007 RMB'000	2006 RMB'000
Due from related parties		
— China Yintai	—	559,146
— Silvertie Holding	13,000	13,000
— Wenzhou Yintai	—	30,538
— Jinhua Yintai	—	35,265
— Hangzhou Intime	—	2,013
— Beijing Lotte Intime	16,420	—
	29,420	639,962

(d) Prepayments to related parties

	2007 RMB'000	2006 RMB'000
— Jixiang Real Estate (note (b)(ii) and (iii))	204,193	—

(e) Due to related parties

The Group had the following significant balances due to related parties:

	2007 RMB'000	2006 RMB'000
Due to related parties		
— Hangzhou Intime (note 37(d))	3,965	
— China Yintai	—	8,871
	3,965	8,871

42. RELATED PARTY TRANSACTIONS (continued)

(e) Due to related parties (continued)

All amounts due to related parties are denominated in RMB, and are unsecured, interest-free, and payable on demand.

The carrying amounts of these related party balances approximate to their fair values.

(f) Key management compensation

	2007 RMB'000	2006 RMB'000
Salaries, allowances and other benefits	**2,110**	638
Discretionary bonuses	**1,546**	971
Contributions to a retirement plan	**223**	155
Share option scheme	**2,654**	—
	6,533	1,764

43. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each category of financial instruments as at the balance sheet date are as follows:

Group

2007

Financial assets

	Loans and receivables RMB'000	Available-for-sale investments RMB'000	Total RMB'000
Available-for-sale investments	–	1,564,097	1,564,097
Financial assets including prepayments, deposits and other receivables	211,439	–	211,439
Loans and receivables	322,989	–	322,989
Due from related parties	29,420	–	29,420
Cash in transit	84,971	–	84,971
Cash and cash equivalents	777,151	–	777,151
	1,425,970	1,564,097	2,990,067

Financial liabilities

	Financial liabilities at amortized cost RMB'000
Trade payables	436,379
Financial liabilities included in other payables and accruals	549,795
Due to related parties	3,965
Interest-bearing bank borrowings	450,000
	1,440,139

43. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Group (continued)

2006

Financial assets

	Held-to-maturity investments RMB'000	Loans and receivables RMB'000	Available-for-sale investments RMB'000	Total RMB'000
Available-for-sale investments	—	—	1,459,474	1,459,474
Held-to-maturity investments	20,000	—	—	20,000
Financial assets including prepayments, deposits and other receivables	—	5,000	—	5,000
Due from related parties	—	50,746	—	50,746
Cash in transit	—	15,159	—	15,159
Cash and cash equivalents	—	317,861	—	317,861
	20,000	388,766	1,459,474	1,868,240

Financial liabilities

	Financial liabilities at amortized cost RMB'000
Trade payables	269,708
Financial liabilities included in other payables and accruals	74,933
Due to related parties	8,871
Interest-bearing bank borrowings	649,000
	1,002,512

43. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

2007

Financial assets

	Loans and receivables RMB'000	Available-for-sale investments RMB'000	Total RMB'000
Available-for-sale investments	–	107,308	107,308
Financial assets including prepayments, deposits and other receivables	1,218	–	1,218
Due from subsidiaries	2,188,743	–	2,188,743
Dividend receivable	100,000	–	100,000
Cash and cash equivalents	88,828	–	88,828
	2,378,789	107,308	2,486,097

Financial liabilities

	Financial liabilities at amortized cost RMB'000
Due to subsidiaries	37,352
Financial liabilities included in other payables and accruals	863
	38,215

44. FINANCIAL MANAGEMENT OBJECTIVE AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans and cash. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The policies for managing each of these risks are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

As the Group has no significant interest-bearing assets other than cash at banks (note 30) and loans and receivables (note 27).

The Group's interest rate risk arises from its borrowings, details of which are set out in note 31. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

Foreign currency risk

During the year ended 31 December 2007, the Group has cash at banks denominated in foreign currencies, and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US$ and HK$. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities.

Details of the Group's cash and cash equivalents denominated in foreign currencies as at 31 December 2007 and 2006 are disclosed in note 30.

The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure.

44. FINANCIAL MANAGEMENT OBJECTIVE AND POLICIES (continued)

Credit risk

The Group has no significant concentrations of credit risk of trade receivables. Sales to retail customers are made in cash or via major credit cards trade. The Group has policies that limit the amount of credit exposure to any financial institution.

The Group has significant concentrations of credit risk of other receivables, which are mostly amounts due from related parties. Management of the Group is of the view that there is low recoverability issue for the amounts due from related parties, because the Group believes that the related parties have the repayment capability and the Group has agreed with the related parties about future plans of repayment.

Liquidity risk

Prudent liquidity risk management implies sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group's treasury function aims to maintain flexibility in funding by keeping committed credit lines available.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

Group

	2007					
	On demand	Less than 6 months	6 to less than 12 months	1 to 2 years	Over 2 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank borrowings	—	400,000	50,000	—	—	450,000
Trade payables	—	436,379	—	—	—	436,379
Other payables and accruals	—	97,730	452,065	—	—	549,795
Due to related parties	3,965	—	—	—	—	3,965
	3,965	934,109	502,065	—	—	1,440,139

44. FINANCIAL MANAGEMENT OBJECTIVE AND POLICIES (continued)

Group (continued)

	2006					
	On demand	Less than 6 months	6 to less than 12 months	1 to 2 years	Over 2 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank borrowings	—	314,000	335,000	—	—	649,000
Trade payables	—	269,708	—	—	—	269,708
Other payables and accruals	—	74,933	—	—	—	74,933
Due to related parties	8,871	—	—	—	—	8,871
	8,871	658,641	335,000	—	—	1,002,512

Company

	2007					
	On demand	**Less than 6 months**	**6 to less than 12 months**	**1 to 2 years**	**Over 2 years**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Other payables and accruals	**—**	**863**	**—**	**—**	**—**	**863**
Due to subsidiaries	**—**	**—**	**—**	**—**	**37,352**	**37,352**
	—	**863**	**—**	**—**	**37,352**	**38,215**

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as available-for-sale investments (note 23) as at 31 December 2007. The Group's listed investments are listed on the Hong Kong, Shenzhen and Shanghai stock exchanges and are valued at quoted market prices at the balance sheet date.

44. FINANCIAL MANAGEMENT OBJECTIVE AND POLICIES (continued)

Equity price risk (continued)

The market equity indices for the following stock exchanges, at the close of business of the nearest trading day in the year to the balance sheet date, and their respective highest and lowest points during the year are as follows:

	31 December 2007	High/low 2007	31 December 2006	High/low 2006
Hong Kong – Hang Seng Index	**27,812**	**31,638/18,664**	19,964	20,001/14,944
Shenzhen – A Share Index	**1,520**	**1,629/572**	569	569/294
Shanghai – A Share Index	**5,521**	**6,395/2,744**	2,815	2,815/1,241

The following table demonstrates the sensitivity to every 5% change in the fair values of equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the balance sheet date. For the purpose of this analysis and for the available-for-sale equity investments, the impact is deemed to be on the available-for-sale investment revaluation reserve. No account is given for factors such as impairment which might impact on the income statement.

	Carrying amount of equity investments	Increase/ decrease in equity
2007		
Available-for-sale investments listed in:		
Hong Kong	**5,365**	**5,365**
Shenzhen	**11,625**	**8,718**
Shanghai	**61,215**	**45,911**
2006		
Available-for-sale investments listed in:		
Shenzhen	34,323	22,996
Shanghai	38,651	25,896

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

44. FINANCIAL MANAGEMENT OBJECTIVE AND POLICIES (continued)

Capital management (continued)

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 2006.

The Group monitors capital using a gearing ratio, which is net debt divided by the total adjusted capital plus net debt. The net debt includes interest-bearing bank borrowings, an amount due to the related party, trade and other payables, accruals, less cash and cash equivalents. Capital includes equity attributable to equity holders of the parent less the net unrealized gains reserve. The gearing ratios as at the balance sheet dates were as follows:

Group

	2007	2006
	RMB'000	RMB'000
Interest-bearing bank borrowings	**450,000**	649,000
Trade payables	**436,379**	269,708
Other payables and accruals (note 33)	**850,276**	200,167
Due to related parties (note 42(e))	**3,965**	8,871
Less: Cash and cash equivalents	**(777,151)**	(317,861)
Net debt	**963,469**	809,885
Equity attributable to equity holders of the parent	**3,873,557**	908,408
Net unrealized gains reserve	**(680,624)**	(354,330)
Total adjusted capital	**3,192,933**	554,078
Capital and net debt	**4,156,402**	1,363,963
Gearing ratio	**23%**	59%

45. POST BALANCE SHEET EVENTS

(i) Acquisition of equity interest in and shareholders' loan of Shenyang North Intime Property Co., Ltd. ("Shenyang Intime")

Pursuant to a sale and purchase agreement signed on 11 January 2008, the Group agreed to acquire the paid-in capital of Shenyang Intime from China Yintai and Beijing Yintai Yonghe Property Development Co., Ltd. ("Yintai Yonghe"), which hold 20% and 80% equity interest of Shengyang Intime respectively. The purchase consideration of RMB146,000,000 for the acquisition of equity interest was in the form of cash. In addition, the Group will take over a shareholders' loan of RMB117,000,000. Upon completion, Shenyang Intime will become a wholly-owned subsidiary of the Group.

(ii) On 12 January 2008, the Group has entered into an agreement with Shanghai South Railway Station Square Management Co., Ltd. ("Shanghai SRSS Management") to make additional capital injection of RMB5,200,000 into Shanghai SRSS Management in exchange for 51% equity interest in Shanghai SRSS Management and capital injection of RMB120,000,000 as share premium.

(iii) Management agreement with Baida

Zhejiang Intime entered into a management agreement (the "Management Agreement") with Baida on 30 January 2008. Pursuant to the Management Agreement, Zhejiang Intime is entrusted to conduct the operation of certain subsidiaries of Baida relating to its department stores (the "Operating Subsidiaries") for a period of 20 years starting from 1 March 2008 to 28 February 2028 (the "Management Periods"). The Management Agreement has been approved at the shareholders' meeting of Baida on 28 February 2008.

According to the Management Agreement, Zhejiang Intime is entitled to an annual management fee from the net profit of the Operating Subsidiaries, after the annual distribution of profit to Baida of a fixed amount of RMB81,500,000 (the "Entrusted Operating Profit Base 1") for the first four years and RMB89,650,000 (the "Entrusted Operating Profit Base 2") for the rest of the years during the Management Periods.

45. POST BALANCE SHEET EVENTS (continued)

(iii) Management agreement with Baida (continued)

The management fee comprises two parts as follows:

(1) Basic management fee

Basic management fee will be calculated as the lower of the net profit of the Operating Subsidiaries after the distribution to Baida and 2% of gross revenue and other income each year.

(2) Discretionary management fee

Zhejiang Intime is entitled to an annual discretionary management fee, which will be calculated at a progressive rate on the net profit of the Operating Subsidiaries after the distribution to Baida, in excess of basic management fee (the "Excessive Operating Profit") as follows:

(a) From the first to the fourth years during the Management Periods:

	Applicable rate
Nil to~50% of the Entrusted Operating Profit Base 1	50%
50%~100% of the Entrusted Operating Profit Base 1	70%
Over 100% of the Entrusted Operating Profit Base 1	100%

(b) From the fifth to the twentieth years inclusive during the Management Periods:

	Applicable rate
Nil to~50% of the Entrusted Operating Profit Base 2	50%
Over 50% of the Entrusted Operating Profit Base 2	70%

According to the Management Agreement, the total profit of the Operating Subsidiaries, after distribution to Baida and net of all management fee charges, will be remitted to Baida as well.

45. POST BALANCE SHEET EVENTS (continued)

(iii) Management agreement with Baida (continued)

(2) Discretionary management fee (continued)

(b) From the fifth year to the twentieth year during the Management Periods: (continued)

In addition, Zhejiang Intime has guaranteed the annual minimum return to Baida under the Management Agreement as follows:

	Annual minimum return to Baida RMB'000
First year of the Management Periods	81,500
Second year of the Management Periods	91,280
Third year of the Management Periods	102,234
Fourth year of the Management Periods	114,502
Fifth to twentieth year of the Management Periods	89,650

Pursuant to the Management Agreement, if the total return to Baida, including the fixed distribution and the shares of the Excessive Operating Profit, fails to meet the above criteria, Zhejiang Intime will be liable to make up for the deficit by means of cash.

(iv) Acquisition of equity interest in Wuhan Huilian Investment Co., Ltd

On 22 February 2008, Hankou Hotel entered into an agreement with two third parties to acquire 100% equity interest in Wuhan Huilian Investment Co., Ltd ("Wuhan Huilian") for, a consideration of RMB59,000,000. Pursuant to the agreement, Hankou Hotel will also take over a payable to a third party of RMB60,000,000.

45. POST BALANCE SHEET EVENTS (continued)

(v) In February 2008, Hangzhou North Hill has entered into an agreement with a third party to make additional capital injection of RMB18,000,000 into Xi'an Zhong Shang Qi Lian Zhonghuan Plaza Co., Ltd. (西安中商企聯中環廣場實業有限公司, "Xi'an Zhonghuan") in exchange for a 60% equity interest in Xi'an Zhonghuan.

(vi) **Acquisition of equity interest in and shareholders' loan of Henan Longyu Property Development Co., Ltd. (河南龍宇房地產開發有限公司, "Henan Longyu")**

In March 2008, Shanghai Intime has entered into an framework agreement to acquire a 70% equity interest in Henan Longyu, owner of a land use right located in Zhengzhou, Henan Province, from Xuchang Hengda Real Estate Group Co., Ltd.(許昌恒達房地產集團有限公司, "Xuchang Hengda"). The total consideration is RMB154,000,000.

Shanghai Intime is entitled to acquire a further 10% equity interest in Henan Longyu from Xuchang Hengda at a consideration between RMB22,880,000 and RMB23,920,000, depending on the progress of the construction project above the land.

46. COMPARATIVE AMOUNTS

Certain comparative amounts have been adjusted to conform with the current year's presentation.

47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on 10 April 2008.