Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

1. GENERAL 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 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 Peoples 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 (Note 40(iv)).

These consolidated financial statements are presented in thousands of Renminbi (RMB'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 25 April 2007.

2. GROUP REORGANIZATION AND APPLICATION OF MERGER ACCOUNTING

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 USD0.00001 each to their common shareholder, Intime International Holdings Limited ("Intime International"), and became the holding company of the Operating Group (Note 20(c)). Details of the Reorganization are set out in the prospectus of the Company dated 7 March 2007.

The Reorganization involved companies under common control. Accordingly, these consolidated financial statements 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 the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Accounting adjustments under common control combination is set out in Note 22.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets at fair value.

The preparation of financial statements in conformity with the HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(a) *New standards and amendments to published standards and interpretations effective in 2006*

- Amendment to HKAS 39 and HKFRS 4, Amendment "Financial Guarantee Contracts" (effective for annual periods beginning on or after 1 January 2006). This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred, and (ii) the expenditure required to settle the commitment at the balance sheet date. The adoption of this amendment does not have a significant impact on these consolidated financial statements.

- HKAS 21 Amendment "Net Investment in a Foreign Operation" (effective for annual periods beginning on or after 1 January 2006). This amendment permits inter-company loans denominated in any currency to be part of a net investment in a foreign operation, and therefore any relating exchange difference to be treated as equity in the consolidated financial statements. Previously such loans had to be denominated in the functional currency of one of the parties to the transaction. The adoption of this amendment does not have a significant impact on the Group's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of preparation (Continued)

(a) *New standards and amendments to published standards and interpretations effective in 2006 (Continued)*

- HK(IFRIC)-Int 4 "Determining Whether an Arrangement Contains a Lease" (effective for annual periods beginning on or after 1 January 2006). It requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (i) fulfillment of the arrangement is dependent on the use of a specific asset or assets ("the asset"); and (ii) the arrangement conveys a right to use the asset. The adoption of this interpretation does not have a significant impact on the Group's financial statements.

(b) *New standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group*

The following are the new standards and interpretations to existing standards that have been published and are mandatory for accounting periods beginning on or after 1 May 2006 or later periods that the Group has not early adopted.

- HKFRS 7 "Financial instruments: Disclosures" (effective for annual periods beginning on or after 1 January 2007), and HKAS 1 "Amendments to capital disclosures" (effective for annual periods beginning on or after 1 January 2007). HKFRS 7 introduces new disclosures relating to financial instruments. The Group has assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will adopt HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 January 2007.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of preparation (Continued)

(b) *New standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Continued)*

- HKFRS 8 "Operating Segment" (effective for accounting periods beginning on or after 1 January 2009) HKFRS 8 supersedes HKAS 14, "Segment Reporting", which requires segments to be identified and reported based on risk and return analysis for external reporting purposes. HKFRS 8 requires segments to be reported based on the Group's internal reporting pattern as they represent components of the Group regularly reviewed by management. Management considers the adoption of HKFRS 8 has no significant impact to the segment disclosure of the Group. The Group will apply HKFRS 8 from 1 January 2009.

- HK(IFRIC)-Int 8 "Scope of HKFRS 2" (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments — where the identifiable consideration received is less than the fair value of the equity instruments issued — to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements.

- HK(IFRIC)-Int 10 "Interim Financial Reporting and Impairment" (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 January 2007, but it is not expected to have any significant impact on the Group's financial statements.

- HK(IFRIC)-Int 12 "Service Concession Arrangement", (effective for annual accounting periods beginning on or after 1 January 2008). This interpretation sets out general principles on recognising and measuring the obligation and related rights in service concession arrangements. The Group will apply HK(IFRIC)-Int 12 from 1 January 2008, but it is not expected to have any significant impact on the Group's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of preparation (Continued)

(c) *Interpretations to existing standards that are not yet effective and not relevant for the Group's operations*

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 March 2006 or later periods but are not relevant for the Group's operations.

- HK(IFRIC)-Int 7 "Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies" (effective from 1 March 2006). HK(IFRIC)-Int 7 provides guidance on how to apply the requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, HK(IFRIC)-Int 7 is not relevant to the Group's operations.

- HK(IFRIC)-Int 9 "Reassessment of Embedded Derivatives" (effective for annual periods beginning on or after 1 June 2006). Management does not expect the interpretation to be relevant for the Group.

- HK(IFRIC)-Int 11 "HKFRS 2 — Group and Treasury Share Transfer" (effective for annual periods beginning on or after 1 March 2007). This interpretation addresses how certain share-based payment arrangements between group companies should be accounted for in the financial statements. Management does not expect the interpretation to be relevant for the Group.

(d) *Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations*

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations.

- HKAS 19 Amendment — Employee Benefits;

- HKAS 39 Amendment — Cash Flow Hedge Accounting of Forecast Intragroup Transactions;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of preparation (Continued)

(d) *Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations (Continued)*

- HKFRS 1 Amendment — First-time Adoption of International Financial Reporting Standards;
- HK(IFRIC)-Int 5 — Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- HK(IFRIC)-Int 6 — Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment.

At 31 December 2006, the Group's net current liabilities amounted to RMB588,188,000. On 20 March 2007, the Company completed the global offering and listing of its shares on the Main Board of the Stock Exchange. 450,000,000 new shares were issued at HK$5.39 each with gross proceeds of HK$2,425,500,000 (Note 40(iv)). After the listing, the Group is in a net current asset position.

3.2 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 the control of the controlling party.

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 in consideration 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, where there is a shorter period, regardless of the date of the common control combination.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Merger accounting for common control combination (Continued)

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

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 information to shareholders, 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 is recognized as an expense in the period in which it is incurred.

3.3 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(i) *Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group, except for those acquisitions which qualify as common control combinations and are therefore accounted for using merger accounting.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Consolidation (Continued)

(i) *Subsidiaries (Continued)*

Under the purchase method of accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The cost of an acquisition is measured as 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(ii) *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.

After control of a subsidiary is 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 Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

In accordance with the Group's internal financial reporting, the Group has determined that business segment be presented as the primary reporting format and geography as the second reporting format.

3.5 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi (the "RMB"), which is the Company's functional and presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Translation differences on non-monetary financial assets, such as equities held at fair value through profit or loss, are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in the available-for-sale reserve in equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Foreign currency translation (Continued)

(c) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy during the year) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

3.6 Property, plant and equipment

Construction-in-progress represents properties under construction and is stated at cost less accumulated impairment losses. This includes cost of construction, borrowing cost and other direct costs. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Property, plant and equipment (Continued)

Property, plant and equipment other than construction-in-progress are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, 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 are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	20 years
Decorations	3–5 years
Machinery	5–10 years
Vehicles	5–12 years
Furniture, fittings & equipment	3–5 years
Leasehold improvements	3–5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.10).

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement.

3.7 Investment property

Investment property is the Group's property held for long-term rental yields or for capital appreciation or for both, rather than for use in the production or supply of goods or services or for administrative purposes, or for sale in the ordinary course of business.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Investment property (Continued)

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 the 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 investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as 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 cost of investment property for accounting purposes.

3.8 Land use rights

All land in the PRC is state-owned and no individual land ownership right exists. The Group acquired the right to use certain land and the premiums paid for such right are treated as prepayment for operating lease and are expensed over the useful lives using the straight-line method.

3.9 Intangible assets

Intangible assets refer to the Group's acquired computer software which is capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of 5 years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

3.11 Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date. During the year, the Group did not hold any investments in this category.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 Financial assets (Continued)

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in other receivables in the balance sheet.

(c) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

(d) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the financial assets within 12 months from the balance sheet date.

Regular purchases and sales of financial assets are recognized on the trade-date — the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 Financial assets (Continued)

(d) *Available-for-sale financial assets (Continued)*

Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category, including interest and dividend income, are included in the income statement in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognized in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as gains or losses from investment securities. Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement. Dividends on available-for-sale equity instruments are recognized in the income statement when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets in impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement — is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. Impairment testing of other receivables is described in Note 3.13.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 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 goods purchase cost and other direct costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3.13 Other receivables

Other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of other receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the other receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

3.14 Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less.

3.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

3.16 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

3.18 Employee benefits

(a) *Pension obligations*

The Group companies in PRC participate in defined contribution retirement benefit plans organized by relevant government authorities for its employees in the PRC 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18 Employee benefits (Continued)

(b) *Housing benefits*

Employees of the Group companies in the PRC 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.

3.19 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessment of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

3.20 Coupon liabilities

Coupon liabilities are recognized 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. The revenue of the Group would be deducted when the coupon liabilities are recognized.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.21 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 are 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.

(d) *Other service income*

Other service income including administration fee and credit card handling fee are recognized in the accounting period in which the services are rendered, by reference to 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.21 Revenue recognition (Continued)

(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 is established.

3.22 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

3.23 Dividend distribution

Dividend distribution to the equity holders of the Company is recognized as a liability in the period in which the dividends are approved by the equity holders of the Company.

3.24 Contingencies

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.24 Contingencies (Continued)

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

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

4. FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and price risk), credit risk, liquidity risk and cash flow and fair value interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

(a) *Foreign exchange risk*

During the year ended 31 December 2006, the Group has advances from related party and cash at bank denominated in foreign currencies and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollar ("USD"). Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities.

RMB is not freely convertible into USD and conversion of RMB into USD is subject to rules and regulations of foreign exchange control promulgated by the PRC government. Details of the Group's cash and cash equivalents and advances from related party denominated in foreign currencies as at 31 December 2006 and 2005 are disclosed in Notes 19 and 38(c)(iii).

The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure. RMB against USD was relatively stable during the year and as a result, the Group considers it has no material foreign exchange risk.

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(b) *Price risk*

The Group is exposed to equity securities price risk because of investments held by the Group are classified on the consolidated balance sheet as available-for-sale financial assets. The Group is also exposed to commodity price risk.

(c) *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 were mostly due from related parties. The management of the Group is of the view that there is low recoverability issue of the amounts due from related parties, because the Group believes that the related parties have the repayment capabilities and the Group has agreed with the related parties about future plans of repayment.

(d) *Liquidity risk*

Prudent liquidity risk management implies maintaining 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.

(e) *Cash flow and fair value interest rate risk*

As the Group has no significant interest-bearing assets other than cash at bank (Note 19), advance to a third party of RMB5,000,000 (Note 15(c)), the Group's income and operating cash flows are substantially independent of changes in market interest rates.

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(e) *Cash flow and fair value interest rate risk (Continued)*

The Group's interest rate risk arises from its borrowings, details of which are set out in Note 23. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued 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.

4.2 Fair value estimation

The carrying amounts of the Group's financial assets which mainly include cash and cash equivalents, deposits and other receivables; and financial liabilities, which mainly include borrowings and trade and other payables, approximate their fair values due to their short maturities.

The fair value of financial instruments traded in active markets (such as available-for-sale financial assets) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

5.1 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 3.11 above.

Certain equity investments in which the Group holds more than 20% but less than 50% of their voting power, but 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 equivalent governing body of these companies;

(b) the Group can participate in 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 in 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 on the investee companies.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

5.2 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.

5.3 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.

5.4 Impairment of other receivables and amounts due from related parties

The Group's management estimates the provision of impairment of other receivables and amounts due from related parties by assessing their recoverability based on credit history and 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 estimate, such difference will affect the carrying value of other receivables and amounts due from related parties and thus impairment charge in the period in which such estimate is changed.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

5.5 Distinction between investment properties and owner-occupied properties

The Group determines whether a property qualifies as investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the department store operations.

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 supply of goods or services or for administrative purposes. If these portions can be sold separately or leased out separately under finance leases, the Group accounts for the portions as investment property separately. Otherwise, the property is accounted for as 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 applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgement and assesses the classification at each balance sheet date.

5.6 Income taxes

The Group is primarily subject to income taxes in the PRC. 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.

6. PROPERTY, PLANT AND EQUIPMENT — THE GROUP

	Buildings RMB'000	Decorations RMB'000	Machinery RMB'000	Vehicles RMB'000	Furniture, fittings & equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2005								
Cost	183,138	2,507	48,724	2,260	3,737	—	—	240,366
Accumulated depreciation	(52,858)	(1,161)	(31,356)	(1,295)	(2,555)	—	—	(89,225)
Net book amount	130,280	1,346	17,368	965	1,182	—	—	151,141
Year ended 31 December 2005								
Opening net book amount	130,280	1,346	17,368	965	1,182	—	—	151,141
Additions	—	—	3,083	573	1,670	16,775	—	22,101
Depreciation	(8,679)	(340)	(3,995)	(298)	(306)	(2,516)	—	(16,134)
Disposals	—	—	(745)	—	(188)	—	—	(933)
Closing net book amount	121,601	1,006	15,711	1,240	2,358	14,259	—	156,175
At 31 December 2005								
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 book amount	121,601	1,006	15,711	1,240	2,358	14,259	—	156,175
Year ended 31 December 2006								
Opening net book amount	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	(9,146)	(231)	(3,439)	(547)	(1,079)	(3,424)	—	(17,866)
Transfer to investment properties (Note 7)	(510)	—	—	—	—	—	—	(510)
Disposals	—	—	—	(46)	—	—	—	(46)
Closing net book amount	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 book amount	111,945	2,068	12,499	2,227	2,626	11,651	4,003	147,019

6. PROPERTY, PLANT AND EQUIPMENT — THE GROUP (Continued)

Buildings of the Group are located in Hangzhou, Zhejiang Province, the PRC. The ownership certificate of the buildings used as department store was obtained by the Group in August 2006, while the application for the ownership certificate of the building used as office premise, with carrying amount of RMB4,429,000 as at 31 December 2006, is in progress. The Group's management anticipates that the ownership certificate will be obtained in the near future.

The Group pledged certain of its buildings in September 2006 to secure the Group's banking facilities (Note 23(c)). The carrying amounts of these buildings as at 31 December 2006 are approximately RMB107,516,000.

7. INVESTMENT PROPERTIES — THE GROUP

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
At beginning of year		
Cost	**9,881**	9,881
Accumulated depreciation	**(3,407)**	(2,917)
Net book amount	**6,474**	6,964
Opening net book amount	**6,474**	6,964
Transfer from property, plant and equipment (Note 6)	**510**	—
Depreciation for the year	**(494)**	(490)
Closing net book amount	**6,490**	6,474
At end of year		
Cost	**10,391**	9,881
Accumulated depreciation	**(3,901)**	(3,407)
Net book amount	**6,490**	6,474
Fair value	**57,130**	49,419
Rental income from investment properties (Note 26)	**3,353**	2,966
Direct operating expenses arising from investment properties that generate rental income	**(662)**	(638)

7. INVESTMENT PROPERTIES — THE GROUP (Continued)

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 leasing periods of between 10 to 50 years.

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

There were no direct operating expenses arising from investment properties that did not generate rental income.

The Group pledged all of its investment properties in September 2006 to secure the Group's banking facilities (Note 23(c)). The carrying amounts of these investment properties as at 31 December 2006 are approximately RMB6,490,000.

8. LAND USE RIGHTS — THE GROUP

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
At beginning of year		
Cost	**81,565**	81,565
Accumulated amortization	**(15,384)**	(13,237)
Net book amount	**66,181**	68,328
Opening net book amount	**66,181**	68,328
Amortization for the year	**(2,147)**	(2,147)
Closing net book amount	**64,034**	66,181
At end of year		
Cost	**81,565**	81,565
Accumulated amortization	**(17,531)**	(15,384)
Net book amount	**64,034**	66,181

8. LAND USE RIGHTS — THE GROUP (Continued)

The Group's land use rights are located in Hangzhou, Zhejiang Province, the PRC with a lease period of between 10 to 50 years.

The Group pledged all of its land use rights in September 2006 to secure the Group's banking facilities (Note 23(c)). The carrying amounts of these land use rights as at 31 December 2006 are approximately RMB64,034,000.

9. INVESTMENTS IN SUBSIDIARIES — THE COMPANY

	As at 31 December 2006 RMB'000
Unlisted shares, at cost	**908,408**

The following is a list of the principal subsidiaries as at 31 December 2006:

Company name	Country and date of incorporation/ establishment and kind of legal entity	Issued/ registered and paid up capital	Attributable equity interests held by the equity holders of the Company 2006	2005	Principal activities and place of operation
North Hill (formerly known as Rintaro Investment Limited)	British Virgin Islands ("BVI"), 8 March 2005, limited liability company	USD1	**100% (Direct)**	—	Investment holding, BVI
River Three (formerly known as Beautiful Heights Investments Limited)	BVI, 8 March 2005, limited liability company	USD1	**100% (Direct)**	—	Investment holding and trade mark management, BVI
Zhejiang Intime Department Store Co., Ltd. ("Zhejiang Intime")	PRC, 7 August 1997, limited liability company	RMB200,000,000	**100% (Indirect)**	62.0% (Indirect)	Operation and management of department stores and investment holding, PRC

9. INVESTMENTS IN SUBSIDIARIES — THE COMPANY (Continued)

Company name	Country and date of incorporation/ establishment and kind of legal entity	Issued/ registered and paid up capital	Attributable equity interests held by the equity holders of the Company 2006	2005	Principal activities and place of operation
Intime Department Store Co., Ltd. ("Shanghai Intime")	PRC, 7 January 2005, limited liability company	RMB100,000,000	**100% (Indirect)**	62.0% (Indirect)	Operation and management of department stores and investment holding, PRC
Ningbo High-Tech Zone Guo Ruan Technology Company Limited ("Ningbo Guoruan")	PRC,14 December 2004, limited liability company	RMB1,000,000	**100% (Indirect)**	55.8% (Indirect)	Software development, PRC
Hangzhou Intime Outlets Commercial Development Co., Ltd. ("Hangzhou Outlets")	PRC, 26 July 2000, limited liability company	RMB20,000,000	**100% (Indirect)**	60.7% (Indirect)	Investment holding, PRC
Wuhan Yintai Business Development Co., Ltd. ("Wuhan Intime")	PRC, 29 April 2005, limited liability company	RMB150,000,000	**100% (Indirect)**	52.2% (Indirect)	Investment holding, PRC

10. INTANGIBLE ASSETS — THE GROUP

	Computer software RMB'000
Year ended 31 December 2005	
Opening net book amount	—
Additions	338
Amortization	(50)
Closing net book amount	288
At 31 December 2005	
Cost	338
Accumulated amortization	(50)
Net book amount	288
Year ended 31 December 2006	
Opening net book amount	288
Additions	69
Amortization	(71)
Closing net book amount	286
At 31 December 2006	
Cost	407
Accumulated amortization	(121)
Net book amount	286

11. PREPAID RENTAL — THE GROUP

	RMB'000
Year ended 31 December 2005	
Opening net book amount	—
Additions	4,750
Closing net book amount	4,750
At 31 December 2005	
Cost	4,750
Accumulated amortization	—
Net book amount	4,750
Less: current portion (Note 15)	(792)
Non-current portion of prepaid rental	3,958
Year ended 31 December 2006	
Opening net book amount	4,750
Amortization	(475)
Closing net book amount	4,275
At 31 December 2006	
Cost	4,750
Accumulated amortization	(475)
Net book amount	4,275
Less: current portion (Note 15)	(950)
Non-current portion of prepaid rental	3,325

12. AVAILABLE-FOR-SALE FINANCIAL ASSETS — THE GROUP

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
At beginning of year	**276,819**	—
Additions	**646,730**	255,960
Disposals	**(4,238)**	—
Gain on receipt of shares in a listed company (note (a))	**24,514**	—
Revaluation surplus transferred to equity	**515,649**	20,859
At end of year	**1,459,474**	276,819

Available-for-sale financial assets include equity interests in the following companies of which A-shares are listed on the stock exchanges in the PRC, which are established in the PRC and are principally engaged in the operation and management of department stores in the PRC:

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
A-share tradable shares:		
— Baida Group Co., Ltd. (杭州百大集團股份有限公司, "Baida") (note (b))	**667,132**	155,407
— Wuhan Department Store Group Co., Ltd. (武漢武商集團股份有限公司, "Wushang") (note (c))	**481,705**	83,349
— Citic Development-Shenyang Commercial Building (Group) Co., Ltd. (中興 — 瀋陽商業大廈(集團)股份有限公司) (note (d))	**40,272**	—
— Wuhan Zhongbai Group Co., Ltd. (武漢中百集團股份有限公司)	**—**	195
A-share restricted tradable shares:		
— Wushang (note (c))	**164,475**	—
A-share non-tradable shares:		
— Baida (note (b))	**105,890**	37,868
	1,459,474	276,819

12. AVAILABLE-FOR-SALE FINANCIAL ASSETS — THE GROUP (Continued)

Notes:

(a) This represents the market value of shares of Wushang received from its holders of non-tradable shares as consideration for the conversion of their non-tradable shares into tradable shares on 3 April 2006.

(b) As at 31 December 2006, the Group held 29.88% equity interests 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 has not exercised any significant influence in Baida.

(c) As at 31 December 2006, the Group held 22.62% equity interests in Wushang. However, the Group's directors do not regard Wushang as an associate of the Group on the grounds that the Group has no representatives in the board of directors of Wushang and has no participation in decision making of its financial and operating policies. Accordingly, the Group has not exercised any significant influence in Wushang.

(d) As at 31 December 2006, the Group held 1.87% equity interests in Citic Development-Shenyang Commercial Building (Group) Co., Ltd.

13. DEFERRED INCOME TAX — THE GROUP

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Deferred tax assets to be recovered within 12 months	**1,106**	598
Deferred tax liabilities to be recovered after more than 12 months	**(185,138)**	(6,883)
	(184,032)	(6,285)

13. DEFERRED INCOME TAX — THE GROUP (Continued)

The movement on the deferred income tax account is as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
At beginning of year	**(6,285)**	102
Recognized in the income statement (Note 32)	**(7,582)**	496
Tax charged to equity	**(170,165)**	(6,883)
At end of year	**(184,032)**	(6,285)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets	**Accruals**	**Accumulated Losses**	**Total**
	RMB'000	RMB'000	RMB'000
At 1 January 2005	102	—	102
Recognized in the income statement	313	183	496
At 31 December 2005	415	183	598
Recognized in the income statement	691	(183)	508
At 31 December 2006	1,106	—	1,106

Deferred tax liabilities	**Available-for-sale financial assets**
	RMB'000
At 1 January 2005	—
Charged to equity	(6,883)
At 31 December 2005	(6,883)
Recognized in the income statement	(8,090)
Charged to equity	(170,165)
At 31 December 2006	(185,138)

13. DEFERRED INCOME TAX — THE GROUP (Continued)

As at 31 December 2006, the Group had no significant unrecognized deferred tax assets and liabilities.

The deferred income tax charged to equity during the year is as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Change in fair value of available-for-sale financial assets	**(170,165)**	(6,883)

14. INVENTORIES — THE GROUP

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Store merchandises — at cost	**25,763**	22,268

15. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES — THE GROUP

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Deposits and prepayments for purchase of properties (a)	**39,754**	4,364
Deposits for purchase of available-for-sale financial assets (b)	**1,569**	42,398
Rental deposits	**45,332**	2,000
Prepaid rental (Note 11)	**950**	792
Advances to suppliers	**38,097**	—
Advances to third parties (c)	**5,000**	35,000
Others	**4,134**	7,319
	134,836	91,873

15. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES — THE GROUP (Continued)

(a) Deposits and prepayments for purchase of properties include the deposits amounting to RMB9,952,000 to two property developers with respect to the purchases of three property units in Hangzhou which will be used as office premises, and a prepayment amounting to RMB29,802,000 to a property developer with respect to the purchase of a property and its decorations and improvements in Wuhan.

(b) Deposits for purchase of available-for-sale financial assets represent the amount paid to third parties with respect to purchases of shares of two PRC listed companies, Baida and Wushang.

(c) The Group received interest at an annual interest rate of 5.85% for certain advance to a third party amounted to RMB5,000,000 and RMB35,000,000 as at 31 December 2006 and 2005 respectively.

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

16. HELD-TO-MATURITY INVESTMENTS — THE GROUP

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Private securities investment fund	**20,000**	—

This represented an investment in a private securities investment fund on 6 December 2006, which has the maturity date of 5 December 2007.

17. CASH IN TRANSIT — THE GROUP

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Cash in transit	**15,159**	24,006

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.

18. RESTRICTED CASH — THE GROUP

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Restricted cash	**—**	62,416

Restricted cash represents deposits for repayment of other borrowing (Note 23(a)) and for guarantee given to related parties (Note 38(b)(iv)) as at 31 December 2005. Other borrowing was repaid and the guarantee given to related parties was released during the year.

19. CASH AND CASH EQUIVALENTS — THE GROUP

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Cash in hand	**1,763**	1,537
Cash at bank	**316,098**	196,768
	317,861	198,305

(a) The weighted average effective interest rate per annum on cash at bank on demand was approximately 0.72% for 2006 (2005: 0.72%).

(b) At 31 December 2006 and 2005, the cash and cash equivalents were denominated in the following currencies:

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
RMB	**269,801**	181,151
USD	**48,060**	17,154
	317,861	198,305

20. SHARE CAPITAL

	Authorized		
	Number of shares	USD	RMB
Upon incorporation of the Company on 8 November 2006 (a)	50,000	50,000	393,500
Share subdivision on 30 December 2006 (a)	5,000,000,000	50,000	393,500

	Issued and fully paid up		
	Number of shares	USD	RMB
Issued on 8 November 2006 (b)	100,000	1	8
New shares issued on 30 December 2006 (c)	1,349,900,000	13,499	105,427
As at 31 December 2006	1,350,000,000	13,500	105,435

The following changes in the Company's authorized and issued share capital took place during the period from 8 November 2006 (date of incorporation) to 31 December 2006:

(a) The Company was incorporated on 8 November 2006 with an authorized share capital of 50,000 shares with a par value of USD1 per share. On 30 December 2006, each share of the Company was subdivided into 100,000 shares with a par value of USD0.00001 per share. After the share subdivision, the total authorized share capital was 5,000,000,000 shares with a par value of USD0.00001 per share.

(b) On 8 November 2006, 1 share of USD1 (equivalent to 100,000 shares of USD0.00001 each after taking into consideration of the effect of share subdivision as explained in note (a) above) of the Company was allotted and issued to Intime International for cash.

20. SHARE CAPITAL (Continued)

(c) On 30 December 2006, as consideration for the acquisition by the Company of the entire issued share capital of North Hill and River Three, 1,349,900,000 shares of USD0.00001 each were allotted and issued by the Company to Intime International credited as fully paid.

As disclosed in Note 2 above, these consolidated financial statements have been prepared using the principles of merger accounting. Accordingly, the issued share capital of RMB105,435 comprising 1,350,000,000 shares of USD0.00001 each as at 31 December 2006 described above is deemed to have been in issue throughout the accounting periods presented in these financial statements.

21. RESERVES

The Group

	Merger reserve RMB'000 (Note a)	Capital reserve RMB'000 (Note b)	Reserve for fair value changes of available-for-sale financial assets RMB'000	Statutory reserves RMB'000 (Note c)	Retained earnings RMB'000	Currency translation RMB'000	Total RMB'000
At 1 January 2005	61,695	8,452	—	16,282	29,261	—	115,690
Profit for the year	—	—	—	—	85,970	—	85,970
Capital contribution from equity holders of subsidiaries	142,000	223	—	—	—	—	142,223
Change in fair value of available-for-sale financial assets, net of tax	—	—	8,846	—	—	—	8,846
Appropriations	—	—	—	11,590	(11,590)	—	—
Dividends	—	—	—	—	(71,627)	—	(71,627)
Currency translation differences	—	—	—	—	—	(55)	(55)
Acquisition of minority interests	8,000	11,487	—	—	—	—	19,487
At 31 December 2005	211,695	20,162	8,846	27,872	32,014	(55)	300,534
Profit for the year	—	—	—	—	206,406	—	206,406
Capital contribution from equity holders of a subsidiary	29,284	—	—	—	—	—	29,284
Change in fair value of available-for-sale financial assets, net of tax	—	—	345,484	—	—	—	345,484
Appropriations	—	—	—	17,754	(17,754)	—	—
Dividends	—	—	—	—	(145,799)	—	(145,799)
Currency translation differences	—	—	—	—	—	(202)	(202)
Acquisition of minority interests	114,000	62,025	—	—	—	—	176,025
Waiver of a shareholder's loan (Note 38(b)(vii))	—	51,655	—	—	—	—	51,655
Distributions to equity holders of the Company	(55,084)	—	—	—	—	—	(55,084)
At 31 December 2006	299,895	133,842	354,330	45,626	74,867	(257)	908,303

21. RESERVES (Continued)

The Group (Continued)

(a) *Merger reserve*

Merger reserve represents the difference between the nominal value of share capital issued by the Company as described in Note 20(c) and the aggregate nominal value of share capital/paid-up capital of the subsidiaries comprising the Group contributed by the equity holders of the Company.

Movements of merger reserve during the year included capital contributions to and acquisition of capital portion of minority interests in subsidiaries by the equity holders of the Company and distributions to equity holders of the Company, which represented the cash paid for the acquisition of 67% equity interest in Wuhan Intime and 65% equity interest in Hangzhou Outlets to China Yintai Holdings Co., Ltd. ("China Yintai"), a company controlled by Mr. Shen Guojun, the ultimate controlling shareholder of the Company.

(b) *Capital reserve*

Capital reserve represents the excess of capital contributions by the equity holders of the Company to subsidiaries comprising the Group over their nominal value of share capital/paid-up capital recorded in connection with such contributions, the difference between the fair value of the consideration paid by the equity holders of the Company for the acquisition of minority interests and the share by the minority interests of net assets less the capital portion of the concerned subsidiaries at the date of acquisition, and the waiver of a loan granted by an equity holder of the Company.

(c) *Statutory reserves*

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 each entity's share capital, 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. The directors recommended that 10% of statutory net profit of each PRC subsidiary should be appropriated to this reserve for the year ended 31 December 2005.

21. RESERVES (Continued)

The Group (Continued)

(c) *Statutory reserves (Continued)*

Apart from the above, subsidiaries of the Company established in the PRC are 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 their articles of association. The directors recommended that 5% of statutory net profit of each PRC subsidiary should be appropriated to this reserve for the year ended 31 December 2005.

Upon conversion of the Group's PRC subsidiaries into wholly-owned foreign 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 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 capital of group companies or to expand their production operations upon approval by the relevant authority. The directors recommended that 10% of statutory net profit of each entity should be appropriated to this reserve for the year ended 31 December 2006.

Movements in the statutory reserves are as follows:

	Statutory reserve fund	**Statutory welfare fund**	**Enterprise expansion fund**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2005	10,854	5,428	—	16,282
Appropriations	7,727	3,863	—	11,590
At 31 December 2005	18,581	9,291	—	27,872
Appropriations	—	—	17,754	17,754
At 31 December 2006	18,581	9,291	17,754	45,626

21. RESERVES (Continued)

The Company

	Contributed surplus RMB'000
At 1 January 2006	—
Effect of reorganization	908,303
At 31 December 2006	908,303

Contributed surplus of the Company arose when the Company issued 1,349,900,000 shares of USD0.00001 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 underlying subsidiaries acquired.

22. ACCOUNTING ADJUSTMENTS UNDER COMMON CONTROL COMBINATION — THE GROUP

The following is a reconciliation of the effect arising from the common control combination (Note 2) on the consolidated balance sheets. No significant adjustments were made to the net assets and net profit or loss of any entities as a result of the common control combination to achieve consistency of accounting policies.

The consolidated balance sheet as at 31 December 2006:

	The Company RMB'000	The Operating Group RMB'000	Adjustments (Note) RMB'000	Consolidated RMB'000
Investment in the subsidiaries	908,408	—	(908,408)	—
Other assets	—	908,408	—	908,408
Net assets	908,408	908,408	(908,408)	908,408

22. ACCOUNTING ADJUSTMENTS UNDER COMMON CONTROL COMBINATION — THE GROUP (Continued)

	The Company RMB'000	The Operating Group RMB'000	Adjustments (Note) RMB'000	Consolidated RMB'000
Share capital	105	—	—	105
Merger reserve	—	300,000	(105)	299,895
Capital reserve	—	133,842	—	133,842
Contributed surplus	908,303	—	(908,303)	—
Reserve for fair value changes of available-for-sale financial assets	—	354,330	—	354,330
Statutory reserves	—	45,626	—	45,626
Retained earnings	—	74,867	—	74,867
Currency translation	—	(257)	—	(257)
	908,408	908,408	(908,408)	908,408

Note:

The above adjustments represent: (i) the elimination of investment cost of the Company in its subsidiaries against the contributed surplus which is reclassified into the component of reserves of the Operating Group on consolidation; and (ii) the reduction of merger reserve by the nominal value of share capital issued by the Company to acquire the subsidiaries comprising the Group amounting to RMB105,435.

22. ACCOUNTING ADJUSTMENTS UNDER COMMON CONTROL COMBINATION — THE GROUP (Continued)

The consolidated balance sheet as at 31 December 2005:

	The Operating Group	Adjustments (Note)	Consolidated
	RMB'000	RMB'000	RMB'000
Other assets	477,862	—	477,862
Net Assets	477,862	—	477,862
Share capital	—	105	105
Merger reserve	211,800	(105)	211,695
Capital reserve	20,162	—	20,162
Reserve for fair value changes of available-for-sale financial assets	8,846	—	8,846
Statutory reserves	27,872	—	27,872
Retained earnings	32,014	—	32,014
Currency translation	(55)	—	(55)
	300,639	—	300,639
Minority interests	177,223	—	177,223
	477,862	—	477,862

Note:

The above adjustment represents the reduction of merger reserve by the nominal value of share capital issued by the Company to acquire the subsidiaries comprising the Group amounting to RMB105,435 which is deemed to have been in issue throughout the accounting periods presented in the financial statements.

23. BORROWINGS — THE GROUP

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Current		
Short-term bank borrowings	**649,000**	319,000
Long-term other borrowing — current portion (a)	**—**	200,000
	649,000	519,000
Representing:		
— unsecured bank borrowings	**70,000**	50,000
— guaranteed bank borrowings (b)	**429,000**	269,000
— secured bank borrowings (c)	**150,000**	—
— guaranteed long-term other borrowing (a)	**—**	200,000
Total borrowings	**649,000**	519,000

(a) Unsecured long-term other borrowing was guaranteed by China Yintai and Hengyang Xihuanlu Construction and Development Co., Ltd. (衡陽西環路建設開發有限公司). The amount was repaid on 23 January 2006.

(b) As at 31 December 2006 and 2005, the Group's guaranteed bank borrowings were guaranteed by China Yintai.

(c) Secured bank borrowings as at 31 December 2006 were secured by certain of the Group's buildings, investment properties and land use rights, the total carrying amount of which as at that date was RMB178,040,000.

23. BORROWINGS — THE GROUP (Continued)

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

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Short-term bank borrowings	**5.02% to 6.73%**	5.22% to 6.14%
Long-term other borrowing	**—**	8.77%

(e) The carrying amounts of all borrowings as at 31 December 2006 and 2005 approximate their fair values and they are denominated in RMB.

(f) The Group has the following undrawn banking facilities:

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Floating rate:		
Expiring within 1 year	**10,000**	75,000
Expiring within 3 years	**1,475,050**	—
	1,485,050	75,000

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 three years were secured by certain buildings (Note 6), investment properties (Note 7) and land use rights (Note 8) of the Group.

23. BORROWINGS — THE GROUP (Continued)

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

	6 months or less	6–12 months	Total
	RMB'000	RMB'000	RMB'000
At 31 December 2005			
Total borrowings	389,000	130,000	519,000
At 31 December 2006			
Total borrowings	169,000	480,000	649,000

(h) The maturity of borrowings is as follows:

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Within 6 months	**314,000**	369,000
Between 6 to 12 months	**335,000**	150,000
	649,000	519,000

24. TRADE AND BILL PAYABLES — THE GROUP

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Trade payables	**269,708**	207,101
Bill payables	**—**	2,000
	269,708	209,101

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

The carrying amounts of trade and bill payables approximate their fair values.

25. OTHER PAYABLES — THE GROUP

	Group	
	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Payable for purchase of property, plant and equipment and land use rights	**—**	29,282
Advance from customers	**102,959**	45,585
Other liabilities to local government	**13,651**	8,646
Other tax payables	**45,618**	33,692
Bonus and welfare payable	**12,205**	7,834
Deposits received from suppliers/concessionaires	**4,039**	3,585
Accruals	**3,459**	11,625
Others	**18,236**	5,627
	200,167	145,876

The carrying amounts of other payables approximate their fair values.

26. REVENUE AND SEGMENT INFORMATION — THE GROUP

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Sales of goods — direct sales	**196,927**	169,926
Commissions from concessionaire sales	**472,630**	302,918
Rental income	**6,785**	5,120
— Rental income from investment properties (Note 7)	**3,353**	2,966
— Sublease rental income	**2,985**	1,316
— Contingent rental income	**447**	838
	676,342	477,964

The commissions from concessionaire sales are analyzed as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Gross revenue from concessionaire sales	**2,553,600**	1,616,352
Commissions from concessionaire sales	**472,630**	302,918

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

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

27. OTHER INCOME — THE GROUP

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Interest income	**7,160**	18,563
Advertisement and promotion administration income	**14,077**	9,391
Credit card handling income	**1,640**	1,332
Dividend income	**6,455**	—
Others	**1,944**	1,390
	31,276	30,676

28. STAFF COSTS — THE GROUP

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Wages, salaries and bonuses	**44,890**	26,676
Pension costs — defined contribution plans (note)	**4,742**	2,384
Welfare, medical and other benefits	**7,326**	5,629
	56,958	34,689

Notes:

Employees of the Group's PRC subsidiaries are required to participate in defined contribution retirement schemes administered and operated by the local municipal government. The Group's PRC subsidiaries 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 local municipal government. Such retirement schemes are responsible for entire post-retirement benefit obligations payable to the retired employees and the Group has no further obligations for the actual payment of post-retirement benefits beyond the contributions.

29. OTHER OPERATING EXPENSES — THE GROUP

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Utility expenses	**25,353**	16,504
Store rental expenses	**41,722**	16,674
— Operating lease rental	**40,437**	16,139
— Operating sublease rental	**1,285**	535
Credit card charges	**17,066**	13,026
Advertising	**17,184**	9,654
Maintenance and repair expenses	**6,292**	3,349
Auditor's remuneration	**1,600**	1,945
Professional service charges	**23,572**	790
Other tax expenses	**13,637**	5,423
Entertainment expenses	**4,608**	3,007
Brand license fee (Note 38(b)(iii))	**—**	1,500
Others	**21,179**	10,841
	172,213	82,713

30. OTHER GAINS/(LOSSES) — NET — THE GROUP

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Loss on disposal of property, plant and equipment	**(38)**	(933)
Gain on disposal of available-for-sale financial assets	**1,680**	—
	1,642	(933)

31. FINANCE COSTS — THE GROUP

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Interest expenses	**35,147**	30,877
Foreign exchange (gain)/losses	**(1,613)**	213
	33,534	31,090

32. INCOME TAX EXPENSE — THE GROUP

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Current income tax — PRC	**73,532**	66,479
Deferred taxation (Note 13)	**7,582**	(496)
	81,114	65,983

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

32. INCOME TAX EXPENSE — THE GROUP (Continued)

The subsidiaries established in the PRC are subject to enterprise income tax (the "EIT") at the rate of 33% (2005: 33%) during the year except for Shanghai Intime and Ningbo Guoruan.

Head office of Shanghai Intime is registered in Pudong New Area of Shanghai City and the applicable income tax rate for Shanghai Intime head office is 15% (2005: 15%). Shanghai Intime Ningbo branch and Shanghai Intime Ningbo Tianyi branch are located in Ningbo City and are subject to EIT at rate of 33% (2005: 33%) during the year.

Pursuant to 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% (2005: 15%). In addition, such entity is exempted from PRC corporate income tax for three years from its registration date and is also 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.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the companies comprising the Group as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Profit before income tax	**300,623**	202,139
Tax calculated at the tax rate applicable to each group entity	**80,849**	62,244
Income not subject to tax	**(2,130)**	—
Expenses not deductible for tax purpose	**2,395**	3,739
Income tax expense	**81,114**	65,983

33. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS — THE GROUP

(a) Directors' emoluments

No emoluments were paid to the directors of the Company during the year (2005: Nil) and no directors waived or agreed to waive any emoluments during the year (2005: Nil).

(b) Five highest paid individuals

The emoluments payable to the five highest paid management individuals during the year are as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Salary, allowances and other benefits	**1,190**	1,055
Discretionary bonus	**1,682**	1,494
Contribution to retirement plan	**261**	51
	3,133	2,600

The emoluments payable to these individuals during the year fell within the emolument band of Nil to RMB1,000,000.

(c) No emoluments were paid or payable to any directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2005: Nil).

34. EARNINGS PER SHARE — THE COMPANY

The calculation of basic earnings per share is based on the profit attributable to the equity holders of the Company of approximately RMB206,406,000 (2005: RMB85,970,000) and on the number of 1,350,000,000 (2005: 1,350,000,000) ordinary shares in issue during the year, which were deemed to have been in issue throughout the accounting periods presented in these financial statements.

Diluted earnings per share is not presented as there were no dilutive ordinary shares.

35. DIVIDENDS — THE GROUP

No dividend has been paid by the Company since its incorporation. Dividends disclosed in the consolidated income statements represent dividends declared by the companies comprising the Group out of their retained earnings to their then equity holders for the years set out as follows:

	Equity holders of the Company	Minority interests	Total
	RMB'000	RMB'000	RMB'000
Year ended 31 December 2005			
Zhejiang Intime	86,379	24,872	111,251
Year ended 31 December 2006			
Zhejiang Intime	70,000	—	70,000
Shanghai Intime	30,000	—	30,000
	100,000	—	100,000

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 years ended 31 December 2006 and 2005 have been settled prior to 31 December 2006.

36. NOTES TO CONSOLIDATED CASH FLOW STATEMENT — THE GROUP

(a) Reconciliation of profit for the year to cash generated from operations

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Profit before income tax	**300,623**	202,139
Adjustments for:		
— depreciation of property, plant and equipment (Note 6)	**17,866**	16,134
— depreciation of investment properties (Note 7)	**494**	490
— amortization of land use rights (Note 8)	**2,147**	2,147
— amortization of intangible assets (Note 10)	**71**	50
— amortization of prepaid rental (Note 11)	**475**	—
— loss on disposal of property, plant and equipment (Note 30)	**38**	933
— gain on disposal of available-for-sale financial assets (Note 30)	**(1,680)**	—
— gain on receipt of shares in a listed company (Note 12(a))	**(24,514)**	—
— dividend income (Note 27)	**(6,455)**	—
— interest income (Note 27)	**(7,160)**	(18,563)
— Interest expense (Note 31)	**35,147**	30,877
	317,052	234,207
Changes in working capital:		
— increase in deposits, prepayments and other receivables and due from related parties	**(39,732)**	(18,789)
— decrease/(increase) in cash in transit	**8,847**	(11,687)
— increase in inventories	**(3,495)**	(11,362)
— increase in trade and bills payable and other payables and due to related parties	**153,046**	142,812
Cash generated from operations	**435,718**	335,181

36. NOTES TO CONSOLIDATED CASH FLOW STATEMENT — THE GROUP (Continued)

(b) Non-cash transactions

The principal non-cash transactions was the offset of dividend payable to China Yintai by the companies comprising the Group against the amount due from China Yintai pursuant to the resolutions of shareholders meeting held on 18 July 2005, 30 September 2006 and 20 December 2006, amounting to RMB115,528,000, RMB100,000,000 and RMB45,799,000, respectively.

37. COMMITMENTS — THE GROUP

(a) Capital commitment

The Group has a capital commitment of RMB14,000,000 (2005: Nil) with respect to the purchase of a property and its decorations and improvements in Wuhan as at 31 December 2006 (Note 15(a)).

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 USD20,000,000 to operate a department store in the PRC. Each joint venture partner agrees to contribute USD10,000,000 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 an operating premise for the joint venture, Zhejiang Intime and Lotte entered into a lease contract with Beijing Jixiang Real Estate Co., Ltd. which is a 60.5% owned associate of China Yintai, for the rental of a building for 10 years tentatively starting from 25 March 2008 with annual minimum lease payment of RMB95,100,000. 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 (b) below.

(b) Operating lease commitments as a lessee

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

37. COMMITMENTS — THE GROUP (Continued)

(b) Operating lease commitments as a lessee (Continued)

The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Not later than 1 year	**43,920**	44,272
Later than 1 year and not later than 5 years	**466,258**	173,732
Later than 5 years	**1,110,220**	512,341
	1,620,398	730,345

(c) Operating lease commitments as a lessor

The Group's future aggregate minimum lease receivables under non-cancellable operating leases are as follows:

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Not later than 1 year	**6,186**	5,748
Later than 1 year and not later than 3 years	**6,582**	10,702
Later than 3 years	**4,335**	6,952
	17,103	23,402

The amounts above include future minimum sublease payments expected to be received under non-cancellable sublease amounting to RMB10,297,000 (2005: RMB12,999,000) as at 31 December 2006.

38. RELATED PARTY TRANSACTIONS — THE GROUP

Parties are considered to be related if one party has the ability, directly or indirectly, 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 significance 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
Beijing Yintai Property Co., Ltd. ("Beijing Yintai")	Subsidiary of China Yintai
Hangzhou Intime Shopping Mall Co., Ltd. ("Intime Shopping Mall")	Subsidiary of China Yintai
Wenzhou Yintai Department Store Co., Ltd. ("Wenzhou Yintai")	Subsidiary of China Yintai
Jinhua Yintai Department Store Co., Ltd. ("Jinhua Yintai")	Subsidiary of China Yintai

38. RELATED PARTY TRANSACTIONS — THE GROUP (Continued)

(b) Transactions with related parties

The following transactions were carried out with related parties:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Interest income		
— China Yintai (i)	**1,984**	16,721
Interest expense		
— Warburg Pincus (note (c)(iii))	**8,106**	778
Payment of rental expense		
— Silvertie Holding (ii)	**27,414**	4,662
Payment of brand license fee		
— China Yintai (iii)	**—**	1,500
Advance to related parties		
— China Yintai	**170,612**	434,827
— Jinhua Yintai	**35,265**	—
— Wenzhou Yintai	**30,538**	—
	236,415	434,827

38. RELATED PARTY TRANSACTIONS — THE GROUP (Continued)

(b) Transactions with related parties (Continued)

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Repayment from related parties		
— China Yintai	**541,494**	327,779
— Jinhua Yintai	**10,070**	—
— Wenzhou Yintai	**20,000**	—
	571,564	327,779
Borrowings from related parties		
— Intime International (vii)	**51,655**	—
— Warburg Pincus (note (c)(iii))	**161,434**	86,101
	213,089	86,101
Repayment to a related party		
— Glory Bless (note (c)(iii))	**247,535**	—
Purchase of assets from a related party		
— Silvertie Holding	**—**	18,474
Guarantee to related parties		
— Beijing Yintai (iv)	**—**	80,000
— Wenzhou Yintai(v)	**20,000**	—
	20,000	80,000
Guarantee from a related party		
— China Yintai (vi)	**339,000**	469,000
Waiver of a shareholder's loan		
— Intime International (vii)	**51,655**	—

38. RELATED PARTY TRANSACTIONS — THE GROUP (Continued)

(b) Transactions with related parties (Continued)

(i) Pursuant to an agreement between Zhejiang Intime and China Yintai, Zhejiang Intime received interest income from China Yintai at an annual rate of 8.77% for the year ended 31 December 2005 on an amount of RMB200,000,000 lent to China Yintai. The loan was repaid in January 2006 (Note 38(c)(i)).

(ii) 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.

(iii) Pursuant to a license agreement between Zhejiang Intime and China Yintai, Zhejiang Intime paid brand license fee of RMB500,000 on a quarterly basis to China Yintai from 1 January 2003 to 30 September 2005 for use of trademark (the "Trademark") registered by China Yintai. Subsequently, China Yintai transferred the Trademark to a subsidiary of the Group for a consideration of USD1.

(iv) Pursuant to a contract dated 26 May 2004 agreed among Zhejiang Intime, Beijing Yintai and Shanghai Grand Tower Steel Structure Co., Ltd. (上海冠達爾鋼結構有限公司, "Grand Tower"), an independent third party supplier of steel structure, Beijing Yintai should purchase steel structure for the construction of Beijing Yintai Centre from Grand Tower. Zhejiang Intime provided two guarantees to a bank for performing this contract to Grand Tower amounted to RMB50,000,000 and RMB30,000,000 on 26 July 2004 and 4 February 2005 respectively. The guarantees were released on 15 November 2006.

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

(vi) The guarantee from China Yintai was released in January 2007.

(vii) During the year, Intime International advanced several interest-free loans to North Hill with an aggregate amount of USD6,615,000 (RMB51,655,000). On 30 December 2006, Intime International agreed to waive the repayment by North Hill. The amount was credited to capital reserve of the Group.

38. RELATED PARTY TRANSACTIONS — THE GROUP (Continued)

(c) Balances with related parties

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

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Due from related parties		
— China Yintai (i)	**—**	559,146
— Silvertie Holding (ii)	**13,000**	13,000
— Wenzhou Yintai	**10,538**	—
— Jinhua Yintai	**25,195**	—
— Intime Shopping Mall	**2,013**	—
	50,746	572,146

Except for a loan to China Yintai of RMB200,000,000 which is further explained in note (i) below, the other amounts due from related parties are all denominated in RMB, unsecured, interest-free and have no pre-determined term of repayment, and are expected to be received within 12 months after respective balance sheet date.

Maximum balances outstanding for amounts due from related parties during the year, disclosed pursuant to section 161B of the Hong Kong Companies Ordinance, are as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Due from related parties		
— China Yintai	**559,146**	559,146
— Silvertie Holding	**13,000**	13,000
— Wenzhou Yintai	**30,538**	—
— Jinhua Yintai	**35,265**	—
— Intime Shopping Mall	**2,013**	—
	639,962	572,146

38. RELATED PARTY TRANSACTIONS — THE GROUP (Continued)

(c) Balances with related parties (Continued)

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

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Due to related parties		
— Warburg Pincus (iii)	**—**	(86,101)
— China Yintai	**(8,871)**	—
	(8,871)	(86,101)

Except for a loan from Warburg Pincus Funds of USD10,668,961 as stated below in note (iii), these amounts due to related parties are all denominated in RMB, unsecured, interest-free and payable on demand.

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

(i) The amount due from China Yintai mainly includes the payments of debts on behalf of China Yintai and amount lent to China Yintai amounting to RMB200,000,000, at an interest rate of 8.77% per annum as at 31 December 2005. The amount lent was financed by the Group's long-term other borrowing (Note 23) which was of the same interest rate as that of the loan to China Yintai. The amount due from China Yintai was unsecured and settled in December 2006.

(ii) The amount due from Silvertie Holding includes 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 (note (b)(ii)).

(iii) Pursuant to a loan agreement between North Hill and Warburg Pincus, Warburg Pincus granted two unsecured loans amounting to USD10,668,961 and USD19,967,162 respectively to North Hill at an annual interest rate of 6%. On 23 February 2006, Warburg Pincus assigned the loans to Glory Bless and the loans were repaid during the year.

38. RELATED PARTY TRANSACTIONS — THE GROUP (Continued)

(d) Key management compensation

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Salaries, allowances and other benefits	**638**	697
Discretionary bonus	**971**	931
Contributions to retirement plan	**155**	34
	1,764	1,662

39. CONTINGENCIES — THE GROUP

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Guarantees to related parties	**20,000**	80,000

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. The relevant loan and interest was repaid by Wenzhou Yintai on 25 February 2007 and the guarantee was released.

As at 31 December 2005, Zhejiang Intime provided guarantees amounting to RMB80,000,000 to Grand Tower. These guarantees were used for performing a contract agreed among Zhejiang Intime, Grand Tower and Beijing Yintai and were released on 15 November 2006.

40. SUBSEQUENT EVENTS — THE COMPANY AND THE GROUP

(i) On 5 January 2007, Zhejiang Intime established a wholly-owned subsidiary with paid-in capital of RMB30,000,000, Zhejiang Wenzhou Intime Department Store Co., Ltd., to operate a department store in Wenzhou which was opened on 1 February 2007.

On 10 January 2007, Zhejiang Intime established another wholly-owned subsidiary with paid-in capital of RMB30,000,000, Zhejiang Intime Department Store (Jinhua) Co., Ltd., to operate a department store in Jinhua which was opened on 22 January 2007.

(ii) On 11 January 2007, Zhejiang Intime acquired a land use right in Jinhua from the Jinhua State-owned Land Resources Bureau for commercial use with a site area of approximately 20,000 square meters for a consideration of RMB270,000,000.

(iii) On 16 March 2007, the Enterprise Income Tax Law (the "New EIT Law") was passed at the Fifth Session of the Tenth National People's Congress of the PRC. The New EIT Law will be effective commencing 1 January 2008 and the "Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises" and "Provisional Regulations of the People's Republic of China on Enterprise Income Tax", both of which the Group was originally subject to, will be abrogated simultaneously. The Group has already commenced an assessment of the impact of the New EIT Law but is not yet in a position to determine its impact on the Group's results of operations.

(iv) On 20 March 2007, the Company completed the global offering and listing of its shares on the Main Board of the Stock Exchange. 450,000,000 new shares were issued at HK$5.39 each with gross proceeds of HK$2,425,500,000.

(v) On 10 April 2007, Zhejiang Intime entered into an agreement with the equity holders of Hangzhou Xintai Property Development Co., Ltd. (杭州新泰房地產開發有限公司, "Xintai") and Zhejiang Zhelian Property Group Co., Ltd (浙江浙聯房產集團有限公司, "Zhelian Property"), currently the joint owners of a property development project in Hangzhou City. Pursuant to the agreement, Zhejiang Intime conditionally agreed, amongst other things, to make capital contribution of RMB500,000,000 to Xintai in return for 50% equity interest in the enlarged registered capital of Xintai and pay an initial deposit of RMB70,000,000 to Zhelian Property.