

IMPORTANT

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

 PARKSON 百盛
PARKSON RETAIL GROUP LIMITED
百盛商業集團有限公司
(incorporated in the Cayman Islands with limited liability)

**HONG KONG PUBLIC OFFERING
AND
INTERNATIONAL PLACING**

Number of Offer Shares	: 165,600,000 Shares comprising 110,400,000 New Shares and 55,200,000 Sale Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	: 16,560,000 New Shares (subject to adjustment)
Number of International Placing Shares	: 149,040,000 Shares comprising 93,840,000 New Shares and 55,200,000 Sale Shares (subject to adjustment and the Over-allotment Option)
Offer Price	: Not more than HK\$9.80 per Offer Share and expected to be not less than HK\$8.40 per Offer Share (payable in full on application and subject to refund)
Nominal value	: HK\$0.1 per Share
Stock code	: 3368

Global Coordinator, Sponsor, Bookrunner and Lead Manager

BNP PARIBAS PEREGRINE

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents delivered to the Registrar of Companies in Hong Kong and available for inspection" in Appendix VIII to this prospectus, has been registered by the Companies Registry in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by agreement between the Company, the Selling Shareholder and BNP Paribas Peregrine (on behalf of the Underwriters) at or about 9:00 a.m. on 23rd November, 2005 (Hong Kong time) and in any event no later than 12:00 noon on 23rd November, 2005 (Hong Kong time). The Offer Price will be not more than HK\$9.80 per Offer Share and is expected to be not less than HK\$8.40 per Offer Share. Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum offer price of HK\$9.80 for each Hong Kong Offer Share together with 1% brokerage, 0.005% SFC transaction levy, 0.002% investor compensation levy and 0.005% Stock Exchange trading fee subject to refund if the Offer Price as finally determined is less than HK\$9.80. BNP Paribas Peregrine (on behalf of the Underwriters) may reduce the indicative Offer Price range stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, a notice of the reduction of the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Offering. **If applications for Hong Kong Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, then even if the Offer Price is so reduced, such applications cannot subsequently be withdrawn. If, for any reason, the Offer Price is not agreed between the Company, the Selling Shareholder and BNP Paribas Peregrine (on behalf of the Underwriters) at or before 12:00 noon on 23rd November, 2005 (Hong Kong time), the Offering will not become unconditional and will lapse.**

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus including the risk factors set out in the section headed "Risk factors" in this prospectus.

Pursuant to the termination provisions contained in the Hong Kong Underwriting Agreement in respect of the Offer Shares, BNP Paribas Peregrine (on behalf of the Hong Kong Underwriters) has the right in certain circumstances, in the sole discretion of BNP Paribas Peregrine, to terminate the obligations of the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date (such first dealing date is currently expected to be 30th November, 2005). Further details of the termination provisions are set out in the paragraph headed "Grounds for termination" under the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

17th November, 2005

EXPECTED TIMETABLE

2005
(Note 1)

Latest time for lodging PINK application forms	5:00 p.m. on 21st November
Application lists open (Note 2)	11:45 a.m. on 22nd November
Latest time for lodging WHITE and YELLOW application forms and giving electronic application instructions to HKSCC.	12:00 noon on 22nd November
Application lists close (Note 2)	12:00 noon on 22nd November
Price Determination Date (Note 3)	9:00 a.m. on 23rd November
Announcement of the Offer Price and the indication of the levels of interest in the International Placing and the results and the basis of allotment of the Hong Kong Offer Shares to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before	29th November
Despatch of share certificates and refund cheques in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before (Note 4)	29th November
Dealings in Shares on the Stock Exchange to commence on	9:30 a.m. on 30th November

Notes:

- (1) All times refer to Hong Kong local time. Details of the structure of the Offering, including its conditions, are set out under the section headed "Structure of the Offering" in this prospectus.
- (2) If there is a "black" rainstorm warning or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on 22nd November, 2005, the application lists will not open on that day. Further information is set out in the paragraph headed "Effect of bad weather conditions on the opening of the application lists" under the section headed "How to apply for the Hong Kong Offer Shares" in this prospectus.
- (3) The Price Determination Date is expected to be at or about 9:00 a.m. on 23rd November, 2005, and in any event no later than 12:00 noon on 23rd November, 2005. If, for any reason, the Offer Price is not agreed at or before 12:00 noon on 23rd November, 2005 the Offering will not proceed.
- (4) Refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the final Offer Price is less than the price payable on application. Part of your Hong Kong Identity Card number/passport number, or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant provided by you may be printed on your refund cheque, if any. Such data may also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund cheque, if any. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to a delay in encashment of, or may invalidate, your refund cheque.

EXPECTED TIMETABLE

- (5) Applicants who apply on **WHITE** application forms and have indicated in their application forms that they wish to collect refund cheques and (where applicable) share certificates in person from the Company's Hong Kong Share Registrar may collect refund cheques and (where applicable) share certificates in person from the Company's Hong Kong Share Registrar, Tricor Investor Services Limited, from 9:00 a.m. to 1:00 p.m. on 29th November, 2005. Identification and (where applicable) authorisation documents acceptable to Tricor Investor Services Limited must be produced at the time of collection.

Applicants who apply on **YELLOW** application forms and have indicated in their application forms that they wish to collect refund cheques in person may collect their refund cheques (if any) but may not elect to collect their share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedure for collection of refund cheques for applicants who apply on **YELLOW** application forms for Shares is the same as that for **WHITE** application form applicants.

The Share certificate(s) and/or refund cheque(s) for applicants who apply on **PINK** application forms will be sent to the addresses indicated in their application forms on the date of despatch (which is expected to be 29th November, 2005) by ordinary post and at their own risk.

Uncollected Share certificates and refund cheques will be despatched by ordinary post (at the applicants' own risk) to the addresses specified in the relevant application forms. Further information is set out in the paragraph headed "Refund of your money — additional information" under the section headed "Terms and conditions of the Hong Kong Public Offering" in this prospectus.

Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. (Hong Kong time) on the Listing Date provided that (i) the Offering has become unconditional; and (ii) the right of termination as described in the paragraph headed "Grounds for termination" under the section headed "Underwriting" in this prospectus has not been exercised thereto and has lapsed.

CONTENTS

You should rely only on the information contained in this prospectus and the application forms to make your investment decision. The Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by the Company, the Selling Shareholder, BNP Paribas Peregrine, the Underwriters, any of their respective directors or any other person or party involved in the Offering.

	<i>Page</i>
Expected timetable	i
Contents	iii
Summary	1
Definitions	12
Glossary of technical terms	34
Risk factors	36
Waivers from compliance with the Listing Rules	50
Information about this prospectus and the Offering	53
Directors and parties involved in the Offering	62
Corporate information	66
Industry overview	68
Business	77
Relationship with the Lion Group	114
Connected transactions	119
Directors, senior management and staff	139
Share capital	146
Substantial shareholders	149
Financial information	154
Future plans and use of proceeds	191
Underwriting	194
Structure of the Offering	201
How to apply for the Hong Kong Offer Shares	210
Terms and conditions of the Hong Kong Public Offering	221

CONTENTS

Page

Appendices

Appendix I	—	Accountants’ report	238
Appendix II	—	Accountants’ reports of the Acquired Stores	292
Appendix III	—	Unaudited pro forma financial information	493
Appendix IV	—	Profit forecast	524
Appendix V	—	Property valuation	527
Appendix VI	—	Summary of the constitution of the Company and Cayman Islands law	585
Appendix VII	—	Statutory and general information	609
Appendix VIII	—	Documents delivered to the Registrar of Companies in Hong Kong and available for inspection	664

SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are summarised under the section headed “Risk factors”. You should read that section carefully before you decide to invest in the Offer Shares.

BUSINESS OVERVIEW

The Group is a large national network of department stores in the PRC. The Group operates 37 “Parkson” branded department stores and 2 “Xtra” branded supercentres situated in prime locations in 26 cities in the PRC.

The Group is the PRC stem of the Lion Group’s retail business which was established in Malaysia in 1987. The Lion Group is a Malaysian based diversified business group engaged in a variety of businesses encompassing steel, motor and tyres manufacturing, computer assembly production, trading, pulp and paper production, plantation, property and community development and retail through companies listed on Bursa Malaysia and the Stock Exchange of Singapore. The Lion Group entered the PRC retail market in 1994 shortly following the PRC’s opening of this sector to foreign investors, making the Group one of the foreign pioneers in the PRC department store industry.

As at the Latest Practicable Date, 23 of the stores operated by the Group were owned by the Group whereas the remaining 16 were managed by the Group. The following map shows the geographic distribution of the stores operated by the Group in the PRC as at the Latest Practicable Date:



SUMMARY

The Group has positioned itself at the middle to middle-upper end of the retail market in the PRC and offers a wide range of merchandise which can be broadly categorised into four categories, namely “fashion and apparel”, “cosmetics and accessories”, “household, electrical goods and others” and “groceries and perishables”. The Group’s main focus is on fashion “lifestyle” products, in particular ladies’ fashion and cosmetics.

Sales in the Group’s stores are divided into concessionaire sales and direct sales. The Group enters into agreements with certain suppliers of branded goods (known as concessionaires), who are permitted to occupy designated areas in the Group’s stores and to establish their own sales counters for their products. The Group receives a percentage of the revenues generated from such concessions as a commission. With respect to direct sales, the Group sources and sells its own directly purchased merchandise.

The Group has been granted an exclusive licence by Parkson Corporation to use the “Parkson”/“百盛” and “xtra SUPERCENTER 愛客家” trademarks in the PRC and other parts of the Greater China region for a period of thirty years.

Besides operating the self-owned stores, the Original Group also provided management consultancy services to other department stores and supercentres owned by Independent Third Parties, the Lion Group or connected persons during the Track Record Period. Such stores are licensed to use the “Parkson” or “Xtra” names and the Group’s information system. Management and consultancy fees received by the Original Group pursuant to management arrangements with these Independent Third Parties, the Lion Group and connected persons amounted to approximately RMB28.9 million, RMB38.8 million, RMB47.2 million and RMB29.7 million, representing approximately 5.2%, 6.0%, 6.0% and 5.9% of the Original Group’s total operating revenue, for each of the three years ended 31st December, 2004 and six months ended 30th June, 2005 respectively. Prior to the Reorganisation, the Lion Group acquired 12 of the stores originally managed by the Group, which was then transferred to the Group pursuant to the Reorganisation. The financial performance of the Original Group was generally better than that of the Acquired Stores during the Track Record Period. This is partly because the Original Group’s stores are more mature and well-established while some of the Acquired Stores are smaller in their scale of operation or were newly established. The Group currently provides management consultancy services to 14 “Parkson” branded department stores and 2 “Xtra” branded supercentres located in 11 cities in the PRC which are owned by Independent Third Parties, the Lion Group or connected persons. Further details regarding such managed stores are set out in the paragraph headed “Retail Network” under the section headed “Business” in this prospectus.

PRINCIPAL STRENGTHS

The Directors believe that the Group possesses the following principal strengths:

- Department stores situated in prime locations in major cities and districts within major cities throughout the PRC
- Well-established and extensive “Parkson” department store network and brand recognition in the PRC
- Long-term relationships with well known brands in the PRC offering a wide range of merchandise

SUMMARY

- Experienced and cohesive senior management team
- Sophisticated management systems

STRATEGIES

The Group's long term goal is to be the largest department store chain in the PRC. The Group aims to achieve this goal by adopting the following strategies:

- Grow its department store chain through expansion and gain market share through consolidation and merger and acquisition
- Upgrade stores to continue to move further upmarket
- Further develop relationships with brands, in particular international brands seeking to enter the PRC market
- Continue to upgrade IT systems

REASONS FOR THE OFFERING AND USE OF PROCEEDS

The Directors believe that the net proceeds of the Offering will finance the Group's capital expenditures and business expansion, strengthen the Group's capital base and improve its financial position.

The net proceeds of the Offering after deducting related expenses, and assuming an Offer Price of HK\$9.10 per Share (being the mid-point of the stated range of the Offer Price of between HK\$8.40 and HK\$9.80 per Share), are estimated to amount to approximately HK\$959 million. To effect the Group's future plans and strategies (details of which are more particularly set out in the paragraph headed "Future plans and strategies" under the section headed "Future plans and use of proceeds" in this prospectus), the Group currently intends to apply the net proceeds as follows:

1. approximately RMB500 million (HK\$481 million) for acquisition of 10 to 14 department stores each having a retailing space of approximately 20,000 sq.m. to 30,000 sq.m. in the next two to three years, which may include department stores owned by third parties or possibly managed stores with an option to acquire;
2. approximately RMB250 million (HK\$240 million) for establishing in the next one to three years new stores in certain major cities in which the Group already has a presence such as Beijing, Shanghai and Chongqing;
3. approximately RMB200 million (HK\$192 million) for refurbishment and renovation of existing stores in order to move the "Parkson" brand further upmarket in the PRC;
4. approximately RMB20 million (HK\$19 million) to upgrade the existing information technology infrastructure; and
5. the remaining amount will be used as general working capital.

SUMMARY

Assuming an Offer Price of HK\$9.80 per Share (being the high-end of the stated range of the Offer Price of between HK\$8.40 and HK\$9.80 per Share), the amount of additional net proceeds to be received by the Company are estimated to be approximately HK\$75 million, of which the Directors intend to apply approximately HK\$50 million as additional funds for the acquisition of department stores and the balance of approximately HK\$25 million as additional funds for the establishment of new stores.

Assuming an Offer Price of HK\$8.40 per Share (being the low-end of the stated range of the Offer Price of between HK\$8.40 and HK\$9.80 per Share), the Directors intend that the respective amounts to be applied for each of the above purposes will remain unchanged save that the amount to be applied for refurbishment and renovation of existing stores will be reduced accordingly.

To the extent that the net proceeds of the Offering are not immediately required for the above purposes, the Directors presently intend that such proceeds will be placed on short-term deposits with licensed banks and/or authorised financial institutions in Hong Kong. The Company will not receive any proceeds from the sale of the Sale Shares by the Selling Shareholder in the Offering. All of the net proceeds of such sale will be for the account of the Selling Shareholder. Further information in relation to the use of proceeds of the Offering is set out in the section headed “Future plans and use of proceeds”.

RISK FACTORS

The Directors believe that there are certain risks involved in the Group’s operations. They can be categorised as follows: (i) risks relating to the Group; (ii) risks relating to the Group’s industry; (iii) risks relating to the PRC; and (iv) risks relating to the Offering.

Risks relating to the Group

- Upon consolidation of the Acquired Stores with those in the Original Group, certain aspects of the Group’s combined financial results may be affected.
- Significant financial dependence during the Track Record Period on sales from stores in Beijing and Shanghai.
- As the Group derives substantially all of its revenue from the PRC, any downturn in the broader PRC economy may harm the Group’s business.
- The Group’s business depends on the Group’s ability to locate its stores in prime areas, which may become more difficult in the future.
- The Group’s success depends on its ability to identify and respond to constantly changing customer preferences.
- The Group relies on its concessionaires to provide a substantial amount of its total operating revenues.

SUMMARY

- If the Group is unable to protect certain of its intellectual property, particularly the “Parkson” or “百盛” trademarks, its business may be harmed.
- If the Group cannot manage the risks related to its growth strategy, its future prospects may be limited, its competitive position could suffer and its future profitability could be affected.
- The Group requires a number of regulatory licences in order to operate, and will require more to expand into new markets, which it may be unable to obtain.
- The Group faces strong competition for suitable personnel, which may make it difficult to recruit and retain employees.
- A recurrent SARS outbreak or an outbreak of another virulent contagious disease may materially and adversely affect the Group’s business, results of operations and financial condition.
- Sales may decline if the Group does not successfully market its department stores.
- The Group’s success depends significantly on key management and its ability to attract and retain additional management.
- The Group’s occupancy of certain properties in the PRC may be threatened and certain land use rights and building ownership certificates are still under application.
- If owners of “Parkson” branded managed stores do not allow their respective stores to be operated in a manner similar to those owned by the Group, the “Parkson” brand and the Group’s business may be harmed.
- Investors should read the entire prospectus carefully and the Group strongly cautions investors not to place any reliance on any information contained in press articles or other media, certain of which may not be consistent with information contained herein.

Risks relating to the Group’s industry

- The department store business is highly competitive and it faces further competition from multiple retail formats.
- The Group may incur product liability for defective goods in its department stores.
- The Group may incur liability for goods sold in its department stores that violate the intellectual property rights of others.
- The PRC’s obligations as a member of the WTO may require it to further open up retail industry and allow increased competition.
- The Group’s business is seasonal.

SUMMARY

Risks relating to the PRC

- Changes in the economic and political environment in the PRC and policies adopted by the PRC government to regulate its economy may adversely affect the Group's business, operating results and financial condition.
- The PRC's legal system embodies uncertainties that may adversely affect the Group's business and operating results.
- A number of the Group's stores enjoyed a lower effective enterprise income tax rate over the Track Record Period which may not continue in future.
- Payment of dividends by the Company's operating subsidiaries to the Company is subject to restrictions under PRC law.
- Certain members of the Group entered into inter-enterprise direct loans over the Track Record Period; these loans are unenforceable under PRC law and the interest income arising from them may be confiscated by PRC regulators.
- Certain members of the Group entered into entrusted loan agreements over the Track Record Period; these loans may be subject to default risks.
- Fluctuation of the Renminbi may adversely affect the Group's operations and financial results.
- If power shortages occur in the PRC, the Group's business may be harmed.
- Acts of God, acts of war and other disasters could affect the Group's business.

Risks relating to the Offering

- The Company will continue to be controlled by LDHB, whose interests may differ from those of other shareholders.
- There has been no prior public market for the Shares and liquidity may be low.
- The Share price may be volatile.
- The Company's shareholders may be diluted as a result of future equity fundraising.
- There can be no assurance that dividends will be paid in the future at a rate similar to past rates.
- It may be difficult to effect service of process upon or secure judgments against the Group, the Company or their respective directors and officers.
- There are risks associated with forward-looking statements.

SUMMARY

TRADING RECORD

The following is a summary of the Group's (that is, the Original Group's) combined results for the three years ended 31st December, 2004 and for the six months ended 30th June, 2004 and 2005 extracted from the accountants' report set out in Appendix I to this prospectus. The combined results were prepared on the basis of the presentation as set out in Appendix I to this prospectus.

	Year ended 31st December,			Six months ended	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenues	540,798	618,430	750,038	372,906	470,969
Other operating revenues	21,036	29,343	35,505	18,229	33,993
Total operating revenues	561,834	647,773	785,543	391,135	504,962
Operating expenses					
Purchase of goods and changes in inventories	(174,499)	(198,758)	(243,686)	(122,185)	(154,613)
Staff costs	(59,084)	(67,448)	(69,805)	(38,182)	(45,194)
Depreciation and amortisation	(47,398)	(50,868)	(52,070)	(27,141)	(28,982)
Rental expenses	(45,559)	(53,237)	(53,215)	(26,431)	(35,334)
Other operating expenses	(107,037)	(99,492)	(117,310)	(58,318)	(73,648)
Total operating expenses	(433,577)	(469,803)	(536,086)	(272,257)	(337,771)
Profit from operations	128,257	177,970	249,457	118,878	167,191
Finance income/(costs)	(5,877)	2,002	3,014	1,256	3,867
Share of profit from an associate	351	422	449	136	231
Profit from operations before income tax	122,731	180,394	252,920	120,270	171,289
Income tax	(49,415)	(71,481)	(90,981)	(43,736)	(55,818)
Net profit for the year/period	73,316	108,913	161,939	76,534	115,471
Attributable to:					
Equity holders of the parent	67,342	99,911	152,771	72,182	106,511
Minority interests	5,974	9,002	9,168	4,352	8,960
	73,316	108,913	161,939	76,534	115,471
Dividends (Note 1)	17,400	7,000	12,600	—	—
Earnings per Share — Basic (Note 2)	0.15	0.23	0.35	0.16	0.24

Notes:

- (1) The Company was incorporated on 3rd August, 2005 and no dividend has been paid or declared by the Company during the Track Record Period. The Group's dividends during the Track Record Period represented the profit appropriation made by certain members of the Group. Subsequent to 30th June 2005, certain members of the Group declared dividends of approximately RMB204.3 million to their then shareholders, in relation to their distributable profits up to the year ended 31st December, 2004 and such dividends have been fully paid.
- (2) The calculation of basic earnings per Share is based on the profit attributable to shareholders of the Company for each of the three years ended 31st December, 2002, 2003 and 2004 and for the six months ended 30th June, 2004 and 2005, and on 441,600,000 Shares in issue as adjusted to reflect the Capitalisation Issue, on the assumption that the Reorganisation has been completed on 1st January, 2002.

SUMMARY

The following is a summary of the unaudited pro forma results of the Combined Group for the year ended 31st December, 2004 and six months ended 30th June, 2005 as if the acquisition of the Acquired Stores had been completed on 1st January, 2004, extracted from the unaudited pro forma financial information set out in Appendix III to this prospectus. The unaudited pro forma results were prepared on the basis of the presentation as set out in Appendix III to this prospectus.

	Year ended 31st December, 2004 <i>RMB'000</i>	Six months ended 30th June, 2005 <i>RMB'000</i>
Revenues	1,163,073	736,837
Other operating revenues	<u>64,717</u>	<u>58,136</u>
Total operating revenues	<u>1,227,790</u>	<u>794,973</u>
Operating expenses		
Purchase of goods and changes in inventories	(410,448)	(262,340)
Staff costs	(111,377)	(71,724)
Depreciation and amortisation	(67,690)	(37,874)
Rental expenses	(129,534)	(78,564)
Other operating expenses	<u>(225,282)</u>	<u>(124,726)</u>
Total operating expenses	<u>(944,331)</u>	<u>(575,228)</u>
Profit from operations	283,459	219,745
Finance income	4,957	5,965
Share of profit from an associate	<u>449</u>	<u>231</u>
Profit from operations before income tax	288,865	225,941
Income tax	<u>(103,727)</u>	<u>(69,960)</u>
Net profit for the year/period from continuing operations	185,138	155,981
Discontinued operation		
Loss for the year/period from discontinued operation	<u>(16,000)</u>	<u>—</u>
Net profit for the year/period	<u>169,138</u>	<u>155,981</u>
Attributable to:		
Equity holders of the parent	150,629	135,552
Minority interests	<u>18,509</u>	<u>20,429</u>
	<u>169,138</u>	<u>155,981</u>

SUMMARY

For additional financial information on the Group, the Acquired Stores and the Combined Group, please refer to the paragraph headed “Management’s discussion and analysis of the financial condition and results of operations” under the section headed “Financial Information”, Appendix I, Appendix II and Appendix III to this prospectus.

FORECAST FOR THE YEAR ENDING 31ST DECEMBER, 2005

Forecast combined profit attributable to the
shareholders of the Company (*Notes 1 and 2*) not less than RMB242 million

Unaudited forecast earnings per Share

— weighted average (*Note 3*) RMB0.54

— pro forma (*Note 4*) RMB0.44

Notes:

- (1) The bases and assumptions on which the above profit forecast for the year ending 31st December, 2005 have been prepared are summarised in Appendix IV to this prospectus.
- (2) The forecast combined profit attributable to the shareholders of the Company for the year ending 31st December, 2005 excludes the pre-acquisition combined profit of the Acquired Stores of approximately RMB43 million.
- (3) The calculation of unaudited forecast earnings per Share on a weighted average basis is based on the forecast combined profit attributable to the shareholders of the Company for the year ending 31st December, 2005 of RMB242 million and a weighted average number of 450,976,438 Shares (assuming 441,600,000 Shares as adjusted to reflect the Capitalisation Issue had been in issue on 1st January, 2005 and 110,400,000 Shares to be issued under the Offering in issue on 1st December, 2005). It does not take into account any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the Issuing Mandate and Repurchase Mandate.
- (4) The calculation of unaudited forecast earnings per Share on a pro forma basis is based on the forecast combined profit attributable to the shareholders of the Company for the year ending 31st December, 2005 of RMB242 million and a total of 552,000,000 Shares (assuming that the Shares in issue at the date of this prospectus and those Shares to be issued pursuant to the Capitalisation Issue and the Offering had been in issue on 1st January, 2005). It does not take into account any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the Issuing Mandate and Repurchase Mandate.

SUMMARY

OFFERING STATISTICS

	Based on an Offer Price of HK\$8.40 per Share	Based on an Offer Price of HK\$9.80 per Share
Market capitalisation of the Shares <i>(Note 1)</i>	HK\$4,637 million	HK\$5,410 million
Forecast price/earnings multiple		
— weighted average <i>(Note 2)</i>	16.2 times	18.9 times
— pro forma <i>(Note 3)</i>	19.9 times	23.2 times
Unaudited pro forma adjusted net tangible asset value per Share <i>(Note 4)</i>	HK\$2.82	HK\$3.10

Notes:

- (1) The calculation of the market capitalisation of the Shares is based on 552,000,000 Shares in issue immediately after completion of the Capitalisation Issue and the Offering but does not take into account any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the Issuing Mandate and the Repurchase Mandate.
- (2) The calculation of forecast price/earnings multiple on a weighted average basis is based on the unaudited forecast earnings per Share on a weighted average basis for the year ending 31st December, 2005 of RMB0.54 per Share at the respective Offer Price of HK\$8.40 and HK\$9.80 per Share.
- (3) The calculation of forecast price/earnings multiple on a pro forma basis is based on the unaudited forecast earnings per Share on a pro forma basis for the year ending 31st December, 2005 of RMB0.44 per Share at the respective Offer Price of HK\$8.40 and HK\$9.80 per Share.
- (4) The unaudited pro forma adjusted net tangible asset value per Share has been arrived at after the adjustments referred to in the paragraph headed “Unaudited pro forma adjusted net tangible assets” under the section headed “Financial information” in this prospectus and on the basis of 552,000,000 Shares in issue at the respective Offer Price of HK\$8.40 and HK\$9.80 per Share immediately following completion of the Capitalisation Issue and the Offering but without taking into account any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the Issuing Mandate and the Repurchase Mandate.

SUMMARY

DIVIDENDS

The Company was incorporated on 3rd August, 2005 and, accordingly, no dividend has been declared or paid by the Company during the Track Record Period. For the three years ended 31st December, 2004, certain members of the Group in aggregate declared dividends of approximately RMB17.4 million, RMB7.0 million and RMB12.6 million, respectively. Future declarations of dividends will be subject to the discretion of the Directors, depending on the Group's profitability, financial condition, cash requirements and availability and other relevant factors. The Company's ability to pay dividends will also depend on the amount of distributions, if any, received by the Company from its principal operating subsidiaries.

Subsequent to 30th June, 2005, certain members of the Group declared dividends of approximately RMB204.3 million to their then shareholders, in relation to their distributable profits up to the year ended 31st December, 2004. The dividend for 2004 has been paid, of which approximately RMB74.3 million has been paid by the Group's internal cash flow and approximately RMB130.0 million has been paid by way of set-off against amounts owed by the Lion Group to the Group.

Taking the above into consideration, the Company intends to recommend annually in the foreseeable future the distribution to all its shareholders of not less than 50% of the Group's distributable annual profit as dividend.

The declaration of dividends is subject to the absolute discretion of the Board and any final dividend for the year is subject to shareholders' approval. The amounts of dividends actually distributed to shareholders will be subject to the absolute discretion of the Board and will depend upon a number of factors, including the Group's earnings, investment requirements, working capital requirements, general financial conditions and any factors considered relevant by the Board.

Potential investors should be reminded that the historical record of the dividends paid by the Group has no correlation to the Group's future dividend policy, which is subject to change from time to time. There is no assurance that dividends of similar amount or at similar rate will be made in the future and past dividend payments referred to above should not be used as a reference or basis to determine the amount of dividends payable in the future.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings. Certain other terms are explained in the section headed “Glossary of Technical Terms”.

“Acquired Stores”	Anshan Store, Beijing Haidian Store, Changsha Store, Chongqing Nanping Store, Chongqing Wanzhou Store, Guizhou Store, Hefei Store, Shanghai Hongqiao Store, Taiyuan Store, Xi’an Chang’an Store, Xi’an Shidai Store and Yueyang Store, the operating entities or the business of which were acquired by the Lion Group and transferred to the Group as part of the Reorganisation
“Anshan Parkson”	鞍山天興百盛購物中心有限公司 (Anshan Tianxing Parkson Shopping Centre Co., Ltd.*), a limited liability company established under the laws of the PRC on 8th April, 2002 and an indirect subsidiary of the Company, which is owned as to 51% by the Group and as to 49% by Anshan Tianxing
“Anshan Store”	the department store located in Anshan, Liaoning Province, the PRC which is owned and operated by Anshan Parkson
“Anshan Tianxing”	鞍山天興國際置業發展有限公司 (Anshan Tianxing International Properties Development Co., Ltd.*), a sino-foreign equity joint venture enterprise established under the laws of the PRC on 8th November, 1999, a joint venture partner of the Group, which is owned as to 50% by 鞍山市金羽經貿有限公司 (Anshan Jin Yu Economic and Trade Co., Ltd.*) and as to 50% by Praise Shine Company Limited (賀明有限公司), the beneficial owners of these shareholders being Independent Third Parties
“Articles of Association” or “Articles”	the articles of association of the Company as currently adopted
“Arts & Crafts Exhibition”	中國工藝美術品展銷公司 (Arts & Crafts Exhibition Company*), an enterprise owned by the whole people established under the laws of the PRC on 8th December, 1992 and a joint venture partner of the Group
“associate(s)”	has the meaning ascribed thereto in the Listing Rules
“Beijing Century”	北京世紀百盛電子商務有限公司 (formerly known as “北京富基盛家電子商務有限公司”) (Beijing Century Parkson E-Business Co., Ltd.*), a limited liability company established under the laws of the PRC on 13th July, 2000, an indirect wholly-owned subsidiary of the Company, which is owned as to 99% by Shanghai Lion Investment and as to 1% by Shanghai Nine Sea Parkson

DEFINITIONS

“Beijing Haidian Branch”	百盛商業發展有限公司北京第一分公司 (Parkson Retail Development Co. Ltd. Beijing 1st branch*), the branch office of Beijing Parkson situated in Haidian District, Beijing, the PRC and established on 14th July, 2005
“Beijing Haidian Store”	the department store located in Haidian District, Beijing, the PRC which is owned and operated by Beijing Haidian Branch
“Beijing Managed Store”	the department store located in Chaoyang District, Beijing, the PRC which is owned by Beijing Zhongtai and will be managed by the Group
“Beijing Parkson”	百盛商業發展有限公司 (formerly known as “北京百盛輕工發展有限公司”) (Parkson Retail Development Co., Ltd.*), a sino-foreign co-operative joint venture enterprise established under the laws of the PRC on 20th October, 1993, and converted into a sino-foreign equity joint venture enterprise on 11th August, 2003, and an indirect subsidiary of the Company, which is owned as to 56% by the Group, as to 43% by China Arts & Crafts, as to 0.9% by China Arts & Crafts Culture and as to 0.1% by Arts & Crafts Exhibition (it is however accounted for as a joint venture in the accountants’ report set out in Appendix I to this prospectus)
“Beijing Store”	the department store located at Fuxingmennei Street, Beijing, the PRC which is owned and operated by Beijing Parkson
“Beijing Zhongtai”	北京中泰萬達技術開發中心 (Beijing Zhongtai Wanda Technology Development Centre*), an enterprise owned by the whole people established under the laws of the PRC on 17th January, 1992 and a connected person of the Company
“Billson Investment”	偉盛投資管理諮詢(上海)有限公司 (Billson Investment Consulting (Shanghai) Co., Ltd.*), a wholly foreign-owned enterprise established under the laws of the PRC on 20th November, 2001, a former joint venture partner of the Group which owned 49% of Beijing Century prior to the Reorganisation
“BNP Paribas Peregrine” or “Sponsor” or “Global Coordinator”	BNP Paribas Peregrine Capital Limited acting as the sponsor, global coordinator and bookrunner of the Offering, a corporation licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
“Board”	the board of Directors
“Bursa Malaysia”	Bursa Malaysia Securities Berhad

DEFINITIONS

“Business Day”	any day (other than a Saturday or a Sunday) on which banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Broker Participant”	a person admitted to participate in CCASS as a broker participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Broker Participant or CCASS Custodian Participant or a CCASS Investor Participant
“Capitalisation Issue”	the issue of Shares to be made upon the capitalisation of certain sums standing to the credit of the share premium account of the Company as referred to in the paragraph headed “Written resolutions of the sole shareholder of the Company passed on 9th November, 2005” in Appendix VII to this prospectus
“Changchun Managed Store”	the department store located in Changchun, Jilin Province, the PRC which is owned by Changchun Zhonglian and managed by the Group
“Changchun Zhonglian”	長春中聯百盛廣場有限公司 (Changchun Zhonglian Parkson Plaza Co., Ltd.*), a limited liability company established under the laws of the PRC on 28th November, 2003 to be acquired by the Lion Group, which, at the Latest Practicable Date, was owned as to 80% by China Arts & Crafts Culture and as to 20% by 中工美投資有限責任公司 (China Arts & Crafts Investments Co., Ltd.*) and a connected person of the Company
“Changsha Branch”	the branch office of Shanghai Hongqiao Parkson situated in Changsha, Hunan Province, the PRC, established as a branch of a limited liability company on 17th January, 2004, and converted into a branch of a wholly foreign-owned enterprise on 7th November, 2005

DEFINITIONS

“Changsha Store”	the department store located in Changsha, Hunan Province, the PRC which is owned and operated by Changsha Branch
“Chengdu Managed Store”	the department store located in Chengdu, Sichuan Province, the PRC which is owned by Chengdu Plaza and managed by the Group
“Chengdu Plaza”	成都摩爾百盛實業有限公司 (formerly known as “成都摩爾商業廣場有限公司”) (Chengdu Mall Parkson Industrial Co., Ltd.*), a limited liability company established under the laws of the PRC on 26th September, 2001 and owned by an Independent Third Party
“China” or “PRC”	the People’s Republic of China, but for the purposes of this prospectus and for geographical reference only (unless otherwise indicated) excluding Taiwan, Macau Special Administrative Region of the PRC and Hong Kong
“China Arts & Crafts”	中國工藝美術(集團)公司 (formerly known as “中國工藝美術總公司”) (*China Arts & Crafts (Group) Company), an enterprise owned by the whole people established under the laws of the PRC on 28th February, 1990 and a joint venture partner of the Group
“China Arts & Crafts Culture”	中工美工藝美術文化公司 (formerly known as “中投聯合租賃公司” and “北京中躍旅遊產品公司”) (China Arts & Crafts Culture Company*), an enterprise owned by the whole people established under the laws of the PRC on 30th June, 1994 and a joint venture partner of the Group
“Chongqing Nanping Branch”	the branch office of Chongqing Parkson situated in Nan’an District, Chongqing, the PRC and established on 25th August, 2005
“Chongqing Nanping Store”	the department store located in Nan’an District, Chongqing, the PRC which is owned and operated by Chongqing Nanping Branch
“Chongqing Parkson”	重慶萬友百盛廣場有限公司 (Chongqing Wanyu Parkson Plaza Co., Ltd.*), a sino-foreign equity joint venture enterprise established under the laws of the PRC on 2nd March, 1995 and an indirect subsidiary of the Company, which is owned as to 70% by the Group and as to 30% by Chongqing Wanyou
“Chongqing Store”	the department store located in Yu Zhong District, Chongqing, the PRC which is owned and operated by Chongqing Parkson

DEFINITIONS

“Chongqing Wanyou”	重慶萬友經濟發展有限責任公司 (formerly known as “重慶萬友經濟技術實業發展總公司”) (Chongqing Wanyou Economic Development Co., Ltd.*), a wholly State-owned limited liability company established under the laws of the PRC on 29th April, 1997 and a joint venture partner of the Group
“Chongqing Wanzhou Branch”	the branch office of Chongqing Parkson situated in Wanzhou District, Chongqing, the PRC and established on 25th August, 2005
“Chongqing Wanzhou Store”	the department store located in Wanzhou District, Chongqing, the PRC which is owned and operated by Chongqing Wanzhou Branch
“Combined Group”	in the context of any unaudited pro forma financial information contained in this prospectus, means the Original Group and the Acquired Stores as if the acquisition of the Acquired Stores had been completed on 1st January, 2004
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	Parkson Retail Group Limited (百盛商業集團有限公司), a company incorporated under the laws of the Cayman Islands with limited liability on 3rd August, 2005
“connected person”	has the meaning ascribed to it in the Listing Rules
“Corporate Investor”	Pangkor Investments (Cayman Islands) Limited, a company incorporated in the Cayman Islands and a wholly-owned subsidiary of Khazanah
“Corporate Placing”	the placing of 54,648,000 International Placing Shares at the Offer Price, to the Corporate Investor as part of the International Placing, the details of which are set out in the paragraph headed “The Corporate Placing” under the section headed “Structure of the Offering” in this prospectus
“Dalian Shishang”	大連時尚百盛商業發展有限公司 (Dalian Parkson Retail Development Co., Ltd.*), a sino-foreign equity joint venture enterprise established under the laws of the PRC on 15th April, 2005 and converted into a wholly foreign-owned enterprise on 21st September, 2005, a member of the Lion Group which is owned as to 100% by Sea Coral and the owner of the Dalian Shishang Managed Store

DEFINITIONS

“Dalian Shishang Managed Store”	the department store located in Xigang District, Dalian, Liaoning province, the PRC which is owned by the Lion Group and managed by the Group
“Dalian Tianhe”	大連天河百盛購物中心有限公司 (Dalian Tianhe Parkson Shopping Center Co., Ltd.*), a sino-foreign equity joint venture enterprise established under the laws of the PRC on 7th March, 1997, a member of the Lion Group which is owned as to 60% by Serbadagang Holdings and the owner of the Dalian Tianhe Managed Store and the Dalian Tianhe Shenyang Managed Store
“Dalian Tianhe Managed Store”	the department store located in Shahekou District, Dalian, Liaoning Province, the PRC which is owned by the Lion Group and managed by the Group
“Dalian Tianhe Plaza”	大連天河大廈有限公司 (Dalian Tianhe Commercial Building Co., Ltd.*), a sino-foreign equity joint venture enterprise established under the laws of the PRC on 8th May, 1993 and a joint venture partner of the Lion Group
“Dalian Tianhe Shenyang Managed Store”	the department store located in Huang Gu District, Shenyang, Liaoning Province, the PRC which is owned by the Lion Group and managed by the Group
“Deed of Non-Competition”	deed of non-competition dated 10th November, 2005 entered into between the Company and LDHB, as further described in the section headed “Connected transactions” in this prospectus
“Director(s)”	the director(s) of the Company
“enterprise owned by the whole people”	an enterprise with limited liability established under the Law Of Industrial Enterprise Owned By The Whole People of The PRC effective 1988 which applies to industrial enterprises as well as other kinds of enterprises such as commercial enterprises, and was the law under which enterprises with limited liability could choose to be established before the Company Law of the PRC came into effect in 1993
“EU”	European Union
“Excluded Companies”	Dalian Tianhe, Qingdao No.1, Nanning Brilliant, Dalian Shishang, Sichuan Development, Inner Mongolia Leader, Parkson Management, Parkson Venture, Parkson Pacific and Serbadagang Holdings

DEFINITIONS

“Excluded Stores”	the 11 managed stores with an option to acquire which are either owned by the Lion Group or to be acquired by the Lion Group, all of which are managed by the Group
“Exonbury”	Exonbury Limited (益盛普利有限公司), a private company limited by shares incorporated under the Companies Ordinance on 27th January, 1994 and an indirect wholly-owned subsidiary of the Company
“Financial Information”	the pro forma combined financial information prepared from the financial information of the Original Group and from the financial information of the individual companies making up the Acquired Stores which is set forth in the Accountants’ Reports included as Appendix II to this prospectus
“GDP”	gross domestic product
“Grand Parkson”	Grand Parkson Retail Group Limited (百盛商業有限公司), a limited liability company established under the laws of the BVI on 22nd June, 2005, a direct wholly-owned subsidiary of the Company
“Greater China”	Hong Kong, Macau Special Administrative Region of the People’s Republic of China, Taiwan and China
“Great Dignity”	Great Dignity Development Limited (大德發展有限公司), a private company limited by shares incorporated under the Companies Ordinance on 30th May, 2005 and to be acquired by the Lion Group
“Group”	the Company, its subsidiaries and joint ventures, and where the context so requires, in respect of the period prior to the Company becoming the holding company of its current subsidiaries and joint ventures, such present subsidiaries and joint ventures as if they were the Company’s subsidiaries and joint ventures during such period and in respect of the Track Record Period, the Group shall mean the Original Group
“Guizhou Huawei”	貴州華偉物業發展有限公司 (Guizhou Huawei Real Estate Development Co., Ltd.*), a sino-foreign cooperative joint venture enterprise established under the laws of the PRC on 10th September, 1993 and a connected person of the Group
“Guizhou Managed Store”	the department store located in Guiyang, Guizhou Province, the PRC which is owned by Guizhou Shenqi and managed by the Group

DEFINITIONS

“Guizhou Parkson”	貴州神奇百盛商業發展有限公司 (formerly known as “貴州神奇百貨發展有限公司”) (Guizhou Shenqi Parkson Retail Development Co., Ltd.*), a limited liability company established under the laws of the PRC on 28th August, 2002, and converted into a sino-foreign equity joint venture enterprise on 29th September, 2005, and an indirect subsidiary of the Company, which is owned as to 60% by the Group and as to 40% by Guizhou Shenqi Enterprise
“Guizhou Shenqi”	貴州神奇百盛購物中心有限公司 (Guizhou Shenqi Parkson Shopping Centre Co., Ltd.*), a limited liability company established under the laws of the PRC on 17th January, 2000 and a connected person of the Company
“Guizhou Shenqi Enterprise”	貴州神奇實業有限公司 (Guizhou Shenqi Enterprise Co., Ltd.*), a limited liability company established under the laws of the PRC on 25th May, 2001 and a joint venture partner of the Group, which is owned as to 30% by Zhang Pei, as to 40% by Zhang Zhi Jun and as to 30% by Zhang Ya
“Guizhou Store”	the department store located in Guiyang, Guizhou Province, the PRC which is owned and operated by Guizhou Parkson
“Haerbin Branch”	the branch office of Beijing Parkson situated in Haerbin, Heilongjiang Province, the PRC and established on 23rd March, 2005
“Haerbin Store”	the department store located in Haerbin, Heilongjiang Province, the PRC which is owned and operated by Haerbin Branch
“Hefei Parkson”	合肥百盛逍遙廣場有限公司 (Hefei Parkson Xiaoyao Plaza Co., Ltd.*), a limited liability company established under the laws of the PRC on 10th May, 2001, and converted into a wholly foreign-owned enterprise on 17th October, 2005, and an indirect wholly-owned subsidiary of the Company
“Hefei Store”	the department store located in Hefei, Anhui Province, the PRC which is owned and operated by Hefei Parkson
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited
“HK\$” or “Hong Kong dollars” or “cents”	Hong Kong dollars and cents respectively, the lawful currency for the time being of Hong Kong

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Fen Chai”	Hong Kong Fen Chai Investment Limited (香港豐采投資有限公司), a private company limited by shares incorporated under the Companies Ordinance on 28th May, 2005 and an indirect wholly-owned subsidiary of the Company
“Hong Kong Offer Shares”	the 16,560,000 Shares initially offered by the Company for subscription under the Public Offer (subject to adjustments as described in the section headed “Structure of the Offering” in this prospectus)
“Hong Kong Public Offering”	an offer of Hong Kong Offer Shares for subscription by the public in Hong Kong (subject to adjustments as described in the section headed “Structure of the Offering” in this prospectus) at the Offer Price (plus brokerage of 1% of the Offer Price, Stock Exchange trading fee of 0.005% of the Offer Price, SFC transaction levy of 0.005% of the Offer Price and an investor compensation levy of 0.002% of the Offer Price) on the terms and subject to the conditions set out in this prospectus and the related application forms
“Hong Kong Share Registrar”	Tricor Investor Services Limited
“Hong Kong Underwriters”	the underwriters listed in the paragraph headed “Hong Kong Underwriters” in the section headed “Underwriting” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 16th November, 2005 relating to the Hong Kong Public Offering and entered into by, among others, the Company, BNP Paribas Peregrine and the Hong Kong Underwriters, as further described in the paragraph headed “Underwriting Arrangements and Expenses” under the section headed “Underwriting” in this prospectus
“IFRS”	the International Financial Reporting Standards, which include standards and interpretations approved by the International Accounting Standards Board (IASB), and the International Accounting Standards (IAS) and interpretations issued by the International Accounting Standards Committee (IASC)
“Independent Third Party” or “Independent Third Parties”	a person(s) or compan(ies) which is/are independent of and not connected with any director, chief executive or substantial shareholder (within the meaning under the Listing Rules) of the Company or any of its subsidiaries or any of their respective associates

DEFINITIONS

“Inner Mongolia Leader”	內蒙古立達百盛廣場有限公司 (Inner Mongolia Leader Parkson Plaza Co., Ltd.*), a sino-foreign equity joint venture enterprise established under the laws of the PRC on 29th April, 1997 and an associated company of the Lion Group
“International Placing”	the conditional placing of the International Placing Shares by the International Placing Underwriters on behalf of the Company with professional and institutional investors for cash at the Offer Price (plus brokerage of 1% of the Offer Price, Stock Exchange trading fee of 0.005% of the Offer Price, SFC transaction levy of 0.005% of the Offer Price and an investor compensation levy of 0.002% of the Offer Price), as further described in the section headed “Structure of the Offering” in this prospectus
“International Placing Shares”	the 149,040,000 Shares (comprising 93,840,000 New Shares and 55,200,000 Sale Shares) being initially offered at the Offer Price pursuant to the International Placing together, where relevant, with any additional Shares sold pursuant to the exercise of the Over-allotment Option (subject to reallocation as described in the section headed “Structure of the Offering” in this prospectus)
“International Placing Underwriters”	initial purchasers of the International Placing Shares listed in the paragraph headed “International Placing Underwriters” under the section headed “Underwriting” in this prospectus
“International Placing Underwriting Agreement”	the underwriting agreement expected to be entered into on or around 23rd November, 2005 by, among others, the Company, the Selling Shareholder and the International Placing Underwriters in respect of the International Placing, as further described in the paragraph headed “International Placing” in the section headed “Underwriting” in this prospectus
“Issuing Mandate”	the general unconditional mandate given to the Directors by the shareholders of the Company relating to the issue of new Shares, further details of which are contained in the paragraph headed “Written resolutions of the sole shareholder of the Company passed on 9th November, 2005” in Appendix VII to this prospectus
“Khazanah”	Khazanah Nasional Berhad, a public limited company incorporated under the Companies Act 1965 of Malaysia on 3rd September, 1993

DEFINITIONS

“Kunming Brilliant”	昆明柏聯百盛購物廣場有限責任公司 (Kunming Brilliant Parkson Plaza Co., Ltd.*), a limited liability company established under the laws of the PRC on 2nd March, 2000 and an Independent Third Party
“Kunming Brilliant Renmin Road Branch”	the branch office of Kunming Brilliant situated at Renmin Zhong Lu, Kunming, Yunnan Province, the PRC and established on 23rd December, 2004
“Kunming Renmin Road Managed Store”	the department store located at Renmin Zhong Lu, Kunming, Yunnan Province, the PRC which is owned by Kunming Brilliant Renmin Road Branch and managed by the Group
“Kunming Managed Store”	the department store located at Shanshi Street, Kunming, Yunnan Province, the PRC which is owned by Kunming Brilliant and managed by the Group
“Latest Practicable Date”	12th November, 2005, being the latest practicable date for the inclusion of certain information in this prospectus prior to its publication
“LDHB”	Lion Diversified Holdings Berhad, a public limited liability company incorporated and domiciled in Malaysia, the shares of which are listed on the Main Board of Bursa Malaysia, a member of the Lion Group and the controlling shareholder of the Company
“Lion Group”	a diversified group of companies comprising Lion Corporation Berhad, LDHB, Lion Industries Corporation Berhad, Lion Forest Industries Berhad, Amsteel Corporation Berhad, Silverstone Corporation Berhad and Amalgamated Containers Berhad (all of which are listed on the Bursa Malaysia) and Lion Asiapac Limited and Lion Teck Chiang Limited (both of which are listed on the Singapore Exchange Securities Trading Limited) and their subsidiaries
“Listing”	listing of the Shares on the main board of the Stock Exchange
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Date”	the date, expected to be on or about 30th November, 2005, on which the Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Memorandum of Association” or “Memorandum”	the memorandum of association of the Company as currently adopted

DEFINITIONS

“Mianyang Parkson”	綿陽富臨百盛廣場有限公司 (Mianyang Fulin Parkson Plaza Co., Ltd.*), a sino-foreign co-operative joint venture enterprise incorporated under the laws of the PRC on 16th April, 1997, and converted into a sino-foreign equity joint venture enterprise on 24th October, 2003, and an indirect subsidiary of the Company, which is owned as to 60% by the Group and as to 40% by Sichuan Fulin
“Mianyang Store”	the department store located in Mianyang, Sichuan Province, the PRC which is owned and operated by Mianyang Parkson
“Ministry of Commerce”	中華人民共和國商務部, the Ministry of Commerce of the PRC
“Nanning Brilliant”	南寧柏聯百盛商業有限公司 (Nanning Brilliant Parkson Commercial Co. Ltd.*), a sino-foreign equity joint venture enterprise established under the laws of the PRC on 22nd April, 2005, a member of the Lion Group which is owned as to 51% by Sea Coral and the owner of the Nanning Managed Store
“Nanning Managed Store”	the department store located in Nanning, Guangxi Province, the PRC which is owned by the Lion Group and managed by the Group
“New Shares”	a total of 110,400,000 new Shares being offered by the Company under the Offering
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage fee of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005%) of not more than HK\$9.80 and expected to be not less than HK\$8.40, such price to be agreed upon by the Company, the Selling Shareholder and BNP Paribas Peregrine (on behalf of the Underwriters) on or before the Price Determination Date
“Offer Shares”	the Hong Kong Offer Shares and the International Placing Shares, collectively, and where relevant, together with any additional Shares sold pursuant to the exercise of the Over-allotment Option
“Offering”	the Hong Kong Public Offering and the International Placing
“Original Group”	Wuxi Parkson, Yangzhou Parkson, Shanghai Lion Investment, Beijing Century, Xinjiang Parkson, Beijing Parkson, Shanghai Nine Sea Parkson, Xi’an Lucky Parkson, Shanghai Lion Property, Mianyang Parkson, Chongqing Parkson, Parkson Investment, Rosenblum, Exonbury and Parkson Supplies

DEFINITIONS

“Over-allotment Option”	the option to be granted by the Selling Shareholder to BNP Paribas Peregrine subject to the terms and conditions of the International Placing Underwriting Agreement pursuant to which the Selling Shareholder may be required to sell up to an additional aggregate of 24,840,000 Shares (representing 15% of the Shares initially being offered under the Offering) to cover over-allocations in the International Placing, details of which are described in the section headed “Structure of the Offering”
“Parkson China Group”	the Original Group and the Excluded Companies
“Parkson Corporation”	Parkson Corporation Sdn. Bhd. (formerly known as Inview Corporation Sdn. Bhd.), a limited liability company incorporated in Malaysia on 24th October, 1986 and a wholly-owned subsidiary of LDHB
“Parkson Investment”	Parkson Investment Pte. Ltd. (formerly known as Eddington Investment Pte. Ltd.), a private company limited by shares incorporated under the Companies Act (Chapter 50 of the Statutes of the Republic of Singapore) on 14th October, 1992 and an indirect wholly-owned subsidiary of the Company
“Parkson Management”	Parkson Management Pte. Ltd., a private company limited by shares incorporated under the Companies Act (Chapter 50 of the Statutes of the Republic of Singapore) on 26th May, 1993 and a member of the Lion Group
“Parkson Pacific”	Parkson Pacific Pte. Ltd., a private company limited by shares incorporated under the Companies Act (Chapter 50 of the Statutes of the Republic of Singapore) on 30th March, 1994 and a member of the Lion Group
“Parkson Supplies”	Parkson Supplies Pte. Ltd., a private company limited by shares incorporated under the Companies Act (Chapter 50 of the Statutes of the Republic of Singapore) on 27th August, 1993 and an indirect wholly-owned subsidiary of the Company
“Parkson Venture”	Parkson Venture Pte. Ltd., a private company limited by shares incorporated under the Companies Act (Chapter 50 of the Statutes of the Republic of Singapore) on 26th May, 1993 and a member of the Lion Group
“PRC GAAP”	the PRC Accounting Standards and Accounting Regulations for Business Enterprises and its supplementary regulations
“PRC government”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities)

DEFINITIONS

“PRG Corporation”	PRG Corporation Limited, a limited liability company established under the laws of the BVI on 20th July, 2005, the immediate holding company of the Company and a wholly-owned subsidiary of LDHB
“Price Determination Date”	on or about 23rd November, 2005 (Hong Kong time) at which time the Offer Price is determined, or such later time as the Company, the Selling Shareholder and BNP Paribas Peregrine (on behalf of the Underwriters) may agree, but in any event not later than 29th November, 2005
“Principal Share Registrar”	Butterfield Fund Services (Cayman) Limited
“QIBs”	qualified institutional buyers within the meaning of Rule 144A
“Qingdao Laoshan Xtra Managed Store”	the supercentre located in Li Chang District, Qingdao, Shandong Province, the PRC which is owned by the Lion Group and managed by the Group
“Qingdao Managed Store”	the department store located in Qingdao, Shandong Province, the PRC which is owned by the Lion Group and managed by the Group
“Qingdao No.1”	青島第一百盛有限公司 (Qingdao No.1 Parkson Co., Ltd.*), a sino-foreign equity joint venture enterprise established under the laws of the PRC on 26th August, 1994, a member of the Lion Group which is owned as to 50% and 2.6% by Parkson Venture and Serbadagang Holdings respectively and the owner of the Qingdao Managed Store, the Qingdao Yantai Managed Store and the Qingdao Laoshan Xtra Managed Store
“Qingdao Yantai Managed Store”	the department store located in Yantai, Shandong Province, the PRC which is owned by the Lion Group and managed by the Group
“Receiving Banker”	Standard Chartered Bank (Hong Kong) Limited
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganisation”	the reorganisation arrangements undergone by the Group in preparation for the Listing as described in the paragraph headed “Reorganisation” in the section headed “Business” and the paragraph headed “Corporate reorganisation” in Appendix VII to this prospectus

DEFINITIONS

“Repurchase Mandate”	the general unconditional mandate to repurchase Shares given to the Directors by the shareholders of the Company, further details of which are contained in the paragraph headed “Written resolutions of the sole shareholder of the Company passed on 9th November, 2005” in Appendix VII to this prospectus
“RMB” and “Renminbi”	the lawful currency of the PRC
“Rosenblum”	Rosenblum Investments Pte. Ltd., a private company limited by shares incorporated under the Companies Act (Chapter 50 of the Statutes of the Republic of Singapore) on 26th February, 2000 and an indirect wholly-owned subsidiary of the Company
“Rule 144A”	Rule 144A under the U.S. Securities Act
“S\$” or “Singapore dollars”	Singapore dollars, the lawful currency for the time being of Singapore
“Sale Shares”	a total of 55,200,000 Shares being offered for sale by the Selling Shareholder excluding Shares which may be sold pursuant to the exercise of the Over-allotment Option
“SARS”	Severe Acute Respiratory Syndrome
“Sea Coral”	Sea Coral Limited (海珊有限公司), a private company limited by shares incorporated under the Companies Ordinance on 25th January, 2005 and a member of the Lion Group
“Selling Shareholder”	PRG Corporation
“Serbadagang Holdings”	Serbadagang Holdings Sdn. Bhd., a private company limited by shares established under the Companies Act, 1965 of Malaysia on 25th April, 1985 and a member of the Lion Group
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Shaanxi Chang’an Information”

陝西長安信息置業投資有限公司 (formerly known as “陝西天寶置業投資有限公司”) (Shaanxi Chang’an Information Property Investment Co., Ltd.*), a limited liability company established under the laws of the PRC on 19th July, 2000 and a joint venture partner of the Group, which is owned as to 65.45% by 長安信息產業(集團)股份有限公司 (Chang’an Information Property (Group) Co., Ltd.*), as to 20.73% by 西安亞盛實業開發有限公司 (Xi’an Ya Sheng Industrial Development Co., Ltd.*), as to 6.91% by 陝西眾興企業集團有限公司 (Shaanxi Zhong Xing Enterprise Group Co., Ltd.*), the beneficial owners of these shareholders being Independent Third Parties, and as to 6.91% by Zong Feng, an Independent Third Party

“Shanghai Hongqiao Parkson”

上海虹橋百盛商貿有限公司 (Shanghai Hongqiao Parkson Development Co., Ltd.*), a limited liability company established under the laws of the PRC on 29th November, 2002, and converted into a wholly foreign-owned enterprise on 26th October, 2005, and an indirect wholly-owned subsidiary of the Company

“Shanghai Hongqiao Store”

the department store located in Changning District, Shanghai, the PRC which is owned and operated by Shanghai Hongqiao Parkson

“Shanghai Lion Investment”

上海獅貿投資諮詢有限公司 (Shanghai Lion Parkson Investment Consultant Co., Ltd.*), a wholly foreign-owned enterprise established under the laws of the PRC on 3rd March, 1998 and an indirect wholly-owned subsidiary of the Company

“Shanghai Lion Property”

上海九海金獅物業管理有限公司 (Shanghai Nine Sea Lion Properties Management Co., Ltd.*), a sino-foreign co-operative joint venture enterprise established under the laws of the PRC on 26th March, 1996 between the Group and Shanghai Nine Sea Industry and an associated company of the Company, the distributable profits of which are shared between the Group and Shanghai Nine Sea Industry at the ratio of 35% and 65% respectively

“Shanghai Nine Sea Industry”

上海九海實業有限公司 (formerly known as “上海九海實業公司”) (Shanghai Nine Sea Industry Co., Ltd.*), an enterprise owned by the whole people established under the laws of the PRC on 21st November, 1991 which was converted into a limited liability company on 19th July, 2003 and a joint venture partner of the Group

DEFINITIONS

“Shanghai Nine Sea Parkson”	上海九海百盛廣場有限公司 (formerly known as “上海九海金獅廣場有限公司”) (Shanghai Nine Sea Parkson Plaza Co., Ltd.*), a sino-foreign co-operative joint venture enterprise established under the laws of the PRC on 30th November, 1994 between the Group and Shanghai Nine Sea Industry and an indirect subsidiary of the Company
“Shanghai Nine Sea Store”	the department store located at Huai Hai Road, Shanghai, the PRC which is owned and operated by Shanghai Nine Sea Parkson
“Shantou Commercial”	汕頭市百盛商業有限公司 (Shantou Parkson Commercial Co., Ltd.*), a limited liability company incorporated in the PRC on 14th June, 2004, to be acquired by the Lion Group and the owner of the Shantou Managed Store
“Shantou Managed Store”	the department store located in Shantou, Guangdong Province, the PRC which is owned by Shantou Commercial and managed by the Group
“Shanxi Zhongyue”	山西中躍百盛商貿有限公司 (Shanxi Zhongyue Parkson Commercial and Trading Co., Ltd.*), a limited liability company established under the laws of the PRC on 19th September, 2002 and a subsidiary of China Arts & Crafts
“Shares”	shares in the share capital of the Company, with a par value of HK\$0.1 each, for which an application has been made for listing and permission to deal on the main board of the Stock Exchange, and which are subscribed for and traded in Hong Kong dollars
“Share Option Scheme”	the share option scheme conditionally approved and adopted by the Company on 9th November, 2005, the principal terms of which are summarised in the section headed “Share Option Scheme” in Appendix VII to this prospectus
“Shenyang Aikejia”	瀋陽愛客家超市有限公司 (Shenyang Aikejia Supermarket Co., Ltd.*), a limited liability company established under the laws of the PRC on 10th November, 1999 and an Independent Third Party
“Shenyang Plaza”	瀋陽百盛購物廣場有限公司 (Shenyang Parkson Shopping Plaza Co., Ltd.*), a limited liability company incorporated in the PRC on 28th November, 2003, to be acquired by the Lion Group and the owner of the Shenyang Plaza Managed Store

DEFINITIONS

“Shenyang Plaza Managed Store”	the department store located in Heping District, Shenyang, Liaoning Province, the PRC which is owned by Shenyang Plaza and managed by the Group
“Shenyang Xtra Managed Store”	the supercentre located in Tie Xi District, Shenyang, Liaoning Province, the PRC which is owned by Shenyang Aikejia and managed by the Group
“Sichuan Development”	四川百盛商業發展有限公司 (formerly known as “四川和正百盛廣場有限公司”) (Sichuan Parkson Retail Development Co., Ltd.*), a sino-foreign equity joint venture enterprise established under the laws of the PRC on 3rd March, 1994 and converted into a wholly foreign-owned enterprise on 18th October, 2005, and a member of the Lion Group
“Sichuan Fulin”	四川富臨實業集團有限公司 (Sichuan Fulin Industrial Group Co., Ltd.*), a limited liability company established under the laws of the PRC on 19th December, 1995, a joint venture partner of the Group, which is owned as to 51% by An Zhi Fu, as to 20% by An Dong, as to 20% by Nie Dan, as to 5% by An Zhou and as to 4% by Xu Bo, all being Independent Third Parties
“Sichuan Shishang Parkson”	四川時尚百盛商業發展有限公司 (Sichuan Shishang Parkson Retail Development Co., Ltd.*), a wholly foreign-owned enterprise established under the laws of the PRC on 8th November, 2005 and an indirect wholly-owned subsidiary of the Company
“Sichuan Store”	the department store located in Chengdu, Sichuan, the PRC, which is owned and operated by Sichuan Shishang Parkson
“Step Summit”	Step Summit Limited (達嶺有限公司), a private company limited by shares incorporated under the Companies Ordinance on 21st March, 2005 and an indirect wholly-owned subsidiary of the Company
“Stock Borrowing Agreement”	the securities lending agreement to be entered into between the Selling Shareholder and BNP Paribas Peregrine on or around 23rd November, 2005
“Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“Stock Exchange of Singapore”	Singapore Exchange Securities Trading Limited
“subsidiaries”	has the meaning ascribed thereto in section 2 of the Companies Ordinance
“Taiyuan Branch”	the branch office of Beijing Parkson situated in Taiyuan, Shanxi Province, the PRC and established on 8th August, 2005

DEFINITIONS

“Taiyuan Store”	the department store located in Taiyuan, Shanxi Province, the PRC which is owned and operated by Taiyuan Branch
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Repurchases
“Tianjin Managed Store”	the department store located in Tianjin, the PRC which is owned by Tianjin Zhonglian and managed by the Group
“Tianjin Zhonglian”	天津中聯百盛商業廣場有限公司 (Tianjin Zhonglian Parkson Commercial Plaza Co., Ltd.*), a limited liability company established under the laws of the PRC on 1st December, 2003 to be acquired by the Lion Group, which, at the Latest Practicable Date, was owned as to 80% by China Arts & Crafts Culture and as to 20% by 中工美投資有限責任公司 (China Arts & Crafts Investments Co., Ltd.*), and a connected person of the Company
“Track Record Period”	the three years ended 31st December, 2004 and the six months ended 30th June, 2005
“Underwriters”	the International Placing Underwriters and the Hong Kong Underwriters
“Underwriting Agreements”	the International Placing Underwriting Agreement and the Hong Kong Underwriting Agreement
“U.S.” or “United States”	The United States of America
“U.S. Securities Act”	Unites States Securities Act of 1933, as amended and supplemented or otherwise modified from time to time
“US\$” or “US dollars”	United States dollars, the lawful currency for the time being of the United States
“WTO”	World Trade Organisation
“Wuxi Distribution”	無錫市供銷合作總社 (Wuxi Distribution Corporation*), a collectively-owned enterprise established under the laws of the PRC on 25th December, 1992 and a joint venture partner of the Group
“Wuxi Parkson”	無錫三陽百盛廣場有限公司 (Wuxi Sanyang Parkson Plaza Co., Ltd.*), a sino-foreign equity joint venture enterprise established under the laws of the PRC on 6th February, 1993 and an indirect subsidiary of the Company, which is owned as to 60% by the Group and as to 40% by Wuxi Distribution
“Wuxi Store”	the department store located in Wuxi, Jiangsu Province, the PRC which is owned and operated by Wuxi Parkson

DEFINITIONS

“Xi’an Chang’an Parkson”	西安長安百盛百貨有限公司 (Xi’an Chang’an Parkson Store Co., Ltd.*), a limited liability company established under the laws of the PRC on 8th November, 2004 and an indirect subsidiary of the Company, which is owned as to 51% by the Group and as to 49% by Shaanxi Chang’an Information
“Xi’an Chang’an Store”	the department store located in Yanta District, Xi’an, Shaanxi Province, the PRC which is owned and operated by Xi’an Chang’an Parkson
“Xi’an Lifeng”	立豐(西安)房地產開發有限公司 (Lucky King (Xi’an) Real Estate Development Co., Ltd.*), a sino-foreign co-operative joint venture enterprise established under the laws of the PRC on 9th October, 1992, a joint venture partner of the Group, which is owned as to 30.08% by Lucky King International Limited (立豐國際有限公司) and as to 69.92% by 西安立豐企業發展投資(集團)有限公司 (Xi’an Lifeng Enterprise Development Investment (Group) Limited*), the beneficial owners of these shareholders being Independent Third Parties
“Xi’an Lucky Parkson”	西安立豐百盛廣場有限公司 (Xi’an Lucky King Parkson Plaza Co., Ltd.*), a sino-foreign equity joint venture enterprise established under the laws of the PRC on 23rd May, 1997 and an indirect subsidiary of the Company, which is owned as to 91% by the Group and as to 9% by Xi’an Lifeng
“Xi’an Lucky Store”	the department store located in Beilin District, Xi’an, Shaanxi Province, the PRC which is owned and operated by Xi’an Lucky Parkson
“Xi’an Shidai Parkson”	西安時代百盛百貨有限公司 (Xi’an Shidai Parkson Store Co., Ltd.*), a limited liability company established under the laws of the PRC on 17th August, 2004 and an indirect subsidiary of the Company, which is owned as to 51% by the Group and as to 49% by Xi’an Xinrun
“Xi’an Shidai Store”	the department store located at West Street, Xi’an, Shaanxi Province, the PRC which is owned and operated by Xi’an Shidai Parkson

DEFINITIONS

“Xi'an Xinrun”	西安新潤置業有限公司 (Xi'an Xinrun Property Co., Ltd.*), a limited liability company established under the laws of the PRC on 30th October, 1998, a joint venture partner of the Group, which is owned as to 39.1% by 陝西雙翼石油化工有限公司 (Shaanxi Shuang Yi Petrochemical Co., Ltd.*), the beneficial owners of this shareholder being Independent Third Parties and as to 23.46% by Song Xin Tian and as to 37.44% by 47 other individual shareholders, all being Independent Third Parties
“Xinjiang Parkson”	新疆友好百盛商業發展有限公司 (Xinjiang Youhao Parkson Development Co., Ltd.*), a limited liability company established under the laws of the PRC on 11th November, 2002 and an indirect subsidiary of the Company, which is owned as to 51% by the Group and as to 49% by Xinjiang Youhao (it is however accounted for as a joint venture in the accountants' report set out in Appendix I to this prospectus)
“Xinjiang Store”	the department store located in Xinjiang, the PRC which is owned and operated by Xinjiang Parkson
“Xinjiang Youhao”	新疆友好(集團)股份有限公司 (Xinjiang Friendship (Group) Co., Ltd.*), a public limited liability company established under the laws of the PRC on 25th August, 1993, the shares of which are listed on the Shanghai Stock Exchange, and a joint venture partner of the Group
“Yangzhou Commercial”	揚州商業大廈 (Yangzhou Commercial Plaza*), a wholly State-owned enterprise established under the laws of the PRC on 10th April, 1995 and a joint venture partner of the Group
“Yangzhou Parkson”	揚州百盛商業大廈有限公司 (Yangzhou Parkson Plaza Co., Ltd.*), a sino-foreign equity joint venture enterprise established under the laws of the PRC on 16th May, 1996 and an indirect subsidiary of the Company, which is owned as to 55% by the Group and as to 45% by Yangzhou Commercial (it is however accounted for as a joint venture in the accountants' report set out in Appendix I to this prospectus)
“Yangzhou Store”	the department store located in Yangzhou, Jiangsu Province, the PRC which is owned and operated by Yangzhou Parkson
“Yueyang Branch”	the branch office of Shanghai Hongqiao Parkson situated in Yueyang City, Hunan Province, the PRC and established as a branch of a limited liability company on 18th November, 2003, and converted into a branch of a wholly foreign-owned enterprise on 8th November, 2005

DEFINITIONS

“Yueyang Store”	the department store located in Yueyang, Hunan Province which is owned and operated by Yueyang Branch
“Zhengzhou Branch”	the branch office of Beijing Parkson situated in Zhengzhou, Henan Province, the PRC and established on 15th March, 2005
“Zhengzhou Store”	the department store located in Zhengzhou, Henan Province, the PRC which is owned and operated by Zhengzhou Branch
“%”	per cent
“m ² ” or “sq.m.”	square metres

** English translation of company names for identification purpose only*

Unless otherwise specified, statements contained in this prospectus assume no exercise of the Over-allotment Option. See the section headed “Underwriting” in this prospectus.

Unless otherwise specified, translations of HK\$ into US\$, RMB into HK\$ and HK\$ into RMB in this prospectus are based on the rates set out below (for the purpose of illustration only):

HK\$1.00 : RMB1.04

HK\$7.80 : US\$1.00

No representation is made that any amounts in RMB, HK\$ and US\$ can be or could have been converted at the relevant dates at the above rates or any other rates at all.

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms used in this prospectus in connection with the Company and its business. These terminologies and their given meanings may not correspond to those standard meanings and usage adopted in the industry.

“B2B”	an e-commerce model whereby businesses transact with other businesses on-line
“BI system”	Business Intelligence system, the system within the Group’s ERP system that generates financial and sales analysis reports to the management of the Group
“connected managed store”	the store owned by a connected person of the Group which the Group has a right of first refusal to acquire, a further description of which is set out in the section headed “Connected transactions” in this prospectus
“CRM”	Customer Relationship Management systems, with software and/or internet capabilities to improve customer recruitment and retention
“ERP system”	Enterprise Resource Planning system, a part of the Group’s retail management system which includes the Merchandising System, the BI system and the SCM system
“managed stores with an option to acquire”	stores owned or to be acquired by the Lion Group and managed by the Group in respect of each of which the Group has an option and a right of first refusal to acquire, further description of which is set out in the section headed “Connected transactions” in this prospectus
“managed stores”	managed stores with an option to acquire, pure managed stores and the connected managed store
“Merchandising System”	a web-based system within the Group’s ERP system which contains detailed information on the suppliers of the Group
“POS system”	Points of Sale system, a part of the Group’s retail management system installed in the Group’s stores which deals with, among other things, purchases, sales, inventory control and customer analysis
“pure managed stores”	stores owned by Independent Third Parties and managed by the Group
“SCM system”	Supply Chain Management system, a web-based system within the Group’s ERP system that allows participating suppliers to access information relating to their sales within the Group’s stores

GLOSSARY OF TECHNICAL TERMS

“self-owned stores”	“Parkson” branded stores owned (partially or wholly) and operated by the Group
“SOPs”	standard operation procedures devised by the management of the Group to standardise the business development, management and operational procedures of the Group which are to be adhered to by the management and staff of the Group in the carrying out of their functions and duties
“supercentres”	a combination of supermarket and general merchandise department store

RISK FACTORS

Investors should consider carefully all of the information set out in this prospectus and, in particular, should evaluate the following risks in connection with an investment in the Group, certain of which are not typically associated with investing in equity securities of companies from Hong Kong or other economically advanced jurisdictions.

The Directors believe that there are certain risks involved in the Group's operations. They can be categorised into: (i) risks relating to the Group; (ii) risks relating to the Group's industry; (iii) risks relating to the PRC and (iv) risks relating to the Offering.

RISKS RELATING TO THE GROUP

Upon consolidation of the Acquired Stores with those in the Original Group, certain aspects of the Group's combined financial results may be affected.

The Acquired Stores are being combined with those in the Original Group for strategic business reasons, many of which focus on the long-term positioning of the Group and its brand, including but not limited to expanding the national coverage of the Group's network of stores across the PRC. While adding the Acquired Stores will significantly increase the Group's annual revenue, because several of the Acquired Stores are not currently profitable (or are only marginally so) and because many have net current liabilities, the combination of their financial results with those of the Original Group is likely, in the short term at least, to negatively affect the profitability of the Group as well as its net asset position, among other financial measures. Because a number of the Acquired Stores have begun their operations within the last two years, the Group cannot predict with any certainty that these stores (or others in the Acquired Stores) will achieve or sustain profitability.

Significant financial dependence during the Track Record Period on sales from stores in Beijing and Shanghai.

While the Group operates 37 Parkson branded department stores and 2 "Xtra" branded supercentres in 26 cities in the PRC, sales at the Original Group's Beijing Store and at its Shanghai Nine Sea Store are each much larger than sales at any of the Original Group's other stores located elsewhere in the PRC. During the years ended 31st December, 2002, 2003 and 2004 and the six months ended 30th June, 2005, revenue from direct sales and commission from concessionaire sales at the Beijing Store and the Shanghai Nine Sea Store together accounted for 55.3%, 53.9%, 56.8%, and 52.0% of the Original Group's total operating revenue, which represents 36.3% and 33.0% of the total operating revenue of the Combined Group for the year ended 31st December, 2004 and six months ended 30th June, 2005. As a result, the Group is significantly financially dependent on the Beijing and Shanghai markets generally, and on the performance of its Beijing Store and Shanghai Nine Sea Store in particular. If Beijing or Shanghai were to suffer any significant economic downturn, or if retail demand in those places were to otherwise decrease, the Group's financial condition and results of operations may be harmed as a result. Furthermore, if sales at the Group's Beijing Store or its Shanghai Nine Sea Store were to decline for any reason, or if those stores were forced to limit, cease or change their scope of operations for any reason, the Group's business may be adversely and materially affected.

RISK FACTORS

As the Group derives substantially all of its revenue from the PRC, any downturn in the broader PRC economy may harm the Group's business.

The retail industry is very sensitive to broader economic trends as retail purchases tend to decline during recessionary periods. Substantially all of the Group's annual revenue during the Track Record Period was derived from retail sales made at its department stores in the PRC and from management services and rental income earned in the PRC. A recession in the economy of the PRC, or uncertainties regarding future economic prospects of the PRC could affect consumer spending habits there, including a reduction in consumer spending, and would have an adverse effect on the Group's business. A sustained economic downturn in the PRC would likely to have an adverse effect on the Group's results of operations and financial condition.

The Group's business depends on the Group's ability to locate its stores in prime areas, which may become more difficult in the future.

The Group's department store business depends significantly on its ability to locate its stores at prime and convenient locations where there is a high population density and pedestrian flow. Given the scarcity of these prime and convenient locations and their relatively high rental, particularly in the larger metropolitan areas that the Group targets for its present stores and its expansion, there is no assurance that the Group could secure or obtain such locations on favourable terms to the Group for deployment of its stores. Failure to successfully locate the Group's future stores at such prime and convenient locations may slow down the growth in the Group's sales, and hence, may negatively affect its future growth.

At present, approximately 80% of the self-owned store sites are leased by the Group. The Group therefore has a considerable exposure to the PRC retail rental market. For each of the three years ended 31st December, 2004 and the six months ended 30th June, 2005, each of the total rental costs in respect of the Group's stores amounted to about RMB45.5 million, RMB53.2 million, RMB53.2 million and RMB35.3 million respectively, representing about 8.1%, 8.2%, 6.8% and 7.0% respectively of the Group's total annual operating revenues for each of those respective periods. Given the economic growth in the PRC generally, the leasing costs in certain parts of the PRC property market are expected to increase. As a result, the profitability of the Group may be affected by fluctuations in the rental market.

Most retail tenancies of the Group's stores are negotiated on a long term basis of typically ten to twenty years. On expiry of the lease agreement for each of the stores, the Group has to negotiate the terms and conditions on which the lease agreement may be renewed. There is no assurance that the Group will be able to renew such lease agreements on terms and conditions, in particular the rent, which are favourable to the Group. In that case, the Group may have to seek an alternative site and the existing store in question may need to be relocated. In addition, there is no assurance that such alternative site will be at a comparable location or leased on comparable terms.

The Group's success depends on its ability to identify and respond to constantly changing customer preferences.

The retail industry is subject to changing customer preferences. There can be no assurance that the Group's merchandise selection, or that of its concessionaires, will accurately reflect

RISK FACTORS

customer preferences at any given time. If the Group fails to anticipate accurately either the market for its merchandise or customers' purchasing habits, the Group's sales may be reduced, it may receive lower concession fees or be required to sell a significant amount of inventory at discounted prices or even below cost, which could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group relies on its concessionaires to provide a substantial amount of its total operating revenues.

For each of the three years ended 31st December, 2004 and the six months ended 30th June, 2005, 49.4%, 45.8%, 45.5% and 44.4% respectively of the Original Group's total operating revenues for the period was derived from commissions from concessionaire sales. The Group's concessionaire agreements are generally for a period of one year, with a termination notice period of one to two months. In the event that several concessionaires terminate their respective concessionaire agreements with the Group at the same time and the Group is unable to find suitable replacements on commercially reasonable terms, the Group's business and results of operations may be adversely affected.

If the Group is unable to protect certain of its intellectual property, particularly the "Parkson" or "百盛" trademarks, its business may be harmed.

The Group has invested, and plans to continue to invest, significant resources in the development and maintenance of its intellectual property including the "Parkson" or "百盛" brand names under which those stores operate. These trademarks are registered and licensed to the Group by Parkson Corporation under a trademark licence agreement, further details of which are set out in the section headed "Connected transactions" in this prospectus. However, neither the Group nor Parkson Corporation is currently able to register the "Parkson" or "百盛" trademarks for retail services in the PRC, as trademarks for retail services are not allowed to be registered according to current practice at the PRC Trade Marks Office. The Group has been able to register its "Parkson" and "百盛" marks as "well-known" tradenames in Beijing, but the scope of the protection thereunder is still not clear. The Group now intends to try to register its "Parkson" and "百盛" marks as "well-known" tradenames in Chongqing and nationwide. There can be no assurance that the Group will be successful in this endeavour, however. Should a third party adopt or use the Group's unregistered trademarks in the PRC, the Group may not be able to take action to protect its use of such unregistered trademarks. The Group is aware of ten cases of unauthorised use of its unregistered trademarks in the PRC over the Track Record Period. Although some cases of unauthorised use involve businesses that are involved in completely different businesses than the Group, the majority of them involve retail. Furthermore, a number of these cases are in markets where the Group operates, including Beijing, Xi'an and Xinjiang. If this use continues, or other unauthorised parties begin using the Group's unregistered trademarks, the Group's image and brand recognition could be harmed, which, in turn, could have an adverse impact on the Group's financial performance.

If the Group cannot manage the risks related to its growth strategy, its future prospects may be limited, its competitive position could suffer and its future profitability could be affected.

The Group plans to pursue a five-year growth strategy to expand its retail presence in the PRC. The Group expects to fund its expansion through a combination of proceeds from the Offering and medium and long term bank loans. In particular, the Group currently expects to establish or acquire

RISK FACTORS

approximately 30 new stores in the PRC by 2010. There are significant risks involved in the Group's growth strategy, including whether the Group can access adequate financial resources, whether the Group has timed and determined the magnitude of its expansion in a manner that will win it greater revenues and profitability and not burden it with excessive costs, whether the Group can hire and train sufficiently qualified staff and whether it can successfully negotiate the terms of new leases and concessions. Furthermore, management of the Group's growth will require continued development of the Group's operating and financial controls and may place strains on the Group's information technology systems. There is no assurance that the Group will be able to expand on a timely basis or operate the business on a profitable basis. If this expansion is not successfully managed, such increased costs will harm the Group's financial results.

The Group requires a number of regulatory licences in order to operate, and will require more to expand into new markets, which it may be unable to obtain.

The Group's department store business is spread geographically across the PRC, and is expected to expand further. Accordingly, the Group requires relevant approvals and licences at the municipal level, and/or provincial levels, and ministry levels. According to the Group's PRC counsel, the Group has obtained all relevant approvals and licences required for its operations, including the operations of its concessionaires, except the following: Anshan Parkson, Xi'an Shidai Parkson, Xi'an Chang'an Parkson, Beijing Haidian Branch, and Chongqing Wanzhou Branch have not obtained permit letters for fire safety inspection; in respect of Sichuan Shishang Parkson, the permit letter for fire inspection has been obtained for one of the two wings of its store, while a preliminary permit has been obtained for the other wing; Chongqing Parkson has not obtained a permit for retail sales of alcohol commodities.

Some special permits for specific goods and services held by the Group have recently expired and/or are subject to modification due to the Group's reorganisation, and the Group is undergoing procedures with the relevant authorities to renew them. Moreover, some members of the Group have established new branches, and it takes some time for these new branches to obtain the special permits for specific goods and services.

Although the regulation in Chongqing requires enterprises which conduct retail sales of alcohol commodities to obtain a special retail permit, the Chongqing local authority of industry and commerce has orally confirmed to the Group that the aforesaid retail permit is not currently required. Thus Chongqing Parkson has not been able to apply for such permit. The Group's stores that are currently operating without fire safety inspection and/or hygiene permits for the operation of stores are subject to fines as high as RMB0.1 million per store and/or suspension of an offending store's operation. The Group is in the process of applying for proper fire safety permits for these stores. There can be no assurance that approvals and licences still required by the Group or required in the future as a result of expansion will be obtained. Any failure to obtain them in a timely manner may have an adverse effect on the Group's future financial performance. LDHB and the Selling Shareholder have agreed to indemnify the Company against all liability for fines in respect of the Group's failure to obtain proper licences for selling specific goods or provision of services, and fire safety inspection and hygiene permits.

RISK FACTORS

The Group faces strong competition for suitable personnel, which may make it difficult to recruit and retain employees.

The Group's success depends on its ability to attract and retain staff. In particular, it requires a significant number of capable and qualified personnel to fill sales and middle management positions in the PRC, and in the future will need to fill more of those positions. In the three years ended 31st December, 2004 and the six months ended 30th June, 2005, the Group had an employee turnover rate of 24.4%, 30.5%, 26.0% and 19.8% respectively. The Group has generally not had a problem finding suitable personnel, although it has at times experienced problems finding suitable candidates for middle management positions. If the Group is unable to retain sufficient numbers of suitable employees for its existing stores or is unable to recruit additional employees to fulfil its expansion plans, its operations may be materially and adversely affected and it may be hindered in pursuing its business strategy.

A recurrent SARS outbreak or an outbreak of another virulent contagious disease may materially and adversely affect the Group's business, results of operations and financial condition.

From March to July 2003, the PRC, Hong Kong, Singapore, Taiwan and certain other areas in Asia experienced an outbreak of a new and contagious form of atypical pneumonia now known as SARS. According to the World Health Organisation, over 8,422 cases of SARS and 916 deaths had been reported in 29 countries from November 2002 to August 2003. During the SARS outbreak, consumer traffic to retail areas in the PRC, including the Group's department stores, lessened significantly. The Directors believe that the Group's business suffered during that period as a result. A recurrent outbreak of SARS or the outbreak of another virulent contagious diseases in any of the areas where the Group operates, or in the PRC or Greater China more generally, could materially and adversely affect the Group's business, results of operations and financial condition.

Additionally, the outbreak of SARS or another virulent contagious disease could potentially disrupt the Group's operations if any employees or customers in the Group's stores are suspected to have contracted such diseases, and the store is identified as a possible source of spreading the SARS infection. The Group may be required to quarantine employees who are suspected of being infected. The Group may also be required to disinfect the affected store and therefore suffer a temporary suspension of its retail operations. Any quarantine of employees or suspension of its retail operations at any store is likely to adversely affect the Group's overall operations and results of operations.

Sales may decline if the Group does not successfully market its department stores.

The Group's business is affected by the success or failure of its marketing and promotional efforts and those of its concessionaires. Future marketing efforts by the Group or its concessionaires may be costly and may not result in increased sales. If the Group were to undertake a major marketing campaign without success, it could have a negative impact upon the Group's revenues. In either case, increased costs and decreased margins, accompanied by static or decreased revenues, would cause a decline in the Group's results of operations.

RISK FACTORS

The Group's success depends significantly on key management and its ability to attract and retain additional management.

The Group's future success is dependent on the efforts, performance and abilities of its key management. The loss of any member of the Group's senior management may result in: (i) a loss of organisational focus; (ii) poor operating execution; and (iii) an inability to identify and execute potential strategic initiatives such as expansion of the Group's network of stores. These adverse results could, among other things, reduce potential revenue, prevent the Group from diversifying its service lines and expose it to downturns in its market. Those circumstances, in turn, could adversely affect the Group's profitability and financial results.

The Directors are of the opinion that the losing of the services of Mr Chew Fook Seng, Mr Tan Hun Meng and Mr Low Kim Tuan at the same time would adversely affect the business of the Group to a material extent.

The Group's occupancy of certain properties in the PRC may be threatened and certain land use rights and building ownership certificates are still under application.

The Group's occupancy of certain properties in the PRC may be threatened due to various reasons. These include where the Group entered into leases of certain properties in the PRC that have been or may have been mortgaged by their respective owners prior to entering into the respective leases with the Group. Under PRC law, a lease entered into in respect of a property which has been mortgaged prior to the entering into such lease is not legally binding on any prospective transferee of such property in the event that such property is foreclosed under the terms of the relevant mortgage. Any new owner of properties with such a type of lease could request the Group to move or renegotiate the terms of its lease which could adversely affect the Group's business.

In respect of properties occupied by Anshan Store and Chongqing Wanzhou Store, as the Group has failed to obtain the relevant information about the length of the mortgages relating to the premises from the relevant landlords, the Group's PRC legal adviser cannot give a clear and specific opinion on whether the lease agreements relating to these stores are enforceable or not.

Additionally, the Group currently leases certain properties which cannot be legally leased to the Group. Therefore the Group may be required by law to move its stores to other locations and its business could be adversely affected. The Group has also sub-leased certain premises without the consent of its landlord, such premises being at properties occupied by Beijing Century and Beijing Haidian Branch.

The building ownership certificates for the properties occupied by the Yueyang Store, the Xi'an Shidai Store, the Chongqing Nanping Store and the Zhengzhou Store are currently under application as these properties are under construction. The state-owned land use rights certificate and building ownership certificate for the property occupied by the Guizhou Store are also currently under application. As such, the Directors believe that the only store which may be subject to a relocation risk realistically will be the Beijing Haidian Store, which alone is not considered by the Directors to be material to the operations of the Group.

Pursuant to the deed of indemnity dated 16th November, 2005, LDHB and the Selling Shareholder have agreed to indemnify the Group against all or any demands, claims, actions or

RISK FACTORS

proceedings instituted or threatened by or against the Group and all or any losses, damages, costs, charges, fees, expenses, penalties or other liabilities whatsoever which the Group may suffer, sustain, incur or become liable as a result of any non-compliance with the PRC laws including any relocation costs arising from such defects.

If owners of “Parkson” branded managed stores do not allow their respective stores to be operated in a manner similar to those owned by the Group, the “Parkson” brand and the Group’s business may be harmed.

As at the Latest Practicable Date, certain “Parkson” branded managed stores operated by the Group were owned by third parties. Although these stores are all managed by the Group, the respective third party owners may sometimes participate in the key management and operation decision making and determine the long term strategy of the store. If these third party owners prevent the Group from managing “Parkson” branded stores in a manner similar to those owned by the Group, the reputation of the “Parkson” brand may suffer and the Group’s business may be harmed. Similarly but to a lesser extent, any disagreement between the Group and the joint venture partners of the self-owned stores as to the manner in which the relevant store is to be operated may also have an adverse effect on the Group’s business. Furthermore, the Group is planning to expand principally by increasing the number of self-owned stores in its portfolio but in appropriate cases it will also grow by increasing the number of “Parkson” branded stores which it manages on behalf of third parties and from which it receives management fees. If the Group is unable to find satisfactory third parties to invest or joint venture partners to co-operate in such expansion, its business prospects may be harmed.

Investors should read the entire prospectus carefully and the Group strongly cautions investors not to place any reliance on any information contained in press articles or other media, certain of which may not be consistent with information contained herein.

There has been press coverage regarding the Group and the Offering in the following Hong Kong news publications: The Standard, Apple Daily, Oriental Daily and The Sun on 8th November, 2005, which included certain financial information, financial and operational projections, valuations, and other information about the Group (the “Information”) that do not appear in this prospectus. The Group wishes to emphasise to potential investors that it does not accept any responsibility for the accuracy or completeness of the Information and that the Information was not sourced from or authorised by the Group. It makes no representation as to appropriateness, accuracy, completeness or reliability of any of the Information. To the extent that any of the Information is inconsistent with, or conflicts with, the information contained in this prospectus, the Group disclaims it. Accordingly, prospective investors should not rely on any of the Information.

RISKS RELATING TO THE GROUP’S INDUSTRY

The department store business is highly competitive and it faces further competition from multiple retail formats.

The retail industry in the PRC is highly competitive, in particular, the operation of department stores. The Group faces strong competition from other national and international operators of department stores, supermarkets, hypermarkets, convenience stores, specialty retailers and

RISK FACTORS

discount stores. All such stores owned by third parties compete with the Group's stores. The Group also expects that an increasing number of international retailers may enter the PRC market in the future either through joint ventures or directly, as a number have done already. The Directors believe that the principal areas in which the Group competes with its competitors are (i) degree of brand recognition and suitable store image; (ii) location of stores and extensive network in the PRC; (iii) good understanding of the retail industry, fashion trends and market demand in the PRC; (iv) economies of scale; (v) competitive advantage with suppliers; (vi) wide range of brands and products; (vii) product quality; and (viii) flexibility and speed in responding to customers' demand. However, if the Group's competitors are able to offer a collection and range of products that are at least comparable with the Group's stores and are located in similarly prime locations, there can be no assurance that the Group will be able to compete successfully with them or achieve growth in the future.

The Group may incur product liability for defective goods in its department stores.

Pursuant to the General Principles of the Civil Law of the PRC, a defective product which causes property damage or physical injury to any person may subject the vendor of such product to civil liability. According to the Group's PRC counsel, this law renders the Group liable for loss or injury arising from defective products it sells at its department stores, including products sold by concessionaires. The Group does not currently carry any product liability insurance, and will therefore be subject to the full amount of any product liability that it may incur. Although most of the Group's concessionaires provide the Group with a written indemnity covering the full extent of any third party liability they incur through their operations and sales made in the Group's department stores, there can be no assurance that the Group will be successful in obtaining such indemnity payment or that the indemnity payment will fully cover all of the Group's costs associated with the original liability. Furthermore, if the Group or its concessionaires are found to be responsible for damages caused by defective goods, the Group's reputation may be adversely affected.

The Group may incur liability for goods sold in its department stores that violate the intellectual property rights of others.

The Group and its concessionaires source merchandise worldwide. Although the Group has adopted measures to minimise potential infringement of intellectual property rights of third parties, the Group may not always be successful. In the event that the Group or its concessionaires sell infringing goods at the Group's department stores, the Group, in its capacity as retailer, may be found liable for intellectual property violation and be compelled to pay damages. Moreover, although most of the Group's concessionaires provide the Group with a written indemnity covering the full extent of any third party liability that they may incur through their operations and sales made in the Group's department stores, there can be no assurance that the Group can successfully obtain such indemnity payment or that the indemnity payment will fully cover all of the Group's costs associated with the original liability.

The PRC's obligations as a member of the WTO may require it to further open up retail industry and allow increased competition.

Following the PRC's accession to the WTO in December 2001, restrictions on the PRC domestic retail market have been gradually lifted to allow greater access for non-PRC retailers. The

RISK FACTORS

Directors believe that this has led to a greater level of competition in the PRC's retail market, including the department stores industry, particularly from large international retailers. The Group expects that, in addition to the existing competition from non-PRC retailers, it will face stronger competition from new foreign entrants into the PRC market.

The Group's business is seasonal.

Like many operators of department stores, the Group experiences seasonal fluctuations in its turnover and operating income and generally records higher turnover from September through February than from March through August. This is due primarily to the impact of increased sales at Chinese New Year in the PRC. As a result of these fluctuations, comparisons of sales and operating results between different periods within a single financial year, or between different periods in different financial years, are not necessarily meaningful and cannot be relied on as indicators of the Group's performance. Any seasonal fluctuations reported in the future may not match the expectations of investors. This could cause the trading price of the Shares to fluctuate.

RISKS RELATING TO THE PRC

Substantially all of the Group's assets are located in, and all of the Group's revenue is sourced from, the PRC. Accordingly, the Group's results of operations, financial position and prospects are, to a significant degree, subject to the economic, political and legal developments of the PRC.

Changes in the economic and political environment in the PRC and policies adopted by the PRC government to regulate its economy may adversely affect the Group's business, operating results and financial condition.

Substantially all of the Group's operations are located in the PRC. The PRC's economy differs from the economies of most countries belonging to the Organisation for Economic Cooperation and Development in such respects as structure, government involvement, level of development, growth rate, capital reinvestment, allocation of resources, rate of inflation and balance of payments position. Prior to 1978, the PRC's economy was a planned economy. Since 1978, increasing emphasis has been placed on the utilisation of market forces in the development of the PRC's economy. Annual and five-year state plans are adopted by the PRC government in connection with the development of the economy. Although state-owned enterprises still account for a substantial portion of the PRC's industrial output, in general, the PRC government is reducing the level of direct control which it exercises over the economy through state plans and other measures. There is an increasing level of freedom and autonomy in areas such as allocation of resources, production and management and a gradual shift in emphasis to a "market economy" and enterprise reform. There can be no assurance that the PRC government will continue to pursue a policy of economic reform. The Group may not in all cases be able to capitalise on the economic reform measures adopted by the PRC government.

The Group's operations and financial results could be adversely affected by changes in political, economic and social conditions or the relevant policies of the PRC government, such as changes in laws and regulations (or the interpretations thereof), measures which might be introduced to control inflation, changes in the rate or method of taxation, imposition of additional restrictions on currency conversion and the imposition of additional import restrictions.

RISK FACTORS

The PRC's legal system embodies uncertainties that may adversely affect the Group's business and operating results.

Since 1979, many new laws and regulations covering general economic matters have been promulgated in the PRC. Despite this development of the legal system, the PRC's system of laws is not yet complete. Even where adequate law exists in the PRC, enforcement of existing laws or contracts based on existing law may be uncertain and sporadic, and it may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a judgment by a court of another jurisdiction. The relative inexperience of the PRC's judiciary in many cases creates additional uncertainty as to the outcome of any litigation. In addition, interpretation of statutes and regulations may be subject to government policies reflecting domestic political changes.

The Group's activities in the PRC are subject to administrative review and approval by various national and local agencies of the PRC government. Because of the changes occurring in the PRC's legal and regulatory structure, the Group may not be able to secure the requisite governmental approval for its activities. Failure to obtain the requisite governmental approval for any activities could adversely affect the Group's business and operating results.

A number of the Group's stores enjoyed a lower effective enterprise income tax rate over the Track Record Period which may not continue in future.

According to PRC tax laws and regulations, the Group is liable to pay enterprise income tax at the rate of 33% on its taxable income except where existing laws, administrative regulations or any other relevant regulations promulgated by the State Council provide for tax holidays. Over the Track Record Period, a number of the stores of the Group enjoyed an effective enterprise income tax rate that was lower than 33% because of the application of various local and state tax incentives, including among others preferential tax rates for its shop located in Xinjiang province and preferential tax rates for Beijing Century as a new technology development enterprise. Going forward, PRC tax regulations may change and the Group may no longer benefit from such tax benefits. Should the Group's tax burden increase, its profitability and results of operations will be adversely affected.

Payment of dividends by the Company's operating subsidiaries to the Company is subject to restrictions under PRC law.

Under PRC law, dividends may be paid only out of distributable profits. Distributable profits with regards to the Company's operating subsidiaries means their after-tax profits as determined under PRC GAAP, less any recovery of accumulated losses and allocations to statutory funds that it is required to make. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. The calculation of distributable profits under PRC GAAP differs in many respects from the calculation under IFRS. As a result, the Company's operating subsidiaries may not be able to pay any dividend in a given year to the Company if they do not have distributable profits as determined under PRC GAAP, even if they have profits for that year as determined under IFRS. Accordingly, since the Company derives a majority of its profits from these operating subsidiaries, it may not have sufficient distributable profits to pay dividends to its shareholders.

RISK FACTORS

Certain members of the Group entered into inter-enterprise direct loans over the Track Record Period; these loans are unenforceable under PRC law and the interest income arising from them may be confiscated by PRC regulators.

Inter-enterprise direct loans are not currently permitted under PRC law. Accordingly, any loan agreements constituting inter-enterprise direct loan arrangements are not enforceable, and regulators may confiscate any interest income arising from such arrangements. However, according to relevant interpretations by the Supreme People's Court of the PRC, the principal from an inter-enterprise direct loan agreement should be repaid to the lender while the interest accrued on such loan should be confiscated. During the Track Record Period, certain members of the Group entered into loan arrangements that its PRC counsel has advised constitute inter-enterprise direct loans. As a result, as at the Latest Practicable Date, the Group is potentially liable to pay up to RMB3.5 million to regulators for the interest income that it earned from these loans. LDHB has agreed to indemnify the Company against any payment arising from such potential liability to pay the relevant PRC authorities for the interest income that the Group earned from these inter-enterprise direct loans. These factors may therefore have a negative effect on the Group's financial condition and results of operations. The Group will settle all outstanding inter-enterprise direct loans before Listing. Unless there shall be a change in PRC law, the Group does not intend to enter into any further inter-enterprise direct loans in the future.

Certain members of the Group entered into entrusted loan agreements over the Track Record Period; these loans may be subject to default risks.

Anshan Parkson and Mianyang Parkson have each entered into interest-bearing entrusted loan agreements with Anshan Tianxing (in an aggregate principal amount of RMB70 million) and Sichuan Fulin (in an aggregate principal amount of RMB12 million) respectively, which are both joint venture partners of the Group. The Group's PRC legal adviser has confirmed to the Company that these entrusted loans are legitimate under the PRC laws. Details of such entrusted loans are contained in the paragraph headed "Financial assistance from the Group to connected persons" under the section headed "Connected transactions" to this prospectus. Should either of the borrowers of these loans default on its repayment obligations, there may be a negative effect on the Group's financial conditions and results of operations.

Fluctuation of the Renminbi may adversely affect the Group's operations and financial results.

The value of Renminbi is subject to changes in the PRC government's policies and depends to a large extent on domestic and international economic and political developments, as well as supply and demand in the local market. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and US dollars, has been based on exchange rates published by the People's Bank of China, which are set daily based on the previous day's interbank foreign exchange market rates in the PRC and current exchange rates on the world financial markets. Since 1994, the official exchange rate for the conversion of Renminbi into US dollars has generally been stable. However, on 21st July, 2005, as a result of the Renminbi being re-pegged to a basket of currencies, the Renminbi was revalued and appreciated against the US dollar and the Hong Kong dollar by approximately 2%. There can be no assurance that such exchange rate will continue to remain

RISK FACTORS

stable against the US dollar or any other foreign currencies in the future. Any significant change in the exchange rates of the Renminbi against the US dollar or the Hong Kong dollar could adversely affect the value of the Group's dividends, which would be funded by Renminbi but paid in Hong Kong dollars.

In addition, under the current foreign exchange regime in the PRC, there can be no guarantee that sufficient foreign currency will be available at a given exchange rate to satisfy the demands of a particular enterprise in full. There can also be no assurance that shortages in the availability of foreign currency will not restrict the Group's ability to obtain sufficient foreign currency to satisfy its foreign currency needs.

If power shortages occur in the PRC, the Group's business may be harmed.

The Group consumes substantial amounts of electricity for lighting and displays at its department stores. The Group has, on a few occasions, experienced certain power shortages at its stores. However, these shortages did not cause any material damage to the Group's operations. Despite the availability of a backup power system at some of its stores, there can be no assurance that the Group will have adequate supplies of electricity to meet its needs at all of its department stores. Any power brownout or blackout for a significant period of time may have an adverse effect on the Group's business.

Acts of God, acts of war and other disasters could affect the Group's business.

The business of the Group is subject to the general economic and social conditions in the PRC. Natural disasters, epidemics and other acts of God which are beyond the control of the Group may adversely affect the economy, infrastructure and livelihood of the people of the PRC. Many major cities in the PRC are under the threat of flood, earthquake, sandstorm or drought. The Group's business, operating results and financial condition may be adversely affected if such natural disasters occur.

Acts of war and terrorist attacks may cause damage or disruption to the Group, its employees, its department stores, its distribution channels, its markets and its customers, any of which could adversely impact the Group's turnover, cost of sales, overall results and financial condition or Share price. Potential war or terrorist attacks may also cause uncertainty and cause the Group's business to suffer in ways that it cannot currently predict.

RISKS RELATING TO THE OFFERING

The Company will continue to be controlled by LDHB, whose interests may differ from those of other shareholders.

Prior to the Offering, all of the Shares were beneficially held by LDHB. Immediately following the Offering, LDHB will beneficially hold 70% of the Company's issued share capital assuming the Over-allotment Option is not exercised. As the Company's largest shareholder, and subject to its articles of association and applicable laws and regulations, it will be able to influence major policy decisions, including the Company's overall strategic and investment decisions, by:

- controlling the election of Directors and, in turn, indirectly controlling the selection of senior management;

RISK FACTORS

- determining the timing and amount of dividend payments;
- approving annual budgets;
- deciding on increases or decreases in share capital;
- determining the size and timing of any issuances of new securities;
- approving mergers, acquisitions and disposals of the Group's assets or businesses; and
- amending the articles of association.

The interests of LDHB as the Company's majority shareholder could conflict with the interests of its other shareholders. Accordingly, LDHB may take actions (including, for example, an excessively high rate of dividend distributions) that favour its own interests and which may not be in the best interests of other shareholders.

There has been no prior public market for the Shares and liquidity may be low.

Prior to the Offering, there has been no public market for the Shares. The initial Offering price range to the public for the Shares was the result of negotiations among the Company, the Selling Shareholder and BNP Paribas Peregrine on behalf of the Underwriters. The Offer Price may differ significantly from the market price for the Shares following the Offering. The Company has applied for the listing of, and permission to deal in, its Shares on the Stock Exchange. However, being listed on the Stock Exchange does not guarantee that an active trading market for the Shares will develop, or that if it does develop, it will be sustained following the Offering, or that the market price of the Shares will not decline following the Offering.

The Share price may be volatile.

The price and trading volume of the Shares will be determined in the market place and may be highly volatile. Factors such as variations in the Group's revenue, earnings and cash flows, changes in or challenges to the Group's business, announcements of new investments or acquisitions, the depth and liquidity of the market for the Shares, investors' perceptions of the Group and general political, economic, social and market conditions in the PRC or Hong Kong could cause the market price of the Shares to change substantially.

The Company's shareholders may be diluted as a result of future equity fundraising.

The Group may need to raise additional funds in the future to finance its expansion or for other reasons. If additional funds are raised through the issuance by the Company of new equity or equity-linked securities other than on a pro rata basis to existing shareholders, the percentage ownership of individual shareholders will be reduced. Any such new securities may have preferential rights or options that favour their holders over holders of Shares, to the extent permitted by law, exchange rules and the Company's constituent documents.

RISK FACTORS

There can be no assurance that dividends will be paid in the future at a rate similar to past rates.

For each of the three years ended 31st December, 2004, certain members of the Group declared dividends of approximately RMB17.4 million, RMB7.0 million and RMB12.6 million, respectively, representing 23.7%, 6.4% and 7.8% of its profit attributable to shareholders in each of the three years ended 31st December, 2004. There is, however, no assurance that future dividends will be paid at a similar level to past dividends and potential investors should be aware that the amount of dividends paid in the past should not be used as a reference or basis upon which future dividends are determined.

The declaration, payment and amount of any future dividends of the Group are subject to the discretion of the Directors, and will depend upon, among others, the Group's results of operations, cash flows and financial conditions, operating and capital requirements and other relevant factors prevailing at the time.

It may be difficult to effect service of process upon or secure judgments against the Group, the Company or their respective directors and officers.

Most of the members of the Group are incorporated in the PRC and substantially all of the assets of the Group are located in the PRC. A number of the Directors and senior personnel of the Group reside in the PRC and the assets of such persons may be located within the PRC. It may be difficult for investors to effect service of process upon such persons within the PRC or to enforce against such persons any judgments obtained from a non-PRC court. In addition, there is substantial doubt as to the enforceability in original actions brought in the PRC of actions predicated on the laws of Hong Kong or the United States or most other western countries.

There are risks associated with forward-looking statements.

This prospectus contains certain statements and information that are “forward-looking” and uses forward-looking terminology such as “anticipate”, “believe”, “could”, “expect”, “estimate”, “may”, “ought to”, “should” or “will”. Those statements include, among other things, the discussion of the Group's growth strategy and expectations concerning its future operations, liquidity and capital resources. Purchasers of the Shares are cautioned that reliance on any forward-looking statements involves risks and uncertainties and that, although the Group believes the assumptions on which the forward-looking statements are based are reasonable, any or all of those assumptions could prove to be incorrect and as a result, the forward-looking statements based on those assumptions could also be incorrect. The uncertainties in this regard include, but are not limited to, those identified in this “Risk factors” section, many of which are not within the Group's control. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations by the Group that its plans or objectives will be achieved, and investors should not place undue reliance on such forward-looking statements. The Group does not undertake any obligation to update publicly or release any revisions of any forward-looking statements, whether as a result of new information, future events or otherwise.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

MANAGEMENT PRESENCE

Pursuant to Rule 8.12 of the Listing Rules, the Company must have a sufficient management presence in Hong Kong. This will normally mean that at least two of the executive Directors must be ordinarily resident in Hong Kong.

All of the Group's business operations, sales and management are located in the PRC. All of the Company's executive Directors currently reside either in the PRC or Malaysia, the Company does not, and does not contemplate in the foreseeable future that it will, have a sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules.

An application has been made to the Stock Exchange for a waiver from strict compliance with the requirement to have a sufficient management presence in Hong Kong under Rule 8.12 of the Listing Rules and such waiver has been granted by the Stock Exchange.

The arrangements proposed by the Company for maintaining regular and effective communication with the Stock Exchange for the purpose of Rule 8.12 of the Listing Rules are (i) the Company has designated Mr Cheng Yoong Choong and Mr Chew Fook Seng, the executive Directors, as its authorised representatives who will have means of contacting all members of the board of Directors (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact the Directors for any matter. The Company secretary, Ms Seng Sze Ka Mee, Natalia, who is ordinarily resident in Hong Kong, will act as an alternate authorised representative to Mr Cheng Yoong Choong. The authorised representatives and the alternate will act as the principal channel of communication between the Company and the Stock Exchange. The authorised representatives and the alternate will provide their usual contact details to the Stock Exchange and will be readily contactable by the Stock Exchange if necessary to deal promptly with enquiries from the Stock Exchange. Mr Ko Tak Fai, Desmond and Mr Fong Ching, Eddy, both independent non-executive Directors of the Company, and Ms Seng Sze Ka Mee, Natalia, the Company secretary, are ordinarily resident in Hong Kong. They will also have ready access to other members of the board of Directors should any matter arise which requires to be brought to the board's attention. Further, the executive Directors can normally be contacted at the head office of the Company in Beijing, the PRC or at the head office of the Lion Group in Malaysia during regular working hours; (ii) the Company will retain legal advisers to advise on on-going compliance requirements and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong after Listing; and (iii) the Company will retain a compliance adviser acceptable to the Stock Exchange to advise on corporate finance matters after listing for the period commencing on the Listing Date and ending on the date on which it complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date pursuant to Rule 3A.19 of the Listing Rules.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

STOCK BORROWING

In order to facilitate the settlement of over-allocations in connection with the Offering, BNP Paribas Peregrine may choose to borrow Shares from shareholders of the Company under stock borrowing arrangements, or acquire Shares from other sources, including pending exercise of the Over-allotment Option. Such stock borrowing arrangements may include arrangements agreed between BNP Paribas Peregrine and the Selling Shareholder. For the purposes of these stock borrowing arrangements, a waiver has been granted by the Stock Exchange to the Selling Shareholder from strict compliance with Rule 10.07(1)(a) of the Listing Rules which otherwise restricts the disposal of shares by controlling shareholders following a new listing.

The waiver is granted subject to the conditions that:

- (a) the stock borrowing arrangements with the Selling Shareholder under the stock borrowing agreement entered into with, inter alia, BNP Paribas Peregrine may only be effected by BNP Paribas Peregrine for the settlement of over-allocations in connection with the International Placing;
- (b) the maximum number of Shares borrowed from the Selling Shareholder will be limited to the maximum number of Shares which may be issued upon the full exercise of the Over-allotment Option;
- (c) the same number of Shares borrowed from the Selling Shareholder must be returned to it or its nominees (as the case may be) no later than three business days following the earlier of (i) the last day for exercising the Over-allotment Option; or (ii) the date on which the Over-allotment Option is exercised in full; and
- (d) the Selling Shareholder will not receive any payment or benefit in respect of such stock borrowing arrangement and the stock borrowing arrangement entered into will be conducted in accordance with all applicable laws and regulatory requirements.

TRANSLATION OF DOCUMENTS AVAILABLE FOR PUBLIC INSPECTION

Pursuant to Rule 19.10(6) of the Listing Rules, certified English translations of documents mentioned in paragraph 53 of Part A of Appendix 1 to the Listing Rules offered for public inspection must be made available. These documents include the material contracts as set out in the paragraph headed “Summary of material contracts” in Appendix VII to this prospectus and the PRC legal opinions to be issued by Jingtian & Gongcheng. The Group has entered into a large number of material contracts within the two years preceding the date of this prospectus which are in the Chinese language. The translation of all the material contracts that were entered into in the Chinese language and the PRC legal opinions into the English Language will therefore be unduly burdensome, extremely onerous, time consuming and costly. Moreover, the Companies Ordinance (Cap 32 of the Laws of Hong Kong) permits material contracts to be either in the English or Chinese

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

language for the purpose of registration with the Registrar of Companies in Hong Kong. Accordingly, an application has been made to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver from strict compliance with Rule 19.10(6) of the Listing Rules in relation to the translation of all the material contracts that were entered into in the Chinese language and the PRC legal opinions into the English language on condition that all the material contracts and the PRC legal opinions will be made available for public inspection in accordance with paragraph 53 of Part A of Appendix 1 of the Listing Rules in either the English or Chinese language. Accordingly no certified English translations of the material contracts and the PRC legal opinions which are in the Chinese language will be available for inspection.

CONNECTED TRANSACTIONS

Members of the Group have entered and are expected to enter into certain transactions, which would constitute non-exempted continuing connected transactions of the Company under the Listing Rules after the Listing. The Company has applied to the Stock Exchange for a waiver from strict compliance with the shareholders' approval and announcement requirements set out in Chapter 14A of the Listing Rules for such non-exempted continuing connected transactions. Further details of such waivers are set out in the section headed "Connected transactions" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules of Hong Kong and the Listing Rules for the purposes of giving information to the public with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and, having made all reasonable enquiries, confirm that:

1. the information contained in this prospectus is accurate and complete in all material respects and not misleading;
2. to the best of their knowledge and belief, there are no other facts or matters the omission of which would make any statement in this prospectus misleading; and
3. all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on basis and assumptions that are fair and reasonable.

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus. No person is authorised in connection with the Offering to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorised by the Company, the Selling Shareholder, the Underwriters, any of their respective directors or any other persons or parties involved in the Offering.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. For applicants under the Hong Kong Public Offering, this prospectus and the related application forms contain the terms and conditions of the Hong Kong Public Offering. The Offering comprises the Hong Kong Public Offering of initially 16,560,000 Shares and the International Placing of initially 149,040,000 Shares (subject, in each case, to reallocation on the basis described in "Structure of the Offering").

The listing of the Shares on the Stock Exchange is sponsored by BNP Paribas Peregrine as Sponsor. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is underwritten by the Hong Kong Underwriters. The International Placing is managed by BNP Paribas Peregrine. The International Placing Underwriting Agreement is expected to be entered into on or about 23rd November, 2005, subject to agreement on the Offer Price between the Company, the Selling Shareholder and BNP Paribas Peregrine, on behalf of the Underwriters. If, for any reason, the Offer Price is not agreed between the Company, the Selling Shareholder and BNP Paribas Peregrine, on behalf of the Underwriters, the Offering will not proceed. Further details about the Underwriters and the underwriting arrangements are contained in the section headed "Underwriting" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE OFFERING

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which will be determined by BNP Paribas Peregrine (on behalf of the Underwriters), the Selling Shareholder and the Company at or about 9:00 a.m. on 23rd November, 2005 (Hong Kong time) but in any event no later than 12:00 noon on 23rd November, 2005 (Hong Kong time). The Offer Price will be not more than HK\$9.80 per Offer Share and is expected to be not less than HK\$8.40 per Offer Share. BNP Paribas Peregrine (on behalf of the Underwriters and with the consent of the Company) may reduce the indicative Offer Price range below that stated in this prospectus at any time prior to the morning of the latest day for lodging applications. In such a case, a notice of the reduction of the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the latest day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Share Offer statistics as currently set out in the section headed “Summary” in this prospectus, and any other financial information which may change as a result of any such reduction. If applications for Hong Kong Offer Shares have been submitted prior to the day which is the latest day for lodging applications under the Public Offer, then even if the Offer Price is so reduced, such applications cannot be subsequently withdrawn.

If BNP Paribas Peregrine (on behalf of the Underwriters), the Selling Shareholder and the Company are unable to reach an agreement on the Offer Price by 9:00 a.m. on 23rd November, 2005 (Hong Kong time) and in any event at or before 12:00 noon on 23rd November, 2005 (Hong Kong time) the Offering will not become unconditional and will lapse.

RESTRICTIONS ON SALE OF SHARES

No action has been taken to permit a public offering of the Offer Shares or the general distribution of this prospectus and/or the related application forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

The Offer Shares are offered for subscription or purchase (as the case may be) solely on the basis of the information contained and representations made in this prospectus. No person is authorised in connection with the Offering to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorised by the Company, the Selling Shareholder, the Underwriters, any of their respective directors or any other persons or parties involved in the Offering.

INFORMATION ABOUT THIS PROSPECTUS AND THE OFFERING

United States

The Offer Shares have not been, and will not be, registered under the U.S. Securities Act and, subject to certain exceptions, may not be offered, sold, pledged or otherwise transferred within the United States, except to QIBs in accordance with Rule 144A or outside the United States in accordance with Rule 903 or Rule 904 of Regulation S. The Offer Shares are being offered and sold outside the United States in reliance on Regulation S. The Offer Shares are being offered and sold outside the United States in reliance on Regulation S and within the United States to QIBs in reliance on Rule 144A.

The Offer Shares have not been approved or disapproved by the United States Securities and Exchange Commission, any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Offering or the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offence in the United States.

United Kingdom

This prospectus has not been approved by an authorised person in the United Kingdom. The Offer Shares may not be offered or sold to any person in the United Kingdom, other than to qualified investors as defined in section 86(7) Financial Services and Markets Act 2000 (“FSMA”), being (i) persons falling within Article 2.1(e)(i), (ii) or (iii) of Directive 2003/71/EC (the “Prospectus Directive”), which includes legal entities which are regulated by the Financial Services Authority (the “FSA”) or entities which are not so regulated whose corporate purpose is solely to invest in securities and companies which are not small or medium sized enterprises for the purposes of Article 2.1(f) of the Prospectus Directive, (ii) investors registered on the register maintained by the FSA under section 87R FSMA and (iii) an investor authorised by an European Economic Area State other than the United Kingdom to be considered as a qualified investor for the purposes of the Prospectus Directive or otherwise in circumstances which would not give rise to a breach of section 85 FSMA.

In addition, this prospectus is distributed only to and is directed at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2) of the Order (all such persons together being referred to as “relevant persons”). The Offer Shares are available only to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Offer Shares will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this prospectus or any of its contents. This prospectus should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person.

No application is being made for the Offer Shares to be admitted to trading on a regulated market in the United Kingdom.

INFORMATION ABOUT THIS PROSPECTUS AND THE OFFERING

Singapore

This prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other Offering document or materials in connection with the offer of the Offer Shares may not be issued, circulated or distributed in Singapore nor may any of the Offer Shares be offered for subscription or sold, nor may an invitation or offer to subscribe for or purchase any Offer Shares be made in Singapore, other than in accordance with: (a) the conditions of exemptions under Sections 272B, 274 or 275 of Subdivision 4, Division 1 of Part XIII of the Securities and Futures Act, Cap 289 of the Statutes of the Republic of Singapore (the “SFA”) to persons to whom the Offer Shares may be offered or sold under such exemptions and in accordance with any other conditions of all the other applicable provisions of the SFA, or (b) otherwise pursuant to and in accordance with any other conditions of any other provisions of the SFA.

Italy

The offering of the Offer Shares has not been registered pursuant to the Italian securities legislation and, accordingly, the Offer Shares will not be offered or sold in Italy in a solicitation to the public. The Offer Shares may not be offered, sold or delivered, and copies of this prospectus or any other document relating to the Offer Shares may not be distributed in Italy except to Professional Investors, as defined by the *Commissione Nazionale per le Società e la Borsa* (“CONSOB”), the stock market regulator in Italy, in Art. 31.2 of CONSOB Regulation no. 11522 of 1st July, 1998, as amended, pursuant to Art. 30.2 and Art. 100 of Legislative Decree no. 58 of 24th February, 1998 (the “Finance Law”) or in any other circumstance where an express exemption from compliance with the solicitation restrictions is provided by the Finance Law or CONSOB Regulation no. 11971 of 14th May, 1999, as amended (the “Issuers Regulation”) applies, including those provided for under Art. 100 of the Finance Law and Art. 33 of the Issuers Regulation, and provided, however, that any such offer, sale, or delivery of the Offer Shares or distribution of copies of this prospectus or any other documents relating to the Offer Shares in Italy must: (i) be made in accordance with all applicable Italian laws and regulations; (ii) be conducted in accordance with any relevant limitations or procedural requirements the Bank of Italy or CONSOB may impose upon the offer or sale of the Offer Shares; and (iii) be made only by: (a) banks, investment firms or financial companies enrolled in the special register provided for in Article 107 of Legislative Decree no. 385 of 1st September, 1993, as amended (the “Banking Law Consolidated Act”), to the extent duly authorised to engage in the placement and/or underwriting of financial instruments in Italy in accordance with the Finance Law; or (b) foreign banks or financial institutions (the controlling shareholding of which is owned by one or more banks located in the same European Union Member State) authorised to place and distribute securities in the Republic of Italy pursuant to Articles 15, 16 and 18 of the Banking Law Consolidated Act, in each case acting in compliance with every applicable law and regulation.

Japan

The Offer Shares have not been and will not be registered under the Securities and Exchange Law of Japan (the “SEL”). The Offer Shares which are being offered hereby may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to any exemption available from the registration requirements of the SEL and in compliance with any other applicable requirements of Japanese law. Such other applicable requirements may include: (i) the reporting or other regulations under the Foreign Exchange and Foreign Trade Law of Japan; (ii)

INFORMATION ABOUT THIS PROSPECTUS AND THE OFFERING

restrictions on transferability under the SEL; and (iii) regulations of the Japan Securities Dealers Association. As used in this paragraph, a resident of Japan means any individual residing in Japan and business offices located in Japan, including any corporation or other entity established under the laws of Japan.

Germany

The Offer Shares will not be offered, sold or publicly promoted or advertised in the Federal Republic of Germany other than in compliance with the German Securities Prospectus Act (*Wertpapierprospektgesetz*) as of 1st July, 2005, as amended, and/or any other laws, rules or regulations applicable in the Federal Republic of Germany governing the issue, offering and sale of securities. No prospectus (Prospekt), base prospectus (*Basisprospekt*), registration document (*Registrierungsformular*), securities note (*Wertpapierbeschreibung*), and/or summary note (*Zusammenfassung*) within the meaning of the German Securities Prospectus Act (*Wertpapierprospektgesetz*) as of 1st July, 2005, as amended, and/or any other laws, rules or regulations applicable in the Federal Republic of Germany governing the issue, offering and sale of securities has been or will be filed for approval, registered or published within the Federal Republic of Germany.

Netherlands

Unless at any relevant time a valid and approved prospectus is available within the meaning of the EU prospectus directive (i.e., Directive 2003/71/EC of the European Parliament and of the Council of 4th November, 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC) and Section 3 of the Act on the Supervision of Securities Trade 1995 (*Wet toezicht effectenverkeer 1995*), the Offer Shares may not be offered in the Netherlands other than:

- i. to professional market parties (*professionele marktpartijen*) within the meaning of section 1a § 3 of the Exemption Regulation under the Act on the Supervision of the Securities Trade 1995 as amended (*Vrijstellingsregeling Wet toezicht effectenverkeer 1995*), which includes (i) legal entities which are authorised or regulated to operate in the financial markets, including credit institutions, investment firms, other authorised or regulated financial institutions, insurance companies, collective investment schemes and their management companies, pension funds and their management companies, commodity dealers; (ii) national and regional governments, central banks, international and supranational institutions; (iii) “small and medium-sized enterprises” being companies or entities, which, according to their last annual or consolidated accounts, meet at least two of the following three criteria: (a) an average number of employees during the financial year of at least 250, (b) a total balance sheet exceeding € 43 million and (c) an annual net turnover of at least € 50 million; (iv) companies or entities whose corporate purpose is solely to invest in securities; and (v) certain companies, entities or natural persons which or who have been registered in the register referred to in section 4 § 3 of the Act on the Supervision of the Securities Trade 1995; or
- ii. in an offer addressed to a number of investors of less than 100 per EU member state; or
- iii. in an offer addressed to investors who acquire Offer Shares for a total consideration of at least EUR 50,000 per investor; or

INFORMATION ABOUT THIS PROSPECTUS AND THE OFFERING

- iv. as part of an offer where the total consideration of such offer is less than EUR 2,500,000, which limit shall be calculated over a period of 12 months.

Canada

The Offer Shares may only be offered in those jurisdictions in Canada and to those persons where and to whom they may be lawfully offered for sale, and therein only by persons permitted to sell the Offer Shares. This prospectus is not, and under no circumstances is to be construed as, an advertisement or public offering of the Offer Shares in Canada. No securities commission in Canada has reviewed or in any way passed upon this prospectus or the merit of the offering and any representations to the contrary is an offence.

France

This prospectus has not been prepared in the context of a public offering of securities in France within the meaning of Article L.411-1 of the French *Code Monétaire et Financier* and has therefore not been and shall not be submitted to the *Autorité des Marchés Financiers* (“AMF”) in order to obtain a prior approval or be passported in France following approval by the competent European stock exchange authority under the Prospectus Directive, or otherwise. Any delivery of this prospectus and/or of any other document relating to this offering shall not under any circumstances be deemed to constitute an offer to sell or a solicitation to buy securities within the meaning of the foregoing provisions of the French *Code Monétaire et Financier*.

The Offer Shares have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France and neither this prospectus nor any other offering material relating to the Offer Shares has been distributed or caused to be distributed and will be distributed or caused to be distributed to the public in France otherwise than (i) to qualified investors and/or to members of a restricted circle of investors (*cercle restreint d'investisseurs*) (as defined in Articles L.411-2 and D. 411-1 and D. 411-2 of the French *Code Monétaire et Financier*), provided that these investors act for their own account, and/or (ii) to portfolio management on behalf of third parties services providers (*personnes fournissant le service d'investissement de gestion de portefeuille pour compte de tiers*) and/or (iii) in other circumstances defined in Article L.411-2 of French *Code Monétaire et Financier* and in Article 211-2 of the General Regulation of the AMF.

Persons into whose possession this prospectus or any other offering materials relating to the Offer Shares come must inform themselves about and observe the restrictions resulting from the above-mentioned provisions. This prospectus and any other material may not be distributed or caused to be distributed in France other than to investors to whom offers and sales of the securities in France may be made as described above and shall not be passed onto other persons or reproduced (in whole or in part).

If the offer of securities is realised pursuant to Article L.411-2-II-4° of the French *Code Monétaire et Financier*, qualified investors and/or members of a restricted circle of investors are notified that they must act in that connection for their own account in accordance with the terms set out by Articles L.411-2-II-4°, D.411-1, D.411-2, D.734-1, D.744-1, D.754-1 and D.764-1 of the French *Code Monétaire et Financier* and may not re-transfer, directly or indirectly, the securities, other than in compliance with applicable laws and regulations in particular those relating to public offering (which are, in particular, embodied in Articles L.411-1, L.411-2, L.412-1 and L.621-8 to L.621-8-3 of the French *Code Monétaire et Financier*).

INFORMATION ABOUT THIS PROSPECTUS AND THE OFFERING

Taiwan

The Offer Shares have not been and will not be registered with the Securities and Futures Bureau of Taiwan and are not being offered or sold and may not be offered or sold, directly or indirectly, in Taiwan or to, or for the benefit of, any resident of Taiwan, except: (a) pursuant to the requirements of the securities related laws and regulations in Taiwan; and (b) in compliance with any other applicable requirements of Taiwanese laws.

PRC

This prospectus may not be circulated or distributed in the PRC and the Offer Shares may not be offered or sold directly or indirectly to any resident of the PRC, or offered or sold to any person for re-offering or re-sale directly or indirectly to any resident of the PRC except pursuant to applicable laws and regulations of the PRC.

Malaysia

This prospectus has not been and will not be registered as a prospectus with the Securities Commission of Malaysia pursuant to the Securities Commission Act, 1993 of Malaysia (“SCA”). In addition, the Offer Shares shall not be offered for subscription or sold, directly or indirectly, nor may an invitation or offer to subscribe for or sell, any Offer Shares, in Malaysia unless such offer or initiation has been approved by the Securities Commission of Malaysia and is made to persons specified under Schedules 2 and 3 of the SCA.

Cayman Islands

No offer or invitation may be made to the public in the Cayman Islands to subscribe for or purchase any of the Offer Shares.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee for the listing of, and permission to deal in, Shares in issue and to be issued pursuant to this prospectus and the new Shares to be issued upon the exercise of options which may be granted under the Share Option Scheme up to 10% of the issued shares upon Listing.

Save as disclosed herein, no part of the share or loan capital of the Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

Under section 44B(1) of the Companies Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Offer Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to the Company by the Stock Exchange.

INFORMATION ABOUT THIS PROSPECTUS AND THE OFFERING

HONG KONG SHARE REGISTER AND STAMP DUTY

All Shares issued pursuant to applications made in the Hong Kong Public Offering and the International Placing will be registered on the Company's branch register of members to be maintained in Hong Kong. The Company's principal register of members will be maintained by the Company's Principal Share Registrar in the Cayman Islands.

Dealings in the Shares registered in the branch register of the Company in Hong Kong will be subject to Hong Kong stamp duty.

Unless determined otherwise by the Company, dividends payable in Hong Kong dollars in respect of Shares will be paid to the shareholders listed on the Hong Kong branch register of the Company, by ordinary post, at the shareholders' risk, to the registered address of each shareholder of the Company.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the Stock Exchange and the Company's compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date as HKSCC chooses. Settlement of transaction between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

PROFESSIONAL TAX ADVICE RECOMMENDED

Applicants for the Offer Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding and dealing in the Shares. It is emphasised that none of the Group, the Selling Shareholder, the Underwriters, the Sponsor, any of their respective directors, supervisors, agents or advisers or any other person involved in the Offering accepts responsibility for any tax effects or liabilities of holders of Shares resulting from the subscription, purchase, holding or disposal of Shares.

OVER-ALLOTMENT AND STABILISATION

In connection with the Offering, BNP Paribas Peregrine or any person acting for it may over-allot or effect transactions with a view to supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the issue date. However, there is no obligation on BNP Paribas Peregrine or any person acting for it to do this. Such stabilisation action, if taken, may be discontinued at any time and is required to be brought to an end after a limited period. The stabilising period is expected to end on 22nd December, 2005, being the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering.

INFORMATION ABOUT THIS PROSPECTUS AND THE OFFERING

In connection with the Offering, the Selling Shareholder intends to grant to BNP Paribas Peregrine the Over-allotment Option, which will be exercisable in full or in part by BNP Paribas Peregrine no later than 30 days from the date for lodging applications under the Hong Kong Public Offering. Pursuant to the Over-allotment Option, the Selling Shareholder may be required to sell at the Offer Price up to an aggregate of 24,840,000 additional Shares, representing 15% of the total number of Shares initially available under the Offering, in connection with over-allocations in the International Placing, if any.

Further details with respect to stabilisation and the Over-allotment Option are set out in the paragraph headed “Over-allotment and Stabilisation” under the section headed “Structure of the Offering” in this prospectus. An announcement will be made to the public within seven days after the end of the stabilising period as required under the Securities and Futures (Price Stabilising) Rules.

PROCEDURES FOR APPLICATION FOR SHARES

The procedures for applying for the Hong Kong Offer Shares are set out in the section headed “How to apply for the Hong Kong Offer Shares” in this prospectus and on the relevant application forms.

STRUCTURE OF THE OFFERING

Details of the structure of the Offering, including its conditions, are set out in the section headed “Structure of the Offering” in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE OFFERING

DIRECTORS

Executive Directors

Name	Residential Address	Nationality
CHENG Yoong Choong (鍾榮俊) Managing Director	Lot 90, Mines Resort City 116, Jalan Timah 2 43300 Seri Kembangan Selangor Darul Ehsan Malaysia	Singaporean
CHEW Fook Seng (周福盛) Chief Executive Officer	2403 Block 6 Guo Xing Garden 20 Shou Ti Nan Road Haidian District Beijing 100044 PRC	Malaysian

Non-executive Director

Name	Residential Address	Nationality
Tan Sri CHENG Heng Jem (鍾廷森) Non-executive Director and Chairman	Penthouse Level 48 Menara Citibank 165 Jalan Ampang 50450 Kuala Lumpur Malaysia	Malaysian

Independent non-executive Directors

FONG Ching, Eddy (方正)	House F 32 Repulse Bay Road Repulse Bay Hong Kong	British
STUDER Werner Josef	Rietholzstrasse 46 8125 Zollikerberg Zurich Switzerland	Swiss
KO Tak Fai, Desmond (高德輝)	A2, 4th Floor Villa Monte Rosa 41A Stubbs Road Hong Kong	British

DIRECTORS AND PARTIES INVOLVED IN THE OFFERING

PARTIES INVOLVED

**Sponsor, Global Coordinator,
Bookrunner and Lead Manager**

BNP Paribas Peregrine Capital Limited
59th to 63rd Floors
Two International Finance Centre
8 Finance Street
Central
Hong Kong

Hong Kong Underwriters

**Global Coordinator and
Lead Manager**

BNP Paribas Peregrine Capital Limited
59th to 63rd Floors
Two International Finance Centre
8 Finance Street
Central
Hong Kong

Co-Lead Managers

China International Capital Corporation
(Hong Kong) Limited
Suite 2307
23rd Floor
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

DBS Asia Capital Limited
22nd Floor
The Center
99 Queen's Road Central
Hong Kong

Co-Managers

Dao Heng Securities Limited
12th Floor
The Center
99 Queen's Road Central
Hong Kong

KGI Capital Asia Limited
27th Floor
ICBC Tower
Citibank Plaza
3 Garden Road
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE OFFERING

Shenyin Wanguo Capital (H.K.) Limited
 28th Floor
 Citibank Tower
 Citibank Plaza
 3 Garden Road
 Central
 Hong Kong

UOB Asia (Hong Kong) Limited
 Suite 601
 6th Floor, Aon China Building
 29 Queen's Road Central
 Hong Kong

International Placing Underwriters

Global Coordinator, Bookrunner and
 Lead Manager

BNP Paribas Peregrine Capital Limited
 59th to 63rd Floors
 Two International Finance Centre
 8 Finance Street
 Central
 Hong Kong

Senior Co-Lead Manager

ECM Libra Investment Bank Limited
 Level 3l(1)
 Main Office Tower
 Financial Park Labuan Complex
 Jalan Merdeka
 87000 Wilayah Persekutuan Labuan
 Malaysia

Co-Lead Managers

China International Capital Corporation
 (Hong Kong) Limited
 Suite 2307
 23rd Floor
 One International Finance Centre
 1 Harbour View Street
 Central
 Hong Kong

DBS Asia Capital Limited
 22nd Floor
 The Center
 99 Queen's Road Central
 Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE OFFERING

Auditors and reporting accountants	Ernst & Young <i>Certified Public Accountants</i> 18th Floor Two International Finance Centre 8 Finance Street Central Hong Kong
Legal advisers to the Company	<i>as to Hong Kong law</i> Simmons & Simmons 35th Floor Cheung Kong Center 2 Queen's Road Central Hong Kong <i>as to Cayman Islands law</i> Maples and Calder 1504 One International Finance Centre 1 Harbour View Street Hong Kong <i>as to PRC law</i> Jingtian & Gongcheng 15th Floor The Union Plaza 20 Chaoyangmenwai Dajie Beijing 100020 PRC
Legal advisers to the Sponsor and the Underwriters	<i>as to Hong Kong law and United States law</i> Norton Rose 38th Floor Jardine House 1 Connaught Place Central Hong Kong
Property valuer	Vigers Appraisal & Consulting Limited 10th Floor, The Grande Building 398 Kwun Tong Road Kowloon Hong Kong
Receiving banker	Standard Chartered Bank (Hong Kong) Limited 15th Floor, Standard Chartered Tower 388 Kwun Tong Road Kowloon Hong Kong

CORPORATE INFORMATION

Registered office	c/o M&C Corporate Services Limited PO Box 309GT Ugland House South Church Street George Town Grand Cayman Cayman Islands
Head office and principal place of business	9th Floor, Parkson Plaza No.101 Fuxingmennei Avenue Xicheng District Beijing 100031 PRC
Principal place of business in Hong Kong	28th Floor Bank of East Asia Harbour View Centre 56 Gloucester Road Wanchai Hong Kong
Company secretary	SENG SZE Ka Mee, Natalia <i>FCIS, FCS, FHKIoD</i>
Qualified accountant	WONG Kang Yean Clarence <i>ACCA</i>
Authorised representatives	CHENG Yoong Choong Lot 90, Mines Resort City 116, Jalan Timah 2 43300 Seri Kembangan Selangor Darul Ehsan Malaysia CHEW Fook Seng 2403 Block 6 Guo Xing Garden 20 Shou Ti Nan Road Haidian District Beijing 100044 PRC
Compliance adviser	BNP Paribas Peregrine Capital Limited 59th to 63rd Floors Two International Finance Centre 8 Finance Street Central Hong Kong

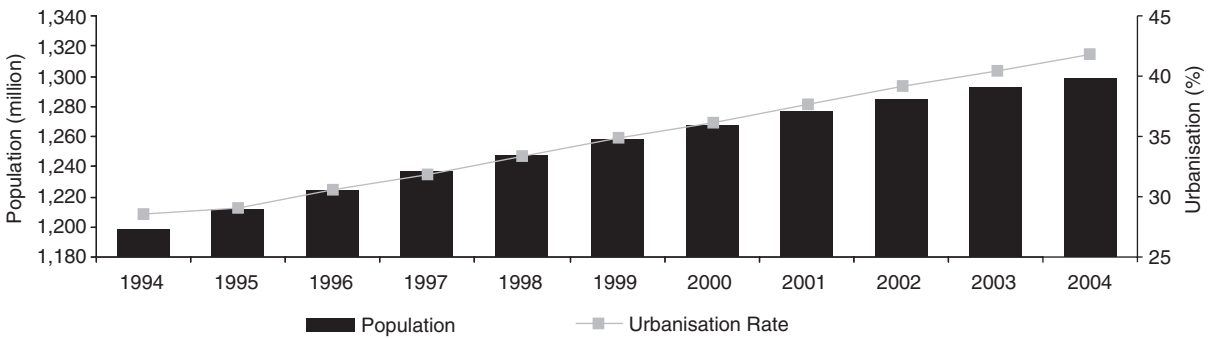
CORPORATE INFORMATION

Audit committee	FONG Ching, Eddy (<i>Chairman</i>) STUDER Werner Josef KO Tak Fai, Desmond
Remuneration Committee	CHENG Yoong Choong FONG Ching, Eddy KO Tak Fai, Desmond
Principal share registrar and transfer office	Butterfield Fund Services (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 705, George Town Grand Cayman, Cayman Islands British West Indies
Hong Kong branch share registrar and transfer office	Tricor Investor Services Limited Ground Floor Bank of East Asia Harbour View Centre 56 Gloucester Road Wanchai Hong Kong
Principal bankers	Bank of China Agricultural Bank of China Industrial and Commercial Bank of China China Merchants Bank

INDUSTRY OVERVIEW

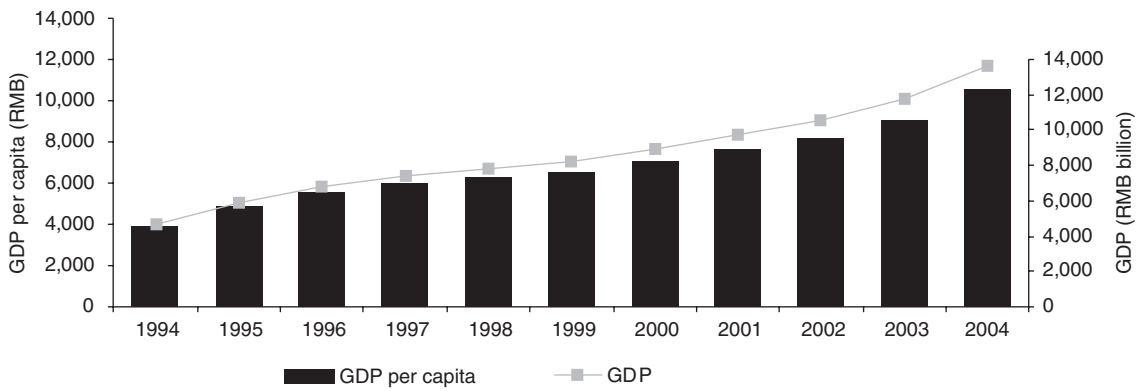
INTRODUCTION

The PRC is one of the most populated countries in the world and its population has grown continuously over the past decade. The population of the PRC had a CAGR of approximately 0.8% between 1994 and 2004. The population of the PRC reached nearly 1.3 billion in 2004 whilst the urbanisation rate increased from approximately 28.5% in 1994 to approximately 41.8% in 2004. It is expected that with the increasing urbanisation rate, there are tremendous opportunities for growth in the retail sector in the PRC in the future. The chart below shows the population growth and urbanisation rate in the PRC during the period from 1994 to 2004.



Source: China Statistical Yearbook 2005

Over the past decade, the PRC has been one of the world's fastest growing economies. According to the National Bureau of Statistics of the PRC (中華人民共和國國家統計局), its GDP grew at a CAGR of approximately 11.3% per annum between 1994 and 2004. The chart below illustrates the GDP and the GDP per capita in the PRC during the period from 1994 to 2004:



Source: China Statistical Yearbook 2005

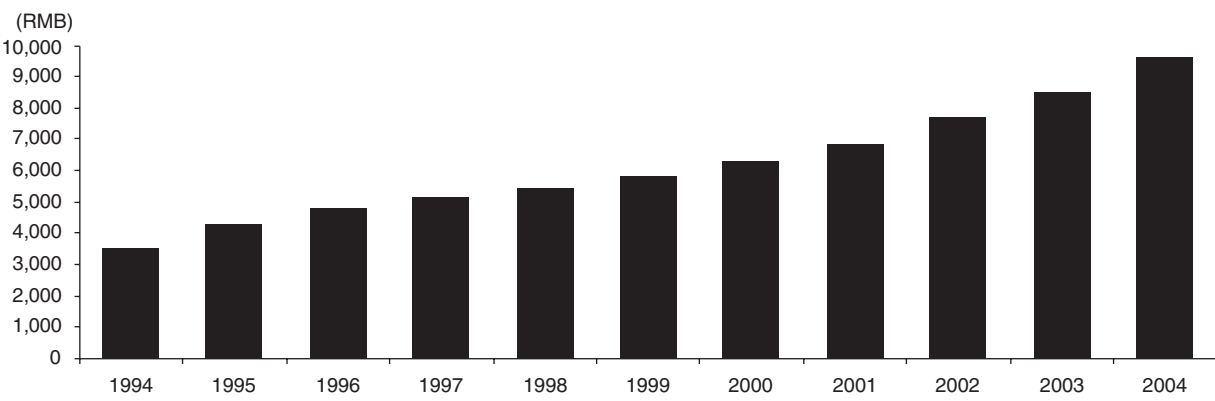
INDUSTRY OVERVIEW

It is generally believed that economic growth in the PRC will continue. According to a forecast by the International Monetary Fund, it is estimated that real GDP in the PRC will grow at an annual growth rate of 8.5% and 8.0% in 2005 and 2006 respectively, which would outpace most of the economies in the world. The table below illustrates the forecast growth rate of real GDP in major economies in the world by the International Monetary Fund in 2005 and 2006:

	2005F (%)	2006F (%)
PRC	8.5	8.0
Emerging Asia	7.0	6.9
USA	3.6	3.6
Euro Area	1.6	2.3
Japan	0.8	1.9
Hong Kong	4.0	4.0
Singapore	4.0	4.5

Source: International Monetary Fund

Strong economic growth and the growth in GDP per capita have resulted in improvements in the living standard and purchasing power of the Chinese people. This is evidenced by the gradual increase in the average income level in the PRC, in particular, among urban households. The per capita annual disposable income of urban households in the PRC has increased from approximately RMB3,496.2 in 1994 to RMB9,421.6 in 2004, or a CAGR of 10.4%. The chart below illustrates the per capita annual disposable income of urban households in the PRC during the period from 1994 to 2004:



Source: China Statistical Yearbook 2005

INDUSTRY OVERVIEW

Statistics show a concentration of wealth among urban households and demonstrate the overall consumption power of the upper and middle classes. The table below illustrates the distribution of disposable income among different economic classes in urban China:

Average Per Capita Disposable Income of Urban Households (RMB)	Lowest	Low	Lower Middle	Middle	Upper Middle	High	Highest
Percentage of China population (%)	10%	10%	20%	20%	20%	10%	10%
CAGR* (1998-2004)	2.4%	5.0%	6.6%	8.1%	9.6%	11.3%	15.0%
2004	2,862	4,429	6,024	8,167	11,051	14,971	25,377
2003	2,590	3,970	5,377	7,279	9,763	13,123	21,837
2002	2,409	3,649	4,932	6,657	8,870	11,773	18,996
2001	2,803	3,856	4,947	6,366	8,164	10,375	15,115
2000	2,653	3,634	4,624	5,898	7,487	9,434	13,311
1999	2,618	3,492	4,364	5,512	6,905	8,632	12,084
1998	2,477	3,303	4,107	5,119	6,371	7,878	10,962

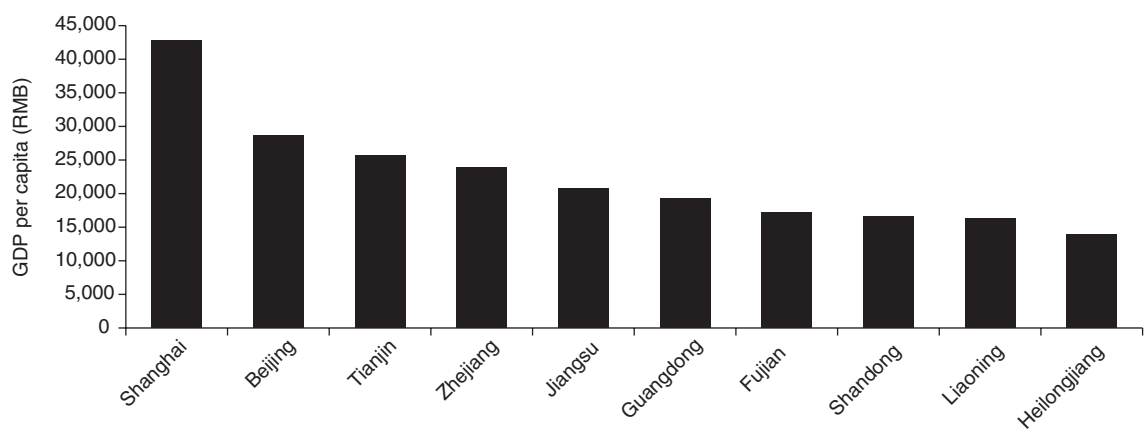
* Compound annual growth rate

Source: China Statistical Yearbook 1999-2005 inclusive

From the table above, two trends can be observed: (i) an increase in urban household purchasing power overall and (ii) an increase in upper and middle class purchasing power in particular. In 1998, only 10% of urban households had a disposable income of more than RMB8,000 per capita a year whereas by 2004 approximately 60% of urban households had a disposable income of more than RMB8,000. The average per capita disposable income of the top 10% of urban households increased from RMB10,962 in 1998 to RMB25,377 in 2004, representing an increase of approximately 131% in six years.

INDUSTRY OVERVIEW

Among all the cities in the PRC, Beijing and Shanghai, being the two major financial and economic centres, make a significant contribution to GDP per capita in the PRC. Beijing and Shanghai have the highest GDP per capita amongst all regions in the PRC. Being the two fastest growing cities in the PRC, Beijing and Shanghai remain the leading consumer markets in the PRC. In addition, it is expected that the 2008 Olympic Games in Beijing and the 2010 World Expo in Shanghai will further boost economic growth and consumption in Beijing, Shanghai and their respective surrounding areas. The chart below shows the GDP per capita of the top 10 regions in the PRC in 2004:

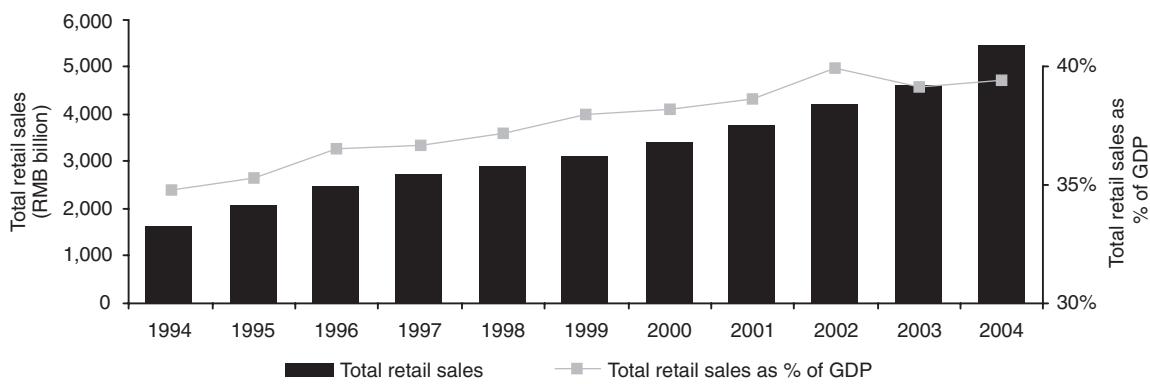


Source: China Statistical Yearbook 2005

INDUSTRY OVERVIEW

THE RETAIL INDUSTRY IN THE PRC

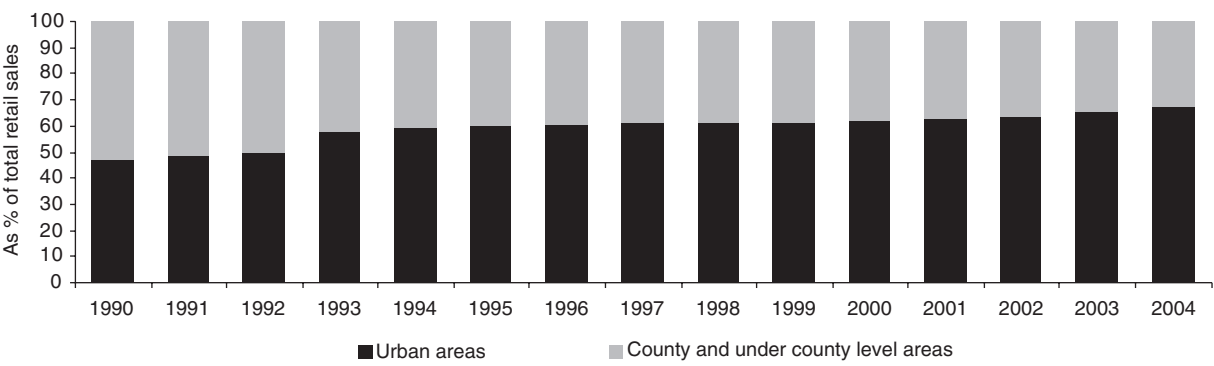
With its huge population, the PRC has a large consumer base which provides tremendous opportunities for distributors of consumer goods. Since the 1990s, the PRC government has adopted a series of policies to reform the retail industry which include promoting domestic consumption by means of policy incentives and the opening up of the domestic retail industry to foreign investments. Prior to these reforms, shopping in the PRC often meant choosing from a limited range of locally-manufactured products, whereas today's consumers in the PRC are exposed to a growing range of retail formats which carry a wide variety of high quality goods, manufactured locally and imported from outside the PRC. The retail formats include department stores, supermarkets, hypermarkets, convenience stores, speciality stores, supercentres, franchise stores and warehouse markets. The reforms in the retail industry have led to an increase in total retail sales. The total retail sales of consumer goods in the PRC increased from approximately RMB1.6 trillion in 1994 to approximately RMB5.4 trillion in 2004, representing a CAGR of 12.7%, which is higher than the GDP growth for the same period at a CAGR of 11.3%. The chart below shows the total retail sales of consumer goods in nominal terms in the PRC and as a percentage of GDP during the period from 1994 to 2004:



Source: China Statistical Yearbook 2005

INDUSTRY OVERVIEW

The increase in total retail sales is principally attributable to consumption in urban areas. According to the National Bureau of Statistics of the PRC (中華人民共和國國家統計局), in 2004, total retail sales of consumer goods in urban areas reached RMB3,557.3 billion which accounted for approximately 65.9% of total retail sales while the population in urban areas only accounted for approximately 41.8% of the total population in the PRC. The chart below shows the comparison of total retail sales of consumer goods in urban areas and in county/under county level areas during the period from 1990 to 2004:



Source: National Bureau of Statistics, PRC

Other than government policies to increase consumption, the gradual opening up of the PRC retail market to foreign investment has also contributed to the growth in the retail industry. Since the opening up of the market in the 1990s, foreign invested enterprises have been expanding rapidly to capture market share. It is expected that foreign retailers will further penetrate the PRC retail industry in the future. At the end of 2004, there were a total of 3,261 stores operated by foreign invested retail trade enterprises above the designated size (i.e. those which have more than 60 employees and whose sales are above RMB5 million) in the PRC, representing approximately 7.0% of the total number of retail trade enterprises above the designated size. However, the 7.0% foreign invested retail trade enterprises operated stores accounted for approximately 16.9% of the PRC retail market share in term of sales revenue within the same designated size.

Pursuant to the WTO agreement, starting from 11th December, 2004, foreign investors are allowed to establish wholly-owned companies for wholesale, retail, franchise, warehousing, and inventory management business in the PRC. The Directors believe that with the growth potential of the PRC retail industry, the complete opening-up of the PRC retail market will further attract foreign investments.

INDUSTRY OVERVIEW

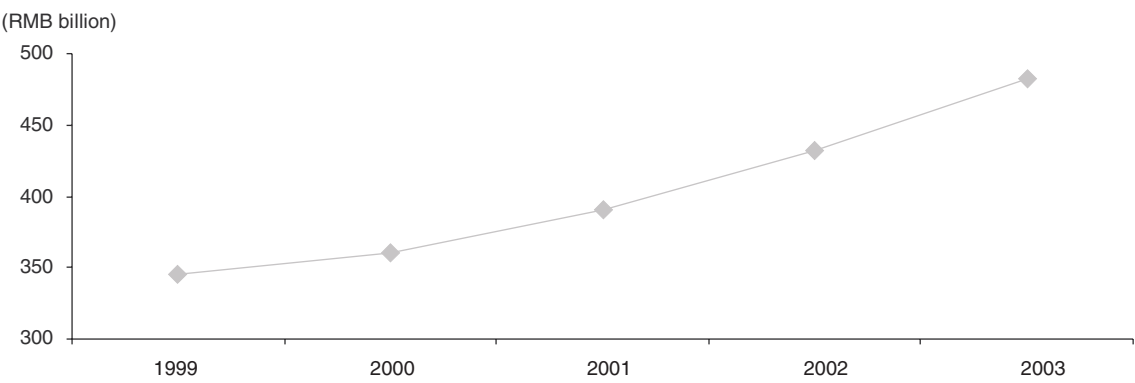
DEPARTMENT STORES IN THE PRC

According to the International Association of Department Stores, traditionally, department stores can be defined as averaging 7,000 m², selling a range of merchandise including, at a minimum, fashion clothing, accessories, cosmetics, household goods and often a much broader assortment from more or less separate departments on several floors. However, the definition of a department store varies in different countries, and the table below shows the definition of a department store issued by the Ministry of Commerce, PRC:

Format	Venue	Target customer	Size	Commodity (operating) structure	Sales manner	Service function	Management information system
Department Store	Commercial centres at municipal and district level as well as traditional commercial hubs	Mainly mobile customers with fashion and taste consciousness	Operating area 6,000 — 20,000 m ²	Comprehensive with complete categories, mainly covering apparel, shoes, cases and bags, cosmetics, household products and household appliances	Combination of over-the-counter and self service	Focus on service, set up services and facilities for food & beverage, and entertainment	High level

Source: Ministry of Commerce, PRC, Circular on Implementing National Standard Retail Trade Classification 2004

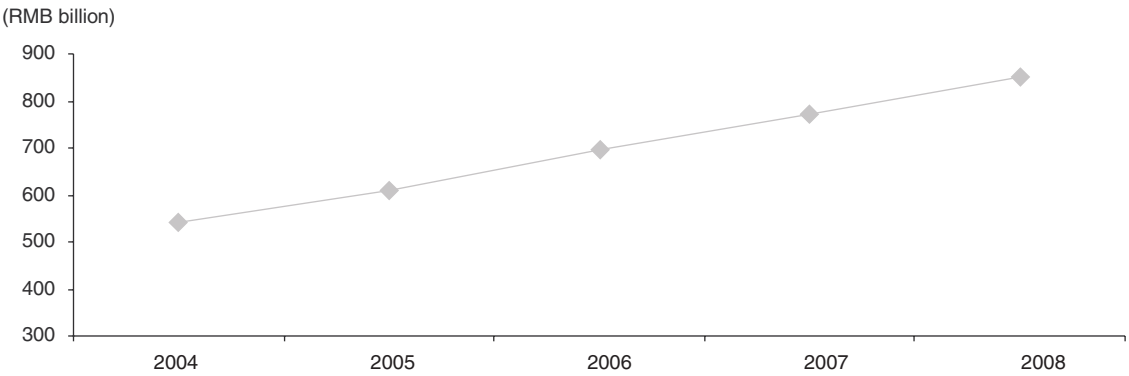
In 2003, the department store market in the PRC was worth approximately RMB482.5 billion (approximately US\$58.2 billion), representing a growth of approximately 40.0% over RMB345.4 billion in 1999 (approximately US\$41.7 billion), or a CAGR of approximately 8.7%. The chart below shows the market size of the department store sector in the PRC during the period from 1999 to 2003:



Source: Euromonitor International, Department Stores in China October 2004

INDUSTRY OVERVIEW

According to the estimation of Euromonitor, the PRC department store market is expected to grow by approximately 76.1% and reach a total value of approximately RMB850.0 billion (approximately US\$102.5 billion) in 2008, representing an increase of approximately 76.0% as compared to 2003, after the lift of restrictions on foreign capital composition and location in the retail industry. The chart below shows the forecast relating to the PRC department store market size in 2004 to 2008:



Source: Euromonitor International, Department Stores in China October 2004

Department stores are popular because of their wide variety of products and after-sales service. According to Euromonitor, in the PRC, department stores are the preferred retail format for customers to shop for non-food products such as clothing, electrical appliances, cosmetics and furniture. Although department stores are facing increasing competition, the Directors believe that they will remain one of the key retail formats in the PRC.

PRC regulations relating to retail business

Prior to the PRC's entry into WTO, foreign investors were severely restricted from providing retail services in the PRC for both their own proprietary operations and for third parties.

On 25th June, 1999, the PRC's State Economic Trade Commission and the Ministry of Foreign Trade and Economic Cooperation jointly issued 《外商投資商業企業試點辦法》(the Measures on the Trial Establishment of Foreign-Invested Commercial Enterprises) (the "Measures"). According to the Measures, foreign companies or enterprises and domestic companies or enterprises were able to set up sino-foreign equity joint ventures or sino-foreign co-operative joint ventures (referred to as "Joint Ventures") in the designated experimental area within the territory of the PRC, but wholly foreign-owned enterprises were not allowed to be established in the industry at that stage. The area for establishment of Joint Ventures was stipulated by the State Council, which was only restricted to the capital cities of provinces and autonomous regions, municipalities under the central government, cities directly under State planning, and the special economic zones. Moreover, the establishment of Joint Ventures had to comply with commercial development planning rules in the relevant area. To gain access to the PRC market, non-PRC retailers had to apply for permission from the PRC government in accordance with the Measures, which had high market entry thresholds for foreign investment enterprises.

INDUSTRY OVERVIEW

However, to fulfil the PRC's WTO commitment in respect of the opening up of its distribution services sector, the Ministry of Commerce issued 《外商投資商業領域管理辦法》(the Measures on the Administration of Foreign Invested Commercial Enterprises) (the "New Measures") on 16th April, 2004, which regulate foreign investments in distribution services such as wholesale, retail, commission agency and franchising. The Measures were abolished when the New Measures took effect from 1st June, 2004.

There are a number of major changes in the New Measures, including permitting foreign investors to engage in the operation of distribution services on a wholly-owned basis from 11th December, 2004. The New Measures will also gradually enlarge the geographical coverage of foreign-invested commercial enterprises and lower the market entry threshold. In terms of requirements for foreign invested commercial enterprises to set up stores, it is stipulated in the New Measures that foreign investors can apply to set up both commercial enterprises and stores at the same time in accordance with simplified procedures and clear guidelines.

According to the New Measures, a foreign invested commercial enterprise must meet the following conditions: (i) its minimum registered capital must comply with the requirements of PRC company law (RMB500,000 for wholesalers and RMB300,000 for retailers); (ii) it must comply with the normal total investment and registered capital requirements for foreign invested enterprises; and (iii) in general, its term of operation may not exceed 30 years, or 40 years in the western region of the PRC. Moreover, the foreign invested commercial enterprise must meet the following conditions to open retail stores: (i) if applying to open a store at the same time as applying to establish the enterprise, the proposed store must conform to the urban development plan and the commercial development plan of the city where it is located; and (ii) if applying to open a store after the establishment of the enterprise, then in addition to meeting the above requirement, the enterprise must also (a) have undergone annual inspection on time and passed, and (b) have received all of its registered capital from its investors.

The procedures for establishing a foreign invested commercial enterprise are first to submit an application (including a project description, feasibility study and other relevant documents required) to the relevant provincial level Commerce Bureau for preliminary approval. If that preliminary approval is granted, the application is submitted to the Ministry of Commerce for approval. Additionally, any retail stores to be opened by an established foreign invested commercial enterprise must be approved according to the same process. The approval process together generally does not exceed four months given the satisfactory submission of application documents. The approved foreign invested commercial enterprise shall be registered with the competent Administration of Industry and Commerce within one month after the approval issued by the Ministry of Commerce or the authorised provincial branch. After the implementation of the New Measures, the Group may engage in the retail business in the PRC on a wholly-owned basis and expand into geographical areas which were not opened to foreign investors for retail operations.

Under the New Measures, the percentage of foreign investment in retailers in the PRC with more than 30 stores which are engaged in the sale of certain specific goods including books, newspapers, magazines, automobile (as for automobile, such restriction will be cancelled from 11th December, 2006), pharmaceutical products, pesticides, certain types of food, vegetable oil, sugar and cotton and with such goods obtained from different suppliers, should not exceed 49%.

OVERVIEW

The Group is a large national network of department stores in the PRC. The Group operates 37 “Parkson” branded department stores and 2 “Xtra” branded supercentres situated in prime locations in 26 cities in the PRC.

The Group is the PRC stem of the Lion Group’s retail business which was established in Malaysia in 1987. The Lion Group is a Malaysian based diversified business group engaged in a variety of businesses encompassing steel, motor and tyres manufacturing, computer assembly production, trading, pulp and paper production, plantation, property and community development and retail through companies listed on Bursa Malaysia and the Stock Exchange of Singapore. The Lion Group entered the PRC retail market in 1994 shortly following the PRC’s opening of this sector to foreign investors, making the Group one of the foreign pioneers in the PRC department store industry.

As at the Latest Practicable Date, 23 of the stores operated by the Group were owned by the Group whereas the remaining 16 were managed by the Group. The following map shows the geographic distribution of the stores operated by the Group in the PRC as at the Latest Practicable Date:



The Group has positioned itself at the middle to middle-upper end of the retail market in the PRC and offers a wide range of merchandise which can be broadly categorised into four categories, namely “fashion and apparel”, “cosmetics and accessories”, “household, electrical goods and others” and “groceries and perishables”. The Group’s main focus is on fashion “lifestyle” products, in particular ladies’ fashion and cosmetics.

Sales in the Group’s stores are divided into concessionaire sales and direct sales. The Group enters into agreements with certain suppliers of branded goods (known as concessionaires), who are permitted to occupy designated areas in the Group’s stores and to establish their own sales counters for their products. The Group receives a percentage of the revenues generated from such concessions as a commission. With respect to direct sales, the Group sources and sells its own directly purchased merchandise.

The Group has been granted an exclusive licence by Parkson Corporation to use the “Parkson”/“百盛” and “xtra SUPERCENTER 愛客家” trademarks in the PRC and other parts of the Greater China region for a period of thirty years.

Besides operating the self-owned stores, the Original Group also provided management consultancy services to other department stores and supercentres owned by Independent Third Parties, the Lion Group or connected persons during the Track Record Period. Such stores are licensed to use the “Parkson” or “Xtra” names and the Group’s information system. Management and consultancy fees received by the Original Group pursuant to management arrangements with these Independent Third Parties, the Lion Group and connected persons amounted to approximately RMB28.9 million, RMB38.8 million, RMB47.2 million and RMB29.7 million, representing approximately 5.2%, 6.0%, 6.0% and 5.9% of the Original Group’s total operating revenue, for each of the three years ended 31st December, 2004 and six months ended 30th June, 2005 respectively. Prior to the Reorganisation, the Lion Group acquired 12 of the stores originally managed by the Group, which were then transferred to the Group pursuant to the Reorganisation. The financial performance of the Original Group was generally better than that of the Acquired Stores during the Track Record Period. This is partly because the Original Group’s stores are more mature and well-established while some of the Acquired Stores are smaller in their scale of operation or were newly established. The Group currently provides management consultancy services to 14 “Parkson” branded department stores and 2 “Xtra” branded supercentres located in 11 cities in the PRC which are owned by Independent Third Parties, the Lion Group or connected persons. Further details regarding such managed stores are set out in the paragraph headed “Retail Network” in this section of this prospectus.

BUSINESS

The following table shows the breakdown of the Original Group's total operating revenues for each of the three years ended 31st December, 2004 and for the six months ended 30th June, 2004 and 2005.

	For the year ended 31st December,						For the six months ended 30th June,			
	2002		2003		2004		2004		2005	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	<i>(unaudited)</i>									
Sales of goods - direct sales	203,593	36.2	233,779	36.1	292,842	37.3	147,087	37.6	186,609	37.0
Commission from concessionaire sales <i>(Note 1)</i>	277,813	49.4	296,819	45.8	357,592	45.5	175,604	44.9	224,102	44.4
Consultancy and management fees	28,934	5.2	38,784	6.0	47,220	6.0	24,238	6.2	29,715	5.9
Rental income	30,458	5.4	49,048	7.6	52,384	6.7	25,977	6.6	30,543	6.0
Other revenues	<u>21,036</u>	<u>3.8</u>	<u>29,343</u>	<u>4.5</u>	<u>35,505</u>	<u>4.5</u>	<u>18,229</u>	<u>4.7</u>	<u>33,993</u>	<u>6.7</u>
Total operating revenues	<u>561,834</u>	<u>100.0</u>	<u>647,773</u>	<u>100.0</u>	<u>785,543</u>	<u>100.0</u>	<u>391,135</u>	<u>100.0</u>	<u>504,962</u>	<u>100.0</u>

Note 1:

The table below is a summary of sales proceeds of the Original Group (comprising sales proceeds from direct sales, gross sales proceeds from concessionaire sales, consultancy and management fees, rental income and other operating revenues).

	For the year ended 31st December,						For the six months ended			
							30th June,			
	2002		2003		2004		2004		2005	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	<i>(unaudited)</i>									
Sales proceeds										
- Direct sales	203,593	12.8	233,779	13.3	292,842	14.2	147,087	14.1	186,609	14.1
- Concessionaire sales <i>(Note a)</i>	<u>1,304,267</u>	<u>82.1</u>	<u>1,403,308</u>	<u>80.0</u>	<u>1,627,924</u>	<u>79.2</u>	<u>827,539</u>	<u>79.3</u>	<u>1,039,346</u>	<u>78.8</u>
Total sales proceeds	1,507,860	94.9	1,637,087	93.3	1,920,766	93.4	974,626	93.4	1,225,955	92.9
Others (including consultancy and management fees, rental income and other operating revenues)	<u>80,428</u>	<u>5.1</u>	<u>117,175</u>	<u>6.7</u>	<u>135,109</u>	<u>6.6</u>	<u>68,444</u>	<u>6.6</u>	<u>94,251</u>	<u>7.1</u>
	1,588,288	100.0	1,754,262	100.0	2,055,875	100.0	1,043,070	100.0	1,320,206	100.0

Note a:

The gross sales proceeds from the concessionaire sales do not form part of the sales of the Original Group and the information is for reference only.

BUSINESS

The following table shows the total operating revenues, profit from operations and net profit for the year/period of the Original Group for each of the three years ended 31st December, 2004 and for the six months ended 30th June, 2004 and 2005.

	For the year ended 31st December,			For the six months ended 30th June,	
	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>	2004 <i>RMB'000</i> <i>(unaudited)</i>	2005 <i>RMB'000</i>
Total operating revenues	561,834	647,773	785,543	391,135	504,962
Profit from operations	128,257	177,970	249,457	118,878	167,191
Net profit for the year/period attributable to the Group	67,342	99,911	152,771	72,182	106,511

Of the 23 self-owned stores, 12 stores were acquired by the Lion Group after 30th June, 2005 and then transferred to the Group. Those stores were all managed by the Group during the Track Record Period. The following table shows the breakdown of the Combined Group's total operating revenues for the year ended 31st December, 2004 and for the six months ended 30th June, 2005 on a pro forma basis as if the acquisition of the Acquired Stores had been completed on 1st January, 2004. The basis of preparation of the pro forma financial information is set out in Appendix III to this prospectus.

	Year ended 31st December, 2004		Six months ended 30th June, 2005	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Sales of goods — direct sales	483,875	39.4%	307,503	38.7%
Commission from concessionaire sales <i>(Note 1)</i>	574,240	46.8%	365,374	46.0%
Consultancy and management fees	38,458	3.1%	24,514	3.1%
Rental income	66,500	5.4%	39,446	4.9%
Other operating revenues	<u>64,717</u>	<u>5.3%</u>	<u>58,136</u>	<u>7.3%</u>
Total operating revenues	<u>1,227,790</u>	<u>100.0%</u>	<u>794,973</u>	<u>100.0%</u>

BUSINESS

Note 1:

The table below is a summary of the pro forma combined sales proceeds of the Combined Group (comprising sales proceeds from direct sales, gross sales proceeds from concessionaire sales, consultancy and management fees, rental income and other operating revenues) as if the acquisition of the Acquired Stores had been completed on 1st January, 2004.

	Year ended		Six months ended	
	31st December, 2004		30th June, 2005	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Sales proceeds				
— Direct sales	483,875	13.5%	307,503	13.7%
— Concessionaire sales (<i>Note a</i>)	<u>2,924,966</u>	<u>81.8%</u>	<u>1,819,966</u>	<u>80.9%</u>
Total sales proceeds	<u>3,408,841</u>	<u>95.3%</u>	<u>2,127,469</u>	<u>94.6%</u>
Others (including consultancy and management fees, rental income and other operating revenues)	<u>169,675</u>	<u>4.7%</u>	<u>122,096</u>	<u>5.4%</u>
	<u><u>3,578,516</u></u>	<u><u>100.0%</u></u>	<u><u>2,249,565</u></u>	<u><u>100.0%</u></u>

Note a:

The gross sales proceeds from the concessionaire sales do not form part of the sales of the Combined Group and the information is for reference only.

The following table shows the pro forma combined total operating revenues, profit from operations and net profit for the year/period of the Combined Group for the year ended 31st December, 2004 and six months ended 30th June, 2005 as if the acquisition of the Acquired Stores had been completed on 1st January, 2004.

	Year ended	Six months ended
	31st December, 2004	30th June, 2005
	<i>RMB'000</i>	<i>RMB'000</i>
Total operating revenues	1,227,790	794,973
Profit from operations	283,459	219,745
Net profit for the year/period attributable to the Group	150,629	135,552

PRINCIPAL STRENGTHS

The Directors believe that the Group possesses the following principal strengths:

Department stores situated in prime locations in major cities and districts within major cities throughout the PRC

The Group has an extensive network of stores in the PRC, and furthermore each of the Group's stores is located in a prime location either within its respective city or its respective district in the city in terms of neighbouring developments and level of accessibility. Such a prime location is one of the key factors in any successful retail operation to ensure a steady flow of customers into the stores and improve brand recognition. Almost all of the Group's stores are either owned or leased on a long term basis with between seven and twenty years remaining unexpired on the leases. Furthermore, the Directors believe that some of these leases were obtained on favourable financial terms which have been locked in for the remainder of the terms of the leases insulating the Group from any rapid rises in commercial rents in the cities in which its stores are located. The combination of these factors provides the Group with a relatively low cost and stable retail network in prime locations.

Well-established and extensive “Parkson” department store network and brand recognition in the PRC

The Lion Group has been operating in the retail sector in Asia for over 18 years. The Lion Group opened its first store in Malaysia in 1987 and has since expanded to the PRC (through the Group) and Vietnam. The Group has been operating in the PRC since 1994. The Group was among the first foreign department store chains to establish a presence in the PRC and has grown rapidly in the last decade. The Group currently owns and/or operates 39 stores in 26 cities in the PRC including 37 “Parkson” branded department stores and 2 “Xtra” branded supercentres and it has a large national network of department stores in the PRC. In a number of the cities in which the Group operates, it was the first foreign department store to open and in some cities it is still the only foreign department store chain with a presence in that city. The Directors believe that such factors have provided the Group with a “first mover” advantage in its positioning in the department store market in the PRC. Furthermore, due to its 11 years of established operations in the PRC, the “Parkson” brand is a well-known foreign brand with strong brand recognition in the PRC. “Parkson” is positioned as a middle to middle-upper range department store focused on fashion and apparel aimed at a young, contemporary market.

Long-term relationships with well known brands in the PRC offering a wide range of merchandise

The Group has developed well-established relationships over a number of years with various well known international and PRC domestic brands allowing the Group to offer a wide range of merchandise in its stores. The Group has strategic alliances with a number of concessionaires and suppliers. The Directors believe that the strength of the “Parkson” brand and network, the Group's prompt and reliable payments to its suppliers and its relationship with its suppliers' local management in the PRC make it an attractive business partner for a range of retail brands. This

ability to offer a wide range of merchandise including well-known brands is important to maintain and develop the Group's image in the minds of consumers and to drive sales. Approximately 55% of the top 100 suppliers of the Group has maintained its business relationship with the Group for at least five years. The Group also has strategic alliances with well-known fast food chains such as KFC and Pizza Hut, which have located their restaurants in a number of the Group's stores which the Directors believe will help bring traffic to its department stores.

Experienced and cohesive senior management team

The Group's senior management, including ethnic Chinese foreign expatriates most of whom have been with the Group since the establishment of the Group's operations in the PRC, have over 10 years of experience working in the PRC retail market. The Group therefore has a stable cadre of senior managers who have experience operating in various cities and provinces in the PRC and understand PRC culture and their own markets. The Group has therefore built up many years' experience of managing the operational and logistical challenges of retailing in the PRC. The Group's experience also enables it to understand and address the needs and preferences of Chinese consumers in its product offerings and to select the optimum size for each store and the appropriate brands to offer in such stores.

Sophisticated management systems

The Group is committed to high standards in retail management. In addition to its experienced management personnel, the Group has also put in place sophisticated management systems including a fully integrated ERP system comprising, among other things, POS capability, the Merchandising System, the BI system and the SCM system which provide timely information to the management to facilitate analysis and decision making. The Directors believe that the Group has combined high standards of retail management with local knowledge of PRC markets. These fully integrated systems have enabled the Group to centralise all relevant information and data and enhance management control.

HISTORY AND DEVELOPMENT

The Group was founded in the PRC in 1994 by the Lion Group as part of the Parkson China Group. In 1994, the Group opened its first store in Beijing under the name "Parkson". Since foreign ownership of retail department stores was restricted under PRC law at that time, Beijing Parkson was established in the form of a sino-foreign co-operative joint venture between the Group and a PRC domestic company.

Over the last decade, the Group has expanded extensively in the PRC and has established an extensive network of department stores. The Group began to expand beyond Beijing in 1995 and established its first store in Chongqing in that year. This was followed by the establishment of further stores in other major cities in the PRC such as Yangzhou and Shanghai. The Group has continued to set up new stores in new provinces and cities, with the most recent stores established in Zhengzhou, Haerbin and Chengdu. The Group has been able to secure its presence in prime locations in major cities or prime locations within specific districts in certain major cities in the PRC, which, together with its extensive network, has enabled the Group to develop strong brand recognition within the PRC.

While expanding its network in the PRC, the Group has also developed well-established relationships with various well-known international and PRC domestic brands, allowing the Group to offer a wide range of merchandise in its stores. Since 2004, the Group has entered into strategic alliances with a number of concessionaires and suppliers, which enable the Group to include the merchandise of such concessionaires and suppliers in most of its present and future stores in the PRC and to maintain a more consistent store image.

The Group has, over the course of its development in the PRC, recruited and retained a team of experienced and cohesive senior managers. The management team comprises personnel who are experienced in the retail market, especially in Southeast Asia and the PRC, many of whom were employed in the Lion Group prior to joining the Group. Such strong senior management with good understanding of the needs and preferences of the PRC retail market has significantly assisted the development of the Group's business.

The Group has, in recent years, launched various sophisticated information systems which assist it to conduct its business more efficiently. Such integrated systems have enabled the Group to centralise relevant information and data and enhance management control and decision making.

Apart from self-owned stores, the Group also began to provide management consultancy services to department stores owned by Independent Third Parties, the Lion Group or connected persons. These stores are licensed to use the "Parkson" or "Xtra" name and the Group's information system.

In 2003, the Group launched the nationwide Parkson loyalty card programme. Customers who use this card can accumulate purchase points when making purchases at Parkson stores. These points can be redeemed for cash vouchers. In 2004, the Group launched a co-branded credit card under the logos of "Parkson" and "China Merchants Bank" with China Merchants Bank. This is the first co-branded credit card issued by a department store in the PRC which can be used both in the PRC and overseas. The Directors believe that the adoption of such a loyalty card and co-branded credit card can build up customers' loyalty and enhance the image of the Group. It also enables the Group to maintain a database for direct marketing and sales promotion.

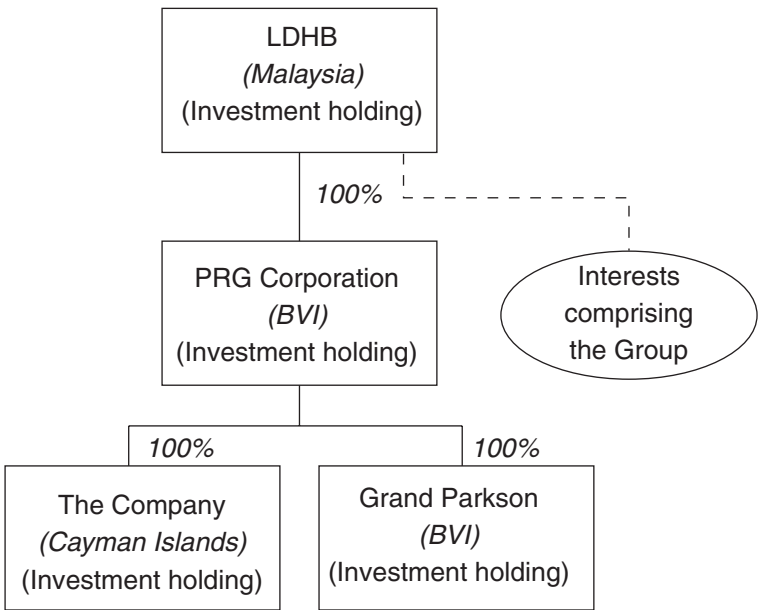
The Reorganisation was implemented over the period from January 2005 to November 2005 to form the Group. Pursuant to the Reorganisation, the Original Group was retained and the Lion Group also transferred the Acquired Stores to the Group. The financial performance of the Original Group was generally better than that of the Acquired Stores during the Track Record Period. This is partly because the Original Group's stores are more mature and well-established while some of the Acquired Stores are smaller in its scale of operation or newly established. The Acquired Stores were all managed by the Group during the Track Record Period. Further details of the Reorganisation and the corporate development of the Group are set out in the paragraph headed "Reorganisation" below and the section headed "Corporate reorganisation" in Appendix VII to this prospectus. Following the Reorganisation, the Excluded Companies have remained in the Lion Group and the Group has been granted an option and a right of first refusal to acquire the Excluded Stores. Further details in relation to such option and right of first refusal and the Excluded Stores are set out in the section headed "Connected transactions" in this prospectus.

BUSINESS

As a result of its continued growth, the Group has grown into a large national department store chain operator in the PRC. As at the Latest Practicable Date, the Group operated 39 stores throughout the PRC, of which 23 were self-owned stores, 11 were managed stores with an option to acquire which are or will be owned by the Lion Group, one was a connected managed store and the remaining four were pure managed stores which are owned by Independent Third Parties.

Reorganisation

The Company was incorporated on 3rd August, 2005 in the Cayman Islands. PRG Corporation and Grand Parkson were incorporated on 20th July, 2005 and 22nd June, 2005 respectively in the BVI. Following incorporation and the initial share transfers from the relevant subscriber and the initial share allotments, the shareholding structure of the abovementioned companies was as follows:



The major steps of the corporate reorganisation involved the following:

1. The acquisition by PRG Corporation of the entire issued share capital of Step Summit from its sole shareholder for a consideration of US\$65.4 million.
2. The transfer of the entire issued share capital of each of the offshore intermediate holding companies held by LDHB and its subsidiary, Lion Subang Parade Sdn Bhd (namely, Parkson Investment, Exonbury and Parkson Supplies) from such companies to Grand Parkson, pursuant to a number of share transfer agreements, in consideration of the allotment and issuance of shares in Grand Parkson credited as fully paid in favour of PRG Corporation.

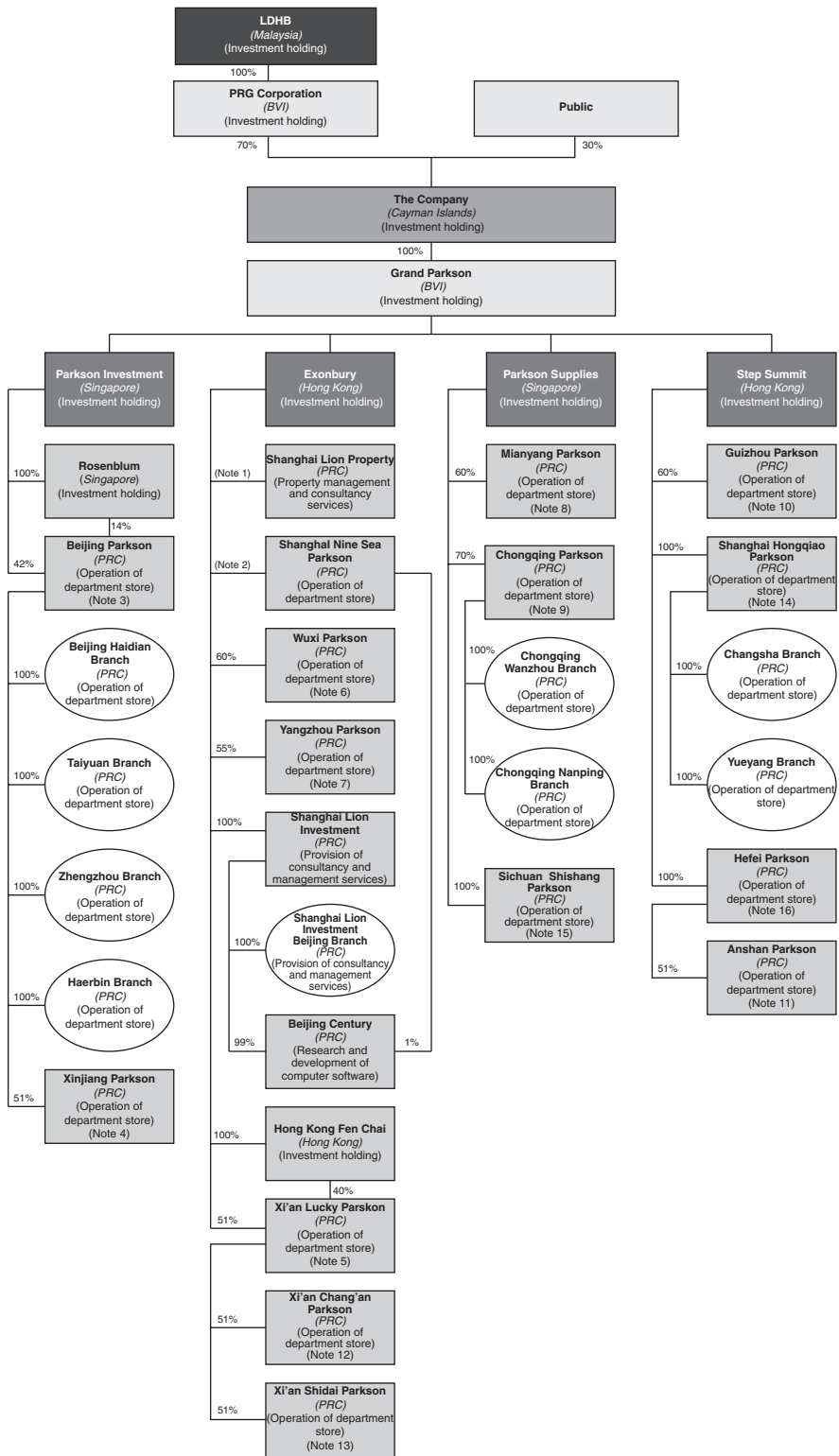
BUSINESS

3. The transfer of the entire issued share capital of Step Summit from PRG Corporation to Grand Parkson pursuant to a share transfer agreement, in consideration of the allotment and issuance of one share in Grand Parkson credited as fully paid in favour of PRG Corporation.
4. The reorganisation with respect to the PRC subsidiaries is further described in the section headed “Corporate reorganisation” in Appendix VII to this prospectus.
5. The acquisition by Exonbury of the entire issued share capital of Hong Kong Fen Chai from its sole shareholder for a consideration of RMB52,000,000. Exonbury will also capitalise Hong Kong Fen Chai in the amount of RMB13,000,000 by way of injection of equity.
6. The transfer of the entire issued share capital of Grand Parkson from PRG Corporation to the Company, in consideration of the issuance of shares in the Company credited as fully paid in favour of PRG Corporation.

The structure of the Group, including its operating subsidiaries, upon completion of the Reorganisation and immediately following the Offering (assuming the Over-allotment Option is not exercised) is illustrated by the diagram in the section headed “Group Structure” in this section of this prospectus.

GROUP STRUCTURE

The following diagram illustrates the structure of the Group immediately following the Offering (assuming the Over-allotment Option is not exercised):



BUSINESS

Notes:

1. Shanghai Lion Property is a sino-foreign co-operative joint venture enterprise with Shanghai Nine Sea Industry, as the Chinese joint venture party. The term of the joint venture is 15 years commencing from 26th March, 1996. The distributable profits of Shanghai Lion Property are shared between the Group and Shanghai Nine Sea Industry in the ratio of 35% and 65% respectively.
2. Shanghai Nine Sea Parkson is a sino-foreign co-operative joint venture enterprise with Shanghai Nine Sea Industry as the Chinese joint venture party. The term of the joint venture is 30 years commencing from 30th November, 1994. The distributable profits of Shanghai Nine Sea Parkson are shared between the Group and Shanghai Nine Sea Industry in accordance with the terms set out in the co-operative joint venture contract entered into between them in September 1994. Under such joint venture contract, Shanghai Nine Sea Industry is entitled to an agreed amount out of the distributable profits of Shanghai Nine Sea Parkson. Since 1999, such amount is subject to a fixed percentage increment per year up to the end of the term of the joint venture. Shanghai Nine Sea Industry is a limited liability company engaging in a variety of businesses, including property development, property management (through a joint venture with the Group and others), and retail operation (through a joint venture with the Group). So far as the Directors are aware after reasonable enquiries, its business is not in competition with that of the Group. Shanghai Nine Sea Parkson is the operator of Shanghai Nine Sea Store. Shanghai Nine Sea Parkson has been treated as a wholly-owned subsidiary in the Accountants' report in Appendix I to this prospectus in accordance with the IFRS.
3. The remaining 44% equity interest in Beijing Parkson is owned as to 43% by China Arts & Crafts, as to 0.9% by China Arts & Crafts Culture and as to 0.1% by Arts & Crafts Exhibition. Beijing Parkson is the operator of the Beijing Store. Its branches, Beijing Haidian Branch, Taiyuan Branch, Zhengzhou Branch and Haerbin Branch, are the operators of the Beijing Haidian Store, the Taiyuan Store, the Zhengzhou Store and the Haerbin Store respectively.
4. The remaining 49% equity interest in Xinjiang Parkson is owned by Xinjiang Youhao. Xinjiang Parkson is the operator of the Xinjiang Store. Xinjiang Youhao is the operator of 2 department stores in Urumuqi, Xinjiang, which are not managed by the Group.
5. The remaining 9% equity interest in Xi'an Lucky Parkson is owned by Xi'an Lifeng. Xi'an Lucky Parkson is the operator of the Xi'an Lucky Store.
6. The remaining 40% equity interest in Wuxi Parkson is owned by Wuxi Distribution. Wuxi Parkson is the operator of the Wuxi Store.
7. The remaining 45% equity interest in Yangzhou Parkson is owned by Yangzhou Commercial. Yangzhou Parkson is the operator of the Yangzhou Store.
8. The remaining 40% equity interest in Mianyang Parkson is owned by Sichuan Fulin. Mianyang Parkson is the operator of the Mianyang Store.
9. The remaining 30% equity interest in Chongqing Parkson is owned by Chongqing Wanyou. Chongqing Parkson is the operator of the Chongqing Store. Its branches, Chongqing Wanzhou Branch and Chongqing Nanping Branch, are the operators of the Chongqing Wanzhou Store and the Chongqing Nanping Store respectively.
10. The remaining 40% equity interest in Guizhou Parkson is owned by Guizhou Shenqi Enterprise. Guizhou Parkson is the operator of the Guizhou Store.
11. The remaining 49% equity interest in Anshan Parkson is owned by Anshan Tianxing. Anshan Parkson is the operator of the Anshan Store.
12. The remaining 49% equity interest in Xi'an Chang'an Parkson is owned by Shaanxi Chang'an Information. Xi'an Chang'an Parkson is the operator of the Xi'an Chang'an Store.
13. The remaining 49% equity interest in Xi'an Shidai Parkson is owned by Xi'an Xinrun. Xi'an Shidai Parkson is the operator of the Xi'an Shidai Store.
14. Shanghai Hongqiao Parkson is the operator of the Shanghai Hongqiao Store. Its branches, Changsha Branch and Yueyang Branch are the operators of the Changsha Store and the Yueyang Store respectively.
15. Sichuan Shishang Parkson is the operator of the Sichuan Store.
16. Hefei Parkson is the operator of the Hefei Store.

BUSINESS MODEL

The Group operates in the PRC in two ways. First, it owns, operates and manages self-owned stores and makes profits from such stores' operations. Second, it manages stores on behalf of the Lion Group, Independent Third Parties and connected persons and receives management fees in return. Such a business model provides the Group with the flexibility to choose the best method of operating and expanding its business in different provinces and cities in the PRC depending on the circumstances.

Merchandise in the Group's stores is sold by way of concessionaire sales and direct sales. For concessionaire sales, suppliers of branded goods (known as concessionaires) are permitted to occupy designated areas in the Group's stores and to establish their own sales counters for their products. The Group receives a percentage of the revenues generated from such concessions as a commission subject to an agreed minimum commission amount determined based on an agreed minimum sales target. Sales amount received from the concessionaire sales is first collected by the Group and paid to the concessionaires according to their respective credit terms after deduction of all relevant expenses, fees and commissions. With respect to direct sales, the Group sources and sells its own direct purchased merchandise. For each of the year ended 31st December, 2004 and the six months ended 30th June, 2005, 84.8% and 84.8%, respectively, of the sales proceeds of the Group were derived from concessionaire sales while the rest were derived from direct sales. Inventory risk on merchandise sold in the Group's stores by concessionaires is carried by the concessionaires, not by the Group. Due to the high percentage of sales derived from concessionaire sales, the Group carries little inventory.

The Group's principal strategy, in particular in the larger, more mature cities, is to expand by opening additional self-owned stores, however, its bifurcated business model provides the Group with the flexibility to choose the best method of operating and expanding its business in different provinces and cities in the PRC depending on the circumstances. Taken together, the various elements of the Group's business model have historically provided the Group with a strong cash flow. They also provide the Group with the potential to expand the number of its stores rapidly and with relatively less capital expenditure than would otherwise be required.

BUSINESS

RETAIL NETWORK

As at the Latest Practicable Date, the Group operated a total of 39 department stores and supercentres in the PRC. 23 of these stores were owned by the Group whereas the remaining 16 were managed by the Group.

The following table sets out a breakdown of these stores by their nature and geographical location:

(a) Self-owned stores

Stores	Date of commencement of operation	Percentage equity interest owned by the Group (directly or indirectly) (%)	City	Approximate retailing space (sq.m.)
1. Anshan Store**	June 2002	51	Anshan	28,800
2. Beijing Store	March 1994	56	Beijing	39,300
3. Beijing Haidian Store**	April 1997	56	Beijing	7,300
4. Changsha Store**	January 2002	100	Changsha	9,500
5. Chongqing Store	December 1995	70	Chongqing	8,100
6. Chongqing Nanping Store**	November 2001	70	Chongqing	16,800
7. Chongqing Wanzhou Store**	April 2004	70	Chongqing	17,000
8. Guizhou Store**	January 2003	60	Guiyang	14,800
9. Haerbin Store	April 2005	56	Haerbin	32,700
10. Hefei Store**	September 2001	100	Hefei	26,000
11. Mianyang Store	January 1998	60	Mianyang	16,400
12. Shanghai Hongqiao Store**	December 2002	100	Shanghai	22,700
13. Shanghai Nine Sea Store	June 1996	*	Shanghai	21,200
14. Sichuan Store	November 2005	100	Chengdu	17,120
15. Taiyuan Store**	November 2002	56	Taiyuan	27,000
16. Xinjiang Store	December 2002	51	Urumuqi	31,500
17. Wuxi Store	February 1999	60	Wuxi	20,700
18. Xi'an Chang'an Store**	December 2004	51	Xi'an	16,500
19. Xi'an Lucky Store	January 1998	91	Xi'an	14,600
20. Xi'an Shidai Store**	December 2004	51	Xi'an	26,600
21. Yangzhou Store	December 1996	55	Yangzhou	12,600
22. Yueyang Store**	December 2003	100	Yueyang	14,700
23. Zhengzhou Store	January 2005	56	Zhengzhou	45,500

* sharing of profits with joint venture partner

** acquired subsequent to 30th June, 2005

BUSINESS

(b) Managed stores

(i) *Managed stores owned by the Lion Group which the Group has an option to acquire*

Stores	City	Approximate retailing space (sq.m.)
1. Changchun Managed Store*	Changchun	35,600
2. Dalian Tianhe Managed Store	Dalian	17,400
3. Dalian Shishang Managed Store	Dalian	30,900
4. Nanning Managed Store	Nanning	31,400
5. Qingdao Managed Store	Qingdao	31,800
6. Qingdao Laoshan Xtra Managed Store	Qingdao	22,700
7. Shantou Managed Store*	Shantou	13,500
8. Shenyang Plaza Managed Store*	Shenyang	33,400
9. Dalian Tianhe Shenyang Managed Store	Shenyang	32,200
10. Tianjin Managed Store*	Tianjin	32,900
11. Qingdao Yantai Managed Store	Yantai	36,000

* to be acquired by the Lion Group

(ii) *Connected managed store*

Stores	City	Approximate retailing space (sq.m.)
1. Guizhou Managed Store	Guiyang	8,300

(iii) *Pure managed stores owned by Independent Third Parties*

Stores	City	Approximate retailing space (sq.m.)
1. Chengdu Managed Store	Chengdu	30,300
2. Shenyang Xtra Managed Store	Shenyang	7,200
3. Kunming Managed Store	Kunming	20,100
4. Kunming Renmin Road Managed Store	Kunming	17,000

Further details regarding the managed stores with an option to acquire and the pure managed stores are set out in the paragraph headed “Management services” in this section of this prospectus and the section headed “Connected transactions” in this prospectus.

BUSINESS

MERCHANDISE

A wide range of merchandise is offered in the Parkson stores sourced from both overseas and domestic suppliers.

Such merchandise can be broadly categorised into 4 categories, namely “fashion and apparel”, “cosmetics and accessories”, “household, electrical goods and others” and “groceries and perishables”.

Sales proceeds (representing the sales proceeds from direct sales and gross sales proceeds from concessionaire sales) for each category of merchandise of the Original Group for the Track Record Period were as follows:

Category	Year ended 31st December,									For the six months ended 30th June,		
	2002			2003			2004			2005		
	Concess- ionaire		Total	Concess- ionaire		Total	Concess- ionaire		Total	Concess- ionaire		Total
	Direct sales	sales		Direct sales	sales		Direct sales	sales		Direct sales	sales	
	RMB'000											
Fashion and apparel	5,612	721,358	726,970	2,887	771,030	773,917	2,955	902,548	905,503	1,916	595,597	597,513
Cosmetics and accessories	39,443	299,720	339,163	64,514	314,577	379,091	105,164	379,982	485,146	76,422	251,996	328,418
Household, electrical goods and others	45,473	229,771	275,244	31,334	234,929	266,263	35,039	248,729	283,768	17,151	134,929	152,080
Groceries and perishables	113,065	53,418	166,483	135,044	82,772	217,816	149,684	96,665	246,349	91,120	56,824	147,944
	<u>203,593</u>	<u>1,304,267</u>	<u>1,507,860</u>	<u>233,779</u>	<u>1,403,308</u>	<u>1,637,087</u>	<u>292,842</u>	<u>1,627,924</u>	<u>1,920,766</u>	<u>186,609</u>	<u>1,039,346</u>	<u>1,225,955</u>

Category	Year ended 31st December,									For the six months ended 30th June,		
	2002			2003			2004			2005		
	Concess- ionaire		Total	Concess- ionaire		Total	Concess- ionaire		Total	Concess- ionaire		Total
	Direct sales	sales		Direct sales	sales		Direct sales	sales		Direct sales	sales	
	%											
Fashion and apparel	2.8	55.3	48.2	1.2	54.9	47.3	1.0	55.5	47.1	1.0	57.3	48.7
Cosmetics and accessories	19.4	23.0	22.5	27.6	22.4	23.1	35.9	23.3	25.3	41.0	24.2	26.8
Household, electrical goods and others	22.3	17.6	18.3	13.4	16.8	16.3	12.0	15.3	14.8	9.2	13.0	12.4
Groceries and perishables	55.5	4.1	11.0	57.8	5.9	13.3	51.1	5.9	12.8	48.8	5.5	12.1
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

The following table sets out some of the international and domestic brands featured in the Parkson stores:

Fashion and apparel	Cosmetics and accessories
Esprit	Christian Dior
Only	Marjorie Bertagne
Nike	Shiseido
Nike 360°	SK-II
Etam	Kose
Wacoal	Boss
Vero Moda	Tse Sui Luen
Adidas	Belle
Maniform	Ecco
Jack & Jones	Samsonite
Household, electrical goods and others	Groceries and perishables
Zwilling J.A. Henckels	Nestle
Fissler	Tong Ren Tang
WMF	Unilever
Leifheit	Yili
Pedrini	Coca-cola
Thermos	Pepsi Cola
Braun	Hormel
Panasonic	Great Lakes
Philips	Taikoo
Toshiba	Colgate-Palmolive

Fashion and apparel

The Group’s department stores offer a wide range of apparel, including men’s casual, career and basic wear; ladies’ casual, career and basic wear; unisex casual wear; children’s wear; sports wear and equipment.

The departments which offer the above will generally in aggregate occupy about 40% to 60% of the total gross floor area of each store.

Cosmetics and accessories

The merchandise in this category includes skin care products and cosmetics, jewellery and watches, shoes, leather goods, handbags, luggage, optical products and other fashion accessories.

The departments which offer the above will generally in aggregate occupy about 15% to 20% of the total gross floor area of each store.

For the three years ended 31st December, 2004, on average 99.5% of the total sales under the category of “fashion and apparel” and on average 83% of the total sales under the category of “cosmetics and accessories” were made by concessionaire sales. The Directors attribute this to the stronger “brand awareness” of consumers with respect to “fashion and apparel” and “cosmetics and accessories” items than other merchandise. In addition, as most “fashion and apparel” and “cosmetics and accessories” suppliers place great importance on their own brand images, they normally sell their products through their own concessionaire counters and not by way of wholesale distribution so that the brand images can be closely monitored.

Household, electrical goods and others

Merchandise and services under this category include household utensils, home furnishings, electronic and electrical items, telecommunication products, books, stationery, beauty salons, photographic studios, audio and video equipment, restaurants and snack bars. They are offered at most of the Group’s department stores. Some of the suppliers are concessionaires while others are tenants of the store premises.

The departments which offer the above products and services will generally in aggregate occupy about 10% to 25% of the total gross floor area of each store.

For the three years ended 31st December, 2004, on average 86% of the total sales under the category of “household, electrical goods and others” was made by concessionaire sales and on average 14% was made by direct sales.

Groceries and perishables

This category includes specialty shops such as drug stores, florists, liqueur and wine shops, bakery shops; and supermarkets which are operated in some of the Group’s stores.

Some of the specialty shops are concessionaires while others are tenants of the store premises.

Specialty shops and supermarkets under this category in aggregate will generally occupy about 10% to 25% of the total gross floor area of each store.

For the three years ended 31st December, 2004, on average 63% of the total sales under the category of “groceries and perishables” was made by direct sales and on average 37% was made by concessionaire sales.

Merchandising

Strategy

The Group undertakes its purchasing negotiations principally at the centralised level with a small proportion at the localised level. The Group’s two merchandising centres are responsible for negotiating contracts with national and key brand concessionaires and suppliers in relation to the entry of such brands into its stores. Purchases and orders are then processed at a local level by each individual store. For some local brands and perishable items, both negotiations and purchases are undertaken by individual stores at a local level. By centralising the Group’s negotiations, the Group is able to have better control over new suppliers and their standard terms and conditions.

The Directors believe that the Group is well-known for settling its accounts with suppliers on time. Together with its high sales volume this has enabled the Group to maintain a good relationship with its suppliers. This not only benefits the Group in terms of its ability to negotiate better business terms with its suppliers, but some of the suppliers have also made the Parkson stores among the first stores at which their new merchandise is made available for sale in the PRC.

The Group has long-standing relationships with certain suppliers. Approximately 55% of the top 100 suppliers of the Original Group have been engaged in business with the Group for at least 5 years.

The Group distinguishes its procurement policy between direct sales and concessionaire sales. For direct sales, purchases are made based on forecast sales and the assortment required with additional purchases being made for replenishment purposes. For concessionaire sales, brand selection plays an important role.

The Group has also entered into strategic alliances with certain concessionaires, under which the concessionaires agree to set up counters in most of the Group's stores in the PRC and to set up counters in new stores established by the Group in future.

Criteria for selecting direct suppliers and concessionaires

The Group is careful in selecting its direct suppliers and concessionaires. In selecting these direct suppliers and concessionaires, the Group will look at factors such as whether they are leading brands, well established, reliable in terms of product quality, efficient in replenishment, whether they have a sound financial background and whether they have been properly established under PRC law. The direct suppliers and concessionaires for most types of products will also be required to comply with the standard purchase terms and conditions offered by the Group.

All new supplier applications and new supply item applications have to be made and approved through the Merchandising System in the Group's ERP system. Terms and conditions such as margin, sales target and payment days must be approved at least at regional management level.

Brand and product mix

The Directors believe that an appropriate brand mix is important to the success of the Group. Accordingly, the Group reviews its sales and the changing market demand regularly to enable it to change its brand and product mix in a timely manner. The Group also ensures that a wide range of brand and product mix is available at its stores.

Relationship with suppliers

The credit terms offered to the Group by its suppliers range in average from 45 to 75 days. The creditors' turnover rate of the Group varies between the categories of products being sold by the Group. The average creditors' turnover rate of the Original Group (calculated on cost of sales from direct sales and cost of sales from concessionaire sales) for the three years ended 31st December, 2004 and six months ended 30th June, 2005 was 56 days, 56 days, 56 days and 46 days, respectively. All direct purchases made by the Group are paid for in Renminbi.

The Original Group was engaged in business with a total of over 4,000 direct suppliers and concessionaires in the year ended 31st December, 2004. For each of the three years ended 31st December, 2004 and six months ended 30th June, 2005, the five largest direct suppliers of the Original Group, in aggregate, accounted for approximately 18.1%, 21.6%, 26.5% and 31.2%, and its single largest direct supplier accounted for approximately 5.0%, 6.4%, 8.0% and 11.4% of its total purchases respectively, while the five largest concessionaires of the Group, in aggregate, accounted for approximately 5.0%, 5.1%, 5.8% and 5.3%, and its single largest concessionaire accounted for approximately 1.4%, 1.4%, 1.8% and 1.7% of its total invoiced sales, respectively. None of the Directors; their respective associates; or any shareholder who owned 5% or more of the issued share capital of the Company as at the Latest Practicable Date or any of their respective associates holds any interest in any of the five largest direct suppliers or concessionaires of the Original Group in any of the three years ended 31st December, 2004 and six months ended 30th June, 2005. Over such three-year and six-month period, the Original Group did not experience any material dispute with any of its suppliers or any material disruption to its operations as a result of any shortage in supply of merchandise.

STORE MANAGEMENT AND OPERATIONS

Management organisation and functions

The Group adopts a four-tiered management structure which is divided on the basis of the headquarters, the merchandising centres, the operation regions and the stores.

Headquarters

The headquarters of the Group is currently located in Beijing, the PRC. The headquarters is the highest decision making authority of the Group. It is primarily responsible for formulating policies and guidelines, making investment assessments and decisions, resource allocation at a macro level, major contracts negotiation, nationwide strategic and business development planning, senior personnel recruitment and training, internal controls, prescribing business targets and supervising the performance of the Group.

Centres

The Group has two merchandising centres based in Beijing and Shanghai, each headed by a chief operating officer. The Beijing centre and the Shanghai centre are in charge of the Group's operations in northern and southern China respectively. These centres are primarily responsible for sourcing and negotiation of contracts with key suppliers, coordinating the Group's merchandising function, determining store concept and brand mix, productivity improvement and managing and supervising the operational regions located within its geographical area of responsibility.

Regions

The Group is divided into seven operational regions, namely eastern China, southwest China, southern China, northern China, northeast China, northwest China and the Shandong province. The operational regions of eastern China, southwest China and southern China report to the Shanghai centre while the operational regions of northern China, northeast China, northwest China and the Shandong province report to the Beijing centre. These regional centres are mainly responsible for management and supervision of the stores within their regions, development of new stores within their regions and relationship management with government authorities.

Stores

The stores, under the management and supervision of the operational regions, focus on sales, local marketing, customer relationship and provision of customer service.

The four-tiered management structure ensures clear division of responsibilities within the Group and the efficient implementation of decisions made at the headquarters level. This structure also ensures an efficient flow of market information from the stores to the operational region, the centres and the headquarters which is critical to effective decision making.

Operational systems

Budget

In October each year, each store, operational region and centre will prepare its annual budget for approval by its supervising body. The Group adopts a “zero-based budgeting” approach when setting the budgets for each year. This means that staff will be asked to prepare the next year’s budget based on the financial and other information available without reference to the last year’s budget. This enables the staff to focus on the financial and other information at hand when preparing the budget.

Standard operation procedures

The senior management of the Group has compiled a set of detailed SOPs. The main objective of these SOPs is to standardise the business development, management and operational procedures of the Group. These include procedures governing areas such as accounting, daily administration, merchandising, staff training and recruitment, information systems, store operation, voucher systems, customer services and include a general manager manual. These SOPs will be updated regularly to reflect the latest development in the PRC department store market.

Store Management

The day-to-day operation of each Parkson store is under the overall management of its general manager who will report to the regional general manager of its operational region. Detailed SOPs have been formulated in respect of store operations such as shopping environment standard, back office environment standard, store promotion equipment and facilities, store opening and closing procedures, selling floor management and concessionaire operation.

The Group’s BI system (which is an integrated part of the Group’s ERP system) will generate regular management reports to the management teams in each centre, operational region and the headquarters. These include three categories of reports:

- Main reports such as profits and loss accounts and balance sheet
- Analysis reports such as daily/weekly/monthly/yearly sales reports, month-to-month and year-to-year comparison reports and ratio analysis. Sales reports can be prepared based on different criteria to enable the management to analyse sales figures per brand, per department, per division, per store and per region
- Detailed reports such as bank balance, loan statement, receivables, payables, capital expenditures and other balance sheet items

These reports enable the management to monitor the operations of the Parkson stores throughout the PRC closely. These analyses can also assist the management in responding to any issues that may arise in a timely manner so that it can take the necessary measures or formulate strategies to improve the overall performance of the stores.

Under the Group's four-tiered management structure, the centre will be responsible for determining the store concept and brand mix of each store. Although each new store may adopt a slightly different store concept and design as a result of its particular location and target customers, the Group has devised certain standards in relation to the layout of Parkson stores. These standards have been set by reference to factors such as location, store image, store size and expected customer flow. The Group has a design team responsible for handling the layout of all new stores and renovation of existing stores to ensure standardisation. The Group seeks to achieve the highest productive output ratio on the basis of the floor area of each store. On the basis of customer purchasing habits and the growth potential of different types of merchandise, the Group has also devised standards relating to the display of merchandise within each store.

The Directors believe that a key factor in the success of a retail chain operation is its ability to establish a distinct corporate identity through the creation of a strong and standardised visual image of its stores. The Group has compiled a set of "Corporate Identity System Guidelines" which contain detailed specifications relating to the visual presentation of each store including signage, lettering and colour scheme. By strictly adhering to the specifications contained in these manuals throughout the design and renovation process and in operation, the Group is able to ensure that there is uniformity in the visual presentation among its stores in the shop front, store directory, merchandise display system, promotional sale information display, price tag, signage, service counter, cashier counter and staff uniform.

The general manager of each store is responsible for implementing and monitoring compliance with various strategies adopted by the Group's headquarters and merchandising centres. One of his main tasks is to ensure that all SOPs in relation to store operations are strictly adhered to. The work of the general manager and his store management staff also includes staff management, organisation of promotion and bargain sales, handling purchases from local brand suppliers, monitoring of competitors' activities and providing customer services.

Merchandise is sold at the Parkson stores on a "cash" basis, that is in cash, by "cleared" cheque or credit card payments. The Group is, therefore, not subject to any bad debts in its retailing business.

Parkson stores allow customers to return purchased merchandise within a reasonable time for full refund or credit in order to maintain its high standard of customer service. Customers may generally return or exchange the merchandise within seven days.

The Group issues two types of cash coupon or voucher. During promotional events, the Group may issue a coupon or voucher entitling a customer to a reduction on the price of a subsequent purchase. These coupons or vouchers can be used during specified promotional periods. The other type is coupons or vouchers issued as rebates under Parkson Loyalty Card redemption schemes which card members will be entitled to spend as cash.

SALES

The Group's sales are conducted by way of concessionaire sales and direct sales.

Concessionaire sales

The Group enters into concessionaire agreements with certain suppliers (known as concessionaires) who are allowed to occupy designated areas in the Parkson stores and establish their own sales counters for their products. Concessionaire sales accounted for most of the sales in respect of products under the category of "fashion and apparel".

Concessionaires help the Group broaden the range of merchandise offered to customers. The presence of international concessionaires in the Parkson stores can also increase the brand image and attractiveness of Parkson stores generally. In addition, the risks and the costs of holding inventories, as well as the selling costs, are borne by and transferred to the concessionaires.

Concessionaires are generally asked to enter into the Group's standard concessionaire agreement. The agreement specifies the types of products to be sold and their respective prices. Usually, concessionaires are not allowed to alter the product mix without the prior consent of the Group. Concessionaires are not allowed to sell their products in Parkson stores at prices higher than those sold by the same concessionaire elsewhere in the PRC. The Group monitors the product mix and the sales of concessionaire counters regularly. Concessionaire agreements are subject to renewal every year in most cases.

Almost all of the concessionaires will be responsible for the design, decoration and fitting out of their counters at their own cost under the decoration policy guidelines set down by the Group. They will also be responsible for the repair and maintenance of their counters. The Group in turn provides general facilities such as basic lighting and air conditioning to the concessionaires. In addition, the concessionaire is responsible for employing its own staff and for maintaining standards of quality acceptable to the Group with regards to the merchandise sold and the services provided. The Group provides training to such staff from time to time.

The Group charges each concessionaire a turnover commission calculated at an agreed percentage rate of sales for that concessionaire subject to an agreed minimum commission amount determined based on an agreed minimum sales target. Nearly all concessionaires are charged on such basis. Sales amount received from the concessionaire sales is first collected by the Group and paid to the concessionaires according to their respective credit terms after deduction of all relevant expenses, fees and commissions.

During the Track Record Period, the Original Group did not receive any material claims against the Group for damages caused by defective goods sold by the concessionaires of the Original Group.

Direct sales

For direct sales, the Group sources and sells its own direct-purchase merchandise in its Parkson stores. Most of the Group's direct sales are in respect of the categories of "cosmetics and accessories" and "groceries and perishables".

Merchandising plans are prepared by the Group's two merchandising centres twice every year which set out the range of merchandise to be purchased. These merchandising plans are prepared based on historic sales, the projected market trend/demand, the Group's budgeted sales and gross profit margins for that year. New items have to be registered with the ERP system before they can be purchased at store level. Once approved by the merchandising centres, store personnel can then place purchase orders and subsequent replenishments.

Depending on the nature of the supplier, the sourcing of merchandise and negotiation of terms and conditions are then handled by the centres or the relevant stores. Some of the direct sales merchandise of the Parkson stores are imported through local agents in the PRC.

The merchandising plans are revised regularly. Suppliers are generally asked to enter into the Group's standard supply agreement. The agreement contains a detailed description of the goods or services to be supplied under the agreement and their respective prices. These supply agreements are subject to renewal every year in most cases.

The Group also collects certain other fees from its suppliers such as promotion fees, administration fees and credit card handling fees.

Suppliers are invited to enrol in the Group's SCM system. The SCM system is a centralised, web-based supplier management system that integrates with the Group's stores. The SCM system allows suppliers to check and analyse their brand sales and monthly sales and to conduct sales verification for payment. Direct suppliers can also check the Group's replenishment orders through the system and input their delivery data into the system.

Each Parkson store has a designated team of staff responsible for checking the physical condition of the goods upon their delivery and another team is responsible for checking the quality of the goods prior to display and/or storage. During the Track Record Period, the Group had received a limited number of claims for defective goods sold by way of direct sales, and such claims, whether on an individual or an aggregate basis, are not considered as material. Stock-takes in respect of the stock owned by the Group are carried out on a quarterly basis each year for inventory control purposes.

The average inventory turnover rate is 3 days for perishables; less than 30 days for grocery products and approximately 90 days for cosmetics and electrical products. According to its policy, a general provision of approximately 0.3% will be made in respect of inventories. For each of the three years ended 31st December, 2004 and the six months ended 30th June, 2005, a provision of less than 0.3% of sales was made.

Other income

In addition to revenue the Group derives from direct sales and concessionaire sales, the Group also derives income from the following activities:

- consultancy management fees derived from the provision of management services to managed stores, including the licences to use the "Parkson" or "Xtra" names and the Group's information system;

BUSINESS

- rental income derived from the leases and sub-leases of certain designated areas of the Parkson stores to, among others, restaurants, fast food outlets, salons, photo shops and banks; and
- various miscellaneous fees received from the Group's direct suppliers and concessionaires under the supply or concessionaire agreement (as the case may be).

The breakdown of the Group's revenue other than sale of merchandise for the Track Record Period is as follows:

	Year ended 31st December,			For the six months ended 30th June,
	2002	2003	2004	2005
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Consultancy and management fees	28,934	38,784	47,220	29,715
Rental income	30,458	49,048	52,384	30,543
Other operating revenues	<u>21,036</u>	<u>29,343</u>	<u>35,505</u>	<u>33,993</u>
	<u>80,428</u>	<u>117,175</u>	<u>135,109</u>	<u>94,251</u>

Customers

As the Group is principally engaged in retail sales, none of its customers accounted for more than 5% of its turnover in any of the three years ended 31st December, 2004 and six months ended 30th June, 2005. None of the Directors or shareholders who owned 5% or more of the issued share capital of the Company as at the Latest Practicable Date or any of their respective associates held any interest in any of the five largest customers of the Original Group for the three years ended 31st December, 2004 and six months ended 30th June, 2005.

Seasonality

Sales of the Group follow the traditional shopping seasonal patterns in the PRC, with a high proportion of sales being recorded around Christmas, New Year and Chinese New Year. Together with the fact that merchandise for the winter season is generally at a higher price, the Group's revenue is usually better during the four month period from November to February.

Inventory management

The Group does not bear any inventory risk in respect of concessionaire sales. For direct sales, the main objective of the Group's inventory policy is to balance inventory across the Parkson stores by ensuring that appropriate levels of inventory are maintained. New items have to be registered with the ERP system before they can be purchased at store level. Once approved by the merchandising centres, store personnel can then place purchase orders and subsequent replenishments.

Stock-take in respect of stock owned by the Group is conducted on a quarterly basis each year. The inventory turnover days of the Group vary between the categories of merchandise being sold by the Group. The average inventory turnover rate is 3 days for perishables, less than 30 days for grocery products and approximately 90 days for cosmetics and electrical products. Slow moving items are either marked down, returned to the suppliers or exchanged for other goods.

Pricing

For concessionaire brands, the concessionaires will set the pricing of the goods sold within the Group's stores, and the Group will receive a certain percentage of the total sales in the form of a commission. For direct sales items, the Group undertakes market research on pricing, in particular on price sensitive items to ensure that the price set by the Group is competitive in the market. All price changes must be captured in the Group's ERP system for verification and authorisation. In respect of merchandise such as certain necessity items that is subject to price control under PRC laws, the Group will strictly adhere to such controls.

MANAGEMENT SERVICES

Besides operating the self-owned stores, the Original Group also provided management and consultancy services to other department stores and supercentres owned by Independent Third Parties, connected persons or the Lion Group during the Track Record Period.

Management fees received by the Original Group pursuant to management arrangements with these Independent Third Parties, the Lion Group and connected persons amounted to approximately RMB28.9 million, RMB38.8 million, RMB47.2 million and RMB29.7 million, representing approximately 5.2%, 6.0%, 6.0% and 5.9% of the Original Group's total operating revenues, for each of the three years ended 31st December, 2004 and six months ended 30th June, 2005 respectively. During the Track Record Period, the Group normally allows a credit period of not more than 90 days to its customers; however, extension of repayment period to certain joint venture partners and "Parkson" department stores which have long trading history with the Group is not uncommon. Directors of the Company confirmed that such extension of repayment period will not be continued after the listing of the Company.

Prior to the Reorganisation, the Lion Group acquired 12 of the stores originally managed by the Group during the Track Record Period. The Group currently provides management consultancy services to 14 "Parkson" branded department stores and 2 "Xtra" branded supercentres located in 11 cities in the PRC which are owned by Independent Third Parties, the Lion Group or connected persons. Further details regarding such managed stores are set out in the paragraph headed "Retail Network" in this section in this prospectus.

Under the existing management consultancy agreements entered into by the Group with the managed stores, the Group provides day-to-day management services to these stores. Such services include, among other things, advising the relevant store on store management, store design, store layout, merchandising, internal control, human resources management, and information systems and providing training to the staff of the store. A management fee for all of the managed stores is charged at an agreed percentage of the sales of the managed store. The entering into of the management consultancy agreements by the Group with the managed stores with an

option to acquire which are owned by the Lion Group constitute continuing connected transactions of the Company under Rule 14A.35 of the Listing Rules. Further details of these management consultancy agreements are set out in the section headed “Connected transactions” in this prospectus.

The Group also grants a sub-licence to each of the managed stores to use the trademark and trade name “Parkson” or “Xtra”. Such licence will terminate upon, among other things, the termination of the management consultancy agreement entered into between the Group and the relevant managed store. In addition, the Group also grants to certain managed stores a licence to use certain applicable information systems owned by the Group at an agreed fee. Pursuant to the Deed of Non-Competition, LDHB has granted an option and a right of first refusal to the Company to acquire those of the managed stores owned by LDHB. The entering into of the Deed of Non-Competition and the grant of such option and the right of first refusal constitute connected transactions of the Company and further details of the same are set out in the section headed “Connected transactions” in this prospectus.

The Group has on 15th October, 2005 entered into a management consultancy agreement with its joint venture partner, China Arts & Crafts, for the Group to manage a new department store in Beijing owned by the subsidiary of China Arts & Crafts, Beijing Zhongtai, which will come into operation in the second half of 2006.

MARKETING AND PROMOTION

Marketing

Marketing is normally the responsibility of each of the individual stores.

The Group advertises by way of television advertisement, subway advertisement and direct marketing. The Group also participates in charity events, media publication and other social activities to enhance its image.

The Group launches a wide variety of promotional campaigns, particularly during holiday periods. These include discounts, purchase with purchase, lucky draws, games and promotional vouchers. The Group believes that these campaigns can attract customers, provide value added benefits to customers and assist in stock clearance. In addition, the Group also markets by way of personal selling activities such as inviting customers for product sample testing, new product launches and fashion shows, direct mailing and sending emails/SMS to customers.

For each of the three years ended 31st December, 2004 and the six months ended 30th June, 2005, advertising and promotion expenses incurred by the Original Group amounted to approximately RMB8.9 million, RMB8.0 million, RMB9.4 million and RMB9.6 million respectively.

The Group also undertakes market research and surveys regularly in order to collect market data relating to matters such as consumer behaviour and feedback from customers on the store’s various marketing tactics. These market surveys are normally conducted by interviewing customers in the Parkson stores. Questionnaires covering areas such as pricing and the range of merchandise offered in the store, the effectiveness of promotional materials distributed and comparison with competitors will be handed out to customers. The Group’s management believes that such research and surveys provide useful information based on which the Group will be able to further improve the quality of its customer service and to formulate the Group’s marketing strategies. In addition, market

research is also conducted on the Group's competitors. Such research will study areas such as promotional campaigns, new product types, sales volume, sales staff and products layout of these competitors. The Group believes that such research will help to increase its competitiveness in the market.

Promotion

Seasonal sales

Regular sales campaigns are run by the Group. They include seasonal sales every summer and winter. There are also Mid-autumn and Christmas sales. The Group also runs holiday sales during New Year, Chinese New Year, Labour Day and National Day. In addition, there are occasional sales on Valentine's Day, Mother's Day, Father's Day and the store anniversary and exclusive sales for Parkson Loyalty Card and co-branded credit card holders.

During these sales campaigns, special discounts will be offered for selected merchandise. There will also be promotional campaigns such as purchase with purchase, lucky draws, games and promotional vouchers. Depending on the nature of the promotion events, concessionaires at the stores may be invited to participate in these sales campaigns by way of contributing to the costs and expenses incurred by the Group and offering exclusively selected items at special prices.

Co-branded Credit Card

The Group launched a co-branded credit card (gold or classic) under the logos of "Parkson" and "China Merchants Bank" with China Merchants Bank in 2004. This is the first co-branded credit card issued by department stores in the PRC which can be used both in the PRC and overseas. Parkson Loyalty Card holders and holders of China Merchants Bank credit cards are eligible to apply for a co-branded credit card. The Directors believe that the adoption of a co-branded credit card can build up customers' loyalty and enhance the image of the Group. This also enables the Group to maintain a database for direct marketing and sales promotion.

Besides the financial benefits of credit payment on purchases, the co-branded cardholders can accumulate purchase points when making purchases at Parkson stores and enjoy certain shopping privileges. The Group will also send these cardholders marketing and promotion materials such as exclusive invitations to new product launches from time to time.

As at the Latest Practicable Date, there were over 120,000 approved Co-branded Credit Card holders.

Parkson Loyalty Card

The Group first launched the Parkson Loyalty Card in 2000. At that time, the loyalty card could only be used within the Parkson store which issued that card. In 2003, the Group launched its nationwide Parkson Loyalty Card which can be used in almost all of the Parkson stores. Customers who use this card can accumulate purchase points when making purchases at Parkson stores. These points can be redeemed for cash vouchers. Parkson Loyalty Card holders are also entitled to certain shopping privileges at Parkson stores.

As at the Latest Practicable Date, there were over 2.9 million Parkson Loyalty Card holders.

Interest-free Instalment

At present, Beijing Parkson is the only company within the Group which has entered into arrangements with China Merchants Bank to offer interest-free instalment payment plans for customers who purchase certain items using a China Merchants Bank credit card. Through such interest-free instalment arrangements, the Group can further promote certain items' sales without having to bear any customer-related credit risk. The Group intends to extend such arrangements to other products or stores in the near future.

Customer services

The management believes that the primary objective of customer service is to increase customer satisfaction, operational efficiency and customer loyalty. To this end, one of the Group's main goals is to provide a comfortable shopping environment for its customers.

Customer services generally offered at the Parkson stores to enhance the quality of services being provided to shoppers/customers include the following:

- Free delivery service for certain purchases such as large items and bulk supermarket purchases
- Car parking facility
- Free tailor alteration on non-discount clothing items
- Gift wrapping
- Quality inspection of goods

In order to enhance customer services, employees of each store are provided with a customer greeting checklist and are required to adhere to it strictly.

INFORMATION SYSTEMS

The management of the Group believes that an efficient management information system is important to its business operations because it improves merchandising, inventory control, cash control, financial management, human resources management and eventually overall sales performance. As such, the Group has adopted group-wide software and a centralised information system to enhance management control and analysis.

The various sub-systems under the Group's ERP system include the following:

(a) Retail management system

The Group entered into an agreement with a software company in August 1997 to jointly develop an independent software system catered for the Group's operations.

This software system was implemented in the Parkson stores in 1997. The system comprises of the POS/Inventory systems dealing with purchases, receipts, sales, promotion, inventory control and customer analysis, the Accounting system and the Human Resources Management system. These fully integrated computerised systems are now installed and used at each of the Parkson stores.

(b) Merchandising System

The Merchandising System is a centralised, web-based system that links to the Inventory/POS/Accounting system of all Parkson stores. The system contains detailed information of each of the supplier of the Group including its name and address, products supplied, price, term, margin, sales target, payment days and other terms and conditions under which such supplier is to supply its merchandise to the Group.

All new supplier applications and new supply item applications have to be made and approved through this system. Hence, the system enables the management of the Group to have better control over new suppliers and their standard terms and conditions.

(c) BI system

The BI system is a centralised data warehouse system. Sales, accounting and other data of all Parkson stores will be automatically transferred to the headquarters' BI system. It is a web-based system for sales analysis, store monitoring and accounting information.

Analysis reports which the BI system can produce include daily/weekly/monthly/yearly sales reports, month-to-month and year-to-year comparison reports, item/brand/department/prime group/division/store/region/group sales reports, per-item, per-customer and per-POS sales reports, exception reports and various financial reports.

These reports enable the management to monitor the operations of the Parkson stores throughout the PRC closely. These analyses can also assist the management in responding to any issues that may arise in a timely manner such that it can take the necessary measures or formulate strategies to improve the overall performance of the stores.

(d) SCM system

In July 2000, the Group, together with another software house, further established a joint venture, Beijing Century, to develop its Supply Chain Management (SCM) system. Agreements for the usage and maintenance of the SCM system in Parkson stores have been entered into between Beijing Century, which is the registered copyright owner of the SCM system, and most of the respective stores which have applied and implemented the SCM system. Now, the Group's suppliers are invited to enrol in the Group's SCM system.

The SCM system, installed in 14 of the self-owned stores and 7 of the managed stores, is a centralised, web-based supplier management system that integrates with the stores of the Group. The SCM system allows direct suppliers and concessionaires to check and analyse their brand sales and monthly sales and to conduct sales verification for payment. Direct suppliers can also check the Group's replenishment orders through the system and input their delivery data into the system. The SCM system has become an efficient and effective channel of communication between the Group and its suppliers.

The Group's ERP system fully integrates the functions of merchandising, sales and financial management, inventory control, cash control and human resources management. The ERP system allows smooth and timely information flow among each store, the operation regions, the centres and the headquarters of the Group to enhance management efficiency.

QUALITY ASSURANCE

The management believes that product quality is very important to the Group's business. The Group conducts centralised negotiations with reliable suppliers to reduce the risk arising from product quality problems. All products sold in Parkson stores are subject to random inspection by each store at the time when they are delivered by the suppliers to the stores. The same standard of quality is adopted for goods sold through both concessionaire and direct sales. If any defects are detected, the relevant product will be returned to the supplier for replacement. Under the Group's standard concessionaire or supply agreement, the concessionaires and suppliers are responsible if any claims arise from the quality of their products.

The Group will also invite the relevant institutes of quality supervision and inspection to attend some of its stores to check its product quality regularly. Customers can also request for inspection to be conducted on the merchandise during such check sessions to ensure that the actual quality of the merchandise conforms with the goods description on the product.

The Group has not taken out any insurance cover against any product liability which may arise in relation to any product being sold by the Group. Under the terms of the Group's standard supply contracts with suppliers, suppliers are requested to give product quality assurance to the Group. In addition, all product liability in respect of any products supplied to the Group by any supplier and sold at the Group's stores is to be borne by such supplier. By controlling the selection of suppliers, the Group can also reduce the risks arising from quality problems.

CASH MANAGEMENT AND INTERNAL CONTROL

Cash management

A major proportion of sales at the Group's stores are settled in cash. Stringent cash control measures are therefore very important to the Group's operations. At most of the stores, all cash receipts will be deposited daily with banks. Reconciliation will be carried out by each store's cashier department every day to reconcile sales data with cash and credit card receipt records. In addition, surveillance cameras are set up in each store to monitor the activities around cashiers' counters. Through the ERP system, the headquarters can monitor the real time cash position of each store.

The Group has also taken insurance policies to cover money in premises and money in transit and also fidelity guarantee insurance which covers finance and management staff of the Group including cashiers.

Internal control

Internal audit of the Group is primarily carried out by the internal audit department of the headquarters. The internal audit department is headed by the Group's Chief Auditor who reports directly to the Chief Executive Officer of the Group.

The Chief Auditor sets out an audit plan for the Group in January every year which sets out particular objectives for the internal audit department in that year. Such objectives include goals such as profit recovery, management monitoring and control. The scope of work of the internal audit department includes conducting internal audits on the outgoings and income of each unit within the Group and supervising the implementation of the internal control system.

The internal audit department of the Group conducts routine audit where stores to be audited will be chosen randomly. There are also special project audit where the stores are chosen for specific reasons such as resignation or transfer of their general manager.

In carrying out its audit, staff of the internal audit department in the headquarters may also conduct exception analyses using the data generated from the Group's ERP system to identify any abnormality. Bench mark data will be set and abnormality can be detected through such exception analyses. Such irregularities will be followed up by the staff of the internal audit department.

The internal audit department will produce a report to the headquarters after completion of each project. All significant findings will be discussed among the management team of the Group and individual stores are required to revert on their actions taken subsequent to each internal audit conducted. Internal audit reports are circulated to the store general manager, the regional general manager, the Chief Operations Officer, the Chief Executive Officer and the internal audit department of the Lion Group.

Other internal control procedures implemented by the Group include setting different authorisation levels and limits.

STAFF AND TRAINING

As at the Latest Practicable Date, the Group had approximately 5,161 full-time employees, of whom approximately 78 were senior management staff, approximately 2,107 were administration staff and 2,976 were sales staff. Concessionaires are responsible for employing their own staff. Detailed SOPs have been devised in relation to employees' appointment, assessment, promotion, benefits and training.

The Group places strong emphasis on the quality of its employees. The Group provides training to both its own staff and staff employed by its concessionaires from time to time to ensure they are able to maintain service quality acceptable to the Group. Training for senior staff will be organised by the headquarters while training for the sales and administration staff will be organised and provided at the regional or store level.

All new recruits are required to undergo a training programme before reporting to duty with the number of hours of training depending on the staff's position and seniority. All existing staff are also required to attend on-the-job training regularly. All stores are required to conduct training for all of their staff at least twice a year, with a minimum of 15 hours per staff. The training provided includes the Group's corporate culture, operation system, customer service techniques and technical skills. Beside conducting local training, the Group also sends its employees overseas for training. The Group also offers a management trainees programme to new graduates to facilitate future expansion of the Group.

The Group has devised an assessment system for its staff and the assessment results will be used in salary reviews and promotion decisions.

The Group also recognises the importance of implementing a performance based incentive scheme and profit sharing scheme for its employees. The management of the Group believes that the constant improvement of the quality of its employees and their continued motivation are both key to maintaining a high standard of customer service.

PROPERTIES

The Group also owns part of the retail premises of the Beijing Store and the Xi'an Lucky Store and the two retail premises at which the Yangzhou Store and the Wuxi Store are located. These premises have a total gross floor area of approximately 131,000 sq.m..

Pursuant to the cooperative joint venture contract entered in relation to Shanghai Nine Sea Parkson, Shanghai Nine Sea Parkson was granted a right to use the premises at which the Shanghai Nine Sea Store is located. Apart from the above stores, the retail premises at which the remaining 18 self-owned stores are located and the retail premises of part of the Beijing Store are leased by the Group.

In addition, the Group also leases four office premises which are currently occupied by Shanghai Lion Investment, Beijing Century and Shanghai Lion Property as their respective offices.

Further details of the properties owned or occupied by the Group are set out in the property valuation report prepared by Vigers Appraisal & Consulting Limited contained in Appendix V to this prospectus.

INSURANCE

The Group has taken out different types of insurance policies to cover its operations, such as insurance policies that cover all property risks including its buildings, furniture and equipment, stock-in-trade, stock of high value, business interruption, machinery breakdown, public liability, money in transit, money in premises, fidelity guarantee and employer's liability. The Directors believe that the amount of coverage taken out is typical for similar operations and adequate for the Group.

The Group has not maintained any product liability insurance. Based on the limited number of claims for defective goods made against the Group during the Track Record Period and in view of the premiums for product liability insurance for a retail department store, the Directors do not consider it appropriate from a cost and benefit point of view to take up product liability insurance for all goods sold by the Group. Under the terms of the supply contracts which the Group uses in connection with purchasing from suppliers, all product liability in respect of any product supplied to the Group by any supplier and sold at its stores is to be borne by such supplier.

INTELLECTUAL PROPERTY

Trademark licence agreement

The "Parkson" and "Xtra" trademarks and trade names are registered in the PRC and Hong Kong and are owned by the Lion Group.

PRC laws do not provide trademark protection for general retail services. However, the laws do provide trademark protection for specific products and services (such as commercial window display, advertising, commercial consulting and agency for import and export) in relation to retail services. All the trademarks registered in the PRC by the Group should be legally protected within the applicable scope in which they are registered.

Furthermore, although PRC laws are silent on trademark protection for retail services, the Group may resort to the Anti-Unfair Competition Law of the PRC should its trade name be unfairly used by others. Under the Anti-Unfair Competition Law of the PRC, the use by anyone of the name of another which result in consumers confusing one commodity with another is deemed to be unfair competition.

Pursuant to the trademark licence agreement dated 9th November, 2005 entered into between Parkson Corporation, as licensor, and Shanghai Lion Investment, as licensee, Parkson Corporation agreed to grant an exclusive licence to Shanghai Lion Investment to use the “Parkson” and “Xtra” trademarks registered in PRC and Hong Kong and, if registered, Macau and Taiwan. Shanghai Lion Investment has the right to sub-license the trademarks to other entities, namely, members of the Group, managed stores with an option to acquire, connected managed stores and pure managed stores. An annual royalty of RMB30,000 per sub-licensed retail store is payable to Parkson Corporation. The term of the licence is 30 years. The licence agreement is renewable upon consent of both parties. Either party may terminate the licence agreement if (i) the other party commits a material breach (which is not remedied within the grace period), or (ii) the other party becomes insolvent or is subject to winding-up or analogous events. The licensee may terminate the licence agreement if shareholders’ and/or other approval is required under the Listing Rules and such approval is not obtained.

Further details on the trademark licence agreement are set out in the section headed “Connected transactions” in this prospectus.

Other intellectual property rights

The Group is the registrant of the domain names of www.parkson.cn, www.parkson.com.cn and www.parksonlink.com.cn.

In addition, the Group has registered three “Parkson” trademarks under class 35 (which include, among others, commercial window display design, personnel management consulting, advertising, business management and consulting, import and export agent and auditing) in the PRC.

Shanghai Lion Investment is the registered copyright owner in the PRC for the POS Retail Management System and ERP Retail Management System which provides the POS and ERP system used by the Group.

Beijing Century is the registered copyright owner for the SCM system.

Please refer to the section headed “Intellectual property rights of the Group” in Appendix VII to this prospectus for further details.

Infringement claims

During the Track Record Period, the Group received a few infringement claims from certain third parties who alleged that certain merchandise sold in the department store infringed their intellectual property rights. To avoid unnecessary disputes, the Group agreed to withdraw or procure its concessionaires to withdraw such merchandise from the department store. No damages were required to be paid by the Group in connection with such claims during the Track Record Period.

NO SIGNIFICANT INTERRUPTIONS

There have been no interruptions in the Group's business that may have a significant effect on the Group's financial position in the past 12 months.

COMPETITION

Competition in the PRC retail market in recent years has become increasingly intense, especially within the middle to middle-upper end sector to which the Group belongs. With the gradual liberalisation of the retail sector to foreign ownership, the Directors expect that competition will further intensify.

In respect of the PRC department store sector, competition is characterised by demand for a wide range of brands and merchandise and convenience in store location. The Group's key competitors are other local and foreign managed department stores in the PRC that offer a similar range of merchandise as the Group, as well as individual stores that offer similar or identical products as the Group. To stay competitive in the retail market, the Directors believe that a strong brand image and responsiveness to changes in customer preferences is essential.

The Directors believe that the Group's principal competitive factors in the department store sector are as follows:

- high degree of brand recognition and suitable store image that suits the locality where individual stores are situated;
- prime location of stores and an extensive network in the PRC;
- good understanding of the retail industry, fashion trends and market demand in the PRC;
- economies of scale as a result of scale of business, experience in the market and specialised staff;
- competitive advantage with suppliers;
- wide range of brands and products;
- product quality; and
- flexibility and speed in responding to customers' demand.

Moreover, the Directors believe that the Group's business model gives the Group a competitive edge. Concessionaire sales enable the Group to maintain its inventory risk to the minimum and to enhance its working capital. Management of stores not owned by the Group enables the Group to profit from management fees collected.

Although the Group faces competition from other similarly-sized retailers in the PRC, given the Group's competitive strengths as set out above and in the sub-section headed "Principal strengths", the Directors believe that the Group is well positioned to continue to succeed in the PRC department store market.

The extent of the competition that may be encountered by the Group will vary from one location to another, depending on factors such as the number and strength of the competitors involved.

So far as the Directors are aware, none of the joint venture partners of the Group is engaged in any business that might directly or indirectly compete with the Group save for Xinjiang Youhao, which operates two department stores in Urumuqi, Xinjiang. These two stores are not managed by the Group.

AWARDS AND CERTIFICATIONS

The Group and its management have won numerous awards over the years, including awards from industry regulators, governmental bodies and its concessionaires and suppliers.

REGULATORY MATTERS

In relation to the operation of the Parkson stores, certain licences and permits are required to be obtained for the sale of certain products and the provision of certain services, such as licences for the sale of cigarettes, alcohol commodities, pharmaceutical products, audio-visual products, provision of entertainment, operation of food courts, and hygiene permits for the operation of stores.

Chongqing Parkson has not obtained a permit for retail sales of alcohol commodities.

Some special permits for specific goods and services held by the Group have recently expired and/or are subject to modification due to the Group's reorganisation, and the Group is undergoing procedures with the relevant authorities to renew them. Moreover, some members of the Group have established new branches, and it takes some time for these new branches to obtain the special permits for specific goods and services.

Although the regulation in Chongqing requires enterprises which conduct retail sales of alcohol commodities to obtain a special retail permit, the Chongqing local authority of industry and commerce has orally confirmed to the Group that the aforesaid retail permit is not currently required. Thus Chongqing Parkson has not been able to apply for such permit.

Save and except for the above, the Group has obtained the necessary licences, permits or approvals for its current business operation from the relevant governmental bodies in compliance with the applicable law and regulations.

To the extent the restaurants, food counters, salons and other businesses operated by the Group's tenants within the Parkson stores or the Group's owned or leased properties are required to obtain certain licences and/or permits under the applicable law and regulations, the Group will ensure that these tenants have obtained the necessary permits and/or licences for the operation of these businesses.

BUSINESS

Under PRC law, fire safety inspection of the building where a department store is to be operated is required and approval from the Fire Department has to be obtained before commencement of business. Save and except for the Anshan Store, the Xi'an Shidai Store, the Xi'an Chang'an Store, the Beijing Haidian Store, the Chongqing Wanzhou Store and the Sichuan Store, all stores owned by the Group have acquired the necessary approvals in this respect (in respect of Sichuan Store, the permit letter for fire inspection has been obtained for one of the two wings of its store, while a preliminary permit has been obtained for the other wing). The Selling Shareholder and LDHB have agreed to indemnify the Company against all liability for fines in respect of the Group's failure to obtain proper licences for selling specific goods or provision of services, and fire safety inspection and hygiene permits.

The Group maintains a team comprising staff with experience in legal, compliance and company secretarial matters to monitor the operation of the Group to ensure that relevant regulatory requirements are complied with. The Group also engages consultants and professional advisers from time to time to advise them on licensing and regulatory requirements, the handling of disputes arising in the ordinary course of business of the Group and other legal matters.

RELATIONSHIP WITH THE LION GROUP

BACKGROUND OF THE LION GROUP

The Lion Group is a Malaysian based diversified business group engaged in a variety of businesses encompassing steel, motor and tyres manufacturing, computer assembly and production, trading, pulp and paper production, plantation, property and community development and retail through 7 companies listed on Bursa Malaysia and 2 companies listed on the Stock Exchange of Singapore. Parkson Corporation is the retail arm of the Lion Group and was established in 1986. It now operates one of the largest retail chains in Malaysia.

The holding company of the Company, LDHB, is the holding company of Parkson Corporation. LDHB is incorporated in Malaysia and its shares are listed on Bursa Malaysia. LDHB's main activities comprise retail operation, manufacturing and marketing of computer casings and electronics related products and services, and property development and management. Currently, LDHB is the operator of over 30 "Parkson" branded department stores in Malaysia, the operator of 1 department store in Ho Chi Minh City, Vietnam, as well as the owner of 11 department stores in the PRC which are managed by the Group. The reasons for LDHB's ownership of 11 department stores in the PRC, and the arrangements between LDHB and the Group are further described in the paragraph headed "Arrangements on stores retained by the Lion Group" below.

While the Group will continue to operate independently of the Lion Group, there will be certain transactions between the Group and the Lion Group which will continue following completion of the Offering. Those transactions are governed by the Deed of Non-Competition and agreements titled, "Trademark licence agreement", "Computer software maintenance agreement" and "Management consultancy agreement". Details of these arrangements, including other on-going connected transactions between the Group and other connected persons, are summarised in the section headed "Connected transactions" in this prospectus.

ARRANGEMENTS ON STORES RETAINED BY THE LION GROUP

11 Excluded Stores in the PRC are owned (upon completion of the Offering), or will be owned, by the Lion Group. The geographical location of these Excluded Stores are set out below:

Stores	Percentage equity interest owned by the Lion Group (%)	Location
1. Changchun Managed Store*	100	Changchun
2. Dalian Tianhe Managed Store	60	Dalian
3. Dalian Shishang Managed Store	100	Dalian
4. Nanning Managed Store	51	Nanning
5. Qingdao Managed Store	52.6	Qingdao
6. Qingdao Laoshan Xtra Managed Store	52.6	Qingdao
7. Shantou Managed Store*	100	Shantou
8. Shenyang Plaza Managed Store*	100	Shenyang
9. Dalian Tianhe Shenyang Managed Store	60	Shenyang
10. Tianjin Managed Store*	100	Tianjin
11. Qingdao Yantai Managed Store	52.6	Yantai

* to be acquired by the Lion Group

RELATIONSHIP WITH THE LION GROUP

The principal reason for the ownership by the Lion Group (and not the Group) of the Excluded Stores is the geographical location of those stores. The Group's current strategy is to develop and operate self-owned stores in the larger and more mature markets. The markets and cities in which the Excluded Stores operate do not fulfill that criterion. On that basis and due to the fact that those markets are distinct and clearly delineated from the markets and cities in which the Group currently operates and given that the Excluded Stores were and will continue to be managed by the Group after Listing, the Directors believe that the ownership of the Excluded Stores by the Lion Group will not give rise to any direct or immediate competition with the existing business of the Group.

The ownership by the Lion Group (and not the Group) of the Excluded Stores is also due to the following reasons:

(a) *Dalian Tianhe Managed Store and related Excluded Stores*

The PRC joint venture partner of the Dalian Tianhe Managed Store is currently involved in three legal disputes with the Dalian Tianhe Managed Store and the Lion Group. Accordingly, the Group has decided not to acquire the Dalian Tianhe Managed Store and the Dalian Tianhe Shenyang Managed Store (which is owned by a branch of Dalian Tianhe) at this stage to avoid the uncertainty and costs associated with such legal disputes.

The Dalian Tianhe Managed Store and the Dalian Tianhe Shenyang Managed Store are owned by Dalian Tianhe and its Shenyang branch respectively. Dalian Tianhe is owned as to 60% by Serbadagang Holdings which is in turn a wholly-owned subsidiary of LDHB. Based on the statutory accounts of Dalian Tianhe prepared in accordance with PRC GAAP by its local auditors (and not in accordance with IFRS, as has the Financial Information set out in this prospectus), the consolidated turnover of Dalian Tianhe, which is the owner of the Dalian Tianhe Managed Store and the Dalian Tianhe Shenyang Managed Store, for the two years ended 31st December, 2003 was approximately RMB557.5 million and RMB674.3 million respectively and the consolidated net profits of Dalian Tianhe for the two years ended 31st December, 2003 were approximately RMB13.7 million and RMB22.0 million respectively. Due to the current legal disputes with the PRC joint venture partner, the Group is not in a position to disclose the financial information relating to Dalian Tianhe for the year ended 31st December, 2004.

As the Dalian Shishang Managed Store is located in the same city as the Dalian Tianhe Managed Store, the Directors have decided not to acquire this store to avoid any potential competition with the Lion Group. The Dalian Shishang Managed Store is owned by Dalian Shishang. Dalian Shishang is a wholly-owned subsidiary of Sea Coral, which is in turn a wholly-owned subsidiary of LDHB. As Dalian Shishang was established in April 2005, it has not yet prepared any statutory accounts.

The Nanning Managed Store is owned by Nanning Brilliant and the Directors have also decided not to acquire this store from a corporate structure and management perspective since Nanning Brilliant and Dalian Shishang are both wholly-owned subsidiaries of Sea Coral. As Nanning Brilliant was established in April 2005, it has not yet prepared any statutory accounts.

RELATIONSHIP WITH THE LION GROUP

Similarly, since the Shenyang Plaza Managed Store is located in the same city as the Dalian Tianhe Shenyang Managed Store, the Directors have decided not to acquire this store to avoid any potential competition with the Lion Group. Shenyang Plaza Managed Store is owned by Shenyang Plaza. The Lion Group is in the process of acquiring Shenyang Plaza. The equity transfer is pending the obtaining of approvals from the relevant PRC authorities. Great Dignity, the proposed new holding company of Shenyang Plaza, is in the process of being acquired by the Lion Group. The Lion Group's acquisition of Great Dignity is conditional upon the obtaining of certain PRC regulatory approvals.

The Shantou Managed Store is owned by Shantou Commercial and the Directors have also decided not to acquire this store from a corporate structure and management perspective since it is intended that Shantou Commercial and Shenyang Plaza will both be wholly-owned subsidiaries of Great Dignity. As mentioned above, the Lion Group is the process of acquiring Great Dignity. Great Dignity in turn is in the process of acquiring Shantou Commercial. The equity transfer of Shantou Commercial to Great Dignity is conditional upon the obtaining of certain approvals from the relevant PRC authorities. Upon completion of the Shantou Commercial equity transfer, the acquisition of Great Dignity by the Lion Group will also be complete.

Therefore, upon the obtaining of the PRC approvals, LDHB will, through the acquisition of the entire issued share capital of Great Dignity, own the Shenyang Plaza Managed Store and the Shantou Managed Store.

(b) Stores in the Shandong province

LDHB is in the process of rationalising and restructuring its department store operation in the Shandong province which may involve divesting one or more of the existing branches of Qingdao No. 1. As such, the Directors consider that this is not a suitable time to acquire the Qingdao Managed Store, the Qingdao Yantai Managed Store and the Qingdao Laoshan Xtra Managed Store.

The Qingdao Managed Store, the Qingdao Yantai Managed Store and the Qingdao Laoshan Xtra Managed Store are owned by Qingdao No. 1 and its Yantai branch and Laoshan branch respectively. Qingdao No. 1 is owned by Parkson Venture and Serbadagang Holdings, which are both wholly-owned subsidiaries of LDHB. Apart from owning these three Excluded Stores, Qingdao No.1 is also engaged in other businesses including imports and exports businesses and property trading. Based on the statutory accounts of Qingdao No. 1 prepared in accordance with PRC GAAP by its local auditors (and not in accordance with IFRS, as has the Financial Information set out in this prospectus), the consolidated turnover of Qingdao No. 1, which is the owner of the Qingdao Managed Store, the Qingdao Yantai Managed Store and the Qingdao Laoshan Xtra Managed Store, for the three years ended 31st December, 2004 was approximately RMB694.0 million, RMB651.3 million and RMB654.6 million respectively and the consolidated net losses of Qingdao No. 1 for the three years ended 31st December, 2004 were approximately RMB11.1 million, RMB12.2 million and RMB5.2 million respectively.

RELATIONSHIP WITH THE LION GROUP

(c) *Stores to be acquired*

The remaining Excluded Stores, namely the Changchun Managed Store and the Tianjin Managed Store, are in the process of being acquired by the Lion Group. As the Lion Group is still in the process of acquiring these stores and there is uncertainty over whether these stores could be successfully acquired, the Directors have decided not to include them in the Group at the present stage. The Changchun Managed Store and the Tianjin Managed Store are owned by Changchun Zhonglian and Tianjin Zhonglian respectively. Sea Coral, a wholly-owned subsidiary of LDHB, entered into two memoranda of understanding on 8th November, 2005 with each of China Arts & Crafts Culture and China Arts & Crafts Investments Co., Ltd. in relation to the transfers of the entire equity interest held by those parties in Changchun Zhonglian and Tianjin Zhonglian, respectively, to Sea Coral. The parties intend to enter into equity transfers documentation before the Listing Date. Completion of such equity interest transfers is conditional upon the obtaining of the relevant PRC regulatory approvals.

Over the Track Record Period, the Original Group was paid management service fees by the Excluded Stores, which fees were accounted for by the Original Group as revenue, as reflected in the paragraph headed “Description of certain income statement items — Revenues” under the section headed “Financial information” in this prospectus.

The Group currently provides certain management services to the Excluded Stores. The Directors believe that this will serve to protect the interests of the Group and to facilitate the possible acquisition by the Group of the Excluded Stores at a future date (pursuant to the option and similar arrangements described below). Further details of the management consultancy agreements between the Lion Group and the Group are set out in the paragraphs headed “Management consultancy agreements” in the section headed “Connected transactions” in this prospectus.

The Group operates its business independently from the Lion Group. All transactions between the Group in relation to the Excluded Stores were negotiated and concluded on an arm’s length basis. As the management of the Excluded Stores is carried out by the same management teams of the Group, the Excluded Stores are dependent on the services provided by the Group, but not vice versa. The Directors are satisfied that the Group is capable of carrying on its business independently from the Lion Group after the Listing, on the basis that, among other factors:

- (a) the Group has, during the Track Record Period, demonstrated that it is able to operate its business independently from the Lion Group;
- (b) all of the Group’s contractual relationships with third parties (including concessionaires) are entered into independently from the Lion Group;
- (c) the Group has its own management team and provides management services to the Excluded Stores; and
- (d) the Group is financially independent from the Lion Group. With respect to the management fee income from the Lion Group for the management of the Excluded Stores, such income represents only a small percentage of the Group’s revenue. As at the Latest Practicable Date, there was no outstanding balance due to or from the Lion Group or any guarantee provided by the Lion Group for any indebtedness of the Group, or by the Group for any indebtedness of the Lion Group.

RELATIONSHIP WITH THE LION GROUP

In addition, under the Deed of Non-Competition, LDHB has granted to the Company (i) an option to purchase the whole or part of the interest in the Excluded Stores; and (ii) a right of first refusal in the event that LDHB wishes to sell the whole or any part of its interest in the Excluded Stores to any third party. Further details of the Deed of Non-Competition are set out in the paragraph headed “Deed of Non-Competition” in the section headed “Connected transactions” in this prospectus.

Any acquisition of any of the Excluded Stores pursuant to the exercise of the option under the Deed of Non-Competition will constitute a connected transaction of the Company under the Listing Rules. As such, the Company will have to comply with all the relevant requirements under Chapter 14A of the Listing Rules. This will mean that any such acquisition may be subject to approval by independent shareholders of the Company. Full disclosure of any potential competition that may arise as a result of the proposed acquisition (for instance, where there are department stores owned by the Group and department stores owned by the Lion Group within the same city) will have to be made in the circular to be issued to Shareholders in this connection. The independent Shareholders of the Company will also have the benefit of advice from an independent financial adviser on the merits of the proposed acquisition and whether the acquisition is in the interests of the Shareholders as a whole. In addition, the decision as to whether to exercise the option shall be subject to the review and approval of the independent non-executive Directors. The factors which will be taken into consideration by the independent Board members when considering whether to exercise the option will include, among others, whether the proposed acquisition is in line with the overall business development and strategy of the Group; determination and assessment of the associated risks and estimated investment returns of the proposed acquisition; and whether the proposed acquisition would enhance the competitiveness of the Group within the industry. Accordingly, even if any potential conflict of interests between the Group and the Lion Group should arise as a result of any acquisition of any Excluded Store, the Directors believe that there will be sufficient safeguards to protect the interests of the independent Shareholders.

The Company currently intends to acquire most of the Excluded Stores before the end of 2008.

SHAREHOLDERS' APPROVAL

Pursuant to Bursa Malaysia listing requirements, the Offering requires the approval of the shareholders of LDHB at an extraordinary general meeting to be convened for such purposes. In this connection, LDHB issued a circular to its shareholders on 4th October, 2005 which contains, among other things, further information regarding the Group and the Offering. The circular also contains certain unaudited pro forma financial information of the Combined Group for the three years ended 31st December, 2004 and six months ended 30th June, 2005 in accordance with Bursa Malaysia listing requirements. A copy of the circular is available at the website of Bursa Malaysia at www.bursamalaysia.com. The Offering was approved by the shareholders of LDHB at its extraordinary general meeting held on 19th October, 2005.

CONNECTED TRANSACTIONS

Certain transactions entered into by the Company which are expected to remain in effect following completion of the Offering will, on and from the Listing Date, constitute connected transactions under Chapter 14A of the Listing Rules. Details of these transactions are set out below.

ARRANGEMENTS RELATING TO THE REORGANISATION AND OFFERING

In connection with the Reorganisation, the Company has entered into various agreements with the Lion Group.

Deed of Non-Competition

Pursuant to the Deed of Non-Competition, LDHB has undertaken not to engage, other than through the Excluded Stores, in any business of the retail trade in merchandise in department stores, supermarkets, hypermarkets, convenience stores, specialty merchandise stores (excluding, for the avoidance of doubt, any retail or wholesale outlets for the sale of vehicle tyres), supercentres and category killers in the PRC, Hong Kong, Macau and Taiwan. LDHB is a substantial shareholder of the Company and therefore a connected person of the Company. The non-competition restrictions will terminate on the date on which LDHB ceases to be a controlling shareholder (as defined in the Listing Rules) of the Company. The restrictions will also terminate on the date on which the Shares cease to be listed on the Stock Exchange. As such, LDHB will not open, own or operate any new department stores in the PRC, Hong Kong, Macau and Taiwan other than the Excluded Stores so long as the Deed of Non-Competition is in effect.

LDHB has granted the Company an option to purchase the whole or part of the interest in the managed stores owned by LDHB or its subsidiaries. The price at which the option will be exercised shall be negotiated and agreed between the Company and LDHB at the time of exercise. If LDHB and the Company fail to agree on the exercise price, an independent internationally recognised firm of valuers will be appointed to determine the exercise price.

LDHB has also granted the Company a right of first refusal in the event that LDHB wishes to sell the whole or any part of its interest in the managed stores owned by the Lion Group to any third party. Decisions as to whether or not to exercise the right of first refusal shall be subject to the review and approval of the independent non-executive Directors. If the Company decides not to acquire such interest, an announcement will be issued by the Company setting out the reasons for not exercising such right and LDHB may proceed to sell to the third party, provided that the price may not be lower than the price which was offered to the Company.

The Deed of Non-Competition is a connected transaction exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

Trademark Licence Agreement

Shanghai Lion Investment entered into a trademark licence agreement with Parkson Corporation on 9th November, 2005, pursuant to which Parkson Corporation grants to Shanghai Lion Investment an exclusive licence to use certain trademarks, including the "Parkson" and "Xtra" trademarks, owned by the Lion Group in Greater China. Parkson Corporation is a wholly-owned subsidiary of LDHB (and hence an associate of LDHB). Since LDHB is a substantial shareholder of

CONNECTED TRANSACTIONS

the Company, being an associate of LDHB, Parkson Corporation is a connected person of the Company. The trademarks which are the subject of the licence include those which are registered in Greater China. The Company uses the trademarks in connection with its business operations (including advertising and stationery). The term of the licence is 30 years.

Shanghai Lion Investment also has the right to sub-license the use of the trademarks to other entities (namely members of the Group, managed stores with an option to acquire, pure managed stores and connected managed store) on terms and conditions at least as onerous as those under the trademark licence agreement. Shanghai Lion Investment has entered into a trademark sub-licence agreement with each owner of the Excluded Stores as follows:

Sub-licensee	Date of the trademark sub-licence agreement
Qingdao No. 1	9th November, 2005
Laoshan branch of Qingdao No. 1	9th November, 2005
Yantai branch of Qingdao No. 1	9th November, 2005
Dalian Shishang	9th November, 2005
Dalian Tianhe	25th November, 1999 (Note 3)
Shenyang branch of Dalian Tianhe	9th November, 2005
Nanning Brilliant	9th November, 2005
Tianjin Zhonglian (Note 1)	9th November, 2005
Changchun Zhonglian (Note 1)	9th November, 2005
Shenyang Plaza (Note 2)	9th November, 2005
Shantou Commercial (Note 2)	9th November, 2005

Note 1:

Tianjin Zhonglian and Changchun Zhonglian are in the process of being acquired by the Lion Group. Please refer to further details in Note 2 to the paragraph headed "Management consultancy agreements with the Lion Group" below.

Note 2:

Shenyang Plaza and Shantou Commercial are in the process of being acquired by the Lion Group. Please refer to further details in Note 1 to the paragraph headed "Management consultancy agreements with the Lion Group" below.

Note 3:

This sub licence agreement was entered into pursuant to arrangements preceding the trademark licence agreement dated 9th November, 2005.

An annual royalty of RMB30,000 is payable for each sub-licence except for the connected managed store and pure managed stores. Any sub-licence shall automatically terminate upon termination of the trademark licence agreement. Under the licence agreement, Shanghai Lion Investment is required to pay an annual royalty of RMB30,000 per retail store in respect of each sub-licence granted.

CONNECTED TRANSACTIONS

Either party may terminate the licence agreement if (i) the other party commits a material breach (which is not remedied within the grace period), or (ii) the other party becomes insolvent or is subject to winding-up or analogous events. The licensee may terminate the licence agreement if shareholders' and/or other approval is required under the Listing Rules and such approval is not obtained.

The trademark licence agreement is entered into on normal commercial terms and falls below the de minimis threshold as stated under Rule 14A.33(3) of the Listing Rules and is therefore exempt from the reporting, announcement and independent shareholders' approval requirements.

CERTAIN ARRANGEMENTS RELATING TO CHINA ARTS & CRAFTS

The Group had entered into a number of transactions with China Arts & Crafts, the PRC joint venture partner of Beijing Parkson. China Arts & Crafts is a substantial shareholder of Beijing Parkson, a subsidiary of the Company, and therefore a connected person of the Company.

As at the Latest Practicable Date, the connected transactions which remain in force are detailed in the paragraphs headed "Financial Assistance to the Group by a Connected Person" and "Lease arrangements between Beijing Parkson and China Arts & Crafts" of this section. There are also certain connected transactions between Beijing Parkson and China Arts & Crafts which are no longer in force as at the Latest Practicable Date and therefore, not relevant for the purpose of Chapter 14A of the Listing Rules.

On 30th September, 1999, Beijing Parkson entered into a sale and purchase agreement with China Arts & Crafts under which Beijing Parkson agreed to sell, and China Arts & Crafts agreed to purchase, the 5th to 10th Floors of the property at No. 101 Fuxinmennei Street, Xicheng District, Beijing, the PRC (the "Property") at a consideration of RMB270 million. The Property is part of the building where Phase II of the Beijing Store is located. On 20th August, 2005, the parties entered into a termination agreement to terminate that property sale and purchase agreement. Under the termination agreement, Beijing Parkson will refund to China Arts & Crafts the amount paid to Beijing Parkson, which was RMB97.63 million as at the date of the agreement.

Pursuant to two mortgage agreements dated 12th September, 2003 and 20th April, 2005 respectively, Beijing Parkson agreed, as owner of the Property, to charge the Property to China Merchant Bank and Bank of Beijing as security for two loans taken by China Arts & Crafts (the "Two Loans"). As at 20th August, 2005, the total outstanding debts in relation to the Two Loans was RMB235 million.

In light of the above, Beijing Parkson and China Arts & Crafts entered into an agreement on 20th August, 2005 under which the parties agreed on, among others, the following:

- (a) Beijing Parkson shall obtain a loan in the amount of RMB250 million from a bank and Beijing Parkson will apply RMB235 million of the loan proceeds to repay, on behalf of China Arts & Crafts, the same amount owing by China Arts & Crafts under the Two Loans;
- (b) upon repayment of the Two Loans, the parties shall procure the release of the two mortgages over the Property as soon as possible; and
- (c) China Arts & Crafts shall then repay such RMB235 million loan from Beijing Parkson in the manner prescribed by Beijing Parkson.

CONNECTED TRANSACTIONS

Beijing Parkson currently intends that such RMB235 million loan shall be repaid by China Arts & Crafts by way of the following:

- (i) as to RMB97.63 million by way of set off against the same amount due from Beijing Parkson to China Arts & Crafts as a result of the termination agreement with respect to the property sale and purchase agreement; and
- (ii) as to the balance of RMB137.37 million by way of set off against the same amount of rental prepayment to be paid by Beijing Parkson to China Arts & Crafts under a supplemental lease entered into between the parties on 20th August, 2005 (described further in the paragraph headed “Lease arrangements between Beijing Parkson and China Arts & Crafts” below). Under this supplemental lease, the term of the original leases entered into between Beijing Parkson as lessee and China Arts & Crafts as lessor in relation to certain parts of the building where Phase I of the Beijing Store is located is extended and the rental for the following 9 years will be prepaid by Beijing Parkson upfront.

As the prepayment rental amount is offset against the loan owing to Beijing Parkson, the Directors, including the independent non-executive Directors, are of the view that the above arrangements will not have an impact on the financial condition and prospects of the Group.

The above arrangements have been completed. Further details regarding the above arrangements are set out in the paragraph headed “Summary of material contracts” in Appendix VII and the property valuation report set out in Appendix V to this Prospectus.

DE MINIMIS TRANSACTIONS

Computer software maintenance agreements

One of the Company’s subsidiary, Beijing Century, currently provides, and will continue to provide, computer software maintenance services to certain members of the Lion Group (namely, the entities which own the Excluded Stores), pursuant to software maintenance service agreements entered into between Beijing Century and the relevant party as set out below:

Members of the Lion Group	Relevant Excluded Store	Date of the software maintenance service agreements
Qingdao No. 1	Qingdao Managed Store	30th December, 2004
Laoshan branch of Qingdao No. 1	Qingdao Laoshan Xtra Managed Store	1st May, 2005
Dalian Tianhe	Dalian Tianhe Managed Store	1st January, 2005
Shenyang branch of Dalian Tianhe	Dalian Tianhe Shenyang Managed Store	31st December, 2004
Nanning Brilliant	Nanning Managed Store	1st September, 2005
Tianjin Zhonglian	Tianjin Managed Store	1st March, 2005
Changchun Zhonglian	Changchun Managed Store	8th August, 2005
Shenyang Plaza	Shenyang Plaza Managed Store	1st January, 2005
Shantou Commercial	Shantou Managed Store	6th January, 2005

CONNECTED TRANSACTIONS

Annual service fees payable are within the range of RMB22,000 to RMB50,000. The term of each agreement is one year and is renewable each year.

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

The Directors, including the independent non-executive Directors, are of the view that the software maintenance service agreements have been entered into on normal commercial terms, are in the ordinary and usual course of business of the Group. Such services are charged at rates no less favourable to the Group than those charged to Independent Third Parties.

For the year ended 31st December, 2004 and the six months ended 30th June, 2005, the aggregate fees charged for provision of such services amounted to RMB147,000 and RMB86,000 respectively.

Equipment lease agreements

Beijing Parkson currently leases, and will continue to lease, certain office equipment and machinery to Tianjin Zhonglian and Changchun Zhonglian (which are in the process of being acquired by the Lion Group subject to the obtaining of relevant PRC approvals), pursuant to equipment lease agreements dated 18th January, 2004 and 1st January, 2004, respectively. The annual rent payable is within the range of RMB680,000 to RMB780,000.

Tianjin Zhonglian and Changchun Zhonglian are currently subsidiaries of China Arts & Crafts. Since China Arts & Crafts is a substantial shareholder of Beijing Parkson, a subsidiary of the Company, Tianjin Zhonglian and Changchun Zhonglian are connected persons of the Company. As disclosed in Note (2) to the paragraph headed "Management consultancy agreements with the Lion Group" below, the Lion Group is in the process of acquiring Tianjin Zhonglian and Changchun Zhonglian. Upon completion of those equity transfers, Tianjin Zhonglian and Changchun Zhonglian will cease to be subsidiaries of China Arts & Crafts. Instead they will become part of the Lion Group and will therefore remain connected persons of the Company.

The Directors, including the independent non-executive Directors, are of the view that the equipment lease agreements have been entered into on normal commercial terms and are in the ordinary and usual course of business of the Group. The rent is charged at rates no less favourable to the Group than those charged to Independent Third Parties.

For the year ended 31st December, 2004 and the six months ended 30th June, 2005, the aggregate rent payable to the Group for the equipment leases amounted to approximately RMB1,460,000 and RMB730,000 respectively.

CONNECTED TRANSACTIONS

Concessionaire agreements

Some of the concessionaires of certain stores operated by members of the Group (namely, the Anshan Store and the Beijing Store) are connected persons of the Company. Beijing Parkson has entered into a concessionaire agreement dated 4th January, 2005 with 北京藝寶首飾公司 (Beijing Yibao Jewellery Company*), a subsidiary of China Arts & Crafts, while Anshan Parkson has entered into three concessionaire agreements with 鞍山天興國際購物廣場有限公司 (Anshan Tianxing International Shopping Plaza Co., Ltd.*), a subsidiary of Anshan Tianxing, one of which is dated 4th January, 2005 and the other two of them dated 15th April, 2005. The commission payable under each such agreement is based on a certain percentage of the concessionaire sales.

The concessionaires are subsidiaries of China Arts & Crafts and Anshan Tianxing, respectively. Since each of China Arts & Crafts and Anshan Tianxing is a substantial shareholder of Beijing Parkson and Anshan Parkson, respectively, both of which are subsidiaries of the Company, the concessionaires are connected persons of the Company.

The Directors, including the independent non-executive Directors, are of the view that the concessionaire agreements have been entered into on normal commercial terms, and are in the ordinary and usual course of business of the Group. The turnover commission is charged at rates no less favourable to the Group than those charged to Independent Third Parties.

For the year ended 31st December, 2004 and the six months ended 30th June, 2005, the aggregate commission received by the Group from those concessionaires who are connected persons amounted to approximately RMB1,645,000 and RMB882,000 respectively.

Trademark sub-licence agreement with Guizhou Shenqi

Shanghai Lion Investment currently sub-licenses, and will continue to sub-license, to Guizhou Shenqi the right to use certain trademarks, including the “Parkson” trademark, which Shanghai Lion Investment has the right to use pursuant to the trademark licence agreement with Parkson Corporation referred to above. The term of the licence is 10 years. Under the sub-licence agreement, Guizhou Shenqi is required to pay an annual royalty representing a fixed percentage of the net sales of the Guizhou Managed Store.

Mr. Zhang Zhi Jun, being a director of the Company's subsidiary, Guizhou Parkson, is a connected person of the Company. Mr. Zhang Zhi Jun has a 50% interest in Guizhou Shenqi, hence Guizhou Shenqi is an associate of Mr. Zhang Zhi Jun and as such, Guizhou Shenqi is also a connected person of the Company.

The Directors, including the independent non-executive Directors, are of the view that the trademark sub-licence agreement between Shanghai Lion Property and Guizhou Shenqi has been entered into on normal commercial terms, and is in the ordinary and usual course of business of the Group. The licence fees are charged at rates no less favourable to the Group than those charged to Independent Third Parties.

CONNECTED TRANSACTIONS

For each of the three years ended 31st December, 2004 and the six months ended 30th June, 2005, the aggregate amount received by the Group amounted to approximately RMB693,000, RMB597,000, RMB672,000 and RMB348,000 respectively.

Computer software maintenance agreement with Guizhou Shenqi

Beijing Century currently provides, and will continue to provide, computer software maintenance services to Guizhou Shenqi pursuant to a software maintenance service agreement dated 1st January, 2005.

The annual service fee payable is RMB25,000 and the term of the agreement is one year and is renewable each year.

The Directors, including the independent non-executive Directors, are of the view that this software maintenance service agreement has been entered into on normal commercial terms, and is in the ordinary and usual course of business of the Group. The services are charged at rates no less favourable to the Group than those charged to Independent Third Parties.

For the year ended 31st December, 2004 and the six months ended 30th June, 2005, the aggregate fees charged for provision of such services amounted to RMB25,000 and RMB12,500, respectively. It is expected that the fees to be charged by Beijing Century for each of the years ending 31st December, 2005, 31st December, 2006 and 31st December, 2007 will be RMB25,000.

Services provided by Yangzhou Commercial

Yangzhou Commercial currently provides, and will continue to provide, certain consultancy services, including but not limited to consultation and coordination works with various local authorities, to Yangzhou Parkson pursuant to two consultancy service agreements both dated 1st October, 2005. In consideration of such services, Yangzhou Parkson pays Yangzhou Commercial an annual consultation fee. The annual fee payable to Yangzhou Commercial is RMB245,000 and the term of the agreement is three years.

Yangzhou Commercial is a substantial shareholder of Yangzhou Parkson, a subsidiary of the Company, and is therefore a connected person of the Company.

The Directors, including the independent non-executive Directors, are of the view that the consultancy service agreements between Yangzhou Parkson and Yangzhou Commercial have been entered into on normal commercial terms, and is in the ordinary and usual course of business of the Group. The service fees are charged at rates no less favourable to the Group than those charged by Independent Third Parties.

For each of the three years ended 31st December, 2004 and the six months ended 30th June, 2005, the aggregate fees charged for provision of such services amounted to RMB245,000, RMB245,000, RMB245,000 and RMB122,500, respectively. It is expected that the fees to be paid for each of the years ending 31st December, 2005, 31st December, 2006 and 31st December, 2007 will be RMB245,000.

CONNECTED TRANSACTIONS

Management consultancy agreement with China Arts & Crafts

On 15th October, 2005, Beijing Parkson entered into a management consultancy agreement with Beijing Zhongtai, a subsidiary of China Arts & Crafts, under which Beijing Parkson provides management consultancy services to Beijing Zhongtai. Services provided include consultancy on product development, marketing and human resources management. An annual management fee based on a fixed percentage of the net sales of the store is payable to Beijing Parkson. The term of the management consultancy agreement is 10 years. The Directors, including the non-executive Directors, are of the view that the provision of such services is on normal commercial terms, in the ordinary and usual course of business of the Group and is charged at rates no less favourable to the Group than those charged to Independent Third Parties. The Beijing Managed Store is expected to commence operations in the second half of 2006.

De minimis exemption under the Listing Rules

The above transactions are of a continuing and recurring nature. The applicable percentage ratio under the Listing Rules on an annual basis has been and is expected to continue to be less than 0.1%. Therefore, each of such transactions will fall within the 0.1% de minimis threshold under Rule 14A.33(3)(a) of the Listing Rules and will be exempt from the reporting, announcement and shareholders' approval requirements.

FINANCIAL ASSISTANCE TO THE GROUP BY A CONNECTED PERSON

Financial assistance to the Group by a connected person

China Arts & Crafts has guaranteed outstanding bank debts owed by Beijing Parkson. The underlying loan amounts to RMB70 million. As the bank loans owed by Beijing Parkson will remain outstanding following completion of the Offering, the guarantees are expected to remain in place until repayment of the loans.

Financial assistance exemption under the Listing Rules

The Directors, including the independent non-executive Directors, are of the view that the financial assistance arrangements described above are on normal commercial terms, in light of the fact that mutual guarantee arrangements are in place between Beijing Parkson and China Arts & Crafts (please refer to the guarantee arrangement described in the following section headed "Financial Assistance from the Group to Connected Persons"). Such arrangements constitute financial assistance provided by connected persons of the Group for the benefit of the Group and will fall within the exemption under Rule 14A.65(4) of the Listing Rules for the following reasons:

- (a) the financial assistance arrangements are on normal commercial terms; and
- (b) no security over the assets of the Group is granted in respect of the financial assistance arrangements in favour of China Arts & Crafts.

CONNECTED TRANSACTIONS

FINANCIAL ASSISTANCE FROM THE GROUP TO CONNECTED PERSONS

Financial assistance from the Group to connected persons

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

Guarantee

Beijing Parkson entered into a guarantee on 17th February, 2005 with respect to the outstanding bank debt of China Arts & Crafts. The underlying loan amounts to RMB20 million. The underlying loan is due in February 2006. If China Arts & Crafts fails to make a full repayment of the loan on the repayment date, the bank will be entitled to make a claim under the guarantee within two years of the scheduled repayment date. The annual capped exposure under the guarantee for each of the three years ending 31st December, 2005, 31st December, 2006 and 31st December, 2007 will be RMB20 million.

Entrusted loans of Mianyang Parkson

Mianyang Parkson entered into two interest-bearing entrusted loan agreements on 20th August, 2005 and 10th September, 2005 with Sichuan Fulin, pursuant to which loan facilities of an aggregate amount of RMB12 million were made to Sichuan Fulin through China Construction Bank, Mianyang Branch. The loans are due in April 2006 and September 2006, respectively. The annual capped exposure under the loans (representing principal and interest payable) for the two years ending 31st December, 2005 and 31st December, 2006 will be RMB12,768,000 and RMB12,390,000 respectively.

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

Entrusted loans of Anshan Parkson

Anshan Parkson entered into two interest-bearing entrusted loan agreements on 22nd September, 2005 with Anshan Tianxing, pursuant to which loan facilities of an aggregate amount of RMB70 million were made to Anshan Tianxing through CITIC Industrial Bank, Dalian branch. Both loans are due in September 2006. The annual capped exposure under the loans (representing principal and interest payable) for each of the two years ending 31st December, 2005 and 31st December, 2006 will be approximately RMB81,098,000.

Waiver from compliance with announcement requirement in relation to the guarantee and the Mianyang Parkson entrusted loans

The guarantee given by Beijing Parkson in favour of the third party bank for the bank debt of China Arts & Crafts mirrors the reciprocal arrangement whereby China Arts & Crafts provides a guarantee in favour of a third party bank for the bank debt of Beijing Parkson (as described in the section headed "Financial Assistance to the Group by a Connected Person" above). The Group therefore derives benefit from this reciprocal arrangement.

CONNECTED TRANSACTIONS

Mianyang Parkson provided the entrusted loans to Sichuan Fulin (the PRC joint venture partner of Mianyang Parkson) to facilitate cashflow. The loans were provided on the basis that it would be beneficial to the Group to maintain its good relationship with this PRC joint venture partner. Further, the Group receives interest payments from Sichuan Fulin (6.5% per annum for the RMB12 million loan). As security, Sichuan Fulin has pledged in favour of Mianyang Parkson its dividends in the joint venture and rental receivables from Mianyang Parkson.

The Directors, including the independent non-executive Directors, are of the view that the guarantee and the Mianyang Parkson entrusted loan arrangements described above are on normal commercial terms. Such arrangements constitute financial assistance provided by the Group for the benefit of connected persons of the Group under Rule 14A.66(2)(a) of the Listing Rules. As each of the applicable percentage ratios under the Listing Rules is less than 2.5%, the arrangements are exempt from independent shareholders' approval requirement.

Given that the financial assistance arrangements were entered into prior to the Listing, the Directors consider that strict compliance with the announcement requirement would be impracticable, unduly burdensome and administratively costly. The Company has therefore applied for and the Stock Exchange has granted a waiver from strict compliance with the announcement requirement.

Waiver from compliance with announcement and independent shareholders' approval requirements in relation to the Anshan Parkson entrusted loans

The Anshan Parkson entrusted loan agreements were entered into at the same time as the acquisition of Anshan Parkson by the Group. The provision of the entrusted loans to Anshan Tianxing, the PRC joint venture partner of Anshan Parkson, represents part of the terms and conditions of the acquisition. The Group receives interest payments from Anshan Tianxing (6.16% per annum for the RMB50 million loan and 5.8% per annum for the RMB20 million loan). As security, Anshan Tianxing pledged in favour of Anshan Parkson its dividends in the joint venture and rental receivables from Anshan Parkson.

The Directors, including the non-executive Directors, are of the view that the entrusted loan arrangements of Anshan Parkson described above are on normal commercial terms. Such arrangements constitute financial assistance provided by the Group for the benefit of connected persons of the Group under Rule 14A.63 of the Listing Rules. As the applicable percentage ratio under the Listing Rules exceeds 2.5%, such arrangements are subject to the reporting, announcement and independent shareholders' approval requirements.

Given that the loan arrangements were entered into prior to the Listing, the Directors consider that strict compliance with the announcement and the independent shareholders' approval requirements would be impracticable, unduly burdensome and administratively costly. The Company has therefore applied for and the Stock Exchange has granted a waiver from strict compliance with those requirements.

CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS EXEMPT FROM INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENT

Lease Arrangements

Lease arrangements between Beijing Parkson and China Arts & Crafts

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

The term of each lease is 20, 20 and 19 years respectively. Annual rent of the first lease is RMB1.7 million for the period from 1st August, 2003 to 31st July, 2004 and RMB2 million for the period from 1st August, 2004 to 31st July, 2008. Thereafter, rent will be reviewed annually based on prevailing market rates but such increase shall not exceed 15% of the previous year's rent. Annual rent for the second lease is approximately RMB16 million. The rent will be reviewed every 5 years according to the PRC consumer price index but in any event the increase shall not be more than 15% of the previous year's rental. Annual rent for the third lease is RMB830,000 for the first year, subject to an annual increment of RMB20,000 for the second to fifth rental year. Thereafter, the rent will be reviewed every five years based on prevailing market rates.

As there was an outstanding debt owed by China Arts & Crafts to Beijing Parkson, the terms of the rent payable under the existing lease arrangements between China Arts & Crafts and Beijing Parkson were re-negotiated. Arising from this, the three leases were supplemented by a supplemental lease agreement dated 20th August, 2005 under which it was agreed that the aggregate annual rental amounts under the three leases for the following 9 years be amended to RMB137,370,000. Such amount will be prepaid by Beijing Parkson in one lump sum. The one-off prepayment of rent for the period of 9 years represents commercially attractive rental terms for Beijing Parkson. The debt amount owed by China Arts & Crafts to Beijing Parkson was off set against the prepaid rental amount. The Directors do not expect this to give rise to any material impact on the financial condition and prospects of the Group.

The Directors, including the independent non-executive Directors, are of the view that the lease arrangements between Beijing Parkson and China Arts & Crafts have been entered into on normal commercial terms, are in the ordinary and usual course of business of the Group and on terms no less favourable to the Group than those provided by landlords which are Independent Third Parties.

For each of the two years ended 31st December, 2004 and the six months ended 30th June, 2005, the aggregate rental amount paid by the Group to China Arts & Crafts amounted to approximately RMB19,683,000, RMB18,261,000 and RMB9,472,000 respectively. The aggregate rental for each of the years ending 31st December, 2005, 31st December, 2006 and 31st December, 2007 will be approximately RMB18,024,000, RMB15,263,000 and RMB15,263,000, respectively.

CONNECTED TRANSACTIONS

Lease arrangements between Mianyang Parkson and Sichuan Fulin

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

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

The Directors, including the independent non-executive Directors, are of the view that the lease arrangements between Mianyang Parkson and Sichuan Fulin have been entered into on normal commercial terms, are in the ordinary and usual course of business of the Group and on terms no less favourable to the Group than those provided by landlords which are Independent Third Parties.

For each of the three years ended 31st December, 2004 and the six months ended 30th June, 2005, the aggregate rental amount paid by the Group to Sichuan Fulin amounted to approximately RMB4,094,000, RMB4,136,000, RMB4,705,000 and RMB2,392,000 respectively. The actual aggregate amount paid by the Group is less than the fixed annual rent stated in the paragraph above because part of the rent was paid directly by one of the sub-tenants of Mianyang Parkson to Sichuan Fulin. It is expected that the aggregate rental to be paid for each of the years ending 31st December, 2005, 31st December, 2006 and 31st December, 2007 will be approximately RMB5,745,000.

Lease arrangements between Chongqing Parkson and Chongqing Wanyou

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

The term of each lease is 20 and 25 years respectively. Annual rent for the first lease is calculated as the higher of (a) the basic rent and (b) the turnover rent. The basic rent for the first three rental years is RMB2.8 million, thereafter subject to an annual 3% increment (such increment capped at RMB6 million). The turnover rent is calculated at 3% of Chongqing Parkson's annual turnover. For the second lease, the annual rent for the first three rental years is RMB500,000. Thereafter, the annual rent will be the higher of (a) an amount equivalent to 103% of the previous year's rent (capped at RMB1 million) and (b) 3% of turnover. The maximum annual rental amount payable by the Group to Chongqing Wanyou is expected to be RMB6 million, and this amount is determined based on 3% of the annual turnover of RMB200 million. The Directors took into account the historical rental paid by the Group since the commencement of the operation in 1996. With annual turnover of less than RMB130 million for the past few years and floor area of about 10,800 square metres, the Directors are of the view that an annual turnover of RMB200 million is a reasonable basis for calculating the estimated maximum rental amount.

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

CONNECTED TRANSACTIONS

The Directors, including the independent non-executive Directors, are of the view that the lease arrangements between Chongqing Parkson and Chongqing Wanyou have been entered into on normal commercial terms, are in the ordinary and usual course of business of the Group and on terms no less favourable to the Group than those provided by landlords which are Independent Third Parties.

For each of the three years ended 31st December, 2004 and the six months ended 30th June, 2005, the aggregate rental amount paid by the Group to Chongqing Wanyou amounted to approximately RMB4,463,000, RMB3,972,000, RMB3,957,000 and RMB2,119,000 respectively. It is expected that the aggregate rental to be paid for each of the years ending 31st December, 2005, 31st December, 2006 and 31st December, 2007 will be approximately RMB6 million.

Lease arrangements between Xi'an Chang'an Parkson and Shaanxi Chang'an Information

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

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

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

The Directors, including the independent non-executive Directors, are of the view that the lease arrangements between Xi'an Chang'an Parkson and Shaanxi Chang'an Information have been entered into on normal commercial terms, are in the ordinary and usual course of business of the Group and on terms no less favourable to the Group than those provided by landlords which are Independent Third Parties.

For the six months ended 30th June, 2005, the aggregate rental amount paid by the Group to Shaanxi Chang'an Information amounted to approximately RMB3,778,000. It is expected that the aggregate rental to be paid for each of the years ending 31st December, 2005, 31st December, 2006 and 31st December, 2007 will be approximately RMB10 million.

Lease arrangements between Xi'an Shidai Parkson and Xi'an Xinrun

Xi'an Shidai Parkson entered into a lease with Xi'an Xinrun on 18th August, 2004 pursuant to which Xi'an Xinrun agreed to lease premises of a total gross floor space of approximately 36,084 sq.m. located at Shidaishengdian Edifice, West Street, Xi'an, Shanxi to Xi'an Shidai Parkson to be used as its place of business.

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

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

CONNECTED TRANSACTIONS

The Directors, including the independent non-executive Directors, are of the view that the lease arrangements between Xi'an Shidai Parkson and Xi'an Xinrun have been entered into on normal commercial terms, are in the ordinary and usual course of business of the Group and on terms no less favourable to the Group than those provided by landlords which are Independent Third Parties.

For the six months ended 30th June, 2005, the aggregate rental amount paid by the Group to Xi'an Xinrun amounted to approximately RMB4,167,000. The aggregate rental cap for each of the years ending 31st December, 2005, 31st December, 2006 and 31st December, 2007 will be approximately RMB8 million.

Lease arrangements between Guizhou Parkson and Guizhou Huawei

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

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

- (a) 2% of the annual operating revenue for the part of the premises where jewellery and home appliances are sold and where the supermarket is located; and
- (b) 5.5% of the annual operating revenue for other parts of the premises.

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

The Directors, including the independent non-executive Directors, are of the view that the lease arrangements between Guizhou Parkson and Guizhou Huawei have been entered into on normal commercial terms, are in the ordinary and usual course of business of the Group and on terms no less favourable to the Group than those provided by landlords which are Independent Third Parties.

For each of the two years ended 31st December, 2004 and the six months ended 30th June, 2005, the aggregate rental amount paid by the Group to Guizhou Huawei amounted to approximately RMB6,659,000, RMB10,116,000 and RMB6,017,000 respectively. It is expected that the rental cap for the years ending 31st December 2005, 31st December 2006 and 31st December 2007 will be approximately RMB12,034,000, RMB13,120,000 and RMB14,170,000, respectively.

Lease arrangements between Anshan Parkson and Anshan Tianxing

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

CONNECTED TRANSACTIONS

The term of the leases is 15 years and 5 years, respectively. The annual rent for the first lease is at RMB15 million. Annual rent for the second lease is calculated at 7% of the turnover sales of the store, which amounts approximately to RMB650,000. The annual rent for the premises covered by the supplemental lease is RMB1,500,000. There is no rent review mechanism.

The Directors, including the independent non-executive Directors, are of the view that the lease arrangements between Anshan Parkson and Anshan Tianxing have been entered into on normal commercial terms, are in the ordinary and usual course of business of the Group and on terms no less favourable to the Group than those provided by landlords which are Independent Third Parties.

For each of the three years ended 31st December, 2004 and the six months ended 30th June, 2005, the aggregate rental amount paid by the Group to Anshan Tianxing amounted to approximately RMB10,000,000, RMB15,000,000, RMB15,000,000 and RMB7,500,000 respectively. It is expected that the aggregate rental to be paid for each of the years ending 31st December, 2005, 31st December, 2006 and 31st December, 2007 will be approximately RMB15,650,000.

Lease arrangements between Xinjiang Parkson and Xinjiang Youhao

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

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

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

The Directors, including the independent non-executive Directors, are of the view that the lease arrangements between Xinjiang Parkson and Xinjiang Youhao have been entered into on normal commercial terms, are in the ordinary and usual course of business of the Group and on terms no less favourable to the Group than those provided by landlords which are Independent Third Parties.

For each of the two years ended 31st December, 2004 and the six months ended 30th June, 2005, the aggregate rental amount paid by the Group to Xinjiang Youhao amounted to approximately RMB21,500,000, RMB23,750,000 and RMB12,500,000 respectively. It is expected that the aggregate rental to be paid for each of the years ending 31st December, 2005, 31st December, 2006 and 31st December, 2007 will be approximately RMB25 million.

Vigers Appraisal & Consulting Limited, an independent property valuer, has reviewed all the above lease arrangements and confirmed that (i) the lease arrangements are on normal commercial terms and the terms are fair and reasonable; and (ii) the respective rents payable to the respective landlords reflect prevailing market rates.

CONNECTED TRANSACTIONS

Waiver from compliance with announcement requirement in relation to the leases

Each of the leases mentioned above constitutes a continuing connected transaction. The applicable percentage ratio under the Listing Rules on an annual basis has been and is expected to be less than 2.5%. Each such continuing connected transaction is exempt from the independent shareholders' approval requirement but is subject to reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules.

Given their recurring nature and the fact that the leases had been entered into prior to the Listing, the Directors consider that strict compliance with the announcement requirement would be impracticable, unduly burdensome and administratively costly. The Company has therefore applied for and the Stock Exchange has granted a waiver from strict compliance with the announcement requirement.

The annual caps for each lease for each of the three years ending 31st December, 2005, 31st December, 2006 and 31st December, 2007, respectively, shall be the capped rental amounts referred to in the paragraphs above. These amounts will not, in any event, exceed the 2.5% threshold allowed under Rule 14A.34(1). In the event that any of the capped amounts exceeds the 2.5% threshold, the Company will comply with the requirements relating to continuing connected transactions under Chapter 14A of the Listing Rules. The Directors, including the independent non-executive Directors, are of the view that the caps are fair and reasonable.

Under Rule 14A.35(1) of the Listing Rules, a continuing connected transaction which is not fully exempt must be governed by an agreement for a fixed period of not more than three years unless there are special circumstances requiring a longer duration. The Directors, including the independent non-executive Directors and the Sponsor are of the view that special circumstances requiring a longer duration exist in this case based on the following grounds:

- Long-term leases of the stores will enable the Group to expand or continue its operations at the prime locations that the stores currently occupy. For each city in which the Group has opened stores, there are only a limited number of prime locations. In a competitive market for retail industry players, the success of the Group has, to date, been dependent to some extent, on the prime locations that the stores occupy. If the leases are on a short-term basis, the Group is subject to risks such as market rent fluctuations and termination of the lease. The Group may be subject to higher rental expenditure in order to retain the prime locations for the stores. Furthermore, the business of the Group may be adversely affected if the stores are no longer situated at prime locations.
- Long-term leases of the stores will minimise any potential disruption to the Group's business operations. If a short-term lease, upon expiry, is not renewed, the Group will have to seek alternative premises (which may no longer be at prime locations) for the store. Relocation of the store will have time and cost implications. The business of the Group may be affected during the relocation period. Customer loyalty issues (that is, if the customers shop at other department stores during the relocation period and cease to shop at the Group's department stores even after the relocation) may arise and have a long-term impact on the business of the Group. Renovation and relocation costs may also have an effect on the Group's profitability. Furthermore, existing arrangements between the store and its concessionaires may also be affected by such relocation.

CONNECTED TRANSACTIONS

- As the landlords of the leases in question are the PRC joint venture partners of the Group, the terms and conditions of the lease often form part of the overall terms with respect to the joint venture. If the term of the lease has to be changed, it is possible that the PRC joint venture party may request for other changes to be made to the joint venture contract between the parties. Any change to the terms of the joint venture contract will involve further negotiations. Approval of the PRC regulatory authorities, including the Ministry of Commerce, may also be required. The Directors believe that such potential consequences would be unduly burdensome on the Group and that time possibly spent by senior management on renegotiations of the joint venture contract and liaison with the Ministry of Commerce would be better spent on development and expansion of the Group's business.

Management consultancy agreements

Management consultancy agreements with the Lion Group

Shanghai Lion Investment currently provides, and will continue to provide, management consultancy services to certain members of the Lion Group (namely, the entities which own the Excluded Stores), pursuant to management consultancy agreements between Shanghai Lion Investment and each owner of the Excluded Stores as follows:

Members of the Lion Group	Relevant Excluded Store	Date of the management consultancy agreement
Qingdao No. 1	Qingdao Managed Store	1st October, 2005
Laoshan branch of Qingdao No. 1	Qingdao Laoshan Xtra Managed Store	1st October, 2005
Yantai branch of Qingdao No. 1	Qingdao Yantai Managed Store	10th September, 2005
Dalian Shishang	Dalian Shishang Managed Store	1st May, 2005
Dalian Tianhe	Dalian Tianhe Managed Store	January, 1999
Shenyang branch of Dalian Tianhe	Dalian Tianhe Shenyang Managed Store	1st October, 2005
Nanning Brilliant	Nanning Managed Store	1st May, 2005
Shenyang Plaza (<i>Note 1</i>)	Shenyang Plaza Managed Store	28th November, 2003
Shantou Commercial (<i>Note 1</i>)	Shantou Managed Store	1st June, 2005
Changchun Zhonglian (<i>Note 2</i>)	Changchun Managed Store	8th November, 2005
Tianjin Zhonglian (<i>Note 2</i>)	Tianjin Managed Store	8th November, 2005

Notes:

- The acquisition by the Lion Group of the Shenyang Plaza Managed Store and the Shantou Managed Store (through the acquisition of Great Dignity) is conditional upon the obtaining of approvals from the relevant PRC authorities. The underlying equity transfers of Shenyang Plaza (the holding PRC entity of Shenyang Plaza Managed Store) and Shantou Commercial (the holding PRC entity of Shantou Managed Store) to Great Dignity is conditional upon the obtaining of the relevant PRC approvals. In turn, the Lion Group's acquisition of Great Dignity is conditional upon the obtaining of those PRC approvals for the stores.

As at the Latest Practicable Date, Great Dignity, and therefore the Shenyang Plaza Managed Store and the Shantou Managed Store, were not yet members of the Lion Group as the PRC approvals remain outstanding. However, given that the necessary arrangements are already in place for the provision of management services by the Group to these stores and for the sake of consistency on the treatment of the managed stores which are, or will shortly become, part of the Lion Group, these two stores are treated as members of the Lion Group for the purpose of this "Connected transactions" section.

CONNECTED TRANSACTIONS

- (2) The Lion Group entered into two memoranda of understanding on 8th November, 2005 with respect to the acquisition of the Changchun Managed Store (through the equity transfer of Changchun Zhonglian from China Arts & Crafts Culture and China Arts & Crafts Investment Co. Ltd. (中工美投資有限責任公司)) and the Tianjin Managed Store (through the equity transfer of Tianjin Zhonglian from China Arts & Crafts Culture and China Arts & Crafts Investment Co. Ltd. (中工美投資有限責任公司)) respectively. It is expected that the equity transfer documentation will be entered into before the Listing Date and will be conditional upon the obtaining of approvals from the relevant PRC authorities.

As at the Latest Practicable Date, Changchun Zhonglian and Tianjin Zhonglian were connected persons of the Company as they are subsidiaries of China Arts & Crafts. Upon the equity transfers being completed and the obtaining of the relevant PRC approvals, Changchun Zhonglian and Tianjin Zhonglian will become part of the Lion Group and therefore remain connected persons of the Company. Given that the necessary arrangements are already in place for the provision of management services by the Group to these stores and for the sake of consistency on the treatment of the managed stores which are, or will shortly become, part of the Lion Group, these two stores are treated as members of the Lion Group for the purpose of this “Connected transactions” section.

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

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

The Directors, including the independent non-executive Directors, are of the view that the provision of such services is on normal commercial terms, in the ordinary and usual course of business of the Group and is charged at rates no less favourable to the Group than those charged to Independent Third Parties.

For each of the three years ended 31st December, 2004 and the six months ended 30th June, 2005, the aggregate fees charged for provision of such services amounted to approximately RMB2,919,000, RMB3,560,000, RMB6,218,000 and RMB2,948,000 respectively. It is expected that the aggregate revenues to the Group with respect to the management consultancy agreements with the Lion Group for each of the three years ending 31st December, 2005, 31st December, 2006 and 31st December, 2007 will not exceed approximately RMB7,979,000, RMB11,229,000 and RMB11,785,000 respectively. Such amount of the management fee is determined based on the projected net sales of each store, multiplied by a percentage as stipulated in the relevant agreement. The increase in management consultancy fees payable by members of the Lion Group for the Track Record Period reflects the growth in net sales of the relevant stores. The expected increase in management fees for the three years ending 31st December, 2007 is based on the expected growth in net sales of 42%, 18% and 5% respectively. The expected increase in net sales of 42% for the year ending 31st December, 2005 is mainly due to the new stores which opened in 2004 which are expected to contribute approximately 78% of the total net sales in 2005.

Management consultancy agreement with Guizhou Shenqi

Shanghai Lion Investment currently provides, and will continue to provide, management consultancy services to the Guizhou Managed Store owned by Guizhou Shenqi. The services provided under an agreement dated 20th January, 2000 between Shanghai Lion Investment and Guizhou Shenqi are similar to those provided under the management consultancy agreements with

CONNECTED TRANSACTIONS

the Lion Group as described above. An annual management fee based on a combination of fixed percentage of the net sales and a fixed percentage of the profit after tax amount of the Guizhou Managed Store is payable to Shanghai Lion Investment.

The Directors, including the non-executive Directors, are of the view that the provision of such services is on normal commercial terms, in the ordinary and usual course of business of the Group and is charged at rates no less favourable to the Group than those charged to Independent Third Parties.

For each of the three years ended 31st December, 2004 and the six months ended 30th June, 2005, the aggregate fees charged for provision of such services amounted to approximately RMB1,995,000, RMB1,971,000, RMB2,343,000 and RMB1,349,000 respectively. It is expected that the aggregate revenues to the Group with respect to the management consultancy agreement with Guizhou Shenqi for each of the three years ending 31st December, 2005, 31st December, 2006 and 31st December, 2007 will not exceed approximately RMB1,856,000, RMB2,071,000 and RMB2,210,000 respectively. The decrease and subsequent increase of management fee for the three years ending 31st December, 2007 regarding provision of management consultancy services to Guizhou Shenqi is due to the expected decrease and subsequent increase of net sales (on which the calculation of the management fees are based). The expected growth in net sales for the each of the above-mentioned three years is (11)%, 15% and 5%, respectively. The expected decrease in Guizhou Shenqi's net sales in 2005 is mainly due to its plan for major renovations in 2005 which is expected to cause a drop in sales. After the renovations in 2005, the expected net sales will increase again in the subsequent years.

Waiver from compliance with announcement requirement in relation to the management consultancy agreements

The management consultancy agreements with the Lion Group on an aggregated basis, and that with Guizhou Shenqi, constitute a continuing connected transaction. The applicable percentage ratios under the Listing Rules on an annual basis is expected to be less than 2.5%. Such continuing connected transaction is exempt from the independent shareholders' approval requirement but subject to reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules.

Given their recurring nature and the fact that the management consultancy agreements had been entered into prior to the Listing, the Directors consider that strict compliance with the announcement requirement would be impracticable, unduly burdensome and administratively costly. The Company has therefore applied for and the Stock Exchange has granted a waiver from strict compliance with the announcement requirement.

The aggregated annual caps for the management consultancy agreements with the Lion Group for each of the three years ending 31st December, 2005, 31st December, 2006 and 31st December, 2007, respectively, shall be the projected maximum amounts of revenue for each of the relevant years as set out above. These amounts will not, in any event, exceed the 2.5% threshold as allowed under Rule 14A.34(1). In the event that any of the projected amounts exceeds the 2.5% threshold, the Company will comply with the requirements relating to continuing connected transactions under Chapter 14A of the Listing Rules. The Directors, including the independent non-executive Directors, are of the view that the caps are fair and reasonable.

The annual caps for the management consultancy agreement with Guizhou Shenqi for each of the three years ending 31st December, 2005, 31st December, 2006 and 31st December, 2007, respectively, shall be based on the projected maximum amounts of revenue for each of the relevant

CONNECTED TRANSACTIONS

years as set out above. The fees will not, in any event, exceed the 2.5% threshold as allowed under Rule 14A.34(1). In the event that any of the projected amounts exceeds the 2.5% threshold, the Company will comply with the requirements relating to continuing connected transactions under Chapter 14A of the Listing Rules. The Directors, including the independent non-executive Directors, are of the view that the caps are fair and reasonable.

Further, under Rule 14A.35(1) of the Listing Rules, a continuing connected transaction which is not fully exempt must be governed by an agreement for a fixed period of not more than three years unless there are special circumstances requiring a longer duration. The Directors, including the independent non-executive Directors, and the Sponsor are of the view that special circumstances requiring a longer duration exist in this case based on the following grounds:

- Given that the Company has an option to acquire the Excluded Stores, it is in the interests of the Group to ensure that the value of the store is preserved and improved. The value of a store depends, to a large extent, on good management. It is therefore in the interests of the Group to have long-term management consultancy agreements with the Excluded Stores, as the Company may acquire those stores in the future.
- It is beneficial to the Group to have a steady revenue inflow from the management fees under these management consultancy agreements. If the management consultancy agreements are on a short-term basis, upon expiry the terms and conditions may have to be re-negotiated, which could result in less favourable terms for the Company.

With respect to the non-exempt continuing connected transactions described in the section above, the Company will comply with Rules 14A.35(1), 14A.35(2), 14A.36, 14A.37, 14A.38, 14A.39 and 14A.40 of the Listing Rules. In the event of any future amendments to the Listing Rules imposing more stringent requirements than those as of the date of this prospectus on the continuing connected transactions referred to in this section including, but not limited to, a requirement that these transactions be made conditional on approval by independent shareholders, the Company will take immediate steps to ensure compliance with such requirements.

Confirmation from the Directors

The Directors (including the independent non-executive Directors) confirm that all of the above connected transactions were entered into on normal commercial terms, in the ordinary course of business and fair and reasonable to the Group on the basis that the terms of the relevant agreements are no less favourable to the Group than would be contained in the agreements entered into with Independent Third Parties, and therefore are in the interests of the shareholders of the Company and the Group as a whole.

The Directors, including the independent non-executive Directors, are of the view that the aggregate maximum values of the continuing connected transactions described in the above section are fair and reasonable.

Confirmation from the Sponsor

The Sponsor is of the view that the continuing connected transactions were entered into on normal commercial terms and in the ordinary and usual course of business of the Company and that the terms of the continuing connected transactions and the annual caps set out above are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

EXECUTIVE DIRECTORS

CHENG Yoong Choong, aged 41, is an executive director and the Managing Director of the Company. He graduated from the University of San Francisco with a Bachelor of Science degree and a Master of Business Administration in 1984. He has been with the Lion Group since 1987 in various capacities in stores operations and merchandising and has been the Chief Operating Officer of the retail division of the Lion Group since 2000. Mr Cheng has been with the Group since its inception. Mr Cheng is actively involved in the Malaysian and PRC retail scenes and was Chairman of the Malaysia Retailers Association in 1996. He was a member of the Executive Board of the Intercontinental Group of Department Stores in 1998 and 1999. Mr Cheng is the nephew of Tan Sri Cheng Heng Jem, the non-executive director and Chairman of the Company.

CHEW Fook Seng, aged 54, is an executive director and Chief Executive Officer of the Company. He has been the Chief Executive Officer of Parkson China Group since 2001. He obtained his Master of Business Administration from the Northland Open University and International Management Centre from Buckingham and received training on retail management in the United States and Japan. He has also travelled extensively to the United States, Japan, Europe, Australia, Hong Kong, Philippines and other parts of the world to explore and realise new business concepts and opportunities.

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

NON-EXECUTIVE DIRECTOR

Tan Sri CHENG Heng Jem, aged 62, is a non-executive director and Chairman of the Company. Tan Sri Cheng has more than 30 years of experience in the business operations of the Lion Group encompassing steel, motor and tyres manufacturing, computer assembly and production, trading, pulp and paper production, plantation, property and community development and retail. He oversees the operation of the Lion Group and is responsible for the formulation and monitoring of the overall corporate strategic plans and business development of the Group.

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

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

- Chairman of each of LDHB and Lion Forest Industries Berhad, both public listed companies in Malaysia
- Director of each of Amsteel Corporation Berhad and Amalgamated Containers Berhad, both public listed companies in Malaysia
- Director of Lion Teck Chiang Limited, a public listed company in Singapore
- Chairman and Managing Director of Lion Corporation Berhad, a public listed company in Malaysia
- Chairman of Silverstone Corporation Berhad, a public listed company in Malaysia

DIRECTORS, SENIOR MANAGEMENT AND STAFF

INDEPENDENT NON-EXECUTIVE DIRECTORS

FONG Ching, Eddy, aged 58 was appointed as an independent non-executive Director on 9th November, 2005. He was also appointed as the Chairman of the Audit Committee and a member of the Remuneration Committee. Mr Fong was formerly a partner of the international accounting firm PricewaterhouseCoopers. He is currently an independent non-executive director of each of China Resources Power Holdings Company Limited, SUNeVision Holdings Limited and Tradelink Electronic Commerce Limited and a non-executive director of Li Ning Company Limited, all listed on the Hong Kong Stock Exchange. Apart from pursuing a professional career, Mr. Fong is active in public and community services in Hong Kong. He is currently a non-executive director of the Securities and Futures Commission, a director of Hong Kong Applied Science and Technology Research Institute Company Limited and a Council Member of the Open University of Hong Kong. Mr Fong was appointed as a Justice of the Peace in 1996 and awarded Silver Bauhinia star in 2000 by the Government of the Hong Kong Special Administrative Region of the Peoples' Republic of China. Mr Fong graduated from University of Kent in the United Kingdom and was conferred Honorary Doctor of Civil Law in 1997.

STUDER Werner Josef, aged 45, was appointed as an independent non-executive Director on 9th November, 2005, and is a member of the audit committee of the Company. Mr. Studer obtained his federal diploma in economics and business administration from SEBA (School for Economics and Business Administration) in Lucerne, Switzerland. Mr. Studer is a business economist. He serves currently as executive director to the Intercontinental Group Department Stores ("IGDS"). The IGDS is a non-profit association which offers a global business platform for leading department stores all over the world. The IGDS is comprised of more than 33 members now. Prior to joining IGDS, Mr. Studer was in various management functions and positions at Hero Company (food manufacturing), Switzerland; Feldschloesschen Company (Brewery), Switzerland, and Migros Company (retailer) in Switzerland. Mr. Studer has over 20 years of experience in the fast moving consumer goods (FMCG) and retail industries.

KO Tak Fai, Desmond, aged 36, was appointed as an independent non-executive Director on 9th November, 2005, and is a member of the audit committee of the Company. Mr. Ko became a member of the Institute of Chartered Accountants in England and Wales in 1994. Mr Ko is the Head of Finance for a private group with hotel and property interests in China. He is currently an independent non-executive director of Mobile Telecom Network (Holdings) Limited whose shares are listed on the Growth Enterprise Market of the Stock Exchange and a non-executive director of Core Solutions Limited.

SENIOR MANAGEMENT

TAN Hun Meng, aged 44, a Malaysia citizen, is the Chief Operating Officer of South Centre cum Regional General Manager (Eastern) of the Group. He graduated with a Diploma from Curtin University of Technology, Australia and attended various retail management and senior management courses conducted by Cornell University and other institutions in the United States as well as a university in Australia. Mr Tan has more than 20 years of experience in the retail industry and more than 10 years of experience working in the PRC retail market. He joined the Lion Group in 1987 and the Group in May 1995. Mr Tan was the former General Manager of Sichuan Development and Shanghai Nine Sea Parkson, PRC before taking up the present position. He is well known within Parkson for his achievements in business turnaround and productivity improvement.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

LOW Kim Tuan, aged 49, a Malaysia citizen, is the Chief Operating Officer of North Centre cum Regional General Manager (Northern) of the Group. Mr Low holds an Executive Diploma in Management Studies from Curtin University of Technology, Australia and has completed an EMBA course at Chung Yuan Christian University, Taiwan, and attended retail management and senior management courses conducted in the USA and Taiwan. He has more than 18 years of experience in the retail industry and more than 10 years of experience working in the PRC retail market. He was with the Emporium Group before joining the Lion Group in 1987 as a regional manager and was promoted to the position of Head Office Merchandising Manager in 1990. He joined the Group upon the establishment of the Group and headed the merchandising department in Beijing before taking up his present position.

HAW Lay Kim, aged 40, a Malaysia citizen, is the Group's General Manager for the Legal Department in China. Miss Haw graduated with a Bachelor of Laws from the National Chengchi University of Taiwan and University of Lancaster, England. She practised law at Othman Hashim & Co in Malaysia before joining the Lion Group's legal department in August 1993 and has more than 10 years' experience working in the PRC retail market. She joined the Group to lead the Group Legal Department upon the establishment of the Group.

CHUA Lian Mui, Jane, aged 42, a Singapore citizen, is the Group's General Manager for the Merchandising Division of the Group. Miss Chua holds a Group Diploma in Marketing issued by the London Chamber of Commerce Examinations Board. In her course of work, she attended several courses relating to fashion merchandising and retail. In her previous employment she was trained in fashion buying, merchandising display and management in Singapore and Japan and had travelled extensively to Europe and Asia on buying trips and attending important trade shows. She has more than 20 years of experience in the retail industry and more than 10 years of experience working in the PRC retail market. She joined the Group upon the establishment of the Group as Assistant General Manager. She was transferred in 1997 to lead the Merchandising Division for the Eastern Region before her promotion to her present position in 2000.

WONG Chee Keong, aged 39, a Malaysia citizen, is the General Manager of MIS and Human Resource Department of the Group. Mr Wong obtained his Bachelor of Science from Campbell University of North Carolina, USA. He joined the Lion Group's MIS Department in August 1991, and travelled extensively to China. In August 1996 he was seconded to the Group and headed the MIS department based in Beijing. In 2004, he was promoted to the present position.

CHONG Sui Hiong, Shaun, aged 38, a Malaysia citizen, is the Store Design and Development General Manager of the Group. Mr Chong holds a Diploma in Civil Engineering from University of Technology Malaysia, a Bachelor of Science in Industrial and Systems Engineering from University of Southern California and a Master of Business Administration from Rutgers, the State University of New Jersey. He went for further study in Los Angeles, US before joining the Lion Group in 1994 as Project Executive Store Design and Development. In June 1996 he joined the Retail Division of the Group and headed the Store Design and Development of the Group based in Shanghai before taking up his present position.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

LEE Sook Beng, aged 38, a Malaysia citizen, is the Chief Auditor of the Group. Ms Lee holds a certificate from the Institute of Chartered Secretaries and Administrators, UK. She joined the Lion Group's Accounts Department in July 1990. In 1999, she was with TOPS Malaysia as Category Manager before joining the Group in January 2000.

QUALIFIED ACCOUNTANT

WONG Kang Yean, Clarence, aged 34, is a registered member of the Association of Chartered Certified Accountants. He is also a chartered accountant with the Malaysian Institute of Accountants. Mr Wong has a number of years of experience in accounting and corporate finance. Prior to joining the Group, Mr Wong was the Chief Financial Officer and Head of the Corporate Finance and Accounts department of Malaysia Land Properties Sdn Bhd through an internal transfer from Far East Consortium International Limited, a listed company on the Stock Exchange of Hong Kong Limited where he was the Group Corporate Finance Manager and Financial Controller of the overseas operations for more than 3 years. Mr Wong joined the Group as a full-time employee in 2005 and is a member of the Group's senior management team.

ROLES OF SENIOR MANAGEMENT WITH RESPECT TO THE LION GROUP

None of the Directors and senior management members, with the exception of Tan Sri Cheng Heng Jem, Mr Cheng Yoong Choong and Ms Haw Lay Kim, have any role in the management of the Lion Group during the Track Record Period.

The day-to-day operations of the business of the Group are carried out by Mr Chew Fook Seng, one of the executive Directors, and his management team who are based in the PRC which is comprised of Mr Tan Hun Meng, Mr Low Kim Tuan, Ms Haw Lay Kim, Ms Chua Lian Mui, Jane, Mr Wong Chee Keong, Mr Chong Sui Hiong, Shaun, Ms Lee Sook Beng and Mr Wong Kang Yean, Clarence. During the Track Record Period, Mr Chew and his management team (with the exception of Ms Haw Lay Kim) has been managing solely and exclusively the business of Group in the PRC. They were not involved in any other business of the Lion Group. As such, Mr Chew's and his team's continual management of the Group during the Track Record Period, which is expected to continue following the Listing, demonstrates independent management between the Group and the Lion Group.

Tan Sri Cheng Heng Jem and Mr Cheng Yoong Choong both have management roles in the Lion Group. Tan Sri Cheng is actively involved in the overall development of the various business lines of the Lion Group, including that of LDHB. His participation in LDHB's management is, however, restricted to that at board level and he is not involved in the day-to-day management of LDHB's businesses. Mr Cheng Yoong Choong is the Chief Operating Officer of the retail division of the Lion Group with respect to various countries (excluding the PRC), responsible for the formulation and monitoring of its overall strategic plans and business development. Mr Cheng is not, however, involved in the day-to-day management of the retail division. It is not expected that Tan Sri Cheng and Mr Cheng will be involved in the day-to-day management of the Group. Tan Sri Cheng will attend board meetings and annual and six-monthly business review meetings. Mr Cheng Yoong Choong will attend board meetings and annual, six-monthly and monthly business review meetings. It should also be noted that the retail teams of the Lion Group in the PRC, Malaysia and Vietnam were headed by different chief executive officers during the Track Record Period.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

With respect to Ms Haw Lay Kim, her involvement in the Lion Group during the Track Record Period was confined to that in respect of general legal advisory matters for businesses in the PRC which are not in the retail sector. Ms Haw will cease to carry on with her role in the Lion Group following the Listing and will be employed exclusively by the Company.

It is not envisaged that there will be any conflict arising from the fact that Mr Cheng Yoong Choong, the executive Director of the Company, is also involved in the management of the Lion Group, as the Lion Group will not have any retail business in the PRC (except for the Excluded Stores over which the Group manages and has an option to purchase, as set out in the Deed of Non-Competition). All major investment decisions of the Group are, in any event, subject to the review by its independent non-executive Directors. Certain matters may also be subject to independent shareholders' approval, as may be required under the Listing Rules. The Directors' dual roles do not give rise to any management overlap.

COMPLIANCE ADVISER

The Company has, pursuant to Rule 3A.19 of the Listing Rules, retained BNP Paribas Peregrine to act as its compliance adviser for the period commencing from the Listing Date and ending on the date that the Company publishes its first full year results. BNP Paribas Peregrine will, among other things, provide the Company with advice in relation to compliance with the Listing Rules and other applicable laws, regulations, rules, codes and guidelines in Hong Kong and will keep the Company informed on a timely basis of any changes in these laws, regulations, codes and guidelines.

STAFF

As at the Latest Practicable Date, the Group had a total of 5,161 full-time employees. The following table shows a breakdown of employees of the Group by functions.

	Number of employees
Merchandising	1,476
Design/Engineering	306
Advertising and Promotion	177
Operations	1,588
Management and Administration	292
Information Technology	149
Human Resources	127
Accounting and finance	240
Others	<u>806</u>
Total	<u><u>5,161</u></u>

THE GROUP'S RELATIONSHIP WITH STAFF

The Group recognises the importance of good relationships with its employees. The remuneration payable to employees includes salaries and allowances/bonuses. The Group continues to provide training for its staff to enhance technical and product knowledge as well as knowledge of industry quality standards.

The Group has not experienced any significant problems with its employees or disruption to its operations due to labour disputes, nor has it experienced any difficulties in the recruitment and retention of experienced staff. The Directors believe that the Group has a good working relationship with its employees.

SHARE OPTION SCHEME

Employees (both full-time and part-time) and directors of the Group, among others, are entitled to participate in the Share Option Scheme at the discretion of the Board. The principal terms of the Share Option Scheme are summarised in the section headed "Share Option Scheme" in Appendix VII to this prospectus.

STAFF BENEFITS

During the Track Record Period, the Group has made contributions to the following staff related plans or funds in accordance with the local regulations of the PRC: pension plans, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance (the "Social Insurance Funds").

The contributions of the Group to the various Social Insurance Funds during the years ended 31st December, 2002, 2003 and 2004 and six months ended 30th June, 2005 amounted to RMB7.3 million, RMB10.8 million, RMB10.6 million and RMB5.1 million respectively.

The Group's contributions to the pension insurance, basic housing provident fund and basic medical insurance represent the majority of the Group's expenditures in relation to the Social Insurance Funds. The contribution for pension insurance is in the range of 20%-25.5%, the contribution for housing provident fund is in the range of 2.5%-20%, and the contribution for basic medical insurance is in the range of 6.5%-12%, of the basic salary.

The Company has been advised by its legal advisers on PRC law that the above arrangements are in compliance with all relevant laws and regulations and that, save as disclosed above, the Group is not required under laws and regulations to provide any other staff welfare schemes.

AUDIT COMMITTEE

The Company established an audit committee pursuant to a resolution of the Directors passed on 9th November, 2005, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duty of the audit committee is to review the financial reporting process of the Group. The audit committee consists of the three independent non-executive Directors and is chaired by Mr Fong Ching, Eddy. The other members of the audit committee are Mr Studer Werner Josef and Mr Ko Tak Fai, Desmond.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

REMUNERATION COMMITTEE

The Company established a remuneration committee pursuant to a resolution of the Directors passed on 9th November, 2005, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duty of the remuneration committee is to establish remuneration policies and recommend remuneration packages with respect to the Directors and senior management. The remuneration committee consists of Mr Cheng Yoong Choong, Mr Fong Ching, Eddy and Mr Ko Tak Fai, Desmond.

DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

In each of the three years ended 31st December, 2004 the total remuneration of the Directors was approximately RMB1.9 million, RMB1.8 million and RMB2.2 million, respectively, and the total remuneration of the senior management was approximately RMB6.0 million, RMB5.6 million and RMB6.3 million, respectively. The aggregate remuneration payable to the Directors and senior management for the year ending 31st December, 2005 is estimated to be approximately RMB9.0 million.

Further information about the service contracts entered into between the Company and the Directors is set out in the paragraph headed "Particulars of Directors' service agreements" under the section "Further Information about Directors, management and staff" in Appendix VII to this prospectus.

STAFF COSTS

As stated in the accountants' report set out in Appendix I to this prospectus, the staff costs of the Group (excluding Directors' and senior management's emoluments, which are set out in the paragraph headed "Directors' and Senior Management's Remuneration" above) in each of the three years ended 31st December, 2004 and the six months ended 30th June, 2005 were approximately RMB57.2 million, RMB65.6 million, RMB67.6 million and RMB44.2 million respectively.

SHARE CAPITAL

SHARE CAPITAL

The authorised and issued share capital of the Company is as follows:

Number of Shares comprised in the authorised share capital:

<i>Shares</i>	<i>HK\$</i>
<u>1,500,000,000</u>	<u>150,000,000</u>

The Company's share capital immediately following the Offering will be as follows:

Issued and to be issued, fully paid or credited as fully paid immediately following completion of the Capitalisation Issue and the Offering:

<i>Shares</i>		<i>HK\$</i>	Approximate percentage of issued share capital %
80,100,000	Shares in issue at the date of this prospectus	8,010,000	14.5
361,500,000	Shares to be issued pursuant to the Capitalisation Issue	36,150,000	65.5
<u>110,400,000</u>	Shares to be issued under the Offering	<u>11,040,000</u>	<u>20.0</u>
<u>552,000,000</u>	Total	<u>55,200,000</u>	<u>100</u>

Assumptions

The above tables assume that the Offering and the Capitalisation Issue have become unconditional. It takes no account of Shares which may be allotted and issued upon the exercise of any options that may be granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by the Company pursuant to the Issuing Mandate and Repurchase Mandate as described below.

Ranking

The Offer Shares will rank pari passu in all respects with all other Shares in issue as mentioned in this prospectus, and in particular, will rank in full for all dividends and other distributions hereafter declared, paid or made on the Shares after the date of this prospectus save for entitlement under the Capitalisation Issue.

SHARE CAPITAL

ISSUING MANDATE

The Directors have been granted a general unconditional mandate to allot, issue and deal with unissued Shares with an aggregate nominal value not exceeding the sum of:

- 1 20% of the total nominal amount of the share capital of the Company in issue immediately following completion of the Offering; and
- 2 the total amount of the share capital of the Company repurchased by the Company (if any) pursuant to the Repurchase Mandate.

The Directors may, in addition to the Shares which they are authorised to issue under the mandate, allot, issue and deal in the Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of subscription rights attaching to any warrants of the Company, scrip dividends or similar arrangements or the exercise of options granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted.

This mandate will expire:

- at the conclusion of the Company's next annual general meeting; or
- upon the expiration of the period within which the Company is required by law or its Articles to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the shareholders of the Company in general meeting,

whichever occurs first.

For further details of the Issuing Mandate, see the paragraph headed "Written resolutions of the sole shareholder of the Company passed on 9th November, 2005" in Appendix VII to this prospectus.

REPURCHASE MANDATE

The Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with a total nominal value of not more than 10% of the total nominal amount of the share capital of the Company in issue immediately following completion of the Offering.

This mandate relates only to repurchases made on the Stock Exchange and/or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed "Repurchase by the Company of its own securities" in Appendix VII to this prospectus.

SHARE CAPITAL

This mandate will expire:

- at the conclusion of the Company's next annual general meeting; or
- upon the expiration of the period within which the Company is required by law or its Articles to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the shareholders of the Company in general meeting,

whichever occurs first.

For further information about the Repurchase Mandate, see the section headed "Written resolutions of the sole shareholder of the Company passed on 9th November, 2005" in Appendix VII to this prospectus.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately following completion of the Offering and the Capitalisation Issue, without taking into account Shares which may be issued pursuant to the options which may be granted under the Share Option Scheme or Shares which may be taken by a person under the Offering which would affect disclosure in this section and assuming that the Over-allotment Option is not exercised, the following persons will have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Substantial Shareholder	Long/Short Position	Nature of Interest	Number of Shares	Percentage of shareholding (direct or indirect)
PRG Corporation	Long Position	Beneficial interest	386,400,000	70%
	Short Position (Note 1)	Beneficial interest	24,840,000	4.5%
LDHB	Long Position	Corporate interest (Note 2)	386,400,000	70%
	Short Position (Note 10)	Corporate interest	24,840,000	4.5%
Tan Sri Cheng Heng Jem	Long Position	Corporate interest (Note 3)	386,400,000	70%
	Short Position (Note 10)	Corporate interest	24,840,000	4.5%
Puan Sri Chan Chau Ha, alias Chan Chow Har (Note 4)	Long Position	Interest of spouse	386,400,000	70%
	Short Position (Note 10)	Interest of spouse	24,840,000	4.5%
Lion Industries Corporation Berhad	Long Position	Corporate interest (Note 5)	386,400,000	70%
	Short Position (Note 10)	Corporate interest	24,840,000	4.5%
Lion Corporation Berhad	Long Position	Corporate interest (Note 6)	386,400,000	70%
	Short Position (Note 10)	Corporate interest	24,840,000	4.5%
Horizon Towers Sdn. Bhd.	Long Position	Corporate interest (Note 7)	386,400,000	70%
	Short Position (Note 10)	Corporate interest	24,840,000	4.5%
Lion Development (Penang) Sdn. Bhd.	Long Position	Corporate interest (Note 8)	386,400,000	70%
	Short Position (Note 10)	Corporate interest	24,840,000	4.5%
Corporate Investor	Long Position	Beneficial interest	54,648,000	9.9%
Khazanah	Long Position	Corporate interest (Note 9)	54,648,000	9.9%

SUBSTANTIAL SHAREHOLDERS

Notes:

- (1) It is intended that pursuant to the International Placing Underwriting Agreement, PRG Corporation will grant the Over-allotment Option to BNP Paribas Peregrine under which PRG Corporation may be called to sell up to 24,840,000 shares to cover over-allocations in the International Placing.
- (2) PRG Corporation is a wholly-owned subsidiary of LDHB. By virtue of the SFO, LDHB is deemed to be interested in the Shares held by PRG Corporation in the Company.
- (3) Tan Sri Cheng Heng Jem together with his wife, Puan Sri Chan Chau Ha, through their direct interest and a series of companies wherein they have a substantial interest, is entitled to exercise or control the exercise of more than one third of the voting power at general meetings of LDHB. Since LDHB is entitled to exercise or control the exercise of 100% of the voting power at general meetings of PRG Corporation, by virtue of the SFO, Tan Sri Cheng Heng Jem is deemed to be interested in the Shares held by PRG Corporation in the Company.
- (4) Puan Sri Chan Chau Ha is the wife of Tan Sri Cheng Heng Jem and is deemed to be interested in 386,400,000 Shares which Tan Sri Cheng Heng Jem is deemed to be interested in for the purposes of the SFO.
- (5) Lion Industries Corporation Berhad, directly and through a series of controlled companies, is entitled to exercise or control the exercise of more than one third of the voting power at general meetings of LDHB. Since LDHB is entitled to exercise or control the exercise of 100% of the voting power at general meetings of PRG Corporation, by virtue of the SFO, Lion Industries Corporation Berhad is deemed to be interested in the Shares held by PRG Corporation in the Company.
- (6) Lion Corporation Berhad, directly and through a series of controlled companies, is entitled to exercise or control the exercise of more than one third of the voting power at general meetings of LDHB. Since LDHB is entitled to exercise or control the exercise of 100% of the voting power at general meetings of PRG Corporation, by virtue of the SFO, Lion Corporation Berhad is deemed to be interested in the Shares held by PRG Corporation in the Company.
- (7) Horizon Towers Sdn. Bhd., through a series of controlled companies, is entitled to exercise or control the exercise of more than one third of the voting power at general meetings of LDHB. Since LDHB is entitled to exercise or control the exercise of 100% of the voting power at general meetings of PRG Corporation, by virtue of the SFO, Horizon Towers Sdn. Bhd. is deemed to be interested in the Shares held by PRG Corporation in the Company.
- (8) Lion Development (Penang) Sdn. Bhd., directly and through a series of controlled companies, is entitled to exercise or control the exercise of more than one third of the voting power at general meetings of LDHB. Since LDHB is entitled to exercise or control the exercise of 100% of the voting power at general meetings of PRG Corporation, by virtue of the SFO, Lion Development (Penang) Sdn. Bhd. is deemed to be interested in the Shares held by PRG Corporation in the Company.
- (9) The Corporate Investor is a wholly-owned subsidiary of Khazanah. As such Khazanah is deemed to be interested in the 54,648,000 Shares held by the Corporate Investor for the purposes of the SFO.
- (10) Since each of the substantial shareholders is deemed to be interested in the Shares held by PRG Corporation in the Company, each of the substantial shareholders also has a short position by virtue of the Over-allotment Option that PRG Corporation will grant to BNP Paribas Peregrine pursuant to the International Placing Underwriting Agreement (see note 1 above).

SUBSTANTIAL SHAREHOLDERS

Save as disclosed herein, the Directors are not aware of any person who will, immediately following the Offering and the Capitalisation Issue (assuming that the Over-allotment Option and the option which may be granted under the Share Option Scheme are not exercised), have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

It is currently intended that pursuant to the International Placing Underwriting Agreement, PRG Corporation will grant the Over-allotment Option to BNP Paribas Peregrine, which may call upon PRG Corporation to sell up to 24,840,000 Shares to cover over-allocations in the International Placing. If the Over-allotment Option is exercised by BNP Paribas Peregrine in full, the interests of the parties named in the table above in the Company's issued share capital will become:

Name	Nature of interest (Note 2)	Number of Shares	Percentage of shareholding (direct or indirect)
PRG Corporation	Beneficial interest	361,560,000	65.5%
LDHB	Corporate interest	361,560,000	65.5%
Tan Sri Cheng Heng Jem	Corporate interest	361,560,000	65.5%
Puan Sri Chan Chau Ha alias Chan Chow Har	Interest of spouse	361,560,000	65.5%
Lion Industries Corporation Berhad	Corporate interest	361,560,000	65.5%
Lion Corporation Berhad	Corporate interest	361,560,000	65.5%
Horizon Towers Sdn. Bhd.	Corporate interest	361,560,000	65.5%
Lion Development (Penang) Sdn. Bhd.	Corporate interest	361,560,000	65.5%
Corporate Investor	Beneficial interest	54,648,000	9.9%
Khazanah	Corporate interest	54,648,000	9.9%

Note 1: All of the above are long positions.

Note 2: Please also see the notes on page 150.

SUBSTANTIAL SHAREHOLDERS

Each of LDHB and the Selling Shareholder has jointly and severally undertaken to the Company and the Hong Kong Underwriters and each of them that without the prior written consent of BNP Paribas Peregrine (on behalf of the Hong Kong Underwriters) it shall not directly or indirectly (except, in respect of the Selling Shareholder, pursuant to or in connection with the offer of the Sale Shares pursuant to the Offering, the exercise of the Over-allotment Option and/or the Stock Borrowing Agreement entered into between the Selling Shareholder and BNP Paribas Peregrine as referred to in the paragraphs headed “Over-allotment and stabilisation” in the section headed “Structure of the Offering” in this prospectus) and will procure that the relevant registered holder(s) shall not in the period commencing on the date by reference to which disclosure of the shareholding of them is made in this prospectus and ending on a date which is six months from the Listing Date (the “First Six Months”):

- (a) transfer or dispose of, nor enter into any agreements to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of those securities in respect of which they are shown by this prospectus to be the beneficial owner(s) or any interest in such securities (which includes any interest in a company which holds any such securities) or securities that constitute or confer the right to receive such securities or securities convertible into or exercisable or exchangeable for or repayable with such securities; or
- (b) enter into a swap agreement or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of such securities, whether any such swap agreement or other agreement or transaction is to be settled by delivery of such securities or other securities, in cash or otherwise; or
- (c) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraphs (a) and (b) above; or
- (d) announce any intention to enter into or effect any of the transactions referred to in paragraphs (a), (b) or (c) above.

Each of LDHB and the Selling Shareholder has jointly and severally undertaken to the Company and the Hong Kong Underwriters and each of them further that without the prior written consent of BNP Paribas Peregrine (on behalf of the Hong Kong Underwriters) it shall not directly or indirectly and will procure that the relevant registered holder(s) shall not in the period of six months commencing on the date on which the First Six Months expires do any of the foregoing if immediately following such action any of LDHB and the Selling Shareholder would cease to be a controlling shareholder of the Company for the purposes of the Listing Rules.

In the event of any of LDHB and the Selling Shareholder doing any of the foregoing by virtue of the aforesaid consent or during the period of six months immediately following the expiry of the First Six Months, it shall take all reasonable steps to ensure that any such act will not create a disorderly or false market for any Offer Shares or other securities of the Company.

SUBSTANTIAL SHAREHOLDERS

Each of LDHB and the Selling Shareholder has also undertaken to the Stock Exchange and the Company that within the period from the date of this prospectus and ending on the date which is 12 months from the date on which dealings in the Shares first commence on the Stock Exchange, it shall:

- (1) when it pledges/charges any securities of the Company beneficially owned by it in favour of an authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform the Company of such pledge/charge together with the number of Shares so pledged/charged; and
- (2) when it receives indications, whether verbal or written, from the pledge/chargee that any of the pledged/charged Shares will be disposed of, immediately inform the Company of such indications.

The Company will inform the Stock Exchange as soon as it has been informed of the matters referred to in (1) and (2) above by any of LDHB and the Selling Shareholder and disclose such matters by way of a press announcement.

FINANCIAL INFORMATION

INDEBTEDNESS

Borrowings and bank facilities

As at 30th September, 2005, the Group (including the Original Group and the Acquired Stores) had outstanding borrowings of approximately RMB139.1 million, comprising secured short-term bank loans of approximately RMB129.2 million and amounts due to related parties of approximately RMB9.9 million.

Subsequent to 30th September, 2005, the Group has entered into two loans which the Directors believe are material to the financial position of the Group. In November 2005, Beijing Parkson entered into a secured medium term loan in the amount of RMB180 million with a bank independent to the Group and a secured short term loan in the amount of RMB70 million with the same bank. The reasons for the entering into of these two loans are set out in the paragraph headed “Certain arrangements relating to China Arts & Crafts” under the section headed “Connected transactions” in this prospectus. The amount of borrowings attributable to the Group as a result of these two loans is RMB140 million (accounted for by proportionate consolidation).

Related party transactions

As at the Latest Practicable Date, all amounts due to related parties had been settled. The Directors confirm that all related party transactions conducted during the Track Record Period were conducted in the ordinary course of business of the Group and were on normal commercial terms.

Collateral

As at 30th September, 2005, bank loans of the Group (including the Original Group and the Acquired Stores) of approximately RMB40 million and bank loans of a joint venture partner of the Group of approximately RMB39.2 million were secured by pledges of the Group’s certain investment properties, land and buildings with an aggregated net book value of approximately RMB90.7 million.

Contingent liabilities

As at 30th September, 2005, certain of the Group’s (including the Original Group and the Acquired Stores) land use rights, buildings and investment properties in Beijing amounted to approximately RMB29.5 million were pledged in favour of bank loans of a joint venture partner of the Group.

Guarantee

As at 30th September, 2005, certain banks loans made to a subsidiary of the Company had been guaranteed by a connected person. This guarantee will remain in place until repayment of the loans. For details, please refer to the paragraph headed “Financial assistance to the Group by a connected person” under the section headed “Connected transactions”.

FINANCIAL INFORMATION

Disclaimer

Save as disclosed above, as at the close of business on 30th September, 2005, the Group did not have any outstanding mortgages, charges, pledge, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, acceptance liabilities or acceptance credits, any guarantees or other material contingent liabilities.

No material changes

Save as described in the paragraph headed “Indebtedness — Borrowings and bank facilities” above, the Directors have confirmed that there has been no material change in the indebtedness, commitments and contingent liabilities of the Group since 30th September, 2005.

DISCLOSURE UNDER CHAPTER 13 OF THE LISTING RULES

The Directors have confirmed that, as at the Latest Practicable Date, there were no circumstances which would give rise to a disclosure requirement under Chapter 13 of the Listing Rules.

SELECTED COMBINED FINANCIAL AND OPERATING DATA

The Group’s selected combined financial data set forth below has been extracted from the combined financial information of the Original Group as of 31st December, 2002, 2003 and 2004 and as of 30th June, 2005, and for the years ended 31st December, 2002, 2003 and 2004 and for the six months ended 30th June, 2004 and 2005, all of which is set forth in the Accountants’ Report included as Appendix I to this prospectus. The selected combined financial data set forth below also includes pro forma combined financial information of the Original Group and the Acquired Stores as of 31st December, 2004 and as of 30th June, 2005, and for the year ended 31st December, 2004 and for the six months ended 30th June, 2005 as if the acquisition of the Acquired Stores had been completed on 1st January, 2004. This pro forma combined financial information has been prepared from the financial information of the Original Group and from the financial information of the individual companies making up the Acquired Stores which is set forth in the Accountants’ Reports included as Appendix II to this prospectus (collectively, the “Financial Information”). The basis of preparation of this pro forma combined financial information is set out in Appendix III to this prospectus. As more fully described in Appendix I and Appendix II, the Financial Information was prepared in accordance with IFRS.

Investors should read such selected combined financial data together with Appendix I and Appendix II to this prospectus and the discussion under the caption “Management’s discussion and analysis of financial condition and results of operations” below.

FINANCIAL INFORMATION

Original Group

	Year ended 31st December,			Six months ended 30th June,	
	2002	2003	2004	2004	2005
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
				(unaudited)	
Selected Income Statement data					
Revenues	540,798	618,430	750,038	372,906	470,969
Other operating revenues	21,036	29,343	35,505	18,229	33,993
Total operating revenues	<u>561,834</u>	<u>647,773</u>	<u>785,543</u>	<u>391,135</u>	<u>504,962</u>
Operating expenses					
Purchase of goods and changes in inventories	(174,499)	(198,758)	(243,686)	(122,185)	(154,613)
Staff costs	(59,084)	(67,448)	(69,805)	(38,182)	(45,194)
Depreciation and amortisation	(47,398)	(50,868)	(52,070)	(27,141)	(28,982)
Rental expenses	(45,559)	(53,237)	(53,215)	(26,431)	(35,334)
Other operating expenses	(107,037)	(99,492)	(117,310)	(58,318)	(73,648)
Total operating expenses	<u>(433,577)</u>	<u>(469,803)</u>	<u>(536,086)</u>	<u>(272,257)</u>	<u>(337,771)</u>
Profit from operations	128,257	177,970	249,457	118,878	167,191
Finance (cost)/income	(5,877)	2,002	3,014	1,256	3,867
Share of profit from an associate	351	422	449	136	231
Profit from operations before income tax	122,731	180,394	252,920	120,270	171,289
Income tax	(49,415)	(71,481)	(90,981)	(43,736)	(55,818)
Net profit for the year/period	<u>73,316</u>	<u>108,913</u>	<u>161,939</u>	<u>76,534</u>	<u>115,471</u>
Attributable to:					
Equity holders of the parent	67,342	99,911	152,771	72,182	106,511
Minority interests	5,974	9,002	9,168	4,352	8,960
	<u>73,316</u>	<u>108,913</u>	<u>161,939</u>	<u>76,534</u>	<u>115,471</u>
Dividends (Note 1)	<u>17,400</u>	<u>7,000</u>	<u>12,600</u>	<u>—</u>	<u>—</u>
Earnings per Share — Basic (Note 2)	<u>0.15</u>	<u>0.23</u>	<u>0.35</u>	<u>0.16</u>	<u>0.24</u>

Notes:

- (1) The Company was incorporated on 3rd August, 2005 and no dividend has been paid or declared by the Company during the Track Record Period. The Group's dividends during the Track Record Period represented the profit appropriation made by certain members of the Group. Subsequent to 30th June 2005, certain members of the Group declared dividends of approximately RMB204.3 million to their then shareholders, in relation to their distributable profits up to the year ended 31st December, 2004 and such dividends have been fully paid.
- (2) The calculation of basic earnings per Share is based on the profit attributable to shareholders of the Company for each of the three years ended 31st December, 2002, 2003 and 2004 and for the six months ended 30th June, 2004 and 2005, and on 441,600,000 Shares in issue as adjusted to reflect the Capitalisation Issue, on the assumption that the Reorganisation had been completed on 1st January, 2002.

FINANCIAL INFORMATION

	As at 31st December,			As at
	2002	2003	2004	30th June,
	(RMB'000)	(RMB'000)	(RMB'000)	2005
				(RMB'000)
Balance Sheet data				
Non-current assets				
Property, plant and equipment	581,927	567,653	543,020	546,450
Lease prepayments	57,598	54,754	51,910	50,488
Intangible assets	—	—	3,112	16,366
Investment properties	21,390	20,058	18,726	18,060
Interest in an associate	1,263	1,422	1,548	1,779
Deferred tax assets	16,605	17,503	20,177	23,171
	<u>678,783</u>	<u>661,390</u>	<u>638,493</u>	<u>656,314</u>
Current assets				
Inventories	35,302	37,280	36,952	39,288
Trade receivables	14,190	18,780	23,920	31,559
Investments	7,000	46,729	76,706	1,742
Prepayments, deposits and other receivables	160,235	149,261	259,142	215,783
Due from related parties	117,845	166,046	85,169	181,258
Cash and cash equivalents	241,458	322,971	408,522	483,229
	<u>576,030</u>	<u>741,067</u>	<u>890,411</u>	<u>952,859</u>
Total assets	<u>1,254,813</u>	<u>1,402,457</u>	<u>1,528,904</u>	<u>1,609,173</u>
Current liabilities				
Interest-bearing loans and borrowings	(10,357)	(33,079)	(60,434)	(79,200)
Trade payables	(187,086)	(221,363)	(245,504)	(253,393)
Customers' deposits, other payables and accruals	(285,582)	(289,425)	(263,300)	(248,296)
Tax payable	(19,683)	(36,360)	(53,623)	(50,500)
Due to related parties	(170,518)	(162,453)	(77,432)	(55,714)
	<u>(673,226)</u>	<u>(742,680)</u>	<u>(700,293)</u>	<u>(687,103)</u>
Net current assets/(liabilities)	<u>(97,196)</u>	<u>(1,613)</u>	<u>190,118</u>	<u>265,756</u>
Total assets less current liabilities	<u>581,587</u>	<u>659,777</u>	<u>828,611</u>	<u>922,070</u>
Non-current liabilities				
Interest-bearing loans and borrowings	(30,133)	(12,000)	—	—
Long term payables	(51,408)	(59,913)	(65,306)	(67,924)
Deferred tax liabilities	(30,423)	(35,714)	(41,005)	(43,650)
	<u>(111,964)</u>	<u>(107,627)</u>	<u>(106,311)</u>	<u>(111,574)</u>
Net assets	<u>469,623</u>	<u>552,150</u>	<u>722,300</u>	<u>810,496</u>
Represented by:				
Owners' equity	412,699	498,093	655,983	747,707
Minority interests	<u>56,924</u>	<u>54,057</u>	<u>66,317</u>	<u>62,789</u>
Total equity	<u>469,623</u>	<u>552,150</u>	<u>722,300</u>	<u>810,496</u>

FINANCIAL INFORMATION

	Year ended 31st December,			Six months ended 30th June,	
	2002	2003	2004	2004	2005
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
				(unaudited)	
<i>Selected Cash Flow Statement data</i>					
Net cash inflow/(outflow) from operating activities	167,165	238,979	170,663	(13,848)	164,172
Net cash inflow/(outflow) from investing activities	(88,318)	(129,996)	(21,516)	58,677	(21,137)
Net cash outflow from financing activities	(137,527)	(25,782)	(65,577)	(66,315)	(66,133)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(58,680)	83,201	83,570	(21,486)	76,902

FINANCIAL INFORMATION

Pro forma Combined Financial Information of the Original Group and the Acquired Stores

	Year ended 31st December, 2004 (RMB'000)	Six months ended 30th June, 2005 (RMB'000)
<i>Selected Income Statement data</i>		
Revenues	1,163,073	736,837
Other operating revenues	<u>64,717</u>	<u>58,136</u>
Total operating revenues	<u>1,227,790</u>	<u>794,973</u>
Operating expenses		
Purchase of goods and changes in inventories	(410,448)	(262,340)
Staff costs	(111,377)	(71,724)
Depreciation and amortisation	(67,690)	(37,874)
Rental expenses	(129,534)	(78,564)
Other operating expenses	<u>(225,282)</u>	<u>(124,726)</u>
Total operating expenses	<u>(944,331)</u>	<u>(575,228)</u>
Profit from operations	283,459	219,745
Finance income	4,957	5,965
Share of profit from an associate	<u>449</u>	<u>231</u>
Profit from operations before income tax	288,865	225,941
Income tax	<u>(103,727)</u>	<u>(69,960)</u>
Net profit for the year/period from continuing operations	185,138	155,981
Discontinued operation		
Loss for the year/period from discontinued operation	<u>(16,000)</u>	<u>—</u>
Net profit for the year/period	<u><u>169,138</u></u>	<u><u>155,981</u></u>
Attributable to:		
Equity holders of the parent	150,629	135,552
Minority interests	<u>18,509</u>	<u>20,429</u>
	<u><u>169,138</u></u>	<u><u>155,981</u></u>

FINANCIAL INFORMATION

	As at 31st December, 2004 (RMB'000)	As at 30th June, 2005 (RMB'000)
Pro forma Balance Sheet data		
Non-current assets		
Property, plant and equipment	606,566	597,435
Lease prepayments	51,910	50,488
Intangible assets	3,112	16,366
Goodwill	12,604	12,604
Investment properties	18,726	18,060
Interests in an associate	1,548	1,779
Deferred tax assets	28,710	32,220
	<u>723,176</u>	<u>728,952</u>
Current assets		
Inventories	69,729	66,518
Trade receivables	20,289	28,905
Investments	76,706	1,742
Prepayments, deposits and other receivables	276,842	235,475
Due from a minority equity holder of a subsidiary	70,000	70,000
Due from an equity holder	8,404	3,209
Loan to an equity holder	1,020	2,065
Due from related parties	95,328	181,352
Pledged deposit	1,000	1,000
Time deposits	6,000	10,000
Cash and cash equivalents	551,841	597,282
	<u>1,177,159</u>	<u>1,197,548</u>
Non-current assets classified as held for sale	35,715	—
	<u>1,212,874</u>	<u>1,197,548</u>
Total assets	<u>1,936,050</u>	<u>1,926,500</u>
Current liabilities		
Interest-bearing loans and borrowings	(117,434)	(129,200)
Trade payables	(437,526)	(406,448)
Customers' deposits, other payables and accruals	(377,190)	(345,491)
Tax payable	(61,730)	(58,717)
Due to a minority equity holder of a subsidiary	(1,274)	(1,041)
Due to equity holders	(952)	(2,809)
Due to related parties	(77,591)	(55,808)
	<u>(1,073,697)</u>	<u>(999,514)</u>
Liabilities directly associated with non-current assets classified as held for sale	(33,715)	—
	<u>(1,107,412)</u>	<u>(999,514)</u>
Net current assets/(liabilities)	<u>105,462</u>	<u>198,034</u>
Total assets less current liabilities	<u>828,638</u>	<u>926,986</u>
Non-current liabilities		
Long term payables	(76,067)	(76,891)
Deferred tax liabilities	(41,005)	(43,650)
	<u>(117,072)</u>	<u>(120,541)</u>
Net assets	<u>711,566</u>	<u>806,445</u>
Represented by:		
Owners' equity	617,769	718,586
Minority interests	93,797	87,859
Total equity	<u>711,566</u>	<u>806,445</u>

FINANCIAL INFORMATION

	Year ended 31st December, 2004 <i>(RMB'000)</i>	Six months ended 30th June, 2005 <i>(RMB'000)</i>
<i>Selected Cash Flow Statement data</i>		
Net cash inflow from operating activities	331,290	204,307
Net cash outflow from investing activities	(150,226)	(71,711)
Net cash outflow from financing activities	(3,827)	(122,959)
NET INCREASE IN CASH AND CASH EQUIVALENTS	177,237	9,637

FINANCIAL INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Investors should read the following discussion and analysis in conjunction with the combined financial information of the Original Group as of 31st December, 2002, 2003 and 2004, and as of 30th June, 2005, and for the years ended 31st December, 2002, 2003 and 2004, and for the six months ended 30th June, 2004 and 2005, all of which is set forth in the Accountants' Report included as Appendix I to this prospectus. The selected combined financial data set forth below also includes pro forma combined financial information of the Original Group and the Acquired Stores as of 31st December, 2004 and as of 30th June, 2005, and for the year ended 31st December, 2004 and for the six months ended 30th June, 2005 as if the acquisition of the Acquired Stores had been completed on 1st January, 2004. This pro forma combined financial information has been prepared from the financial information of the Original Group and from the financial information of the individual companies making up the Acquired Stores which is set forth in the Accountants' Reports included as Appendix II to this prospectus (collectively, the "Financial Information"). Except for the Financial Information, the remainder of the financial information presented in this section has been extracted or derived from the unaudited management accounts or other records. The basis of preparation of this pro forma combined financial information is set out in Appendix III to this prospectus. Investors should read the whole of the Accountants' Reports and not rely merely on the information contained in this section.

The following discussion contains certain forward-looking statements that involve risks and uncertainties. Factors that could cause or contribute to such risks and uncertainties include, without limitation, those discussed in "Risk Factors", "Business" and elsewhere in this prospectus.

OVERVIEW

The Group is a large national network of department stores in the PRC. The Group operates 37 "Parkson" branded department stores and 2 "Xtra" branded supercentres situated in prime locations in 26 cities in the PRC.

The Group has positioned itself at the middle to middle-upper end of the retail market in the PRC and offers a wide range of merchandise which can be broadly categorised into four categories, namely "fashion and apparel", "cosmetics and accessories", "household, electrical goods and others" and "groceries and perishables". The Group's main focus is on fashion "lifestyle" products, in particular ladies' fashion and cosmetics.

Sales in the Group's stores are divided into concessionaire sales and direct sales. The Group enters into agreements with certain suppliers of branded goods (known as concessionaires), who are permitted to occupy designated areas in the Group's stores and to establish their own sales counters for their products. The Group receives a percentage of the revenues generated from such concessionaires as a commission. With respect to direct sales, the Group sources and sells its own directly purchased merchandise.

FINANCIAL INFORMATION

Besides operating the self-owned stores, the Original Group also provided management consultancy services to other department stores and supercentres owned by Independent Third Parties, the Lion Group or a connected person during the Track Record Period. Such stores are licensed to use the “Parkson” or “Xtra” names and the Group’s information system. Management and consultancy fees received by the Original Group pursuant to management arrangements with these Independent Third Parties, the Lion Group and connected persons amounted to approximately RMB28.9 million, RMB38.8 million, RMB47.2 million and RMB29.7 million, representing approximately 5.2%, 6.0%, 6.0% and 5.9% of the Original Group’s total operating revenue, for each of the three years ended 31st December, 2004 and six months ended 30th June, 2005 respectively. Prior to the Reorganisation, the Lion Group acquired 12 of the stores originally managed by the Group, which was then transferred to the Group pursuant to the Reorganisation. The financial performance of the Original Group was generally better than that of the Acquired Stores during the Track Record Period. This is partly because the Original Group’s stores are more mature and well-established while some of the Acquired Stores are smaller in their scale of operation or were newly established. The Group currently provides management consultancy services to 14 “Parkson” branded department stores and 2 “Xtra” branded supercentres located in 11 cities in the PRC which are owned by Independent Third Parties, the Lion Group or connected persons. Further details regarding such managed stores are set out in the paragraph headed “Retail Network” under the section headed “Business” in this prospectus.

Original Group

The Original Group’s financial results over the Track Record Period have been most significantly impacted by the following factors:

In each year during the Track Record Period over 50% of the Original Group’s total annual revenue was derived from sales at its Beijing Store and at the Shanghai Nine Sea Store

While the Original Group consists of 10 stores located throughout the PRC, sales at the Beijing Store and at its Shanghai Nine Sea Store are each much larger than sales at any of the Group’s other stores. During the years ended 31st December, 2002, 2003 and 2004 and the six months ended 30th June, 2005, revenue from sales (direct sales and commissions from concessionaire sales) at these stores together accounted for 55.3%, 53.9%, 56.8%, and 52.0% of the Original Group’s total operating revenue, which represents 36.3% and 33.0% of the total operating revenue of the Combined Group for the year ended 31st December, 2004 and the six months ended 30th June, 2005.

The Original Group derive their revenue primarily from two sources: (i) direct sales of goods and (ii) commission payments on sales by concessionaires with operations within the Original Group. Gross margins on commissions from concessionaires were significantly higher than those on direct sales over the Track Record Period.

During each of the years ended 31st December, 2002, 2003 and 2004 and the six months ended 30th June, 2005, direct sales accounted for 36.2%, 36.1%, 37.3%, and 37.0% of the Original Group’s total operating revenues, and commissions from concessionaires accounted for 49.4%,

FINANCIAL INFORMATION

45.8%, 45.5%, and 44.4% of the Original Group's total operating revenues. In each year during the Track Record Period and the six months ended 30th June, 2005, the Original Group's gross margins on direct sales were 14.3%, 15.0%, 16.8% and 17.1%, while gross margins on concessionaire sales were 21.3%, 21.2%, 22.0% and 21.6%.

Significant increase in revenue at stores in Beijing and Shanghai, slightly offset by small decreases at other stores in smaller cities in the PRC

The Original Group's total annual revenue has increased every year over the Track Record Period. These increases have been driven in significant part by increases in turnover at the Original Group's department stores located in Beijing and Shanghai, which increases have been offset, to a degree, by decreases in revenues at other stores located in smaller cities in the PRC. Between 2003 and 2004, sales revenue (direct sales and commissions from concessionaire sales) at the Original Group's store in Beijing increased by a total of RMB43.0 million, or 23.9%, and sales revenue at the Original Group's store in Shanghai increased by RMB53.8 million, or 31.9%. These increases were offset by a decrease of RMB1.3 million, or 7.9%, in sales revenue at the Original Group's store in Yangzhou.

The increase in sales revenue in the store in Beijing over the Track Record Period was driven by increases in direct sales of cosmetics, electrical goods and groceries, and by increases in commissions from concessionaires most notably on sales of electrical goods. The increase in sales revenue in the stores in Shanghai was driven by increases in direct sales of cosmetics and by increases in commissions from concessionaires most notably on fashion apparel and cosmetics. This increase was further driven by discount-driven promotions, which increased sale revenue but which also slightly decreased the Original Group's gross margin in 2004.

Pro Forma Combined Financial Results of the Original Group and the Acquired Stores

The pro forma combined financial results of the Original Group and the Acquired Stores for the year ended 31st December, 2004 and the six months ended 30th June, 2005, have been most significantly impacted by the following factors:

Over the Track Record Period, the key drivers of the financial results of the Acquired Stores are broadly similar to those of the Original Group

The Acquired Stores have been managed by the Original Group over the Track Record Period. They contain similar product offerings by a similar group of suppliers and concessionaires as those of the Original Group, and furthermore many of the Acquired Stores are in the same cities as those in the Original Group (including those in Shanghai, Beijing, Xi'an and Chongqing). Accordingly, the demographics of their customers are similar in these places and the key drivers of the financial results of the Acquired Stores taken as a whole are broadly similar to those driving the financial results of the Original Group.

On a pro forma combined basis, each of the Acquired Stores and the stores in the Original Group are financially significant to the combined whole

During the year ended 31st December, 2004 and the six months ended 30th June, 2005, the total operating revenues of the Acquired Stores was 36.8% and 37.2%, respectively, of the total pro forma combined operating revenues of the Original Group and the Acquired Stores, and the net profit

FINANCIAL INFORMATION

for the year/period of the Acquired Stores was 4.3% and 26.0%, respectively, of the total attributable pro forma combined net profit for the year/period of the Original Group and the Acquired Stores. As of 31st December, 2004 and 30th June, 2005, the Acquired Stores had net current liabilities of RMB28.3 million and RMB11.4 million, while the pro forma combination of the Original Group and the Acquired Stores had net current assets of RMB105.5 million as of 31st December, 2004 and RMB198.0 million as of 30th June, 2005.

During the year ended 31st December, 2004 and the six months ended 30th June, 2005, the total operating revenues of the Original Group was 64.0% and 63.5%, respectively, of the total pro forma combined operating revenues of the Original Group and the Acquired Stores, and the net profit for the year/period of the Original Group was 95.7% and 74.0%, respectively, of the total attributable pro forma combined net profit for the year/period of the Original Group and the Acquired Stores. As of 31st December, 2004, the Original Group had net current assets of RMB190.1 million and as of 30th June, 2005 it had net current assets of RMB265.8 million, while the pro forma combination of the Original Group and the Acquired Stores had net current assets of RMB105.5 million as of 31st December, 2004 and RMB198.0 million as of 30th June, 2005.

The most financially significant stores in the pro forma combination of the Original Group and the Acquired Stores are the stores in Beijing and Shanghai, though the Acquired Store in Beijing is smaller and less financially successful than its counterpart in the Original Group

The stores in Shanghai (in either the Original Group or the Acquired Group) derived total revenue of RMB318.4 million and RMB196.4 million during the year ended 31st December, 2004 and the six months ended 30th June, 2005, which is 25.9%, and 24.7% of the total operating revenues during these respective periods of the pro forma combination of the Original Group and the Acquired Stores.

The stores in Beijing (in either the Original Group or the Acquired Group) derived total revenue of RMB282.5 million and RMB161.6 million during the year ended 31st December, 2004 and the six months ended 30th June, 2005, which is 23.0%, and 20.3% of the total operating revenue during these respective periods of the pro forma combination of the Original Group and the Acquired Stores. The Acquired Store in Beijing is smaller and less successful than its counterpart in the Original Group.

Financial Presentation

Original Group

The Original Group's combined statements of income, cash flow and equity included elsewhere in this prospectus and the related financial information included in this section present the results of operations of the companies comprising the Original Group as if the current group structure had been in existence and remained unchanged throughout the period from 1st January, 2002 through 30th June, 2005 (or since the date of such companies' incorporation where this is a shorter period).

FINANCIAL INFORMATION

The Original Group's combined balance sheets as at 31st December, 2002, 2003 and 2004 and as at 30th June, 2005 have been prepared to present the assets and liabilities of the Original Group as if the current group structure had been in existence as at those dates. All significant intra-group transactions and balances have been eliminated on combination.

Pro Forma Combined Financial Results of the Original Group and the Acquired Stores

The pro forma combined financial information of the Original Group and the Acquired Stores as of 31st December, 2004 and as of 30th June, 2005, and for the year ended 31st December, 2004 and for the six months ended 30th June, 2005 included in this section present the results of operations of the Original Group and the Acquired Stores as if the acquisition of the Acquired Stores had been completed on 1st January, 2004. This pro forma combined financial information has been prepared from the financial information of the Original Group and from the financial information of the individual companies making up the Acquired Stores.

Description of Certain Income Statement Items

Revenues

The Original Group generates revenue primarily from commissions from sales by concessionaires with operations within its department stores and from direct sales of goods at its department stores. The Group also derives additional revenue from consultancy and management service fees and from rental income. All of the Group's revenue is derived from sales in the PRC.

The following table shows a breakdown of the Original Group's total operating revenues for each of the three years ended 31st December, 2002, 2003 and 2004 and for the six months ended 30th June, 2004 and 2005:

	Year ended 31st December,			Six months ended	
	2002	2003	2004	2004	2005
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
				(unaudited)	
Sales of goods — direct sales	203,593	233,779	292,842	147,087	186,609
Commissions from concessionaire sales	277,813	296,819	357,592	175,604	224,102
Consultancy and management services fees	28,934	38,784	47,220	24,238	29,715
Rental income	30,458	49,048	52,384	25,977	30,543
Other operating revenues	<u>21,036</u>	<u>29,343</u>	<u>35,505</u>	<u>18,229</u>	<u>33,993</u>
Total operating revenues	<u>561,834</u>	<u>647,773</u>	<u>785,543</u>	<u>391,135</u>	<u>504,962</u>

FINANCIAL INFORMATION

Purchase of goods and changes in inventories

During each of the years ended 31st December, 2002, 2003 and 2004 and the six months ended 30th June, 2005, purchase of goods and changes in inventories accounted for 31.1%, 30.7%, 31.0%, and 30.6% of total operating revenues, or 85.7%, 85.0%, 83.2% and 82.9% of direct sales revenue. In each year during the Track Record Period, over 99% of the Group's purchase of goods and changes in inventories consisted of costs associated with purchases of the goods sold directly by the Group in its stores.

Other operating expenses

During each of the years ended 31st December, 2002, 2003 and 2004 and the six months ended 30th June, 2005, other operating expenses accounted for 19.1%, 15.4%, 14.9%, and 14.6% of total operating revenues. For each of the three years ended 31st December, 2002, 2003 and 2004 and for the six months ended 30th June, 2004 and 2005, the Group's other operating expenses consisted of:

	Year ended 31st December,			Six months ended	
	2002	2003	2004	2004	2005
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
				(unaudited)	
Water and other utilities	21,814	23,614	26,659	12,986	21,077
Advertising and promotional fees	8,891	8,038	9,431	5,387	9,607
Professional/consultancy fees	9,148	9,928	17,686	11,328	7,730
Renovation, maintenance and cleaning fees	32,774	22,530	26,915	8,756	10,705
Administration fees	11,427	11,352	13,500	6,367	9,248
Loss on disposal of fixed assets	1,247	437	2,340	2,340	117
Allowance for doubtful debts	4,913	8,064	5,526	3,596	2,123
Other tax expenses	4,200	4,402	5,431	3,087	3,801
Others	<u>12,623</u>	<u>11,127</u>	<u>9,822</u>	<u>4,471</u>	<u>9,240</u>
Total other operating expenses	<u>107,037</u>	<u>99,492</u>	<u>117,310</u>	<u>58,318</u>	<u>73,648</u>

Critical Accounting Policies and Practices

The discussion and analysis of the Group's financial condition and results of operations is based on the combined financial information of the Original Group, the pro forma combined financial information of the Combined Group and the financial information of the companies that make up the Acquired Stores. The Group's significant accounting policies are set forth in Note 2 to the Original Group's combined financial information in Appendix I to this prospectus. The Group's reported financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the combined financial information. The Group bases its estimates on historical experience, the experience of other companies in the industry and on various

FINANCIAL INFORMATION

other assumptions that it believes to be reasonable, the results of which form the basis for making judgments about the carrying amounts of assets and liabilities and the Group's financial results. The Group's management evaluates its estimates on an ongoing basis. Actual results may differ from these estimates under different assumptions and conditions.

The selection of critical accounting policies, the judgment and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the Group's combined financial information. The Group believes that the following critical accounting policies involve the most significant judgments and estimates used in the preparation of its combined financial information.

Critical Accounting Policies

Property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful life of the asset, after taking into account its estimated residual value. The Group reviews the estimated useful life of the asset regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The estimated useful lives are based on the historical experience with similar assets and have taken into account anticipated technological changes. The depreciation expense for future periods will be adjusted if there are significant changes from previous estimates.

Allowance for Doubtful Accounts

The Group maintains an allowance for doubtful accounts based on estimated probable losses resulting from the inability of the customers or other debtors to make payments due to us. The Group bases the estimates on the ageing of the trade receivable accounts and other receivable balances, their creditworthiness, and the historical write-off experience. If the financial condition of our customers or other debtors were to deteriorate, actual write-offs might be higher than expected, which would adversely affect the operating results and financial condition through the recording of a higher allowance.

The Group has made a specific provision for the accounts receivable and other receivables which was identified irrecoverable. The Group does not make general provisions. Provision for bad and doubtful debts is written back when the relevant debts are received or will be received.

Deferred Income Taxes

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial information. The principal temporary differences arise from depreciation of property and equipment, accrued rental expenses, provision for coupon liabilities and income tax losses. The rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax.

FINANCIAL INFORMATION

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax liabilities are the amounts of income tax payable in respect of taxable temporary differences, which are measured at the amount expected to be paid to the tax authorities in the future.

Income tax payable on profits, calculated based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

The Group believes the accounting estimate relating to deferred tax assets is a “critical accounting policy” because any significant difference between the assumptions and judgments made by the management in relation to the future tax benefits against which temporary differences, unused tax losses or unused tax credits can be utilised and the actual income tax could have a material impact on our financial results and net assets.

See also notes 5(f) to Appendix I — “Accountants’ Report”.

Coupon liabilities

Coupon liabilities are recognised at fair value when the Group grants bonus points to its customers as the result of customers’ purchases. The customers could apply the bonus points to redeem coupons in accordance with an announced redemption scheme. The coupons could be used to exchange goods in the department stores. The fair value of the liabilities is determined based on the redemption scheme being announced and obligated to the customers.

FINANCIAL INFORMATION

RESULTS OF OPERATIONS

Original Group

The following table shows the line items of the Original Group's income statement expressed as a percentage of total operating revenues for each of the years ended 31st December, 2002, 2003 and 2004 and for the six months ended 30th June, 2004 and 2005:

	Year ended 31st December,			Six months ended 30th June,	
	2002	2003	2004	2004 <i>(unaudited)</i>	2005
	%	%	%	%	%
<i>Selected Income Statement data</i>					
Revenues	96	95	95	95	93
Other operating revenues	4	5	5	5	7
Operating expenses					
Purchase of goods and changes in inventories	31	31	31	31	31
Staff costs	11	10	9	10	9
Depreciation and amortisation	8	8	7	7	6
Rental expenses	8	8	7	7	7
Other operating expenses	19	16	14	15	14
Total operating expenses	77	73	68	70	67
Profit from operations	23	27	32	30	33
Finance income/(costs)	(1)	0	0	0	1
Share of profit from an associate	0	0	0	0	0
Profit from operations before income tax	22	27	32	30	34
Income tax	9	11	12	11	11
Net profit for the year/period	13	16	20	19	23
Attributable to:					
Equity holders of parent	12	15	19	18	21
Minority interests	1	1	1	1	2

FINANCIAL INFORMATION

Six months ended 30th June, 2005 compared to six months ended 30th June, 2004

Revenues

From the six months ended 30th June, 2004 to the six months ended 30th June, 2005, the Original Group's revenues increased by RMB98.1 million, or 26.3%, from RMB372.9 million to RMB471.0 million. This increase was due to a RMB39.5 million increase in direct sales and a RMB48.5 million increase in commissions from concessionaires. These increases were driven by an increase of RMB29.9 million in combined direct sales and commissions from concessionaires at the Shanghai store between these periods, as well as RMB29.7 million in sales from the store in Xi'an during the six months ended 30th June, 2005. This Xi'an store was acquired by the Original Group in 2005, so the Original Group's revenue for six months ended 30th June, 2004 reflected no sales from this store.

Other operating revenues

The Original Group's other operating revenues increased by RMB15.8 million, or 86.8%, from RMB18.2 million in the six months ended 30th June, 2004 to RMB34.0 million in the six months ended 30th June, 2005. This RMB15.8 million increase was driven by: (i) an increase of RMB3.9 million in "other revenues" (due to an increase of miscellaneous income collected from two new stores, the Haerbin Store and Zhengzhou Branch, and an increase in collection fees by the Shanghai Nine Sea Store and the Mianyang Store), (ii) an increase of RMB3.2 million in credit card handling fees, (iii) a RMB2.0 million increase in government grants, and (iv) an increase of RMB1.0 million in administration fees. The income from credit card handling fees reflects amounts charged by the Original Group to individual concessionaires for each purchase made by credit card at their respective concessions net of the charges incurred by the Original Group from the banks that own the credit cards in connection with each such transaction. Income from this source has risen over the Track Record Period as customers, particularly those in Beijing and Shanghai, increasingly use credit cards for purchases.

Operating expenses

Purchase of goods and change in inventories

The Original Group's purchase of goods and change in inventories increased by RMB32.4 million, or 26.5%, from RMB122.2 million in the six months ended 30th June, 2004 to RMB154.6 million in the six months ended 30th June, 2005. This increase was broadly in line with the 26.9% increase in the Group's direct sales between these periods. As a percentage of revenue from direct sales, the Group's purchase of goods and change in inventories decreased slightly from 83.2% in the six months ended 30th June, 2004 to 82.9% in the six months ended 30th June, 2005.

Staff costs

The Original Group's staff costs, which consists primarily of salaries of sales clerks at the Original Group's stores and individual sales staff for the Original Group's direct sales, increased by RMB7.0 million, or 18.3%, from RMB38.2 million in the six months ended 30th June, 2004 to RMB45.2 million in the six months ended 30th June, 2005. Staff costs increased at a rate slower than did the Original Group's revenue (which increased by 26.3%) in significant part because much of the

FINANCIAL INFORMATION

revenue increase was driven by sales increases at well-established stores (including those in Shanghai and Wuxi), which do not generally require a significant additional number of the Original Group's staff to handle increased sales. A significant number of staff was added in 2005 because two new stores were opened and a store was acquired during the six months ended 30th June, 2005.

Depreciation and amortisation

The Original Group's depreciation and amortisation expenses increased by RMB1.9 million, or 7%, from RMB27.1 million in the six months ended 30th June, 2004 to RMB29.0 million in the six months ended 30th June, 2005. The Original Group's depreciation expenses do not generally change significantly period-to-period, in part because accounting rules require straight line depreciation over time and in part because the Original Group did not acquire significant additional fixed assets (which would result in more depreciation expense) during the six months ended 30th June, 2005.

Rental expenses

The Original Group's rental expenses increased by RMB8.9 million, or 33.7%, from RMB26.4 million in the six months ended 30th June, 2004 to RMB35.3 million in the six months ended 30th June, 2005. This increase was due in significant part to an increase of RMB4.5 million in rent due to the opening of a new store in Zhengzhou and an increase of RMB2.3 million in rent due to the opening of a new store in Haerbin, each during the six months ended 30th June, 2005.

Other operating expenses

The Original Group's other operating expenses increased by RMB15.3 million, or 26.2%, from RMB58.3 million in the six months ended 30th June, 2004 to RMB73.6 million in the six months ended 30th June, 2005. This increase of 26.2% is broadly in line with the 29.1% increase in the Original Group's total operating revenue period-to-period and in particular reflects the added expense associated with the new stores opened in Haerbin and Zhengzhou and a store acquired in Xi'an during the six months ended 30th June, 2005.

Profit from operations

As a result of the factors discussed above, the Original Group's profit from operations increased by RMB48.3 million, or 40.6%, from RMB118.9 million in the six months ended 30th June, 2004 to RMB167.2 million in the six months ended 30th June, 2005, and the Original Group's operating margin (profit from operations expressed as a percentage of total operating revenues) increased from 30.4% in the six months ended 30th June, 2004 to 33.1% in the six months ended 30th June, 2005.

Finance income

The Original Group's finance income, which consists of interest expense related to interest bearing loans and borrowings, interest income and foreign currency exchange gains and losses, increased by RMB2.6 million, or 200%, from RMB1.3 million in the six months ended 30th June, 2004 to RMB3.9 million in the six months ended 30th June, 2005. This increase was primarily due to a RMB3.2 million increased in interest income in the six months ended 30th June, 2005, partially offset by an additional RMB1.5 million in interest expenses.

FINANCIAL INFORMATION

Share of profit of an associate

The Original Group's share of profit of an associate increased by RMB0.1 million, or 100%, from RMB0.1 million in the six months ended 30th June, 2004 to RMB0.2 million in the six months ended 30th June, 2005. This increase reflects increased profits by the Shanghai-based property management company in which the Original Group holds a 35% stake.

Profit from operations before income tax

As a result of the factors discussed above, the Original Group's profit from operating activities before income tax increased by RMB51 million, or 42.4%, from RMB120.3 million in the six months ended 30th June, 2004 to RMB171.3 million in the six months ended 30th June, 2005.

Income tax

The Original Group's income tax increased by RMB12.1 million, or 27.7%, from RMB43.7 million in the six months ended 30th June, 2004 to RMB55.8 million in the six months ended 30th June, 2005. This 27.7% increase is broadly in line with the Original Group's 29.1% increase in total operating revenue between these periods. The Original Group's effective tax rate was above the statutory rate of 33% because the Group was liable for expenses that were not deductible for tax purposes, including RMB5.2 million in the six months ended 30th June, 2004 and RMB4.0 million in the six months ended 30th June, 2005.

Net profit for the period

As a result of the factors discussed above, the Original Group's net profit for the period increased by RMB39 million, or 51%, from RMB76.5 million in the six months ended 30th June, 2004 to RMB115.5 million in the six months ended 30th June, 2005, and net profit margin increased from 19.6% in the six months ended 30th June, 2004 to 22.9% in the six months ended 30th June, 2005.

Profit attributable to minority interests

The profit attributable to minority interests increased by RMB4.6 million, or 104.5%, from RMB4.4 million in the six months ended 30th June, 2004 to RMB9.0 million in the six months ended 30th June, 2005. RMB3.5 million of this increase was due to the percentage of profits from the new Xi'an store that were owed to the Original Group's partner for that store. An additional RMB1.8 million of the increase was due to a RMB4.5 million increase in the profits at the Wuxi store, RMB1.8 million of which were owed to the Original Group's partner at that store, who owns a 40% interest.

Profit attributable to the equity holders of the parent

As a result of the factors discussed above, the profit attributable to the equity holders of the parent increased by RMB34.3 million, or 47.5%, from RMB72.2 million in the six months ended 30th June, 2004 to RMB106.5 million in the six months ended 30th June, 2005.

FINANCIAL INFORMATION

Year ended 31st December, 2004 compared to year ended 31st December, 2003

Revenues

From 2003 to 2004, the Original Group's revenues increased by RMB131.6 million, or 21.3%, from RMB618.4 million to RMB750.0 million. This increase was due in significant part to an increase in sales revenue at the Original Group's Shanghai store of RMB53.7 million (RMB35.7 million in commissions from concessionaires and RMB18.0 million in direct sales), and an increase in sales revenue at the Original Group's Beijing store of RMB43.1 million (RMB16.0 million in commissions from concessionaires and RMB27.1 million in direct sales), as well as an increase in direct sales revenue at the Original Group's Wuxi store of RMB14.4 million offset by a decrease of RMB1.3 million in sales revenue at the Original Group's store in Yangzhou. The increase in commissions from concessionaires in Beijing and Shanghai was due to the introduction of new product lines, such as certain cosmetics.

Other operating revenues

From 2003 to 2004, the Original Group's other operating revenues increased by RMB6.2 million, or 21.1%, from RMB29.3 million to RMB35.5 million. This increase was due primarily to an increase of RMB5.6 million in credit card handling fee income. This income reflects amounts charged by the Original Group to individual concessionaires for each purchase made by credit card at their respective concessions net of the charges incurred by the Original Group from the banks that own the credit cards in connection with each such transaction. Income from this source has risen over the Track Record Period as customers, particularly those in Beijing and Shanghai, increasingly use credit cards for purchases. This increase in other operating income in 2004 was also due to an increase of RMB1.7 million in promotion income offset to a degree in a decrease of RMB3.5 million in government grants released in 2004. The government grants reflect tax incentives paid by the Shanghai tax authorities to the Shanghai store to encourage its business. These amounts are not contractually owed, however, and can vary (or indeed be zero) in any particular year.

Operating expenses

Purchase of goods and change in inventories

The Original Group's purchase of goods and change in inventories increased by RMB44.9 million, or 22.6%, from RMB198.8 million in 2003 to RMB243.7 million in 2004. This increase was broadly in line with the Original Group's increase in revenue from direct sales between these years of 25.3%. This increase was principally driven by increased purchases of groceries and cosmetics for direct sale by the Original Group in its stores.

Staff costs

The Original Group's staff costs, which consists primarily of salaries of sales clerks at the Original Group's stores and individual sales staff for the Original Group's direct sales, increased by RMB2.4 million, or 3.6%, from RMB67.4 million in 2003 to RMB69.8 million in 2004. This small increase was due to the fact that the Original Group hit performance targets that triggered incentive payments to staff that were higher than those paid in to staff in 2003.

FINANCIAL INFORMATION

Depreciation and amortisation

The Original Group's depreciation and amortisation expenses, primarily related to leasehold land and buildings, increased by RMB1.2 million, or 2.4%, from RMB50.9 million in 2003 to RMB52.1 million in 2004. The Original Group's depreciation and amortisation expenses do not generally change significantly period-to-period, in part because accounting rules require straight-line depreciation over time and in part because the Original Group did not acquire significant additional fixed assets (which would result in more depreciation and amortisation expense) in 2004.

Rental expenses

The Original Group's rental expenses, primarily reflecting lease payments for store sites, decreased slightly by RMB0.02 million to RMB53.2 million in 2004. This is primarily due to the fact that, for accounting purposes, rental expenses, which may vary significantly under the terms of any one lease from year-to-year, are, for accounting purposes, amortized equally over the entire period of any lease.

Other operating expenses

The Original Group's other operating expenses increased by RMB17.8 million, or 17.9%, from RMB99.5 million in 2003 to RMB117.3 million in 2004. This increase is broadly in line with the Original Group's 21.3% increase in total operating revenue in 2004. This increase was due to an increase of RMB7.76 million in professional service and consulting fees, primarily related to design consultants hired for the renovation of the Beijing store as well as payments to software designers for designing electronic vouchers for use at its Beijing store.

Profit from operations

As a result of the factors discussed above, the Original Group's profit from operations increased by RMB71.5 million, or 40.2%, from RMB178.0 million in 2003 to RMB249.5 million 2004, and the Original Group's operating margin (profit from operations expressed as a percentage of total operating revenues) increased from 27.5% in 2003 to 31.8% in 2004.

Finance income

The Original Group's finance income, which consists of interest expense related to interest bearing loans and borrowings, interest income on bank balances and foreign currency exchange gains and losses, increased by RMB1.0 million, or 50.0%, from RMB2.0 million in 2003 to RMB3.0 million in 2004. This increase was due to the fact that, while interest income was down slightly in 2004 (because in 2004 the Original Group put some cash in an account where interest is not paid until withdrawal), the Original Group's foreign currency exchange losses in 2004 were lower than in 2003 by RMB1.5 million.

Share of profit from an associate

The Original Group's share of profit from an associate, reflecting its 35% interest in Shanghai Nine Sea Lion Property Management, a joint venture with a landlord that manages commercial properties, whose profits increased slightly in 2004, increased by RMB0.03 million, or 7.1%, from RMB0.42 million in 2003 to RMB0.45 million in 2004.

FINANCIAL INFORMATION

Profit from operations before income tax

As a result of the factors discussed above, the Original Group's profit from operations before income tax increased by RMB72.5 million, or 40.2%, from RMB180.4 million in 2003 to RMB252.9 million in 2004.

Income tax

The Original Group's income tax increased by RMB19.5 million, or 27.3%, from RMB71.5 million in 2003 to RMB91.0 million in 2004. This increase was due to the Original Group's increased pre-tax profits in 2004. But income tax increased in 2004 at a rate lower than did pre-tax profits in 2004 because of the impact of favourable tax policies applicable to three of the Original Group's subsidiaries. These subsidiaries, Mianyang Parkson, Xinjiang Parkson and Beijing Century, were engaged in the businesses of retail (with respect to Mianyang Parkson and Xinjiang Parkson) and technology (with respect to Beijing Century), and were eligible for certain tax exemptions. Mianyang Parkson was entitled to a 3% local tax reduction, Xinjiang Parkson was entitled to total tax exemption and Beijing Century had a 7.5% tax reduction.

Net profit for the year

As a result of the factors discussed above, the Original Group's net profit for the year increased by RMB53.0 million, or 48.7%, from RMB108.9 million in 2003 to RMB161.9 million 2004, and the Original Group's net profit margin increased from 16.8% in 2003 to 20.6% in 2004.

Profit attributable to minority interests

The profit attributable to minority interests increased by RMB0.2 million, or 2.2%, from RMB9.0 million in 2003 to RMB9.2 million in 2004. This increase was due to the fact that the Wuxi store, in which a partner holds a 40% interest, increased its profitability in 2004.

Profit attributable to the equity holders of the parent

As a result of the factors discussed above, the profit attributable to the equity holders of the parent increased by RMB52.9 million, or 53.0%, from RMB99.9 million in 2003 to RMB152.8 million in 2004.

Year ended 31st December, 2003 compared to year ended 31st December, 2002

Revenues

From 2002 to 2003, the Original Group's revenue increased by RMB77.6 million, or 14.3%, from RMB540.8 million to RMB618.4 million. This increase was primarily due an increase in sales revenue at the Original Group's Shanghai store of RMB22.3 million (RMB5.4 million in commissions from concessionaires and RMB16.9 million in direct sales), an increase in sales revenue at the Original Group's Beijing store of RMB15.7 million (RMB3.8 million in commissions from concessionaires and RMB11.9 million in direct sales) as well as the start of sales revenue at the Original Group's Xinjiang store, which opened in 2003, of RMB15.2 million (RMB5.9 million in commissions from concessionaires and RMB9.3 million in direct sales). These increases were partially offset by decreases in sales in 2003 at the stores in Chongqing and Yangzhou. The increase in sales revenue in Shanghai was due to an increase in direct sales of cosmetics, as well as increased commissions on sales by concessionaires of cosmetics and fashion apparel.

FINANCIAL INFORMATION

Other operating revenues

From 2002 to 2003, the Original Group's other operating revenue increased by RMB8.3 million, or 39.5%, from RMB21.0 million to RMB29.3 million. This increase was due primarily to an increase of RMB2.5 million in government grants released in 2003, as well as an increase of RMB3.3 million in credit card handling fee income and an increase of RMB2.8 million in display space leasing fees, partially offset by a decrease of RMB4.0 million in promotion income at the Shanghai store.

Operating expenses

Purchase of goods and change in inventories

The Original Group's purchase of goods and change in inventories increased by RMB24.3 million, or 13.9%, from RMB174.5 million in 2002 to RMB198.8 million in 2003, which increase was in line with a 14.8% increase in the Original Group's revenue from direct sales in 2003.

Staff costs

The Original Group's staff costs increased by RMB8.3 million, or 14.0%, from RMB59.1 million in 2002 to RMB67.4 million in 2003. This increase was due to the opening of the store in Xinjiang in 2003.

Depreciation and amortisation

The Original Group's depreciation and amortisation expenses increased by RMB3.5 million, or 7.4%, from RMB47.4 million in 2002 to RMB50.9 million in 2003. This increase was due to the Original Group's increase of some additional fixed assets in connection with the opening of the store in Xinjiang at the very end of 2002.

Rental expenses

The Original Group's rental expenses increased by RMB7.6 million, or 16.7%, from RMB45.6 million in 2002 to RMB53.2 million in 2003. This increase was due to the opening of the store in Xinjiang in 2003.

Other operating expenses

The Original Group's other operating expenses decreased by RMB7.5 million, or 7.0%, from RMB107.0 million in 2002 to RMB99.5 million in 2003. This decrease was due to the fact that the costs of renovation of the Beijing and Shanghai stores was RMB14.6 million in 2002 and was only RMB5.1 million in 2003.

Profit from operations

As a result of the factors discussed above, the Original Group's profit from operations increased by RMB49.7 million, or 38.7%, from RMB128.3 million in 2002 to RMB178.0 million in 2003, and the Original Group's operating margin (profit from operations expressed as a percentage of total operating revenues) increased from 22.8% in 2002 to 27.5% in 2003.

FINANCIAL INFORMATION

Finance income

The Original Group's finance income, which consists of interest expense related to interest bearing loans and borrowings, interest income and foreign currency exchange gains and losses, increased by RMB7.9 million, from finance costs of RMB5.9 million in 2002 to finance income of RMB2.0 million in 2003. This increase was due primarily to the fact that the foreign currency exchange losses suffered by the Original Group in 2002 of RMB6.8 million were a significantly lower than RMB2.3 million in 2003.

Share of profit from an associate

The Original Group's share of profit from an associate grew from RMB0.35 million in 2002 to RMB0.42 million in 2003, reflecting its 35% interest in Shanghai Nine Sea Lion Property Management.

Profit from operations before income tax

As a result of the factors discussed above, the Original Group's profit from operations before income tax increased by RMB57.7 million, or 47.0%, from RMB122.7 million in 2002 to RMB180.4 million in 2003.

Income tax

The Original Group's income tax increased by RMB22.1 million, or 44.7%, from RMB49.4 million in 2002 to RMB71.5 million in 2003. This increase was at a lower rate than the increase in the Original Group's profit from operations before income tax, which increased by 47.0%, in significant part because one profitable subsidiary, Beijing Century, was entitled to significant tax relief in 2003.

Net profit for the year

As a result of the factors discussed above, the Original Group's net profit for the year increased by RMB35.6 million, or 48.6%, from RMB73.3 million in 2002 to RMB108.9 million in 2003, and the Original Group's net profit margin increased from 13.0% in 2002 to 16.8% in 2003.

Profit attributable to minority interests

The profit attributable to minority interests increased by RMB3.0 million, or 50.0%, from RMB6.0 million in 2002 to RMB9.0 million in 2003. This increase was due to the increase in the value of a partner's interest in Beijing Century, as it was increasingly profitable in 2003.

Profit attributable to the equity holders of the parent

As a result of the factors discussed above, the profit attributable to the equity holders of the parent increased by RMB32.6 million, or 48.4%, from RMB67.3 million in 2002 to RMB99.9 million in 2003.

FINANCIAL INFORMATION

Pro Forma Combined Financial Information of Original Group and Acquired Stores

The following table shows the line items of the Combined Group income statements as a percentage of total operating revenues for the year ended 31st December, 2004 and for the six months ended 30th June, 2005:

	Year ended 31st December, 2004 %	Six months ended 30th June, 2005 %
<i>Selected Income Statement data</i>		
Revenues	95	93
Other operating revenues	5	7
Operating expenses		
Purchase of goods and changes in inventories	33	33
Staff costs	9	9
Depreciation and amortisation	6	5
Rental expenses	11	10
Other operating expenses	18	16
Total operating expenses	77	72
	0	0
Profit from operations	23	28
Finance income	0	1
Share of profit from an associate	0	0
Profit from operations before income tax	23	29
Income tax	8	9
Net profit for the year/period from continuing operations	15	20
Discontinued operation		
Loss for the year/period from discontinued operation	<u>1</u>	<u>0</u>
Net profit for the year/period	14	20
Attributable to:		
Equity holders of the parent	12	17
Minority interests	2	3

FINANCIAL INFORMATION

Discussion of results of pro forma results of operations for the six months ended 30th June, 2005 and the year ended 31st December, 2004

For the six months ended 30th June, 2005, the pro forma combined total operating revenues of the Combined Group was RMB795.0 million. Of this total, RMB295.5 million was contributed by the Acquired Stores. This includes revenue of RMB89.2 million and RMB64.5 million respectively contributed by Acquired Stores Hefei Parkson and Shanghai Hongqiao Parkson respectively. The pro forma combined operating expenses amounted to RMB575.2 million, of which around RMB242.9 million was contributed by the Acquired Group. Acquired Stores Hefei Parkson and Shanghai Hongqiao Parkson contributed RMB74.5 million and RMB57.0 million of operating expenses respectively. Of the RMB219.7 million combined operating profit of the Combined Group, the Acquired Stores provided RMB52.6 million. This includes operating profit of RMB24.3 million and RMB12.9 million contributed by Acquired Stores Hefei Parkson and Shanghai Hongqiao Parkson respectively. The pro forma combined finance income of the Combined Group was RMB6.0 million, of which RMB2.1 million was contributed by the Acquired Stores. Of this amount, Acquired Stores Hefei Parkson and Shanghai Hongqiao Parkson contributed RMB0.7 million and RMB0.3 million of finance income respectively. The Acquired Stores also incurred RMB14.1 million of the RMB70.0 million of the total pro forma combined income tax paid by the Combined Group. This includes income tax of RMB8.7 million and RMB5.0 million contributed by Acquired Stores Hefei Parkson and Shanghai Hongqiao Parkson respectively. Of the combined pro forma net profit attributable to the Combined Group of RMB135.6 million, the Acquired Stores contributed RMB35.8 million. This includes net profit of RMB11.6 million and RMB8.2 million contributed by Acquired Stores Hefei Parkson and Shanghai Parkson respectively.

For the year ended 31st December, 2004, the pro forma combined total operating revenues of the Combined Group was RMB1,227.8 million. Of this amount, RMB451.6 million was contributed by the Acquired Stores. This includes revenue of RMB143.3 million and RMB109.2 million respectively contributed by Acquired Stores Hefei Parkson and Shanghai Hongqiao Parkson respectively. The pro forma combined operating expenses of the Combined Group amounted to RMB944.3 million, of which around RMB417.6 million was contributed by the Acquired Group. Hefei Parkson and Shanghai Hongqiao Parkson contributed RMB138.3 million and RMB112.5 million of the Acquired Stores' operating expenses respectively. Accordingly, the Acquired Stores contributed only RMB34.0 million of the RMB283.5 million combined operating profit of the Combined Group. This includes a RMB7.6 million operating profit by Shanghai Hongqiao Parkson and a RMB13.4 million operating profit by Hefei Parkson. This reflects the fact that the Acquired Stores had a significantly lower operating profit margin in the year ended 31st December, 2004 than the Original Group did. The Acquired Stores' operating profit margin was lower than the Original Group's because the gross profit margin for the Acquired Stores was lower than that of the Original Group to begin with. Furthermore, the Changsha Store, the Yueyang Store, the Xi'an Chang'an Store and the Xi'an Shidai Store were all set up in 2004 and their pre-operating expenses were written off for 2004. The pro forma combined finance income of the Combined Group was RMB5.0 million, of which RMB1.9 million was contributed by the Acquired Stores. This includes finance income of RMB0.4 million and RMB0.4 million respectively contributed by Acquired Stores Hefei Parkson and Shanghai Hongqiao Parkson respectively. The Acquired Stores also contributed RMB12.7 million of the RMB103.7

FINANCIAL INFORMATION

million of pro forma combined income tax paid by the Original Group and Acquired Stores. Of the combined pro forma net profit attributable to the Combined Group of RMB150.6 million, the Acquired Stores actually contributed a profit of RMB3.5 million. This includes a RMB13.4 million net loss by Shanghai Hongqiao Parkson and a RMB3.2 million net profit by Hefei Parkson.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Original Group's principal sources of liquidity and capital resources have been, and are expected to continue to be, cash flow from operations and debt financing from banks. The Original Group's principal uses of cash have been, and are expected to continue to be, operational costs.

Net current assets

Original Group

As at 31st December, 2004 and 30th September, 2005, the Original Group had net current assets of approximately RMB190.1 million and RMB215.5 million respectively (though it had net current liabilities as of 31st December, 2002 and 2003). The Original Group's current assets as of 30th September, 2005 of RMB1,027.0 million were comprised of prepayments, deposits and other receivables of RMB198.4 million, amounts due from related parties of RMB135.0 million, cash and cash equivalents of approximately RMB608.0 million, and other current assets of RMB85.6 million. All receivables from joint ventures partners and minority equity holders and RMB81,359,000 of other receivables included in the balance of prepayments, deposits and other receivables as at 30th June, 2005 except for the amount due from Sichuan Fulin (entrusted loans of Mianyang Parkson) will be settled prior to listing of the Company. The details of the entrusted loans of Mianyang Parkson amount to RMB12 million is set out in the paragraph headed "Financial assistance from the Group to connected persons" under the section headed "Connected transactions" in this prospectus. The Original Group's current liabilities as of 30th September, 2005 of RMB811.5 million were comprised of trade payables of approximately RMB311.3 million, customers' deposits, other payables and accruals of RMB283.4 million, and other current liabilities of RMB216.8 million.

Although the Original Group has historically been able to satisfy its working capital needs from cash flow from operations, its ability to expand its network of department stores in the PRC may depend on its ability to finance these activities through the issuance of equity securities, long-term borrowings and the issuance of convertible and other debt securities.

If adequate funds are not available, whether on satisfactory terms or at all, the Original Group may be forced to curtail its expansion plans. The Original Group's ability to meet its working capital needs from cash flow from operations will be affected by the performance of its stores, which in turn may be affected by several factors. Many of these factors are outside of its control, such as economic downturns or dramatic changes in consumer preferences for the products sold at the Original Group's stores. To the extent that the Original Group does not generate sufficient cash flow from operations to meet its cash requirements, it may rely on external borrowings and securities offerings.

FINANCIAL INFORMATION

Pro Forma Combined Group

As at 30th June, 2005, the Combined Group had net current assets of approximately RMB198.0 million. These current assets were mainly comprised of prepayments, deposits and other receivables of approximately RMB235.5 million, amounts due from related parties of approximately RMB181.4 million and cash and cash equivalents of approximately RMB597.3 million. The current liabilities of the Combined Group were mainly comprised of trade payables of approximately RMB406.4 million and customers' deposits, other payables and accruals of RMB345.5 million.

Although the Combined Group has been able to satisfy its working capital needs from cash flow from operations during the year ended 31st December, 2004 and the six months ended 30th June, 2005, its ability to meet its working capital needs from cash flow from operations will be affected by the performance of the Group's stores, which in turn may be affected by several factors. Many of these factors are outside of its control, such as economic downturns or dramatic changes in consumer preferences for the products sold at the stores. To the extent that it does not generate sufficient cash flow from operations to meet its cash requirements, it may rely on external borrowings and securities offerings.

Cash Flows

Original Group

	Year ended 31st December,			Six months ended 30th June,	
	2002	2003	2004	2004	2005
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
				<i>(unaudited)</i>	
<i>Selected Cash Flow Statement data</i>					
Net cash inflow from operating activities	167,165	238,979	170,663	(13,848)	164,172
Net cash inflow/(outflow) from investing activities	(88,318)	(129,996)	(21,516)	58,677	(21,137)
Net cash outflow from financing activities	(137,527)	(25,782)	(65,577)	(66,315)	(66,133)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(58,680)	83,201	83,570	(21,486)	76,902

Net cash inflow from operating activities

The Original Group's net cash inflow from operating activities increased by RMB178.0 million for the six months ended 30th June 2005, from a net outflow of RMB13.8 million for the six months ended 30th June 2004 to a net cash inflow of RMB164.2 million for the six months ended 30th June 2005. This mainly reflected a decrease of prepayment deposits and other receivables, which had increased by RMB41.5 million in the six months ended 30th June, 2004, but decreased by RMB87.5 million in the six months ended 30th June, 2005. The decrease of prepayment deposits and other receivables included accounting offsets and the repayment of a deposit from a related party. The Original Group's net cash inflow from operating activities decreased by RMB68.3 million for the year ended 31st December, 2004, from RMB239.0 million for the year ended 31st December, 2003 to

FINANCIAL INFORMATION

RMB170.7 million for the year ended 31st December, 2004. This decrease was principally due to a RMB63.9 million increase in prepayment deposits and other receivables. The Original Group's net cash inflow from operating activities increased by RMB71.8 million for the year ended 31st December, 2003, from RMB167.2 million for the year ended 31st December, 2002 to RMB239.0 million for the year ended 31st December, 2003. This change mainly reflected the increase in the Group's profit from operating activities in 2003.

Net cash inflow/(outflow) investing activities

The Original Group's net cash inflow from investing activities decreased by RMB79.8 million for the six months ended 30th June, 2005, from a net cash inflow of RMB58.7 million for the six months ended 30th June, 2004 to a net cash outflow of RMB21.1 million for the six months ended 30th June, 2005. This mainly reflects a large increase in non-trade related due from related parties, which had decreased by RMB79.9 million in the six months ended 30th June, 2004 but which increased by RMB96.0 million in the six months ended 30th June, 2005. This was partly offset by a RMB75.0 million decrease in investments in the six months ended 30th June, 2005, which reflected a decision by the Group to liquidate some of its PRC government bonds. The Original Group's net cash outflow from investing activities decreased by RMB108.5 million for the year ended 31st December, 2004, from RMB130.0 million for the year ended 31st December, 2003 to RMB21.5 million for the year ended 31st December, 2004. This change reflects the Group's increase in non-trade related due from related parties by RMB48.1 million in the year ended 31st December, 2003, compared to a decrease in its non-trade related due from related parties by RMB80.8 million in 2004. The Original Group's net cash outflow from investing activities increased by RMB41.7 million for the year ended 31st December, 2003, from RMB88.3 million for the year ended 31st December, 2002 to RMB130.0 million for the year ended 31st December, 2003. This increase was principally due to increased investments, mainly in PRC government bonds. In the year ended 31st December, 2002 the Group saw a RMB7.0 million increase in investments, while the increase in investments in the year ended 31st December, 2003 was RMB39.7 million. Additionally, there was an increase in non-trade related due from related parties, which increased by RMB22.2 million in the year ended 31st December, 2002 and increased to RMB48.1 million in the year ended 31st December, 2003.

Net cash outflow from financing activities

The Original Group's net cash outflow from financing activities were stable in the six months ended 30th June, 2004 and the six months ended 30th June, 2005, decreasing slightly from RMB66.3 million to RMB66.1 million. This stability was due to the fact that although the Group saw a much lower decrease in non-trade related due to related parties in the six months ended 30th June, 2005 than it had seen in the six months ended 30th June, 2004, this effect was offset to some extent by additional inflow from other loans that the Group received in 2004. The Original Group's net cash outflow from financing activities increased by RMB39.8 million for the year ended 31st December, 2004, from RMB25.8 million for the year ended 31st December, 2003 to RMB65.6 million for the year ended 31st December, 2004. This increase was principally due to a RMB86.3 million decrease in non-trade related due to related parties. The Original Group's net cash outflow from financing activities decreased by RMB111.7 million for the year ended 31st December, 2003, from RMB137.5 million for the year ended 31st December, 2002 to RMB25.8 million for the year ended 31st December, 2003. This decrease was principally due to a RMB123.5 million decrease in repayments of bank loans and other loans.

FINANCIAL INFORMATION

Pro Forma Combined Group

The pro forma combined net cash inflow from operating activities of the Combined Group in the six months ended 30th June, 2005 was RMB204.3 million, of which RMB40.1 million was contributed by the Acquired Stores. In the year ended 31st December, 2004, the pro forma combined net cash inflow from operating activities of the Original Group and the Acquired Stores was RMB331.3 million, of which RMB140.6 million was contributed by the Acquired Stores.

The pro forma combined net cash outflow from investing activities of the Combined Group in the six months ended 30th June, 2005 was RMB71.7 million, of which RMB12.6 million was contributed by the Acquired Stores. In the year ended 31st December, 2004, the pro forma combined net cash outflow from investing activities of the Combined Group was RMB150.2 million, of which roughly RMB90.7 million was contributed by the Acquired Stores.

The pro forma combined net cash outflow from financing activities of the Combined Group in the six months ended 30th June, 2005 was RMB123.0 million, of which RMB56.8 million was contributed by the Acquired Stores. In the year ended 31st December, 2004, the pro forma combined net cash outflow from financing activities of the Original Group and the Acquired Stores was RMB3.8 million, of which an inflow of RMB81.8 million was contributed by the Acquired Stores.

Capital Expenditures

Throughout the Track Record Period, the Original Group has made capital expenditures, typically in connection with the expansion of its network of department stores in the PRC and the periodic renovation thereof. These capital expenditures amounted to RMB26.0 million as at 31st December, 2002, RMB33.4 million as at 31st December, 2003, RMB31.7 million as at 31st December, 2004, and RMB22.5 million as at 30th June, 2005.

Inventories

Original Group

Because of the Original Group's business model, over the Track Record Period its inventories have been relatively low compared to its turnover from sales. The Original Group's inventories were RMB39.3 million as at 30th June, 2005. The Original Group's inventories decreased very slightly from RMB37.3 million as at 31st December, 2003 to RMB37.0 million as at 31st December, 2004. The Original Group's inventories increased from RMB35.3 million as at 31st December, 2002 to RMB37.3 million as at 31st December, 2003 primarily because of slightly slower sales at the end of the year.

Pro Forma Combined Group

The pro forma combined inventories of the Original Group and the Acquired Stores as at 30th June, 2005 was RMB66.5 million, of which RMB27.2 million was contributed by the Acquired Stores. As of 31st December, 2004, the pro forma combined inventories of the Original Group and the Acquired Stores was RMB69.7 million, of which RMB32.8 million was contributed by the Acquired Stores.

FINANCIAL INFORMATION

The Group's inventory is stated at gross amount less specific and general provisions at the balance sheet date. Specific provision for inventory is made for damage, obsolescence and when the cost of inventory is less than its net realisable value. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to disposal.

Trade Receivables

Original Group

Because most of the Group's business involves retail sales, over the Track Record Period its trade receivables have been relatively low compared to its turnover from sales. Trade receivables mainly represented receivables in relation to management and consultancy services. The Original Group's total trade receivables were RMB31.6 million as at 30th June, 2005. The Original Group's trade receivables increased from RMB18.8 million as at 31st December, 2003 to RMB23.9 million as at 31st December, 2004. The Original Group's trade receivables increased from RMB14.2 million as at 31st December, 2002 to RMB18.8 million as at 31st December, 2003. The Group's trade receivables increased over the Track Record Period as a result of the nature of the Group's trade receivables. The Group's trade receivables consist mainly of consultancy and management services fees. These fees are calculated as a percentage of the Group's sales. Therefore, the Group's increased sales over the Track Record Period led to an upward trend in its trade receivables.

Pro Forma Combined Group

The pro forma combined trade receivables of the Combined Group as at 30th June, 2005 was RMB28.9 million, of which RMB1.0 million was contributed by the Acquired Stores. As of 31st December, 2004, the pro forma combined trade receivables of the Combined Group was RMB20.3 million, of which RMB1.0 million was contributed by the Acquired Stores.

The Group's trade receivables are stated at gross amount less specific provisions at the balance sheet date. Specific provision is made for unrecoverable trade receivables which are assessed on an individual basis at the balance sheet date.

Trade Payables

Original Group

Because the Original Group collects all payments from the retail customers at its stores and later remits a portion of these proceeds to its concessionaires, the Original Group has maintained significant balances of trade payables over the entire Track Record Period. Though almost all of these amounts remain payable at any time within three months.

The Original Group's total trade payables were RMB253.4 million as at 30th June, 2005. The Original Group's trade payables increased from RMB221.4 million as at 31st December, 2003 to RMB245.5 million as at 31st December, 2004. The Original Group's trade payables increased from RMB187.1 million as at 31st December, 2002 to RMB221.4 million as at 31st December, 2003.

FINANCIAL INFORMATION

An aged analysis of the trade payables is as follows:

	As at 31st December,			As at
	2002	2003	2004	30th June,
	RMB'000	RMB'000	RMB'000	2005
				RMB'000
Within 3 months	185,963	219,068	242,069	249,358
Between 4 to 12 months	48	1,059	503	972
Over one year	<u>1,075</u>	<u>1,236</u>	<u>2,932</u>	<u>3,063</u>
	<u>187,086</u>	<u>221,363</u>	<u>245,504</u>	<u>253,393</u>

The pro forma combined trade payables of the Combined Group as at 30th June, 2005 was RMB406.4 million, of which RMB153.7 million was contributed by the Acquired Stores. As of 31st December, 2004, the pro forma combined trade payables of the Combined Group was RMB437.5 million, of which RMB192.6 million was contributed by the Acquired Stores.

Market Risks

Interest Rate Risk

The Original Group is exposed to interest rate risk to the extent that it had interest bearing loans and borrowings outstanding of RMB60.4 million as of 31st December, 2004 and RMB79.2 million as at 30th June, 2005. While these loans all have fixed interest rates, these amounts are all due within one year. So if the Original Group may need to refinance these loans rather than repay them, it may be subject to any increases in interest rates when new loans are negotiated.

Off-Balance Sheet Arrangements

The Group has historically maintained a significant amount of cash in bank accounts bearing time-restricted interest. Under the terms of those bank accounts, the Group can only collect interest on its deposit if it maintains that deposit until a specified date. The Group's balance sheets do not reflect interest accumulated on these accounts where the cut-off date of the balance sheet is prior to the time restriction date. In some cases the interest accumulated by the Group's bank accounts is significant, but not reflected in its balance sheets because the time restriction date had not been reached. For example, the Group estimates that it had accumulated RMB1.5 million in interest from such accounts at the end of 2004, but that this money was not reflected in its balance sheets for that year because the time restriction date had not been reached.

TAXATION

Over the Track Record Period and the six months ended 30th June, 2005, the Original Group has been subject to PRC, Hong Kong and Singapore income taxation. However the substantial majority of tax expense actually incurred by the Group during that period was in relation to the PRC. Under relevant PRC income tax law, except for certain preferential treatment available to certain

FINANCIAL INFORMATION

PRC subsidiaries and joint ventures of the Group, the Group companies were subject to corporate income tax at a rate of 33% on their respective taxable income. However the effective tax rate of the Original Group during each of three years ended 31st December, 2004 and the six months ended 30th June, 2004 and 2005 was 40.3%, 39.6%, 36.0%, 36.4% and 32.6%. The Original Group's effective tax rate was often above the PRC statutory rate of 33% because over the Track Record Period the Group was liable for expenses that were not deductible for tax purposes. The effective tax rate as reflected by the pro forma financial information of the Combined Group during the year ended 31st December, 2004 and the six months ended 30th June, 2005 was 35.9% and 31.0% respectively.

PROFIT FORECAST

The Directors forecast that, in the absence of unforeseen circumstances and on the bases and assumptions set out in Appendix IV to this prospectus, the Group's combined profit attributable to the shareholders of the Company will be as follows:

Forecast combined profit attributable to the shareholders of the Company (<i>Notes 1 and 2</i>)	not less than RMB242 million
Unaudited forecast earnings per Share	
— weighted average (<i>Note 3</i>)	RMB0.54
— pro forma (<i>Note 4</i>)	RMB0.44

Notes:

- (1) The bases and assumptions on which the above profit forecast for the year ending 31st December, 2005 have been prepared are summarised in Appendix IV to this prospectus.
- (2) The forecast combined profit attributable to the shareholders of the Company for the year ending 31st December, 2005 excludes the pre-acquisition combined profit of the Acquired Stores of approximately RMB43 million.
- (3) The calculation of unaudited forecast earnings per Share on a weighted average basis is based on the forecast combined profit attributable to the shareholders of the Company for the year ending 31st December, 2005 of RMB242 million and a weighted average number of 450,976,438 Shares (assuming 441,600,000 Shares as adjusted to reflect the Capitalisation Issue had been in issue on 1st January, 2005 and 110,400,000 Shares to be issued under the Offering in issue on 1st December, 2005). It does not take into account any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the Issuing Mandate and Repurchase Mandate.
- (4) The calculation of unaudited forecast earnings per Share on a pro forma basis is based on the forecast combined profit attributable to the shareholders of the Company for the year ending 31st December, 2005 of RMB242 million and a total of 552,000,000 Shares (assuming that the Shares in issue at the date of this prospectus and those Shares to be issued pursuant to the Capitalisation Issue and the Offering had been in issue on 1st January, 2005). It does not take into account any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the Issuing Mandate and Repurchase Mandate.

FINANCIAL INFORMATION

DIVIDENDS, WORKING CAPITAL AND DISTRIBUTABLE RESERVES

Dividends

The Company was incorporated on 3rd August, 2005 and, accordingly, no dividend policy has been declared or paid by the Company during the Track Record Period. For the three years ended 31st December, 2004, certain members of the Group in aggregate declared dividends of RMB17.4 million, RMB7.0 million and RMB12.6 million, respectively. Future declarations of dividends will be subject to the discretion of the Directors, depending on the Group's profitability, financial conditions, cash requirements and availability and other relevant factors. The Company's ability to pay dividends will also depend on the amount of distributions, if any, received by the Company from its principal operating subsidiaries.

Subsequent to 30th June, 2005, certain members of the Group declared dividends of approximately RMB204.3 million to their then shareholders, in relation to their distributable profits up to the year ended 31st December, 2004. The dividend for 2004 has been paid, of which approximately RMB74.3 million has been paid by the Group's internal cash flow and approximately RMB130.0 million has been paid by way of set-off against amounts owed by the Lion Group to the Group.

Taking the above into consideration, the Company intends to recommend annually in the foreseeable future the distribution to all its shareholders of not less than 50% of the Group's distributable annual profit as dividend.

The declaration of dividends is subject to the absolute discretion of the Board and any final dividend for the year is subject to shareholders' approval. The amounts of dividends actually distributed to the shareholders will be subject to the absolute discretion of the Board and will depend upon a number of factors, including the Group's earnings, investment requirements, working capital requirements, general financial conditions and any factors considered relevant by the Board.

Potential investors should be reminded that the historical records of the dividends paid by the Group have no correlation to the Group's future dividend policy, which is subject to change from time to time. There is no assurance that dividends of similar amount or at similar rate will be made in the future and past dividend payments referred to above should not be used as a reference or basis to determine the amount of dividends payable in the future.

Working Capital

The Directors are of the opinion that, taking into account the present available banking facilities and internal resources of the Group and the estimated net proceeds of the Offering, the Group (including the Original Group and the Acquired Stores) has sufficient working capital for its requirements in the next 12 months commencing from the date of this prospectus.

FINANCIAL INFORMATION

Distributable Reserves

As at 30th June, 2005, being the latest practicable date for the purpose of the disclosure of balance sheet items, the Company had not been incorporated and hence, there were no reserves available for distribution.

PROPERTY VALUATION

Vigers Appraisal & Consulting Limited, an independent property valuer, has valued the property interests of the Group as at 31st August, 2005. The text of the letter, summary of valuation and the valuation certificates are set out in Appendix V to this prospectus.

A reconciliation of the net book value of the relevant land use rights and properties as at 30th June, 2005 to their fair value as stated in Appendix V to this prospectus is as follows:

	<i>RMB' million</i>
Net book value at 30th June, 2005	338
Depreciation/amortisation for the two months ended 31st August, 2005	<u>(4)</u>
Net book value at 31st August, 2005	334
Valuation surplus	<u>1,127</u>
Valuation amount at 31st August, 2005*	<u><u>1,461</u></u>

* The RMB1,461 million valuation amount represents the market value as at 31st August, 2005 of the properties owned by subsidiaries of the Company in Wuxi (RMB619 million) and Xi'an (RMB317 million), and the market value attributable to the Group as at 31st August, 2005 of the properties owned by joint ventures of the Group (accounted for by proportionate consolidation) in Yangzhou (RMB57 million) and Beijing (RMB468 million) as stated in Appendix V to this prospectus.

FINANCIAL INFORMATION

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The net tangible assets of the Combined Group are adjusted as follows:

	Net tangible assets of the Combined Group attributable to the shareholders of the Company <i>RMB'000</i> <i>(Note 1)</i>	Estimated net proceeds of the Offering <i>RMB'000</i> <i>(Note 2)</i>	Unaudited pro forma adjusted net tangible assets <i>RMB'000</i>	Unaudited pro forma adjusted net tangible assets per Share <i>RMB</i> <i>(Note 3)</i>	Unaudited pro forma adjusted net tangible assets per Share <i>HK\$</i>
Based on the Offer Price of HK\$8.40 per Share	<u>701,046</u>	<u>918,320</u>	<u>1,619,366</u>	<u>2.93</u>	<u>2.82</u>
Based on the Offer Price of HK\$9.80 per Share	<u>701,046</u>	<u>1,075,360</u>	<u>1,776,406</u>	<u>3.22</u>	<u>3.10</u>

Notes:

- (1) The net tangible assets of the Combined Group attributable to shareholders of the Company as at 30th June, 2005 is prepared on the basis set out in Appendix III of this prospectus and has not taken into account the dividends of RMB204.3 million declared and paid subsequent to 30th June, 2005.
- (2) The estimated net proceeds of the Share Offer are based on the Offer Shares and the Offer Price, after deduction of underwriting fees and related expenses payable by the Company.
- (3) The unaudited pro forma adjusted net tangible asset value per Share is arrived at after the adjustments referred to in the preceding paragraph and on the basis that a total of 552,000,000 Shares are expected to be in issue immediately following the completion of the Share Offer and the Capitalisation Issue but takes no account of any Shares which may fall to be allotted and issued pursuant to the exercise of options granted under the Share Option Scheme, or which may be allotted and issued or purchased by the Company pursuant to the general mandates for the allotment and issue or purchase of Shares granted to the Directors as referred to in the section headed "Share capital" in this prospectus.
- (4) With reference to the valuation of the property interests of the Group as set out to Appendix V to this prospectus, the aggregate revalued amount of the property interests of the Group was approximately RMB1,461 million. The net book value of these properties as at 31st August, 2005 was approximately RMB334 million. The revaluation surplus is approximately RMB1,127 million and which has not been included in the above adjusted net tangible assets of the Group. Such a revaluation surplus has not been recorded in the Financial Information of the Group set out in Appendix I and will not be recorded in the financial statements of the Group for the year ending 31st December, 2005 as the Group's property interests are stated at cost. If such revaluation surplus would be included to the financial statements of the Group for the year ending 31st December, 2005, the additional depreciation charge would amount to approximately RMB37 million.

NO MATERIAL ADVERSE CHANGE

Save for the dividends declared and paid subsequent to 30th June, 2005 as disclosed under the paragraph headed "Dividends" in this section, the Directors confirm there has been no material adverse change in the financial or trading position or prospects of the Group since 30th June, 2005 (being the date to which the latest financial statements of the Group were made up).

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS AND STRATEGIES

The Group's long term goal is to be the largest department store chain in the PRC. The Group intends to expand the "Parkson" department store network in the PRC to capitalise on the continued growth of the domestic retail industry and to enhance further the economies of scale of the Group's existing retail platform. The Group aims to achieve this goal by adopting the following strategies:

Grow its department store chain through expansion and gain market share through consolidation and merger and acquisition

The Group intends to increase the number of stores it owns and operates, in particular in certain major, mature cities in which it already has a presence such as Beijing, Shanghai and Chongqing. The Group also intends to open new stores in other cities in the PRC, such as in the Northeast region, to enhance further the Group's brand image and to increase the awareness and identity of the "Parkson" brand. The Group's aim is to become the market-leading department store chain in certain key cities such as Beijing and Shanghai. The Group will continue its strategy of opening stores in prime retail locations and in particular in major new shopping developments. Additionally, the Group will renovate and upgrade the look of some of its stores. The Group intends to expand its retail network both by opening new "greenfield" stores and acquiring existing stores and re-branding them under the "Parkson" name and also potentially in the future acquiring more of the managed stores from their current owners. The Group intends to expand principally by increasing the number of owner-operated stores in its portfolio but in appropriate cases it will also grow by increasing the number of "Parkson" branded stores which it manages on behalf of third parties and for which it receives management fees.

Upgrade stores to continue to move further upmarket

The Group intends to move the "Parkson" brand further upmarket in the PRC by focusing on higher-end brand names and direct suppliers, in particular in the Group's flagship stores in Beijing and Shanghai where the Group intends to increase the proportion of upmarket, international brands in its stores and alter its product mix to focus even more on fashion and cosmetics lines. The Group also intends to target the more affluent group of customers in the PRC by adopting an improved "lifestyle" concept.

Further develop relationships with brands, in particular international brands seeking to enter the PRC market

The Group aims to develop and strengthen further its relationships with certain key brands and increasingly to provide a more uniform range of brands in its major stores throughout the PRC. Furthermore, as international brands increasingly look to enter the PRC retail market for the first time or to expand and diversify their existing sales channels in the PRC, the Group aims to leverage its strengths to position itself as the partner of choice for such brands and increasingly to enter into strategic alliance arrangements with them.

FUTURE PLANS AND USE OF PROCEEDS

Continue to upgrade IT systems

The Group believes that investment in IT and management systems is an important component in its success. The Group intends to continue that investment and to upgrade further its IT systems, including upgrading its existing servers and network infrastructure and investing in entranced CRM and B2B platforms to cater for the larger scale and increasingly sophisticated retail business of the Group.

USE OF PROCEEDS

The net proceeds of the Offering after deducting related expenses, and assuming an Offer Price of HK\$9.10 per Share (being the mid-point of the stated range of the Offer Price of between HK\$8.40 and HK\$9.80 per Share) are estimated to amount to approximately HK\$959 million. To effect the Group's future plans and strategy (details of which are more particularly set out in the paragraph headed "Future plans and strategies" under the section headed "Future plans and use of proceeds" in this prospectus), the Group currently intends to apply the net proceeds as follows:

1. approximately RMB500 million (HK\$481 million) for acquisition of 10 to 14 department stores each having a retailing space of approximately 20,000 sq.m. to 30,000 sq.m. in the next two to three years, which may include department stores owned by third parties or possibly managed stores with an option to acquire;
2. approximately RMB250 million (HK\$240 million) for establishing in the next one to three years new stores in certain major cities in which the Group already has a presence such as Beijing, Shanghai and Chongqing;
3. approximately RMB200 million (HK\$192 million) for refurbishment and renovation of existing stores in order to move the "Parkson" brand further upmarket in the PRC;
4. approximately RMB20 million (HK\$19 million) to upgrade the existing information technology infrastructure; and
5. the remaining amount will be used as general working capital.

Assuming an Offer Price of HK\$9.80 per Share (being the high-end of the stated range of the Offer Price of between HK\$8.40 and HK\$9.80 per Share), the amount of additional net proceeds to be received by the Company are estimated to be approximately HK\$75 million, of which the Directors intend to apply approximately HK\$50 million as additional funds for the acquisition of department stores and the balance of approximately HK\$25 million as additional funds for the establishment of new stores.

Assuming an Offer Price of HK\$8.40 per Share (being the low-end of the stated range of the Offer Price of between HK\$8.40 and HK\$9.80 per Share), the Directors intend that the respective amounts to be applied for each of the above purposes will remain unchanged save for the amount to be applied for refurbishment and renovation of existing stores will be reduced accordingly.

FUTURE PLANS AND USE OF PROCEEDS

To the extent that the net proceeds of the Offering are not immediately required for the above purposes, the Directors presently intend that such proceeds will be placed on short-term deposits with licensed banks and/or authorised financial institutions in Hong Kong.

The net proceeds from the sale of the Sale Shares by the Selling Shareholder in the Offering after deducting the related expenses, and assuming an Offer Price of HK\$9.10 per Share (being the mid-point of the stated range of the Offer Price of between HK\$8.40 and HK\$9.80 per Share) and the Over-allotment Option is not exercised are estimated to amount to approximately HK\$479 million. If the Over-allotment Option is exercised in full, and assuming an Offer Price of HK\$9.10 per Share (being the mid-point of the stated range of the Offer Price of between HK\$8.40 and HK\$9.80 per Share), the Selling Shareholder will receive additional net proceeds of approximately HK\$220 million. The Company will not receive any proceeds from the sale of the Sale Shares by the Selling Shareholder in the Offering. All of the net proceeds from the sale of the Sale Shares by the Selling Shareholder in the Offering will be for the account of the Selling Shareholder.

UNDERWRITING

UNDERWRITERS

Hong Kong Underwriters:

BNP Paribas Peregrine
China International Capital Corporation (Hong Kong) Limited
DBS Asia Capital Limited
Dao Heng Securities Limited
KGI Capital Asia Limited
Shenyin Wanguo Capital (H.K.) Limited
UOB Asia (Hong Kong) Limited

International Placing Underwriters:

BNP Paribas Peregrine
ECM Libra Investment Bank Limited
China International Capital Corporation (Hong Kong) Limited
DBS Asia Capital Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

(a) Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, the Company is offering 16,560,000 Hong Kong Offer Shares (subject to adjustment) for subscription by way of Hong Kong Public Offering on and subject to the terms and conditions of this prospectus and the related application forms and 149,040,000 International Placing Shares (subject to adjustment and to any additional Shares to be sold pursuant to the exercise of the Over-allotment Option) for subscription by way of International Placing on and subject to the terms and conditions of this prospectus.

Subject to (i) the Listing Committee granting listing of, and permission to deal in the Shares and (ii) certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally agreed to apply or procure applications, on the terms and conditions of this prospectus and the related application forms, for the Hong Kong Offer Shares now being offered and which are not taken up under the Hong Kong Public Offering.

Grounds for termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares will be subject to termination by notice in writing from BNP Paribas Peregrine (for itself and on behalf of the Hong Kong Underwriters) if any of the following events occur prior to 8:00 a.m. (Hong Kong time) on the Listing Date:

- (1) there has come to the notice of BNP Paribas Peregrine:
 - (a) that any statement, reasonably considered by BNP Paribas Peregrine to be material, contained in this prospectus, the Application Forms, the preliminary offering circular

UNDERWRITING

and/or the offering circular issued in connection with the Offering was, when the same was issued, or has become, untrue, incorrect or misleading in any material respect in the context of the Offering; or

- (b) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission therefrom reasonably considered by BNP Paribas Peregrine to be material to the Offering; or
 - (c) any material breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Placing Underwriting Agreement (other than on any of the Hong Kong Underwriters or the International Placing Underwriters or BNP Paribas Peregrine); or
 - (d) any change or development involving a prospective change in the conditions, business affairs, prospects or the financial or trading position of any member of the Group which is reasonably considered by BNP Paribas Peregrine to be material in the context of the Offering; or
 - (e) any breach, reasonably considered by BNP Paribas Peregrine to be material, of any of the warranties under the Hong Kong Underwriting Agreement in the context of the Offering;
- (2) there shall develop, occur, exist or come into effect:
- (a) any event, or series of events, beyond the reasonable control of the Hong Kong Underwriters (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war, acts of God, acts of terrorism, riot, public disorder, economic sanctions, outbreak of diseases or epidemics including SARS and H5N1 and any related/mutated forms of such viruses or interruption or delay in transportation) which in the reasonable opinion of BNP Paribas Peregrine has or would have the effect of making any part of the Hong Kong Underwriting Agreement and/or the International Placing Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Offering or pursuant to the underwriting thereof; or
 - (b) any change or development involving a prospective change, or any event or series of events likely to result in any change or development involving a prospective change in local, national, international, financial, economic, political, military, industrial, fiscal, regulatory or market conditions or matters and/or disaster or any monetary or trading settlement systems (including any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the American Stock Exchange, the Nasdaq National Market, the Chicago Board of Options Exchange, the Chicago Mercantile Exchange or, the Chicago Board of Trade, or a material fluctuation in the exchange rate of Hong Kong dollars and/or RMB against any foreign currencies, or any interruption in securities settlement or clearance service or procedures in Hong Kong or anywhere in the world); or

UNDERWRITING

- (c) any new Law or change or development involving a prospective change in existing laws or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in Hong Kong or any other jurisdictions relevant to any member of the Group; or
- (d) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for the United States or by the European Union (or any member thereof) on Hong Kong or any other jurisdictions relevant to any member of the Group; or
- (e) a change or development occurs involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong or any other jurisdictions relevant to any member of the Group; or
- (f) any change or development involving a prospective change or a materialisation of, any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (g) any litigation or claim of material importance of any third party being threatened or instigated against any member of the Group; or
- (h) a valid demand by any creditor for repayment or payment of any indebtedness of any member of the Group or in respect of which any member of the Group is liable prior to its stated maturity; or
- (i) any loss or damage sustained by any member of the Group (howsoever caused and whether or not the subject of any insurance or claim against any person); or
- (j) a petition is presented for the winding-up or liquidation of any member of the Group or any member of the Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group; or
- (k) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary of Hong Kong and/or the Hong Kong Monetary Authority or other competent authority) or other jurisdictions relevant to any member of the Group,

which in the sole opinion of BNP Paribas Peregrine (for itself and on behalf of Hong Kong Underwriters) (1) is or will or could be expected to have a material adverse effect on the business, financial or other condition or prospects of the Company or the Group or any member of the Group or to any present or prospective shareholder in his, her or its capacity as such; or (2) has or will have or could reasonably be expected to have a material adverse effect on the success, marketability or pricing of the Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Placing; or (3) makes it inadvisable, inexpedient or impracticable for the Offering to proceed.

UNDERWRITING

Undertakings

The Company has undertaken to the Hong Kong Underwriters in the Hong Kong Underwriting Agreement and each of them that it will not, and each of the executive Directors of the Company, LDHB and the Selling Shareholder has jointly and severally undertaken to the Hong Kong Underwriters and each of them to procure, except pursuant to the Offering and options which may be granted under the Share Option Scheme and save as mentioned in this prospectus or with the prior written consent of BNP Paribas Peregrine (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, that it will not, and will procure that its subsidiaries not to allot or issue, or agree to allot or issue, Shares or securities convertible into equity securities of the Company (whether or not of a class already listed) (including warrants or other convertible or exchangeable securities) or grant or agree to grant any options, warrants or other rights carrying any right to subscribe for or otherwise acquire any securities or convertible or exchangeable into Shares or other securities of the Company or repurchase Shares or other securities of the Company or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of any Shares or offer to or agree to do any of the foregoing or announce any intention to do so within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date) and in the event of the Company doing any of the foregoing by virtue of the aforesaid consent or exceptions or during the period of six months immediately following the expiry of the first six months after the Listing Date, the Company will take all reasonable steps to ensure that any such act will not create a disorderly or false market for any Shares or other securities of the Company.

Each of LDHB and the Selling Shareholder has jointly and severally undertaken to the Company and the Hong Kong Underwriters and each of them that without the prior written consent of BNP Paribas Peregrine (on behalf of the Hong Kong Underwriters) it shall not directly or indirectly (except, in respect of the Selling Shareholder, pursuant to or in connection with the offer of the Sale Shares pursuant to the Offering, the exercise of the Over-allotment Option and/or the Stock Borrowing Agreement entered into between the Selling Shareholder and BNP Paribas Peregrine as referred to in the paragraph headed “Over-allotment and stabilisation” in the section headed “Structure of the Offering” in this prospectus) and will procure that the relevant registered holder(s) shall not in the period commencing on the date by reference to which disclosure of the shareholding of them is made in this prospectus and ending on a date which is six months from the Listing Date (the “First Six Months”):

- (a) transfer or dispose of, nor enter into any agreements to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of those securities in respect of which they are shown by this prospectus to be the beneficial owner(s) or any interest in such securities (which includes any interest in a company which holds any such securities) or securities that constitute or confer the right to receive such securities or securities convertible into or exercisable or exchangeable for or repayable with such securities; or

UNDERWRITING

- (b) enter into a swap agreement or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of such securities, whether any such swap agreement or other agreement or transaction is to be settled by delivery of such securities or other securities, in cash or otherwise; or
- (c) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraphs (a) and (b) above; or
- (d) announce any intention to enter into or effect any of the transactions referred to in paragraphs (a), (b) or (c) above.

Each of LDHB and the Selling Shareholder has jointly and severally undertaken to the Company and the Hong Kong Underwriters and each of them further that without the prior written consent of BNP Paribas Peregrine (on behalf of the Hong Kong Underwriters) it shall not directly or indirectly and will procure that the relevant registered holder(s) shall not in the period of six months commencing on the date on which the First Six Months expires (the “Second Six Months”) do any of the foregoing if immediately following such action any of LDHB and the Selling Shareholder would cease to be a controlling shareholder of the Company for the purposes of the Listing Rules.

In the event of any of LDHB and the Selling Shareholder doing any of the foregoing by virtue of the aforesaid consent or during the Second Six Months, it shall take all reasonable steps to ensure that any such act will not create a disorderly or false market for any Offer Shares or other securities of the Company.

Each of LDHB and the Selling Shareholder has also undertaken to the Stock Exchange and the Company that within the period from the date of this prospectus and ending on the date which is 12 months from the date on which dealings in the Shares first commence on the Stock Exchange, it shall:

- (1) when it pledges or charges any securities of the Company beneficially owned by it in favour of an authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform the Company of such pledge or charge together with the number of Shares so pledged or charged; and
- (2) when it receives indications, whether verbal or written, from the pledgee or chargee that any of the pledged or charged Shares will be disposed of, immediately inform the Company of such indications.

The Company will inform the Stock Exchange as soon as it has been informed of the matters referred to in (1) and (2) above by any of LDHB and the Selling Shareholder and disclose such matters by way of a press announcement.

UNDERWRITING

The Company has undertaken to the Stock Exchange that, except pursuant to the Offering and options which may be granted under the Share Option Scheme and save as mentioned in this prospectus, no further Shares or securities convertible into equity securities of the Company (whether or not of a class already listed) may be issued by the Company or form the subject of any agreement to such an issue by the Company within the First Six Months (whether or not such issue of Shares or securities will be completed within the First Six Months), except in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

Each of LDHB and the Selling Shareholder has undertaken to the Stock Exchange that, except in respect of the Selling Shareholder, pursuant to or in connection with the offer of the Sale Shares pursuant to the Offering, the exercise of the Over-allotment Option and/or the Stock Borrowing Agreement entered into between the Selling Shareholder and BNP Paribas Peregrine as referred to in the paragraphs headed “Over-allotment and stabilisation” in the section headed “Structure of the Offering” in this prospectus:

- (i) it will not, without the prior written consent of the Stock Exchange and unless in compliance with the requirements of the Listing Rules, commencing from the Latest Practicable Date up to the expiry of the First Six Months, dispose of any of the Shares in respect of which it is shown by this prospectus to be the owner (the “Locked-up Shares”);
- (ii) it will not, without the prior written consent of the Stock Exchange, within the Second Six Months dispose of any of the Locked-up Shares if, immediately following such disposal, any of them would cease to be a controlling shareholder of the Company for the purpose of the Listing Rules; and
- (iii) it will, on disposal of such Locked-up Shares during the Second Six Months, take all reasonable steps to ensure that any such disposal will not create a disorderly or false market for any Offer Shares or other securities of the Company or interests therein.

(b) International Placing

International Placing Underwriting Agreement

In connection with the International Placing, it is expected that the Company and the Selling Shareholder will enter into the International Placing Underwriting Agreement with, inter alia, the International Placing Underwriters, on terms and conditions that are substantially similar to the Hong Kong Underwriting Agreement as described above and on the additional terms described below. Under the International Placing Underwriting Agreement, the International Placing Underwriters will severally agree to subscribe or purchase or procure subscribers or purchasers for the International Placing Shares being offered pursuant to the International Placing. The Selling Shareholder is expected to offer and sell the Sale Shares in the International Placing only and not in the Hong Kong Public Offering.

The Selling Shareholder intends to grant to BNP Paribas Peregrine an Over-allotment Option, exercisable by BNP Paribas Peregrine no later than 30 days after the last day for lodging of applications under the Hong Kong Public Offering, to require the Selling Shareholder to sell up to an aggregate of 24,840,000 additional Sale Shares at the Offer Price in connection with over-allocations in the International Placing, if any.

UNDERWRITING

(c) Underwriting Commission

The Underwriters will receive a commission of 2.5% of the aggregate Offer Price of all the Offer Shares, out of which they will pay any sub-underwriting commission, and the Sponsor will in addition receive a financial advisory fee and a documentation fee in relation to the Offering. Such fee and commission, together with the Stock Exchange listing fees, the Stock Exchange trading fee, the SFC transaction levy, the investor compensation levy, legal and other professional fees, printing and other expenses relating to the Offering which are currently estimated to be approximately HK\$69 million in aggregate (based on an Offer Price of HK\$9.10 per Share, being the mid-point of the stated range of the Offer Price of between HK\$8.40 and HK\$9.80 per Share), assuming Over-allotment Option is not exercised. Such commission, fees and expenses are payable by the Company and the Selling Shareholder in proportion to the number of Offer Shares issued or sold by each under the Offering. Stamp duty (if any) payable in respect of the Sale Shares shall be borne by the Selling Shareholder.

Underwriters' interests in the Company

BNP Paribas Peregrine has been appointed as the compliance adviser of the Company with effect from the Listing Date and the Company shall pay an agreed fee to BNP Paribas Peregrine for its provision of services.

Other than disclosed above and pursuant to the Underwriting Agreements, none of the Underwriters has any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

STRUCTURE OF THE OFFERING

OFFER PRICE AND PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$9.80 and is expected to be not less than HK\$8.40 per Offer Share. Based on the maximum Offer Price of HK\$9.80 per Offer Share, plus 1.0% brokerage fee, 0.005% SFC transaction levy (per side), 0.002% investor compensation levy (per side) and 0.005% Stock Exchange trading fee (per side), one board lot of 500 Shares will amount to a total of HK\$4,949.60.

The Offer Price is expected to be determined by the Company, the Selling Shareholder and BNP Paribas Peregrine (on behalf of the Underwriters) at or before 9:00 a.m. on 23rd November, 2005 (Hong Kong time), or such later time as may be agreed by the Company and BNP Paribas Peregrine but in any event no later than 12:00 noon on 23rd November, 2005 (Hong Kong time).

If, based on the level of interests expressed by prospective professional and institutional investors during the book-building process, BNP Paribas Peregrine (on behalf of the Underwriters, and with the consent of the Company) thinks it appropriate (for instance, if the level of interests is below the indicative Offer Price range), the indicative Offer Price range may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications. In such case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) notice of the reduction of the indicative Offer Price range. Such notice will also include any financial information which may change as a result of any such reduction. **If applications for Hong Kong Offer Shares have been submitted prior to the day which is the latest day for lodging applications under the Hong Kong Public Offering, then even if the Offer Price is so reduced, such applications cannot be subsequently withdrawn.**

If, for any reason, the Offer Price is not agreed between the Company, the Selling Shareholder and BNP Paribas Peregrine (on behalf of the Underwriters) before 12:00 noon on the Price Determination Date, the Offering will not proceed and will lapse.

CONDITIONS

Acceptance of all applications for the Offering will be conditional upon:

- (i) the Listing Committee granting a listing of, and permission to deal in the Shares in issue and to be issued pursuant to the Offering and the Capitalisation Issue and any shares which may be issued under the Share Option Scheme, and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
- (ii) the Offer Price having been duly determined and the execution and delivery of the International Placing Underwriting Agreement on or about the Price Determination Date; and

STRUCTURE OF THE OFFERING

- (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including the waiver of any condition(s) by BNP Paribas Peregrine on behalf of the Underwriters) and not being terminated in accordance with the terms of that agreement or otherwise,

in each case at or before the dates and times specified in the Hong Kong Underwriting Agreement or such later date as BNP Paribas Peregrine may agree with the Company not being later than 30 days after the date of this prospectus. If these conditions are not fulfilled, all application monies will be returned, without interest, on the terms set out in the section headed “How to apply for the Hong Kong Offer Shares”. In the meantime, such monies will be held in a separate bank account with the Receiving Banker or other licensed bank(s) in Hong Kong.

PREFERENCE TO FULL-TIME EMPLOYEES

Up to a maximum of 1,500,000 Hong Kong Offer Shares, representing approximately 9.1% of the total number of Shares initially available under the Hong Kong Public Offering and approximately 0.9% of the Offer Shares, are available for subscription by full-time employees of the Group (excluding the Directors or chief executive of the Company, the existing beneficial owners of Shares and their respective associates) (the “Eligible Employees”) on a preferential basis, if their applications for the Hong Kong Offer Shares are made on the **PINK** application forms. Allocation of these Hong Kong Offer Shares will be based on the written guidelines consistent with the allocation guidelines contained in Practice Note 20 of the Listing Rules and distributed to the Eligible Employees. Under such written guidelines, the allocation will be made on a pro rata basis in an equitable manner based solely on the level of valid applications received from Eligible Employees. The allocation will not be based on the seniority or the length of service of the Eligible Employees. No favour will be given to the Eligible Employees who apply for a large number of Shares and applications made on **PINK** application forms for more than the maximum number of Shares available for subscription by Eligible Employees will be rejected.

OFFER MECHANISM — BASIS OF ALLOCATION OF SHARES

The Offering

The Offering consists of the International Placing and the Hong Kong Public Offering. The 165,600,000 Shares initially offered will comprise 149,040,000 Shares being offered under the International Placing (being 93,840,000 New Shares offered for subscription by the Company and 55,200,000 Sale Shares offered for sale by the Selling Shareholder) and 16,560,000 New Shares being offered under the Hong Kong Public Offering. The 165,600,000 Shares being offered under the Offering will represent 30% of the Company’s enlarged share capital immediately after completion of the Offering and the Capitalisation Issue. Of the total of 165,600,000 Shares comprised in the Offering, 110,400,000 New Shares are offered for subscription by the Company and 55,200,000 Shares are offered for sale by the Selling Shareholder. The Selling Shareholder is expected to offer and sell Shares in the International Placing only and not in the Hong Kong Public Offering. All stamp duty payable in connection with the purchase of the Sale Shares from the Selling Shareholder (if any) will be borne by the Selling Shareholder. The Over-allotment Option is expected to be made available to the International Placing Underwriters and will not be part of the Hong Kong Public Offering.

STRUCTURE OF THE OFFERING

Subject to possible reallocation on the basis set forth below, 16,560,000 Shares, representing 10% of the total number of Shares initially being offered under the Offering, will be offered to the public in Hong Kong under the Hong Kong Public Offering. The Hong Kong Public Offering is open to all members of the public in Hong Kong as well as to institutional and professional investors.

Out of the total 165,600,000 Shares offered pursuant to the Offering, 149,040,000 Shares, representing 90% of the total number of Shares initially being offered under the Offering, will be placed with professional and institutional investors in Hong Kong, the United States, Europe and elsewhere under the International Placing. The International Placing Shares will be offered in Hong Kong, Europe and other jurisdictions outside the United States in offshore transactions, as defined in, and in reliance on, Regulation S, and in the United States to QIBs, as defined in and in reliance on, Rule 144A.

In connection with the Offering, the Selling Shareholder intends to grant to BNP Paribas Peregrine the Over-allotment Option which is exercisable at any time within 30 days from the last date for lodging applications under the Hong Kong Public Offering. Pursuant to the Over-allotment Option, the Selling Shareholder may be required to sell up to an aggregate of 24,840,000 additional Shares (representing 15% of the number of Shares initially being offered under the Offering) to cover over-allocations in the International Placing. BNP Paribas Peregrine may also cover over-allocations in the International Placing by purchasing Shares in the secondary market or by a combination of purchases in the secondary market and the exercise, in part or in full, of the Over-allotment Option. The number of Shares that may be over-allocated will not exceed the maximum number of Shares that may be sold under the Over-allotment Option. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations.

If BNP Paribas Peregrine decides to exercise the Over-allotment Option, it will be exercised solely to cover over-allocations in the International Placing. The International Placing Shares (including any over-allocations) will be allocated prior to the commencement of trading of the Shares on the Stock Exchange.

The levels of indication of interest in the International Placing and the basis of allotment and the results of application under the Hong Kong Public Offering are expected to be published in the South China Morning Post (in English) and in the Hong Kong Economic Times (in Chinese) on or before 29th November, 2005.

The net proceeds from the Offering (excluding the proceeds from Sale Shares), after deducting commissions and expenses and assuming an Offer Price of HK\$9.10 per Offer Share (being the mid-point of the stated range of the Offer Price between HK\$8.40 to HK\$9.80 per Offer Share), are estimated to be approximately HK\$959 million. The Company will not receive any proceeds from the sale of the Sale Shares by the Selling Shareholder in the Offering. All of the net proceeds from the sale of the Sale Shares by the Selling Shareholder in the Offering will be for the account of the Selling Shareholder.

STRUCTURE OF THE OFFERING

The Hong Kong Public Offering

The Company is initially offering 16,560,000 Hong Kong Offer Shares, representing 10% of the total number of Shares initially being offered in the Offering, for subscription by way of a public offer in Hong Kong. The Hong Kong Offer Shares are being offered at the Offer Price. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters, subject to the entering into of the Price Determination Agreement and the other terms and conditions of the Underwriting Agreements.

The total number of Shares available for subscription under the Hong Kong Public Offering (after taking into account of any reallocation referred to below) is to be divided equally into two pools for allocation purposes: pool A and pool B. The Shares in pool A will be allocated on an equitable basis to applicants who have applied for Shares with an aggregate subscription price of HK\$5 million (excluding the brokerage fee, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee payable) or less. The Shares in pool B will be allocated on an equitable basis to applicants who have applied for Shares with an aggregate subscription price of more than HK\$5 million (excluding the brokerage fee, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee payable) and up to the value of pool B. Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Shares in one (but not both) of the pools are undersubscribed, the surplus Shares will be transferred to the other pool to satisfy demand in the pool and be allocated accordingly.

Applicants can only receive an allocation of Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications within either pool or between pools and any application for more than the total number of Shares originally allocated to each pool (i.e., 7,530,000 Shares) are liable to be rejected. Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application form submitted by him that he and any person(s) for whose benefit he is making the application have not received any Shares under the International Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

The allocation of the Shares between the International Placing and the Hong Kong Public Offering is subject to adjustment. If the number of Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Shares initially available for subscription under the Hong Kong Public Offering, then Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of Shares available for subscription under the Hong Kong Public Offering will increase to 49,680,000 Shares, representing 30% of the Shares initially available for subscription or purchase (as the case may be) under the Offering. If the number of Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Shares initially available for subscription under the Hong Kong Public Offering, then the number of Shares to be reallocated to the Hong Kong Public Offering from the International Placing will be increased so that the total number of Shares available for subscription under the Hong Kong Public Offering will be 66,240,000 Shares, representing 40% of the Shares initially available for subscription or purchase (as the case may be) under the Offering. If the number of Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Shares initially available for subscription under

STRUCTURE OF THE OFFERING

the Hong Kong Public Offering, then the number of Shares to be reallocated to the Hong Kong Public Offering from the International Placing will be increased, so that the total number of Shares available for subscription under the Hong Kong Public Offering will increase to 82,800,000 Shares, representing 50% of the Shares initially available for subscription or purchase (as the case may be) under the Offering. In each such case, the additional Shares reallocated to the Hong Kong Public Offering will be allocated equally between pool A and pool B and the number of Shares allocated to the International Placing will be correspondingly reduced.

In addition, if the Hong Kong Public Offering is not fully subscribed, BNP Paribas Peregrine in its discretion may reallocate all or any unsubscribed Shares originally included in the Hong Kong Public Offering to the International Placing.

BNP Paribas Peregrine is the global coordinator and lead manager of the Hong Kong Public Offering which is underwritten at the Offer Price by the Hong Kong Underwriters, on and subject to the terms and conditions of the Underwriting Agreements.

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants but, subject to that, will be made strictly on a pro-rata basis, although this could, where appropriate, consist of balloting. Balloting would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The International Placing

The Company is initially offering 149,040,000 International Placing Shares, comprising 93,840,000 New Shares and 55,200,000 Sale Shares, representing 90% of the total number of Shares initially being offered in the Offering, for subscription or purchase (as the case may be) by way of the International Placing. The International Placing is fully underwritten by the International Placing Underwriters, subject to the entering into of the Price Determination Agreement and the other terms and conditions of the Underwriting Agreements.

The International Placing Underwriters are soliciting from prospective professional and institutional investors indications of interest in acquiring International Placing Shares in the International Placing. Professional investors generally include brokers, dealers and companies (including fund managers) whose ordinary business involves dealing in shares and other securities and entities which regularly invest in shares and other securities. Prospective professional and institutional investors will be required to specify the number of International Placing Shares they would be prepared to acquire either at different prices or at a particular price. This process is known as “book building”. In Hong Kong, retail investors should apply for Shares in the Hong Kong Public Offering, as retail investors applying for International Placing Shares, including retail investors applying through banks and other institutions, are unlikely to be allocated any International Placing Shares.

STRUCTURE OF THE OFFERING

Allocation of the International Placing Shares pursuant to the International Placing is based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to buy further and/or hold or sell its Shares after the Listing. Such allocation is generally intended to result in a distribution of the International Placing Shares on a basis which would lead to the establishment of a broad shareholder base to the benefit of the Company and its shareholders as a whole.

If the Hong Kong Public Offering is not fully subscribed, BNP Paribas Peregrine may reallocate all or any unsubscribed Shares originally included in the Hong Kong Public Offering to the International Placing.

The International Placing Underwriters or selling agents nominated by the International Placing Underwriters shall, on behalf of the Company and the Selling Shareholder, conditionally place the International Placing Shares with professional and institutional investors in Hong Kong, the United States (pursuant to Rule 144A and Regulation S), Europe and other regions. The International Placing of the International Placing Shares shall be subject to the Offering restrictions set out under the section headed “Information about this prospectus and the Offering”.

The International Placing is conditional on the same conditions as set out in the section headed “Conditions” above. The total number of International Placing Shares to be allotted and issued pursuant to the International Placing may change as a result of the clawback arrangement referred to in the section headed “The Hong Kong Public Offering” above, the exercise of the Over-allotment Option and any reallocation of unsubscribed Shares originally included in the Hong Kong Public Offering.

The Corporate Placing

BNP Paribas Peregrine has, as part of the International Placing, entered into a corporate placing agreement with the Corporate Investor for the subscription or purchase of 54,648,000 Shares at the Offer Price by the Corporate Investor as described below:

- The Corporate Investor has agreed to subscribe for or purchase 54,648,000 Shares at the Offer Price. Such number of Shares would represent approximately 36.7% of the initial number of International Placing Shares or 9.9% of the entire issued share capital of the Company immediately after the Offering and the Capitalisation Issue. Currently, the Group does not have any joint venture or substantial business arrangements with the Corporate Investor or Khazanah.
- The Corporate Investor is a wholly-owned subsidiary of Khazanah which is the investment holding arm of the Malaysian Government based in Kuala Lumpur entrusted to manage the commercial assets held by the Malaysian Government and to undertake strategic investments. Khazanah has stakes in more than 30 companies and are involved in various sectors including finance, telecommunications, utilities, communication services, information technology and transportation, in both Malaysia and selected strategic overseas markets in Southeast Asia and India. Khazanah is, in essence, a wholly-owned entity of the Malaysian Government.

STRUCTURE OF THE OFFERING

Conditions Precedent

The subscription obligation of the Corporate Investor is conditional upon the Underwriting Agreements being entered into and having become unconditional on or before the dates and times specified therefor. The Shares to be subscribed by the Corporate Investor will not be affected by any reallocation of the Shares between the International Placing and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in the section headed “The Hong Kong Public Offering” above.

Restrictions on Disposals by the Corporate Investor and Khazanah

The Corporate Investor and Khazanah have agreed that, without the prior written consent of BNP Paribas Peregrine and the Company, the Corporate Investor will not, and Khazanah will procure that the Corporate Investor will not, at any time during the period of six months from the Listing Date (the “Corporate Lock-up Period”), directly or indirectly, dispose of any of the Shares and any shares or other securities of the Company which are derived from the Shares subscribed or purchased by it pursuant to the Corporate Placing (“Corporate Relevant Shares”).

Notwithstanding the above, the Corporate Investor may freely transfer all or part of the Corporate Relevant Shares to its or Khazanah’s direct or indirect wholly-owned subsidiaries during the Corporate Lock-up Period, provided that (a) the subsidiary must give a written undertaking in favour of the Company and BNP Paribas Peregrine agreeing to be bound by the restrictions on disposals as mentioned above prior to such transfer and the Corporate Investor and Khazanah will continue to ensure compliance with such undertaking by the subsidiary as if the Corporate Investor and Khazanah are bound by such undertaking themselves and (b) if such subsidiary is about to or will cease to be qualified as a direct or indirect wholly-owned subsidiary of the Corporate Investor or Khazanah during the Corporate Lock-up Period, the subsidiary will, before ceasing to be so qualified, transfer its entire interest in any such Corporate Relevant Shares to the Corporate Investor or Khazanah or a direct or indirect wholly-owned subsidiary of them.

OVER-ALLOTMENT AND STABILISATION

The Over-allotment Option

In connection with the Offering, the Selling Shareholder intends to grant to BNP Paribas Peregrine the Over-allotment Option, which will be exercisable by BNP Paribas Peregrine up to 22nd December, 2005, the date which is 30 days from the last date for lodging applications under the Hong Kong Public Offering. Pursuant to the Over-allotment Option, the Selling Shareholder may be required to sell at the Offer Price up to an aggregate of 24,840,000 additional Shares, representing 15% of the total number of Offer Shares initially available under the Offering, in connection with over-allocations in the International Placing, if any. In the event that the Over-allotment Option is exercised, a press announcement will be made.

STRUCTURE OF THE OFFERING

Stabilisation Action

In connection with the Offering, BNP Paribas Peregrine or any person acting for it, may over-allocate or effect transactions with a view to supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the issue date. Such transactions, if commenced, may be discontinued at any time. BNP Paribas Peregrine has been or will be appointed as stabilising manager for the purposes of the Offering in accordance with the Securities and Futures (Price Stabilising) Rules made under the SFO and, should stabilising transactions be effected in connection with the Offering, this will be at the absolute discretion of BNP Paribas Peregrine. An announcement will be made to the public within seven days after the end of the stabilising period as required under the Securities and Futures (Price Stabilising) Rules made under the SFO.

Following any over-allotment of Shares in connection with the Offering, BNP Paribas Peregrine or any person acting for it may cover such over-allocation by (among other methods) making purchases in the secondary market or exercising the Over-allotment Option in full or in part, or by any combination of purchases and exercise of the Over-allotment Option. Any such purchases will be made in compliance with all applicable laws and regulatory requirements including the Securities and Futures (Price Stabilising) Rules made under the SFO. The number of Shares which can be over-allocated will not exceed the number of Shares which may be sold upon exercise of the Over-allotment Option, being 24,840,000 Shares representing 15% of the Shares initially available under the Offering.

In order to facilitate the settlement of over-allocations in connection with the Offering, BNP Paribas Peregrine (or its affiliate(s)) may choose to borrow Shares from shareholders of the Company under stock borrowing arrangements, or acquire Shares from other sources, including pending exercise of the Over-allotment Option. Such stock borrowing arrangements may include arrangements agreed between BNP Paribas Peregrine and the Selling Shareholder. For the purposes of these stock borrowing arrangements, a waiver has been granted by the Stock Exchange to the Selling Shareholder from strict compliance with Rule 10.07(1)(a) of the Listing Rules which otherwise restricts the disposal of shares by controlling shareholders following a new listing. The waiver is granted subject to the conditions that:

- (a) the stock borrowing arrangements with the Selling Shareholder under the stock borrowing agreement entered into with, inter alia, BNP Paribas Peregrine may only be effected by BNP Paribas Peregrine for the settlement of over-allocations in connection with the International Placing;
- (b) the maximum number of Shares borrowed from the Selling Shareholder will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option;
- (c) the same number of Shares borrowed from the Selling Shareholder must be returned to it or its nominees (as the case may be) no later than three Business Days following the earlier of (i) the last day for exercising the Over-allotment Option; or (ii) the date on which the Over-allotment Option is exercised in full; and

STRUCTURE OF THE OFFERING

- (d) the Selling Shareholder will not receive any payment or benefit in respect of such stock borrowing arrangement and the stock borrowing arrangement entered into will be conducted in accordance with all applicable laws and regulatory requirements.

The possible stabilising action which may be taken by BNP Paribas Peregrine in connection with the Offering may involve (among other things) (i) over-allotment of Shares, (ii) purchases of Shares, (iii) establishing, hedging and liquidating positions in Shares, (iv) exercising the Over-allotment Option in whole or in part and/or (v) offering or attempting to do any of the foregoing. The stabilising period is expected to end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering.

Specifically, prospective applicants for and investors in Offer Shares should note that:

- BNP Paribas Peregrine may, in connection with any stabilising action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time period for which BNP Paribas Peregrine will maintain such a position;
- liquidation of any such long position by BNP Paribas Peregrine may have an adverse impact on the market price of the Shares;
- no stabilising action can be taken to support the price of the Shares for longer than the stabilising period which will begin on the Listing Date following announcement of the Offer Price and is expected to expire on the 30th day after the date expected to be the latest date for lodging applications under the Hong Kong Public Offering. After this date, when no further action may be taken to support the price of the Shares, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of any security (including the Shares) cannot be assured to stay at or above its Offer Price by the taking of any stabilising action; and
- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

LISTING ON ANY OTHER STOCK EXCHANGE

The Directors are not considering any listing of the Company on any other overseas stock exchange. The Company has not submitted any application nor obtained any approval for the listing of the Shares.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

1. METHODS TO APPLY FOR THE HONG KONG OFFER SHARES

You may apply for the Hong Kong Offer Shares by using one of the following methods:

- using a **WHITE** or **YELLOW** and/or **PINK** application form; or
- electronically instructing HKSCC to cause HKSCC Nominees to apply for Hong Kong Offer Shares on your behalf.

You may not both apply for a WHITE or YELLOW application form and give electronic application instructions to HKSCC.

2. WHICH APPLICATION METHOD YOU SHOULD USE

(a) **WHITE application forms**

Use a **WHITE** application form if you want the Hong Kong Offer Shares to be registered in your own name.

(b) **YELLOW application forms**

Use a **YELLOW** application form if you want the Hong Kong Offer Shares to be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

(c) **PINK application forms**

Use a **PINK** application form if you are a full-time employee of the Group (other than a Director, the chief executive of the Company, an existing beneficial owner of the Shares or their respective associates), want the Hong Kong Offer Shares to be registered in your own name and want your application to be given preferential treatment. Up to 1,500,000 Shares under the Hong Kong Public Offering representing approximately 9.1% of the total number of Shares initially available under the Hong Kong Public Offering and approximately 0.9% of the Offer Shares, are available for subscription by eligible full-time employees of the Group.

Joint applications are not permitted. You may not apply on behalf of other person(s) as a nominee.

(d) **Instruct HKSCC to make an electronic application on your behalf**

Instead of using a **YELLOW** application form, you may electronically instruct HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf via CCASS. Any Hong Kong Offer Shares allocated to you will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

3. WHERE TO COLLECT THE APPLICATION FORMS

- (a) You can collect a **WHITE** application form and a prospectus from:

Any participant of the Stock Exchange

or

BNP Paribas Peregrine Capital Limited

61st Floor, Two International Finance Centre
8 Finance Street
Central, Hong Kong

China International Capital Corporation (Hong Kong) Limited

Suite 2307
23rd Floor
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

DBS Asia Capital Limited

22nd Floor
The Center
99 Queen's Road Central
Hong Kong

Dao Heng Securities Limited

12th Floor
The Center
99 Queen's Road Central
Hong Kong

KGI Capital Asia Limited

27th Floor
ICBC Tower
Citibank Plaza
3 Garden Road
Central
Hong Kong

Shenyin Wanguo Capital (H.K.) Limited

28th Floor
Citibank Tower
Citibank Plaza
3 Garden Road
Central
Hong Kong

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

UOB Asia (Hong Kong) Limited

Suite 601
6th Floor, Aon China Building
29 Queen's Road Central
Hong Kong

or any of the following branches of Standard Chartered Bank (Hong Kong) Limited:

Branches	Address
<i>Hong Kong Island</i>	
Des Voeux Road	4-4A, Des Voeux Road Central, Central, Hong Kong
88 Des Voeux Road	88 Des Voeux Road Central, Central, Hong Kong
Central	Shop no. 16, G/F and Lower G/F, New World Tower, 16-18 Queen's Road Central, Hong Kong
Hennessy Road	399 Hennessy Road, Wanchai, Hong Kong
Leighton Centre	Shop 12-16, UG/F, Leighton Centre, 77 Leighton Road, Causeway Bay, Hong Kong
Quarry Bay	G/F, Westlands Gardens, 1027 King's Road, Quarry Bay, Hong Kong
<i>Kowloon</i>	
Mongkok	Shop B, G/F, 1/F & 2/F, 617-623 Nathan Road, Mongkok, Kowloon
Tsimshatsui	G/F, 10 Granville Road, Tsimshatsui, Kowloon
Cheung Sha Wan	828 Cheung Sha Wan Road, Cheung Sha Wan, Kowloon
Kwun Tong	88-90 Fu Yan Street, Kwun Tong, Kowloon
<i>New Territories</i>	
Tsuen Wan	Shop C, G/F & 1/F, Jade Plaza, no. 298 Sha Tsui Road, Tsuen Wan, New Territories

- (b) You can collect a **YELLOW** application form and a prospectus during normal business hours from 9:00 a.m. on 17th November, 2005 until 12:00 noon on 22nd November, 2005 from:
- (1) the Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or
 - (2) the Customer Service Centre of HKSCC at Upper Ground Floor, V-Heun Building, 128-140 Queen's Road Central, Hong Kong.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- (c) Your broker may have **YELLOW** application forms and this prospectus available.
- (d) You can collect a **PINK** application form from the Company Secretary, SENG SZE Ka Mee, Natalia at 28th Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

4. WHEN TO APPLY FOR THE HONG KONG OFFER SHARES

(a) **WHITE or YELLOW** application forms

Completed **WHITE** or **YELLOW** application forms, with a cheque or banker's cashier order attached, must be lodged by 12:00 noon on 22nd November, 2005, or, if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed "Effect of bad weather conditions on the opening of the application lists" below.

Your completed **WHITE** or **YELLOW** application form, with payment attached, should be deposited in the special collection boxes provided at any of the branches of Standard Chartered Bank (Hong Kong) Limited listed under the paragraph headed "Where to collect the application forms" in this section at the following times:

Thursday, 17th November, 2005 — 9:00 a.m. to 4:00 p.m.
Friday, 18th November, 2005 — 9:00 a.m. to 4:00 p.m.
Saturday, 19th November, 2005 — 9:00 a.m. to 12:00 noon
Monday, 21st November, 2005 — 9:00 a.m. to 4:00 p.m.
Tuesday, 22nd November, 2005 — 9:00 a.m. to 12:00 noon

(b) **PINK** application forms

Completed **PINK** application forms, with a cheque or banker's cashier order attached, must be returned to the Company Secretary, SENG SZE Ka Mee, Natalia at 28th Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong by 5:00 p.m. on 21st November, 2005.

(c) **Electronic application instructions to HKSCC**

CCASS Broker/Custodian Participants should input electronic application instructions at the following times:

Thursday, 17th November, 2005 — 9:00 a.m. to 8:30 p.m.⁽¹⁾
Friday, 18th November, 2005 — 9:00 a.m. to 8:30 p.m.⁽¹⁾
Saturday, 19th November, 2005 — 9:00 a.m. to 3:00 p.m.⁽¹⁾
Monday, 21st November, 2005 — 9:00 a.m. to 8:30 p.m.⁽¹⁾
Tuesday, 22nd November, 2005 — 9:00 a.m. to 12:00 noon⁽¹⁾

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Participants.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on 17th November, 2005 until 12:00 noon on 22nd November, 2005 (24 hours daily, except the last application date).

The latest time for inputting your electronic application instructions via CCASS (if you are a CCASS Participant) is 12:00 noon on 22nd November, 2005 or if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed “Effect of bad weather conditions on the opening of the application lists” below.

(d) **Application lists**

The application lists will be opened from 11:45 a.m. to 12:00 noon on 22nd November, 2005, except as provided in the sub-paragraph headed “Effect of bad weather conditions on the opening of the application lists” below. No proceedings will be taken on applications for the Hong Kong Offer Shares and no allocation of any such Shares will be made until after the closing of the application lists.

(e) **Effect of bad weather conditions on the opening of the application lists**

The application lists will be opened between 11:45 a.m. and 12:00 noon on 22nd November, 2005, subject to weather conditions. The application lists will not be open in relation to the Hong Kong Public Offering if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning signal,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on 22nd November, 2005, or if there are similar extraneous factors as are acceptable to the Stock Exchange. Instead, the application lists will be open between 11:45 a.m. and 12:00 noon on the next Business Day which does not fall within the above circumstances at any time between 9:00 a.m. and 12:00 noon in Hong Kong.

5. **HOW TO APPLY USING A WHITE OR YELLOW AND/OR PINK APPLICATION FORM**

- (a) Obtain a **WHITE** or **YELLOW** and/or **PINK** application form.
- (b) You should read the instructions in this prospectus and the relevant application form carefully. If you do not follow the instructions, your application is liable to be rejected and returned by ordinary post together with the accompanying cheque or banker’s cashier order to you (or the first-named applicant in the case of joint applicants) at your own risk to the address stated on your application form.
- (c) Decide how many Hong Kong Offer Shares you want to purchase. Calculate the amount you must pay on the basis of the maximum Offer Price of HK\$9.80 per Hong Kong Offer Share, plus brokerage fee of 1%, the SFC transaction levy of 0.005% (per side), the investor compensation levy of 0.002% (per side) and the Stock Exchange trading fee of 0.005% (per side). The table below sets out the total amount payable for the specified number of Hong Kong Offer Shares.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Each application must be in one of the numbers set out in the table below:

Table of multiples and payments

No. of Hong Kong Offer Shares applied for	Amount payable on application <i>HK\$</i>	No. of Hong Kong Offer Shares applied for	Amount payable on application <i>HK\$</i>	No. of Hong Kong Offer Shares applied for	Amount payable on application <i>HK\$</i>
500	4,949.60	5,500	54,445.48	20,000	197,983.52
1,000	9,899.18	6,000	59,395.06	30,000	296,975.28
1,500	14,848.77	6,500	64,344.65	40,000	395,967.04
2,000	19,798.35	7,000	69,294.23	50,000	494,958.80
2,500	24,747.95	7,500	74,243.83	60,000	593,950.56
3,000	29,697.53	8,000	79,193.41	70,000	692,942.32
3,500	34,647.13	8,500	84,143.01	80,000	791,934.08
4,000	39,596.70	9,000	89,092.58	90,000	890,925.84
4,500	44,546.30	9,500	94,042.18	100,000*	989,917.60
5,000	49,495.88	10,000	98,991.76	7,530,000*	74,540,795.28

* Thereafter in multiples of 100,000 Shares and up to 7,530,000 Shares, being the total number of Shares originally allocated to each pool A and pool B and the amount payable on such application should be HK\$74,540,795.28.

- (d) Complete the application form in English (save as otherwise indicated) and sign it. Only written signatures will be accepted. Applications made by corporations, whether on their own behalf, or on behalf of other persons, must be stamped with the company chop (bearing the company name) and signed by a duly authorised officer, whose representative capacity must be stated. If you are applying for the benefit of someone else, you, rather than that person, must sign the application form. If it is a joint application, all applicants must sign it. If your application is made through a duly authorised attorney, the Company and the Sponsor (or their respective agents or nominees) may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of your attorney.
- (e) Each **WHITE**, **YELLOW** or **PINK** application form must be accompanied by either one cheque or one banker's cashier order, which must be stapled to the top left-hand corner of the application form.

If you pay by cheque, the cheque must:

- be in Hong Kong dollars;
- be drawn on your Hong Kong dollar bank account in Hong Kong;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- show your account name, which must either be pre-printed on the cheque, or be endorsed on the reverse of the cheque by an authorised signatory of the bank. This account name must correspond with the name of the applicant on the application form. If the cheque is drawn on a joint account, one of the joint account names must be the same as the name of the first-named applicant;
- be made payable to “Horsford Nominees Limited — Parkson Retail Public Offer”; and
- be crossed “Account Payee Only”.

Your application may be rejected if your cheque does not meet all these requirements or is dishonoured on its first presentation.

If you pay by banker’s cashier order, the banker’s cashier order must:

- be issued by a licensed bank in Hong Kong and have your name certified on the back by a person authorised by the bank. The name on the back of the banker’s cashier order and the name on the application form must be the same. If it is a joint application, the name on the back of the banker’s cashier order must be the same as the name of the first-named joint applicant;
- be in Hong Kong dollars;
- be made payable to “Horsford Nominees Limited — Parkson Retail Public Offer”; and
- be crossed “Account Payee Only”.

Your application is liable to be rejected if your banker’s cashier order does not meet all these requirements.

- (f) Lodge your application form in one of the collection boxes by the time and at one of the locations, as respectively referred to in sub-paragraphs 3(a) and 4(a) above.
- (g) If you are applying for Shares using a **PINK** application form, you should return your application form to the Company Secretary by the time and at the location referred to in sub-paragraph 4(b) above.
- (h) Multiple or suspected multiple applications are liable to be rejected. Please see the paragraph headed “How many applications you can make” in the section headed “Terms and conditions of the Hong Kong Public Offering” in this prospectus.
- (i) In order for the **YELLOW** application forms to be valid:
 - If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):
 - the designated CCASS Participant or its authorised signatories must sign in the appropriate box; and
 - the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its CCASS Participant I.D. in the appropriate box.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- If you are applying as an individual CCASS Investor Participant:
 - you must fill in your full name and your Hong Kong Identity Card number; and
 - you must insert your CCASS Participant I.D. and sign in the appropriate box.
 - If you are applying as a joint individual CCASS Investor Participant:
 - you must insert all joint CCASS Investor Participants' names and the Hong Kong Identity Card numbers of all joint CCASS Investor Participants; and
 - you must insert your CCASS Participant I.D. and the authorised signatory or signatories of the CCASS Investor Participant's stock account must sign in the appropriate box.
 - If you are applying as a corporate CCASS Investor Participant:
 - you must insert your company name and your company's Hong Kong business registration number; and
 - you must fill in your CCASS Participant I.D. and stamp your company chop (bearing your company's name) in the presence of the authorised signatory or signatories of the CCASS Investor Participant's stock account in the appropriate box.
 - The signature(s), number of signatories and form of chop, where appropriate, in each **YELLOW** application form should match the records kept by HKSCC. Incorrect or incomplete details of the CCASS Participant or the omission or inadequacy of authorised signatory or signatories (if applicable), CCASS Participant I.D. or other similar matters may render the application invalid.
- (j) Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each application form in the box marked "For nominees" an identification number for each beneficial owner.

6. HOW TO COMPLETE THE APPLICATION FORM

There are detailed instructions on each application form. You should read these instructions carefully. If you do not strictly follow the instructions your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicant(s)) at your own risk at the address stated in the application form.

If the Offer Price as finally determined is less than HK\$9.80 per Share, appropriate refund payments (including the brokerage fee, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful or partially successful applications, without interest. Details of the procedure for refunds are set out below in the paragraph headed "Refund of your money — additional information" under the section headed "Terms and conditions of the Hong Kong Public Offering" in this prospectus.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

7. HOW TO APPLY BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

- (a) CCASS Participants may give electronic application instructions via CCASS to HKSCC to apply for Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.
- (b) If you are a CCASS Investor Participant, you may give electronic application instructions through the CCASS Phone System by calling 2979 7888 or CCASS Internet System at <https://ip.ccass.com> (according to the procedures contained in “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input electronic application instructions for you if you come to:

Customer Service Centre of HKSCC
at Upper Ground Floor,
V-Heun Building,
128-140 Queen’s Road Central,
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

- (c) If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for Hong Kong Offer Shares.
- (d) You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application whether submitted by you or through your CCASS Broker Participant or CCASS Custodian Participant to the Company and the Hong Kong Share Registrar.
- (e) you may give electronic application instructions in respect of a minimum of 500 Hong Kong Offer Shares. Each electronic application instruction in respect of more than 500 Hong Kong Offer Shares must be in one of the multiples set out in the table in the application form.
- (f) Where a **WHITE** application form is signed by HKSCC Nominees on behalf of persons who have given electronic application instructions to apply for the Hong Kong Offer Shares:
 - (i) HKSCC Nominees is only acting as nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** application form or this prospectus; and

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- (ii) HKSCC Nominees does all the things on behalf of each of such persons as stated in sub-paragraph (c) in the paragraph headed “Effect of making any application” under the section headed “Terms and conditions of the Hong Kong Public Offering” in this prospectus.
- (g) For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives, or causes to give, electronic application instructions is a person who may be entitled to compensation under section 40 of the Companies Ordinance.
- (h) If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any electronic instructions to make an application for Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application.
- (i) For the purpose of allocating Hong Kong Offer Shares, HKSCC Nominees shall not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit each such instruction is given shall be treated as an applicant.
- (j) The paragraph headed “Personal data” under the section headed “Terms and conditions of the Hong Kong Public Offering” in this prospectus applies to any personal data held by the Sponsor, the Company and the Hong Kong Share Registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

Warning

Application for Hong Kong Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. The Company, BNP Paribas Peregrine and any parties involved in the Offering take no responsibility for the application and provide no assurance that any CCASS Participant will be allocated any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions to HKSCC through the CCASS Phone System or CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input instructions. If CCASS Investor Participants have problems in connecting to the CCASS Phone System or CCASS Internet System to submit electronic application instructions, they should either:

- (a) **submit the WHITE or YELLOW application form (as appropriate); or**
- (b) **go to HKSCC’s Customer Service Centre to complete an application instruction input request form before 12:00 noon on 22nd November, 2005 or such later time as described under the sub-paragraph headed “Effect of bad weather conditions on the opening of the application lists” above.**

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

8. RESULTS OF ALLOCATIONS

The results of allocations of the Hong Kong Offer Shares under the Hong Kong Public Offering, including applications made under **WHITE**, **YELLOW** and **PINK** application forms and by giving electronic application instructions to HKSCC, which will include the Hong Kong identity card numbers, passport numbers or Hong Kong business registration numbers of successful applicants and the number of the Hong Kong Offer Shares successfully applied for, are expected to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before 29th November, 2005.

TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

1. GENERAL

- (a) If you apply for the Hong Kong Offer Shares in the Hong Kong Public Offering, you will be agreeing with the Company and BNP Paribas Peregrine (on behalf of the Hong Kong Underwriters) as set out below.
- (b) If you electronically instruct HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf, you will have authorised HKSCC Nominees to apply on the terms and conditions set out below, as supplemented and amended by the terms and conditions applicable to the relevant application method.
- (c) In this section, references to “you”, “applicants”, “joint applicants” and other like references shall, if the context so permits, include references to both nominees and principals on whose behalf HKSCC Nominees are applying for the Hong Kong Offer Shares; and references to the making of an application shall, if the context so permits, include references to making applications electronically by giving instructions to HKSCC.
- (d) Applicants should read this prospectus carefully, including other terms and conditions of the Hong Kong Public Offering, the paragraph headed “The Hong Kong Public Offering” under the section headed “Structure of the Offering” in this prospectus, the section headed “How to Apply for the Hong Kong Offer Shares” in this prospectus and the terms and conditions set out in the relevant application form or imposed by HKSCC (as the case may be) prior to making an application.

2. OFFER TO PURCHASE THE HONG KONG OFFER SHARES

- (a) You offer to purchase from the Company at the Offer Price the number of the Hong Kong Offer Shares indicated in your application form (or any smaller number in respect of which your application is accepted) on the terms and conditions set out in this prospectus and the relevant application form.
- (b) For applicants using application forms, a refund cheque in respect of the surplus application monies (if any) representing the Hong Kong Offer Shares applied for but not allocated to you and representing the difference (if any) between the final Offer Price and the maximum Offer Price (including brokerage fee, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee attributable thereto), is expected to be sent to you at your own risk to the address stated on your application form.

Details of the procedure for refunds relating to each of the Hong Kong Public Offering methods are contained below in the paragraphs headed “If your application for the Hong Kong Offer Shares is successful (in whole or in part)” and “Refund of your money — additional information” in this section.

- (c) Any application may be rejected in whole or in part.

TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- (d) Applicants under the Hong Kong Public Offering should note that in no circumstances (save for those provided under section 40 of the Companies Ordinance) can applications be withdrawn once submitted. For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives, or causes to give, electronic application instructions to HKSCC via CCASS is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

3. ACCEPTANCE OF YOUR OFFER

- (a) The Hong Kong Offer Shares will be allocated after the application lists close. The Company expects to announce the final number of Hong Kong Offer Shares, the level of applications under the Hong Kong Public Offering and the basis of allocations of the Hong Kong Offer Shares in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on 29th November, 2005.
- (b) The results of allocations of the Hong Kong Offer Shares under the Hong Kong Public Offering, including the Hong Kong Identity Card numbers, passport numbers or Hong Kong business registration numbers (where applicable) of successful applicants and the number of Hong Kong Offer Shares successfully applied for, will be made available on 29th November, 2005 in the manner described in the paragraph headed “Results of allocations” under the section headed “How to apply for the Hong Kong Offer Shares” in this prospectus.
- (c) The Company may accept your offer to purchase (if your application is received, valid, processed and not rejected) by announcing the basis of allocations and/or making available the results of allocations publicly.
- (d) If the Company accepts your offer to purchase (in whole or in part), there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares in respect of which your offer has been accepted if the conditions of the Offering are satisfied or the Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Offering” in this prospectus.
- (e) You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

4. HOW MANY APPLICATIONS YOU CAN MAKE

- (a) You may make more than one application for the Hong Kong Offer Shares only if:
- You are a **nominee**, in which case you may make an application as a nominee by:
 - (i) giving electronic application instructions to HKSCC (if you are a CCASS Participant); and (ii) lodging more than one application in your own name on behalf of different beneficial owners. In the box on the application form marked “For nominees” you must include:
 - an account number; or

TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

— another identification number

for **each** beneficial owner (or, in the case of joint beneficial owners, for each such joint beneficial owner). If you do not include this information, the application will be treated as being for your benefit.

- You are a full-time employee of the Group and apply on a **PINK** application form, in which case you may also apply for the Hong Kong Offer Shares on a **WHITE** or **YELLOW** application form or electronically through HKSCC (if you are a CCASS Participant or act through a CCASS Broker Participant or a CCASS Custodian Participant).

Otherwise, multiple applications are liable to be rejected.

(b) **All** of your applications for Hong Kong Offer Shares (including the part of the application made by HKSCC Nominees acting on electronic application instructions) will be rejected as multiple applications if you, or you and your joint applicants together or any of your joint applicants:

- make more than one application on a **WHITE** or **YELLOW** application form or by giving electronic application instructions to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Broker or Custodian Participant); or
- apply on one **WHITE** or **YELLOW** application form or by giving electronic application instructions to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Broker or Custodian Participant) for more than 100% of the Hong Kong Offer Shares being initially available in either pool A or pool B to the public as referred to in the paragraph headed “Offer mechanism — basis of allocation of Shares” under the section headed “Structure of the Offering” in this prospectus; or
- make more than one application on a **PINK** application form;
- apply on one **PINK** application form for more than the maximum number of Shares available for subscription by eligible full-time employees of the Group (i.e. 1,500,000 Shares); or
- receive any International Placing Shares under the International Placing.

(c) **All** of your applications for Hong Kong Offer Shares are liable to be rejected as multiple applications if more than one application is made for **your benefit** (including the part of the application made by HKSCC Nominees acting on electronic application instructions) unless you are a full-time employee of the Group who has made an application on a **PINK** application form. If an application is made by an unlisted company and:

- (i) the only business of that company is dealing in securities; and
- (ii) you exercise statutory control over that company, then the application will be treated as being for your benefit.

TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control in relation to a company means you:

- (i) control the composition of the board of directors of that company; or
- (ii) control more than half of the voting power of that company; or
- (iii) hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

5. EFFECT OF MAKING ANY APPLICATION

- (a) By making any application, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee:
 - **instruct** and **authorise** the Company and/or BNP Paribas Peregrine (or their respective agents or nominees) to execute any transfer forms, contract notes or other documents on your behalf and to do on your behalf all other things necessary to effect the registration of any Hong Kong Offer Shares allocated to you in your name(s) or HKSCC Nominees, as the case may be, as required by the Articles and otherwise to give effect to the arrangements described in this prospectus and the relevant application form;
 - **undertake** to sign all documents and to do all things necessary to enable you or HKSCC Nominees, as the case may be, to be registered as the holder of the Hong Kong Offer Shares allocated to you, and as required by the Articles;
 - **represent** and **warrant** that you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act and you are outside the United States when completing the application form (as defined in Regulation S) and are not a U.S. person described under the U.S. Securities Act;
 - **confirm** that you have received a copy of this prospectus and have only relied on the information and representations contained in this prospectus in making your application, and not on any other information or representation concerning the Company and you agree that neither the Company, BNP Paribas Peregrine and the Underwriters nor any of their respective directors, officers, employees, partners, agents, advisers or any other parties involved in the Offering will have any liability for any such other information or representations;
 - **agree** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not revoke or rescind it because of an innocent misrepresentation;

TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- (if the application is made by an agent on your behalf) **warrant** that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application;
- (if the application is made for your own benefit) **warrant** that the application is the only application which will be made for your benefit on a **WHITE** or **YELLOW** application form or by giving electronic application instructions to HKSCC unless you are a full-time employee of the Group who has made an application on a **PINK** application form;
- (if you are an agent for another person) **warrant** that reasonable enquiries have been made of that other person that the application is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** application form or by giving electronic application instructions to HKSCC, and that you are duly authorised to sign the application form or to give electronic application instruction as that other person's agent;
- (if the application is made on a **PINK** application form) warrant that you are a full-time employee of the Group (other than a Director, the chief executive of the Company, an existing beneficial owner of the Shares or their respective associates) and confirm that the application is the only application, other than any application (if any) made on a **WHITE** or **YELLOW** application form or by giving electronic application instructions to HKSCC, which will be made for your benefit;
- **agree** that once your application is accepted, your application will be evidenced by the results of the Hong Kong Public Offering made available by the Company;
- **undertake** and **confirm** that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any International Placing Shares in the International Placing, nor otherwise participate in the International Placing;
- **warrant** the truth and accuracy of the information contained in your application;
- **agree** to disclose to the Company, BNP Paribas Peregrine and their respective agents any information about you or the person(s) for whose benefit you have made the application which they require;
- **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- **undertake** and **agree** to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;

TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- **authorise** the Company to place your name(s) or the name of HKSCC Nominees, as the case may be, on the register of members of the Company as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) (where applicable) and/or any refund cheque (where applicable) to you or (in case of joint applicants) the first-named applicant in the application form by ordinary post at your own risk to the address stated on your application form (except that you have indicated in your application form, you can collect your share certificate(s) and/or refund cheque (where applicable) in person between 9:00 a.m. and 1:00 p.m. on 29th November, 2005 (Hong Kong time) from Tricor Investor Services Limited;
- if the laws of any place outside Hong Kong are applicable to your application, you **agree** and **warrant** that you have complied with all such laws and none of the Company, BNP Paribas Peregrine and the Underwriters nor any of their respective officers or advisers will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus;
- **agree** with the Company, for itself and for the benefit of each shareholder of the Company (and so that the Company will be deemed by its acceptance in whole or in part of the application to have agreed, for itself and on behalf of each shareholder of the Company) to observe and comply with the Companies Law and the Articles;
- **agree** with the Company, each shareholder, director, manager and officer of the Company, and the Company acting for itself and for each director, manager and officer of the Company agrees with each shareholder, to refer all differences and claims arising from the Articles or any rights or obligations conferred or imposed by the Companies Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;
- **agree** with the Company and each shareholder of the Company that Shares are freely transferable by the holders thereof;
- **authorise** the Company to enter into a contract on behalf of you with each director and officer of the Company whereby such directors and officers undertake to observe and comply with their obligations to shareholders stipulated in the Articles;
- **confirm** that you are aware of the restrictions on Offering of the Hong Kong Offer Shares described in this prospectus; and
- **understand** that these declarations and representations will be relied upon by the Company and BNP Paribas Peregrine in deciding whether or not to allocate any Hong Kong Offer Shares in response to your application.

TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- (b) If you apply for the Hong Kong Offer Shares using a **YELLOW** application form, in addition to the confirmations and agreements referred to in (a) above you **agree** that
- any Hong Kong Offer Shares allocated to you shall be registered in the name of HKSCC Nominees and deposited directly into CCASS operated by HKSCC for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant, in accordance with your election on the application form;
 - each of HKSCC and HKSCC Nominees reserves the right (1) **not to accept** any or part of such allotted Hong Kong Offer Shares issued in the name of HKSCC Nominees or **not to accept** such allotted Hong Kong Offer Shares for deposit into CCASS; (2) to cause such allotted Hong Kong Offer Shares to be **withdrawn** from CCASS and transferred into your name at your own risk and costs; and (3) to cause such **allotted Hong Kong Offer Shares to be issued in your name** (or, if you are a joint applicant, to the first-named applicant) and in such a case, to **post the share certificates** for such allotted Hong Kong Offer Shares at your own risk to the address on your application form by ordinary post **or to make available the same for your collection**;
 - each of HKSCC and HKSCC Nominees may adjust the number of allotted Hong Kong Offer Shares issued in the name of HKSCC Nominees;
 - neither HKSCC nor HKSCC Nominees shall have any liability for the information and representations not so contained in this prospectus and the application forms;
 - neither HKSCC nor HKSCC Nominees shall be liable to you in any way.
- (c) In addition, by giving electronic application instructions to HKSCC or instructing your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to do the following additional things and neither HKSCC nor HKSCC Nominees will be liable to the Company nor any other person in respect of such things:
- **instruct** and **authorise** HKSCC to cause HKSCC Nominees (acting as nominee for the CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
 - **instruct** and **authorise** HKSCC to arrange payment of the maximum Offer Price, brokerage fee, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of wholly or partly unsuccessful applications and/or if the final Offer Price is less than the maximum Offer Price of HK\$9.80 per Hong Kong Offer Share, refund the appropriate portion of the application money by crediting your designated bank account;

TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- (in addition to the confirmations and agreements set out in paragraph (a) above) **instruct** and **authorise** HKSCC to cause HKSCC Nominees to do on your behalf the following:
 - **agree** that the Hong Kong Offer Shares to be allocated shall be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of the CCASS Participant who has inputted electronic application instructions on your behalf;
 - **undertake** and **agree** to accept the Hong Kong Offer Shares in respect of which you have given electronic application instructions or any lesser number;
 - **undertake** and **confirm** that you have not applied for or taken up any Offer Shares under the Offering nor otherwise participated in the Offering;
 - (if the electronic application instructions are given for your own benefit) **declare** that only one set of electronic application instructions has been given for your benefit;
 - (if you are an agent for another person) **declare** that you have given only one set of electronic application instructions for the benefit of that other person, and that you are duly authorised to give those instructions as that other person's agent;
 - **understand** that the above declaration will be relied upon by the Company and BNP Paribas Peregrine in deciding whether or not to make any allocation of the Hong Kong Offer Shares in respect of the electronic application instructions given by you and that you may be prosecuted if you make a false declaration;
 - **authorise** the Company to place the name of HKSCC Nominees on the register of members of the Company as the holder of the Hong Kong Offer Shares allocated in respect of your electronic application instructions and to send share certificates and/or refund in accordance with arrangements separately agreed between the Company and HKSCC;
 - **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
 - **confirm** that you have only relied on the information and representations in this prospectus in giving your electronic application instructions or instructing your CCASS Broker Participant or CCASS Custodian Participant to give electronic application instructions on your behalf;
 - **agree** that the Company, BNP Paribas Peregrine and the Underwriters and any of their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Offering are liable only for the information and representations contained in this prospectus;

TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- **agree** (without prejudice to any other rights which you may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;
- **agree** to disclose your personal data to BNP Paribas Peregrine, the Company, the Hong Kong Share Registrar, the Receiving Banker, their respective agents and advisers together with any information about you which they require;
- **agree** that you cannot revoke electronic application instructions before 17th December, 2005, such agreement to take effect as a collateral contract with the Company and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before 17th December, 2005, except by means of one of the procedures referred to in this prospectus. However, you may revoke the instructions before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day) if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- **agree** that once the application of HKSCC Nominees is accepted, neither that application nor your electronic application instructions can be revoked and that acceptance of that application will be evidenced by the results of the Hong Kong Public Offering made available by the Company; and
- **agree** to the arrangements, undertakings and warranties specified in the participant agreement between you and HKSCC and read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of electronic application instructions relating to the Hong Kong Offer Shares.

6. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED HONG KONG OFFER SHARES

Full details of the circumstances in which you will not be allocated Hong Kong Offer Shares are set out in the notes attached to the application forms, and you should read them carefully. You should note in particular the following situations in which Hong Kong Offer Shares will not be allocated to you or your application is liable to be rejected:

(a) **If your application is revoked:**

By completing and submitting an application form or submitting electronic application instructions to HKSCC, you agree that you cannot revoke your application before 17th December, 2005. This agreement will take effect as a collateral contract with the Company, and will become binding when you lodge your application form or submit your electronic application instructions to HKSCC. This collateral contract will be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before 17th December, 2005 except by means of one of the procedures

TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

referred to in this prospectus. For this purpose, acceptance of applications which are not rejected will be constituted by announcement of the basis of allocation and/or making available the results of allocation publicly, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

However, you may revoke your application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day) if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If application(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in English in the South China Morning Post and in Chinese in the Hong Kong Economic Times of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(b) If the allocation of Hong Kong Offer Shares is void:

Your allocation of Hong Kong Offer Shares (and the allocation to HKSCC Nominees, as the case may be) will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing of the applications lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing of the application lists.

(c) If you make applications under the Hong Kong Public Offering as well as the International Placing:

By filling in any of the application forms or giving application instructions to HKSCC electronically, you agree not to apply for International Placing Shares under the International Placing. Reasonable steps will be taken to identify and reject applications under the Hong Kong Public Offering from investors who have received International Placing Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offering.

TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

(d) **If the Company, BNP Paribas Peregrine or their respective agents exercise their discretion to reject your application:**

The Company, BNP Paribas Peregrine (for itself and on behalf of the Hong Kong Underwriters) or their respective agents have full discretion to reject or accept any application, or to accept only part of any application, without having to give any reasons for any rejection or acceptance.

(e) **If:**

- your application is a multiple or a suspected multiple application;
- your application form is not completed correctly;
- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured on its first presentation;
- you or the person for whose benefit you are applying have applied for and/or received or will receive International Placing Shares under the International Placing;
- your application is for more than 100% of the Hong Kong Offer Shares being initially available in either pool A or pool B to the public as referred to in the paragraph headed "Offer mechanism — basis of allocation of Shares" under the section headed "Structure of the Offering" in this prospectus;
- any of the Underwriting Agreements does not become unconditional or it is terminated in accordance with the terms thereof or otherwise;
- the Company is of the view that by accepting your application, it would violate applicable securities laws, rules or regulations or other laws, rules or regulations of the jurisdiction, in which your application is completed and/or signed; or

(f) If you are giving **electronic** application instructions to HKSCC to apply for Hong Kong Offer Shares on your behalf, you will also not be allocated any Hong Kong Offer Shares if HKSCC Nominees' application is not accepted.

7. IF YOUR APPLICATION FOR THE HONG KONG OFFER SHARES IS SUCCESSFUL (IN WHOLE OR IN PART)

The Company will not issue temporary documents of title. No receipt will be issued for application monies received.

(a) **If you are applying using a WHITE application form and you elect to receive any share certificate(s) in your name:**

- Refund cheques for these applicants are expected to be despatched on or before 29th November, 2005 to the same address as that for share certificate(s), being the address specified in the relevant application form.

TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- Applicants who apply on **WHITE** application forms and have indicated in their application forms that they wish to collect share certificates and (where applicable) refund cheques in person from the Company's Hong Kong Share Registrar may collect share certificates and (where applicable) refund cheques in person from the Company's Hong Kong Share Registrar, Tricor Investor Services Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on 29th November, 2005.
- Applicants being individuals who opt for personal collection cannot authorise any other person to make collection on their behalf. Corporate applicants who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from the corporation stamped with the corporation's respective chops. Both individuals and authorised representative (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Company's Hong Kong Share Registrar.
- Uncollected share certificates and (where applicable) refund cheques will be despatched by ordinary post at the applicants' own risk to the addresses specified in the relevant application forms.

(b) If: (i) you are applying on a YELLOW application form; or (ii) you are giving electronic application instructions to HKSCC, and in each case you elect to have allocated Hong Kong Offer Shares deposited directly into CCASS:

If your application is wholly or partly successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you (on the application form or electronically, as the case may be), at the close of business on 29th November, 2005 or, under certain contingent situations, on any other date as shall be determined by HKSCC or HKSCC Nominees.

- **If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant) on a YELLOW application form:**

For Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.

- **If you are applying as a CCASS Investor Participant on a YELLOW application form:**

The Company is expected to make available the results of the Hong Kong Public Offering, including the results of CCASS Investor Participants' applications, in the manner described in the paragraph headed "Results of allocations" under the section headed "How to apply for the Hong Kong Offer Shares" in this prospectus, on 29th November, 2005. You should check the results made available by the Company and report any discrepancies to HKSCC before 5:00 p.m. on 29th November, 2005 or such other date as shall be determined by HKSCC or HKSCC

TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System or CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

- **If you have given electronic application instructions to HKSCC:**

The Company is expected to make available the application results of the Hong Kong Public Offering, including the results of CCASS Participants' applications (and in the case of CCASS Broker Participants and CCASS Custodian Participants, the Company shall include information relating to the beneficial owner), your Hong Kong identity card/passport/Hong Kong business registration number or other identification code (as appropriate) in the manner described in the paragraph headed "Results of allocations" under the section headed "How to apply for the Hong Kong Offer Shares" in this prospectus, on 29th November, 2005. You should check the results made available by the Company and report any discrepancies to HKSCC before 5:00 p.m. on 29th November, 2005 or any other date HKSCC or HKSCC Nominees chooses.

- **If you are instructing your CCASS Broker Participant or CCASS Custodian Participant to give electronic application instructions to HKSCC on your behalf:**

You can also check the number of Hong Kong Offer Shares allocated to you and the amount of refund (if any) payable to you with that CCASS Broker Participant or CCASS Custodian Participant.

- **If you are applying as a CCASS Investor Participant by giving electronic instruction to HKSCC:**

You can also check the number of the Hong Kong Offer Shares allotted to you and the amount of refund (if any) payable to you via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on 29th November, 2005. HKSCC will also make available to you an activity statement showing the number of the Hong Kong Offer Shares credited to your stock account and the amount of refund credited to your designated bank account (if any).

(c) **If you are applying on a PINK application form:**

The Share certificate(s) and/or refund cheque (if any) will be sent to the address on your application form shortly after the date of despatch, which is expected to be on 29th November, 2005, by ordinary post and at your own risk.

No receipt will be issued for application monies paid. The Company will not issue temporary documents of title.

8. REFUND OF YOUR MONEY — ADDITIONAL INFORMATION

- (a) You will be entitled to a refund (any interest accrued on refund money prior to the date of despatch of refund cheques will be retained for the benefit of the Company) if:
- your application is not successful, in which case the Company will refund your application money together with the brokerage fee, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee to you, without interest;
 - your application is accepted only in part, in which case the Company will refund the appropriate portion of your application money, the brokerage fee, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee, without interest;
 - the Offer Price (as finally determined) is less than the price per Offer Share initially paid by the applicant on application, in which case the Company will refund the surplus application money together with the appropriate portion of the brokerage fee, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee, without interest; and
 - the conditions of Offering are not fulfilled in accordance with the paragraph headed “Conditions” under the section headed “Structure of the Offering” in this prospectus.
- (b) If you apply on a **YELLOW** application form, you may collect your refund cheque (if any) in person from the Hong Kong Share Registrar on 29th November, 2005. The procedure for collection of refund cheques for **YELLOW** application form applicants is the same as that for **WHITE** application form applicants set out in sub-paragraph (a) of the paragraph headed “If your application for the Hong Kong Offer Shares is successful (in whole or in part)” in this section.
- (c) If you are applying by giving electronic instructions to HKSCC to apply on your behalf, all refunds are expected to be credited to your designated bank account (if you are applying as a CCASS Investor Participant) or the designated bank account of your broker or custodian (if you are applying through a CCASS Broker/Custodian Participant) on 29th November, 2005.
- (d) All refunds by cheque will be crossed “Account Payee Only”, and made out to you, or if you are a joint applicant, to the first-named applicant on your application form.
- (e) Refund cheques are expected to be despatched on 29th November, 2005. The Company intends to make special efforts to avoid undue delays in refunding money. Part of your Hong Kong Identity Card number/passport number, or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

9. PERSONAL DATA

The main provisions of the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) (the “Ordinance”) came into effect in Hong Kong on 20th December, 1996. This Personal Information Collection Statement informs the applicant for and holder of the Hong Kong Offer Shares of the policies and practices of the Company and the Hong Kong Share Registrar in relation to personal data and the Ordinance.

(a) Reasons for the collection of your personal data

From time to time it is necessary for applicants for securities or registered holders of securities to supply their latest correct personal data to the Company and the Hong Kong Share Registrar when applying for securities or transferring securities into or out of their names or in procuring the services of the Hong Kong Share Registrar.

Failure to supply the requested data may result in your application for securities being rejected or in delay or inability of the Company or its Hong Kong Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfer of the Hong Kong Offer Shares which you have successfully applied for and/or the despatch of share certificate(s), and/or the despatch of or encashment of refund cheque(s) to which you are entitled.

It is important that holders of securities inform the Company and the Hong Kong Share Registrar immediately of any inaccuracies in the personal data supplied.

(b) Purposes

The personal data of the applicants and the holders of securities may be used, held and/or stored (by whatever means) for the following purposes:

- processing of your application and refund cheque, where applicable and verification of compliance with the terms and application procedures set out in the application forms and this prospectus and announcing results of allocations of the Hong Kong Offer Shares;
- enabling compliance with all applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the name of holders of securities including, where applicable, in the name of HKSCC Nominees;
- maintaining or updating the registers of holders of securities of the Company;
- conducting or assisting to conduct signature verifications, any other verification or exchange of information;

TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- establishing benefit entitlements of holders of securities of the Company, such as dividends, rights issues and bonus issues;
- distributing communications from the Company and its subsidiaries;
- compiling statistical information and shareholder profiles;
- making disclosures as required by any laws, rules or regulations;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable the Company and the Hong Kong Share Registrar to discharge their obligations to holders of securities and/or regulators and/or other purpose to which the holders of securities may from time to time agree.

(c) **Transfer of personal data**

Personal data held by the Company and the Hong Kong Share Registrar relating to the applicants and the holders of securities will be kept confidential but the Company and the Hong Kong Share Registrar, to the extent necessary for achieving the above purposes or any of them, make such enquiries as they consider necessary to confirm the accuracy of the personal data and in particular, they may disclose, obtain or provide (whether within or outside Hong Kong) the personal data of the applicants and the holders of securities to or from any and all of the following persons and entities:

- the Company or its appointed agents such as financial advisers and Receiving Bankers;
- HKSCC and HKSCC Nominees, who will use the personal data for the purposes of operating CCASS (in cases where the applicants have requested for the Hong Kong Offer Shares to be deposited into CCASS);
- any agents, contractors or third party service providers who offer administrative, telecommunications, computer, payment or other services to the Company and/or the Hong Kong Share Registrar in connection with the operation of their businesses;
- the Stock Exchange, the SFC and any other statutory, regulatory or governmental bodies; and
- any other persons or institutions with which the holders of securities have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers.

By signing an application form or by giving electronic application instructions to HKSCC, you agree to all of the above.

TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

(d) Access and correction of personal data

The Ordinance provides the applicants and the holders of securities with rights to ascertain whether the Company and/or the Hong Kong Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. In accordance with the Ordinance, the Company and the Hong Kong Share Registrar have the right to charge a reasonable fee for the processing of any data access request. All requests for access to data or correction of data or for information regarding policies and practices or the kinds of data held should be addressed to the Company for the attention of the Company Secretary or (as the case may be) the Hong Kong Share Registrar for the attention of the Privacy Compliance Officer (for the purposes of the Ordinance).

10. MISCELLANEOUS

(a) Commencement of dealings in the Shares

- Dealings in the Shares on the Stock Exchange are expected to commence at 9:30 a.m. on 30th November, 2005.
- The Shares will be traded in board lots of 500 Shares.
- Any Share certificates in respect of Hong Kong Offer Shares collected or received by successful applicants will not be valid if the Offering is terminated in accordance with the terms of the Hong Kong Underwriting Agreement.

(b) The Shares will be eligible for admission into CCASS

- If the Stock Exchange grants the listing of and permission to deal in the Shares and the stock admission requirements of HKSCC are complied with, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.
- All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.
- All necessary arrangements have been made for the Shares to be admitted into CCASS.

The following is the text of the accountants' report, prepared for the purpose of inclusion in this Prospectus, from the independent reporting accountants of Parkson Retail Group Limited, Ernst & Young, Certified Public Accountants, Hong Kong.



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

17th November, 2005

The Directors
Parkson Retail Group Limited
BNP Paribas Peregrine Capital Limited

Dear Sirs,

We set out below our report on the financial information regarding Parkson Retail Group Limited (the “Company”), its subsidiaries, joint ventures and an associate (hereinafter collectively referred to as the “Group”) for each of the three years ended 31st December, 2002, 2003 and 2004 and the six-month period ended 30th June, 2005 (the “Relevant Periods”), and the six-month period ended 30th June, 2004 (the “30th June, 2004 Financial Information”) prepared on the basis set out in Section 1 below, for inclusion in the prospectus of the Company dated 17th November, 2005 (the “Prospectus”).

The Company was incorporated in the Cayman Islands on 3rd August, 2005 with limited liability under the Companies Law of the Cayman Islands. On 9th November, 2005, through a group reorganisation as set out in the section headed “Corporate reorganisation” in Appendix VII to the Prospectus (the “Group Reorganisation”), the Company has become the holding company of the companies set out in Section 1 below (the “Relevant Companies”).

The Company had not carried out any business since the date of its incorporation, save for the acquisition of the Relevant Companies pursuant to the Group Reorganisation. In consideration for transferring the Relevant Companies to the Company, the Company issued 80,100,000 ordinary shares. The shares issued to PRG Corporation Limited (“PRG Corporation”) have a par value of HK\$0.1 each.

For the purpose of this report, the directors of the Company have prepared the combined financial statements of the Group for the Relevant Periods (“Combined Financial Statements”) in accordance with International Financial Reporting Standards (“IFRS”) as promulgated by the International Accounting Standards Board (the “IASB”), based on the audited financial statements or, where appropriate, management accounts of the Relevant Companies for the Relevant Periods or since their respective dates of registration where this is a shorter period, on the basis set out in Section 1 below. In preparing this report, no adjustments were considered necessary to restate the audited Combined Financial Statements of the Group to conform to the accounting policies referred to in Section 2 to this report, which are in compliance with IFRS. The Combined Financial Statements have been audited by us in accordance with the Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The directors of

the Relevant Companies are responsible for preparing the Combined Financial Statements of the respective companies which give a true and fair view. In preparing the Combined Financial Statements, it is fundamental that appropriate accounting policies are selected and applied consistently. The directors of the Company are responsible for preparing the Combined Financial Statements.

Procedures Performed in Respect of the Relevant Periods

The combined financial information set out in this report (the “Financial Information”) has been prepared based on the Combined Financial Statements of the Group. For the purpose of this report, we have examined the Combined Financial Statements of the Group. Our examination was made in accordance with the Statements of Auditing Standards issued by the HKICPA and we have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” issued by the HKICPA.

Procedures Performed in Respect of the 30th June, 2004 Financial Information

For the purpose of this report, we have performed a review of the 30th June, 2004 Financial Information in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope and provides a lower level of assurance than our audit or examination procedures described in the preceding paragraph and, accordingly, we do not express an audit opinion on the 30th June, 2004 Financial Information.

The directors are responsible for the preparation of the Financial Information. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion thereon.

Opinion in Respect of the Relevant Periods

In our opinion, the Financial Information prepared on the basis set out in Section 1 below gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31st December, 2002, 2003 and 2004, and 30th June, 2005 and of the results and cash flows of the Group for each of the Relevant Periods.

Review Conclusion in Respect of the 30th June, 2004 Financial Information

On the basis of our review, for the purpose of this report, we are not aware of any material modification that should be made to the combined results and combined cash flows of the Group as set out in the 30th June, 2004 Financial Information.

1. CORPORATE INFORMATION AND BASIS OF PRESENTATION

As a result of a group restructuring of Lion Diversified Holdings Berhad (“LDHB”), a public limited liability company incorporated and domiciled in Malaysia and the controlling shareholder of the Company, the Company was incorporated in the Cayman Islands on 3rd August, 2005 with limited liability under the Companies Law of Cayman Islands. On 9th November, 2005, through the Group Reorganisation as set out in the section headed “Corporate reorganisation” in Appendix VII to the Prospectus, the Company has become the holding company of the Relevant Companies set out below.

The particulars of the Relevant Companies, all of which are private companies (or, if registered outside of Hong Kong, have characteristics substantially similar to a private company incorporated in Hong Kong) are set out below:

Company name	Place and date of registration	Paid-up capital	Percentage of equity interest attributable to the Group				Principal activities
			30th				
			31st December, 2002	December, 2003	June, 2004	June, 2005	
			%	%	%	%	
<u>Subsidiaries</u>							
Parkson Investment Pte Ltd. (i) - 新加坡金獅百盛投資有限公司	Singapore 14th October, 1992	S\$10,000,000	100	100	100	100	Investment holding
Rosenblum Investments Pte Ltd. (ii) - 新加坡盛邦投資有限公司	Singapore 26th February, 2000	S\$2	100	100	100	100	Investment holding
Exonbury Limited (iii) - 香港益盛普利有限公司	Hong Kong 27th January, 1994	HK\$2	100	100	100	100	Investment holding
Parkson Supplies Pte Ltd. (iv) - 新加坡金獅百盛供應有限公司	Singapore 27th August, 1993	S\$100	100	100	100	100	Investment holding
Shanghai Lion Parkson Investment Consultant Co., Ltd. (v) - 上海獅質投資諮詢有限公司	People's Republic of China ("The PRC") 3rd March, 1998	USD 500,000	100	100	100	100	Provision of consultancy and management services
Shanghai Nine Sea Parkson Plaza Co., Ltd. (vi) - 上海九海百盛廣場有限公司	The PRC 30th November, 1994	USD 12,000,000	100	100	100	100	Operation of department stores
Wuxi Sanyang Parkson Plaza Co., Ltd. (vii) - 無錫三陽百盛廣場有限公司	The PRC 6th February, 1993	RMB80,000,000	60	60	60	60	Operation of department stores
Xi'an Lucky King Parkson Plaza Co., Ltd. (viii) - 西安立豐百盛廣場有限公司	The PRC 23rd May, 1997	RMB32,500,000	51	51	51	51	Operation of department stores

Company name	Place and date of registration	Paid-up capital	Percentage of equity interest attributable to the Group				Principal activities
			30th				
			31st December, 2002	June, 2003	June, 2004	June, 2005	
			%	%	%	%	
Beijing Century Parkson E-Business Co., Ltd. (ix) - 北京世紀百盛電子商務有限公司	The PRC 13th July, 2000	RMB600,000	51	51	51	100	Research and development of computer software
Chongqing Wanyou Parkson Plaza Co., Ltd. (x) - 重慶萬友百盛廣場有限公司	The PRC 2nd March, 1995	RMB30,000,000	70	70	70	70	Operation of department stores
Mianyang Fulin Parkson Plaza Co., Ltd. (xi) - 綿陽富臨百盛廣場有限公司	The PRC 16th April, 1997	RMB30,000,000	60	60	60	60	Operation of department stores
Joint ventures							
Yangzhou Parkson Plaza Co., Ltd. (xii) - 揚州百盛商業大廈有限公司	The PRC 16th May, 1996	RMB64,643,046	55	55	55	55	Operation of department stores
Parkson Retail Development Co., Ltd. (“Beijing Parkson”) (xiii) - 百盛商業發展有限公司	The PRC 20th October, 1993	USD 12,700,000	56	56	56	56	Operation of department stores
Xinjiang Youhao Parkson Development Co., Ltd. (xiv) - 新疆友好百盛商業發展有限公司	The PRC 11th November, 2002	RMB20,000,000	29	29	29	29	Operation of department stores
<u>Associate</u>							
Shanghai Nine Sea Lion Properties Management Co., Ltd. (xv) - 上海九海金獅物業管理有限公司	The PRC 26th March, 1996	USD 220,000	35	35	35	35	Property management and consultancy services

Notes:

- (i) The financial year end of this company is 30th June, which is the same as LDHB. The audited financial statements for the three years ended 30th June, 2004 were audited by K.C. CHAN & Co. Certified Public Accountants. The financial statements for the year ended 30th June, 2005 have not been audited.
- (ii) The financial year end of this company is 30th June, which is the same as LDHB. The audited financial statements for the three years ended 30th June, 2004 were audited by S.P. Ng & Co. Certified Public Accountants. The financial statements for the year ended 30th June, 2005 have not been audited.
- (iii) The financial year end of this company is 30th June, which is the same as LDHB. The audited financial statements for the three years ended 30th June, 2004 were audited by Tang and Fok Certified Public Accountants. The financial statements for the year ended 30th June, 2005 have not been audited.
- (iv) The financial year end of this company is 30th June, which is the same as LDHB. The audited financial statements for the three years ended 30th June, 2004 were audited by S.P. Ng & Co. Certified Public Accountants. The financial statements for the year ended 30th June, 2005 have not been audited.

- (v) The financial year end of this company is 31st December. The audited financial statements for the year ended 31st December, 2002 were audited by Shanghai Yongda Certified Public Accountants. The audited financial statements for the two years ended 31st December, 2003 and 2004 were audited by Shanghai Xinyu Associated Certified Public Accountants. The financial statements for the period ended 30th June, 2005 have not been audited.
- (vi) The financial year end of this company is 31st December. The audited financial statements for the year ended 31st December, 2002 were audited by Shanghai Yongda Certified Public Accountants. The audited financial statements for the two years ended 31st December, 2003 and 2004 were audited by Shanghai Xinyu Associated Certified Public Accountants. The financial statements for the period ended 30th June, 2005 have not been audited.
- (vii) The financial year end of this company is 31st December. The audited financial statements for the three years ended 31st December, 2004 were audited by Wuxi Zhongxin Certified Public Accountants Co., Ltd. The financial statements for the period ended 30th June, 2005 have not been audited.
- (viii) The financial year end of this company is 31st December. The audited financial statements for the year ended 31st December, 2002 were audited by Shanghai Dong-Hua Certified Public Accountants. The audited financial statements for the year ended 31st December, 2003 were audited by Shanxi Xiqin Certified Public Accountants. The audited financial statements for the year ended 31st December, 2004 were audited by Shanxi Hengxing Certified Public Accountants Co., Ltd. The financial statements for the period ended 30th June, 2005 have not been audited.
- (ix) The financial year end of this company is 31st December. The audited financial statements for the two years ended 31st December, 2003 were audited by Shanghai Xinyu Associated Certified Public Accountants. The audited financial statements for the year ended 31st December, 2004 were audited by Reanda Certified Public Accountants. The financial statements for the period ended 30th June, 2005 have not been audited.
- (x) The financial year end of this company is 31st December. The audited financial statements for the two years ended 31st December, 2003 were audited by Chongqing Qinye Certified Public Accountants. The audited financial statements for the year ended 31st December, 2004 were audited by Chongqing Hualian Certified Public Accountants. The financial statements for the period ended 30th June, 2005 have not been audited.
- (xi) The financial year end of this company is 31st December. The audited financial statements for the two years ended 31st December, 2003 were audited by Sichuan Tongren Certified Public Accountants. The audited financial statements for the year ended 31st December, 2004 were audited by Sichuan Zigong Certified Public Accountants Co., Ltd. The financial statements for the period ended 30th June, 2005 have not been audited.
- (xii) The financial year end of this company is 31st December. The audited financial statements for the three years ended 31st December, 2004 were audited by Jiangsu Suzhong CPA Co., Ltd. The financial statements for the period ended 30th June, 2005 have not been audited.
- (xiii) The financial year end of this company is 31st December. The audited financial statements for the three years ended 31st December, 2004 were audited by Beijing Quxin Certified Public Accountants Co., Ltd. The financial statements for the period ended 30th June, 2005 have not been audited.
- (xiv) The financial year end of this company is 31st December. The audited financial statements for the period from 11st November 2002, date of registration, to 31st December 2003 and the year ended 31st December, 2004 were audited by Xinjiang Chiyuantianhe Certified Public Accountants. The financial statements for the period ended 30th June, 2005 have not been audited.
- (xv) The financial year end of this company is 31st December. The audited financial statements for the three years ended 31st December, 2004 were audited by Shanghai Fuxingmingfang Certified Public Accountants. The financial statements for the period ended 30th June, 2005 have not been audited.

During the Relevant Periods, the Relevant Companies were engaged in the operation or management of department stores in designated cities within the PRC, including Shanghai, Wuxi, Xi'an, Yangzhou, Beijing, Xinjiang, Chongqing and Mianyang.

The Group Reorganisation has been accounted for as a reorganisation of entities under common control in a manner similar to a pooling of interests, since Tan Sri Cheng Heng Jem, the controlling shareholder of LDHB controlled the Company and the Relevant Companies before and after the completion of the Group Reorganisation. Accordingly, the combined income statements, combined statements of changes in equity and combined cash flows statements include the results and cash flows of the Relevant Companies as if the current group structure had been in existence since the beginning of the Relevant Periods, or since their respective dates of registration, where this is a shorter period. The combined balance sheets of the Group as at 31st December, 2002, 2003, 2004, and 30th June, 2005 have been prepared to present the assets and liabilities of the Relevant Companies as if the current group structure had been in existence as at those dates. All material intra-group transactions and balances have been eliminated on combination. The acquisition of Beijing Century Parkson E-Business Co., Ltd. and Xi'an Parkson Shopping Centre Co., Ltd. during the Relevant Periods have been accounted for using acquisition accounting.

As further described in note 10 to the Financial Information, during the period from 1st July, 2005 to 9th November, 2005, the Group acquired the following entities or businesses (the "Acquired Stores") in the PRC which are engaged in the operation of department stores in the PRC:

Beijing Shopping Centre ("北京百盛購物中心")*

Chongqing Wanyou Shopping Plaza Co., Ltd. ("重慶萬友百貨廣場有限公司")*

Guizhou Shenqi Parkson Retail Development Co., Ltd. ("貴州神奇百盛商業發展有限公司")#

Hefei Parkson Xiaoyao Plaza Co., Ltd. ("合肥百盛逍遙廣場有限公司")#

Shanghai Hongqiao Parkson Development Co., Ltd. ("上海虹橋百盛商貿有限公司")#

Shanxi Zhongyue Parkson Commercial and Trading Co., Ltd. ("山西中躍百盛商貿有限公司")*

Xi'an Chang'an Parkson Store Co., Ltd. ("西安長安百盛百貨有限公司")#

Xi'an Shidai Parkson Store Co., Ltd. ("西安時代百盛百貨有限公司")#

Acquisition of equity

* Acquisition of the business and all relevant assets and liabilities

The Accountants' Reports of the Acquired Stores are set out in Appendix II to the Prospectus.

2. PRINCIPAL ACCOUNTING POLICIES

Statement of compliance

The Financial Information has been prepared in accordance with IFRS promulgated by the IASB. IFRS includes International Accounting Standards and interpretations. The Financial Information also complies with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as applicable to Accountants' Reports for inclusion in Listing Documents. The Group has early adopted all applicable new and revised IFRS, which are generally effective for accounting periods, beginning on or after 1st January, 2005, throughout the Relevant Periods.

The above basis of accounting differs from that used in the audited financial statements or, where appropriate, management accounts of the Relevant Companies which were prepared in accordance with the relevant accounting principles and the financial regulations applicable to companies established in the PRC (the “PRC GAAP”) or generally accepted accounting principles in Hong Kong or Singapore.

Use of estimates

The preparation of the financial information of the Group in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial information and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Foreign currencies

The Group’s functional and presentation currency is Renminbi (“RMB”), except for overseas subsidiaries, which use their local currencies. Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the combined income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.

The functional currencies of the overseas subsidiaries are their respective local currencies. As at the reporting date, the assets and liabilities of these overseas subsidiaries are translated into the Group’s presentation currency at the rates of exchange ruling at the balance sheet date and, their combined income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the retranslation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation shall be recognised in the combined income statement.

For the purpose of the combined cash flow statement, the cash flows of the overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries, which arise throughout the year, are translated into RMB at the weighted average exchange rates for the year.

Segment reporting

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured on the following basis:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Commissions from concessionaire sales are recognised upon the sale of goods by the relevant stores.

Promotion income and minimum guaranteed sales commissions

Promotion income and minimum guaranteed sales commissions are recognised according to the underlying contract terms with concessionaires and as these services are provided in accordance herewith.

Interest income

Revenue is recognised on a time proportion basis taking into account the principal outstanding and the effective rate of interest applicable.

Consultancy and management service fees, credit card handling fees, administration fees and service fees

Consultancy and management service fees, credit card handling fees, administration fees and service fees are recognised when the relevant services are rendered.

Dividends

Revenue is recognised when the owners' right to receive the payment has been established.

Rental income, display space leasing fees and equipment leasing income

Revenue is recognised on a time proportion basis over the terms of the respective leases.

Government grants

Government grants are recognised at their fair values when it is probable that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the combined income statement over the expected useful life of the relevant assets by equal annual instalments. Government grants received where the attaching conditions have not yet been fulfilled are recognised as liabilities.

Employee benefits

- (i) Salaries, bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to defined contribution retirement plans are recognised as an expense in the combined income statement as incurred.

Pursuant to the relevant PRC laws and regulations, each of the PRC subsidiaries of the Group is required to participate in a retirement benefits scheme organised by the local municipal government whereby the Group is required to contribute a certain percentage of the salaries of its employees to the retirement benefits scheme. The only obligation of the Group with respect to the retirement benefits scheme is to pay the ongoing required contributions. Contributions made to the defined contribution retirement benefits scheme are charged to the combined income statement as incurred.

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

Income tax

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

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is utilised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Related parties

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

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the combined income statement on the straight-line basis over the lease terms.

Recoverable amount of non-current assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indication of impairment exists, the Group makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflow that are largely independent of those from other assets or groups of assets.

Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill relating to acquisitions is not amortised. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Financial instruments

Financial assets and financial liabilities carried in the balance sheet include cash and cash equivalents, trade receivables and payables, other receivables and payables, investments, and loans and balances with related parties. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies set out in this section.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangements. Interest, dividends and gains or losses relating to a financial instrument classified as a liability are reported as income or expenses. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Property, plant and equipment

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

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

Depreciation of property, plant and equipment is calculated on the straight-line basis over the expected useful life of the asset, after taking into account its estimated residual value of 5% - 10%, as follows:

Buildings	20 - 30 years
Leasehold improvements	5 - 10 years
Motor vehicles	5 years
Equipment and fixtures	5 - 10 years

Construction in progress represents stores and storage facilities under construction, or renovation works in progress and is stated at cost less any impairment loss, and is not depreciated. Cost comprises development and construction expenditure incurred and other direct costs attributable to the development less any accumulated impairment losses. On completion, the relevant assets are transferred to property, plant and equipment at cost less accumulated impairment losses.

The carrying values of property, plant and equipment are reviewed for impairment either annually, or when events or changes in circumstances indicate that the carrying values may not be recoverable (whichever is earlier). If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of the net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflow, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement.

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

Lease prepayments

Lease prepayments represent land use rights paid to the PRC's governmental authorities. Land use rights are carried at cost and are charged to the combined income statements on a straight-line basis over the respective periods of the rights which range from 24 years to 30 years.

Intangible assets

Intangible assets acquired separately are capitalised at cost and from a business acquisition are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets. The useful lives of these intangible assets are assessed to be either finite or indefinite. Amortisation is charged on assets with finite lives.

Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

Intangible assets are tested for impairment annually and in the case of an intangible asset with an indefinite useful life, whenever there is an indication that an intangible asset may be impaired, either individually or at the cash-generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

The computer software is stated in the balance sheet at cost less accumulated amortisation and impairment losses. Amortisation of the computer software is charged to the combined income statement on the straight-line basis over its estimated useful life of 5 years.

Investment properties

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

Investment properties are measured at cost less accumulated depreciation and provision for any impairment in value. Depreciation is calculated on the straight-line basis over the expected useful life of the 30 years.

The carrying values of investment properties are reviewed for impairment either annually, or when events or changes in circumstances indicate that the carrying values may not be recoverable (whichever is earlier). If any such indication exists and where the carrying values exceed the estimated recoverable amount, the investment properties are written down to their recoverable amount. Impairment losses are recognised in the income statement.

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

Subsidiaries

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

Minority interests represent the interests in the Company's subsidiaries, not held by the Group and are presented in the combined balance sheet within equity, separately from the parent shareholders' equity.

Investments in joint ventures

A joint venture is a joint venture entity which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the joint venture.

The Group's investments in its joint ventures are accounted for by proportionate consolidation, which involves recognising a proportionate share of the joint venture's assets, liabilities, income and expenses with similar items in the combined financial statements on a line-by-line basis.

Investments in associates

The Group's investments in its associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group. The investments in associates are carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any impairment in value. The income statement reflects the Group's share of the results of operations of the associates. The Group's investments in its associates include goodwill (net of accumulated amortisation and impairment) on acquisition, which is treated in accordance with the accounting policy for goodwill stated above.

Inventories

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

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

Consumables are stated at cost less any impairment losses.

Trade and other receivables

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

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

An estimate for doubtful debts is made when there is objective evidence that collection of the full amount is no longer probable. Bad debts are written off when identified.

Investments

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments, which are classified as held for trading and available-for-sale, are measured at fair value. Gains or losses on investments held for trading are recognised in the income statement. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Investments are classified as held-to-maturity when those are non derivatives with fixed or determinable payments and fixed maturity that the Group has positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification.

Other long term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

For investments that are actively traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

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

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand and short term deposits, which are not restricted as to use. For the purpose of the combined cash flow statement, cash and cash equivalents consist of cash at banks and in hand and short term deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

Provisions

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

Coupon liabilities

Coupon liabilities are recognised at fair value based on the bonus points granted to customers in accordance with the announced bonus point scheme and Group's past experience on the level of redemption of coupons.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After the initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised, as well as through the amortisation process.

Contingent liabilities and contingent assets

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

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

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

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

3. RESULTS

The following is a summary of the combined results of the Group for the Relevant Periods, prepared on the basis set out in Section 1 above:

	Notes	Year ended 31st December,			Six months ended 30th June,	
		2002 RMB'000	2003 RMB'000	2004 RMB'000	2004 RMB'000 (unaudited)	2005 RMB'000
Revenues	4(a)	540,798	618,430	750,038	372,906	470,969
Other operating revenues	4(a)	<u>21,036</u>	<u>29,343</u>	<u>35,505</u>	<u>18,229</u>	<u>33,993</u>
Total operating revenues		<u>561,834</u>	<u>647,773</u>	<u>785,543</u>	<u>391,135</u>	<u>504,962</u>
Operating expenses						
Purchase of goods and changes in inventories		(174,499)	(198,758)	(243,686)	(122,185)	(154,613)
Staff costs		(59,084)	(67,448)	(69,805)	(38,182)	(45,194)
Depreciation and amortisation		(47,398)	(50,868)	(52,070)	(27,141)	(28,982)
Rental expenses		(45,559)	(53,237)	(53,215)	(26,431)	(35,334)
Other operating expenses		<u>(107,037)</u>	<u>(99,492)</u>	<u>(117,310)</u>	<u>(58,318)</u>	<u>(73,648)</u>
Total operating expenses		<u>(433,577)</u>	<u>(469,803)</u>	<u>(536,086)</u>	<u>(272,257)</u>	<u>(337,771)</u>
Profit from operations	4(b)	128,257	177,970	249,457	118,878	167,191
Finance income/(costs)	4(c)	(5,877)	2,002	3,014	1,256	3,867
Share of profit from an associate		<u>351</u>	<u>422</u>	<u>449</u>	<u>136</u>	<u>231</u>
Profit from operations before income tax		122,731	180,394	252,920	120,270	171,289
Income tax	4(f)	<u>(49,415)</u>	<u>(71,481)</u>	<u>(90,981)</u>	<u>(43,736)</u>	<u>(55,818)</u>
Net profit for the year/period		<u><u>73,316</u></u>	<u><u>108,913</u></u>	<u><u>161,939</u></u>	<u><u>76,534</u></u>	<u><u>115,471</u></u>
Attributable to:						
Equity holders of the parent		67,342	99,911	152,771	72,182	106,511
Minority interests		<u>5,974</u>	<u>9,002</u>	<u>9,168</u>	<u>4,352</u>	<u>8,960</u>
		<u><u>73,316</u></u>	<u><u>108,913</u></u>	<u><u>161,939</u></u>	<u><u>76,534</u></u>	<u><u>115,471</u></u>
Earnings per share — Basic	4(g)	<u><u>0.15</u></u>	<u><u>0.23</u></u>	<u><u>0.35</u></u>	<u><u>0.16</u></u>	<u><u>0.24</u></u>

4. COMBINED INCOME STATEMENTS

(a) Revenues

Revenues represent the net amount received and receivable for goods sold by the Group to outside customers, less returns and allowances, commissions from concessionaire sales, consultancy and management service fees, and rental income during the Relevant Periods, and is analysed as follows:

	Year ended 31st December,			Six months ended 30th June,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Sales of goods — direct sales	203,593	233,779	292,842	147,087	186,609
Commissions from concessionaire sales (<i>Note</i>)	277,813	296,819	357,592	175,604	224,102
Consultancy and management service fees	28,934	38,784	47,220	24,238	29,715
Rental income	<u>30,458</u>	<u>49,048</u>	<u>52,384</u>	<u>25,977</u>	<u>30,543</u>
	<u>540,798</u>	<u>618,430</u>	<u>750,038</u>	<u>372,906</u>	<u>470,969</u>

Note:

The commissions from concessionaire sales are analysed as follows:

	Year ended 31st December,			Six months ended 30th June,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Gross revenue from concessionaire sales	<u>1,304,267</u>	<u>1,403,308</u>	<u>1,627,924</u>	<u>827,539</u>	<u>1,039,346</u>
Commissions from concessionaire sales	<u>277,813</u>	<u>296,819</u>	<u>357,592</u>	<u>175,604</u>	<u>224,102</u>

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

Other operating revenues comprise the following:

	Year ended 31st December,			Six months ended 30th June,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Promotion income	7,258	3,288	5,007	3,358	7,516
Credit card handling fees	2,592	5,890	11,469	6,265	9,422
Equipment leasing income	358	869	1,053	333	1,035
Display space leasing fees	1,176	4,025	4,887	2,151	2,376
Administration fees	1,073	2,465	2,699	1,022	2,044
Services fees	1,254	2,292	2,897	1,615	2,203
Government grants (<i>Note</i>)	1,000	3,500	—	—	1,977
Other income	6,325	7,014	7,493	3,485	7,420
	<u>21,036</u>	<u>29,343</u>	<u>35,505</u>	<u>18,229</u>	<u>33,993</u>

Note: Various local government grants have been received to reward the Group's contributions to the local economy. There were no unfulfilled conditions or contingencies attaching to these government grants.

(b) Profit from operations

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

	Year ended 31st December,			Six months ended	
	2002	2003	2004	30th June,	2005
	RMB'000	RMB'000	RMB'000	2004	2005
				(unaudited)	
Cost of inventories recognised as expenses	<u>174,499</u>	<u>198,758</u>	<u>243,686</u>	<u>122,185</u>	<u>154,613</u>
Staff costs excluding directors' remuneration (Note (d)):					
Wages, salaries and bonuses	46,730	50,704	51,491	29,598	36,220
Pension costs	3,137	4,178	5,512	2,891	2,912
Social welfare and other costs	<u>7,284</u>	<u>10,766</u>	<u>10,556</u>	<u>4,570</u>	<u>5,041</u>
	<u>57,151</u>	<u>65,648</u>	<u>67,559</u>	<u>37,059</u>	<u>44,173</u>
Depreciation and amortisation	47,398	50,868	52,070	27,141	28,982
Operating lease rental in respect of rented properties:					
Minimum lease payments	45,559	53,237	53,215	26,431	35,334
Loss on disposal of fixed assets	1,249	437	2,340	2,340	117
Allowance for doubtful debts	<u>4,913</u>	<u>8,064</u>	<u>5,526</u>	<u>3,596</u>	<u>2,123</u>
Gain on disposal of short term listed investments	<u>(260)</u>	<u>(1,093)</u>	<u>(1,604)</u>	<u>(519)</u>	<u>(1,212)</u>
Gross rental income in respect of Investment properties	<u>—</u>	<u>(2,520)</u>	<u>(2,520)</u>	<u>(1,260)</u>	<u>(1,260)</u>
Sub-letting of properties:					
Base rents	(16,744)	(17,114)	(17,957)	(10,465)	(14,276)
Contingent rents (Note)	<u>(13,714)</u>	<u>(29,414)</u>	<u>(31,907)</u>	<u>(14,252)</u>	<u>(15,007)</u>
	(30,458)	(46,528)	(49,864)	(24,717)	(29,283)
Rental income	(30,458)	(49,048)	(52,384)	(25,977)	(30,543)
Less: Outgoings	<u>1,993</u>	<u>2,131</u>	<u>3,590</u>	<u>1,788</u>	<u>2,957</u>
Net rental income	<u>(28,465)</u>	<u>(46,917)</u>	<u>(48,794)</u>	<u>(24,189)</u>	<u>(27,586)</u>

Note: Contingent rents are calculated based on a percentage of relevant performance of the tenants pursuant to the rental agreements.

(c) Finance income/(costs)

	Year ended 31st December,			Six months ended	
	2002	2003	2004	30th June,	2005
	RMB'000	RMB'000	RMB'000	2004	2005
				RMB'000	RMB'000
				(unaudited)	
Interest expenses	(3,441)	(2,029)	(1,946)	(835)	(2,346)
Interest income	4,384	6,353	5,778	3,050	6,259
Exchange losses	(6,820)	(2,322)	(818)	(959)	(46)
	<u>(5,877)</u>	<u>2,002</u>	<u>3,014</u>	<u>1,256</u>	<u>3,867</u>

(d) Directors' and senior executives' emoluments

Details of the directors' remuneration are as follows:

	Year ended 31st December,			Six months ended	
	2002	2003	2004	30th June,	2005
	RMB'000	RMB'000	RMB'000	2004	2005
				RMB'000	RMB'000
				(unaudited)	
Fees	—	—	—	—	—
Other emoluments:					
Salaries, allowances, bonuses and other benefits	1,867	1,720	2,160	1,080	975
Pension scheme contributions	<u>66</u>	<u>80</u>	<u>86</u>	<u>43</u>	<u>46</u>
	<u>1,933</u>	<u>1,800</u>	<u>2,246</u>	<u>1,123</u>	<u>1,021</u>

During the Relevant Periods, the Group had no independent non-executive directors.

The number of directors whose remuneration fell within the following bands is as follows:

	Year ended 31st December,			Six months ended	
	2002	2003	2004	30th June,	2005
	<i>Number of</i>	<i>Number of</i>	<i>Number of</i>	<i>Number of</i>	<i>Number of</i>
	<i>directors</i>	<i>directors</i>	<i>directors</i>	<i>directors</i>	<i>directors</i>
				(unaudited)	
Nil to RMB1,000,000	2	2	2	3	3
RMB1,000,001 to RMB1,500,000	1	1	1	—	—
RMB1,500,001 to RMB2,000,000	—	—	—	—	—
	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>

There was no arrangement under which directors or supervisors waived or agreed to waive any remuneration during the Relevant Periods.

An analysis of the five individuals whose remuneration was the highest in the Group during the Relevant Periods is as follows:

	Year ended 31st December,			Six months ended	
	2002	2003	2004	30th June,	2005
				2004	
				(unaudited)	
Directors	1	1	1	1	1
Employees	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>

Information relating to the directors' emoluments has been disclosed above. The emoluments paid to the remaining non-director, highest-paid individuals during the Relevant Periods, were as follows:

	Year ended 31st December,			Six months ended	
	2002	2003	2004	30th June,	2005
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Salaries, allowances, bonuses and other benefits	5,808	5,377	6,046	3,139	3,389
Pension scheme contributions	<u>194</u>	<u>213</u>	<u>221</u>	<u>111</u>	<u>117</u>
	<u>6,002</u>	<u>5,590</u>	<u>6,267</u>	<u>3,250</u>	<u>3,506</u>

(e) Retirement benefits scheme

All the PRC subsidiaries and joint ventures of the Group are required to participate in employee pension schemes operated by the relevant local government authorities in the PRC. The PRC government is responsible for the pension liability to these retired employees. The Group is required to make contributions for relevant employees who are registered as permanent residents in the PRC and are within the scope of the relevant PRC regulations at rates ranging from 20% to 22.5% of the employees salaries for the Relevant Periods.

The Group's contributions to pension costs for the years ended 31st December, 2002, 2003 and 2004 and the six months ended 30th June, 2004 and 2005 amounted to approximately RMB3,203,000, RMB4,258,000, RMB5,598,000, RMB2,934,000 and RMB2,958,000, respectively.

(f) Income tax

The Group is subject to income tax on an entity basis on profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operated. Under the relevant PRC income tax law, except for certain preferential treatment available to certain PRC subsidiaries and joint ventures of the Group, the Relevant Companies are subject to corporate income tax at a rate of 33% on their respective taxable income.

In accordance with the approval from the relevant PRC tax authority, Mianyang Fulin Parkson Plaza Co., Ltd. was exempted from PRC local corporate income tax of 3% for the years ended 31st December, 2002, 2003 and 2004 and was granted a 50% reduction in the local corporate income tax rate for the year ended 31st December, 2005.

Pursuant to applicable income tax laws and regulations of the PRC, a new technology development enterprise in an approved new technology development zone is entitled to a preferential tax rate of 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, Beijing Century Parkson E-Business Co., Ltd. was granted an income tax exemption from 2001 to 2003 and a 50% reduction in income tax rate for the three years from 2004 to 2006.

Pursuant to applicable income tax laws and regulations of the PRC, enterprises that carry out encouraged businesses in the western provinces of the PRC are eligible to apply for income tax exemption for a period of three years, provided that they have fulfilled the prescribed conditions. In accordance with the approval from the relevant PRC tax authority, Xinjiang Youhao Parkson Development Co., Ltd. was granted an income tax exemption from 2003 to 2005.

The determination of current and deferred income tax was based on the enacted tax rates.

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

	Year ended 31st December,			Six months ended	
	2002	2003	2004	30th June,	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Current income tax	42,673	67,088	88,364	42,119	56,167
Deferred income tax	<u>6,742</u>	<u>4,393</u>	<u>2,617</u>	<u>1,617</u>	<u>(349)</u>
	<u>49,415</u>	<u>71,481</u>	<u>90,981</u>	<u>43,736</u>	<u>55,818</u>

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

	Year ended 31st December, 2002						Total
	Hong Kong		Singapore		Mainland China		
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000
Profit/(loss) from operations before income tax	<u>(6,297)</u>		<u>130</u>		<u>128,898</u>		<u>122,731</u>
Income tax at the statutory income tax rate	(1,008)	16	29	22	42,536	33	41,557
Tax losses not recognised	1,008		—		1,277		2,285
Tax effect of expenses not deductible for tax purposes	—		—		9,507		9,507
Tax effect of preferential tax rate	—		—		(3,912)		(3,912)
Others	<u>—</u>		<u>(22)</u>		<u>—</u>		<u>(22)</u>
	<u>—</u>		<u>7</u>		<u>49,408</u>		<u>49,415</u>

	Year ended 31st December, 2003						Total
	Hong Kong		Singapore		Mainland China		
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000
Profit/(loss) from operations before income tax	<u>(1,521)</u>		<u>56</u>		<u>181,859</u>		<u>180,394</u>
Income tax at the statutory income tax rate	(266)	17.5	12	22	60,013	33	59,759
Tax losses not recognised	266		—		1,860		2,126
Tax effect of expenses not deductible for tax purposes	—		10		12,607		12,617
Tax effect of preferential tax rate	—		—		(2,985)		(2,985)
Others	<u>—</u>		<u>(36)</u>		<u>—</u>		<u>(36)</u>
	<u>—</u>		<u>(14)</u>		<u>71,495</u>		<u>71,481</u>
	Year ended 31st December, 2004						Total
	Hong Kong		Singapore		Mainland China		
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000
Profit/(loss) from operations before income tax	<u>(375)</u>		<u>(625)</u>		<u>253,920</u>		<u>252,920</u>
Income tax at the statutory income tax rate	(66)	17.5	(138)	22	83,794	33	83,590
Tax losses not recognised	66		138		1,627		1,831
Tax effect of expenses not deductible for tax purposes	—		9		9,587		9,596
Tax effect of preferential tax rate	<u>—</u>		<u>—</u>		<u>(4,036)</u>		<u>(4,036)</u>
	<u>—</u>		<u>9</u>		<u>90,972</u>		<u>90,981</u>

	Six months ended 30th June, 2004						Total
	Hong Kong		Singapore		Mainland China		
	RMB'000	%	RMB'000	%	RMB'000	%	
	(unaudited)		(unaudited)		(unaudited)		
Profit/(loss) from operations before income tax	(855)		—		121,125		120,270
Income tax at the statutory Income tax rate	(150)	17.5	—	22	39,971	33	39,821
Tax losses not recognised	150		—		956		1,106
Tax effect of expenses not deductible for tax purposes	—		—		5,194		5,194
Tax effect of preferential tax rate	—		—		(2,385)		(2,385)
	—		—		43,736		43,736
	Six months ended 30th June, 2005						Total
	Hong Kong		Singapore		Mainland China		
	RMB'000	%	RMB'000	%	RMB'000	%	
	(unaudited)		(unaudited)		(unaudited)		
Profit/(loss) from operations before income tax	5,183		(2,821)		168,927		171,289
Income tax at the statutory Income tax rate	907	17.5	(621)	22	55,746	33	56,032
Tax losses not recognised	—		621		56		677
Tax effect of expenses not deductible for tax purposes	—		9		3,969		3,978
Tax effect of non-taxable income	(907)		—		—		(907)
Tax effect of preferential tax rate	—		—		(3,962)		(3,962)
	—		9		55,809		55,818

(g) Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders for each of the three years ended 31st December, 2002, 2003 and 2004 and for the six-month periods ended 30th June, 2004 and 30th June, 2005, and the weighted average of 441,600,000 shares (being the number of shares of the Company prior to issue of shares to the public) which were deemed to have been in issue during the Relevant Periods.

(h) **Related party transactions**

In addition to such transactions and balances which are disclosed in Note 5(l), Note 5(n), Note 5(q) and Note 5(k) of the Financial Information, the Group had the following significant transactions with related parties:

Continuing transactions:

	<i>Notes</i>	Year ended 31st December,			Six months ended	
		2002	2003	2004	30th June,	2005
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					<i>(unaudited)</i>	
Royalty fee expenses	(i)	<u>2,483</u>	<u>2,483</u>	<u>2,483</u>	<u>1,242</u>	<u>1,242</u>
Consultancy fee income	(ii)	<u>6,380</u>	<u>6,171</u>	<u>11,430</u>	<u>5,708</u>	<u>4,966</u>

Notes:

- (i) Represented royalty fee expenses to Parkson Corporation Sdn. Bhd. ("Parkson Corporation"), a fellow subsidiary of the Company, for the Group's entitlement to use the "Parkson" trademark in the PRC. The royalty fee of US\$300,000 per annum was charged according to the underlying contract.
- (ii) Represented consultancy fee income from the joint ventures of the Group and Qingdao No.1 Parkson Co., Ltd., a fellow subsidiary of the Company. The consultancy fees are determined according to the underlying contracts.

Discontinuing transactions:

	<i>Notes</i>	Year ended 31 December			Six months ended	
		2002	2003	2004	30 June	2005
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					<i>(unaudited)</i>	
Interest expenses	(i)	<u>704</u>	<u>1,870</u>	<u>1,678</u>	<u>801</u>	<u>408</u>

Note:

- (i) Represented interest expenses on the balance due to Serbadagang Holdings Sdn. Bhd. ("Serbadagang"), a fellow subsidiary of the Company, as described in note 5(n) to the Financial Information. Serbadagang waived the interest expenses of RMB422,000 for year 2004. The balance due to Serbadagang was fully repaid on 9th March, 2005.

5. COMBINED BALANCE SHEETS

A summary of the combined balance sheets of the Group as at the end of each of the Relevant Periods prepared on the basis set out in Section 1 above is set out below:

		31st December,			30th June,
	Notes	2002 RMB'000	2003 RMB'000	2004 RMB'000	2005 RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	(a)	581,927	567,653	543,020	546,450
Lease prepayments		57,598	54,754	51,910	50,488
Intangible assets	(b)	—	—	3,112	16,366
Investment properties	(c)	21,390	20,058	18,726	18,060
Interest in an associate	(e)	1,263	1,422	1,548	1,779
Deferred tax assets	(f)	16,605	17,503	20,177	23,171
		<u>678,783</u>	<u>661,390</u>	<u>638,493</u>	<u>656,314</u>
CURRENT ASSETS					
Inventories	(h)	35,302	37,280	36,952	39,288
Trade receivables	(i)	14,190	18,780	23,920	31,559
Investments	(j)	7,000	46,729	76,706	1,742
Prepayments, deposits and other receivables	(k)	160,235	149,261	259,142	215,783
Due from related parties	(l)	117,845	166,046	85,169	181,258
Cash and cash equivalents	(m)	241,458	322,971	408,522	483,229
		<u>576,030</u>	<u>741,067</u>	<u>890,411</u>	<u>952,859</u>
TOTAL ASSETS		<u>1,254,813</u>	<u>1,402,457</u>	<u>1,528,904</u>	<u>1,609,173</u>
CURRENT LIABILITIES					
Interest-bearing loans and borrowings	(n)	(10,357)	(33,079)	(60,434)	(79,200)
Trade payables	(o)	(187,086)	(221,363)	(245,504)	(253,393)
Customers' deposits, other payables and accruals	(p)	(285,582)	(289,425)	(263,300)	(248,296)
Tax payable		(19,683)	(36,360)	(53,623)	(50,500)
Due to related parties	(q)	(170,518)	(162,453)	(77,432)	(55,714)
		<u>(673,226)</u>	<u>(742,680)</u>	<u>(700,293)</u>	<u>(687,103)</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>(97,196)</u>	<u>(1,613)</u>	<u>190,118</u>	<u>265,756</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>581,587</u>	<u>659,777</u>	<u>828,611</u>	<u>922,070</u>
NON-CURRENT LIABILITIES					
Interest-bearing loans and borrowings	(n)	(30,133)	(12,000)	—	—
Long term payables	(r)	(51,408)	(59,913)	(65,306)	(67,924)
Deferred tax liabilities	(f)	(30,423)	(35,714)	(41,005)	(43,650)
		<u>(111,964)</u>	<u>(107,627)</u>	<u>(106,311)</u>	<u>(111,574)</u>
NET ASSETS		<u>469,623</u>	<u>552,150</u>	<u>722,300</u>	<u>810,496</u>
Represented by:					
OWNERS' EQUITY	Section 6	412,699	498,093	655,983	747,707
MINORITY INTERESTS		<u>56,924</u>	<u>54,057</u>	<u>66,317</u>	<u>62,789</u>
TOTAL EQUITY		<u>469,623</u>	<u>552,150</u>	<u>722,300</u>	<u>810,496</u>

Notes:

(a) Property, plant and equipment

		Leasehold	Motor	Equipment	Construction	
	Buildings	improvements	vehicles	and fixtures	in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	("CIP")	RMB'000
At 1st January, 2002, net of accumulated depreciation	309,397	190,363	1,505	94,177	5,683	601,125
Additions	—	5,069	1,627	11,618	7,662	25,976
Transfers from CIP	282	—	—	2,522	(2,804)	—
Disposals	(706)	—	(346)	(900)	—	(1,952)
Depreciation charge for the year	(16,347)	(11,494)	(354)	(15,027)	—	(43,222)
At 31st December, 2002 and 1st January, 2003, net of accumulated depreciation	292,626	183,938	2,432	92,390	10,541	581,927
Additions	2,134	8,325	1,187	12,273	9,482	33,401
Transfers from CIP	5,666	6,572	—	3,225	(15,463)	—
Disposals	—	—	(178)	(805)	—	(983)
Depreciation charge for the year	(17,391)	(13,050)	(499)	(15,752)	—	(46,692)
At 31st December, 2003 and 1st January, 2004, net of accumulated depreciation	283,035	185,785	2,942	91,331	4,560	567,653
Additions	10,520	12,914	1,186	5,982	1,078	31,680
Transfers from CIP	—	4,571	—	998	(5,569)	—
Disposals	—	(33)	(160)	(8,391)	—	(8,584)
Depreciation charge for the year	(17,828)	(14,659)	(659)	(14,583)	—	(47,729)
At 31st December, 2004 and 1st January, 2005, net of accumulated depreciation	275,727	188,578	3,309	75,337	69	543,020
Additions	—	18,473	470	3,488	79	22,510
Transfers from CIP	—	—	—	66	(66)	—
Acquisition	3,180	—	—	4,791	—	7,971
Disposals	(9)	(352)	(88)	(89)	—	(538)
Depreciation charge for the period	(9,022)	(9,649)	(367)	(7,475)	—	(26,513)
At 30th June, 2005, net of accumulated depreciation	<u>269,876</u>	<u>197,050</u>	<u>3,324</u>	<u>76,118</u>	<u>82</u>	<u>546,450</u>
At 1st January, 2002						
Cost	368,831	280,105	3,783	143,095	5,683	801,497
Accumulated depreciation	(59,434)	(89,742)	(2,278)	(48,918)	—	(200,372)
Net carrying amount	<u>309,397</u>	<u>190,363</u>	<u>1,505</u>	<u>94,177</u>	<u>5,683</u>	<u>601,125</u>

	Buildings	Leasehold improvements	Motor vehicles	Equipment and fixtures	Construction in progress ("CIP")	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31st December, 2002 and 1st January, 2003						
Cost	368,407	271,640	4,530	149,315	10,541	804,433
Accumulated depreciation	(75,781)	(87,702)	(2,098)	(56,925)	—	(222,506)
Net carrying amount	<u>292,626</u>	<u>183,938</u>	<u>2,432</u>	<u>92,390</u>	<u>10,541</u>	<u>581,927</u>
At 31st December, 2003 and 1st January, 2004						
Cost	376,207	266,426	4,649	155,956	4,560	807,798
Accumulated depreciation	(93,172)	(80,641)	(1,707)	(64,625)	—	(240,145)
Net carrying amount	<u>283,035</u>	<u>185,785</u>	<u>2,942</u>	<u>91,331</u>	<u>4,560</u>	<u>567,653</u>
At 31st December, 2004 and 1st January, 2005						
Cost	386,727	283,878	5,525	147,391	69	823,590
Accumulated depreciation	(111,000)	(95,300)	(2,216)	(72,054)	—	(280,570)
Net carrying amount	<u>275,727</u>	<u>188,578</u>	<u>3,309</u>	<u>75,337</u>	<u>69</u>	<u>543,020</u>
At 30th June, 2005						
Cost	389,898	301,999	5,546	154,801	82	852,326
Accumulated depreciation	(120,022)	(104,949)	(2,222)	(78,683)	—	(305,876)
Net carrying amount	<u>269,876</u>	<u>197,050</u>	<u>3,324</u>	<u>76,118</u>	<u>82</u>	<u>546,450</u>

Notes:

- (i) All of the Group's buildings are located in the PRC.
- (ii) Certain of the Group's buildings in Beijing, Yangzhou and Xi'an, the PRC, were pledged as security for bank loans of the Group, a joint venture partner and a minority equity holder of the Group. The aggregate carrying value of the pledged buildings amounted to RMB75,478,000, RMB55,508,000, RMB68,146,000 and RMB68,507,000, respectively, as at the end of each of the Relevant Periods.
- (iii) As at 31st December, 2003, certain of the Group's equipment with an aggregate carrying value of RMB2,187,000 was pledged as security for bank loans of the Group.

(b) Intangible assets

The movement of intangible assets is as follows:

	Goodwill <i>RMB'000</i>	Computer software <i>RMB'000</i>
At 31st December, 2002 and 2003 and 1st January, 2004	—	—
Additions	—	3,277
Amortisation	—	(165)
	<u>—</u>	<u>(165)</u>
At 31st December, 2004 and 1st January, 2005, net of accumulated amortisation	—	3,112
Additions	13,635	—
Amortisation	—	(381)
	<u>13,635</u>	<u>(381)</u>
At 30th June, 2005, net of accumulated amortisation	<u>13,635</u>	<u>2,731</u>
At 31st December, 2004 and 1st January, 2005		
Cost	—	3,277
Accumulated amortisation	—	(165)
	<u>—</u>	<u>(165)</u>
Net carrying amount	<u>—</u>	<u>3,112</u>
At 30th June, 2005		
Cost	13,635	3,277
Accumulated amortisation	—	(546)
	<u>13,635</u>	<u>(546)</u>
Net carrying amount	<u>13,635</u>	<u>2,731</u>

The carrying amount of goodwill represented the aggregate amount of goodwill recognised on the acquisition of Beijing Century Parkson E-Business Co., Ltd. of RMB9,343,000 and Xi'an Parkson Shopping Centre Co., Ltd. of RMB4,292,000 as described in notes (g) (i) and (ii) to the Financial Information, respectively.

(c) Investment properties

Investment properties are stated at cost less accumulated amortisation.

	Buildings <i>RMB'000</i>
At 1st January, 2002, net of accumulated amortisation	22,722
Amortisation	<u>(1,332)</u>
At 31st December, 2002, net of accumulated amortisation	21,390
Amortisation	<u>(1,332)</u>
At 31st December, 2003, net of accumulated amortisation	20,058
Amortisation	<u>(1,332)</u>
At 31st December, 2004, net of accumulated amortisation	18,726
Amortisation	<u>(666)</u>
At 30th June, 2005, net of accumulated amortisation	<u>18,060</u>
At 1st January, 2002	
Cost	29,600
Accumulated amortisation	<u>(6,878)</u>
Net carrying amount	<u>22,722</u>
At 31st December, 2002	
Cost	29,600
Accumulated amortisation	<u>(8,210)</u>
Net carrying amount	<u>21,390</u>
Fair value	<u>150,214</u>
At 31st December, 2003	
Cost	29,600
Accumulated amortisation	<u>(9,542)</u>
Net carrying amount	<u>20,058</u>
Fair value	<u>143,186</u>
At 31st December, 2004	
Cost	29,600
Accumulated amortisation	<u>(10,874)</u>
Net carrying amount	<u>18,726</u>
Fair value	<u>137,995</u>
At 30th June, 2005	
Cost	29,600
Accumulated amortisation	<u>(11,540)</u>
Net carrying amount	<u>18,060</u>
Fair value	<u>95,477</u>

Certain of the Group's investment properties in Beijing, the PRC, were pledged as security for bank loans of a joint venture partner of the Group. The aggregate carrying value of the pledged investment properties amounted to RMB17,443,000, RMB16,357,000, RMB17,349,000 and RMB16,806,000, respectively, as at the end of each of the Relevant Periods.

The fair values of the investment properties as at the end of each of the Relevant Periods were determined based on the valuations performed by Vigers Appraisal & Consulting Limited, an independent firm of professional valuers. The fair value represents the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the date of valuation.

During 1999, Beijing Parkson, a joint venture of the Group, and China Arts & Crafts (Group) Company ("China Arts & Crafts") entered into a sale and purchase agreement (the "Transfer Agreement") under which the latter would purchase all the investment properties for approximately RMB270 million. In 2002, China Arts & Crafts made down-payment amounted to approximately RMB242 million to Beijing Parkson and such payments were financed by bank loans which were secured against the properties described in the paragraph above. The Transfer Agreement was terminated on 20th August, 2005 (Note 5 (p)).

(d) Investments in joint ventures

Particulars of the joint ventures are as follows:

Company name	Business structure	Place of establishment	Percentage of equity interest attributable to the Group				Principal activities
			31st December,		30th June,		
			2002	2003	2004	2005	
			%	%	%	%	
Yangzhou Parkson Plaza Co., Ltd.* - 揚州百盛商業大廈有限公司	Corporate	The PRC	55	55	55	55	Operation of department stores
Parkson Retail Development Co., Ltd. - 百盛商業發展有限公司 *	Corporate	The PRC	56	56	56	56	Operation of department stores
Xinjiang Youhao Parkson Development Co., Ltd. - 新疆友好百盛商業發展有限公司	Corporate	The PRC	29	29	29	29	Operation of department stores

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

As at the end of each of the Relevant Periods and for the years/period then ended, the Group's proportionate share of the assets, liabilities, revenues and expenses of the joint ventures is as follows:

	As at 31st December,			As at
	2002	2003	2004	30th June,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2005
				<i>RMB'000</i>
Current assets	137,553	150,354	137,288	184,486
Non-current assets	<u>281,203</u>	<u>273,603</u>	<u>267,664</u>	<u>268,433</u>
	418,756	423,957	404,952	452,919
Current liabilities	(307,099)	(316,877)	(300,537)	(322,772)
Non-current liabilities	<u>(4,066)</u>	<u>(4,683)</u>	<u>(4,797)</u>	<u>(4,864)</u>
Net assets	<u><u>107,591</u></u>	<u><u>102,397</u></u>	<u><u>99,618</u></u>	<u><u>125,283</u></u>

	Year ended 31st December,			Six months ended	
	2002	2003	2004	30th June,	2005
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Revenues	196,839	237,384	283,474	142,491	158,820
Purchase of goods and changes in inventories	(68,377)	(83,680)	(104,067)	(53,589)	(56,444)
Operating expenses	(87,375)	(92,477)	(110,472)	(56,681)	(62,947)
Finance income/(costs)	<u>(2,069)</u>	<u>922</u>	<u>1,214</u>	<u>780</u>	<u>89</u>
Profit before tax	39,018	62,149	70,149	33,001	39,518
Tax	<u>(14,510)</u>	<u>(25,377)</u>	<u>(26,014)</u>	<u>(12,850)</u>	<u>(13,854)</u>
Net profit	<u><u>24,508</u></u>	<u><u>36,772</u></u>	<u><u>44,135</u></u>	<u><u>20,151</u></u>	<u><u>25,664</u></u>

(e) Interest in an associate

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

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Share of net assets	996	1,422	1,548	1,407
Due from an associate	<u>267</u>	<u>—</u>	<u>—</u>	<u>372</u>
	<u>1,263</u>	<u>1,422</u>	<u>1,548</u>	<u>1,779</u>

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

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	<u>6,837</u>	<u>7,812</u>	<u>8,531</u>	<u>10,720</u>
Total liabilities	<u>3,991</u>	<u>3,749</u>	<u>4,108</u>	<u>6,700</u>
Net assets	<u>2,846</u>	<u>4,063</u>	<u>4,423</u>	<u>4,020</u>

	Year ended 31st December,			Six months ended 30th June,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	<u>21,683</u>	<u>25,515</u>	<u>29,479</u>	<u>13,884</u>	<u>15,436</u>
Profit before income tax	1,509	1,975	2,096	634	1,048
Income tax	<u>(506)</u>	<u>(769)</u>	<u>(814)</u>	<u>(246)</u>	<u>(389)</u>
Net profit	<u>1,003</u>	<u>1,206</u>	<u>1,282</u>	<u>388</u>	<u>659</u>
Share of tax attributable to an associate	<u>177</u>	<u>269</u>	<u>285</u>	<u>86</u>	<u>136</u>
Share of profit from an associate	<u>351</u>	<u>422</u>	<u>449</u>	<u>136</u>	<u>231</u>

(f) **Deferred income tax assets and liabilities**

The principal components of the Group's deferred income tax assets and liabilities at the end of each of the Relevant Periods and the movements in deferred income tax for the Relevant Periods are as follows:

	Balance at 1st January, 2002 <i>RMB'000</i>	Recognised in the combined income statements <i>RMB'000</i>	Balance at 31st December, 2002 <i>RMB'000</i>
Deferred income tax assets:			
Depreciation	3,539	443	3,982
Accrued rental expenses	6,951	760	7,711
Accrued coupon provision	—	1,717	1,717
Income tax losses	7,566	(4,371)	3,195
	<u>18,056</u>	<u>(1,451)</u>	<u>16,605</u>
Deferred income tax liability:			
Depreciation	(25,132)	(5,291)	(30,423)
	<u>(7,076)</u>	<u>(6,742)</u>	<u>(13,818)</u>
	Balance at 1st January, 2003 <i>RMB'000</i>	Recognised in the combined income statements <i>RMB'000</i>	Balance at 31st December, 2003 <i>RMB'000</i>
Deferred income tax assets:			
Depreciation	3,982	442	4,424
Accrued rental expenses	7,711	735	8,446
Accrued coupon provision	1,717	2,916	4,633
Income tax losses	3,195	(3,195)	—
	<u>16,605</u>	<u>898</u>	<u>17,503</u>
Deferred income tax liability:			
Depreciation	(30,423)	(5,291)	(35,714)
	<u>(13,818)</u>	<u>(4,393)</u>	<u>(18,211)</u>

	Balance at 1st January, 2004 <i>RMB'000</i>	Recognised in the combined income statements <i>RMB'000</i>	Balance at 31st December, 2004 <i>RMB'000</i>
Deferred income tax assets:			
Depreciation	4,424	(221)	4,203
Accrued rental expenses	8,446	673	9,119
Accrued coupon provision	4,633	2,222	6,855
	<u>17,503</u>	<u>2,674</u>	<u>20,177</u>
Deferred income tax liability:			
Depreciation	(35,714)	(5,291)	(41,005)
	<u>(18,211)</u>	<u>(2,617)</u>	<u>(20,828)</u>
	Balance at 1st January, 2005 <i>RMB'000</i>	Recognised in the combined income statements <i>RMB'000</i>	Balance at 30th June, 2005 <i>RMB'000</i>
Deferred income tax assets:			
Pre-operating expenses	—	1,172	1,172
Depreciation	4,203	(111)	4,092
Accrued rental expenses	9,119	384	9,503
Accrued coupon provision	6,855	1,549	8,404
	<u>20,177</u>	<u>2,994</u>	<u>23,171</u>
Deferred income tax liability:			
Depreciation	(41,005)	(2,645)	(43,650)
	<u>(20,828)</u>	<u>349</u>	<u>(20,479)</u>

A valuation allowance on the deferred tax assets is recorded if it is probable that some portion or all of the deferred income tax assets will not be realised through the recovery of taxes previously paid and/or future taxable income. The allowance is subject to ongoing adjustments based on changes in circumstances that affect the Group's assessment of the realisability of the deferred income tax assets. The Group has reviewed its deferred income tax assets as at 31st December, 2002, 2003, 2004 and 30th June, 2005. Based on projections for future taxable income over the periods in which the deferred income tax assets are deductible, the directors believe that it is probable that the Group will realise the benefits of these temporary differences. Therefore, no valuation allowances were provided for the years ended 31st December, 2002, 2003, 2004 and the six months ended 30th June, 2005, in respect of the deferred income tax assets arising from these temporary differences.

The Group has unprovided deferred income tax assets attributable to bad debt provisions amounting to RMB720,000, RMB2,390,000, RMB3,705,000 and RMB4,281,000, respectively, as at the end of each of the Relevant Periods.

(g) **Business combinations**(i) *Acquisition of Beijing Century Parkson E-Business Co., Ltd.*

On 1st January, 2005, the Group acquired an additional 49% equity interest in Beijing Century Parkson E-Business Co., Ltd., a subsidiary of the Group, at a cash consideration of RMB9,800,000. This acquisition was accounted for under the purchase method and the excess of the consideration over the fair value of the net assets acquired by the Group of RMB9,343,000 was recognised as goodwill. Beijing Century Parkson E-Business Co., Ltd., became a 100% subsidiary of the Group thereafter.

(ii) *Acquisition of Xi'an Parkson Shopping Centre Co., Ltd.*

On 20th January, 2005, Xi'an Lucky King Parkson Plaza Co., Ltd ("Xi'an Lucky King"), a subsidiary of the Group, entered into a sale and purchase agreement with Xi'an Parkson Shopping Centre Co., Ltd. to acquire the business and relevant assets and liabilities of Xi'an Parkson Shopping Centre Co., Ltd. for a cash consideration of RMB1. This acquisition was accounted for under the purchase method and the excess of the consideration over the fair value of the net assets acquired by the Group of RMB4,292,000 was recognised as goodwill.

The fair value of the identifiable assets and liabilities of Xi'an Parkson Shopping Centre Co., Ltd. as at the date of acquisition is:

	Recognised on acquisition RMB'000	Carrying value RMB'000
Property, plant and equipment	7,971	8,286
Inventories	4,118	4,118
Prepayments, deposits and other receivables	69,642	71,515
	<u>81,731</u>	<u>83,919</u>
Interest-bearing loans and borrowings	(40,000)	(40,000)
Trade payables	(33,194)	(33,194)
Customers' deposits, other payables and accruals	(12,829)	(10,725)
	<u>(86,023)</u>	<u>(83,919)</u>
Fair value of net assets	(4,292)	—
Goodwill arising on acquisition	<u>4,292</u>	<u>—</u>
Consideration:	<u>—</u>	<u>—</u>

From the date of acquisition, Beijing Century Parkson E-Business Co., Ltd. and Xi'an Parkson Shopping Centre Co., Ltd. have contributed RMB2,840,000 and RMB4,448,000 to the net profit of the Group, respectively.

(h) Inventories

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Merchandise, at cost	31,633	33,148	32,855	36,003
Consumables, at cost	<u>3,669</u>	<u>4,132</u>	<u>4,097</u>	<u>3,285</u>
	<u>35,302</u>	<u>37,280</u>	<u>36,952</u>	<u>39,288</u>

(i) Trade receivables

Trade receivables are mainly consultancy and management service fees receivable from “Parkson” department stores which have an established trading history with the Group. The Group normally allows a credit period of not more than 90 days to its customers; however, extension of repayment period to certain joint venture partners and “Parkson” department stores which have long trading history with the Group is not uncommon. Directors of the Company confirmed that such extension of repayment period will not be continued after the listing of the Company. The Group closely monitors overdue balances. A provision for doubtful debts is made when it is considered that the trade receivable amounts may not be recovered.

An aged analysis of the trade receivables, net of allowances for bad and doubtful debts, is analysed as follows:

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	6,642	8,808	12,715	10,467
3 to 12 months	7,115	6,294	11,205	21,518
Over 1 year	<u>433</u>	<u>3,678</u>	<u>1,751</u>	<u>3,425</u>
	14,190	18,780	25,671	35,410
Less: Allowance for doubtful debts	<u>—</u>	<u>—</u>	<u>(1,751)</u>	<u>(3,851)</u>
	<u>14,190</u>	<u>18,780</u>	<u>23,920</u>	<u>31,559</u>

Included in the balances were receivables from joint ventures of RMB5,096,000, RMB8,297,000, RMB8,983,000 and RMB12,727,000 as at 31st December, 2002, 2003 and 2004, and 30th June, 2005, respectively. The balances are unsecured, interest free and are repayable on demand.

(j) Investments

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Government bond securities, listed	7,000	46,729	3,720	1,742
Designated investments	—	—	72,986	—
	<u>7,000</u>	<u>46,729</u>	<u>76,706</u>	<u>1,742</u>

Designated investments represented the Group's investments in the PRC government bond securities through China International Capital Corporation Limited. The balance as at 31st December, 2004 was fully recovered by the Group before 30th June, 2005.

(k) Prepayments, deposits and other receivables

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Deposits	5,592	2,337	11,322	11,273
Prepayments	2,489	2,391	2,077	3,715
Advances to suppliers	4,949	4,603	8,525	7,778
Receivables from joint ventures	12,243	18,055	38,140	564
Receivables from joint venture partners	8,679	20,116	20,124	20,124
Receivables from minority equity holders	28,732	27,549	33,843	55,008
Other receivables*	<u>102,464</u>	<u>87,187</u>	<u>161,863</u>	<u>134,096</u>
	165,148	162,238	275,894	232,558
Less: Allowance for doubtful debts	<u>(4,913)</u>	<u>(12,977)</u>	<u>(16,752)</u>	<u>(16,775)</u>
	<u>160,235</u>	<u>149,261</u>	<u>259,142</u>	<u>215,783</u>

* Included in the balances of other receivables were designated loans amounting to RMB27,800,000, RMB19,700,000, RMB57,400,000 and RMB41,972,000 as at 31st December, 2002, 2003 and 2004, and 30th June, 2005, respectively, to various third party borrowers through banks in the PRC. These designated loans bore interest rates ranging from 4.9% to 6.0% per annum, with maturity of within one year. Pursuant to the underlying designated loan agreements, the bank will have no liabilities in case of borrower's default. Among the aforesaid designated loan balances, RMB14,900,000 as at 31st December, 2004 and RMB14,900,000 as at 30th, June 2005 were secured by corporate guarantees and the Group's right to off-set the outstanding designated loan balance against its future rental payments to the borrower. The balances of allowance for doubtful debts against designated loans amounted to RMB4,800,000; RMB9,700,000; RMB12,500,000 and RMB12,500,000 as at 31st December, 2002, 2003 and 2004, and 30th June, 2005, respectively.

The Directors have confirmed that all receivables from joint venture partners, minority equity holders and RMB81,359,000 of other receivables included in the balance of prepayments, deposits and other receivables will be settled prior to the listing of the Company except for the balance due from Sichuan Fulin Industrial Group Co., Ltd ("Sichuan Fulin"), a minority equity holder. The balance due from Sichuan Fulin as at 30th June, 2005 of RMB12.0 million will be settled during 2006 upon its maturity.

Among the above-mentioned designated loan balances, RMB1,372,000 and RMB13,200,000 as at 30th June, 2005, were advanced to Xinjiang Youhao Parkson Development Co., Ltd. and Beijing Parkson, joint ventures of the Group. The balance due from Xinjiang Youhao Parkson Development Co., Ltd. was subsequently settled and the balance due from Beijing Parkson will be settled before listing.

(l) **Due from related parties**

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Due from fellow subsidiaries	117,497	114,568	7,497	94,141
Due from intermediate holding companies	<u>348</u>	<u>51,478</u>	<u>77,672</u>	<u>87,117</u>
	<u>117,845</u>	<u>166,046</u>	<u>85,169</u>	<u>181,258</u>

Included in the due from related parties balances as at 31st December, 2002, 2003 and 2004, and 30th June, 2005, there were consultancy fees receivable from a fellow subsidiary amounting to RMB90,000, RMB163,000, RMB83,000 and RMB233,000, respectively. The remaining balances due from related parties represented the advances to related parties.

The balances are unsecured, interest free and have no fixed terms of repayment. The directors have confirmed that the amounts due from related companies would be settled prior to the listing of the Company's shares on the Stock Exchange.

(m) **Cash and cash equivalents**

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	<u>241,458</u>	<u>322,971</u>	<u>408,522</u>	<u>483,229</u>

The bank balances earn interest at floating rates based on daily bank deposit rates.

Cash and bank balances aggregating RMB193,954,000, RMB315,225,000, RMB401,726,000, and RMB476,312,000 as at 31st December, 2002, 2003, and 2004, and 30th June, 2005 were denominated in Renminbi, which is not freely convertible in the international market. The remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

(n) Interest-bearing loans and borrowings

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans:				
Secured	6,700	1,428	16,800	79,200
Unsecured	3,657	—	—	—
	<u>10,357</u>	<u>1,428</u>	<u>16,800</u>	<u>79,200</u>
Other loans:				
Secured	30,133	31,651	31,634	—
Unsecured	—	12,000	12,000	—
	<u>30,133</u>	<u>43,651</u>	<u>43,634</u>	<u>—</u>
Bank loans repayable:				
Within one year or on demand	10,357	1,428	16,800	79,200
Other loans repayable:				
Within one year or on demand	—	31,651	43,634	—
In the second to fifth years	30,133	12,000	—	—
	<u>30,133</u>	<u>43,651</u>	<u>43,634</u>	<u>—</u>
Total bank and other loans	40,490	45,079	60,434	79,200
Less: Portion classified as current liabilities	<u>(10,357)</u>	<u>(33,079)</u>	<u>(60,434)</u>	<u>(79,200)</u>
Long term portion	<u>30,133</u>	<u>12,000</u>	<u>—</u>	<u>—</u>

Secured bank loans of approximately RMB1,100,000, RMB1,428,000, nil and RMB40,000,000 were secured by pledges of certain of the Group's buildings and equipment as at 31st December, 2002, 2003 and 2004, and 30th June, 2005.

Secured bank loans of approximately RMB5,600,000, nil, RMB16,800,000 and RMB39,200,000 were secured by corporate guarantees provided by a joint venture partner of the Group as at 31st December, 2002, 2003 and 2004, and 30th June, 2005.

The annual interest rates of the short term bank loans during the Relevant Periods varied from 4.5% to 6.4%, respectively. As at 31st December, 2002, 2003 and 2004, and 30th June, 2005 the Group's interest-bearing bank loans were denominated in Renminbi.

The other loans represented amounts due to Serbadagang which bore interest at 5% per annum. The other loans were unsecured and fully repaid on 9th March, 2005.

(o) Trade payables

An aged analysis of the trade payables is as follows:

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	185,963	219,068	242,069	249,358
3 to 12 months	48	1,059	503	972
Over 1 year	<u>1,075</u>	<u>1,236</u>	<u>2,932</u>	<u>3,063</u>
	<u>187,086</u>	<u>221,363</u>	<u>245,504</u>	<u>253,393</u>

(p) Customers' deposits, other payables and accruals

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Customers' deposits	4,987	6,750	8,333	6,119
Purchase deposits	135,443	132,678	—	55,489
Payables to joint venture partners	5,700	7,506	24,605	4,984
Provision for coupon liabilities	5,237	14,216	21,198	31,557
Accrued wages and salaries	21,191	27,018	28,736	33,571
Other payables and accruals	<u>113,024</u>	<u>101,257</u>	<u>180,428</u>	<u>116,576</u>
	<u>285,582</u>	<u>289,425</u>	<u>263,300</u>	<u>248,296</u>

The balance of purchase deposits as at 31st December, 2002 and 2003 represented the Group's proportionate share of purchase deposits received by Beijing Parkson from China Arts & Crafts, a PRC joint venture partners of the Group in respect of the transfer of all the investment properties in Beijing to China Arts & Crafts (Note 5(c)). The transaction was suspended, and the outstanding balance was refunded to China Arts & Crafts in 2004. The balance payable to China Arts & Crafts as at 30th June, 2005 represented the Group's proportionate share of purchase deposits received by Beijing Parkson Development in respect of the above mentioned properties in 2005 as the transaction was re-activated. The transaction was formally terminated on 20th August, 2005 and the balance would be settled in a manner disclosed in Note 10 (j) below.

(q) **Due to related parties**

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Due to fellow subsidiaries	170,518	162,453	34,821	25,889
Due to the intermediate holding companies	<u>—</u>	<u>—</u>	<u>42,611</u>	<u>29,825</u>
	<u>170,518</u>	<u>162,453</u>	<u>77,432</u>	<u>55,714</u>

Included in the due to related parties balances as at 31st December, 2002, 2003 and 2004, and 30th June, 2005, were royalty fees payable to Parkson Corporation Sdn. Bhd. amounting to RMB6,616,000, RMB1,902,000, RMB3,225,000 and RMB1,737,000, respectively. The remaining balances due to related parties represented the advances to related parties.

The balances are unsecured, interest free and are repayable on demand. The directors have confirmed that amounts payable to related parties would be settled prior to the listing of the Company's shares on the Stock Exchange.

(r) **Long term payables**

The long term payables represented the long term portion of accrued rental expenses and are stated at amortised cost.

(s) **Contingent liabilities**

Certain of the Group's lease prepayments, buildings and investment properties in Beijing and Xi'an, the PRC, were pledged as security for bank loans of a joint venture partner and a minority equity holder of the Group. The aggregate carrying value of the pledged lease prepayments, buildings and investment properties amounted to RMB83,499,000, RMB80,416,000, RMB100,497,000 and RMB36,094,000, respectively, as at the end of each of the Relevant Periods.

Beijing Parkson entered into a guarantee on 17th February, 2005 with respect to outstanding bank loan of China Arts & Crafts which amounting to RMB20 million.

Save as disclosed above, the Group did not have any significant contingent liabilities at the end of each of the Relevant Periods.

(t) **Pledges of assets**

Certain of the Group's lease prepayments in Beijing, the PRC, were pledged as security for bank loans of a joint venture partner of the Group. The aggregate carrying value of the pledged lease prepayments amounted to RMB8,742,000, RMB8,551,000, RMB8,359,000 and RMB8,796,000, respectively, as at the end of each of the Relevant Periods. The Group intends to release the pledge mentioned above as soon as practicable.

(u) **Commitments**

(i) Save as disclosed in Note 10(f) and (g), the Group did not have any significant investment commitments at the end of each of the Relevant Periods.

(ii) Operating lease commitments

Operating lease commitments — Group as lessee

The Group leases certain of its properties under operating lease arrangements. These leases have an average life of between 5 and 20 years and there are no restrictions placed upon the Group by entering into these lease agreements.

The Group had the following future minimum rentals payable under non-cancellable operating leases:

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	42,080	46,716	68,348	70,248
In the second to fifth years, inclusive	199,788	223,590	347,525	360,072
After five years	<u>1,309,875</u>	<u>1,267,202</u>	<u>1,277,389</u>	<u>1,232,325</u>
	<u>1,551,743</u>	<u>1,537,508</u>	<u>1,693,262</u>	<u>1,662,645</u>

Operating lease commitments — Group as lessor

The Group leases out certain of its properties under operating leases. These leases have remaining non-cancellable lease terms of 5 to 10 years.

The Group had the following future minimum rentals receivable under non-cancellable operating leases:

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	18,451	18,519	23,545	17,749
In the second to fifth years, inclusive	52,562	38,646	39,959	36,631
After five years	<u>17,254</u>	<u>12,369</u>	<u>21,329</u>	<u>16,167</u>
	<u>88,267</u>	<u>69,534</u>	<u>84,833</u>	<u>70,547</u>

(iii) The Group did not have any significant capital commitments at the end of each of the Relevant Periods.

(v) **Fair value of financial instruments**

The financial instruments of the Group mainly consist of cash and cash equivalents, amounts due from related parties, prepayments, deposits and other receivables, trade receivables, trade payables, customers' deposits, other payables and short term bank loans and other loans.

The carrying amounts of the Group's financial instruments were stated approximately at their fair value as at 31st December, 2002, 2003 and 2004, and 30th June, 2005.

Fair value estimates are made at a specific point in time and based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(w) **Concentration of risks**

The Group is exposed to credit risk, interest rate risk and foreign currency risk, as further explained below.

(i) *Credit risk*

The Group's cash and cash equivalents are mainly deposited with banks in the PRC.

The trade and other receivables included in the financial information represent the Group's major exposure to the credit risk attributable to its financial assets. The Group has no other significant concentrations of credit risk.

(ii) *Interest rate risk*

The Group has no other loans except for the bank and other loans disclosed in note (n) above and as a result, it has no significant interest rate risk.

(iii) *Foreign currency risk*

The Group's businesses are principally conducted in RMB which cannot be freely exchanged into foreign currencies. As at 31st December, 2002, 2003 and 2004, and 30th June, 2005, substantially all of the Group's assets and liabilities were denominated in RMB.

6. COMBINED STATEMENTS OF CHANGES IN OWNERS' EQUITY

The following is a summary of the combined statements of changes in owner's equity of the Group for the Relevant Periods prepared on the basis set out in Section 1 above:

	Attributable to equity holders of the parent							Total equity RMB'000
	Issued share capital	Contribution from owner	PRC reserve fund	Exchange reserve	Retained earnings	Total	Minority interest	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
	Note (a)	Note (c)	Note (b)					
At 1st January, 2002	—	199,916	7,512	14,817	167,237	389,482	73,316	462,798
Distribution to owners (note (c))		(30,000)				(30,000)	(20,000)	(50,000)
Net profit for the year	—	—	—	—	67,342	67,342	5,974	73,316
Transfer to the PRC reserve fund	—	—	2,070	—	(2,070)	—	—	—
Changes in the exchange reserve	—	—	—	951	—	951	—	951
Appropriation (note (d))	—	—	—	—	(15,076)	(15,076)	(2,366)	(17,442)
At 31st December, 2002 and 1st January, 2003	—	169,916	9,582	15,768	217,433	412,699	56,924	469,623
Distribution to owners (note (c))	—	(12,000)	—	—	—	(12,000)	(8,000)	(20,000)
Net profit for the year	—	—	—	—	99,911	99,911	9,002	108,913
Transfer to the PRC reserve fund	—	—	4,590	—	(4,590)	—	—	—
Changes in the exchange reserve	—	—	—	634	—	634	—	634
Appropriation (note (d))	—	—	—	—	(3,151)	(3,151)	(3,869)	(7,020)
At 31st December, 2003 and 1st January, 2004	—	157,916	14,172	16,402	309,603	498,093	54,057	552,150
Contribution from owners (note (c))	—	9,000	—	—	—	9,000	9,000	18,000
Net profit for the year	—	—	—	—	152,771	152,771	9,168	161,939
Transfer to the PRC reserve fund	—	—	10,117	—	(10,117)	—	—	—
Changes in the exchange reserve	—	—	—	2,799	—	2,799	—	2,799
Appropriation (note (d))	—	—	—	—	(6,680)	(6,680)	(5,908)	(12,588)
At 31st December, 2004 and 1st January, 2005	—	166,916	24,289	19,201	445,577	655,983	66,317	722,300
Distribution to owners (note (c))	—	(4,139)	—	—	—	(4,139)	—	(4,139)
Net profit for the period	—	—	—	—	106,511	106,511	8,960	115,471
Transfer to the PRC reserve fund	—	—	7,002	—	(7,002)	—	—	—
Changes in the exchange reserve	—	—	—	(2,149)	—	(2,149)	—	(2,149)
Business combination	—	—	—	—	—	—	(457)	(457)
Appropriation (note (d))	—	—	—	—	(8,499)	(8,499)	(12,031)	(20,530)
At 30th June, 2005	—	162,777	31,291	17,052	536,587	747,707	62,789	810,496

	Attributable to equity holders of the parent							
	Issued	Contribution	PRC	Exchange	Retained	Total	Minority	Total
	share	from	reserve					
	capital	owner	fund	reserve	earnings		interest	equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2004	—	157,916	14,172	16,402	309,603	498,093	54,057	552,150
Contribution from owners (note (c))	—	9,000	—	—	—	9,000	6,000	15,000
Net profit for the period	—	—	—	—	72,182	72,182	4,352	76,534
Transfer in the PRC reserve fund	—	—	437	—	(437)	—	—	—
Changes in the exchange reserve	—	—	—	(508)	—	(508)	—	(508)
Appropriation	—	—	—	—	(5,449)	(5,449)	(3,633)	(9,082)
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(5,449)</u>	<u>(5,449)</u>	<u>(3,633)</u>	<u>(9,082)</u>
At 30 June 2004	<u>—</u>	<u>166,916</u>	<u>14,609</u>	<u>15,894</u>	<u>375,899</u>	<u>573,318</u>	<u>60,776</u>	<u>634,094</u>

Notes:

(a) **Share capital**

	As at 31st December,			As at
	2002	2003	2004	30th June,
	RMB'000	RMB'000	RMB'000	2005
				RMB'000
Authorised:	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Issued and fully paid:	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

- (i) The Company was incorporated on 3rd August, 2005 with authorised share capital of HK\$390,000 divided into 3,900,000 shares of HK\$0.1 each.
- (ii) On 3rd August, 2005, one share of HK\$0.1 was allotted and issued at par to the initial subscribers of the Company, and which was subsequently transferred to PRG Corporation Limited on 11th August. PRG Corporation Limited is a wholly-owned subsidiary of LDHB.

(b) **Distributable reserves**

Pursuant to the relevant PRC laws and regulations, Sino-foreign joint ventures registered in the PRC are required to transfer a certain percentage, as approved by the board of directors, of their profit after income tax to the reserve fund, the enterprise expansion fund and the employee bonus and welfare fund. These funds are restricted as to use.

Pursuant to the relevant PRC laws and regulations, wholly owned foreign enterprises ("WOFEs") registered in the PRC are required to transfer not less than 10% of their profit after tax to the reserve fund, until the balance of the fund reaches 50% of the registered capital of that company. WOFEs registered in the PRC are required to transfer a certain percentage, as approved by the board of directors, of their profit after income tax to the employee bonus and welfare fund. These funds are restricted as to use.

In accordance with the relevant PRC laws and regulations, PRC domestic companies are required to transfer 10% of their profit after income tax, as determined under PRC accounting regulations, to the statutory common reserve, until the balance of the fund reaches 50% of the registered capital of that company. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory common reserve may be used to offset against accumulated losses, if any. PRC domestic companies are required to transfer 5% to 10% of net profit, as determined under PRC accounting regulations, to the statutory common welfare fund. This fund can only be used to provide staff welfare facilities and other collective benefits to the employees of that company. This fund is non-distributable other than in the event of liquidation.

Since the Company became the holding company of the Relevant Companies subsequent to the period ended 30th June, 2005, there were no distributable reserves attributable to the Company's equity owner as at 31st December, 2002, 2003, 2004, and 30th June, 2005.

(c) **Contribution from/distribution to the owners**

Contribution from the owners represented the aggregate amount of the contributed capital for each of the Relevant Companies.

Distribution to the owners in 2002 and 2003 represented the reduction in registered and contributed capital of Wuxi Sanyang Parkson Plaza Co., Ltd., which was approved by the relevant PRC government bureau. Distribution to the owners in 2005 represented the amount distributed to Serbadagang pursuant to the Group Reorganisation.

(d) **Appropriation**

The Company was incorporated on 3rd August, 2005 and no dividend has been paid or declared by the Company during the Relevant Periods. The appropriation during the Relevant Periods represented the profit appropriation made by certain of the Company's subsidiaries or joint ventures.

7. COMBINED CASH FLOW STATEMENTS

The following is a summary of the combined cash flow statements of the Group for the Relevant Periods prepared on the basis set out in Section 1 above:

	Year ended 31st December,			Six months ended 30th June,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit from operations before income tax	122,731	180,394	252,920	120,270	171,289
Adjustments for:					
Share of profit of an associate	(351)	(422)	(449)	(136)	(231)
Interest income	(4,384)	(6,353)	(5,778)	(3,050)	(6,259)
Interest expenses	3,441	2,029	1,946	835	2,346
Depreciation and amortisation	47,398	50,868	52,070	27,141	28,982
Exchange losses	6,820	2,322	818	959	46
Allowance for doubtful debt	4,913	8,064	5,526	3,596	2,123
Loss on disposal of fixed assets	1,249	437	2,340	2,340	117
Operating profit before working capital changes	181,817	237,339	309,393	151,955	198,413
Decrease/(increase) in inventories	(337)	(1,978)	328	6,767	1,782
Increase in trade receivables	(8,255)	(4,590)	(6,891)	(5,426)	(9,739)
Decrease/(increase) in prepayments, deposits and other receivables	23,481	18,810	(63,932)	(41,512)	87,510
Decrease/(increase) in amounts due from related parties	(90)	(73)	80	92	(150)
Increase/(decrease) in amounts due to related parties	(1,571)	(4,714)	1,323	1,241	(1,488)
Increase/(decrease) in trade payables	13,358	34,277	24,141	(38,143)	(25,305)
Increase/(decrease) in customers' deposits, other payables and accruals	1,361	3,843	(26,125)	(42,498)	(27,833)
Increase in long-term payables	7,635	8,505	5,393	2,714	2,618
Cash generated from operating activities	217,399	291,419	243,710	35,190	225,808
Interest paid	(3,441)	(2,029)	(1,946)	(835)	(2,346)
Income tax paid	(46,793)	(50,411)	(71,101)	(48,203)	(59,290)
Net cash inflow/(outflow) from operating activities	167,165	238,979	170,663	(13,848)	164,172

	Year ended 31st December,			Six months ended	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from disposal of fixed assets	703	546	6,244	1,660	421
Purchases of fixed assets	(25,976)	(33,401)	(31,680)	(15,597)	(22,510)
Purchases of intangible assets	—	—	(3,277)	—	—
Cash paid for acquisition	—	—	—	—	(9,800)
Net (increase)/decrease in investments	(7,000)	(39,729)	(29,977)	(12,427)	74,964
Decrease/(increase) in non-trade related due from related parties	(22,212)	(48,128)	80,797	79,868	(95,939)
Decrease/(increase) in non-trade related other receivables	(38,400)	(15,900)	(49,724)	1,800	25,468
Dividend received	183	263	323	323	—
Interest received	4,384	6,353	5,778	3,050	6,259
Net cash inflow/(outflow) from investing activities	(88,318)	(129,996)	(21,516)	58,677	(21,137)
Net cash inflow before financing activities	78,847	108,983	149,147	44,829	143,035
CASH FLOWS FROM FINANCING ACTIVITIES					
New bank loans and other loans	2,043	3,300	33,600	28,000	39,200
Repayment of bank loans and other loans	(123,506)	(10,711)	(18,245)	(15,250)	(60,434)
Increase/(decrease) in non-trade related due to related parties	21,378	(3,351)	(86,344)	(84,983)	(20,230)
Cash contribution from owners	—	—	9,000	9,000	—
Capital contribution from a minority shareholder	—	—	9,000	6,000	—
Distribution to owner	—	—	—	—	(4,139)
Cash payment to a minority shareholder for decrease in share capital	(20,000)	(8,000)	—	—	—
Dividend paid	(17,442)	(7,020)	(12,588)	(9,082)	(20,530)
Net cash outflow from financing activities	(137,527)	(25,782)	(65,577)	(66,315)	(66,133)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS					
Cash and cash equivalents at beginning of year/period	306,007	241,458	322,971	322,971	408,522
Exchange differences	(5,869)	(1,688)	1,981	(1,467)	(2,195)
Cash and cash equivalents at closing of year/period	241,458	322,971	408,522	300,018	483,229

8. DIRECTORS' REMUNERATION

Save as disclosed above, no remuneration has been paid or is payable in respect of any of the Relevant Periods referred to in this report by the Company or any of its subsidiaries to the directors of the Company. Under the arrangements currently in force, the estimated amount of directors' fees and other remuneration (excluding discretionary bonus, if any) payable to the directors of the Company for the year ending 31st December, 2005 will be approximately RMB320,800.

9. ULTIMATE HOLDING COMPANY

The directors consider Lion Diversified Holdings Berhad, a company incorporated in Malaysia, to be the ultimate holding company.

10. SUBSEQUENT EVENTS

The following significant events took place subsequent to 30th June, 2005 and up to date of this report.

- (a) In August 2005 and September 2005, certain members of the Group declared dividends of approximately RMB204.3 million to their then shareholders, in relation to their distributable profits up to the year ended 31st December, 2004. The dividend for 2004 has been paid before the date of this report.
- (b) On 18th August, 2005, Beijing Parkson, a company now comprising part of the Group, entered into a sales and purchase agreement to acquire the business and the relevant assets and liabilities of Beijing Shopping Centre for a consideration of RMB1. In the opinion of the directors, such transaction was completed before the date of this report.
- (c) On 18th August, 2005, Beijing Parkson, a company now comprising part of the Group, entered into a sales and purchase agreement to acquire the business and the relevant assets and liabilities of Shanxi Zhongyue Parkson Commercial and Trading Co., Ltd. for a consideration of RMB10 million. In the opinion of the directors, such transaction was completed before the date of this report.
- (d) On 9th November, 2005, the Company entered into an equity transfer agreement to acquire the entire issued share capital of Grand Parkson Retail Group Limited from a wholly-owned subsidiary of LDHB for a consideration of which 80,100,000 shares of the Company were allotted and issued credited as fully paid in favour of PRG Corporation. In the opinion of the directors, Grand Parkson Retail Group Limited owns 100%, 100% and 60% equity interests in Hefei Parkson Xiaoyao Plaza Co., Ltd., Shanghai Hongqiao Parkson Development Co., Ltd. and Guizhou Shenqi Parkson Retail Development Co., Ltd., respectively through Step Summit Limited, a wholly-owned subsidiary of Grand Parkson Retail Group Limited. In the opinion of the directors, such transaction was completed before the date of this report.

- (e) On 20th August, 2005, Chongqing Wanyou Parkson Plaza Co., Ltd. a company now comprising part of the Group, entered into a sales and purchase agreement to acquire the business and relevant assets and liabilities of Chongqing Wanyou Shopping Plaza Co., Ltd. for a consideration of RMB1. In the opinion of the directors, such transaction was completed before the date of this report.
- (f) On 12th May, 2005, Xi'an Lucky King, a company now comprising part of the Group, entered into an equity transfer agreement to acquire a 51% equity interest in Xi'an Chang'an Parkson Store Co., Ltd. for a consideration of RMB5.1 million. In the opinion of the directors, such transaction was completed before the date of this report.
- (g) On 12th May, 2005, Xi'an Lucky King, a company now comprising part of the Group, entered into an equity transfer agreement to acquire a 51% equity interest in Xi'an Shidai Parkson Store Co., Ltd. for a consideration of RMB7.65 million. In the opinion of the directors, such transaction was completed before the date of this report.
- (h) On 14th September, 2005, Exonbury Limited, a company now comprising part of the Group, acquired the entire equity interest in Hong Kong Fen Chai Investment Limited for a consideration of RMB52,000,000. In the opinion of the directors, Hong Kong Fen Chai Investment Limited owns 40% equity interests in Xi'an Lucky King. In the opinion of the directors, such transaction was completed before the date of this report.
- (i) Subsequent to 30th June, 2005, the companies now comprising the Group underwent a reorganisation in preparation for the listing of the Company's shares on the Stock Exchange. Further details of the reorganisation are set out in the paragraph headed "Company reorganisation" in Appendix VII to the Prospectus.
- (j) On 20th August, 2005, Beijing Parkson and China Arts & Crafts entered into a termination agreement to terminate the property sale and purchase agreement under which Beijing Parkson agreed to sell, and China Arts & Crafts agreed to purchase certain property of Beijing Parkson. Under the termination agreement, Beijing Parkson will refund to China Arts & Crafts the amount of RMB97.63 million paid by China Arts & Crafts so far under the property sale and purchase agreement.
- (k) On 20th August, 2005, Beijing Parkson and China Arts & Crafts entered into a supplemental lease agreement to amend the lease agreements entered into before. Under the supplemental lease agreement, Beijing Parkson agreed to prepay an aggregate rental amounting to RMB137,370,000 in one lump sum for a period of 9 years.
- (l) On 20th August, 2005 Beijing Parkson and China Arts & Crafts entered into an agreement. Pursuant to which, Beijing Parkson agreed to obtain a bank loan in the amount of RMB250 million and will apply RMB97.63 million of which to settle the outstanding balance due to China Arts & Crafts as described in note (j) above, and apply RMB137.37 million of which as the rental prepayment as described in note (k) above. The two parties also procured the release of the pledges over the properties of Beijing Parkson as described in Note 5 (c) to the Financial Information.

- (m) On 20th August, 2005 and 10th September, 2005, respectively, Mianyang Fulin Parkson Plaza Co., Ltd. ("Mianyang Parkson"), a company now comprising part of the Group, entered into two interest-bearing entrusted loan agreements with Sichuan Fulin. Pursuant to the entrusted loan agreements, loan facilities of an aggregate amount of RMB12 million were made to Sichuan Fulin through a bank in the PRC. The aforesaid entrusted loans are secured by Sichuan Fulin's equity interest in Mianyang Parkson and bear interest of 6.5% per annum and with maturity dates of 20th April, 2006 and 9th September, 2006, respectively.
- (n) On 9th November, 2005, Shanghai Lion Parkson Investment Consultant Co., Ltd. ("Shanghai Lion Investment"), a subsidiary of the Company, entered into a trade licence agreement with Parkson Corporation. Under the licence agreement, Shanghai Lion Investment is required to pay an annual royalty of RMB30,000 per retail store in respect of each sub-licence granted. Further details, please refer to the paragraph headed "Trademark Licence Agreement" under the section headed "Connected Transactions" to this Prospectus.

11. SUBSEQUENT FINANCIAL INFORMATION

No financial information has been prepared by the Company or any of its subsidiaries in respect of any period subsequent to 30th June, 2005.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

A. Beijing Shopping Centre

The following is the text of the accountants' report, prepared for inclusion in this Prospectus, from the independent reporting accountants of Parkson Retail Group Limited, Ernst & Young, Certified Public Accountants, Hong Kong.



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

17th November, 2005

The Directors
Parkson Retail Group Limited
Beijing Shopping Centre
BNP Paribas Peregrine Capital Limited

Dear Sirs,

We set out below our report on the financial information regarding Beijing Shopping Centre (“北京百盛購物中心”) for each of the three years ended 31st December, 2002, 2003 and 2004 and the six-month period ended 30th June, 2005 (the “Relevant Periods”) and the six-month period ended 30th June, 2004 (the “30th June, 2004 Financial Information”), for inclusion in the prospectus of Parkson Retail Group Limited dated 17th November, 2005 (the “Prospectus”).

For the purpose of this report, the directors of Beijing Shopping Centre have prepared the financial statements of Beijing Shopping Centre for the Relevant Periods (“Financial Statements”) in accordance with International Financial Reporting Standards (“IFRS”) as promulgated by the International Accounting Standards Board (the “IASB”), based on the statutory financial statements audited by Beijing Zhongze Certified Accountants Co., Ltd., certified public accountants registered in the People's Republic of China (the “PRC”) or, where appropriate, management accounts of Beijing Shopping Centre for the Relevant Periods. In preparing this report, no adjustments were considered necessary to restate the audited Financial Statements of Beijing Shopping Centre to conform to the accounting policies referred to in Section 2 to this report, which are in compliance with IFRS. The Financial Statements have been audited by us in accordance with the Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The directors of Beijing Shopping Centre are responsible for preparing the Financial Statements which give a true and fair view. In preparing the Financial Statements, it is fundamental that appropriate accounting policies are selected and applied consistently.

Procedures Performed in Respect of the Relevant Periods

The financial information set out in this report (the “Financial Information”) has been prepared based on the Financial Statements. For the purpose of this report, we have examined the Financial Statements. Our examination was made in accordance with the Statements of Auditing Standards issued by the HKICPA and we have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” issued by the HKICPA.

Procedures Performed in Respect of the 30th June, 2004 Financial Information

For the purpose of this report, we have performed a review of the 30th June, 2004 Financial Information in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope and provides a lower level of assurance than our audit or examination procedures described in the preceding paragraph and, accordingly, we do not express an audit opinion on the 30th June, 2004 Financial Information.

The directors of Beijing Shopping Centre are responsible for the preparation of the Financial Information. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion thereon.

Opinion in Respect of the Relevant Periods

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Beijing Shopping Centre as at 31st December, 2002, 2003, and 2004, and 30th June, 2005 and of the results and cash flows of Beijing Shopping Centre for each of the Relevant Periods.

Review Conclusion in Respect of the 30th June, 2004 Financial Information

On the basis of our review, for the purpose of this report, we are not aware of any material modification that should be made to the results and cash flows of Beijing Shopping Centre as set out in the 30th June, 2004 Financial Information.

1. CORPORATE INFORMATION AND BASIS OF PRESENTATION

Beijing Shopping Centre was registered as a branch of a collective enterprise (the “Collective Enterprise”) in Beijing, the PRC on 30th May 1997. During the Relevant Periods, Beijing Shopping Centre was engaged in the operation of a department store in Haidian District, Beijing, the PRC.

The Financial Information has been prepared on the going concern basis notwithstanding the net current liabilities and deficiency in owners' equity of Beijing Shopping Centre as at 30th June 2005 because pursuant to an acquisition transaction as set out in Section 7 of this report, Beijing Parkson acquired the business and all assets and liabilities of Beijing Shopping Centre at their carrying values on 31st August, 2005. Parkson Retail Group Limited has undertaken to provide financial support to Beijing Parkson as it may require.

2. PRINCIPAL ACCOUNTING POLICIES

Statement of compliance

The Financial Information has been prepared in accordance with IFRS promulgated by the IASB. IFRS includes International Accounting Standards and interpretations. The Financial Information also complies with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) as applicable to Accountants' Reports for inclusion in Listing Documents. Beijing Shopping Centre has early adopted all applicable new and revised IFRS, which are generally effective for accounting periods, beginning on or after 1st January 2005, throughout the Relevant Periods.

The above basis of accounting differs from that used in the audited financial statements or, where appropriate, management accounts of Beijing Shopping Centre which were prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC (the “PRC GAAP”).

Use of estimates

The preparation of the Financial Information of the company in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial information and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the company and the revenue can be reliably measured on the following basis:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Commissions from concessionaire sales are recognised upon the sale of goods by the relevant store.

Promotion income

Promotion income is recognised according to the underlying contract terms with concessionaires and as these services are provided in accordance herewith.

Interest income

Revenue is recognised on a time proportion basis taking into account the principal outstanding and the effective rate of interest applicable.

Rental income

Revenue is recognised on a time proportion basis over the terms of the respective leases.

Employee benefits

- (i) Salaries, bonuses, paid annual leave, leave passage and the cost to the company of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the company. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to defined contribution retirement plans are recognised as an expense in the income statement as incurred.

Pursuant to the relevant PRC laws and regulations, the company is required to participate in a retirement benefits scheme organised by the local municipal government whereby the company is required to contribute a certain percentage of the salaries of its employees to the retirement benefits scheme. The only obligation of the company with respect to the retirement benefits scheme is to pay the ongoing required contributions. Contributions made to the defined contribution retirement benefits scheme are charged to the income statement as incurred.

Termination benefits are recognised when, and only when, the company demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

Income tax

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

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- except where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is utilised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Related parties

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

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on the straight-line basis over the lease terms.

Recoverable amount of non-current assets

At each reporting date, the company assesses whether there is any indication that an asset may be impaired. Where an indication of impairment exists, the company makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflow that are largely independent of those from other assets or groups of assets.

Financial instruments

Financial assets and financial liabilities carried in the balance sheet include cash and cash equivalents, trade receivables and payables and other receivables and payables. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies set out in this section.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangements. Interest, dividends and gains or losses relating to a financial instrument classified as a liability are reported as income or expenses. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and provision for any impairment in value.

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

Depreciation of property, plant and equipment is calculated on the straight-line basis over the expected useful life of the asset, after taking into account its estimated residual value of 10%, as follows:

Leasehold improvements	5 - 10 years
Motor vehicles	5 years
Equipment and fixtures	5 - 10 years

The carrying values of property, plant and equipment are reviewed for impairment either annually, or when events or changes in circumstances indicate that the carrying values may not be recoverable (whichever is earlier). If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of the net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflow, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement.

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

Inventories

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

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

Consumables are stated at cost less any impairment losses.

Trade and other receivables

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

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

An estimate for doubtful debts is made when there is objective evidence that collection of the full amount is no longer probable. Bad debts are written off when identified.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand and short term deposits, which are not restricted as to use. For the purpose of the cash flow statement, cash and cash equivalents consist of cash at banks and in hand and short term deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

Provisions

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

Coupon liabilities

Coupon liabilities are recognised at fair value based on the bonus points granted to customers in accordance with the announced bonus points scheme and the company's past experience on the level of redemption of coupons.

Contingent liabilities and contingent assets

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

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

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

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

3. RESULTS

	<i>Notes</i>	Year ended 31st December,			Six months ended 30th June,	
		2002	2003	2004	2004	2005
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)	<i>RMB'000</i>
Revenues	(a)	49,829	45,396	41,558	20,721	21,685
Other operating revenues	(a)	<u>2,203</u>	<u>1,409</u>	<u>1,454</u>	<u>786</u>	<u>773</u>
Total operating revenues		<u>52,032</u>	<u>46,805</u>	<u>43,012</u>	<u>21,507</u>	<u>22,458</u>
Operating expenses						
Purchase of goods and changes in inventories		(33,203)	(31,340)	(27,993)	(14,038)	(15,129)
Staff costs		(4,291)	(3,733)	(3,987)	(2,016)	(2,339)
Depreciation		(681)	(952)	(1,034)	(506)	(308)
Rental expenses		(5,410)	(5,135)	(5,410)	(2,675)	(2,400)
Other operating expenses		<u>(3,943)</u>	<u>(3,738)</u>	<u>(3,952)</u>	<u>(1,772)</u>	<u>(1,849)</u>
Total operating expenses		<u>(47,528)</u>	<u>(44,898)</u>	<u>(42,376)</u>	<u>(21,007)</u>	<u>(22,025)</u>
Profit from operations	(b)	4,504	1,907	636	500	433
Finance income	(c)	<u>80</u>	<u>33</u>	<u>55</u>	<u>25</u>	<u>70</u>
Profit from operations before income tax		4,584	1,940	691	525	503
Income tax	(e)	<u>(2,348)</u>	<u>(1,085)</u>	<u>(776)</u>	<u>(324)</u>	<u>(356)</u>
Net profit/(loss) for the year/period		<u>2,236</u>	<u>855</u>	<u>(85)</u>	<u>201</u>	<u>147</u>

Notes:

(a) **Revenues**

Revenues represent the net amount received and receivable for goods sold by Beijing Shopping Centre to outside customers, less returns and allowances, commissions from concessionaire sales, and rental income during the Relevant Periods, and are analysed as follows:

	Year ended 31st December,			Six months ended 30th June,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Sales of goods — direct sales	37,042	34,823	31,106	15,615	16,646
Commissions from concessionaire sales					
(Note)	12,255	9,203	8,948	4,361	4,324
Rental income	532	1,370	1,504	745	715
	<u>49,829</u>	<u>45,396</u>	<u>41,558</u>	<u>20,721</u>	<u>21,685</u>

Note:

The commissions from concessionaire sales are analysed below:

	Year ended 31st December,			Six months ended 30th June,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Gross revenue from concessionaire sales	<u>54,033</u>	<u>44,261</u>	<u>47,444</u>	<u>22,355</u>	<u>25,644</u>
Commissions from concessionaire sales	<u>12,255</u>	<u>9,203</u>	<u>8,948</u>	<u>4,361</u>	<u>4,324</u>

Over 90% of Beijing Shopping Centre's turnover and contribution to operating profit is attributable to the operation and management of department stores and all of Beijing Shopping Centre's turnover and contribution to operating profit is attributable to customers in the PRC. Accordingly no analysis of segment information is presented.

Other operating revenues comprise the following:

	Year ended 31st December,			Six months ended 30th June,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Promotion income	1,956	1,145	994	495	361
Other income	<u>247</u>	<u>264</u>	<u>460</u>	<u>291</u>	<u>412</u>
	<u>2,203</u>	<u>1,409</u>	<u>1,454</u>	<u>786</u>	<u>773</u>

(b) Profit from operations

The profit from operations of Beijing Shopping Centre is arrived at after charging/(crediting):

	Year ended 31st December,			Six months ended	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Cost of inventories recognised as expenses	33,203	31,340	27,993	14,038	15,129
Staff costs:					
Wages, salaries and bonuses	2,986	2,358	2,353	1,204	1,264
Pension costs	551	586	696	349	366
Social welfare and other costs	754	789	938	463	709
	<u>4,291</u>	<u>3,733</u>	<u>3,987</u>	<u>2,016</u>	<u>2,339</u>
Depreciation	681	952	1,034	506	308
Operating lease rentals in respect of rented properties	5,410	5,135	5,410	2,675	2,400
Loss on disposal of fixed assets	—	9	67	—	—
Allowance for slow-moving inventories	—	94	122	60	(32)
Gross rental income in respect of sub-letting of properties	(532)	(1,370)	(1,504)	(745)	(715)
Less: Outgoings	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net rental income	<u>(532)</u>	<u>(1,370)</u>	<u>(1,504)</u>	<u>(745)</u>	<u>(715)</u>

(c) Finance income

	Year ended 31st December,			Six months ended	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Interest income	<u>80</u>	<u>33</u>	<u>55</u>	<u>25</u>	<u>70</u>

(d) Retirement benefits scheme

Beijing Shopping Centre is required to participate in employee pension schemes operated by the relevant local government authorities in the PRC. The PRC government is responsible for the pension liability to these retired employees. Beijing Shopping Centre is required to make contributions for relevant employees who are registered as permanent residents in the PRC and are within the scope of the relevant PRC regulations at a rate of 20% of the employees' salaries for the Relevant Periods.

Beijing Shopping Centre's contributions to pension costs for the years ended 31st December, 2002, 2003 and 2004 and the six months ended 30th June, 2004 and 2005 amounted to approximately RMB551,000, RMB586,000, RMB696,000, RMB349,000 and RMB366,000, respectively.

(e) Income tax

Under the relevant PRC income tax law, Beijing Shopping Centre is subject to corporate income tax at a rate of 33% on its taxable income.

The determination of current and deferred income tax was based on the enacted tax rates.

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

	Year ended 31st December,			Six months ended 30th June,	
	2002 RMB'000	2003 RMB'000	2004 RMB'000	2004 RMB'000 (unaudited)	2005 RMB'000
Current income tax	<u>2,348</u>	<u>1,085</u>	<u>776</u>	<u>324</u>	<u>356</u>

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

	Year ended 31st December,			Six months ended 30th June,	
	2002 RMB'000	2003 RMB'000	2004 RMB'000	2004 RMB'000 (unaudited)	2005 RMB'000
Profit from operations before income tax	<u>4,584</u>	<u>1,940</u>	<u>691</u>	<u>525</u>	<u>503</u>
Income tax at the statutory income tax rate of 33%	1,513	640	228	173	166
Tax effect of expenses not deductible for tax purposes	<u>835</u>	<u>445</u>	<u>548</u>	<u>151</u>	<u>190</u>
	<u>2,348</u>	<u>1,085</u>	<u>776</u>	<u>324</u>	<u>356</u>

(f) Related party transactions

During the Relevant Periods, Beijing Shopping Centre had no significant related party transactions.

4. BALANCE SHEETS

	<i>Notes</i>	31st December,		30th June,	
		2002	2003	2004	2005
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS					
Property, plant and equipment	(a)	<u>3,706</u>	<u>3,549</u>	<u>2,628</u>	<u>2,398</u>
CURRENT ASSETS					
Inventories	(b)	5,545	5,586	5,237	4,934
Trade receivables	(c)	—	963	839	812
Prepayments, deposits and other receivables	(d)	5,824	3,211	1,028	1,412
Cash and cash equivalents	(e)	<u>4,421</u>	<u>9,538</u>	<u>11,862</u>	<u>9,718</u>
		<u>15,790</u>	<u>19,298</u>	<u>18,966</u>	<u>16,876</u>
CURRENT LIABILITIES					
Trade payables	(f)	(9,524)	(12,037)	(10,782)	(8,770)
Deposits, other payables and accruals	(g)	(14,358)	(14,625)	(14,714)	(14,580)
Tax payable		<u>(919)</u>	<u>(635)</u>	<u>(633)</u>	<u>(312)</u>
		<u>(24,801)</u>	<u>(27,297)</u>	<u>(26,129)</u>	<u>(23,662)</u>
NET CURRENT LIABILITIES		<u>(9,011)</u>	<u>(7,999)</u>	<u>(7,163)</u>	<u>(6,786)</u>
NET LIABILITIES		<u>(5,305)</u>	<u>(4,450)</u>	<u>(4,535)</u>	<u>(4,388)</u>
OWNERS' EQUITY		<u>(5,305)</u>	<u>(4,450)</u>	<u>(4,535)</u>	<u>(4,388)</u>

Notes:

(a) Property, plant and equipment

	Leasehold improvements <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Equipment and fixtures <i>RMB'000</i>	Total <i>RMB'000</i>
At 1st January, 2002, net of accumulated depreciation	1,552	201	1,553	3,306
Additions	158	—	923	1,081
Depreciation charge for the year	<u>(292)</u>	<u>(26)</u>	<u>(363)</u>	<u>(681)</u>
At 31st December, 2002, net of accumulated depreciation	1,418	175	2,113	3,706
Additions	131	—	673	804
Disposals	—	—	(9)	(9)
Depreciation charge for the year	<u>(315)</u>	<u>(26)</u>	<u>(611)</u>	<u>(952)</u>
At 31st December, 2003, net of accumulated depreciation	1,234	149	2,166	3,549
Additions	—	—	500	500
Disposals	—	—	(387)	(387)
Depreciation charge for the year	<u>(215)</u>	<u>(25)</u>	<u>(794)</u>	<u>(1,034)</u>
At 31st December, 2004, net of accumulated depreciation	1,019	124	1,485	2,628
Additions	—	—	78	78
Depreciation charge for the period	<u>(38)</u>	<u>(13)</u>	<u>(257)</u>	<u>(308)</u>
At 30th June, 2005, net of accumulated depreciation	<u>981</u>	<u>111</u>	<u>1,306</u>	<u>2,398</u>
At 1st January, 2002				
Cost	1,779	268	2,413	4,460
Accumulated depreciation	<u>(227)</u>	<u>(67)</u>	<u>(860)</u>	<u>(1,154)</u>
Net carrying amount	<u>1,552</u>	<u>201</u>	<u>1,553</u>	<u>3,306</u>
At 31st December, 2002				
Cost	1,937	268	3,336	5,541
Accumulated depreciation	<u>(519)</u>	<u>(93)</u>	<u>(1,223)</u>	<u>(1,835)</u>
Net carrying amount	<u>1,418</u>	<u>175</u>	<u>2,113</u>	<u>3,706</u>

APPENDIX II

ACCOUNTANTS' REPORTS OF THE ACQUIRED STORES

	Leasehold improvements <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Equipment and fixtures <i>RMB'000</i>	Total <i>RMB'000</i>
At 31st December, 2003				
Cost	2,068	268	3,987	6,323
Accumulated depreciation	<u>(834)</u>	<u>(119)</u>	<u>(1,821)</u>	<u>(2,774)</u>
Net carrying amount	<u>1,234</u>	<u>149</u>	<u>2,166</u>	<u>3,549</u>
At 31st December, 2004				
Cost	2,068	268	3,096	5,432
Accumulated depreciation	<u>(1,049)</u>	<u>(144)</u>	<u>(1,611)</u>	<u>(2,804)</u>
Net carrying amount	<u>1,019</u>	<u>124</u>	<u>1,485</u>	<u>2,628</u>
At 30th June, 2005				
Cost	2,068	268	3,174	5,510
Accumulated depreciation	<u>(1,087)</u>	<u>(157)</u>	<u>(1,868)</u>	<u>(3,112)</u>
Net carrying amount	<u>981</u>	<u>111</u>	<u>1,306</u>	<u>2,398</u>

(b) **Inventories**

	As at 31st December,			As at 30th June,
	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>	2005 <i>RMB'000</i>
Merchandise:				
At cost	4,911	5,083	4,885	4,574
At net realisable value	4,911	4,989	4,669	4,390
Consumables, at cost	<u>634</u>	<u>597</u>	<u>568</u>	<u>544</u>
Total inventories at lower of cost and net realisable value	<u>5,545</u>	<u>5,586</u>	<u>5,237</u>	<u>4,934</u>

(c) Trade receivables

An aged analysis of the trade receivables at the respective balance sheet dates is as follows:

	As at 31st December,			As at
	2002	2003	2004	30th June,
	RMB'000	RMB'000	RMB'000	2005
				RMB'000
Within 3 months	<u>—</u>	<u>963</u>	<u>839</u>	<u>812</u>

(d) Prepayments, deposits and other receivables

	As at 31st December,			As at
	2002	2003	2004	30th June,
	RMB'000	RMB'000	RMB'000	2005
				RMB'000
Advances to suppliers	839	59	37	37
Prepayments	2,922	299	148	276
Other receivables	<u>2,063</u>	<u>2,853</u>	<u>843</u>	<u>1,099</u>
	<u>5,824</u>	<u>3,211</u>	<u>1,028</u>	<u>1,412</u>

(e) Cash and cash equivalents

	As at 31st December,			As at
	2002	2003	2004	30th June,
	RMB'000	RMB'000	RMB'000	2005
				RMB'000
Cash and bank balances	<u>4,421</u>	<u>9,538</u>	<u>11,862</u>	<u>9,718</u>

The bank balances earn interest at floating rates based on daily bank deposit rates.

Beijing Shopping Centre's cash and cash equivalents comprise cash on hand and cash at banks which are denominated in Renminbi ("RMB"). RMB is not freely convertible in the international market. The remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

(f) Trade payables

An aged analysis of the trade payables of Beijing Shopping Centre is as follows:

	As at 31st December,			As at
	2002	2003	2004	30th June,
	RMB'000	RMB'000	RMB'000	2005
				RMB'000
Within 3 months	<u>9,524</u>	<u>12,037</u>	<u>10,782</u>	<u>8,770</u>

(g) Deposits, other payables and accruals

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Payable to Beijing Parkson (<i>Note</i>)	12,362	12,362	12,362	12,362
Other payables and accruals	<u>1,996</u>	<u>2,263</u>	<u>2,352</u>	<u>2,218</u>
	<u>14,358</u>	<u>14,625</u>	<u>14,714</u>	<u>14,580</u>

Note:

The balance represented the amount due to Beijing Parkson, a joint venture of Parkson Retail Group Limited. The balance is unsecured, interest free and is repayable on demand.

(h) Contingent liabilities

Beijing Shopping Centre did not have any significant contingent liabilities at the end of each of the Relevant Periods.

(i) Commitments

(i) Beijing Shopping Centre did not have any significant capital commitments at the end of each of the Relevant Periods.

(ii) Operating lease commitments

Operating lease commitments — as lessee

Beijing Shopping Centre has entered into a commercial lease on certain property where it is not in the best interests of Beijing Shopping Centre to purchase these assets. The lease has a life of 24 years with renewal terms included in the contract. Renewals are at the option of the specific entity that holds the lease. There are no restrictions placed upon the lessee by entering into the lease.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	5,135	5,410	4,800	4,800
In the second to fifth years, inclusive	<u>19,810</u>	<u>14,400</u>	<u>9,600</u>	<u>4,800</u>
	<u>24,945</u>	<u>19,810</u>	<u>14,400</u>	<u>9,600</u>

(iii) Operating lease commitments — as lessor

Beijing Shopping Centre has entered into sub-lease agreements with its tenants. These non-cancellable leases have remaining non-cancellable lease terms of between 1 and 10 years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

Future minimum rentals receivable under non-cancellable operating leases are as follows:

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	1,370	1,504	825	825
In the second to fifth years, inclusive	3,800	3,300	3,300	3,300
After five years	4,125	3,300	2,475	1,238
	<u>9,295</u>	<u>8,104</u>	<u>6,600</u>	<u>5,363</u>

(j) Fair value of financial instruments

The financial instruments of Beijing Shopping Centre mainly consist of cash and bank balances, trade receivables, prepayments, deposits and other receivables, trade payables and customers' deposits, other payables and accruals.

The carrying amounts of Beijing Shopping Centre's financial instruments were stated approximately at their fair value as at 31st December, 2002, 2003 and 2004, and 30th June, 2005 because of the short term maturities of these instruments.

Fair value estimates are made at a specific point in time and based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(k) Concentration of risks

Beijing Shopping Centre is exposed to credit risk and foreign currency risk, as further explained below.

(i) Credit risk

Beijing Shopping Centre's cash and cash equivalents are deposited with banks in the PRC.

The trade and other receivables included in the financial information represent Beijing Shopping Centre's major exposure to the credit risk attributable to its financial assets. Beijing Shopping Centre has no other significant concentrations of credit risk.

(ii) Foreign currency risk

Beijing Shopping Centre's business is conducted in RMB which cannot be freely exchanged into foreign currencies. As at 31st December, 2002, 2003 and 2004, and 30th June, 2005, all of Beijing Shopping Centre's assets and liabilities were denominated in RMB.

5. STATEMENTS OF CHANGES IN OWNERS' EQUITY

	Accumulated losses RMB'000	Total RMB'000
At 1st January, 2002	(7,541)	(7,541)
Net profit for the year	<u>2,236</u>	<u>2,236</u>
At 31st December, 2002 and 1st January, 2003	(5,305)	(5,305)
Net profit for the year	<u>855</u>	<u>855</u>
At 31st December, 2003 and 1st January, 2004	(4,450)	(4,450)
Net loss for the year	<u>(85)</u>	<u>(85)</u>
At 31st December, 2004 and 1st January, 2005	(4,535)	(4,535)
Net profit for the period	<u>147</u>	<u>147</u>
At 30th June, 2005	<u><u>(4,388)</u></u>	<u><u>(4,388)</u></u>

Notes:

- (a) Beijing Shopping Centre is registered as a branch of the Collective Enterprise and has no registered capital.
- (b) There were no reserves available for distribution to the owners of Beijing Shopping Centre at the end of each of the Relevant Periods.

6. CASH FLOW STATEMENTS

	Year ended 31st December,			Six months ended 30th June,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit from operations before income tax	4,584	1,940	691	525	503
Adjustments for:					
Interest income	(80)	(33)	(55)	(25)	(70)
Depreciation	681	952	1,034	506	308
Loss on disposal of fixed assets	—	9	67	—	—
Operating profit before working capital changes	5,185	2,868	1,737	1,006	741
Decrease/(increase) in inventories	3,686	(41)	349	306	303
Decrease/(increase) in trade receivables	632	(963)	124	790	27
Decrease/(increase) in prepayments, deposits and other receivables	1,063	2,613	2,183	(677)	(384)
Increase/(decrease) in trade payables	(7,432)	2,513	(1,255)	(3,503)	(2,012)
Increase/(decrease) in deposits, other payables and accruals	(10,436)	267	89	(362)	(134)
Cash generated from/(used in) operating activities	(7,302)	7,257	3,227	(2,440)	(1,459)
Income tax paid	(687)	(1,369)	(778)	(704)	(677)
Net cash inflow/(outflow) from operating activities	(7,989)	5,888	2,449	(3,144)	(2,136)

	Year ended 31st December,			Six months ended	
	2002	2003	2004	2004	2005
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of fixed assets	(1,081)	(804)	(500)	—	(78)
Proceeds from disposal of fixed assets	—	—	320	—	—
Interest received	<u>80</u>	<u>33</u>	<u>55</u>	<u>25</u>	<u>70</u>
Net cash inflow/(outflow) from investing activities	<u>(1,001)</u>	<u>(771)</u>	<u>(125)</u>	<u>25</u>	<u>(8)</u>
Net cash inflow/(outflow) before financing activities	<u>(8,990)</u>	<u>5,117</u>	<u>2,324</u>	<u>(3,119)</u>	<u>(2,144)</u>
CASH FLOWS FROM FINANCING ACTIVITY					
Net cash flow from financing activity	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(8,990)	5,117	2,324	(3,119)	(2,144)
Cash and cash equivalents at beginning of year/period	<u>13,411</u>	<u>4,421</u>	<u>9,538</u>	<u>9,538</u>	<u>11,862</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	<u><u>4,421</u></u>	<u><u>9,538</u></u>	<u><u>11,862</u></u>	<u><u>6,419</u></u>	<u><u>9,718</u></u>

7. SUBSEQUENT EVENT

On 18th August, 2005, the Collective Enterprise entered into a sale and purchase agreement with Beijing Parkson, a joint venture of Parkson Retail Group Limited, to sell its business and all its assets and liabilities for a cash consideration of RMB1. Such consideration was determined based on the net asset value of Beijing Shopping Centre as at 30th June 2005. In the opinion of the directors, the transaction was completed before the date of this report.

8. SUBSEQUENT FINANCIAL INFORMATION

No financial information has been prepared by Beijing Shopping Centre in respect of any period subsequent to 30th June, 2005.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

B. Chongqing Wanyou Shopping Plaza Co., Ltd.

The following is the text of the accountants' report, prepared for inclusion in this Prospectus, from the independent reporting accountants of Parkson Retail Group Limited, Ernst & Young, Certified Public Accountants, Hong Kong.



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

17th November, 2005

The Directors
Parkson Retail Group Limited
Chongqing Wanyou Shopping Plaza Co., Ltd.
BNP Paribas Peregrine Capital Limited

Dear Sirs,

We set out below our report on the financial information regarding Chongqing Wanyou Shopping Plaza Co., Ltd. ("Chongqing Wanyou Plaza") for the period from 23rd September, 2002 (date of registration) to 31st December, 2002, each of the two years ended 31st December, 2003 and 2004 and the six-month period ended 30th June, 2005 (the "Relevant Periods") and the six-month period ended 30th June, 2004 (the "30th June, 2004 Financial Information") for inclusion in the prospectus of the Parkson Retail Group Limited dated 17th November, 2005 (the "Prospectus").

For the purpose of this report, the directors of Chongqing Wanyou Plaza have prepared the financial statements of Chongqing Wanyou Plaza for the Relevant Periods ("Financial Statements") in accordance with International Financial Reporting Standards ("IFRS") as promulgated by the International Accounting Standards Board (the "IASB"), based on the statutory financial statements audited by Chongqing Qinye Certified Public Accountants, certified public accountants registered in the People's Republic of China (the "PRC") or, where appropriate, management accounts of Chongqing Wanyou Plaza for the Relevant Periods. In preparing this report, no adjustments were considered necessary to restate the audited Financial Statements of Chongqing Wanyou Plaza to conform to the accounting policies referred to in Section 2 to this report, which are in compliance with IFRS. The Financial Statements have been audited by us in accordance with the Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of Chongqing Wanyou Plaza are responsible for preparing the Financial Statements which give a true and fair view. In preparing the Financial Statements, it is fundamental that appropriate accounting policies are selected and applied consistently.

Procedures Performed in Respect of the Relevant Periods

The financial information set out in this report (the “Financial Information”) has been prepared based on the Financial Statements. For the purpose of this report, we have examined the Financial Statements. Our examination was made in accordance with the Statements of Auditing Standards issued by the HKICPA and we have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” issued by the HKICPA.

Procedures Performed in Respect of the 30th June, 2004 Financial Information

For the purpose of this report, we have performed a review of the 30th June, 2004 Financial Information in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope and provides a lower level of assurance than our audit or examination procedures described in the preceding paragraph and, accordingly, we do not express an audit opinion on the 30th June, 2004 Financial Information.

The directors of Chongqing Wanyou Plaza are responsible for the preparation of the Financial Information. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion thereon.

Opinion in Respect of the Relevant Periods

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Chongqing Wanyou Plaza as at 31st December, 2002, 2003, and 2004, and 30th June, 2005 and of the results and cash flows of Chongqing Wanyou Plaza for each of the Relevant Periods.

Review Conclusion in Respect of the 30th June, 2004 Financial Information

On the basis of our review, for the purpose of this report, we are not aware of any material modification that should be made to the results and cash flows of Chongqing Wanyou Plaza as set out in the 30th June, 2004 Financial Information.

1. CORPORATE INFORMATION AND BASIS OF PRESENTATION

Chongqing Wanyou Plaza was registered as a limited liability company in Chongqing, the PRC on 23rd September 2002. During the Relevant Periods, Chongqing Wanyou Plaza was engaged in the operation of a department store in Chongqing, the PRC. Through an acquisition transaction as set out in Section 7 of this report, the business and the relevant assets and liabilities of Chongqing Wanyou Plaza except a bank balance of RMB4,800,000 were acquired by Chongqing Wanyou Parkson Plaza Co., Ltd. ("Chongqing Parkson"), a subsidiary of Parkson Retail Group Limited, on 31st August, 2005.

The Financial Information has been prepared on the going concern basis notwithstanding the net current liabilities and deficiency in owners' equity of Chongqing Wanyou Plaza as at 30th June 2005 because pursuant to an acquisition transaction as set out in Section 7 of this report, Chongqing Parkson acquired the business and all assets and liabilities of Chongqing Wanyou Plaza at their carrying values except a bank balance of RMB4,800,000 on 31st August, 2005. Parkson Retail Group Limited has undertaken to provide financial support to Chongqing Parkson as it may require.

2. PRINCIPAL ACCOUNTING POLICIES**Statement of compliance**

The Financial Information has been prepared in accordance with IFRS promulgated by the IASB. IFRS includes International Accounting Standards and interpretations. The Financial Information also complies with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as applicable to Accountants' Reports for inclusion in Listing Documents. Chongqing Wanyou Plaza has early adopted all applicable new and revised IFRS, which are generally effective for accounting periods, beginning on or after 1st January 2005, throughout the Relevant Periods.

The above basis of accounting differs from that used in the audited financial statements or, where appropriate, management accounts of Chongqing Wanyou Plaza which were prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC (the "PRC GAAP").

Use of estimates

The preparation of the financial information of the company in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial information and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the company and the revenue can be reliably measured on the following basis:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Commissions from concessionaire sales are recognised upon the sale of goods by the relevant store.

Promotion income

Promotion income is recognised according to the underlying contract terms with concessionaire and as these services are provided in accordance herewith.

Interest income

Revenue is recognised on a time proportion basis taking into account the principal outstanding and the effective rate of interest applicable.

Rental income, display space leasing fees and equipment leasing income

Revenue is recognised on a time proportion basis over the terms of the respective leases.

Employee benefits

- (i) Salaries, bonuses, paid annual leave, leave passage and the cost to the company of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the company. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to defined contribution retirement plans are recognised as an expense in the income statement as incurred.

Pursuant to the relevant PRC laws and regulations, the company is required to participate in a retirement benefits scheme organised by the local municipal government whereby the company is required to contribute a certain percentage of the salaries of its employees to the retirement benefits scheme. The only obligation of the company with respect to the retirement benefits scheme is to pay the ongoing required contributions. Contributions made to the defined contribution retirement benefits scheme are charged to the income statement as incurred.

Termination benefits are recognised when, and only when, the company demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

Income tax

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

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised.

- except where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is utilised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Related parties

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

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on the straight-line basis over the lease terms.

Recoverable amount of non-current assets

At each reporting date, the company assesses whether there is any indication that an asset may be impaired. Where an indication of impairment exists, the company makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflow that are largely independent of those from other assets or groups of assets.

Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill relating to acquisitions is not amortised. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Financial instruments

Financial assets and financial liabilities carried in the balance sheet include cash and cash equivalents, prepayments, deposits and other receivables, trade payables, customers' deposits, other payables and accruals and balance with an equity holder. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies set out in this section.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends and gains or losses relating to a financial instrument classified as a liability are reported as income or expenses. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Property, plant and equipment

Property, plant and equipment, other than construction in progress (“CIP”), are stated at cost less accumulated depreciation and provision for any impairment in value.

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

Depreciation of property, plant and equipment is calculated on the straight-line basis over the expected useful life of the asset, after taking into account its estimated residual value of 10%, as follows:

Leasehold improvements	3 years
Motor vehicles	5 years
Equipment and fixtures	5 - 10 years

Construction in progress represents storage facilities under construction, or renovation works in progress and is stated at cost less any impairment loss, and is not depreciated. Cost comprises development and construction expenditure incurred and other direct costs attributable to the development less any accumulated impairment losses. On completion, the relevant assets are transferred to property, plant and equipment at cost less accumulated impairment losses.

The carrying values of property, plant and equipment are reviewed for impairment either annually, or when events or changes in circumstances indicate that the carrying values may not be recoverable (whichever is earlier). If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflow, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement.

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

Inventories

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

Cost of merchandise is determined on a weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to disposal.

Consumables are stated at cost less any impairment losses.

Trade and other receivables

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

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

An estimate for doubtful debts is made when there is objective evidence that collection of the full amount is no longer probable. Bad debts are written off when identified.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand and short term deposits, which are not restricted as to use. For the purpose of the cash flow statement, cash and cash equivalents consist of cash at banks and in hand and short term deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

Provisions

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

Coupon liabilities

Coupon liabilities are recognised at fair value based on the bonus points granted to customers in accordance with the announced bonus points scheme and the company's past experience on the level of redemption of coupons.

Contingent liabilities and contingent assets

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

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

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

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

3. RESULTS

		For the period from 23rd September, 2002 (date of registration) to 31st December, 2002	Year ended 31st December,		Six months ended 30th June,	
	Notes	RMB'000	2003 RMB'000	2004 RMB'000	2004 RMB'000 (unaudited)	2005 RMB'000
Revenues	(a)	10,581	40,704	68,543	27,136	42,553
Other operating revenues	(a)	531	3,399	5,234	2,253	2,055
Total operating revenues		11,112	44,103	73,777	29,389	44,608
Operating expenses						
Purchase of goods and changes in inventories		(6,113)	(22,077)	(36,033)	(14,385)	(23,565)
Staff costs		(630)	(4,686)	(6,286)	(2,307)	(5,167)
Depreciation		(1,035)	(1,950)	(2,463)	(989)	(1,748)
Rental expenses		(2,936)	(11,746)	(13,364)	(6,304)	(7,220)
Other operating expenses		(1,510)	(5,936)	(14,795)	(6,465)	(7,734)
Total operating expenses		(12,224)	(46,395)	(72,941)	(30,450)	(45,434)
Profit/(loss) from operations	(b)	(1,112)	(2,292)	836	(1,061)	(826)
Finance income	(c)	176	771	732	479	397
Profit/(loss) from operations before income tax		(936)	(1,521)	1,568	(582)	(429)
Income tax	(e)	309	732	(587)	(30)	(118)
Net profit/(loss) for the year/period		(627)	(789)	981	(612)	(547)

Notes:

(a) **Revenues**

Revenues represent the net amount received and receivable for goods sold by Chongqing Wanyou Plaza to outside customers, less returns and allowances, commissions from concessionaire sales, and rental income during the Relevant Periods, and are analysed as follows:

	For the period from 23rd September, 2002 (date of registration) to 31st December, 2002 <i>RMB'000</i>	Year ended 31st December, 2003 2004 <i>RMB'000 RMB'000</i>		Six months ended 30th June, 2004 <i>RMB'000</i> (unaudited)	2005 <i>RMB'000</i>
Sales of goods — direct sales	6,659	24,295	39,941	15,253	25,349
Commissions from concessionaire sales (<i>Note</i>)	3,429	14,445	24,682	10,294	14,465
Rental income	493	1,964	3,920	1,589	2,739
	<u>10,581</u>	<u>40,704</u>	<u>68,543</u>	<u>27,136</u>	<u>42,553</u>

Note:

The commissions from concession sales are analysed as follows:

	For the period from 23rd September, 2002 (date of registration) to 31st December, 2002 <i>RMB'000</i>	Year ended 31st December, 2003 2004 <i>RMB'000 RMB'000</i>		Six months ended 30th June, 2004 <i>RMB'000</i> (unaudited)	2005 <i>RMB'000</i>
Gross revenue from concessionaire sales	<u>19,625</u>	<u>78,631</u>	<u>149,676</u>	<u>59,649</u>	<u>90,130</u>
Commissions from concessionaire sales	<u>3,429</u>	<u>14,445</u>	<u>24,682</u>	<u>10,294</u>	<u>14,465</u>

Over 90% of Chongqing Wanyou Plaza's turnover and contribution to operating profit is attributable to the operation and management of department stores and all of Chongqing Wanyou Plaza's turnover and contribution to operating profit is attributable to customers in the PRC. Accordingly no analysis of segment information is presented.

Other operating revenues comprise the following:

	For the period from 23rd September, 2002 (date of registration) to 31st December, 2002 RMB'000	Year ended 31st December, 2003 2004 RMB'000 RMB'000		Six months ended 30th June, 2004 2005 RMB'000 RMB'000 (unaudited)	
Promotion income	299	1,438	1,870	579	689
Display space leasing fees	115	1,214	1,228	455	354
Lease of equipment	6	17	108	23	55
Administration fees	31	267	1,380	635	609
Other income	80	463	648	561	348
	<u>531</u>	<u>3,399</u>	<u>5,234</u>	<u>2,253</u>	<u>2,055</u>

(b) **Profit/(loss) from operations**

The profit/(loss) from operations of Chongqing Wanyou Plaza is arrived at after charging/(crediting):

	For the period from 23rd September, 2002 (date of registration) to 31st December, 2002 RMB'000	Year ended 31st December, 2003 2004 RMB'000 RMB'000		Six months ended 30th June, 2004 2005 RMB'000 RMB'000 (unaudited)	
Cost of inventories recognised as expenses	6,113	22,077	36,033	14,385	23,565
Staff costs:					
Wages, salaries and bonuses	441	4,001	5,423	1,986	3,398
Pension costs	76	245	381	141	599
Social welfare and other costs	113	440	482	180	1,170
	<u>630</u>	<u>4,686</u>	<u>6,286</u>	<u>2,307</u>	<u>5,167</u>
Depreciation	1,035	1,950	2,463	989	1,748
Operating lease rentals in respect of rented properties:					
Minimum lease payments	2,936	11,746	12,905	6,289	6,617
Contingent rents (Note)	<u>—</u>	<u>—</u>	<u>459</u>	<u>15</u>	<u>603</u>
	<u>2,936</u>	<u>11,746</u>	<u>13,364</u>	<u>6,304</u>	<u>7,220</u>
Loss/(gain) on disposal of fixed assets	<u>—</u>	<u>—</u>	24	(11)	<u>—</u>

APPENDIX II

ACCOUNTANTS' REPORTS OF THE ACQUIRED STORES

The rental income is analysed as below:

	For the period from 23rd September, 2002 (date of registration) to 31st December, 2002 RMB'000	Year ended 31st December, 2003 2004 RMB'000 RMB'000		Six months ended 30th June, 2004 2005 RMB'000 RMB'000 (unaudited)	
Gross rental income in respect of sub-letting of properties:					
Base rents	(38)	(323)	(887)	(510)	(645)
Contingent rents (Note)	(455)	(1,641)	(3,033)	(1,079)	(2,094)
	(493)	(1,964)	(3,920)	(1,589)	(2,739)
Less: Outgoings	—	—	—	—	—
Net rental income	(493)	(1,964)	(3,920)	(1,589)	(2,739)

Note:

Contingent rents are calculated based on a percentage of relevant turnover pursuant to the rental agreements.

(c) Finance income

	For the period from 23rd September, 2002 (date of registration) to 31st December, 2002 RMB'000	Year ended 31st December, 2003 2004 RMB'000 RMB'000		Six months ended 30th June, 2004 2005 RMB'000 RMB'000 (unaudited)	
Interest income	176	771	732	479	397

(d) Retirement benefits scheme

Chongqing Wanyou Plaza is required to participate in employee pension schemes operated by the relevant local government authorities in the PRC. The PRC government is responsible for the pension liability to these retired employees. Chongqing Wanyou Plaza is required to make contributions for relevant employees who are registered as permanent residents in the PRC and are within the scope of the relevant PRC regulations at a rate of 20% of the employees' salaries for the Relevant Periods.

Chongqing Wanyou Plaza's contributions to pension costs for the years ended 31st December, 2002, 2003 and 2004 and the six months ended 30th June, 2004 and 2005 amounted to approximately RMB76,000, RMB245,000, RMB381,000, RMB141,000 and RMB599,000, respectively.

(e) Income tax

Under the relevant PRC income tax law, Chongqing Wanyou Plaza is subject to corporate income tax at a rate of 33% on its taxable income.

Pursuant to applicable income tax laws and regulations of the PRC, newly formed trading enterprises are eligible to apply for income tax exemption for one year. Chongqing Wanyou Plaza was granted an income tax exemption for 2003 by the relevant PRC tax authority.

The determination of current and deferred income tax was based on the enacted tax rates.

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

	For the period from 23rd September, 2002 (date of registration) to 31st December, 2002 RMB'000	Year ended 31st December, 20032004 RMB'000RMB'000		Six months ended 30th June, 20042005 RMB'000RMB'000 (unaudited)	
Current income tax	303	—	608	92	164
Deferred income tax	(612)	(732)	(21)	(62)	(46)
	(309)	(732)	587	30	118

APPENDIX II

ACCOUNTANTS' REPORTS OF THE ACQUIRED STORES

A reconciliation of the income tax expense applicable to profit/(loss) from operations before income tax at the statutory income tax rate to the income tax expense at Chongqing Wanyou Plaza's effective income tax rate, is as follows:

	For the period from 23rd September, 2002 (date of registration) to 31st December, 2002 <i>RMB'000</i>	Year ended 31st December, 2003 2004 <i>RMB'000 RMB'000</i>		Six months ended 30th June, 2004 2005 <i>RMB'000 RMB'000</i> <i>(unaudited)</i>	
Profit/(loss) from operations before income tax	<u>(936)</u>	<u>(1,521)</u>	<u>1,568</u>	<u>(582)</u>	<u>(429)</u>
Income tax at the statutory income tax rate of 33%	(309)	(502)	517	(192)	(142)
Tax effect of preferential tax rate	—	(230)	—	—	—
Tax losses not recognised	—	—	—	186	—
Tax effect of expenses not deductible for tax purposes	<u>—</u>	<u>—</u>	<u>70</u>	<u>36</u>	<u>260</u>
	<u>(309)</u>	<u>(732)</u>	<u>587</u>	<u>30</u>	<u>118</u>

(f) **Related party transactions**

During the Relevant Periods, Chongqing Wanyou Plaza had the following significant transaction with an equity holder:

	For the period from 23rd September, 2002 (date of registration) to 31st December, 2002 <i>RMB'000</i>	Year ended 31st December, 2003 2004 <i>RMB'000 RMB'000</i>		Six months ended 30th June, 2004 2005 <i>RMB'000 RMB'000</i> <i>(unaudited)</i>	
Consultancy fee	<u>28</u>	<u>109</u>	<u>143</u>	<u>82</u>	<u>95</u>

The consultancy fee was paid to Chongqing Wanyou Economic Development Company, the equity holder of Chongqing Wanyou Plaza, based on 0.1% of the gross revenue of Chongqing Wanyou Plaza.

4. BALANCE SHEETS

		31st December,		30th June,	
		2002	2003	2004	2005
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	(a)	6,974	5,839	11,420	9,827
Deferred tax assets	(b)	612	1,344	1,365	1,411
Goodwill	(c)	<u>1,025</u>	<u>1,025</u>	<u>1,025</u>	<u>1,025</u>
		<u>8,611</u>	<u>8,208</u>	<u>13,810</u>	<u>12,263</u>
CURRENT ASSETS					
Inventories	(d)	3,589	3,176	5,694	4,579
Prepayments and other receivables	(e)	16,840	19,309	9,481	9,906
Cash and cash equivalents	(f)	<u>4,644</u>	<u>2,149</u>	<u>22,751</u>	<u>20,295</u>
		<u>25,073</u>	<u>24,634</u>	<u>37,926</u>	<u>34,780</u>
CURRENT LIABILITIES					
Trade payables	(g)	(12,094)	(10,212)	(28,134)	(23,854)
Customers' deposits, other payables and accruals	(h)	(15,142)	(15,757)	(15,568)	(16,625)
Due to an equity holder	(i)	(117)	(10)	(108)	(130)
Tax payable		<u>(303)</u>	<u>(279)</u>	<u>(704)</u>	<u>—</u>
		<u>(27,656)</u>	<u>(26,258)</u>	<u>(44,514)</u>	<u>(40,609)</u>
NET CURRENT LIABILITIES		<u>(2,583)</u>	<u>(1,624)</u>	<u>(6,588)</u>	<u>(5,829)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		6,028	6,584	7,222	6,434
NON-CURRENT LIABILITIES					
Long term payables	(j)	<u>(1,855)</u>	<u>(3,200)</u>	<u>(2,857)</u>	<u>(2,616)</u>
NET ASSETS		<u>4,173</u>	<u>3,384</u>	<u>4,365</u>	<u>3,818</u>
OWNERS' EQUITY		<u>4,173</u>	<u>3,384</u>	<u>4,365</u>	<u>3,818</u>

APPENDIX II

ACCOUNTANTS' REPORTS OF THE ACQUIRED STORES

Notes:

(a) **Property, plant and equipment**

	Leasehold improvements <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Equipment and fixtures <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
At 23rd September, 2002, date of registration	—	—	—	—	—
Acquisition	922	510	6,021	—	7,453
Additions	68	—	635	—	703
Disposals	—	—	(147)	—	(147)
Depreciation charge for the period	<u>(354)</u>	<u>(31)</u>	<u>(650)</u>	<u>—</u>	<u>(1,035)</u>
At 31st December, 2002, net of accumulated depreciation	636	479	5,859	—	6,974
Additions	85	—	423	537	1,045
Disposals	—	(117)	(113)	—	(230)
Depreciation charge for the year	<u>(721)</u>	<u>(50)</u>	<u>(1,179)</u>	<u>—</u>	<u>(1,950)</u>
At 31st December, 2003, net of accumulated depreciation	—	312	4,990	537	5,839
Additions	2,815	308	4,827	354	8,304
Transfers	891	—	—	(891)	—
Disposals	—	(31)	(229)	—	(260)
Depreciation charge for the year	<u>(663)</u>	<u>(71)</u>	<u>(1,729)</u>	<u>—</u>	<u>(2,463)</u>
At 31st December, 2004, net of accumulated depreciation	3,043	518	7,859	—	11,420
Additions	238	—	5	—	243
Disposals	—	—	(88)	—	(88)
Depreciation charge for the period	<u>(711)</u>	<u>(43)</u>	<u>(994)</u>	<u>—</u>	<u>(1,748)</u>
At 30th June, 2005, net of accumulated depreciation	<u>2,570</u>	<u>475</u>	<u>6,782</u>	<u>—</u>	<u>9,827</u>
At 23rd September, 2002, date of registration					
Cost	—	—	—	—	—
Accumulated depreciation	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net carrying amount	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

APPENDIX II

ACCOUNTANTS' REPORTS OF THE ACQUIRED STORES

	Leasehold improvements <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Equipment and fixtures <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
At 31st December, 2002					
Cost	990	510	6,509	—	8,009
Accumulated depreciation	<u>(354)</u>	<u>(31)</u>	<u>(650)</u>	<u>—</u>	<u>(1,035)</u>
Net carrying amount	<u>636</u>	<u>479</u>	<u>5,859</u>	<u>—</u>	<u>6,974</u>
At 31st December, 2003					
Cost	1,075	393	6,819	537	8,824
Accumulated depreciation	<u>(1,075)</u>	<u>(81)</u>	<u>(1,829)</u>	<u>—</u>	<u>(2,985)</u>
Net carrying amount	<u>—</u>	<u>312</u>	<u>4,990</u>	<u>537</u>	<u>5,839</u>
At 31st December, 2004					
Cost	4,781	670	11,417	—	16,868
Accumulated depreciation	<u>(1,738)</u>	<u>(152)</u>	<u>(3,558)</u>	<u>—</u>	<u>(5,448)</u>
Net carrying amount	<u>3,043</u>	<u>518</u>	<u>7,859</u>	<u>—</u>	<u>11,420</u>
At 30th June, 2005					
Cost	5,019	670	11,334	—	17,023
Accumulated depreciation	<u>(2,449)</u>	<u>(195)</u>	<u>(4,552)</u>	<u>—</u>	<u>(7,196)</u>
Net carrying amount	<u>2,570</u>	<u>475</u>	<u>6,782</u>	<u>—</u>	<u>9,827</u>

(b) Deferred tax assets

The principal components of Chongqing Wanyou Plaza's deferred tax assets at the end of each of the Relevant Periods and the movements in deferred income tax for the Relevant Periods are as follows:

	Balance at 23rd September, 2002 (date of registration) <i>RMB'000</i>	Recognised in the income statement <i>RMB'000</i>	Balance at 31st December, 2002 <i>RMB'000</i>
Deferred tax assets:			
Accrued rental expenses	<u>—</u>	<u>612</u>	<u>612</u>
	<u>—</u>	<u>612</u>	<u>612</u>

	Balance at 1st January, 2003 <i>RMB'000</i>	Recognised in the income statement <i>RMB'000</i>	Balance at 31st December, 2003 <i>RMB'000</i>
Deferred tax assets:			
Accrued coupon provision	—	207	207
Accrued rental expenses	612	525	1,137
	<u>612</u>	<u>732</u>	<u>1,344</u>
	Balance at 1st January, 2004 <i>RMB'000</i>	Recognised in the income statement <i>RMB'000</i>	Balance at 31st December, 2004 <i>RMB'000</i>
Deferred tax assets:			
Accrued coupon provision	207	104	311
Accrued rental expenses	1,137	(83)	1,054
	<u>1,344</u>	<u>21</u>	<u>1,365</u>
	Balance at 1st January, 2005 <i>RMB'000</i>	Recognised in the income statement <i>RMB'000</i>	Balance at 30th June, 2005 <i>RMB'000</i>
Deferred tax assets:			
Accrued coupon provision	311	126	437
Accrued rental expenses	1,054	(80)	974
	<u>1,365</u>	<u>46</u>	<u>1,411</u>

A valuation allowance on the deferred tax assets is recorded if it is probable that some portion or all of the deferred tax assets will not be realised through the recovery of taxes previously paid and/or future taxable income. The allowance is subject to ongoing adjustments based on changes in circumstances that affect Chongqing Wanyou Plaza's assessment of the realisability of the deferred tax assets. Chongqing Wanyou Plaza has reviewed its deferred tax assets as at 31st December, 2002, 2003, 2004 and 30th June, 2005. Based on projections for future taxable income over the periods in which the deferred tax assets are deductible, the directors believe that it is probable that Chongqing Wanyou Plaza will realise the benefits of these temporary differences. Therefore, no valuation allowances were provided for the period ended 31st December, 2002, two years ended 31st December, 2003, 2004 and the six months ended 30th June, 2005, in respect of the deferred tax assets arising from these temporary differences.

(c) Business combination

Acquisition of Chongqing Langgao Parkson Shopping Plaza Co., Ltd.

On 23rd September, 2002, Chongqing Wanyou Plaza acquired the business and the relevant assets and liabilities of Chongqing Langgao Parkson Shopping Plaza Co., Ltd. (“Chongqing Langgao”) for a cash consideration of RMB1.

The fair value of the identifiable assets and liabilities of Chongqing Langgao as at the date of acquisition is:

	Recognised on acquisition <i>RMB'000</i>	Carrying value <i>RMB'000</i>
Property, plant and equipment	7,453	7,453
Inventories	3,873	3,873
Prepayments, deposits and other receivables	11,443	11,443
Cash and cash equivalents	<u>792</u>	<u>792</u>
	<u>23,561</u>	<u>23,561</u>
Interest-bearing loans and borrowings	(10,000)	(10,000)
Trade payables	(9,146)	(9,146)
Customers' deposits, other payables and accruals	<u>(5,440)</u>	<u>(5,440)</u>
	<u>(24,586)</u>	<u>(24,586)</u>
Fair value of net assets	(1,025)	<u>(1,025)</u>
Consideration	<u>—</u>	
Goodwill arising on acquisition	<u>1,025</u>	—

RMB'000

Consideration and cash paid	<u>—</u>

The cash inflow on acquisition is as follows:

Net cash acquired	792
Cash paid	<u>—</u>
Net cash inflow	<u>792</u>

APPENDIX II

ACCOUNTANTS' REPORTS OF THE ACQUIRED STORES

(d) Inventories

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Merchandise, at cost	3,468	3,087	5,097	4,200
Consumables, at cost	<u>121</u>	<u>89</u>	<u>597</u>	<u>379</u>
	<u>3,589</u>	<u>3,176</u>	<u>5,694</u>	<u>4,579</u>

(e) Prepayments and other receivables

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Advances to suppliers	923	856	865	261
Prepayments	3,794	1,587	3,252	4,923
Other receivables	<u>12,123</u>	<u>16,866</u>	<u>5,364</u>	<u>4,722</u>
	<u>16,840</u>	<u>19,309</u>	<u>9,481</u>	<u>9,906</u>

(f) Cash and cash equivalents

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	<u>4,644</u>	<u>2,149</u>	<u>22,751</u>	<u>20,295</u>

The bank balances earn interest at floating rates based on daily bank deposit rates.

Chongqing Wanyou Plaza's cash and cash equivalents comprise cash on hand and cash at banks which are denominated in Renminbi ("RMB"). RMB is not freely convertible in the international market. The remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

(g) **Trade payables**

An aged analysis of the trade payables of Chongqing Wanyou Plaza is as follows:

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	<u>12,094</u>	<u>10,212</u>	<u>28,134</u>	<u>23,854</u>

(h) **Customers' deposits, other payables and accruals**

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Payable to Chongqing Parkson (<i>Note</i>)	10,400	10,400	5,411	5,326
Customers' deposits	895	1,012	2,261	1,769
Accruals	1,532	1,791	2,283	3,084
Other payables	<u>2,315</u>	<u>2,554</u>	<u>5,613</u>	<u>6,446</u>
	<u>15,142</u>	<u>15,757</u>	<u>15,568</u>	<u>16,625</u>

Note:

The balance represented amounts due to Chongqing Parkson, a subsidiary of Parkson Retail Group Limited. The balance is unsecured, interest free and is repayable on demand.

(i) **Due to an equity holder**

The balance is unsecured, interest free and is repayable on demand. The directors of Chongqing Wanyou Plaza have confirmed that the amounts due to an equity holder would be settled prior to the listing of the shares of Parkson Retail Group Limited on the Stock Exchange.

(j) **Long term payables**

The long term payables represented the long term portion of accrued rental expenses and are stated at amortised cost.

(k) **Contingent liabilities**

Chongqing Wanyou Plaza did not have any significant contingent liabilities at the end of each of the Relevant Periods.

(I) Commitments

(i) Chongqing Wanyou Plaza did not have any significant capital commitments at the end of each of the Relevant Periods.

(ii) Operating lease commitments

Operating lease commitments — as lessee

Chongqing Wanyou Plaza has entered into leases on certain properties. These leases have an average life of between 12 and 14 years and renewals are at the option of Chongqing Wanyou Plaza. There are no restrictions placed upon Chongqing Wanyou Plaza by entering into these leases. Pursuant to the agreements, the annual contingent rental amount is calculated based on a percentage of the respective store's turnover.

Future minimum rentals payable under non-cancellable operating leases as at 31st December, 2002, 2003 and 2004, and 30th June, 2005 are as follows:

	As at 31st December,			As at
	2002	2003	2004	30th June,
	RMB'000	RMB'000	RMB'000	2005
				RMB'000
Within one year	6,501	11,128	12,328	12,328
In the second to fifth years, inclusive	44,513	44,513	49,534	49,602
After five years	100,277	89,118	93,473	87,309
	<u>151,291</u>	<u>144,759</u>	<u>155,335</u>	<u>149,239</u>

Operating lease commitments — as lessor

Chongqing Wanyou Plaza has entered into leases on certain properties. These non-cancellable leases were signed on a yearly basis. All leases include a clause to enable upward revision of the rental charge on an annual basis on prevailing market conditions.

Future minimum rentals receivable under non-cancellable operating leases as at 31st December, 2002, 2003 and 2004, and 30th June, 2005 are as follows:

	As at 31st December,			As at
	2002	2003	2004	30th June,
	RMB'000	RMB'000	RMB'000	2005
				RMB'000
Within one year	<u>38</u>	<u>323</u>	<u>887</u>	<u>645</u>

(m) **Fair value of financial instruments**

The financial instruments of Chongqing Wanyou Plaza mainly consist of cash and bank balances, prepayments and other receivables, trade payables, customers' deposits, other payables and accruals and amounts due to an equity holder.

The carrying amounts of Chongqing Wanyou Plaza's financial instruments were stated approximately at their fair value as at 31st December, 2002, 2003 and 2004, and 30th June, 2005.

Fair value estimates are made at a specific point in time and based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(n) **Concentration of risks**

Chongqing Wanyou Plaza is exposed to credit risk and foreign currency risk, as further explained below.

(i) *Credit risk*

Chongqing Wanyou Plaza's cash and cash equivalents are deposited with banks in the PRC. The trade and other receivables included in the financial information represent Chongqing Wanyou Plaza major exposure to the credit risk attributable to its financial assets. Chongqing Wanyou Plaza has no other significant concentrations of credit risk.

(ii) *Foreign currency risk*

Chongqing Wanyou Plaza's business is conducted in RMB which cannot be freely exchanged into foreign currencies. As at 31st December, 2002, 2003 and 2004, and 30th June, 2005, all of Chongqing Wanyou Plaza's assets and liabilities were denominated in RMB.

5. STATEMENTS OF CHANGES IN OWNERS' EQUITY

	Registered capital <i>RMB'000</i> <i>Note (a)</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
At 23rd September, 2002, date of registration	4,800	—	4,800
Net loss for the period	<u>—</u>	<u>(627)</u>	<u>(627)</u>
At 31st December, 2002 and 1st January, 2003	4,800	(627)	4,173
Net loss the year	<u>—</u>	<u>(789)</u>	<u>(789)</u>
At 31st December, 2003 and 1st January, 2004	4,800	(1,416)	3,384
Net profit for the year	<u>—</u>	<u>981</u>	<u>981</u>
At 31st December, 2004 and 1st January, 2005	4,800	(435)	4,365
Net loss for the period	<u>—</u>	<u>(547)</u>	<u>(547)</u>
At 30th June, 2005	<u>4,800</u>	<u>(982)</u>	<u>3,818</u>

Notes:

(a) Capital

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Registered and paid-in capital	<u>4,800</u>	<u>4,800</u>	<u>4,800</u>	<u>4,800</u>

(b) Distributable reserves

There were no reserves available for distribution to the owners of Chongqing Wanyou Plaza at the end of each of the Relevant Periods.

6. CASH FLOW STATEMENTS

	For the period from 23rd September, 2002 (date of registration) to 31st December, 2002 <i>RMB'000</i>	Year ended 31st December, 2003 2004 <i>RMB'000 RMB'000</i>		Six months ended 30th June, 2004 2005 <i>RMB'000 RMB'000</i>	
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(loss) from operations before income tax	(936)	(1,521)	1,568	(582)	(429)
Adjustments for:					
Interest income	(176)	(771)	(732)	(479)	(397)
Depreciation	1,035	1,950	2,463	989	1,748
Loss/(gain) on disposal of fixed assets	—	—	24	(11)	—
Operating profit/(loss) before working capital changes	(77)	(342)	3,323	(83)	922
Decrease/(increase) in inventories	284	413	(2,518)	(2,029)	1,115
Decrease/(increase) in prepayments and other receivables	(5,396)	(2,469)	9,828	(937)	(425)
Increase/(decrease) in trade payables	2,948	(1,882)	17,922	13,084	(4,280)
Increase/(decrease) in customers' deposits, other payables and accruals	(299)	615	(189)	13,145	1,057
Increase/(decrease) in an amount due to an equity holder	117	(107)	98	70	22
Increase/(decrease) in long term payables	1,855	1,345	(343)	(243)	(241)
Cash generated from/(used in) operating activities	(568)	(2,427)	28,121	23,007	(1,830)
Income tax paid	—	(24)	(183)	(57)	(868)
Net cash inflow/(outflow) from operating activities	(568)	(2,451)	27,938	22,950	(2,698)

	For the period from 23rd September, 2002 (date of registration) to 31st December, 2002 <i>RMB'000</i>	Year ended 31st December, 2003 2004 <i>RMB'000 RMB'000</i>		Six months ended 30th June, 2004 2005 <i>RMB'000 RMB'000</i>	
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of fixed assets	(703)	(1,045)	(8,304)	(8,260)	(243)
Proceeds from disposal of fixed assets	147	230	236	224	88
Acquisition, net of cash paid (section 4 note (c))	792	—	—	—	—
Interest received	<u>176</u>	<u>771</u>	<u>732</u>	<u>479</u>	<u>397</u>
Net cash inflow/(outflow) from investing activities	<u>412</u>	<u>(44)</u>	<u>(7,336)</u>	<u>(7,557)</u>	<u>242</u>
Net cash inflow/(outflow) before financing activities	<u>(156)</u>	<u>(2,495)</u>	<u>20,602</u>	<u>15,393</u>	<u>(2,456)</u>
CASH FLOWS FROM FINANCING ACTIVITY					
Capital contribution	<u>4,800</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net cash inflow from financing activity	<u>4,800</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	4,644	(2,495)	20,602	15,393	(2,456)
Cash and cash equivalents at beginning of year/period	<u>—</u>	<u>4,644</u>	<u>2,149</u>	<u>2,149</u>	<u>22,751</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	<u>4,644</u>	<u>2,149</u>	<u>22,751</u>	<u>17,542</u>	<u>20,295</u>

7. SUBSEQUENT EVENT

On 20th August, 2005, Chongqing Wanyou Plaza entered into a sale and purchase agreement with Chongqing Parkson, a subsidiary of Parkson Retail Group Limited, to sell its business and all the assets and liabilities except a bank balance of RMB4,800,000 for a cash consideration of RMB1. In the opinion of the directors, the transaction was completed before the date of this report.

8. SUBSEQUENT FINANCIAL INFORMATION

No financial information has been prepared by Chongqing Wanyou Plaza in respect of any period subsequent to 30th June, 2005.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

C. Guizhou Shenqi Parkson Retail Development Co., Ltd.

The following is the text of the accountants' report, prepared for inclusion in this Prospectus, from the independent reporting accountants of Parkson Retail Group Limited, Ernst & Young, Certified Public Accountants, Hong Kong.



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

17th November, 2005

The Directors
Parkson Retail Group Limited
Guizhou Shenqi Parkson Retail Development Co., Ltd.
BNP Paribas Peregrine Capital Limited

Dear Sirs,

We set out below our report on the financial information regarding Guizhou Shenqi Parkson Retail Development Co., Ltd. (formerly “Guizhou Shenqi Store Development Co., Ltd.” and hereinafter “Guizhou Parkson”) for the period from 28th August, 2002 (date of registration) to 31st December, 2002, each of the two years ended 31st December, 2003 and 2004 and the six-month period ended 30th June, 2005 (the “Relevant Periods”) and the six-month period ended 30th June, 2004 (the “30th June, 2004 Financial Information”) for inclusion in the prospectus of the Parkson Retail Group Limited dated 17th November, 2005 (the “Prospectus”).

For the purpose of this report, the directors of Guizhou Parkson have prepared the financial statements of Guizhou Parkson for the Relevant Periods (“Financial Statements”) in accordance with International Financial Reporting Standards (“IFRS”) as promulgated by the International Accounting Standards Board (the “IASB”), based on the statutory financial statements audited by Guizhou Chengzhi Certified Accountants and Guizhou Huilong Certified Public Accountants, certified public accountants registered in the People’s Republic of China (the “PRC”) or, where appropriate, management accounts of Guizhou Parkson for the Relevant Periods. In preparing this report, no adjustments were considered necessary to restate the audited Financial Statements of Guizhou Parkson to conform to the accounting policies referred to in Section 2 to this report, which are in compliance with IFRS. The Financial Statements have been audited by us in accordance with the Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The directors of Guizhou Parkson are responsible for preparing the Financial Statements which give a true and fair view. In preparing the Financial Statements, it is fundamental that appropriate accounting policies are selected and applied consistently.

Procedures Performed in Respect of the Relevant Periods

The financial information set out in this report (the “Financial Information”) has been prepared based on the Financial Statements. For the purpose of this report, we have examined the Financial Statements. Our examination was made in accordance with the Statements of Auditing Standards issued by the HKICPA and we have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” issued by the HKICPA.

Procedures Performed in Respect of the 30th June, 2004 Financial Information

For the purpose of this report, we have performed a review of the 30th June, 2004 Financial Information in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope and provides a lower level of assurance than our audit or examination procedures described in the preceding paragraph and, accordingly, we do not express an audit opinion on the 30th June, 2004 Financial Information.

The directors of Guizhou Parkson are responsible for the preparation of the Financial Information. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion thereon.

Opinion in Respect of the Relevant Periods

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Guizhou Parkson as at 31st December, 2002, 2003, and 2004, and 30th June, 2005 and of the results and cash flows of Guizhou Parkson for each of the Relevant Periods.

Review Conclusion in Respect of the 30th June, 2004 Financial Information

On the basis of our review, for the purpose of this report, we are not aware of any material modification that should be made to the results and cash flows of Guizhou Parkson as set out in the 30th June, 2004 Financial Information.

1. CORPORATE INFORMATION

Guizhou Shenqi Parkson Retail Development Co., Ltd. (formerly “Guizhou Shenqi Store Development Co., Ltd.” and hereinafter “Guizhou Parkson”) was registered as a limited liability company in Guizhou, the PRC on 28th August 2002. With effect from 28th August, 2005, Guizhou Parkson’s name was changed to Guizhou Shenqi Parkson Retail Development Co., Ltd. During the Relevant Periods, Guizhou Parkson was engaged in the operation of a department store in Guizhou, the PRC. Through an acquisition transaction as set out in Section 7 of this report, Step Summit Limited, a subsidiary of Parkson Retail Group Limited, acquired a 60% equity interest in Guizhou Parkson and Guizhou Parkson was transformed into a sino-foreign equity joint venture enterprise on 29th September, 2005.

2. PRINCIPAL ACCOUNTING POLICIES

Statement of compliance

The Financial Information has been prepared in accordance with IFRS promulgated by the IASB. IFRS includes International Accounting Standards and interpretations. The Financial Information also complies with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) as applicable to Accountants’ Reports for inclusion in Listing Documents. Guizhou Parkson has early adopted all applicable new and revised IFRS, which are generally effective for accounting periods, beginning on or after 1st January 2005, throughout the Relevant Periods.

The above basis of accounting differs from that used in the audited financial statements or, where appropriate, management accounts of Guizhou Parkson which were prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC (the “PRC GAAP”).

Use of estimates

The preparation of the financial information of the company in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial information and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the company and the revenue can be reliably measured on the following basis:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Commissions from concessionaire sales are recognised upon the sale of goods by the relevant store.

Promotion income

Promotion income is recognised according to the underlying contract terms with concessionaires and as these services are provided in accordance herewith.

Interest income

Revenue is recognised on a time proportion basis taking into account the principal outstanding and the effective rate of interest applicable.

Rental income and display space leasing fees

Revenue is recognised on a time proportion basis over the terms of the respective leases.

Government grants

Government grants are recognised at their fair values when it is probable that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant assets by equal annual instalments. Government grants received where the attaching conditions have not yet been fulfilled are recognised as liabilities.

Employee benefits

- (i) Salaries, bonuses, paid annual leave, leave passage and the cost to the company of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the company. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to defined contribution retirement plans are recognised as an expense in the income statement as incurred.

Pursuant to the relevant PRC laws and regulations, the company is required to participate in a retirement benefits scheme organised by the local municipal government whereby the company is required to contribute a certain percentage of the salaries of its employees to the retirement benefits scheme. The only obligation of the company with respect to the retirement benefits scheme is to pay the ongoing required contributions. Contributions made to the defined contribution retirement benefits scheme are charged to the income statement as incurred.

Termination benefits are recognised when, and only when, the company demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

Income tax

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

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- except where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is utilised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Related parties

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

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on the straight-line basis over the lease terms.

Recoverable amount of non-current assets

At each reporting date, the company assesses whether there is any indication that an asset may be impaired. Where an indication of impairment exists, the company makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflow that are largely independent of those from other assets or groups of assets.

Financial instruments

Financial assets and financial liabilities carried in the balance sheet include cash and cash equivalents, prepayments, deposits and other receivables, trade payables, customers' deposits, other payables and accruals and balances with an equity holder. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies set out in this section.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends and gains or losses relating to a financial instrument classified as a liability are reported as income or expenses. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Property, plant and equipment

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

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

Depreciation of property, plant and equipment is calculated on the straight-line basis over the expected useful life of the asset, after taking into account its estimated residual value of 10%, as follows:

Leasehold improvements	5 - 10 years
Motor vehicles	5 years
Equipment and fixtures	5 - 10 years

Construction in progress represents storage facilities under construction, or renovation works in progress and is stated at cost less any impairment loss, and is not depreciated. Cost comprises development and construction expenditure incurred and other direct costs attributable to the development less any accumulated impairment losses. On completion, the relevant assets are transferred to property, plant and equipment at cost less accumulated impairment losses.

The carrying values of property, plant and equipment are reviewed for impairment either annually, or when events or changes in circumstances indicate that the carrying values may not be recoverable (whichever is earlier). If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of the net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflow, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement.

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

Inventories

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

Cost of merchandise is determined on a weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to disposal.

Consumables are stated at cost less any impairment losses.

Trade and other receivables

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

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

An estimate for doubtful debts is made when there is objective evidence that collection of the full amount is no longer probable. Bad debts are written off when identified.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand and short term deposits, which are not restricted as to use. For the purpose of the cash flow statement, cash and cash equivalents consist of cash at banks and in hand and short term deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

Provisions

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

Coupon liabilities

Coupon liabilities are recognised at fair value based on the bonus points granted to customers in accordance with the announced bonus points scheme and the company's past experience on the level of redemption of coupons.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After the initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised, as well as through the amortisation process.

Contingent liabilities and contingent assets

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

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

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

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

3. RESULTS

		For the period from 28th August, 2002 (date of registration) to 31st December,	Year ended 31st December,		Six months ended 30th June,	
	Notes	2002 RMB'000	2003 RMB'000	2004 RMB'000	2004 RMB'000 (unaudited)	2005 RMB'000
Revenues	(a)	—	38,330	56,056	26,115	34,901
Other operating revenues	(a)	—	1,649	1,978	1,294	1,952
Total operating revenues		—	39,979	58,034	27,409	36,853
Operating expenses						
Purchase of goods and changes in inventories		—	(14,088)	(20,122)	(9,674)	(11,786)
Staff costs		—	(3,859)	(5,114)	(2,554)	(2,693)
Depreciation		—	(1,123)	(1,530)	(700)	(781)
Rental expenses		—	(6,672)	(10,129)	(4,597)	(6,035)
Other operating expenses		(225)	(5,774)	(6,722)	(3,396)	(3,570)
Total operating expenses		(225)	(31,516)	(43,617)	(20,921)	(24,865)
Profit/(loss) from operations	(b)	(225)	8,463	14,417	6,488	11,988
Finance income/(costs)	(c)	(12)	(86)	249	44	340
Profit/(loss) from operations before income tax		(237)	8,377	14,666	6,532	12,328
Income tax	(e)	—	—	—	—	—
Net profit/(loss) for the year/period		(237)	8,377	14,666	6,532	12,328

Notes:

(a) **Revenues**

Revenues represent the net amount received and receivable for goods sold by Guizhou Parkson to outside customers, less returns and allowances, commissions from concessionaire sales and rental income during the Relevant Periods, and are analysed as follows:

	For the period from 28th August, 2002 (date of registration) to 31st December, 2002 RMB'000	Year ended 31st December, 2003 2004 RMB'000 RMB'000		Six months ended 30th June, 2004 2005 RMB'000 RMB'000 (unaudited)	
Sales of goods — direct sales	—	15,975	23,136	11,136	13,574
Commissions from concessionaire sales (Note)	—	21,487	31,849	14,453	20,749
Rental income	—	868	1,071	526	578
	<u>—</u>	<u>38,330</u>	<u>56,056</u>	<u>26,115</u>	<u>34,901</u>

Note:

The commissions from concessionaire sales are analysed below:

	For the period from 28th August, 2002 (date of registration) to 31st December, 2002 RMB'000	Year ended 31st December, 2003 2004 RMB'000 RMB'000		Six months ended 30th June, 2004 2005 RMB'000 RMB'000 (unaudited)	
Gross revenue from concessionaire sales	<u>—</u>	<u>122,484</u>	<u>187,761</u>	<u>86,024</u>	<u>113,776</u>
Commissions from concessionaire sales	<u>—</u>	<u>21,487</u>	<u>31,849</u>	<u>14,453</u>	<u>20,749</u>

Over 90% of Guizhou Parkson's turnover and contribution to operating profit is attributable to the operation and management of department stores and all of Guizhou Parkson's turnover and contribution to operating profit is attributable to customers in the PRC. Accordingly no analysis of segment information is presented.

APPENDIX II

ACCOUNTANTS' REPORTS OF THE ACQUIRED STORES

Other operating revenues comprise the following:

	For the period from 28th August, 2002 (date of registration) to 31st December, 2002 <i>RMB'000</i>	Year ended 31st December, 2003 2004 <i>RMB'000 RMB'000</i>		Six months ended 30th June, 2004 2005 <i>RMB'000 RMB'000</i> <i>(unaudited)</i>	
Promotion income	—	617	756	756	1,226
Display space leasing fees	—	292	489	217	211
Administration fees	—	300	266	112	88
Government grants <i>(Note)</i>	—	50	—	—	150
Other income	—	390	467	209	277
	<u>—</u>	<u>1,649</u>	<u>1,978</u>	<u>1,294</u>	<u>1,952</u>

Note:

The government grants have been received to reward Guizhou Parkson's contributions to the local economy. There were no unfulfilled conditions or contingencies attaching to these government grants.

(b) Profit/(loss) from operations

The profit/(loss) from operating activities of Guizhou Parkson is arrived at after charging/(crediting):

	For the period from 28th August, 2002 (date of registration) to 31st December, 2002 RMB'000	Year ended 31st December, 2003 2004 RMB'000 RMB'000		Six months ended 30th June, 2004 2005 RMB'000 RMB'000 (unaudited)	
Cost of inventories recognised as expenses	—	14,088	20,122	9,674	11,786
Staff costs:					
Wages, salaries and bonuses	—	3,174	4,410	2,188	2,362
Pension costs	—	357	354	185	164
Social welfare and other costs	—	328	350	181	167
	—	3,859	5,114	2,554	2,693
Depreciation	—	1,123	1,530	700	781
Operating lease rentals in respect of rented properties:					
Minimum lease payments	—	—	—	—	—
Contingent rents (Note)	—	6,672	10,129	4,597	6,035
	—	6,672	10,129	4,597	6,035
Gross rental income in respect of sub-letting of properties					
Base rents	—	—	—	—	—
Contingent rents (Note)	—	(868)	(1,071)	(526)	(578)
	—	(868)	(1,071)	(526)	(578)
Less: Outgoings	—	—	—	—	—
Net rental income	—	(868)	(1,071)	(526)	(578)

Note:

Contingent rents are calculated based on a percentage of relevant turnover pursuant to the rental agreements.

(c) Finance income/(costs)

	For the period from 28th August, 2002 (date of registration) to 31st December, 2002 RMB'000	Year ended 31st December, 2003 2004 RMB'000 RMB'000		Six months ended 30th June, 2004 2005 RMB'000 RMB'000 (unaudited)	
Interest expenses	(12)	(204)	(188)	(102)	(42)
Interest income	—	118	437	146	382
	<u>(12)</u>	<u>(86)</u>	<u>249</u>	<u>44</u>	<u>340</u>

(d) Retirement benefits scheme

Guizhou Parkson is required to participate in employee pension schemes operated by the relevant local government authorities in the PRC. The PRC government is responsible for the pension liability to these retired employees. Guizhou Parkson is required to make contributions for relevant employees who are registered as permanent residents in the PRC and are within the scope of the relevant PRC regulations at a rate of 20% of the employees' salaries for the Relevant Periods.

Guizhou Parkson's contributions to pension costs for the years ended 31st December, 2002, 2003 and 2004 and the six months ended 30th June, 2004 and 2005 amounted to approximately nil, RMB357,000, RMB354,000, RMB185,000 and RMB164,000, respectively.

(e) Income tax

Under the relevant PRC income tax law, Guizhou Parkson is subject to corporation income tax at a rate of 33% on its taxable income.

Pursuant to applicable income tax laws and regulations of the PRC, newly formed labour-intensive service enterprises are eligible to apply for income tax exemption for a period of three years and a 50% reduction in income tax rate for two years, provided that they have fulfilled the prescribed conditions regarding the recruitment of unemployed PRC citizens. Guizhou Parkson was granted a three-year income tax exemption from 2003 to 2005 by the relevant PRC tax authority.

The determination of current and deferred income tax was based on the enacted tax rates.

APPENDIX II

ACCOUNTANTS' REPORTS OF THE ACQUIRED STORES

A reconciliation of the income tax expense applicable to profit/(loss) from operations before income tax at the statutory income tax rate to the income tax expense at Guizhou Parkson's effective income tax rate, is as follows:

	For the period from 28th August, 2002 (date of registration) to 31st December, 2002 <i>RMB'000</i>	Year ended 31st December, 20032004 <i>RMB'000RMB'000</i>		Six months ended 30th June, 20042005 <i>RMB'000RMB'000</i> <i>(unaudited)</i>	
Profit/(loss) from operations before income tax	<u>(237)</u>	<u>8,377</u>	<u>14,666</u>	<u>6,532</u>	<u>12,328</u>
Income tax at the statutory income tax rate of 33%	(78)	2,764	4,840	2,156	4,068
Tax losses not recognised	78	—	—	—	—
Tax effect of preferential tax rate	<u>—</u>	<u>(2,764)</u>	<u>(4,840)</u>	<u>(2,156)</u>	<u>(4,068)</u>
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

(f) **Related party transactions**

During the Relevant Periods, Guizhou Parkson had no significant related party transactions.

4. BALANCE SHEETS

		31st December,		30th June,	
		2002	2003	2004	2005
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	(a)	<u>670</u>	<u>7,670</u>	<u>6,420</u>	<u>5,708</u>
CURRENT ASSETS					
Inventories	(b)	17	2,327	1,971	1,681
Prepayments and other receivables	(c)	12,161	11,018	10,522	9,963
Due from equity holders	(d)	—	610	8,404	1,209
Cash and cash equivalents	(e)	<u>3,103</u>	<u>21,489</u>	<u>44,714</u>	<u>38,180</u>
		<u>15,281</u>	<u>35,444</u>	<u>65,611</u>	<u>51,033</u>
CURRENT LIABILITIES					
Other loans	(f)	(4,000)	(4,000)	(3,000)	—
Trade payables	(g)	—	(13,657)	(19,146)	(14,304)
Customers' deposits, other payables and accruals	(h)	(1,688)	(6,817)	(16,579)	(17,009)
Due to an equity holder	(i)	<u>(500)</u>	<u>(500)</u>	<u>(500)</u>	<u>—</u>
		<u>(6,188)</u>	<u>(24,974)</u>	<u>(39,225)</u>	<u>(31,313)</u>
NET CURRENT ASSETS		<u>9,093</u>	<u>10,470</u>	<u>26,386</u>	<u>19,720</u>
NET ASSETS		<u>9,763</u>	<u>18,140</u>	<u>32,806</u>	<u>25,428</u>
OWNERS' EQUITY		<u>9,763</u>	<u>18,140</u>	<u>32,806</u>	<u>25,428</u>

APPENDIX II

ACCOUNTANTS' REPORTS OF THE ACQUIRED STORES

Notes:

(a) **Property, plant and equipment**

	Leasehold improvements <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Equipment and fixtures <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
At 28th August, 2002, date of registration	—	—	—	—	—
Additions	<u>2</u>	<u>—</u>	<u>24</u>	<u>644</u>	<u>670</u>
At 31st December, 2002, net of accumulated depreciation	2	—	24	644	670
Additions	2,039	481	714	4,889	8,123
Transfers	—	—	5,533	(5,533)	—
Depreciation charge for the year	<u>(250)</u>	<u>—</u>	<u>(873)</u>	<u>—</u>	<u>(1,123)</u>
At 31st December, 2003, net of accumulated depreciation	1,791	481	5,398	—	7,670
Additions	36	5	25	214	280
Transfers	214	—	—	(214)	—
Depreciation charge for the year	<u>(470)</u>	<u>(59)</u>	<u>(1,001)</u>	<u>—</u>	<u>(1,530)</u>
At 31st December, 2004, net of accumulated depreciation	1,571	427	4,422	—	6,420
Additions	64	—	5	—	69
Depreciation charge for the period	<u>(250)</u>	<u>(29)</u>	<u>(502)</u>	<u>—</u>	<u>(781)</u>
At 30th June, 2005, net of accumulated depreciation	<u>1,385</u>	<u>398</u>	<u>3,925</u>	<u>—</u>	<u>5,708</u>
At 28th August, 2002, date of registration					
Cost	—	—	—	—	—
Accumulated depreciation	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net carrying amount	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
At 31st December, 2002					
Cost	2	—	24	644	670
Accumulated depreciation	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net carrying amount	<u>2</u>	<u>—</u>	<u>24</u>	<u>644</u>	<u>670</u>

APPENDIX II**ACCOUNTANTS' REPORTS OF THE ACQUIRED STORES**

	Leasehold improvements	Motor vehicles	Equipment and fixtures	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 31st December, 2003					
Cost	2,041	481	6,271	—	8,793
Accumulated depreciation	<u>(250)</u>	<u>—</u>	<u>(873)</u>	<u>—</u>	<u>(1,123)</u>
Net carrying amount	<u>1,791</u>	<u>481</u>	<u>5,398</u>	<u>—</u>	<u>7,670</u>
At 31st December, 2004					
Cost	2,291	486	6,296	—	9,073
Accumulated depreciation	<u>(720)</u>	<u>(59)</u>	<u>(1,874)</u>	<u>—</u>	<u>(2,653)</u>
Net carrying amount	<u>1,571</u>	<u>427</u>	<u>4,422</u>	<u>—</u>	<u>6,420</u>
At 30th June, 2005					
Cost	2,355	486	6,301	—	9,142
Accumulated depreciation	<u>(970)</u>	<u>(88)</u>	<u>(2,376)</u>	<u>—</u>	<u>(3,434)</u>
Net carrying amount	<u>1,385</u>	<u>398</u>	<u>3,925</u>	<u>—</u>	<u>5,708</u>

(b) Inventories

		As at 31st December,		As at 30th June,
	2002	2003	2004	2005
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Merchandise, at cost	—	1,962	1,827	1,637
Consumables, at cost	<u>17</u>	<u>365</u>	<u>144</u>	<u>44</u>
	<u>17</u>	<u>2,327</u>	<u>1,971</u>	<u>1,681</u>

(c) Prepayments and other receivables

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Receivable from Guizhou Shenqi Parkson Shopping Centre Co., Ltd. (Note)	9,000	9,000	9,000	9,000
Prepayments	—	26	261	334
Other receivables	3,161	1,992	1,261	629
	<u>12,161</u>	<u>11,018</u>	<u>10,522</u>	<u>9,963</u>

Note:

The balance was receivable from Guizhou Shenqi Parkson Shopping Centre Co., Ltd., a third party. The balance was unsecured, interest free and was fully settled in July 2005.

(d) Due from equity holders

		As at 31st December,			As at 30th June,
		2002	2003	2004	2005
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
Due from Chen Wei	(i)	—	—	2,500	—
Due from Chen Yi	(i)	—	—	2,500	—
Due from Zhang Zhijun	(ii)	—	610	3,404	1,209
		<u>—</u>	<u>610</u>	<u>8,404</u>	<u>1,209</u>

Notes:

(i) The balances were interest free and were fully settled in 2005.

(ii) The balance is unsecured, bears an interest at a rate of 6.696% per annum and is repayable on demand.

The directors of Guizhou Parkson have confirmed that the amounts due from equity holders would be settled prior to the listing of the shares of Parkson Retail Group Limited on the Stock Exchange.

(e) Cash and cash equivalents

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	<u>3,103</u>	<u>21,489</u>	<u>44,714</u>	<u>38,180</u>

The bank balances earn interest at floating rates based on daily bank deposit rates.

Guizhou Parkson's cash and cash equivalents comprise cash on hand and cash at banks which are denominated in Renminbi ("RMB"). RMB is not freely convertible in the international market. The remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

(f) **Other loans**

Other loans represented loans from Sichuan Hezheng Parkson Co., Ltd., a fellow subsidiary of Parkson Retail Group Limited. The balance was unsecured, bore interest ranging from 4.8% to 6% per annum and was fully settled in 2005.

(g) **Trade payables**

An aged analysis of the trade payable of Guizhou Parkson is as follows:

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	<u>—</u>	<u>13,657</u>	<u>19,146</u>	<u>14,304</u>

(h) **Customers' deposits, other payables and accruals**

	As at 31 December,			As at 30 June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Customers' deposits	974	1,602	6,169	4,473
Accruals	30	1,716	3,350	3,881
Other payables	<u>684</u>	<u>3,499</u>	<u>7,060</u>	<u>8,655</u>
	<u>1,688</u>	<u>6,817</u>	<u>16,579</u>	<u>17,009</u>

(i) **Due to an equity holder**

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Due to Zhang Ya	<u>500</u>	<u>500</u>	<u>500</u>	<u>—</u>

The balance was unsecured, interest free and was fully settled in 2005.

(j) **Contingent liabilities**

Guizhou Parkson did not have any significant contingent liabilities at the end of each of the Relevant Periods.

(k) **Commitments**

(i) Guizhou Parkson did not have any significant capital commitments at the end of each of the Relevant Periods.

(ii) Operating lease commitments

Operating lease commitments — as lessee

Guizhou Parkson has entered into an operating lease agreement as a lessee. The lease has a life of 20 years and renewals are at the option of Guizhou Parkson. There are no restrictions placed upon the lessee by entering into the lease. Pursuant to the agreement, the annual contingent rental amount is calculated based on a percentage of its turnover.

(l) **Fair value of financial instruments**

The financial instruments of Guizhou Parkson mainly consist of cash and bank balances, prepayments, deposits and other receivables, amounts due from equity holders, other loans, trade payables, customers' deposits, other payables and accruals and an amount due to an equity holder.

The carrying amounts of Guizhou Parkson's financial instruments were stated approximately at their fair value as at 31st December, 2002, 2003 and 2004, and 30th June, 2005.

Fair value estimates are made at a specific point in time and based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(m) **Concentration of risks**

Guizhou Parkson is exposed to credit risk, interest rate risk and foreign currency risk, as further explained below.

(i) *Credit risk*

Guizhou Parkson's cash and cash equivalents are deposited with banks in the PRC. The other receivables included in the financial information represent Guizhou Parkson's major exposure to the credit risk attributable to its financial assets. Guizhou Parkson has no other significant concentrations of credit risk.

(ii) *Interest rate risk*

Guizhou Parkson has no other loans except for the other loans disclosed in note (f) above and as a result, it has no significant interest rate risk.

(iii) *Foreign currency risk*

Guizhou Parkson's business is conducted in RMB which cannot be freely exchanged into foreign currencies. As at 31st December, 2002, 2003 and 2004, and 30th June, 2005, all of Guizhou Parkson's assets and liabilities were denominated in RMB.

5. STATEMENTS OF CHANGES IN OWNERS' EQUITY

	Registered capital RMB'000 Note (a)	PRC reserve fund RMB'000 Note (b)	Retained earnings/ (Accumulated losses) RMB'000	Total RMB'000
At 28th August, 2002, date of registration	10,000	—	—	10,000
Net loss for the period	—	—	(237)	(237)
At 31st December, 2002 and 1st January, 2003	10,000	—	(237)	9,763
Net profit for the year	—	—	8,377	8,377
Transfer to the PRC reserve fund	—	1,221	(1,221)	—
At 31st December, 2003 and 1st January, 2004	10,000	1,221	6,919	18,140
Net profit for the year	—	—	14,666	14,666
Transfer to the PRC reserve fund	—	2,200	(2,200)	—
At 31st December, 2004 and 1st January, 2005	10,000	3,421	19,385	32,806
Net profit for the period	—	—	12,328	12,328
Transfer to the PRC reserve fund	—	1,849	(1,849)	—
Dividend declared and paid	—	—	(19,706)	(19,706)
At 30th June, 2005	<u>10,000</u>	<u>5,270</u>	<u>10,158</u>	<u>25,428</u>

Notes:

(a) Capital

	2002 RMB'000	As at 31st December, 2003 RMB'000	2004 RMB'000	As at 30th June, 2005 RMB'000
Registered and paid-in capital	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>

(b) Distributable reserves

In accordance with relevant PRC regulations, Guizhou Parkson is required to transfer 10% of the profit after income tax, as determined under PRC accounting principles and financial regulations, to the statutory common reserve, until the balance of the fund reaches 50% of the registered capital of the company. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory common reserve may be used to offset against accumulated losses, if any.

Pursuant to relevant PRC regulations, Guizhou Parkson is also required to transfer 5% to 10% of net profit, as determined under PRC accounting principles and financial regulations, to the statutory common welfare fund. This fund can only be used to provide staff welfare facilities and other collective benefits to the employees of the company. This fund is non-distributable other than in the event of liquidation.

6. CASH FLOW STATEMENTS

	For the period from 28th August, 2002 (date of registration) to 31st December, 2002 <i>RMB'000</i>	Year ended 31st December, 2003 2004 <i>RMB'000 RMB'000</i>		Six months ended 30th June, 2004 2005 <i>RMB'000 RMB'000</i>	
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(loss) from operations before income tax	(237)	8,377	14,666	6,532	12,328
Adjustments for:					
Interest income	—	(118)	(437)	(146)	(382)
Interest expenses	12	204	188	102	42
Depreciation	<u>—</u>	<u>1,123</u>	<u>1,530</u>	<u>700</u>	<u>781</u>
Operating profit/(loss) before working capital changes	(225)	9,586	15,947	7,188	12,769
Decrease/(increase) in inventories	(17)	(2,310)	356	430	290
Decrease/(increase) in prepayments and other receivables	(12,161)	1,143	496	42	559
Decrease/(increase) in amounts due from equity holders	—	(610)	(7,794)	(340)	7,195
Increase/(decrease) in trade payables	—	13,657	5,489	(2,610)	(4,842)
Increase in customers' deposits, other payables and accruals	1,688	5,129	9,762	1,173	430
Increase/(decrease) in an amount due to an equity holder	<u>500</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(500)</u>
Cash generated from/(used in) operating activities	(10,215)	26,595	24,256	5,883	15,901
Interest paid	<u>(12)</u>	<u>(204)</u>	<u>(188)</u>	<u>(102)</u>	<u>(42)</u>
Net cash inflow/(outflow) from operating activities	(10,227)	26,391	24,068	5,781	15,859

APPENDIX II
ACCOUNTANTS' REPORTS OF THE ACQUIRED STORES

	For the period from 28th August, 2002 (date of registration) to 31st December, 2002 <i>RMB'000</i>	Year ended 31st December, 2003 2004 <i>RMB'000 RMB'000</i>		Six months ended 30th June, 2004 2005 <i>RMB'000 RMB'000</i>	
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of fixed assets	(670)	(8,123)	(280)	(213)	(69)
Interest received	<u>—</u>	<u>118</u>	<u>437</u>	<u>146</u>	<u>382</u>
Net cash inflow/(outflow) from investing activities	<u>(670)</u>	<u>(8,005)</u>	<u>157</u>	<u>(67)</u>	<u>313</u>
Net cash inflow/(outflow) before financing activities	<u>(10,897)</u>	<u>18,386</u>	<u>24,225</u>	<u>5,714</u>	<u>16,172</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
New other loans	4,000	—	—	—	—
Repayment of bank loans and other loans	—	—	(1,000)	—	(3,000)
Capital contribution from owners	10,000	—	—	—	—
Dividend paid	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(19,706)</u>
Net cash inflow/(outflow) from financing activities	<u>14,000</u>	<u>—</u>	<u>(1,000)</u>	<u>—</u>	<u>(22,706)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS					
Cash and cash equivalents at beginning of year/period	<u>—</u>	<u>3,103</u>	<u>21,489</u>	<u>21,489</u>	<u>44,714</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	<u>3,103</u>	<u>21,489</u>	<u>44,714</u>	<u>27,203</u>	<u>38,180</u>

7. SUBSEQUENT EVENT

On 27th May, 2005, two equity holders of Guizhou Parkson entered into a sale and purchase agreement with Step Summit Limit, a subsidiary of Parkson Retail Group Limited, to sell their respective 30% equity interest in Guizhou Parkson for a cash consideration of RMB9.8 million. Guizhou Parkson was transformed into a sino-foreign joint venture enterprise on 29th September, 2005.

8. SUBSEQUENT FINANCIAL INFORMATION

No financial information has been prepared by Guizhou Parkson in respect of any period subsequent to 30th June, 2005.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

D. Hefei Parkson Xiaoyao Plaza Co., Ltd.

The following is the text of the accountants' report, prepared for inclusion in this Prospectus, from the independent reporting accountants of Parkson Retail Group Limited, Ernst & Young, Certified Public Accountants, Hong Kong.



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

17th November, 2005

The Directors
Parkson Retail Group Limited
Hefei Parkson Xiaoyao Plaza Co., Ltd.
BNP Paribas Peregrine Capital Limited

Dear Sirs,

We set out below our report on the financial information regarding Hefei Parkson Xiaoyao Plaza Co., Ltd. ("Hefei Parkson") and its subsidiary, Anshan Tianxing Parkson Shopping Centre Co., Ltd. ("Anshan Parkson"), which was acquired by Hefei Parkson (collectively known as the "Hefei Group") on 12th April, 2004, for each of the three years ended 31st December, 2002, 2003 and 2004 and the six-month period ended 30th June, 2005 (the "Relevant Periods") and the six-month period ended 30th June, 2004 (the "30th June, 2004 Financial Information") for inclusion in the prospectus of Parkson Retail Group Limited dated 17th November, 2005 (the "Prospectus").

For the purpose of this report, the directors of Hefei Parkson have prepared the consolidated financial statements of the Hefei Group for the Relevant Periods ("Consolidated Financial Statements") in accordance with International Financial Reporting Standards ("IFRS") as promulgated by the International Accounting Standards Board (the "IASB"), based on the audited financial statements or, where appropriate, management accounts of Hefei Parkson and Anshan Parkson for the Relevant Periods on the basis set out below. In preparing this report, no adjustments were considered necessary to restate the audited Consolidated Financial Statements of the Hefei Group to conform to the accounting policies referred to in Section 2 to this report, which are in compliance with IFRS. The Consolidated Financial Statements have been audited by us in accordance with the Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of Hefei Parkson and Anshan Parkson are responsible for preparing the financial statements of the respective companies which give a true and fair view. In preparing the financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently. The directors of Hefei Parkson are responsible for preparing the Consolidated Financial Statements.

The audited financial statements of Hefei Parkson were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises in the People's Republic of China (the "PRC") and were audited by Anhui Zhong'an Certified Public Accountants,

certified public accountants registered in the PRC, for the years ended 31st December, 2002 and 2004, and by Anhui Tongdaxin Certified Public Accountants, certified public accountants registered in the PRC, for the year ended 31st December, 2003.

Anshan Parkson was acquired by Hefei Parkson on 12th April, 2004 and became a part of the Hefei Group thereafter. The audited financial statements of Anshan Parkson were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises in the PRC and were audited by Anshan Mingshi Certified Public Accountants, certified public accountants registered in the PRC, for the year ended 31st December, 2004.

Procedures Performed in Respect of the Relevant Periods

The consolidated financial information set out in this report (the “Financial Information”) has been prepared based on the Consolidated Financial Statements of the Hefei Group. For the purpose of this report, we have examined the Consolidated Financial Statements of the Hefei Group. Our examination was made in accordance with the Statements of Auditing Standards issued by the HKICPA and we have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” issued by the HKICPA.

Procedures Performed in Respect of the 30th June, 2004 Financial Information

For the purpose of this report, we have performed a review of the 30th June, 2004 Financial Information in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope and provides a lower level of assurance than our audit or examination procedures described in the preceding paragraph and, accordingly, we do not express an audit opinion on the 30th June, 2004 Financial Information.

The directors of Hefei Parkson are responsible for the preparation of the Financial Information. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion thereon.

Opinion in Respect of the Relevant Periods

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Hefei Group as at 31st December, 2002, 2003, and 2004, and 30th June, 2005 and of the results and cash flows of the Hefei Group for each of the Relevant Periods.

Review Conclusion in Respect of the 30th June, 2004 Financial Information

On the basis of our review, for the purpose of this report, we are not aware of any material modification that should be made to the results and cash flows of the Hefei Group as set out in the 30th June, 2004 Financial Information.

1. CORPORATE INFORMATION AND BASIS OF PRESENTATION

Hefei Parkson was registered as a limited liability company in Hefei, the PRC on 10th May 2001. Anshan Parkson was registered as a limited liabilities company in Anshan, the PRC on 28th April 2002. During the Relevant Periods, the Hefei Group was engaged in the operation of department stores in Hefei and Anshan, the PRC. Through an acquisition transaction as set out in Section 7 of this report, Step Summit Limited, a subsidiary of the Parkson Retail Group Limited, acquired the entire interests of Hefei Parkson and Hefei Parkson was transformed into a wholly foreign-owned enterprise on 17th October, 2005.

The Financial Information has been prepared on the going concern basis notwithstanding the net current liabilities and deficiency in owners' equity of Hefei Group as at 30th June 2005 because pursuant to an acquisition transaction as set out in Section 7 of this report, Step Summit Limited, a subsidiary of Parkson Retail Group Limited acquired a 100% equity interest in Hefei Parkson subsequent to the period ended 30th June, 2005. Parkson Retail Group Limited has undertaken to provide financial support to the Hefei Group as it may require.

2. PRINCIPAL ACCOUNTING POLICIES

Statement of compliance

The Financial Information has been prepared in accordance with IFRS promulgated by the IASB. IFRS includes International Accounting Standards and interpretations. The Financial Information also complies with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as applicable to Accountants' Reports for inclusion in Listing Documents. The Hefei Group has early adopted all applicable new and revised IFRS, which are generally effective for accounting periods, beginning on or after 1st January 2005, throughout the Relevant Periods.

The above basis of accounting differs from that used in the audited financial statements or where appropriate, management accounts of the Hefei Group which were prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC (the "PRC GAAP").

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and its subsidiary after elimination of intercompany transactions.

Subsidiaries are consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control is transferred out of the group. This control is normally evidenced when the group owns, either directly or indirectly, more than 50% of the voting rights of a company's share or registered capital, is able to govern the financial and operating policies of an enterprise so as to benefit from its activities, and when there is no evidence that control is intended to be temporary.

Minority interests represent the interests in the group's subsidiaries, not held by the group, and are presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity.

Use of estimates

The preparation of the financial information of the group in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial information and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Hefei Group and the revenue can be reliably measured on the following basis:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Acquired Companies maintain neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Commissions from concessionaire sales are recognised upon the sale of goods by the relevant stores.

Promotion income

Promotion income is recognised according to the underlying contract terms with concessionaires and as these services are provided in accordance herewith.

Interest income

Revenue is recognised on a time proportion basis taking into account the principal outstanding and the effective rate of interest applicable.

Credit card handling fees

Credit card handling fees is recognised when relevant services are rendered.

Display space leasing fees and equipment leasing income

Revenue is recognised on a time proportion basis over the terms of the respective leases.

Employee benefits

- (i) Salaries, bonuses, paid annual leave, leave passage and the cost to the group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

- (ii) Contributions to defined contribution retirement plans are recognised as an expense in the consolidated income statement as incurred.

Pursuant to the relevant PRC laws and regulations, the group is required to participate in a retirement benefits scheme organised by the local municipal government whereby the group is required to contribute a certain percentage of the salaries of its employees to the retirement benefits scheme. The only obligation of the group with respect to the retirement benefits scheme is to pay the ongoing required contributions. Contributions made to the defined contribution retirement benefits scheme are charged to the consolidated income statement as incurred.

Termination benefits are recognised when, and only when, the group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

Income tax

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

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- except where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is utilised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Related parties

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

Lease

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on the straight-line basis over the lease terms.

Recoverable amount of non-current assets

At each reporting date, the group assesses whether there is any indication that an asset may be impaired. Where an indication of impairment exists, the group makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflow that are largely independent of those from other assets or group of assets.

Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill relating to acquisitions is not amortised. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Financial instruments

Financial assets and financial liabilities carried in the balance sheet include cash and cash equivalents, trade receivables and payables, other receivables and payables, loans and balances with related parties. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies set out in this section.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability are reported as income or expenses. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and provision for any impairment in value.

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

Depreciation of property, plant and equipment is calculated on the straight-line basis over the expected useful life of the asset, after taking into account its estimated residual value of 10%, as follows:

Leasehold improvements	5 - 10 years
Motor vehicles	5 years
Equipment and fixtures	5 - 10 years

The carrying values of property, plant and equipment are reviewed for impairment either annually, or when events or changes in circumstances indicate that the carrying values may not be recoverable (whichever is earlier). If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of the net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflow, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement.

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

Inventories

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

Cost of merchandise is determined on a weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to disposal.

Consumables are stated at cost less any impairment losses.

Trade and other receivables

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

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

An estimate for doubtful debts is made when there is objective evidence that collection of the full amount is no longer probable. Bad debts are written off when identified.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand and short term deposits, which are not restricted as to use. For the purpose of the cash flow statement, cash and cash equivalents consist of cash at banks and in hand and short-term deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

Provisions

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

Coupon liabilities

Coupon liabilities are recognised at fair value based on the bonus points granted to customers in accordance with the announced bonus points scheme and the group's past experience on the level of redemption of coupons.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After the initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised, as well as through the amortisation process.

Contingent liabilities and contingent assets

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

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

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

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

3. RESULTS

		Year ended 31st December,			Six months ended 30th June,	
		2002	2003	2004	2004	2005
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
Revenues	(a)	47,367	68,831	143,270	57,491	89,171
Other operating revenues	(a)	<u>2,340</u>	<u>4,004</u>	<u>8,444</u>	<u>3,159</u>	<u>9,556</u>
Total operating revenues		<u>49,707</u>	<u>72,835</u>	<u>151,714</u>	<u>60,650</u>	<u>98,727</u>
Operating expenses						
Purchase of goods and changes in inventories		(17,719)	(22,753)	(54,530)	(21,504)	(38,743)
Staff costs		(6,565)	(8,994)	(12,527)	(5,676)	(6,439)
Depreciation		(4,346)	(5,705)	(7,002)	(3,283)	(2,972)
Rental expenses		(5,300)	(11,970)	(23,672)	(10,738)	(10,524)
Other operating expenses		<u>(19,704)</u>	<u>(24,830)</u>	<u>(40,567)</u>	<u>(17,871)</u>	<u>(15,778)</u>
Total operating expenses		<u>(53,634)</u>	<u>(74,252)</u>	<u>(138,298)</u>	<u>(59,072)</u>	<u>(74,456)</u>
Profit/(loss) from operations	(b)	(3,927)	(1,417)	13,416	1,578	24,271
Finance income/(costs)	(c)	<u>(446)</u>	<u>(245)</u>	<u>368</u>	<u>94</u>	<u>746</u>
Profit/(loss) from operations before income tax		(4,373)	(1,662)	13,784	1,672	25,017
Income tax	(e)	<u>461</u>	<u>(3,384)</u>	<u>(6,918)</u>	<u>(2,023)</u>	<u>(8,716)</u>
Net profit/(loss) for the year/period from continuing operations		<u>(3,912)</u>	<u>(5,046)</u>	<u>6,866</u>	<u>(351)</u>	<u>16,301</u>
Discontinued operation						
Loss for the year from discontinued operation	(f)	<u>—</u>	<u>(5,100)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net profit/(loss) for the year/period		<u><u>(3,912)</u></u>	<u><u>(10,146)</u></u>	<u><u>6,866</u></u>	<u><u>(351)</u></u>	<u><u>16,301</u></u>
Attributable to:						
Equity holders of the parent		(3,912)	(10,146)	3,156	(891)	11,557
Minority interests		<u>—</u>	<u>—</u>	<u>3,710</u>	<u>540</u>	<u>4,744</u>
Net profit/(loss) for the year/period		<u><u>(3,912)</u></u>	<u><u>(10,146)</u></u>	<u><u>6,866</u></u>	<u><u>(351)</u></u>	<u><u>16,301</u></u>

Notes:

(a) Revenues

Revenues represent the net amount received and receivable for goods sold by the Hefei Group to outside customers, less returns and allowances, commissions from concessionaire sales and rental income during the Relevant Periods, and are analysed as follows:

	Year ended 31st December,			Six months ended 30th June,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Sales of goods — direct sales	20,297	26,496	62,260	24,562	42,672
Commissions from concessionaire sales (Note)	24,198	39,523	76,608	30,850	43,993
Rental income	<u>2,872</u>	<u>2,812</u>	<u>4,402</u>	<u>2,079</u>	<u>2,506</u>
	<u>47,367</u>	<u>68,831</u>	<u>143,270</u>	<u>57,491</u>	<u>89,171</u>

Note:

The commissions from concessionaire sales are analysed below:

	Year ended 31st December,			Six months ended 30th June,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Gross revenue from concessionaire sales	<u>124,401</u>	<u>210,310</u>	<u>475,966</u>	<u>219,306</u>	<u>232,584</u>
Commissions from concessionaire sales	<u>24,198</u>	<u>39,523</u>	<u>76,608</u>	<u>30,850</u>	<u>43,993</u>

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

Other operating revenues comprise the following:

	Year ended 31st December,			Six months ended 30th June,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Promotion income	234	33	2,019	264	1,397
Credit card handling fees	193	437	901	454	363
Lease of equipment	378	643	694	426	631
Display space leasing fees	203	385	1,196	397	583
Administration fees	204	769	2,808	1,000	3,357
Service fees	94	89	238	209	—
Gain on disposal of a branch (Note)	—	—	—	—	2,673
Other income	1,034	1,648	588	409	552
	<u>2,340</u>	<u>4,004</u>	<u>8,444</u>	<u>3,159</u>	<u>9,556</u>

Note:

On 1st January, 2005, Hefei Parkson disposed of the business and relevant assets and liabilities of a branch in Shantou to an unrelated party for a cash consideration of RMB1. The net liabilities disposed of was RMB2,673,000 as at the date of disposal, resulting in a gain on disposal of approximately RMB2,673,000. Please refer to section 4 note (b)(ii) for details.

(b) Profit/(loss) from operations

The profit/(loss) from operations of the Hefei Group is arrived at after charging/(crediting):

	Year ended 31st December,			Six months ended	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Cost of inventories recognised as expenses	17,719	22,753	54,530	21,504	38,743
Staff costs:					
Wages, salaries and bonuses	4,655	6,599	9,849	4,441	4,643
Pension costs	626	705	1,245	507	808
Social welfare and other costs	1,284	1,690	1,433	728	988
	<u>6,565</u>	<u>8,994</u>	<u>12,527</u>	<u>5,676</u>	<u>6,439</u>
Depreciation	4,346	5,705	7,002	3,283	2,972
Operating lease rental in respect of rented properties:					
Minimum lease payments	3,824	10,077	20,608	9,250	9,249
Contingent rents (Note)	1,476	1,893	3,064	1,488	1,275
	<u>5,300</u>	<u>11,970</u>	<u>23,672</u>	<u>10,738</u>	<u>10,524</u>
Gross rental income in respect of sub-letting of properties					
Base rents	(1,449)	(1,449)	(1,449)	(725)	(725)
Contingent rents (Note)	(1,423)	(1,363)	(2,953)	(1,354)	(1,781)
	<u>(2,872)</u>	<u>(2,812)</u>	<u>(4,402)</u>	<u>(2,079)</u>	<u>(2,506)</u>
Less: Outgoings	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net rental income	<u>(2,872)</u>	<u>(2,812)</u>	<u>(4,402)</u>	<u>(2,079)</u>	<u>(2,506)</u>

Note: Contingent rents are calculated based on a percentage of relevant turnover pursuant to the rental agreements.

(c) Finance income/(costs)

	Year ended 31st December,			Six months ended 30th June,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Interest expenses	(597)	(425)	(2,162)	(414)	(1,758)
Interest income	151	180	2,530	508	2,504
	<u>(446)</u>	<u>(245)</u>	<u>368</u>	<u>94</u>	<u>746</u>

(d) Retirement benefits scheme

The Hefei Group is required to participate in employee pension schemes operated by the relevant local government authorities in the PRC. The PRC government is responsible for the pension liability to these retired employees. The Hefei Group is required to make contributions for relevant employees who are registered as permanent residents in the PRC and are within the scope of the relevant PRC regulations at rates ranging from 20% to 25% of the employees' salaries for the Relevant Periods.

The Hefei Group's contributions to pension costs for the years ended 31st December, 2002, 2003 and 2004 and six months ended 30th June, 2004 and 2005 amounted to approximately RMB626,000, RMB705,000, RMB1,245,000, RMB507,000 and RMB808,000 respectively.

(e) Income tax

Under the relevant PRC income tax law, the Hefei Group is subject to corporate income tax at a rate of 33% on its taxable income.

Pursuant to applicable income tax laws and regulations of the PRC, newly formed trading enterprises are eligible to apply for income tax exemption for one year. Hefei Parkson was granted an income tax exemption for 2002 by the relevant PRC tax authority.

Pursuant to applicable income tax laws and regulations of the PRC, a branch of the Hefei Group in Shantou registered in the Shantou Special Economic Zone was entitled to a preferential tax rate of 15%.

The determination of current and deferred tax was based on the enacted tax rates.

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

	Year ended 31st December,			Six months ended 30th June,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Current income tax	—	3,825	5,821	1,881	8,512
Deferred tax	(461)	(441)	1,097	142	204
	<u>(461)</u>	<u>3,384</u>	<u>6,918</u>	<u>2,023</u>	<u>8,716</u>

APPENDIX II

ACCOUNTANTS' REPORTS OF THE ACQUIRED STORES

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

	Year ended 31st December,			Period ended 30th June,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Accounting profit/(loss) before income tax from continuing operations	(4,373)	(1,662)	13,784	1,672	25,017
Loss before tax from discontinued operation	—	(5,100)	—	—	—
Accounting profit/(loss) before income tax	<u>(4,373)</u>	<u>(6,762)</u>	<u>13,784</u>	<u>1,672</u>	<u>25,017</u>
Income tax at the statutory income tax rate of 33%	(1,443)	(2,231)	4,549	552	8,256
Tax losses not recognised	1,174	3,021	1,248	1,094	—
Tax effect of expenses not deductible for tax purposes	—	2,594	1,121	377	460
Tax effect of preferential tax rate	<u>(192)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>(461)</u>	<u>3,384</u>	<u>6,918</u>	<u>2,023</u>	<u>8,716</u>

(f) **Discontinued operation**

On 24th Novemeber 2003, Hefei Parkson invested in 51% of the registered capital of Shenyang Parkson Shopping Plaza Co., Ltd. (“Shenyang Parkson”) for a cash consideration of RMB5,100,000. On 22nd December, 2004, the registered capital of Shenyang Parkson increased by RMB16,000,000 to RMB26,000,000. Since Hefei Parkson had not made the relevant contribution to Shenyang Parkson, the equity interest therein was reduced from 51% to 20%.

On 15th January 2005, Hefei Parkson disposed of its entire equity interest in Shenyang Parkson to Mr. Chen Yi, an equity holder of Hefei Parkson, for a cash consideration of RMB1. The investment in Shenyang Parkson was accounted for as its joint venture. Particulars of the Hefei Group's discontinued operation are as follows:

Company name	Place and date of registration	Paid-up capital	Percentage of equity interest attributable to Hefei Parkson				Principal activity
			31st December,		30th June,		
			2002	2003	2004	2005	
Shenyang Parkson Shopping Plaza Co., Ltd. 瀋陽百盛購物廣場有限公司	PRC 28th November, 2003	RMB26,000,000	—	51%	20%	—	Operation of department stores

APPENDIX II

ACCOUNTANTS' REPORTS OF THE ACQUIRED STORES

For the purpose of the preparation of this Financial Information, Shenyang Parkson was classified as a disposal group and was held-for-sale.

The results of Shenyang Parkson for the year/period are presented below:

	Year ended 31st December,			Six months ended 30th June,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Loss for the year/period from discounted operation	—	(1,175)	—	—	—
Loss recognised on the remeasurement to fair value	—	(3,925)	—	—	—
Net loss attributable to discontinued operation	—	(5,100)	—	—	—

The assets and liabilities of Shenyang Parkson measured at the lower of carrying amount and fair value less costs to sell as at the end of each balance sheet date are as follows:

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets classified as held for sale	—	2,100	6,615	—
Liabilities directly associated with non-current assets classified as held for sale	—	(2,100)	(6,615)	—
Net assets attributable to discontinued operation	—	—	—	—

The net cash flow related to Shenyang Parkson is as follows:

	Year ended 31st December,			Six months ended 30th June,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Investment in Shenyang Parkson	—	(5,100)	—	—	—
Net cash outflow	—	(5,100)	—	—	—

(g) Related party transactions

The Hefei Group had the following significant transactions with related parties:

	Notes	Year ended 31st December,			Six months ended 30th June,	
		2002	2003	2004	2004	2005
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
Sales of goods	(i)	<u>—</u>	<u>190</u>	<u>85</u>	<u>56</u>	<u>22</u>
Purchase of goods	(i)	<u>—</u>	<u>734</u>	<u>654</u>	<u>333</u>	<u>266</u>

Notes:

- (i) Represented sales and purchase of merchandise with Shanghai Hongqiao Parkson Development Co., Ltd., a fellow subsidiary of the then Hefei Group. The transactions were conducted based on the purchase cost from third party suppliers.

4. CONSOLIDATED BALANCE SHEETS

		31st December,			30th June,
		2002	2003	2004	2005
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	(a)	22,803	19,502	19,542	11,908
Goodwill	(b)	—	—	1,331	1,331
Deferred tax assets	(c)	997	1,438	2,306	2,102
		<u>23,800</u>	<u>20,940</u>	<u>23,179</u>	<u>15,341</u>
CURRENT ASSETS					
Inventories	(d)	3,644	5,871	9,086	5,848
Prepayments, deposits and other receivables	(e)	10,433	13,695	16,646	6,442
Due from a minority equity holder of a subsidiary	(f)	—	—	70,000	70,000
Cash and cash equivalents	(g)	13,262	14,088	52,761	40,091
		<u>27,339</u>	<u>33,654</u>	<u>148,493</u>	<u>122,381</u>
Non-current assets classified as held for sale	Section 3(f)	—	2,100	6,615	—
		<u>27,339</u>	<u>35,754</u>	<u>155,108</u>	<u>122,381</u>
CURRENT LIABILITIES					
Interest-bearing loans and borrowings	(h)	(13,000)	(4,000)	(54,000)	(50,000)
Trade payables	(i)	(21,141)	(29,030)	(63,209)	(41,526)
Customers' deposits, other payables and accruals	(j)	(14,509)	(26,859)	(46,247)	(36,475)
Tax payable		—	(2,347)	(3,954)	(3,576)
Due to a minority equity holder of a subsidiary	(k)	—	—	(1,274)	(1,041)
Due to a related party	(l)	—	(15)	(159)	(94)
		<u>(48,650)</u>	<u>(62,251)</u>	<u>(168,843)</u>	<u>(132,712)</u>
Liabilities directly associated with non-current assets classified as held for sale	Section 3 (f)	—	(2,100)	(6,615)	—
		<u>(48,650)</u>	<u>(64,351)</u>	<u>(175,458)</u>	<u>(132,712)</u>
NET CURRENT LIABILITIES		<u>(21,311)</u>	<u>(28,597)</u>	<u>(20,350)</u>	<u>(10,331)</u>
NET ASSETS/(LIABILITIES)		<u>2,489</u>	<u>(7,657)</u>	<u>2,829</u>	<u>5,010</u>
Represented by:					
OWNERS' EQUITY		2,489	(7,657)	(4,501)	(3,610)
MINORITY INTERESTS		—	—	7,330	8,620
TOTAL EQUITY		<u>2,489</u>	<u>(7,657)</u>	<u>2,829</u>	<u>5,010</u>

APPENDIX II

ACCOUNTANTS' REPORTS OF THE ACQUIRED STORES

Notes:

(a) Property, plant and equipment

	Leasehold improvements <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Equipment and fixtures <i>RMB'000</i>	Total <i>RMB'000</i>
At 1st January, 2002, net of accumulated depreciation	8,700	302	4,889	13,891
Additions	10,539	257	2,462	13,258
Depreciation charge for the year	<u>(3,398)</u>	<u>(63)</u>	<u>(885)</u>	<u>(4,346)</u>
At 31st December, 2002, net of accumulated depreciation	15,841	496	6,466	22,803
Additions	2,197	7	200	2,404
Depreciation charge for the year	<u>(4,361)</u>	<u>(86)</u>	<u>(1,258)</u>	<u>(5,705)</u>
At 31st December, 2003, net of accumulated depreciation	13,677	417	5,408	19,502
Additions	—	219	472	691
Acquisition	2,155	264	4,032	6,451
Disposals	—	(98)	(2)	(100)
Depreciation charge for the year	<u>(4,985)</u>	<u>(93)</u>	<u>(1,924)</u>	<u>(7,002)</u>
At 31st December, 2004, net of accumulated depreciation	10,847	709	7,986	19,542
Additions	—	—	42	42
Disposals	(3,001)	(206)	(1,497)	(4,704)
Depreciation charge for the period	<u>(2,052)</u>	<u>(76)</u>	<u>(844)</u>	<u>(2,972)</u>
At 30th June, 2005, net of accumulated depreciation	<u>5,794</u>	<u>427</u>	<u>5,687</u>	<u>11,908</u>

APPENDIX II
ACCOUNTANTS' REPORTS OF THE ACQUIRED STORES

	Leasehold improvements <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Equipment and fixtures <i>RMB'000</i>	Total <i>RMB'000</i>
At 1st January, 2002				
Cost	9,321	323	5,145	14,789
Accumulated depreciation	<u>(621)</u>	<u>(21)</u>	<u>(256)</u>	<u>(898)</u>
Net carrying amount	<u>8,700</u>	<u>302</u>	<u>4,889</u>	<u>13,891</u>
At 31st December, 2002				
Cost	19,861	580	7,607	28,048
Accumulated depreciation	<u>(4,020)</u>	<u>(84)</u>	<u>(1,141)</u>	<u>(5,245)</u>
Net carrying amount	<u>15,841</u>	<u>496</u>	<u>6,466</u>	<u>22,803</u>
At 31st December, 2003				
Cost	22,059	587	7,805	30,451
Accumulated depreciation	<u>(8,382)</u>	<u>(170)</u>	<u>(2,397)</u>	<u>(10,949)</u>
Net carrying amount	<u>13,677</u>	<u>417</u>	<u>5,408</u>	<u>19,502</u>
At 31st December, 2004				
Cost	25,344	1,000	13,635	39,979
Accumulated depreciation	<u>(14,497)</u>	<u>(291)</u>	<u>(5,649)</u>	<u>(20,437)</u>
Net carrying amount	<u>10,847</u>	<u>709</u>	<u>7,986</u>	<u>19,542</u>
At 30th June, 2005				
Cost	20,094	743	11,387	32,224
Accumulated depreciation	<u>(14,300)</u>	<u>(316)</u>	<u>(5,700)</u>	<u>(20,316)</u>
Net carrying amount	<u>5,794</u>	<u>427</u>	<u>5,687</u>	<u>11,908</u>

(b) Business combinations

(i) Acquisition of Anshan Parkson

On 12th April, 2004, Hefei Parkson acquired a 51% equity interest in Anshan Parkson for a cash consideration of RMB5,100,000.

The fair value of the identifiable assets and liabilities of Anshan Parkson as at the date of acquisition are:

	Fair value recognised on acquisition <i>RMB'000</i>	Carrying value <i>RMB'000</i>
Property, plant and equipment	6,451	6,451
Deferred tax assets	1,965	1,965
Inventories	3,038	3,038
Prepayments, deposits and other receivables	2,165	2,165
Cash and cash equivalents	23,215	23,215
	<u>36,834</u>	<u>36,834</u>
Trade payables	(20,142)	(20,142)
Customers' deposits, other payables and accruals	(8,067)	(8,067)
Tax payable	(1,236)	(1,236)
	<u>(29,445)</u>	<u>(29,445)</u>
Fair value of net assets	<u>7,389</u>	<u>7,389</u>
Fair value of net assets acquired by Hefei Parkson (51%)	3,769	
Goodwill arising on acquisition	<u>1,331</u>	
	<u>5,100</u>	

RMB'000

Consideration:

Cash paid	5,100

The cash inflow on acquisition is as follows:

Net cash acquired with the subsidiary	23,215
Cash paid	<u>(5,100)</u>

Net cash inflow	<u>18,115</u>

From the date of acquisition, Anshan Parkson has contributed RMB7,663,000 to the net profit of the Hefei Group. If the combination had taken place at the beginning of the financial year 2004, the net profit for the Hefei Group would have been RMB8,029,000 and revenue from continuing operations would have been RMB167,753,000.

(ii) *Disposal of a branch*

On 1st January, 2005, Hefei Parkson disposed of the business and relevant assets and liabilities of a branch in Shantou to an unrelated party for a cash consideration of RMB1. The assets and liabilities disposed of can be analysed as follows:

Carrying value

RMB'000

Property, plant and equipment	4,704
Inventories	340
Prepayments, deposits and other receivables	326
Cash and cash equivalents	<u>10,637</u>
	<u>16,007</u>

Interest-bearing loans and borrowings	(4,000)
Trade payables	(9,704)
Customers' deposits, other payables and accruals	<u>(4,976)</u>
	<u>(18,680)</u>

	<u>(2,673)</u>
Cash consideration	—
Cash disposed of	<u>(10,637)</u>

Net cash outflow from disposal of a branch	<u>(10,637)</u>

(c) **Deferred tax assets**

The principal components of the Hefei Group's deferred tax assets at the end of each of the Relevant Periods and the movements in deferred tax for the Relevant Periods are as follows:

	Balance at 1st January, 2002	Recognised in the consolidated income statement	Balance at 31st December, 2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deferred tax assets:			
Write-off of pre-operating expenses	449	—	449
Accrued rental	87	265	352
Accrued coupon provision	—	196	196
	<u>536</u>	<u>461</u>	<u>997</u>

	Balance at 1st January, 2003	Recognised in the consolidated income statement	Balance at 31st December, 2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deferred tax assets:			
Write-off of pre-operating expenses	449	(150)	299
Accrued rental	352	66	418
Accrued coupon provision	196	525	721
	<u>997</u>	<u>441</u>	<u>1,438</u>

	Balance at 1st January, 2004	Recognised in the consolidated income statement	Fair value adjustments on acquisition	Balance at 31st December, 2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deferred tax assets:				
Write-off of pre-operating expenses	299	(492)	1,030	837
Accrued rental	418	(965)	935	388
Accrued coupon provision	721	360	—	1,081
	<u>1,438</u>	<u>(1,097)</u>	<u>1,965</u>	<u>2,306</u>

	Balance at 1st January, 2005 <i>RMB'000</i>	Recognised in the consolidated income statement <i>RMB'000</i>	Balance at 30th June, 2005 <i>RMB'000</i>
Deferred tax assets:			
Write-off of pre-operating expenses	837	(247)	590
Accrued rental	388	(16)	372
Accrued coupon provision	<u>1,081</u>	<u>59</u>	<u>1,140</u>
	<u>2,306</u>	<u>(204)</u>	<u>2,102</u>

Hefei Group has tax losses which arose in a branch in Shantou amounted to RMB3,358,000, RMB9,154,000 and RMB3,782,000 as at 31st December 2002, 2003 and 2004, respectively that are available for five years for offset against future taxable profits of the branch in which the losses arose. As further discussed in section 4 note (b)(ii), Hefei Group disposed Shantou Branch on 1st January 2005 and deferred tax assets have not been recognised in respect of those losses as they may not be used to offset taxable profit elsewhere in Hefei Group.

A valuation allowance on the deferred tax assets is recorded if it is probable that some portion or all of the deferred tax assets will not be realised through the recovery of taxes previously paid and/or future taxable income. The allowance is subject to ongoing adjustments based on changes in circumstances that affect the Hefei Group's assessment of the reliability of the deferred tax assets. The Hefei Group has reviewed their deferred tax assets as at 31st December, 2002, 2003 and 2004, and 30th June, 2005. Based on projections for future taxable income over the periods in which the deferred tax assets are deductible, the directors believe that it is probable that the Hefei Group will realise the benefits of these temporary differences. Therefore, no valuation allowances were provided for the years ended 31st December, 2002, 2003 and 2004 and the six months ended 30th June, 2005, in respect of the deferred tax assets arising from these temporary differences.

(d) **Inventories**

	As at 31st December,			As at 30th June,
	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>	2005 <i>RMB'000</i>
Merchandise, at cost	2,966	5,106	8,293	5,102
Consumables, at cost	<u>678</u>	<u>765</u>	<u>793</u>	<u>746</u>
	<u>3,644</u>	<u>5,871</u>	<u>9,086</u>	<u>5,848</u>

(e) Prepayments, deposits and other receivables

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Advances to suppliers	716	1,280	4,210	1,646
Prepayments	811	174	1,223	1,688
Deposits	421	449	445	439
Other receivables	8,485	11,792	10,768	2,669
	<u>10,433</u>	<u>13,695</u>	<u>16,646</u>	<u>6,442</u>

(f) Due from minority equity holder of a subsidiary

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Anshan Tianxing International Properties Development Co., Ltd. ("Anshan Tianxing")	<u>—</u>	<u>—</u>	<u>70,000</u>	<u>70,000</u>

Note:

These balances represented designated loans to Anshan Tianxing, which bore interest ranging from 5.3% to 6.2% per annum and has no fixed terms of repayment. The balances were secured by Anshan Tianxing's equity interest in Anshan Parkson and floating charges over Anshan Tianxing's dividend income and rental income from Anshan Parkson.

On 22nd August, 2005, Anshan Parkson and Anshan Tianxing agreed to extend the designated loans to 23rd September, 2006, which bear interest ranging from 5.3% to 6.2% per annum and are secured by floating charges over Anshan Tianxing's dividend income and rental income from Anshan Parkson.

(g) Cash and cash equivalents

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	<u>13,262</u>	<u>14,088</u>	<u>52,761</u>	<u>40,091</u>

The bank balances earn interest at floating rates based on daily bank deposit rates.

The Hefei Group's cash and cash equivalents comprise cash on hand and cash at banks which are denominated in Renminbi ("RMB"). RMB is not freely convertible in the international market. The remittance of funds out of PRC is subject to the exchange restrictions imposed by the PRC government.

(h) Interest-bearing loans and borrowings

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loan, secured	—	—	50,000	50,000
Other loans, unsecured	<u>13,000</u>	<u>4,000</u>	<u>4,000</u>	<u>—</u>
	<u>13,000</u>	<u>4,000</u>	<u>54,000</u>	<u>50,000</u>
Bank loan repayable within one year	—	—	50,000	50,000
Other loans repayable within one year or on demand	<u>13,000</u>	<u>4,000</u>	<u>4,000</u>	<u>—</u>
Total bank and other loans	13,000	4,000	54,000	50,000
Less: Portion classified as current liabilities	<u>(13,000)</u>	<u>(4,000)</u>	<u>(54,000)</u>	<u>(50,000)</u>
Long term portion	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

Pursuant to a bank loan agreement dated 10th May, 2004, the bank loan of RMB50 million due to Bank of China was overdue for repayment on 27th April, 2005. The bank loan bears interest at a rate of 6.2% per annum and is secured against certain property of Anshan Tianxing.

On 26th October, 2005, Anshan Parkson and Bank of China entered into a new bank loan agreement to extend the aforesaid bank loan to 24th October, 2006. The bank loan bears interest at a rate of 6.1% per annum and is secured against certain property of Anshan Tianxing.

Other loans as at 31st December, 2002 represented an amount due to Shanghai Nine Sea Parkson Plaza Co., Ltd., a subsidiary of Parkson Retail Group Limited, which bore interest at 5% per annum. The balance as at 31st December, 2003 and 2004 was due to Sichuan Hezheng Parkson Co., Ltd., a fellow subsidiary of Parkson Retail Group Limited, which bore interest at 5.3% per annum.

(i) Trade payables

An aged analysis of the trade payables of the Hefei Group is as follows:

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	21,141	28,975	62,815	41,526
3 to 12 months	—	—	54	—
Over 1 year	—	55	340	—
	<u>21,141</u>	<u>29,030</u>	<u>63,209</u>	<u>41,526</u>

(j) Customers' deposits, other payables and accruals

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Customers' deposits	1,896	2,573	10,237	3,692
Accruals	2,922	11,528	17,623	14,607
Other payables	<u>9,691</u>	<u>12,758</u>	<u>18,387</u>	<u>18,176</u>
	<u>14,509</u>	<u>26,859</u>	<u>46,247</u>	<u>36,475</u>

(k) Due to a minority equity holder of a subsidiary

The balance represented rental payable to Anshan Tianxing, which is unsecured, interest free and is repayable on demand.

(l) Due to a related party

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Shanghai Hongqiao Parkson Development Co., Ltd.	<u>—</u>	<u>15</u>	<u>159</u>	<u>94</u>

The balance is unsecured, interest free and is repayable on demand. The directors of Hefei Parkson have confirmed that the amounts due to a related party would be settled prior to the listing of the shares of Parkson Retail Group Limited on the Stock Exchange.

(m) **Contingent liabilities**

The Hefei Group did not have any significant contingent liabilities at the end of each of the Relevant Periods.

(n) **Commitments**

(i) The Hefei Group did not have any significant capital commitments at the end of each of the Relevant Periods.

(ii) Operating lease commitments

Operating lease commitments — as lessee

The Hefei Group has entered into leases on certain properties. These leases have an average life of between 1 and 10 years and renewals are at the option of Hefei Parkson. There are no restrictions placed upon the Hefei Group by entering into these leases. Pursuant to the agreements, the annual contingent rental amount is calculated based on a percentage of the respective store’s turnover.

Future minimum rentals payable under non-cancellable operating leases as at 31st December, 2002, 2003 and 2004, and 30th June, 2005 are as follows:

	As at 31st December,			As at
	2002	2003	2004	30th June,
	RMB'000	RMB'000	RMB'000	2005
				RMB'000
Within one year	9,433	9,300	18,500	18,500
In the second to fifth years, inclusive	19,800	14,000	74,000	74,000
After five years	<u>30,368</u>	<u>26,859</u>	<u>143,358</u>	<u>134,075</u>
	<u>59,601</u>	<u>50,159</u>	<u>235,858</u>	<u>226,575</u>

Operating lease commitments — as lessor

The Hefei Group has entered into commercial leases on certain properties. These properties held under operating leases are measured under the fair value model as the properties are held to earn rentals. These non-cancellable leases have remaining non-cancelable lease terms of 15 years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

Future minimum rentals receivable under non-cancellable operating leases as at 31st December, 2002, 2003 and 2004, and 30th June, 2005 are as follows:

	As at 31st December,			As at
	2002	2003	2004	30th June,
	RMB'000	RMB'000	RMB'000	2005
				RMB'000
Within one year	1,449	1,449	2,794	2,065
In the second to fifth years, inclusive	5,796	5,796	5,796	5,796
After five years	<u>5,796</u>	<u>4,347</u>	<u>2,898</u>	<u>2,174</u>
	<u>13,041</u>	<u>11,592</u>	<u>11,488</u>	<u>10,035</u>

(iii) Other commitment

The Hefei Group entered into consultancy fee agreements, which were expired in 2004. The consultancy fee payable amount was calculated based on a percentage of the respective store's turnover.

(o) Fair value of financial instruments

The financial instruments of the Hefei Group mainly consist of cash and bank balances, an amount due from a minority equity holder of a subsidiary, prepayments, deposits, and other receivables, interest-bearing loans and borrowings, trade payables, customers' deposits, other payables and accruals, amounts due to a minority equity holder of a subsidiary and amounts due to a related party.

The carrying amounts of the Hefei Group's financial instruments were stated approximately at their fair value as at 31st December, 2002, 2003 and 2004, and 30th June, 2005 because of the short term maturities of these instruments.

Fair value estimates are made at a specific point in time and based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(p) Concentration of risks

The Hefei Group is exposed to credit risk, interest rate risk and foreign currency risk, as further explained below.

(i) Credit risk

The Hefei Group's cash and cash equivalents are deposited with banks in the PRC. The other receivables included in the Financial Information represents the Hefei Group's major exposure to the credit risk attributable to its financial assets. The Hefei Group has no other significant concentrations of credit risk.

(ii) Interest rate risk

The Hefei Group has no loans except for the interest-bearing loans and borrowings disclosed in note (h) above and as a result, it has no significant interest rate risk.

(iii) Foreign currency risk

The Hefei Group's businesses are conducted in RMB which cannot freely be exchanged into foreign currencies. As at 31st December, 2002, 2003 and 2004, and 30th June, 2005, all of the Hefei Group's assets and liabilities were denominated in RMB.

5. CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

	Attributable to equity holders of the parent					
	PRC			Total	Minority interests	Total equity
	Registered capital	reserve fund	Accumulated losses			
	RMB'000 Note (a)	RMB'000 Note (b)	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January, 2002	8,000	—	(1,599)	6,401	—	6,401
Net loss for the year	—	—	(3,912)	(3,912)	—	(3,912)
At 31st December, 2002, and 1st January, 2003	8,000	—	(5,511)	2,489	—	2,489
Net loss for the year	—	—	(10,146)	(10,146)	—	(10,146)
At 31st December, 2003 and 1st January, 2004	8,000	—	(15,657)	(7,657)	—	(7,657)
Acquisition of a subsidiary	—	—	—	—	3,620	3,620
Net profit for the year	—	—	3,156	3,156	3,710	6,866
Transfer to the PRC reserve fund	—	380	(380)	—	—	—
At 31st December, 2004 and 1st January, 2005	8,000	380	(12,881)	(4,501)	7,330	2,829
Net profit for the period	—	—	11,557	11,557	4,744	16,301
Transfer to the PRC reserve fund	—	741	(741)	—	—	—
Dividend declared and paid	—	—	(10,666)	(10,666)	(3,454)	(14,120)
At 30th June, 2005	8,000	1,121	(12,731)	(3,610)	8,620	5,010

Notes:

(a) Capital

	As at 31st December,			As at
	2002	2003	2004	30th June,
	RMB'000	RMB'000	RMB'000	2005 RMB'000
Registered and paid-in capital	8,000	8,000	8,000	8,000

(b) Distributable reserves

In accordance with the relevant PRC regulation, the Hefei Group is required to transfer 10% of the profit after income tax, as determined under PRC accounting principal and financial regulations, to the statutory common reserve, until the balance of the fund reaches 50% of the registered capital of the group. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory common reserve may be used to offset against accumulated losses, if any.

Pursuant to the relevant PRC regulations, the Hefei Group is also required to transfer 5% to 10% of net profit, as determined under PRC accounting principal and financial regulations, to the statutory common welfare fund. This fund can only be used to provide staff welfare facilities and other collective benefits to the employees of the group. This fund is non-distributable other than in the event of liquidation.

6. CONSOLIDATED CASH FLOW STATEMENTS

	Year ended 31st December,			Six months ended 30th June,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(loss) from operations before income tax	(4,373)	(1,662)	13,784	1,672	25,017
Adjustments for:					
Interest income	(151)	(180)	(2,530)	(508)	(2,504)
Depreciation	4,346	5,705	7,002	3,283	2,972
Interest expenses	597	425	2,162	414	1,758
Gain on disposal of a branch (section 3 note (a))	—	—	—	—	(2,673)
Operating profit before working capital changes	419	4,288	20,418	4,861	24,570
Decrease/(increase) in inventories	(541)	(2,227)	(177)	3,355	2,898
Decrease/(increase) in prepayments, deposits and other receivables	4,839	(3,262)	(786)	(1,157)	9,878
Increase in an amount due from a minority equity holder of a subsidiary	—	—	—	(171)	—
Increase/(decrease) in trade payables	5,555	7,889	14,037	(5,977)	(11,979)
Increase/(decrease) in customers' deposits, other payables and accruals	5,250	12,350	11,321	5,315	(4,796)
Increase /(decrease) in amounts due to a minority equity holder of a subsidiary	—	—	1,274	971	(233)
Increase/(decrease) in amounts due to a related party	—	15	144	(15)	(65)
Cash generated from operating activities	15,522	19,053	46,231	7,182	20,273
Interest paid	(597)	(425)	(2,162)	(414)	(1,758)
Income tax paid	(505)	(1,478)	(5,450)	(6,111)	(8,890)
Net cash inflow from operating activities	14,420	17,150	38,619	657	9,625

APPENDIX II
ACCOUNTANTS' REPORTS OF THE ACQUIRED STORES

	Year ended 31st December,			Six months ended	
	2002	2003	2004	30th June,	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of fixed assets	(13,258)	(2,404)	(691)	(271)	(42)
Cash outflow from disposal of a branch <i>(section 4 note (b)(ii))</i>	—	—	—	—	(10,637)
Proceeds from disposal of fixed assets	—	—	100	—	—
Investment in Shenyang Parkson	—	(5,100)	—	—	—
Interest received	151	180	2,530	508	2,504
Increase in non-trade related due from related parties	—	—	(70,000)	(10,100)	—
Acquisitions of subsidiaries, net of cash paid <i>(section 4 note (b)(i))</i>	—	—	18,115	18,115	—
Net cash inflow/(outflow) from investing activities	<u>(13,107)</u>	<u>(7,324)</u>	<u>(49,946)</u>	<u>8,252</u>	<u>(8,175)</u>
Net cash inflow/(outflow) before financing activities	<u>1,313</u>	<u>9,826</u>	<u>(11,327)</u>	<u>8,909</u>	<u>1,450</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash from new loans	10,000	—	50,000	50,000	—
Repayment of a loan	—	(9,000)	—	—	—
Dividend paid	—	—	—	—	(14,120)
Net cash inflow/(outflow) from financing activities	<u>10,000</u>	<u>(9,000)</u>	<u>50,000</u>	<u>50,000</u>	<u>(14,120)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	11,313	826	38,673	58,909	(12,670)
Cash and cash equivalents at beginning of year/period	<u>1,949</u>	<u>13,262</u>	<u>14,088</u>	<u>14,088</u>	<u>52,761</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	<u><u>13,262</u></u>	<u><u>14,088</u></u>	<u><u>52,761</u></u>	<u><u>72,997</u></u>	<u><u>40,091</u></u>

7. SUBSEQUENT EVENTS

Save as disclosed in Note 4(f), the Hefei Group has the following subsequent event:

On 25th May, 2005, the equity owners of Hefei Parkson entered into sale and purchase agreement with Step Summit Limited, a subsidiary of the Parkson Retail Group Limited, to sell their entire equity interest in Hefei Parkson in a cash consideration of RMB3,348,800. Hefei Parkson was transformed into a wholly-owned foreign investment enterprise in the PRC on 17th October, 2005.

8. SUBSEQUENT FINANCIAL INFORMATION

No financial information has been prepared by Hefei Parkson in respect of any period subsequent to 30th June, 2005.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

E. Shanghai Hongqiao Parkson Development Co., Ltd.

The following is the text of the accountants' report, prepared for inclusion in this Prospectus, from the independent reporting accountants of Parkson Retail Group Limited, Ernst & Young, Certified Public Accountants, Hong Kong.



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

17th November, 2005

The Directors
Parkson Retail Group Limited
Shanghai Hongqiao Parkson Development Co., Ltd.
BNP Paribas Peregrine Capital Limited

Dear Sirs,

We set out below our report on the financial information regarding Shanghai Hongqiao Parkson Development Co., Ltd. (formerly “Shanghai Hongqiao Parkson Commercial Trading Co., Ltd.” and hereinafter “Shanghai Hongqiao Parkson”) for the period from 29th November, 2002 (date of registration) to 31st December, 2002, each of the two years ended 31st December, 2003 and 2004, and the six-month period ended 30th June, 2005 (the “Relevant Periods”) and the six-month period ended 30th June, 2004 (the “30th June, 2004 Financial Information”), for inclusion in the prospectus of Parkson Retail Group Limited dated 17th November, 2005 (the “Prospectus”).

For the purpose of this report, the directors of Shanghai Hongqiao Parkson have prepared the financial statements of Shanghai Hongqiao Parkson for the Relevant Periods (“Financial Statements”) in accordance with International Financial Reporting Standards (“IFRS”) as promulgated by the International Accounting Standards Board (the “IASB”), based on the statutory financial statements audited by Shanghai Xinyu Certified Public Accountants, certified public accountants registered in the People’s Republic of China (the “PRC”) or, where appropriate, management accounts of Shanghai Hongqiao Parkson for the Relevant Periods. In preparing this report, no adjustments were considered necessary to restate the audited Financial Statements of Shanghai Hongqiao Parkson to conform to the accounting policies referred to in Section 2 to this report, which are in compliance with IFRS. The Financial Statements have been audited by us in accordance with the Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The directors of Shanghai Hongqiao Parkson are responsible for preparing the Financial Statements which give a true and fair view. In preparing the Financial Statements, it is fundamental that appropriate accounting policies are selected and applied consistently.

Procedures Performed in Respect of the Relevant Periods

The financial information set out in this report (the “Financial Information”) has been prepared based on the Financial Statements. For the purpose of this report, we have examined the Financial Statements. Our examination was made in accordance with the Statements of Auditing Standards issued by the HKICPA and we have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” issued by the HKICPA.

Procedures Performed in Respect of the 30th June, 2004 Financial Information

For the purpose of this report, we have performed a review of 30th June, 2004 Financial Information in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope and provides a lower level of assurance than our audit or examination procedures described in the preceding paragraph and, accordingly, we do not express an audit opinion on the 30th June, 2004 Financial Information.

The directors of Shanghai Hongqiao Parkson are responsible for the preparation of the Financial Information. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion thereon.

Opinion in Respect of the Relevant Periods

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Shanghai Hongqiao Parkson as at 31st December, 2002, 2003 and 2004, and 30th June, 2005 and of the results and cash flows of Shanghai Hongqiao Parkson for each of the Relevant Periods.

Review Conclusion in Respect of the 30th June, 2004 Financial Information

On the basis of our review, for the purpose of this report, we are not aware of any material modification that should be made to the results and cash flows of Shanghai Hongqiao Parkson as set out in the 30th June, 2004 Financial Information.

1. CORPORATE INFORMATION AND BASIS OF PRESENTATION

Shanghai Hongqiao Parkson Development Co., Ltd. (formerly “Shanghai Hongqiao Parkson Commercial Trading Co., Ltd.” and hereinafter “Shanghai Hongqiao Parkson”) was registered as a limited liability company in Shanghai, the PRC on 29th November, 2002. With effect from 26th October, 2005, Shanghai Hongqiao Parkson’s name was changed to Shanghai Hongqiao Parkson Development Co., Ltd. During the Relevant Periods, Shanghai Hongqiao Parkson was engaged in the operation of department stores in Shanghai, Changsha and Yueyang, the PRC. Through an acquisition as set out in Section 7 of this report, Step Summit Limited, a subsidiary of Parkson Retail Group Limited, acquired the entire equity interest in Shanghai Hongqiao Parkson and Shanghai Hongqiao Parkson was transformed into a wholly foreign-owned enterprise on 26th October, 2005.

The Financial Information has been prepared on the going concern basis notwithstanding the net current liabilities and deficiency in owners’ equity of Shanghai Hongqiao Parkson as at 30th June 2005 because pursuant to an acquisition transaction as set out in Section 7 of this report, Step Summit Limited, a subsidiary of Parkson Retail Group Limited acquired a 100% equity interest in Shanghai Hongqiao Parkson subsequent to the period ended 30th June, 2005. Parkson Retail Group Limited has undertaken to provide financial support to Shanghai Hongqiao Parkson as it may require.

2. PRINCIPAL ACCOUNTING POLICIES

Statement of compliance

The Financial Information has been prepared in accordance with IFRS promulgated by the IASB. IFRS includes International Accounting Standards and interpretations. The Financial Information also complies with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) as applicable to Accountants’ Reports for inclusion in Listing Documents. Shanghai Hongqiao Parkson has early adopted all applicable new and revised IFRS, which are generally effective for accounting periods, beginning on or after 1st January 2005, throughout the Relevant Periods.

The above basis of accounting differs from that used in the audited financial statements or, where appropriate, management accounts of Shanghai Hongqiao Parkson which were prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC (the “PRC GAAP”).

Use of estimates

The preparation of the financial information of the company in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial information and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the company and the revenue can be reliably measured on the following basis.

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Commissions from concessionaire sales are recognised upon the sale of goods by the relevant stores.

Promotion income

Promotion income is recognised according to the underlying contract terms with concessionaire and as these services are provided in accordance herewith.

Interest income

Revenue is recognised on a time proportion basis taking into account the principal outstanding and the effective rate of interest applicable.

Credit card handling fees

Credit card handling fees are recognised when the relevant services are rendered.

Rental income, display space leasing fees and equipment leasing income

Revenue is recognised on a time proportion basis over the terms of the respective leases.

Employee benefits

- (i) Salaries, bonuses, paid annual leave, leave passage and the cost to the company of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the company. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to defined contribution retirement plans are recognised as an expense in the income statement as incurred.

Pursuant to the relevant PRC laws and regulations, the company is required to participate in a retirement benefits scheme organised by the local municipal government whereby the company is required to contribute a certain percentage of the salaries of its employees to the retirement benefits scheme. The only obligation of the company with respect to the retirement benefits scheme is to pay the ongoing required contributions. Contributions made to the defined contribution retirement benefits scheme are charged to the income statement as incurred.

Termination benefits are recognised when, and only when, the company demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

Income tax

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

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- except where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is utilised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Related parties

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

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on the straight-line basis over the lease terms.

Recoverable amount of non-current assets

At each reporting date, the company assesses whether there is any indication that an asset may be impaired. Where an indication of impairment exists, the company makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflow that are largely independent of those from other assets or groups of assets.

Financial instruments

Financial assets and financial liabilities carried in the balance sheet include cash and cash equivalents, trade receivables and payables, other receivables and payables, and loans and balances with related parties. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies set out in this section.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangements. Interest, dividends and gains or losses relating to a financial instrument classified as a liability are reported as income or expenses. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Property, plant and equipment

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

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

Depreciation of property, plant and equipment is calculated on the straight-line basis over the expected useful life of the asset, after taking into account its estimated residual value of 10%, as follows:

Leasehold improvements	5 - 10 years
Motor vehicles	5 years
Equipment and fixtures	5 - 10 years

Construction in progress represents stores and storage facilities under construction, or renovation works in progress and is stated at cost less any impairment loss, and is not depreciated. Cost comprises development and construction expenditure incurred and other direct costs attributable to the development less any accumulated impairment losses. On completion, the relevant assets are transferred to property, plant and equipment at cost less accumulated impairment losses.

The carrying values of property, plant and equipment are reviewed for impairment either annually, or when events or changes in circumstances indicate that the carrying value may not be recoverable (whichever is earlier). If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of the net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflow, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement.

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

Inventories

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

Cost of merchandise is determined on a weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to disposal.

Consumables are stated at cost less any impairment losses.

Trade and other receivables

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

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

An estimate for doubtful debts is made when there is objective evidence that collection of the full amount is no longer probable. Bad debts are written off when identified.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand and short term deposits, which are not restricted as to use. For the purpose of the cash flow statement, cash and cash equivalents consist of cash at banks and in hand and short term deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

Provisions

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

Coupon liabilities

Coupon liabilities are recognised at fair value based on the bonus points granted to customers in accordance with the announced bonus points scheme and the company's past experience on the level of redemption of coupons.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After the initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised, as well as through the amortisation process.

Contingent liabilities and contingent assets

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

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

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

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

3. RESULTS

		For the period from 29th November, 2002 (date of registration) to 31st December, 2002	Year ended 31st December,		Six months ended 30th June,	
		2002	2003	2004	2004	2005
	Notes	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenues	(a)	1,831	57,115	109,158	52,379	64,457
Other operating revenues	(a)	<u>165</u>	<u>8,257</u>	<u>11,001</u>	<u>5,188</u>	<u>5,476</u>
Total operating revenues		<u>1,996</u>	<u>65,372</u>	<u>120,159</u>	<u>57,567</u>	<u>69,933</u>
Operating expenses						
Purchase of goods and changes in inventories		(763)	(21,052)	(34,969)	(17,518)	(19,942)
Staff costs		(87)	(7,430)	(13,222)	(6,386)	(7,670)
Depreciation		—	(1,296)	(3,454)	(1,645)	(2,199)
Rental expenses		(387)	(7,828)	(17,922)	(8,943)	(9,929)
Other operating expenses		<u>(2,094)</u>	<u>(28,385)</u>	<u>(42,953)</u>	<u>(22,474)</u>	<u>(17,280)</u>
Total operating expenses		<u>(3,331)</u>	<u>(65,991)</u>	<u>(112,520)</u>	<u>(56,966)</u>	<u>(57,020)</u>
Profit/(loss) from operations	(b)	(1,335)	(619)	7,639	601	12,913
Finance income	(c)	<u>2</u>	<u>232</u>	<u>383</u>	<u>227</u>	<u>290</u>
Profit/(loss) from operations before income tax		(1,333)	(387)	8,022	828	13,203
Income tax	(e)	<u>335</u>	<u>297</u>	<u>(5,465)</u>	<u>(2,031)</u>	<u>(4,977)</u>
Net profit/(loss) for the year/period from continuing operations		(998)	(90)	2,557	(1,203)	8,226
Discontinued operation						
Loss for the year from discontinued operation	(f)	<u>—</u>	<u>(2,900)</u>	<u>(16,000)</u>	<u>—</u>	<u>—</u>
Net profit/(loss) for the year/period		<u>(998)</u>	<u>(2,990)</u>	<u>(13,443)</u>	<u>(1,203)</u>	<u>8,226</u>

Notes:

(a) **Revenues**

Revenues represent the net amount received and receivable for goods sold by Shanghai Hongqiao Parkson to outside customers, less returns and allowances, commissions from concessionaire sales, and rental income during the Relevant Periods, and are analysed as follows:

	For the period from 29th November, 2002 (date of registration) to 31st December, 2002 <i>RMB'000</i>	Year ended 31st December, 2003 2004 <i>RMB'000 RMB'000</i>		Six months ended 30th June, 2004 2005 <i>RMB'000 RMB'000</i> (unaudited)	
Sales of goods — direct sales	876	24,764	42,006	20,720	23,595
Commissions from concessionaire sales (Note)	945	31,442	64,074	29,942	39,504
Rental income	10	909	3,078	1,717	1,358
	<u>1,831</u>	<u>57,115</u>	<u>109,158</u>	<u>52,379</u>	<u>64,457</u>

Note:

The commissions from concessionaire sales are analysed below:

	For the period from 29th November, 2002 (date of registration) to 31st December, 2002 <i>RMB'000</i>	Year ended 31st December, 2003 2004 <i>RMB'000 RMB'000</i>		Six months ended 30th June, 2004 2005 <i>RMB'000 RMB'000</i> (unaudited)	
Gross revenue from concessionaire sales	<u>8,208</u>	<u>141,848</u>	<u>363,100</u>	<u>169,199</u>	<u>203,801</u>
Commissions from concessionaire sales	<u>945</u>	<u>31,442</u>	<u>64,074</u>	<u>29,942</u>	<u>39,504</u>

Over 90% of Shanghai Hongqiao Parkson's turnover and contribution to operating profit is attributable to the operation and management of department stores and all of Shanghai Hongqiao Parkson's turnover and contribution to operating profit is attributable to customers in the PRC. Accordingly no analysis of segment information is presented.

Other operating revenues comprise the following:

	For the period from 29th November, 2002 (date of registration) to 31st December, 2002 <i>RMB'000</i>	Year ended 31st December, 2003 2004 <i>RMB'000 RMB'000</i>		Six months ended 30th June, 2004 2005 <i>RMB'000 RMB'000</i> (unaudited)	
Promotion income	—	2,729	2,164	1,032	1,081
Credit card handling fees	25	523	1,292	571	902
Lease of equipment	5	482	838	412	303
Display space leasing fees	10	3,595	4,868	2,220	1,879
Administration income	125	673	1,353	619	612
Other income	—	255	486	334	699
	<u>165</u>	<u>8,257</u>	<u>11,001</u>	<u>5,188</u>	<u>5,476</u>

(b) **Profit/(loss) from operations**

The profit/(loss) from operations of Shanghai Hongqiao Parkson is arrived at after charging/(crediting):

	For the period from 29th November, 2002 (date of registration) to 31st December, 2002 <i>RMB'000</i>	Year ended 31st December, 2003 2004 <i>RMB'000 RMB'000</i>		Six months ended 30th June, 2004 2005 <i>RMB'000 RMB'000</i> (unaudited)	
Cost of inventories recognised as expenses	763	21,052	34,969	17,518	19,942
Staff costs:					
Wages, salaries and bonuses	83	5,132	10,325	4,874	5,987
Pension costs	—	969	1,081	604	700
Social welfare and other costs	<u>4</u>	<u>1,329</u>	<u>1,816</u>	<u>908</u>	<u>983</u>
	<u>87</u>	<u>7,430</u>	<u>13,222</u>	<u>6,386</u>	<u>7,670</u>

APPENDIX II

ACCOUNTANTS' REPORTS OF THE ACQUIRED STORES

	For the period from 29th November, 2002 (date of registration) to 31st December, 2002 <i>RMB'000</i>	Year ended 31st December, 2003 2004 <i>RMB'000 RMB'000</i>		Six months ended 30th June, 2004 2005 <i>RMB'000 RMB'000</i> (unaudited)	
Depreciation	—	1,296	3,454	1,645	2,199
Operating lease rentals in respect of rented properties:					
Minimum lease payments	—	—	4,715	2,499	2,508
Contingent rents (<i>Note</i>)	387	7,828	13,207	6,444	7,421
	<u>387</u>	<u>7,828</u>	<u>17,922</u>	<u>8,943</u>	<u>9,929</u>
Loss on disposal of fixed assets	—	—	9	—	—
Allowance for doubtful debts	—	8,738	2,621	2,621	—
Gross rental income in respect of sub-letting of properties	<u>(10)</u>	<u>(909)</u>	<u>(3,078)</u>	<u>(1,717)</u>	<u>(1,358)</u>
Less: Outgoings	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net rental income	<u>(10)</u>	<u>(909)</u>	<u>(3,078)</u>	<u>(1,717)</u>	<u>(1,358)</u>

Note:

Contingent rents are calculated based on a percentage of relevant turnover pursuant to the rental agreements.

(c) Finance income

	For the period from 29th November, 2002 (date of registration) to 31st December, 2002 <i>RMB'000</i>	Year ended 31st December, 2003 2004 <i>RMB'000 RMB'000</i>		Six months ended 30th June, 2004 2005 <i>RMB'000 RMB'000</i> (unaudited)	
Interest expense	—	—	(40)	—	(247)
Interest income	<u>2</u>	<u>232</u>	<u>423</u>	<u>227</u>	<u>537</u>
	<u>2</u>	<u>232</u>	<u>383</u>	<u>227</u>	<u>290</u>

(d) Retirement benefits scheme

Shanghai Hongqiao Parkson is required to participate in employee pension schemes operated by the relevant local government authorities in the PRC. The PRC government is responsible for the pension liability to these retired employees. Shanghai Hongqiao Parkson is required to make contributions for relevant employees who are registered as permanent residents in the PRC and are within the scope of the relevant PRC regulations at a rate of 20% of the employees' salaries for the Relevant Periods.

Shanghai Hongqiao Parkson's contributions to pension costs for the years ended 31st December, 2002, 2003 and 2004 and the six months ended 30th June, 2004 and 2005 amounted to approximately nil, RMB969,000, RMB1,081,000, RMB604,000 and RMB700,000, respectively.

(e) Income tax

Under the relevant PRC income tax law, Shanghai Hongqiao Parkson is subject to corporate income tax at a rate of 33% on its taxable income.

Pursuant to applicable income tax laws and regulations of the PRC, newly formed trading enterprises are eligible to apply for income tax exemption of one year. Shanghai Hongqiao Parkson and one of its branches in Changsha were granted a one year income tax exemption for 2003 and 2004, respectively, by the relevant PRC tax authority.

The determination of current and deferred income tax was based on the enacted tax rates.

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

	For the period from 29th November, 2002 (date of registration) to 31st December, 2002 <i>RMB'000</i>	Year ended 31st December, 2003 2004 <i>RMB'000 RMB'000</i>		Six months ended 30th June, 2004 2005 <i>RMB'000 RMB'000</i> (unaudited)	
Current income tax	56	—	6,141	2,494	5,346
Deferred income tax	(391)	(297)	(676)	(463)	(369)
	<u>(335)</u>	<u>(297)</u>	<u>5,465</u>	<u>2,031</u>	<u>4,977</u>

APPENDIX II

ACCOUNTANTS' REPORTS OF THE ACQUIRED STORES

A reconciliation of the income tax expense applicable to accounting profit/(loss) from operations before income tax at the statutory income tax rate to the income tax expense at Shanghai Hongqiao Parkson's effective income tax rate, is as follows:

	For the period from 29th November, 2002 (date of registration) to 31st December, 2002 RMB'000	Year ended 31st December, 2003 2004 RMB'000 RMB'000			Six months ended 30th June, 2004 2005 RMB'000 RMB'000 (Unaudited)
Accounting profit/(loss) before income tax from continuing operations	(1,333)	(387)	8,022	828	13,203
Loss before tax from discontinued operation	—	(2,900)	(16,000)	—	—
Accounting profit/(loss) before income tax	<u>(1,333)</u>	<u>(3,287)</u>	<u>(7,978)</u>	<u>828</u>	<u>13,203</u>
Income tax at the statutory income tax rate of 33%	(439)	(1,085)	(2,633)	273	4,357
Tax losses not recognised	—	458	1,778	803	400
Tax effect of expenses not deductible for tax purposes	104	4,232	7,177	955	220
Tax effect of preferential tax rate	—	(3,902)	(857)	—	—
	<u>(335)</u>	<u>(297)</u>	<u>5,465</u>	<u>2,031</u>	<u>4,977</u>

(f) Discontinued operation

On 24th November 2003, Shanghai Hongqiao Parkson invested 49% of the registered capital of Shenyang Parkson Shopping Plaza Co., Ltd. ("Shenyang Parkson") for a cash consideration of RMB4,900,000. On 22nd December 2004, Shanghai Hongqiao Parkson invested an additional RMB16,000,000, increasing its interest in Shenyang Parkson to 80% of the registered capital.

On 15th January 2005, Shanghai Hongqiao Parkson disposed of its entire equity interest in Shenyang Parkson to Mr. Chen Yi, the equity holder thereof for a cash consideration of RMB2,000,000. The investment in Shenyang Parkson was accounted for as its joint venture. Particulars of Shanghai Hongqiao Parkson's discontinued operation are as follows:

Company name	Place and date of registration	Paid-up capital	Percentage of equity interest attributable to Shanghai Hongqiao Parkson				Principal activity
			31st December,		30th June,		
			2002	2003	2004	2005	
Shenyang Parkson Shopping Plaza Co., Ltd. 瀋陽百盛購物廣場有限公司	PRC 28th November, 2003	RMB26,000,000	—	49%	80%	—	Operation of department stores

APPENDIX II

ACCOUNTANTS' REPORTS OF THE ACQUIRED STORES

For the purpose of the preparation of this Financial Information, Shenyang Parkson was classified as a disposal group and was held-for-sale.

The results of Shenyang Parkson for the year/period are presented below:

	Year ended 31st December,			Six months ended 30th June,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Loss for the year/period from discounted operation	—	(1,129)	(10,984)	(2,000)	—
Loss (recognised)/reversed on the remeasurement to fair value	—	(1,771)	(5,016)	2,000	—
Net loss attributable to discontinued operation	—	(2,900)	(16,000)	—	—

The assets and liabilities of Shenyang Parkson measured at the lower of carrying amount and fair value less costs to sell as at the end of each balance sheet date are as follows:

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets classified as held for sale	—	4,018	29,100	—
Liabilities directly associated with non-current assets classified as held for sale	—	(2,018)	(27,100)	—
Net assets attributable to discontinued operation	—	2,000	2,000	—

The net cash flow related to Shenyang Parkson is as follows:

	Year ended 31st December,			Six months ended 30th June,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Investment in Shenyang Parkson	—	(4,900)	(16,000)	—	—
Net cash outflow	—	(4,900)	(16,000)	—	—

(g) Related party transactions

In addition to such transactions and balances which are disclosed in section 4 note (f), Shanghai Hongqiao Parkson had the following related party transactions:

	Notes	Year ended 31st December,			Six months ended 30th June,	
		2002 RMB'000	2003 RMB'000	2004 RMB'000	2004 RMB'000 (unaudited)	2005 RMB'000
Sales of goods	(i)	<u>—</u>	<u>734</u>	<u>654</u>	<u>333</u>	<u>266</u>
Purchase of goods	(i)	<u>—</u>	<u>190</u>	<u>85</u>	<u>56</u>	<u>22</u>
Disposal of non-current assets classified as held for sale	(ii)	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,000</u>
Interest income:						
Shenyang Parkson	(iii)	<u>—</u>	<u>—</u>	<u>26</u>	<u>—</u>	<u>2</u>
Dalian Zhongsheng Store Co., Ltd.	(iv)	<u>—</u>	<u>—</u>	<u>12</u>	<u>—</u>	<u>200</u>

Notes:

- (i) Represented sales and purchase of goods with Hefei Parkson Xiaoyao Plaza Co., Ltd. ("Hefei Parkson"), a fellow subsidiary of Shanghai Hongqiao Parkson. The transactions were conducted based on the purchase cost from third party suppliers.
- (ii) On 15th January, 2005, Shanghai Hongqiao Parkson disposed of its 80% equity interest in Shenyang Parkson to its equity holder for a cash consideration of RMB2,000,000, as disclosed in section 3 note (f) above.
- (iii) Represented interest income from Shenyang Parkson. Please refer to section 4 note (f)(ii) for details.
- (iv) Represented interest income from Dalian Zhongsheng Store Co., Ltd ("Dalian Zhongsheng"), a related party of Shanghai Hongqiao Parkson. Please refer to section 4 note (f)(iv) for details.

4. BALANCE SHEETS

		31st December,			30th June,
		2002	2003	2004	2005
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	(a)	4,339	12,403	15,178	13,492
Deferred tax assets	(b)	391	688	1,364	1,733
		<u>4,730</u>	<u>13,091</u>	<u>16,542</u>	<u>15,225</u>
CURRENT ASSETS					
Inventories	(c)	7,538	8,696	8,785	7,677
Trade receivables	(d)	—	817	516	523
Prepayments, deposits and other receivables	(e)	1,761	9,532	11,497	4,676
Due from related parties	(f)	—	215	10,159	94
Due from an equity holder	(g)	—	—	—	2,000
Pledged deposit	(h)	—	1,000	1,000	1,000
Time deposits	(h)	—	3,000	6,000	10,000
Cash and cash equivalents	(h)	11,359	13,961	41,456	36,271
		<u>20,658</u>	<u>37,221</u>	<u>79,413</u>	<u>62,241</u>
Non-current assets classified as held for sale	Section 3(f)	—	4,018	29,100	—
		<u>20,658</u>	<u>41,239</u>	<u>108,513</u>	<u>62,241</u>
CURRENT LIABILITIES					
Other loan	(i)	—	—	(20,000)	—
Trade payables	(j)	(9,349)	(33,816)	(59,589)	(51,353)
Deposits, other payables and accruals	(k)	(11,982)	(17,484)	(28,443)	(26,175)
Tax payable		(55)	—	(2,354)	(4,143)
		<u>(21,386)</u>	<u>(51,300)</u>	<u>(110,386)</u>	<u>(81,671)</u>
Liabilities directly associated with non-current assets classified as held for sale	Section 3(f)	—	(2,018)	(27,100)	—
		<u>(21,386)</u>	<u>(53,318)</u>	<u>(137,486)</u>	<u>(81,671)</u>
NET CURRENT LIABILITIES		<u>(728)</u>	<u>(12,079)</u>	<u>(28,973)</u>	<u>(19,430)</u>
NET ASSETS/(LIABILITIES)		<u>4,002</u>	<u>1,012</u>	<u>(12,431)</u>	<u>(4,205)</u>
OWNERS' EQUITY		<u>4,002</u>	<u>1,012</u>	<u>(12,431)</u>	<u>(4,205)</u>

Notes:

(a) Property, plant and equipment

	Leasehold improvements <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Equipment and fixtures <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
At 29th November, 2002 (date of registration)	—	—	—	—	—
Additions	—	—	2,495	1,844	4,339
At 31st December, 2002, net of accumulated depreciation	—	—	2,495	1,844	4,339
Additions	1,160	227	4,173	3,817	9,377
Transfers	4,899	—	681	(5,580)	—
Disposals	—	—	(17)	—	(17)
Depreciation charge for the year	(773)	—	(523)	—	(1,296)
At 31st December, 2003, net of accumulated depreciation	5,286	227	6,809	81	12,403
Additions	1,593	398	4,294	76	6,361
Disposals	—	—	(132)	—	(132)
Depreciation charge for the year	(1,363)	(80)	(2,011)	—	(3,454)
At 31st December, 2004, net of accumulated depreciation	5,516	545	8,960	157	15,178
Additions	492	—	42	1	535
Transfers	146	—	—	(146)	—
Disposals	—	—	(22)	—	(22)
Depreciation charge for the period	(813)	(70)	(1,316)	—	(2,199)
At 30th June, 2005, net of accumulated depreciation	<u>5,341</u>	<u>475</u>	<u>7,664</u>	<u>12</u>	<u>13,492</u>

APPENDIX II
ACCOUNTANTS' REPORTS OF THE ACQUIRED STORES

	Leasehold improvements	Motor vehicles	Equipment and fixtures	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 29th November, 2002 (date of registration)					
Cost	—	—	—	—	—
Accumulated depreciation	—	—	—	—	—
Net carrying amount	—	—	—	—	—
At 31st December, 2002					
Cost	—	—	2,495	1,844	4,339
Accumulated depreciation	—	—	—	—	—
Net carrying amount	—	—	2,495	1,844	4,339
At 31st December, 2003					
Cost	6,059	227	7,330	81	13,697
Accumulated depreciation	(773)	—	(521)	—	(1,294)
Net carrying amount	5,286	227	6,809	81	12,403
At 31st December, 2004					
Cost	7,652	625	11,473	157	19,907
Accumulated depreciation	(2,136)	(80)	(2,513)	—	(4,729)
Net carrying amount	5,516	545	8,960	157	15,178
At 30th June, 2005					
Cost	8,290	625	11,489	12	20,416
Accumulated depreciation	(2,949)	(150)	(3,825)	—	(6,924)
Net carrying amount	5,341	475	7,664	12	13,492

(b) Deferred tax assets

The principal components of Shanghai Hongqiao Parkson's deferred tax assets at the end of each of the Relevant Periods and the movements in deferred income tax for the Relevant Periods are as follows:

	Balance at 29th November, 2002 (date of registration) <i>RMB'000</i>	Recognised in the income statement <i>RMB'000</i>	Balance at 31st December, 2002 <i>RMB'000</i>
Deferred tax assets:			
Write-off of pre-operating expenses	—	391	391
	<u>—</u>	<u>391</u>	<u>391</u>
	Balance at 1st January, 2003 <i>RMB'000</i>	Recognised in the income statement <i>RMB'000</i>	Balance at 31st December, 2003 <i>RMB'000</i>
Deferred tax assets:			
Write-off of pre-operating expenses	391	—	391
Accrued coupons provision	—	297	297
	<u>391</u>	<u>297</u>	<u>688</u>
	Balance at 1st January, 2004 <i>RMB'000</i>	Recognised in the income statement <i>RMB'000</i>	Balance at 31st December, 2004 <i>RMB'000</i>
Deferred tax assets:			
Write-off of pre-operating expenses	391	(98)	293
Accrued coupons provision	297	774	1,071
	<u>688</u>	<u>676</u>	<u>1,364</u>
	Balance at 1st January, 2005 <i>RMB'000</i>	Recognised in the income statement <i>RMB'000</i>	Balance at 30th June, 2005 <i>RMB'000</i>
Deferred tax assets:			
Write-off of pre-operating expenses	293	(49)	244
Accrued coupons provision	1,071	418	1,489
	<u>1,364</u>	<u>369</u>	<u>1,733</u>

A valuation allowance on the deferred tax assets is recorded if it is probable that some portion or all of the deferred tax assets will not be realised through the recovery of taxes previously paid and/or future taxable income. The allowance is subject to ongoing adjustments based on changes in circumstances that affect Shanghai Hongqiao Parkson's assessment of the realisability of the deferred tax assets. Shanghai Hongqiao Parkson has reviewed their deferred tax assets as at 31st December, 2002, 2003 and 2004, and 30th June, 2005. Based on projections for future taxable income over the periods in which the deferred tax assets are deductible, the directors believe that it is probable that Shanghai Hongqiao Parkson will realise the benefits of these temporary differences. Therefore, no valuation allowances were provided for the years ended 31st December, 2002, 2003 and 2004 and the six months ended 30th June, 2005, in respect of the deferred tax assets arising from these temporary differences.

(c) Inventories

	As at 31st December,			As at
	2002	2003	2004	30th June,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Merchandise, at cost	5,613	5,984	5,975	4,949
Consumables, at cost	<u>1,925</u>	<u>2,712</u>	<u>2,810</u>	<u>2,728</u>
	<u>7,538</u>	<u>8,696</u>	<u>8,785</u>	<u>7,677</u>

(d) Trade receivables

Shanghai Hongqiao Parkson normally allows a credit period of not more than 90 days to its customers. Shanghai Hongqiao Parkson closely monitors overdue balances. A provision for doubtful debts is made when it is considered that the trade receivables which may not be recovered.

An aged analysis of the trade receivables, net of allowance for bad and doubtful debts, is analysed as follows:

	As at 31st December,			As at
	2002	2003	2004	30th June,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	—	817	326	374
3 to 12 months	—	—	—	100
Over 1 year	<u>—</u>	<u>—</u>	<u>190</u>	<u>49</u>
	<u>—</u>	<u>817</u>	<u>516</u>	<u>523</u>

(e) Prepayments, deposits and other receivables

	As at 31st December,			As at
	2002	2003	2004	30th June,
	RMB'000	RMB'000	RMB'000	2005
Advances to suppliers	—	432	621	61
Prepayments	4	95	785	454
Deposits	1,002	36	922	1,101
Other receivables	755	8,969	9,169	3,060
	1,761	9,532	11,497	4,676
Less: Allowance for doubtful debts	—	—	—	—
	1,761	9,532	11,497	4,676

(f) Due from related parties

	Notes	As at 31st December,			As at
		2002	2003	2004	30th June,
		RMB'000	RMB'000	RMB'000	2005
Hefei Parkson	(i)	—	15	159	94
Shenyang Parkson	(ii)	—	200	2,000	—
Guangdong Zhongtai Parkson Commercial Co., Ltd. ("Guangdong Zhongtai")	(iii)	—	8,738	11,359	—
Dailian Zhongsheng	(iv)	—	—	8,000	—
		—	8,953	21,518	94
Less: Allowance for doubtful debts	(iii)	—	(8,738)	(11,359)	—
		—	215	10,159	94

Notes:

- (i) The balance are resulted from the sales and purchase of goods with Hefei Parkson. The balance is unsecured, interest free and is repayable on demand. The directors of the Shanghai Hongqiao Parkson have confirmed that the amounts due from Hefei Parkson would be settled prior to the listing of the shares of Parkson Retail Group Limited on the Stock Exchange.
- (ii) The balance as at 31st December, 2003 was unsecured, interest-free and was repaid in 2004. The balance as at 31st December, 2004 was unsecured, bore interest at a rate of 4.5% per annum and was repaid in January 2005.

(iii) The balance of advance to Guangdong Zhongtai, a fellow subsidiary of Shanghai Hongqiao Parkson, was unsecured and bore interest at a rate of 4.5% per annum. Guangdong Zhongtai was liquidated in 2004. In the opinion of the directors, the advance to Guangdong Zhongtai was irrecoverable, and therefore full provision was charged to the income statement. Interest income of RMB33,000 and RMB128,000 from Guangdong Zhongtai was not recognised. In the opinion of the directors, the amounts were irrecoverable.

(iv) The balance represented advance to Dalian Zhongsheng, which was unsecured, bore interest at a rate of 5.58% per annum and was repaid in June 2005.

(g) **Due from an equity holder**

The balance represents the amount due from an equity holder, Mr. Chen Yi, for the consideration on disposal of the investment in Shenyang Parkson as disclosed in Section 3 note (f) above. The balance is unsecured, interest-free and is repayable on demand. The directors of Shanghai Hongqiao Parkson have confirmed that the amounts due from the equity holder would be settled prior to the listing of the shares of Parkson Retail Group Limited on the Stock Exchange.

(h) **Cash and cash equivalents and pledged deposit**

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	11,359	17,961	48,456	47,271
Less: Pledged deposit	—	(1,000)	(1,000)	(1,000)
Time deposits	—	(3,000)	(6,000)	(10,000)
	<u>11,359</u>	<u>13,961</u>	<u>41,456</u>	<u>36,271</u>

The bank balances earn interests at floating rates based on daily bank deposit rates.

Shanghai Hongqiao Parkson's cash and cash equivalents comprise cash on hand and cash at banks which are denominated in Renminbi ("RMB"). Pledged deposit is made in favour of a banking facility granted to the lessor of the department store building. Time deposits are kept at bank with an original maturity of over 3 months. RMB is not freely convertible in the international market and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

(i) **Other loan**

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Other loan, unsecured and repayable within one year	<u>—</u>	<u>—</u>	<u>20,000</u>	<u>—</u>

The balance represented designed loan borrowed from Shanghai Nine Sea Parkson Plaza Co., Ltd. ("Shanghai Nine Sea Parkson"), a subsidiary of Parkson Retail Group Limited. The loan was unsecured, bore interest at a rate of 5.6% per annum and was repaid in March 2005.

(j) **Trade payables**

An aged analysis of the trade payables is as follows:

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	9,349	33,816	59,403	50,992
3 to 12 months	—	—	186	287
Over 1 year	—	—	—	74
	<u>9,349</u>	<u>33,816</u>	<u>59,589</u>	<u>51,353</u>

(k) **Deposits, other payables and accruals**

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Deposits from concessionaire suppliers	2,366	4,021	5,569	5,519
Payable to Shanghai Nine Sea Parkson (<i>Note</i>)	1,723	2,575	2,671	—
Accruals	660	2,565	7,786	8,051
Other payables	<u>7,233</u>	<u>8,323</u>	<u>12,417</u>	<u>12,605</u>
	<u>11,982</u>	<u>17,484</u>	<u>28,443</u>	<u>26,175</u>

Note:

The balance represented amounts due to Shanghai Nine Sea Parkson. The balance was unsecured, interest free and was settled in 2005.

(l) **Contingent liabilities**

Shanghai Hongqiao Parkson did not have any significant contingent liabilities at the end of each of the Relevant Periods.

(m) **Commitments**

(i) Shanghai Hongqiao Parkson did not have any significant capital commitments at the end of each of the Relevant Periods.

(ii) Operating lease commitments

Operating lease commitments — as lessee

Shanghai Hongqiao Parkson has entered into commercial leases on certain properties. These leases have an average life of between 1 and 15 years and renewals are at the option of Shanghai Hongqiao Parkson. There are no restrictions placed upon the lessee by entering into these leases. Pursuant to the agreements, the annual contingent rental amount is calculated based on a percentage of the respective store's turnover.

Future minimum rentals payable under non-cancellable operating leases as at the end of the relevant periods are as follows:

	As at 31st December,			As at
	2002	2003	2004	30th June,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2005
				<i>RMB'000</i>
Within one year	—	4,800	14,817	12,400
In the second to fifth years, inclusive	<u>—</u>	<u>—</u>	<u>10,000</u>	<u>5,000</u>
	<u>—</u>	<u>4,800</u>	<u>24,817</u>	<u>17,400</u>

Operating lease commitments — as lessor

Shanghai Hongqiao Parkson has entered into sub-leases on certain properties. These non-cancellable leases have remaining non-cancellable lease terms of between 1 and 10 years. All leases include a clause to enable upward revision of the rental charge at a fixed interval based on prevailing market conditions.

Future minimum rentals receivable under non-cancellable operating leases as at the end of the Relevant Periods are as follows:

	As at 31st December,			As at
	2002	2003	2004	30th June,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2005
				<i>RMB'000</i>
Within one year	889	1,551	1,942	2,299
In the second to fifth years, inclusive	<u>410</u>	<u>474</u>	<u>2,370</u>	<u>2,226</u>
	<u>1,299</u>	<u>2,025</u>	<u>4,312</u>	<u>4,525</u>

(iii) Other commitment

Shanghai Hongqiao Parkson entered into consultancy fee agreements, which were expired in 2004. The consultancy fee payable amount was calculated based on a percentage of the respective store's turnover.

(n) **Fair value of financial instruments**

The financial instruments of Shanghai Hongqiao Parkson mainly consist of cash and cash equivalents, amounts due from related parties, due from an equity holder, prepayments, deposits and other receivables, trade receivables, pledged deposits, time deposits, trade payables, deposits, other payables and accruals and other loan.

The carrying amounts of Shanghai Hongqiao Parkson's financial instruments were stated approximately at their fair value as at 31st December, 2002, 2003 and 2004, and 30th June, 2005 because of the short term maturities of these instruments.

Fair value estimates are made at a specific point in time and based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(o) **Concentration of risks**

Shanghai Hongqiao Parkson is exposed to credit risk, interest rate risk and foreign currency risk, as further explained below.

(i) *Credit risk*

Shanghai Hongqiao Parkson's cash and cash equivalents are deposited with banks in the PRC. The trade and other receivables included in the financial information represent Shanghai Hongqiao Parkson's major exposure to the credit risk attributable to its financial assets. Shanghai Hongqiao Parkson has no other significant concentrations of credit risk.

(ii) *Interest rate risk*

Shanghai Hongqiao Parkson has no loans except for the other loan disclosed in note (i) above and as a result, it has no significant interest rate risk.

(iii) *Foreign currency risk*

Shanghai Hongqiao Parkson's business is conducted in RMB which cannot be freely exchanged into foreign currencies. As at 31st December, 2002, 2003 and 2004, and 30th June, 2005, all of Shanghai Hongqiao Parkson's assets and liabilities were denominated in RMB.

5. STATEMENTS OF CHANGES IN OWNERS' EQUITY

	Registered capital <i>RMB'000</i> <i>Note (a)</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
At 29th November, 2002, date of registration	5,000	—	5,000
Net loss for the period	<u>—</u>	<u>(998)</u>	<u>(998)</u>
At 31st December, 2002 and 1st January, 2003	5,000	(998)	4,002
Net loss for the year	<u>—</u>	<u>(2,990)</u>	<u>(2,990)</u>
At 31st December, 2003 and 1st January, 2004	5,000	(3,988)	1,012
Net loss for the year	<u>—</u>	<u>(13,443)</u>	<u>(13,443)</u>
At 31st December, 2004 and 1st January, 2005	5,000	(17,431)	(12,431)
Net profit for the period	<u>—</u>	<u>8,226</u>	<u>8,226</u>
At 30th June, 2005	<u>5,000</u>	<u>(9,205)</u>	<u>(4,205)</u>

Notes:

(a) Capital

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Registered and paid-in capital	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>

(b) Distributable reserves

There were no reserves available for distribution to the owners of Shanghai Hongqiao Parkson at the end of each of the Relevant Periods.

6. CASH FLOW STATEMENTS

	For the period from 29th November, 2002 (date of registration) to 31st December, 2002 <i>RMB'000</i>	Year ended 31st December, 2003 2004 <i>RMB'000 RMB'000</i>		Six months ended 30th June, 2004 2005 <i>RMB'000 RMB'000</i>	
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(loss) from operations before income tax	(1,333)	(387)	8,022	828	13,203
Adjustments for:					
Interest income	(2)	(232)	(423)	(227)	(537)
Depreciation	—	1,296	3,454	1,645	2,199
Allowance for doubtful debts	—	8,738	2,621	2,621	—
Interest expenses	—	—	40	—	247
Loss on disposal of fixed assets	—	—	9	—	—
Operating profit/(loss) before working capital changes	(1,335)	9,415	13,723	4,867	15,112
Decrease/(increase) in inventories	(7,538)	(1,158)	(89)	838	1,108
Decrease/(increase) in trade receivables	—	(817)	301	2	(7)
Decrease/(increase) in prepayments, deposits and other receivables	(1,761)	(7,771)	(1,965)	(2,431)	6,821
Decrease/(increase) in amounts due from related parties	—	(8,953)	(12,565)	(2,406)	10,065
Increase/(decrease) in trade payables	9,349	24,467	25,773	8,606	(8,236)
Increase/(decrease) in deposits, other payables and accruals	11,982	5,502	10,959	5,272	(2,268)
Cash generated from operating activities	10,697	20,685	36,137	14,748	22,595
Interest paid	—	—	(40)	—	(247)
Income tax paid	(1)	(55)	(3,787)	(1,675)	(3,557)
Net cash inflow from operating activities	10,696	20,630	32,310	13,073	18,791

APPENDIX II
ACCOUNTANTS' REPORTS OF THE ACQUIRED STORES

	For the period from 29th November, 2002 (date of registration) to 31st December, 2002 <i>RMB'000</i>	Year ended 31st December, 2003 2004 <i>RMB'000 RMB'000</i>		Six months ended 30th June, 2004 2005 <i>RMB'000 RMB'000</i>	
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of fixed assets	(4,339)	(9,377)	(6,361)	(3,150)	(535)
Proceeds from disposal of fixed assets	—	17	123	—	22
Investment in Shenyang Parkson	—	(4,900)	(16,000)	—	—
Decrease/(increase) in time deposits	—	(3,000)	(3,000)	3,000	(4,000)
Increase in pledged deposit	—	(1,000)	—	—	—
Interest received	<u>2</u>	<u>232</u>	<u>423</u>	<u>227</u>	<u>537</u>
Net cash inflow/(outflow) from investing activities	<u>(4,337)</u>	<u>(18,028)</u>	<u>(24,815)</u>	<u>77</u>	<u>(3,976)</u>
Net cash inflow before financing activities	<u>6,359</u>	<u>2,602</u>	<u>7,495</u>	<u>13,150</u>	<u>14,815</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Capital contribution	5,000	—	—	—	—
Cash from a new loan	—	—	20,000	—	—
Repayment of a loan	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(20,000)</u>
Net cash inflow/(outflow) from financing activities	<u>5,000</u>	<u>—</u>	<u>20,000</u>	<u>—</u>	<u>(20,000)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS					
	11,359	2,602	27,495	13,150	(5,185)
Cash and cash equivalents at beginning of year/period	<u>—</u>	<u>11,359</u>	<u>13,961</u>	<u>13,961</u>	<u>41,456</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD					
	<u>11,359</u>	<u>13,961</u>	<u>41,456</u>	<u>27,111</u>	<u>36,271</u>

7. SUBSEQUENT EVENT

On 6th June, 2005, the equity owners of Shanghai Hongqiao Parkson entered into sale and purchase agreements with Step Summit Limited, a subsidiary of the Parkson Retail Group Limited, to sell their entire equity interest in Shanghai Hongqiao Parkson for a cash consideration of RMB1.7 million. Shanghai Hongqiao Parkson was transformed into a wholly-owned foreign investment enterprise in the PRC on 26th October, 2005.

8. SUBSEQUENT FINANCIAL INFORMATION

No financial information has been prepared by Shanghai Hongqiao Parkson in respect of any period subsequent to 30th June, 2005.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

F. Shanxi Zhongyue Parkson Commercial and Trading Co., Ltd.

The following is the text of the accountants' report, prepared for inclusion in this Prospectus, from the independent reporting accountants of Parkson Retail Group Limited, Ernst & Young, Certified Public Accountants, Hong Kong.



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

17th November 2005,

The Directors

Parkson Retail Group Limited

Shanxi Zhongyue Parkson Commercial and Trading Co., Ltd.

BNP Paribas Peregrine Capital Limited

Dear Sirs,

We set out below our report on the financial information regarding Shanxi Zhongyue Parkson Commercial and Trading Co., Ltd. ("Shanxi Zhongyue") for the period from 19th September, 2002 (date of registration) to 31st December, 2002, each of the two years ended 31st December, 2003 and 2004 and the six-month period ended 30th June, 2005 (the "Relevant Periods") and the six-month period ended 30th June, 2004 (the "30th June, 2004 Financial Information"), for inclusion in the prospectus of Parkson Retail Group Limited dated 17th November, 2005 (the "Prospectus").

For the purpose of this report, the directors of Shanxi Zhongyue have prepared the financial statements of Shanxi Zhongyue for the Relevant Periods ("Financial Statements") in accordance with International Financial Reporting Standards ("IFRS") as promulgated by the International Accounting Standards Board (the "IASB"), based on the statutory financial statements audited by Shanxi Zhencheng Certified Accountants, certified public accountants registered in the People's Republic of China (the "PRC") or, where appropriate, management accounts of Shanxi Zhongyue for the Relevant Periods. In preparing this report, no adjustments were considered necessary to restate the audited Financial Statements of Shanxi Zhongyue to conform to the accounting policies referred to in Section 2 to this report, which are in compliance with IFRS. The Financial Statements have been audited by us in accordance with the Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of Shanxi Zhongyue are responsible for preparing the Financial Statements which give a true and fair view. In preparing the Financial Statements, it is fundamental that appropriate accounting policies are selected and applied consistently.

Procedures Performed in Respect of the Relevant Periods

The financial information set out in this report (the “Financial Information”) has been prepared based on the Financial Statements. For the purpose of this report, we have examined the Financial Statements. Our examination was made in accordance with the Statements of Auditing Standards issued by the HKICPA and we have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” issued by the HKICPA.

Procedures Performed in Respect of the 30th June, 2004 Financial Information

For the purpose of this report, we have performed a review of the 30th June, 2004 Financial Information in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope and provides a lower level of assurance than our audit or examination procedures described in the preceding paragraph and, accordingly, we do not express an audit opinion on the 30th June, 2004 Financial Information.

The directors of Shanxi Zhongyue are responsible for the preparation of the Financial Information. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion thereon.

Opinion in Respect of the Relevant Periods

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Shanxi Zhongyue as at 31st December, 2002, 2003, and 2004, and 30th June, 2005 and of the results and cash flows of Shanxi Zhongyue for each of the Relevant Periods.

Review Conclusion in Respect of the 30th June, 2004 Financial Information

On the basis of our review, for the purpose of this report, we are not aware of any material modification that should be made to the results and cash flows of Shanxi Zhongyue as set out in the 30th June, 2004 Financial Information.

1. CORPORATE INFORMATION AND BASIS OF PRESENTATION

Shanxi Zhongyue was registered as a limited liability company in Shanxi, the PRC on 19th September 2002. During the Relevant Periods, Shanxi Zhongyue was engaged in the operation of a department store in Shanxi, the PRC.

The Financial Information has been prepared on the going concern basis notwithstanding the net current liabilities and deficiency in owner's equity of Shanxi Zhongyue as at 30th June 2005 because pursuant to an acquisition transaction as set out in Section 7 of this report, Beijing Parkson, a joint venture of the Parkson Retail Group Limited, acquired its business and all the assets and liabilities of Shanxi Zhongyue. Parkson Retail Group Limited has undertaken to provide financial support to Beijing Parkson as it may require.

2. PRINCIPAL ACCOUNTING POLICIES

Statement of compliance

The Financial Information has been prepared in accordance with IFRS promulgated by the IASB. IFRS includes International Accounting Standards and interpretations. The Financial Information also complies with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as applicable to Accountants' Reports for inclusion in Listing Documents. Shanxi Zhongyue has early adopted all applicable new and revised IFRS, which are generally effective for accounting periods, beginning on or after 1st January 2005, throughout the Relevant Periods.

The above basis of accounting differs from that used in the audited financial statements or, where appropriate, management accounts of Shanxi Zhongyue which were prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC (the "PRC GAAP").

Use of estimates

The preparation of the financial information of the company in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial information and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the company and the revenue can be reliably measured on the following basis:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Commissions from concessionaire sales are recognised upon the sale of goods by the relevant store.

Promotion income

Promotion income is recognised according to the underlying contract terms with concessionaire and as these services are provided in accordance herewith.

Interest income

Revenue is recognised on a time proportion basis taking into account the principal outstanding and the effective rate of interest applicable.

Management fees and credit card handling fees

Management fees and credit card handling fee are recognised when the relevant services are rendered.

Employee benefits

- (i) Salaries, bonuses, paid annual leave, leave passage and the cost to the company of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the company. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to defined contribution retirement plans are recognised as an expense in the income statement as incurred.

Pursuant to the relevant PRC laws and regulations, the company is required to participate in a retirement benefits scheme organised by the local municipal government whereby the company is required to contribute a certain percentage of the salaries of its employees to the retirement benefits scheme. The only obligation of the company with respect to the retirement benefits scheme is to pay the ongoing required contributions. Contributions made to the defined contribution retirement benefits scheme are charged to the income statement as incurred.

Termination benefits are recognised when, and only when, the company demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

Income tax

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

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- except where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is utilised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Related parties

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

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on the straight-line basis over the lease terms.

Recoverable amount of non-current assets

At each reporting date, the company assesses whether there is any indication that an asset may be impaired. Where an indication of impairment exists, the company makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflow that are largely independent of those from other assets or groups of assets.

Financial instruments

Financial assets and financial liabilities carried in the balance sheet include cash and cash equivalents, trade receivables and payables, other receivables and payables, and loans and balances with related parties. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies set out in this section.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangements. Interest, dividends and gains or losses relating to a financial instrument classified as a liability are reported as income or expenses. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the company has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and provision for any impairment in value.

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

Depreciation of property, plant and equipment is calculated on the straight-line basis over the expected useful life of the asset, after taking into account its estimated residual value of 10%, as follows:

Leasehold improvements	5 years
Motor vehicles	5 years
Equipment and fixtures	5 years

The carrying values of property, plant and equipment are reviewed for impairment either annually, or when events or changes in circumstances indicate that the carrying values may not be recoverable (whichever is earlier). If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflow, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement.

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

Inventories

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

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

Consumables are stated at cost less any impairment losses.

Trade and other receivables

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

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

An estimate for doubtful debts is made when there is objective evidence that collection of the full amount is no longer probable. Bad debts are written off when identified.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand and short term deposits, which are not restricted as to use. For the purpose of the cash flow statement, cash and cash equivalents consist of cash at banks and in hand and short term deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

Provisions

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

Coupon liabilities

Coupon liabilities are recognised at fair value based on the bonus points granted to customers in accordance with the announced bonus points scheme and the company's past experience on the level of redemption of coupons.

Contingent liabilities and contingent assets

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

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

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

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

3. RESULTS

		For the period from 19th September, 2002 (date of registration) to 31st December, 2002	Year ended 31st December,		Six months ended 30th June,	
	Notes	RMB'000	2003 RMB'000	2004 RMB'000	2004 RMB'000	2005 RMB'000
					(unaudited)	
Revenues	(a)	5,424	28,253	37,040	17,487	21,559
Other operating revenues	(b)	104	3,676	2,838	549	1,020
Total operating revenues		5,528	31,929	39,878	18,036	22,579
Operating expenses						
Purchase of goods and changes in inventories		(1,997)	(9,558)	(10,110)	(5,046)	(4,837)
Staff costs		(770)	(2,809)	(3,573)	(1,643)	(2,224)
Depreciation		(264)	(951)	(1,049)	(484)	(501)
Rental expenses		(4,882)	(14,707)	(14,646)	(7,362)	(7,356)
Other operating expenses		(4,743)	(11,659)	(12,658)	(6,642)	(7,464)
Total operating expenses		(12,656)	(39,684)	(42,036)	(21,177)	(22,382)
Profit/(loss) from operations	(c)	(7,128)	(7,755)	(2,158)	(3,141)	197
Finance income	(d)	—	114	299	63	258
Profit/(loss) from operations before income tax		(7,128)	(7,641)	(1,859)	(3,078)	455
Income tax	(f)	1,522	2,190	538	977	(235)
Net profit/(loss) for the year/period		(5,606)	(5,451)	(1,321)	(2,101)	220

Notes:

(a) **Revenues**

Revenues represent the net amount received and receivable for goods sold by Shanxi Zhongyue to outside customers, less returns and allowances, commissions from concessionaire sales, and rental income during the Relevant Periods, and are analysed as follows:

	For the period from 19th September, 2002 (date of registration) to 31st December, 2002 <i>RMB'000</i>	Year ended 31st December, 2003 2004 <i>RMB'000 RMB'000</i>		Six months ended 30th June, 2004 <i>RMB'000</i> <i>(unaudited)</i>	2005 <i>RMB'000</i>
Sales of goods — direct sales	2,126	10,588	11,500	5,706	5,689
Commissions from concessionaire sales (Note)	3,180	16,169	24,290	11,099	15,107
Rental income	<u>118</u>	<u>1,496</u>	<u>1,250</u>	<u>682</u>	<u>763</u>
	<u>5,424</u>	<u>28,253</u>	<u>37,040</u>	<u>17,487</u>	<u>21,559</u>

Note:

The commissions from concessionaire sales are analysed below:

	For the period from 19th September, 2002 (date of registration) to 31st December, 2002 <i>RMB'000</i>	Year ended 31st December, 2003 2004 <i>RMB'000 RMB'000</i>		Six months ended 30th June, 2004 <i>RMB'000</i> <i>(unaudited)</i>	2005 <i>RMB'000</i>
Gross revenue from concessionaire sales	<u>16,611</u>	<u>102,597</u>	<u>150,976</u>	<u>69,983</u>	<u>99,218</u>
Commissions from concessionaire sales	<u>3,180</u>	<u>16,169</u>	<u>24,290</u>	<u>11,099</u>	<u>15,107</u>

Over 90% of Shanxi Zhongyue's turnover and contribution to operating profit is attributable to the operation and management of department stores and all of Shanxi Zhongyue's turnover and contribution to operating profit is attributable to customers in the PRC. Accordingly no analysis of segment information is presented.

APPENDIX II

ACCOUNTANTS' REPORTS OF THE ACQUIRED STORES

(b) Other operating revenues comprise the following:

	For the period from 19th September, 2002 (date of registration) to 31st December, 2002 RMB'000	Year ended 31st December, 2003 2004 RMB'000 RMB'000		Six months ended 30th June, 2004 2005 RMB'000 RMB'000 (unaudited)	
Promotion income	74	2,374	1,890	304	231
Credit card handling fees	—	112	221	29	436
Recruitment income	14	428	—	—	53
Management fees	—	31	457	144	266
Other income	16	731	270	72	34
	<u>104</u>	<u>3,676</u>	<u>2,838</u>	<u>549</u>	<u>1,020</u>

(c) Profit/(loss) from operations

The profit/(loss) from operations from Shanxi Zhongyue is arrived at after charging/(crediting):

	For the period from 19th September, 2002 (date of registration) to 31st December, 2002 RMB'000	Year ended 31st December, 2003 2004 RMB'000 RMB'000		Six months ended 30th June, 2004 2005 RMB'000 RMB'000 (unaudited)	
Cost of inventories recognised as expenses	1,997	9,558	10,110	5,046	4,837
Staff costs:					
Wages, salaries and bonuses	677	2,117	2,771	1,266	1,687
Pension costs	85	313	336	157	203
Social welfare and other costs	8	379	466	220	334
	<u>770</u>	<u>2,809</u>	<u>3,573</u>	<u>1,643</u>	<u>2,224</u>
Depreciation	264	951	1,049	484	501
Minimum operating lease rentals in respect of rented properties	4,882	14,707	14,646	7,362	7,356
Allowance for slow-moving inventories	—	27	32	1	5
Gross rental income in respect of rented properties	(118)	(1,496)	(1,250)	(682)	(763)
Less: Outgoings	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net rental income	<u>(118)</u>	<u>(1,496)</u>	<u>(1,250)</u>	<u>(682)</u>	<u>(763)</u>

(d) Finance income

	For the period from 19th September, 2002 (date of registration) to 31st December,	Year ended 31st December,		Six months ended 30th June,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Interest income	—	114	299	63	258

(e) Retirement benefits scheme

Shanxi Zhongyue is required to participate in employee pension schemes operated by the relevant local government authorities in the PRC. The PRC government is responsible for the pension liability to these retired employees. Shanxi Zhongyue is required to make contributions for relevant employees who are registered as permanent residents in the PRC and are within the scope of the relevant PRC regulations at a rate of 20% of the employees' salaries for the Relevant Periods.

Shanxi Zhongyue's contributions to pension costs for the years ended 31st December, 2002, 2003 and 2004 and the six months ended 30th June, 2004 and 2005 amounted to approximately RMB85,000, RMB313,000, RMB336,000, RMB157,000 and RMB203,000, respectively.

(f) Income tax

Under the relevant PRC income tax law, Shanxi Zhongyue is subject to corporate income tax at a rate of 33% on its taxable income.

Pursuant to applicable income tax laws and regulations of the PRC, newly formed trading enterprises are eligible to apply for income tax exemption of one year. Shanxi Zhongyue was granted a one year income tax exemption for 2003 by the relevant PRC tax authority.

The determination of current and deferred income tax was based on the enacted tax rates.

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

	For the period from 19th September, 2002 (date of registration) to 31st December,	Year ended 31st December,		Six months ended 30th June,	
	2002	2003	2004	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Current income tax	—	—	1,358	37	779
Deferred income tax	(1,522)	(2,190)	(1,896)	(1,014)	(544)
	(1,522)	(2,190)	(538)	(977)	235

APPENDIX II

ACCOUNTANTS' REPORTS OF THE ACQUIRED STORES

A reconciliation of the income tax expense applicable to profit/(loss) from operations before income tax at the statutory income tax rate to the income tax expense at the Shanxi Zhongyue's effective income tax rate, is as follows:

	For the period from 19th September, 2002 (date of registration) to 31st December, 2002 RMB'000	Year ended 31st December, 2003 2004 RMB'000 RMB'000		Six months ended 30th June, 2004 2005 RMB'000 RMB'000 (unaudited)	
Profit/(loss) from operations before income tax	<u>(7,128)</u>	<u>(7,641)</u>	<u>(1,859)</u>	<u>(3,078)</u>	<u>455</u>
Income tax at the statutory income tax rate of 33%	(2,351)	(2,522)	(614)	(1,016)	150
Unrecognised loss	286	—	—	—	—
Tax effect of preferential tax rate	—	(117)	—	—	—
Tax effect of expenses not deductible for tax purposes	<u>543</u>	<u>449</u>	<u>76</u>	<u>39</u>	<u>85</u>
	<u>(1,522)</u>	<u>(2,190)</u>	<u>(538)</u>	<u>(977)</u>	<u>235</u>

(g) Related party transactions

During the Relevant Periods, Shanxi Zhongyue had the following significant transactions with a related party:

	For the period from 19th September, 2002 (date of registration) to 31st December, 2002 RMB'000	Year ended 31st December, 2003 2004 RMB'000 RMB'000		Six months ended 30th June, 2004 2005 RMB'000 RMB'000 (unaudited)	
Consultancy fees	<u>37</u>	<u>266</u>	<u>350</u>	<u>164</u>	<u>228</u>

The consultancy fees were paid to Beijing Zhongyue Traveling Products Company, the equity holder of Shanxi Zhongyue, based on 0.2% of the gross revenue of Shanxi Zhongyue.

4. BALANCE SHEETS

		31st December,			30th June,
		2002	2003	2004	2005
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	(a)	4,505	4,009	2,984	2,497
Deferred tax assets	(b)	<u>1,522</u>	<u>3,712</u>	<u>5,608</u>	<u>6,152</u>
		<u>6,027</u>	<u>7,721</u>	<u>8,592</u>	<u>8,649</u>
CURRENT ASSETS					
Inventories	(c)	4,965	4,848	4,043	4,256
Prepayments, deposits and other receivables	(d)	2,041	2,058	1,957	1,575
Cash and cash equivalents	(e)	<u>14,912</u>	<u>19,596</u>	<u>26,247</u>	<u>21,105</u>
		<u>21,918</u>	<u>26,502</u>	<u>32,247</u>	<u>26,936</u>
CURRENT LIABILITIES					
Trade payables	(f)	(10,483)	(14,082)	(14,367)	(13,193)
Customers' deposits, other payables and accruals	(g)	(8,946)	(11,567)	(12,853)	(11,847)
Tax payable		—	—	(1,324)	(576)
Due to an equity holder	(h)	<u>(2,038)</u>	<u>(167)</u>	<u>(558)</u>	<u>(786)</u>
		<u>(21,467)</u>	<u>(25,816)</u>	<u>(29,102)</u>	<u>(26,402)</u>
NET CURRENT ASSETS		<u>451</u>	<u>686</u>	<u>3,145</u>	<u>534</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		6,478	8,407	11,737	9,183
NON-CURRENT LIABILITIES					
Long term payables	(i)	<u>(2,084)</u>	<u>(9,464)</u>	<u>(14,115)</u>	<u>(11,341)</u>
NET ASSETS/(LIABILITIES)		<u>4,394</u>	<u>(1,057)</u>	<u>(2,378)</u>	<u>(2,158)</u>
OWNERS' EQUITY		<u>4,394</u>	<u>(1,057)</u>	<u>(2,378)</u>	<u>(2,158)</u>

Notes:

(a) Property, plant and equipment

	Leasehold improvements <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Equipment and fixtures <i>RMB'000</i>	Total <i>RMB'000</i>
At 19th September, 2002, date of registration	—	—	—	—
Additions	3,670	275	824	4,769
Depreciation charge for the period	<u>(256)</u>	<u>(4)</u>	<u>(4)</u>	<u>(264)</u>
At 31st December, 2002, net of accumulated depreciation	3,414	271	820	4,505
Additions	160	—	295	455
Depreciation charge for the year	<u>(733)</u>	<u>(49)</u>	<u>(169)</u>	<u>(951)</u>
At 31st December, 2003, net of accumulated depreciation	2,841	222	946	4,009
Additions	—	—	24	24
Depreciation charge for the year	<u>(831)</u>	<u>(45)</u>	<u>(173)</u>	<u>(1,049)</u>
At 31st December, 2004, net of accumulated depreciation	2,010	177	797	2,984
Additions	—	—	14	14
Depreciation charge for the period	<u>(383)</u>	<u>(25)</u>	<u>(93)</u>	<u>(501)</u>
At 30th June, 2005, net of accumulated depreciation	<u>1,627</u>	<u>152</u>	<u>718</u>	<u>2,497</u>
As at 19th September, 2002, date of registration				
Cost	—	—	—	—
Accumulated depreciation	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net carrying amount	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
At 31st December, 2002				
Cost	3,670	275	824	4,769
Accumulated depreciation	<u>(256)</u>	<u>(4)</u>	<u>(4)</u>	<u>(264)</u>
Net carrying amount	<u>3,414</u>	<u>271</u>	<u>820</u>	<u>4,505</u>
At 31st December, 2003				
Cost	3,830	275	1,119	5,224
Accumulated depreciation	<u>(989)</u>	<u>(53)</u>	<u>(173)</u>	<u>(1,215)</u>
Net carrying amount	<u>2,841</u>	<u>222</u>	<u>946</u>	<u>4,009</u>

APPENDIX II

ACCOUNTANTS' REPORTS OF THE ACQUIRED STORES

	Leasehold improvements <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Equipment and fixtures <i>RMB'000</i>	Total <i>RMB'000</i>
At 31st December, 2004				
Cost	3,830	275	1,143	5,248
Accumulated depreciation	<u>(1,820)</u>	<u>(98)</u>	<u>(346)</u>	<u>(2,264)</u>
Net carrying amount	<u>2,010</u>	<u>177</u>	<u>797</u>	<u>2,984</u>
At 30th June, 2005				
Cost	3,830	275	1,157	5,262
Accumulated depreciation	<u>(2,203)</u>	<u>(123)</u>	<u>(439)</u>	<u>(2,765)</u>
Net carrying amount	<u>1,627</u>	<u>152</u>	<u>718</u>	<u>2,497</u>

(b) Deferred tax assets

The principal components of Shanxi Zhongyue's deferred tax assets at the end of each of the Relevant Periods and the movements in deferred tax assets for the Relevant Periods are as follows:

	Balance at 19th September, 2002 (date of registration) <i>RMB'000</i>	Recognised in the income statement <i>RMB'000</i>	Balance at 31st December, 2002 <i>RMB'000</i>
Deferred tax assets:			
Write-off of pre-operating expenses	—	300	300
Income tax losses	—	318	318
Accrued rental expenses	<u>—</u>	<u>904</u>	<u>904</u>
	<u>—</u>	<u>1,522</u>	<u>1,522</u>
	Balance at 1st January, 2003 <i>RMB'000</i>	Recognised in the income statement <i>RMB'000</i>	Balance at 31st December, 2003 <i>RMB'000</i>
Deferred tax assets:			
Write-off of pre-operating expenses	300	—	300
Income tax losses	318	—	318
Accrued coupon provision	—	181	181
Accrued rental expenses	<u>904</u>	<u>2,009</u>	<u>2,913</u>
	<u>1,522</u>	<u>2,190</u>	<u>3,712</u>

	Balance at 1st January, 2004 <i>RMB'000</i>	Recognised in the income statement <i>RMB'000</i>	Balance at 31st December, 2004 <i>RMB'000</i>
Deferred tax assets:			
Write-off of pre-operating expenses	300	(78)	222
Income tax losses	318	(318)	—
Accrued coupon provision	181	241	422
Depreciation in excess of depreciation allowance	—	537	537
Accrued rental expenses	<u>2,913</u>	<u>1,514</u>	<u>4,427</u>
	<u>3,712</u>	<u>1,896</u>	<u>5,608</u>

	Balance at 1st January, 2005 <i>RMB'000</i>	Recognised in the income statement <i>RMB'000</i>	Balance at 31st December, 2005 <i>RMB'000</i>
Deferred tax assets:			
Write-off of pre-operating expenses	222	(39)	183
Accrued coupon provision	422	225	647
Depreciation in excess of depreciation allowance	537	63	600
Accrued rental expenses	<u>4,427</u>	<u>295</u>	<u>4,722</u>
	<u>5,608</u>	<u>544</u>	<u>6,152</u>

A valuation allowance on the deferred tax assets is recorded if it is probable that some portion or all of the deferred tax assets will not be realised through the recovery of taxes previously paid and/or future taxable income. The allowance is subject to ongoing adjustments based on changes in circumstances that affect Shanxi Zhongyue's assessment of the reliability of the deferred tax assets. Shanxi Zhongyue has reviewed its deferred tax assets as at 31st December, 2002, 2003, 2004 and 30th June, 2005. Based on projections for future taxable income over the periods in which the deferred tax assets are deductible, the directors believe that it is probable that Shanxi Zhongyue will realise the benefits of these temporary differences. Therefore, no valuation allowances were provided for the period ended 31st December, 2002, the two years ended 31st December, 2003 and 2004 and the six months ended 30th June, 2005 in respect of the deferred tax assets arising from these temporary differences.

APPENDIX II

ACCOUNTANTS' REPORTS OF THE ACQUIRED STORES

(c) Inventories

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Merchandise:				
At cost	4,101	3,770	2,893	3,102
At net realisable value	4,101	3,743	2,834	3,038
Consumables, at cost	<u>864</u>	<u>1,105</u>	<u>1,209</u>	<u>1,218</u>
Total inventories at lower of cost and net realisable value	<u>4,965</u>	<u>4,848</u>	<u>4,043</u>	<u>4,256</u>

(d) Prepayments, deposits and other receivables

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Advances to suppliers	636	512	605	319
Prepayments	337	234	81	131
Deposits	83	639	536	536
Other receivables	<u>985</u>	<u>673</u>	<u>735</u>	<u>589</u>
	<u>2,041</u>	<u>2,058</u>	<u>1,957</u>	<u>1,575</u>

(e) Cash and cash equivalents

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	<u>14,912</u>	<u>19,596</u>	<u>26,247</u>	<u>21,105</u>

The bank balances earn interest at floating rate based on daily bank deposit rates.

Shanxi Zhongyue's cash and cash equivalents comprise cash on hand and cash at banks which are denominated in Renminbi ("RMB"). RMB is not freely convertible in the international market. The remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

(f) **Trade payables**

An aged analysis of the trade payables of Shanxi Zhongyue is as follows:

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	<u>10,483</u>	<u>14,082</u>	<u>14,367</u>	<u>13,193</u>

(g) **Customers' deposits, other payables and accruals**

	As at 31st December,			As at 30th June,
	2002	2003	2004	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Customers' deposits	927	1,240	1,333	1,606
Accruals	2,228	2,141	4,213	6,477
Other payables	<u>5,791</u>	<u>8,186</u>	<u>7,307</u>	<u>3,764</u>
	<u>8,946</u>	<u>11,567</u>	<u>12,853</u>	<u>11,847</u>

(h) **Due to an equity holder**

The balance represented the amount due to Beijing Zhongyue Traveling Product Company. The balance was unsecured, interest free and is repayable on demand. The directors of Shanxi Zhongyue have confirmed that the amounts due to an equity holder would be settled prior to the listing of the shares of Parkson Retail Group Limited on the Stock Exchange.

(i) **Long term payables**

The long term payables represented the balance of the long term accrued rental expenses and are stated at amortised cost.

(j) **Contingent liabilities**

Shanxi Zhongyue did not have any significant contingent liabilities at the end of each of the Relevant Periods.

(k) **Commitments**

(i) Shanxi Zhongyue did not have any significant capital commitment at the end of each of the Relevant Periods.

(ii) Operating lease commitment — as lessee

Shanxi Zhongyue has entered into a lease on certain properties. The lease has a life of 20 years and renewals are at the option of Shanxi Zhongyue. There are no restriction placed upon Shanxi Zhongyue by entering into the lease.

Future minimum rentals payable under the non-cancellable operating lease as at 31st December, 2002, 2003 and 2004, and 30th June, 2005 are as follows:

	As at 31st December,			As at
	2002	2003	2004	30th June,
	RMB'000	RMB'000	RMB'000	2005
				RMB'000
Within one year	8,585	10,085	12,854	14,162
In the second to fifth years, inclusive	53,939	59,354	62,000	62,000
After five years	<u>229,917</u>	<u>214,417</u>	<u>198,917</u>	<u>191,167</u>
	<u>292,441</u>	<u>283,856</u>	<u>273,771</u>	<u>267,329</u>

(l) **Fair value of financial instruments**

The financial instruments of Shanxi Zhongyue mainly consist of cash and cash equivalents, prepayments, deposits and other receivables, trade payables, customers' deposits and other payables and an amount due to an equity holder.

The carrying amounts of Shanxi Zhongyue's financial instruments were stated approximately at their fair value as at 31st December, 2002, 2003 and 2004, and 30th June, 2005.

Fair value estimates are made at a specific point in time and based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(m) **Concentration of risks**

Shanxi Zhongyue is exposed to credit risk and foreign currency risk, as further explained below.

(i) *Credit risk*

Shanxi Zhongyue's cash and cash equivalents are deposited with banks in the PRC. The other receivables included in the financial information represent Shanxi Zhongyue's major exposure to the credit risk attributable to its financial assets. Shanxi Zhongyue has no other significant concentrations of credit risk.

(ii) *Foreign currency risk*

Shanxi Zhongyue's business is conducted in RMB which cannot be freely exchanged into foreign currencies. As at 31st December, 2002, 2003 and 2004, and 30th June, 2005, all of Shanxi Zhongyue's assets and liabilities were denominated in RMB.

5. STATEMENTS OF CHANGES IN OWNERS' EQUITY

	Registered capital <i>RMB'000</i> <i>Note (a)</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
At 19th September, 2002, date of registration	10,000	—	10,000
Net loss for the period	<u>—</u>	<u>(5,606)</u>	<u>(5,606)</u>
At 31st December, 2002 and 1st January, 2003	10,000	(5,606)	4,394
Net loss for the year	<u>—</u>	<u>(5,451)</u>	<u>(5,451)</u>
At 31st December, 2003 and 1st January, 2004	10,000	(11,057)	(1,057)
Net loss for the year	<u>—</u>	<u>(1,321)</u>	<u>(1,321)</u>
At 31st December, 2004 and 1st January, 2005	10,000	(12,378)	(2,378)
Net profit for the period	<u>—</u>	<u>220</u>	<u>220</u>
At 30th June, 2005	<u>10,000</u>	<u>(12,158)</u>	<u>(2,158)</u>

Notes:

(a) Capital

	As at 31st December,			As at 30th June,
	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>	2005 <i>RMB'000</i>
Registered and paid-up capital	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>

(b) Distributable reserves

There were no reserves available for distribution to the owners of Shanxi Zhongyue at the end of each of the Relevant Periods.

6. CASH FLOW STATEMENTS

	For the period from 19th September, 2002 (date of registration) to 31st December, 2002 <i>RMB'000</i>	Year ended 31st December, 2003 2004 <i>RMB'000 RMB'000</i>		Six months ended 30th June, 2004 2005 <i>RMB'000 RMB'000</i>	
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(loss) from operations before income tax	(7,128)	(7,641)	(1,859)	(3,078)	455
Adjustments for:					
Interest income	—	(114)	(299)	(63)	(258)
Depreciation	<u>264</u>	<u>951</u>	<u>1,049</u>	<u>484</u>	<u>501</u>
Operating profit/(loss) before working capital changes	(6,864)	(6,804)	(1,109)	(2,657)	698
Decrease/(increase) in inventories	(4,965)	117	805	977	(213)
Decrease/(increase) in prepayments, deposits and other receivables	(2,041)	(17)	101	443	382
Increase/(decrease) in trade payables	10,483	3,599	285	(4,197)	(1,174)
Increase/(decrease) in customers' deposits, other payables and accruals	8,946	2,621	1,286	(2,785)	(1,006)
Increase/(decrease) in long term payables	2,084	7,380	4,651	3,158	(2,774)
Increase/(decrease) in an amount due to an equity holder	<u>2,038</u>	<u>(1,871)</u>	<u>391</u>	<u>204</u>	<u>228</u>
Cash generated from/(used in) operating activities	9,681	5,025	6,410	(4,857)	(3,859)
Income tax paid	<u>—</u>	<u>—</u>	<u>(34)</u>	<u>(33)</u>	<u>(1,527)</u>
Net cash inflow/(outflow) from operating activities	9,681	5,025	6,376	(4,890)	(5,386)

	For the period from 19th September, 2002 (date of registration) to 31st December, 2002 <i>RMB'000</i>	Year ended 31st December, 2003 2004 <i>RMB'000 RMB'000</i>		Six months ended 30th June, 2004 2005 <i>RMB'000 RMB'000</i>	
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of fixed assets	(4,769)	(455)	(24)	(20)	(14)
Interest received	<u>—</u>	<u>114</u>	<u>299</u>	<u>63</u>	<u>258</u>
Net cash inflow/(outflow) from investing activities	<u>(4,769)</u>	<u>(341)</u>	<u>275</u>	<u>43</u>	<u>244</u>
Net cash inflow/(outflow) before financing activities	<u>4,912</u>	<u>4,684</u>	<u>6,651</u>	<u>(4,847)</u>	<u>(5,142)</u>
CASH FLOWS FROM FINANCING ACTIVITY					
Capital contribution	<u>10,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net cash inflow from financing activity	<u>10,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	14,912	4,684	6,651	(4,847)	(5,142)
Cash and cash equivalents at beginning of year/period	<u>—</u>	<u>14,912</u>	<u>19,596</u>	<u>19,596</u>	<u>26,247</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	<u>14,912</u>	<u>19,596</u>	<u>26,247</u>	<u>14,749</u>	<u>21,105</u>

7. SUBSEQUENT EVENT

On 18th August, 2005, Shanxi Zhongyue entered into a sale and purchase agreement with Beijing Parkson, a joint venture of Parkson Retail Group Limited, pursuant to which Shanxi Zhongyue agreed to sell all the business and its assets and liabilities for a cash consideration of RMB10 million. In the opinion of the directors of Shanxi Zhongyue, the transaction was completed before the date of this report.

8. SUBSEQUENT FINANCIAL INFORMATION

No financial information has been prepared by Shanxi Zhongyue in respect of any period subsequent to 30th June, 2005.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

G. Xi'an Chang'an Parkson Store Co., Ltd.

The following is the text of the accountants' report, prepared for inclusion in this Prospectus, from the independent reporting accountants of Parkson Retail Group Limited, Ernst & Young, Certified Public Accountants, Hong Kong.



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

17th November, 2005

The Directors
Parkson Retail Group Limited
Xi'an Chang'an Parkson Store Co., Ltd.
BNP Paribas Peregrine Capital Limited

Dear Sirs,

We set out below our report on the financial information regarding Xi'an Chang'an Parkson Store Co., Ltd. ("Xi'an Chang'an Parkson") for the period from 8th November, 2004 (date of registration) to 31st December, 2004 and the six-month period ended 30th June, 2005 (the "Relevant Periods") for inclusion in the prospectus of Parkson Retail Group Limited dated 17th November, 2005 (the "Prospectus").

For the purpose of this report, the directors of Xi'an Chang'an Parkson have prepared the financial statements of Xi'an Chang'an Parkson for the Relevant Periods ("Financial Statements") in accordance with International Financial Reporting Standards ("IFRS") as promulgated by the International Accounting Standards Board (the "IASB"), based on the management accounts of Xi'an Chang'an Parkson for the Relevant Periods. In preparing this report, no adjustments were considered necessary to restate the management accounts of Xi'an Chang'an Parkson to conform to the accounting policies referred to in Section 2 to this report, which are in compliance with IFRS. The Financial Statements have been audited by us in accordance with the Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of Xi'an Chang'an Parkson are responsible for preparing the Financial Statements which give a true and fair view. In preparing the Financial Statements, it is fundamental that appropriate accounting policies are selected and applied consistently.

Procedures Performed in Respect of the Relevant Periods

The financial information set out in this report (the "Financial Information") has been prepared based on the Financial Statements. For the purpose of this report, we have examined the Financial Statements. Our examination was made in accordance with the Statements of Auditing Standards issued by the HKICPA and we have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The directors of Xi'an Chang'an Parkson are responsible for the preparation of the Financial Information. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion thereon.

Opinion in Respect of the Relevant Periods

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Xi'an Chang'an Parkson as at 31st December, 2004 and 30th June, 2005 and of the results and cash flows of Xi'an Chang'an Parkson for each of the Relevant Periods.

1. CORPORATE INFORMATION

Xi'an Chang'an Parkson was registered as a limited liability company in Xi'an, the PRC on 8th November 2004. During the Relevant Periods, Xi'an Chang'an Parkson was engaged in the operation of a department store in Xi'an, the PRC. Through an acquisition transaction as set out in section 7 of this report, Xi'an Lucky King Parkson Plaza Co., Ltd., a subsidiary of Parkson Retail Group Limited, acquired a 51% equity interest in Xi'an Chang'an Parkson pursuant to an equity transfer agreement dated 12th May, 2005.

2. PRINCIPAL ACCOUNTING POLICIES

Statement of compliance

The Financial Information has been prepared in accordance with IFRS promulgated by the IASB. IFRS includes International Accounting Standards and interpretations. The Financial Information also complies with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as applicable to Accountants' Reports for inclusion in Listing Documents. Xi'an Chang'an Parkson has early adopted all applicable new and revised IFRS, which are generally effective for accounting periods, beginning on or after 1st January 2005, throughout the Relevant Periods.

The above basis of accounting differs from that used in the audited financial statements or, where appropriate, management accounts of Xi'an Chang'an Parkson which were prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC (the "PRC GAAP").

Use of estimates

The preparation of the financial information of the company in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial information and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the company and the revenue can be reliably measured on the following basis:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Commissions from concessionaire sales are recognised upon the sale of goods by the relevant store.

Promotion income

Promotion income is recognised according to the underlying contract terms with concessionaires and as these services are provided in accordance herewith.

Interest income

Revenue is recognised on a time proportion basis taking into account the principal outstanding and the effective rate of interest applicable.

Management service fees and credit card handling fees

Management service fees and credit card handling fees are recognised when the relevant services are rendered.

Rental income

Revenue is recognised on a time proportion basis over the terms of the respective leases.

Employee benefits

- (i) Salaries, bonuses, paid annual leave, leave passage and the cost to the company of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the company. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to defined contribution retirement plans are recognised as an expense in the income statement as incurred.

Pursuant to the relevant PRC laws and regulations, the company is required to participate in a retirement benefits scheme organised by the local municipal government whereby the company is required to contribute a certain percentage of the salaries of its employees to the retirement benefits scheme. The only obligation of the company with respect to the retirement benefits scheme is to pay the ongoing required contributions. Contributions made to the defined contribution retirement benefits scheme are charged to the income statement as incurred.

Termination benefits are recognised when, and only when, the company demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

Income tax

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

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- except where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is utilised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Related parties

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

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on the straight-line basis over the lease terms.

Recoverable amount of non-current assets

At each reporting date, the company assesses whether there is any indication that an asset may be impaired. Where an indication of impairment exists, the company makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflow that are largely independent of those from other assets or groups of assets.

Financial instruments

Financial assets and financial liabilities carried in the balance sheet include cash and cash equivalents, trade receivables and payables, other receivables and payables, and loans and balances with related parties. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies set out in this section.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangements. Interest, dividends and gains or losses relating to a financial instrument classified as a liability are reported as income or expenses. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and provision for any impairment in value.

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

Depreciation of property, plant and equipment is calculated on the straight-line basis over the expected useful life of the asset, after taking into account its estimated residual value of 10%, as follows:

Leasehold improvements	5 years
Motor vehicles	5 years
Equipment and fixtures	5 years

The carrying values of property, plant and equipment are reviewed for impairment either annually, or when events or changes in circumstances indicate that the carrying values may not be recoverable (whichever is earlier). If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflow, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement.

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

Inventories

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

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

Consumables are stated at cost less any impairment losses.

Trade and other receivables

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

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

An estimate for doubtful debts is made when there is objective evidence that collection of the full amount is no longer probable. Bad debts are written off when identified.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand and short term deposits, which are not restricted as to use. For the purpose of the cash flow statement, cash and cash equivalents consist of cash at banks and in hand and short term deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

Provisions

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

Coupon liabilities

Coupon liabilities are recognised at fair value based on the bonus points granted to customers in accordance with the announced bonus points scheme and the company's past experience on the level of redemption of coupons.

Contingent liabilities and contingent assets

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

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

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

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

3. RESULTS

		For the period from 8th November, 2004 (date of registration) to 31st December, 2004	Six months ended 30th June, 2005
	Notes	RMB'000	RMB'000
Revenues	(a)	543	14,484
Other operating revenues	(a)	<u>263</u>	<u>3,391</u>
Total operating revenues		<u>806</u>	<u>17,875</u>
Operating expenses			
Purchase of goods and changes in inventories		(118)	(2,556)
Staff costs		(176)	(1,827)
Depreciation		(4)	(655)
Rental expenses		—	(3,782)
Other operating expenses		<u>(1,786)</u>	<u>(5,335)</u>
Total operating expenses		<u>(2,084)</u>	<u>(14,155)</u>
Profit/(loss) from operations	(b)	(1,278)	3,720
Finance income	(c)	<u>5</u>	<u>129</u>
Profit/(loss) from operations before income tax		(1,273)	3,849
Income tax	(e)	<u>306</u>	<u>—</u>
Net profit/(loss) for the period		<u>(967)</u>	<u>3,849</u>

Notes:

(a) Revenues

Revenues represent the net amount received and receivable for goods sold by Xi'an Chang'an Parkson to outside customers, less returns and allowances, and commissions from concessionaire sales, and rental income during the Relevant Periods, and are analysed as follows:

	For the period from 8th November, 2004 (date of registration) to 31st December, 2004 RMB'000	Six months ended 30th June, 2005 RMB'000
Sales of goods — direct sales	134	3,327
Commissions from concessionaire sales (Note)	400	10,319
Rental income	9	838
	<u>543</u>	<u>14,484</u>

Note:

The commissions from concessionaire sales are analysed as follows:

	For the period from 8th November, 2004 (date of registration) to 31st December, 2004 RMB'000	Six months ended 30th June, 2005 RMB'000
Gross revenue from concessionaire sales	<u>3,655</u>	<u>60,041</u>
Commissions from concessionaire sales	<u>400</u>	<u>10,319</u>

Over 90% of Xi'an Chang'an Parkson's turnover and contribution to operating profit is attributable to the operation and management of department stores and all of Xi'an Chang'an Parkson's turnover and contribution to operating profit is attributable to customers in the PRC. Accordingly no analysis of segment information is presented.

Other operating revenues comprise the following:

	For the period from 8th November, 2004 (date of registration) to 31st December, 2004 RMB'000	Six months ended 30th June, 2005 RMB'000
Promotion income	139	738
Credit card handling fees	—	422
Management service fees	44	805
Administration fees	73	899
Other income	7	527
	<u>263</u>	<u>3,391</u>

(b) **Profit/(loss) from operations**

The profit/(loss) from operations of Xi'an Chang'an Parkson is arrived at after charging/(crediting):

	For the period from 8th November, 2004 (date of registration) to 31st December, 2004 RMB'000	Six months ended 30th June, 2005 RMB'000
Cost of inventories recognised as expenses	118	2,556
Staff costs:		
Wages, salaries and bonuses	137	1,506
Pension costs	6	94
Social welfare and other costs	33	227
	<u>176</u>	<u>1,827</u>
Depreciation	4	655
Operating lease rentals in respect of rented properties:		
Contingent rents (<i>Note</i>)	<u>—</u>	<u>3,782</u>
Gross rental income in respect of sub-letting of properties - contingent rents (<i>Note</i>)	(9)	(838)
Less: Outgoings	<u>—</u>	<u>—</u>
Net rental income	<u>(9)</u>	<u>(838)</u>

Note: Contingent rents are calculated based on a percentage of the relevant performance results of tenants pursuant to the rental agreements.

(c) Finance income

	For the period from 8th November, 2004 (date of registration) to 31st December, 2004 RMB'000	Six months ended 30th June, 2005 RMB'000
Interest income	<u>5</u>	<u>129</u>

(d) Retirement benefits scheme

Xi'an Chang'an Parkson is required to participate in employee pension schemes operated by the relevant local government authorities in the PRC. The PRC government is responsible for the pension liability to these retired employees. Xi'an Chang'an Parkson is required to make contributions for relevant employees who are registered as permanent residents in the PRC and are within the scope of the relevant PRC regulations at a rate of 20% of the employees' salaries for the Relevant Periods.

Xi'an Chang'an Parkson's contributions to pension costs for the period ended 31st December, 2004 and the six months ended 30th June, 2005 amounted to approximately RMB6,000 and RMB94,000, respectively.

(e) Income tax

Under the relevant PRC income tax law, Xi'an Chang'an Parkson is subject to corporate income tax at a rate of 33% on its taxable income.

Pursuant to applicable income tax laws and regulations of the PRC, newly formed trading enterprises are eligible to apply for income tax exemption for one year. Xi'an Chang'an Parkson was granted an income tax exemption for 2005 by the relevant PRC tax authority.

The determination of current and deferred income tax was based on the enacted tax rates.

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

	For the period from 8th November, 2004 (date of registration) to 31st December, 2004 RMB'000	Six months ended 30th June, 2005 RMB'000
Current income tax	—	—
Deferred income tax	<u>(306)</u>	<u>—</u>
	<u>(306)</u>	<u>—</u>

A reconciliation of the income tax expense applicable to profit/(loss) from operations before income tax at the statutory income tax rate to the income tax expense at Xi'an Chang'an Parkson's effective income tax rate, is as follows:

	For the period from 8th November, 2004 (date of registration) to 31st December, 2004 RMB'000	Six months ended 30th June, 2005 RMB'000
Profit/(loss) from operations before income tax	<u>(1,273)</u>	<u>3,849</u>
Income tax at the statutory income tax rate of 33%	(420)	1,270
Tax effect of expenses not deductible for tax purposes	114	—
Tax effect of preferential tax rate	<u>—</u>	<u>(1,270)</u>
	<u>(306)</u>	<u>—</u>

(f) **Related party transactions**

In addition to such transaction and balance which are disclosed in section 4 note (e), Xi'an Chang'an Parkson had the following related party transactions:

		For the period from 8th November, 2004 (date of registration) to 31st December, 2004 RMB'000	Six months ended 30th June, 2005 RMB'000
	Notes		
Rental expenses	(i)	<u>—</u>	<u>3,782</u>
Interest income	(ii)	<u>5</u>	<u>60</u>

Notes:

- (i) Represented rental expenses payable to Shaanxi Chang'an Information Property Investment Co., Ltd. ("Shaanxi Chang'an Information"), an equity holder of Xi'an Chang'an Parkson. The amount of rental expenses are determined based on 50% of profit before income tax and rental expenses.
- (ii) Represented interest income from Shaanxi Chang'an Information. Please refer to section 4 note (e) for details.

4. BALANCE SHEETS

		31st December, 2004	30th June, 2005
	Notes	RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	(a)	6,512	6,190
Deferred tax assets	(b)	<u>306</u>	<u>306</u>
		<u>6,818</u>	<u>6,496</u>
CURRENT ASSETS			
Inventories	(c)	1,371	1,696
Prepayments, deposits and other receivables	(d)	3,569	1,422
Loan to an equity holder	(e)	2,000	2,000
Cash and cash equivalents	(f)	<u>8,867</u>	<u>13,779</u>
		<u>15,807</u>	<u>18,897</u>
CURRENT LIABILITIES			
Trade payables	(g)	(3,264)	(7,980)
Deposits, other payables and accruals	(h)	(10,265)	(4,308)
Due to an equity holder	(i)	<u>(63)</u>	<u>(223)</u>
		<u>(13,592)</u>	<u>(12,511)</u>
NET CURRENT ASSETS		<u>2,215</u>	<u>6,386</u>
NET ASSETS		<u>9,033</u>	<u>12,882</u>
OWNERS' EQUITY		<u>9,033</u>	<u>12,882</u>

Notes:

(a) **Property, plant and equipment**

	Leasehold improvements	Motor vehicles	Equipment and fixtures	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 8th November, 2004, date of registration	—	—	—	—
Additions	4,183	330	2,003	6,516
Depreciation charge for the period	<u>—</u>	<u>(4)</u>	<u>—</u>	<u>(4)</u>
At 31st December, 2004, net of accumulated depreciation	4,183	326	2,003	6,512
Additions	—	—	333	333
Depreciation charge for the period	<u>(308)</u>	<u>(32)</u>	<u>(315)</u>	<u>(655)</u>
At 30th June, 2005, net of accumulated depreciation	<u>3,875</u>	<u>294</u>	<u>2,021</u>	<u>6,190</u>
At 31st December, 2004				
Cost	4,183	330	2,003	6,516
Accumulated depreciation	<u>—</u>	<u>(4)</u>	<u>—</u>	<u>(4)</u>
Net carrying amount	<u>4,183</u>	<u>326</u>	<u>2,003</u>	<u>6,512</u>
At 30th June, 2005				
Cost	4,183	330	2,336	6,849
Accumulated depreciation	<u>(308)</u>	<u>(36)</u>	<u>(315)</u>	<u>(659)</u>
Net carrying amount	<u>3,875</u>	<u>294</u>	<u>2,021</u>	<u>6,190</u>

(b) **Deferred tax assets**

The principal components of Xi'an Chang'an Parkson's deferred tax assets at the end of each of the Relevant Periods and the movements in deferred tax assets for the Relevant Periods are as follows:

	Balance at 8th November, 2004 (date of registration) <i>RMB'000</i>	Recognised in the income statement <i>RMB'000</i>	Balance at 31st December, 2004 <i>RMB'000</i>
Deferred tax assets:			
Pre-operating expenses	<u>—</u>	<u>306</u>	<u>306</u>

	Balance at 31st December, 2004 <i>RMB'000</i>	Recognised in the income statement <i>RMB'000</i>	Balance at 30th June, 2005 <i>RMB'000</i>
Deferred tax assets:			
Pre-operating expenses	<u>306</u>	<u>—</u>	<u>306</u>

(c) **Inventories**

	As at 31st December, 2004 <i>RMB'000</i>	As at 30th June, 2005 <i>RMB'000</i>
Merchandise, at cost	1,208	1,471
Consumables, at cost	<u>163</u>	<u>225</u>
	<u>1,371</u>	<u>1,696</u>

(d) **Prepayments, deposits and other receivables**

	As at 31st December, 2004 <i>RMB'000</i>	As at 30th June, 2005 <i>RMB'000</i>
Advances to suppliers	164	19
Prepayments	—	14
Deposits	600	300
Other receivables	<u>2,805</u>	<u>1,089</u>
	<u>3,569</u>	<u>1,422</u>

(e) **Loan to an equity holder**

The balance represented a loan to Shaanxi Chang'an Information. The balance is secured by a floating charge over the attributable dividends from Xi'an Chang'an Parkson to the equity holder, Shaanxi Chang'an Information, bears an annual interest rate of 6% and has no fixed terms of repayment. The directors of Xi'an Chang'an Parkson have confirmed that the amounts due from an equity holder would be settled prior to the listing of the shares of Parkson Retail Group Limited on the Stock Exchange.

(f) **Cash and cash equivalents**

	As at 31st December, 2004 RMB'000	As at 30th June, 2005 RMB'000
Cash and bank balances	<u>8,867</u>	<u>13,779</u>

The bank balances earn interest at floating rates based on daily bank deposit rates.

Xi'an Chang'an Parkson's cash and cash equivalents comprise cash on hand and cash at banks which are denominated in Renminbi. Cash at banks earns interest at the floating rates based on daily deposit rates. Renminbi is not freely convertible in the international market. The remittance of funds out of PRC is subject to the exchange restrictions imposed by the PRC government.

(g) **Trade payables**

An aged analysis of the trade payables of Xi'an Chang'an Parkson is as follows:

	As at 31st December, 2004 RMB'000	As at 30th June, 2005 RMB'000
Within 3 months	3,264	7,919
3 to 12 months	<u>—</u>	<u>61</u>
	<u>3,264</u>	<u>7,980</u>

(h) **Deposits, other payables and accruals**

	As at 31st December, 2004 RMB'000	As at 30th June, 2005 RMB'000
Deposits from concessionaire suppliers	2,081	631
Accruals	—	135
Other payables	<u>8,184</u>	<u>3,542</u>
	<u>10,265</u>	<u>4,308</u>

(i) **Due to an equity holder**

The balance represented the amount due to Shaanxi Chang'an Information. The balance was unsecured, interest free and repayable on demand. The directors of Xi'an Chang'an Parkson have confirmed that the amounts due to an equity holder would be settled prior to the listing of the shares of Parkson Retail Group Limited on the Stock Exchange.

(j) **Contingent liabilities**

Xi'an Chang'an Parkson did not have any significant contingent liabilities at the end of each of the Relevant Periods.

(k) **Commitments**

(i) Xi'an Chang'an Parkson did not have any significant capital commitments at the end of each of the Relevant Periods.

(ii) Operating lease commitments

Operating lease commitments — as lessee

Xi'an Chang'an Parkson has entered into an operating lease agreement as a lessee. The lease has a life of 15 years and renewals are at the option of Xi'an Chang'an Parkson. There are no restrictions placed upon the lessee by entering into the lease. Pursuant to the agreement, the annual rental amount is calculated based on a percentage of profit before income tax and rental expenses.

(l) **Fair value of financial instruments**

The financial instruments of Xi'an Chang'an Parkson mainly consist of cash and cash equivalents, prepayments, deposits and other receivables, loan to an equity holder, trade payables, customer's deposits, other payables and accruals and amounts due to an equity holder.

The carrying amounts of Xi'an Chang'an Parkson's financial instruments were stated approximately at their fair value as at 31st December, 2004 and 30th June, 2005.

Fair value estimates are made at a specific point in time and based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(m) **Concentration of risk**

Xi'an Chang'an Parkson is exposed to credit risk and foreign currency risk, as further explained below.

(i) *Credit risk*

Xi'an Chang'an Parkson's cash and cash equivalents are deposited with banks in the PRC. The other receivables included in the financial information represent Xi'an Chang'an Parkson's major exposure to the credit risk attributable to its financial assets. Xi'an Chang'an Parkson has no other significant concentrations of credit risk.

(ii) *Foreign currency risk*

Xi'an Chang'an Parkson's businesses are conducted in RMB which cannot freely be exchanged into foreign currencies. As at 31st December, 2004 and 30th June, 2005, all of Xi'an Chang'an Parkson's assets and liabilities were denominated in RMB.

5. STATEMENT OF CHANGES IN OWNERS' EQUITY

	Registered capital <i>RMB'000</i> <i>Note (a)</i>	Retained earnings/ (Accumulated losses) <i>RMB'000</i> <i>Note (b)</i>	Total <i>RMB'000</i>
At 8th November, 2004, date of registration	10,000	—	10,000
Net loss for the period	<u>—</u>	<u>(967)</u>	<u>(967)</u>
At 31st December, 2004 and 1st January, 2005	10,000	(967)	9,033
Net profit for the period	<u>—</u>	<u>3,849</u>	<u>3,849</u>
At 30th June, 2005	<u>10,000</u>	<u>2,882</u>	<u>12,882</u>

Notes:

(a) Capital

	As at 31st December, 2004 <i>RMB'000</i>	As at 30th June, 2005 <i>RMB'000</i>
Registered and paid-in capital	<u>10,000</u>	<u>10,000</u>

(b) Distributable reserves

In accordance with the relevant PRC regulations, Xi'an Chang'an Parkson is required to transfer 10% of the profit after income tax, as determined under PRC accounting principles and financial regulations, to the statutory common reserve, until the balance of the fund reaches 50% of the registered capital of the company. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory common reserve may be used to offset against accumulated losses, if any.

Pursuant to the relevant PRC regulations, Xi'an Chang'an Parkson is also required to transfer 5% to 10% of net profit, as determined under PRC accounting principles and financial regulations, to the statutory common welfare fund. This fund can only be used to provide staff welfare facilities and other collective benefits to the employees of the company. This fund is non-distributable other than in the event of liquidation.

6. CASH FLOW STATEMENTS

	For the period from 8th November, 2004 (date of registration) to 31st December, 2004 <i>RMB'000</i>	Six months ended 30th June, 2005 <i>RMB'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) from operations before income tax	(1,273)	3,849
Adjustments for:		
Interest income	(5)	(129)
Depreciation	<u>4</u>	<u>655</u>
Operating profit/(loss) before working capital changes	(1,274)	4,375
Increase in inventories	(1,371)	(325)
Decrease/(increase) in prepayments, deposits and other receivables	(3,569)	2,147
Increase in trade payables	3,264	4,716
Increase/(decrease) in customers' deposits, other payables and accruals	10,265	(5,957)
Increase in amounts due to an equity holder	<u>63</u>	<u>160</u>
Cash generated from operating activities	<u>7,378</u>	<u>5,116</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(6,516)	(333)
Loan to an equity holder	(2,000)	—
Interest received	<u>5</u>	<u>129</u>
Net cash outflow from investing activities	<u>(8,511)</u>	<u>(204)</u>
Net cash inflow/(outflow) before financing activities	<u>(1,133)</u>	<u>4,912</u>
CASH FLOWS FROM FINANCING ACTIVITY		
Capital contribution	<u>10,000</u>	<u>—</u>
Net cash inflow from financing activity	<u>10,000</u>	<u>—</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,867	4,912
Cash and cash equivalents at beginning of period	<u>—</u>	<u>8,867</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>8,867</u></u>	<u><u>13,779</u></u>

7. SUBSEQUENT EVENT

On 12th May, 2005, Xi'an Parkson Shopping center Co., Ltd. entered into a sale and purchase agreement with Xi'an Lucky King Parkson Plaza Co., Ltd. to sell its 51% equity interest in Xi'an Chang'an Parkson for a cash consideration of RMB5.1 million. In the opinion of the directors, the transaction was completed before the date of this report.

8. SUBSEQUENT FINANCIAL INFORMATION

No financial information has been prepared by the Xi'an Chang'an Parkson in respect of any period subsequent to 30th June, 2005.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

H. Xi'an Shidai Parkson Store Co., Ltd.

The following is the text of the accountants' report, prepared for inclusion in this Prospectus, from the independent reporting accountants of Parkson Retail Group Limited, Ernst & Young, Certified Public Accountants, Hong Kong.



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

17th November, 2005

The Directors
Parkson Retail Group Limited
Xi'an Shidai Parkson Store Co., Ltd.
BNP Paribas Peregrine Capital Limited

Dear Sirs,

We set out below our report on the financial information regarding Xi'an Shidai Parkson Store Co., Ltd. ("Xi'an Shidai Parkson") for the period from 17th August, 2004 (date of registration) to 31st December, 2004 and the six-month period ended 30th June, 2005 (the "Relevant Periods") for inclusion in the prospectus of Parkson Retail Group Limited dated 17th November, 2005 (the "Prospectus").

For the purpose of this report, the directors of Xi'an Shidai Parkson have prepared the financial statements of Xi'an Shidai Parkson for the Relevant Periods ("Financial Statements") in accordance with International Financial Reporting Standards ("IFRS") as promulgated by the International Accounting Standards (the "IASB"), based on the management accounts of Xi'an Shidai Parkson for the Relevant Periods. In preparing this report, no adjustments were considered necessary to restate the audited Financial Statements of Xi'an Shidai Parkson to conform to the accounting policies referred to in Section 2 to this report, which are in compliance with IFRS. The Financial Statements have been audited by us in accordance with the Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of Xi'an Shidai Parkson are responsible for preparing the Financial Statements which give a true and fair view. In preparing the Financial Statements, it is fundamental that appropriate accounting policies are selected and applied consistently.

Procedures Performed in Respect of the Relevant Periods

The financial information set out in this report (the "Financial Information") has been prepared based on the Financial Statements. For the purpose of this report, we have examined the Financial Statements. Our examination was made in accordance with the Statements of Auditing Standards issued by the HKICPA and we have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The directors of Xi'an Shidai Parkson are responsible for the preparation of the Financial Information. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion thereon.

Opinion in Respect of the Relevant Periods

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Xi'an Shidai Parkson as at 31st December, 2004 and 30th June, 2005, and of the results and cash flows of Xi'an Shidai Parkson for each of the Relevant Periods.

1. CORPORATE INFORMATION

Xi'an Shidai Parkson was registered as a limited liability company in Xi'an, the PRC on 17th August 2004 with limited liability. During the Relevant Periods, Xi'an Shidai Parkson was engaged in the operation of a department store in Xi'an, the PRC. Through an acquisition transaction as set out in Section 7 of this report, Xi'an Lucky King Parkson Plaza Co., Ltd., a subsidiary of the Parkson Retail Group Limited, acquired a 51% equity interest in Xi'an Shidai Parkson pursuant to an equity transfer agreement dated 12th May, 2005.

2. PRINCIPAL ACCOUNTING POLICIES

Statement of compliance

The Financial Information has been prepared in accordance with IFRS promulgated by the IASB. IFRS includes International Accounting Standards and interpretations. The Financial Information also complies with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as applicable to Accountants' Reports for inclusion in Listing Documents. Xi'an Shidai Parkson has early adopted all applicable new and revised IFRS, which are generally effective for accounting periods, beginning on or after 1st January, 2005, throughout the Relevant Periods.

The above basis of accounting differs from that used in the audited financial statements or, where appropriate, management accounts of Xi'an Shidai Parkson which were prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC (the "PRC GAAP").

Use of estimates

The preparation of the Financial Information of the company in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial information and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the company and the revenue can be reliably measured on the following basis:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Commissions from concessionaire sales are recognised upon the sale of goods by the relevant store.

Promotion income

Promotion income is recognised according to the underlying contract terms with concessionaires and as these services are provided in accordance herewith.

Interest income

Revenue is recognised on a time proportion basis taking into account the principal outstanding and the effective rate of interest applicable.

Rental income

Revenue is recognised on a time proportion basis over the terms of the respective leases.

Employee benefits

- (i) Salaries, bonuses, paid annual leave, leave passage and the cost to the company of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the company. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to defined contribution retirement plans are recognised as an expense in the income statement as incurred.

Pursuant to the relevant PRC laws and regulations, the company is required to participate in a retirement benefits scheme organised by the local municipal government whereby the company is required to contribute a certain percentage of the salaries of its employees to the retirement benefits scheme. The only obligation of the company with respect to the retirement benefits scheme is to pay the ongoing required contributions. Contributions made to the defined contribution retirement benefits scheme are charged to the income statement as incurred.

Termination benefits are recognised when, and only when, the company demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

Income tax

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

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- except where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is utilised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Related parties

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

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on the straight-line basis over the lease terms.

Recoverable amount of non-current assets

At each reporting date, the company assesses whether there is any indication that an asset may be impaired. Where an indication of impairment exists, the company makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflow that are largely independent of those from other assets or groups of assets.

Financial instruments

Financial assets and financial liabilities carried in the balance sheet include cash and cash equivalents, prepayments, deposits and other receivables, loan to an equity holder, trade payables, deposits, other payables and accruals and due to an equity holder. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies set out in this section.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangements. Interest, dividends and gains or losses relating to a financial instrument classified as a liability are reported as income or expenses. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and provision for any impairment in value.

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

Depreciation of property, plant and equipment is calculated on the straight-line basis over the expected useful life of the asset, after taking into account its estimated residual value of 10%, as follows:

Leasehold improvements	5-10 years
Motor vehicles	5 years
Equipment and fixtures	5-10 years

The carrying values of property, plant and equipment are reviewed for impairment either annually, or when events or changes in circumstances indicate that the carrying value may not be recoverable (whichever is earlier). If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of the net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflow, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement.

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

Inventories

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

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

Consumables are stated at cost less any impairment losses.

Trade and other receivables

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

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

An estimate for doubtful debts is made when there is objective evidence that collection of the full amount is no longer probable. Bad debts are written off when identified.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand and short term deposits, which are not restricted as to use. For the purpose of the cash flow statement, cash and cash equivalents consist of cash at banks and in hand and short term deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

Provisions

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

Coupon liabilities

Coupon liabilities are recognised at fair value based on the bonus points granted to customers in accordance with the announced bonus points scheme and the company's past experience on the level of redemption of coupons.

Contingent liabilities and contingent assets

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

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

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

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

3. RESULTS

		For the period from 17th August, 2004 (date of registration) to 31st December, 2004	Six months ended 30th June, 2005
	Notes	RMB'000	RMB'000
Revenues	(a)	2,055	16,916
Other operating revenues	(a)	<u>36</u>	<u>4,649</u>
Total operating revenues		<u>2,091</u>	<u>21,565</u>
Operating expenses			
Purchase of goods and changes in inventories		(548)	(2,844)
Staff costs		(194)	(2,105)
Depreciation		(6)	(795)
Rental expenses		—	(4,177)
Other operating expenses		<u>(2,912)</u>	<u>(7,806)</u>
Total operating expenses		<u>(3,660)</u>	<u>(17,727)</u>
Profit/(loss) from operations	(b)	(1,569)	3,838
Finance income	(c)	<u>20</u>	<u>149</u>
Profit/(loss) from operations before income tax		(1,549)	3,987
Income tax	(e)	<u>397</u>	<u>—</u>
Net profit/(loss) for the period		<u><u>(1,152)</u></u>	<u><u>3,987</u></u>

Notes:

(a) **Revenues**

Revenues represent the net amount received and receivable for goods sold by Xi'an Shidai Parkson to outside customers, less returns and allowances, commissions from concessionaire sales, and rental income during the Relevant Periods, and are analysed as follows:

	For the period from 17th August, 2004 (date of registration) to 31st December, 2004 RMB'000	Six months ended 30th June, 2005 RMB'000
Sales of goods — direct sales	649	3,418
Commissions from concessionaire sales (Note)	1,213	12,583
Rental income	193	915
	<u>2,055</u>	<u>16,916</u>

Note:

The commissions from concessionaire sales are analysed as follows:

	For the period from 17th August, 2004 (date of registration) to 31st December, 2004 RMB'000	Six months ended 30th June, 2005 RMB'000
Gross revenue from concessionaire sales	<u>14,823</u>	<u>78,013</u>
Commissions from commissionaire sales	<u>1,213</u>	<u>12,583</u>

Over 90% of Xi'an Shidai Parkson's turnover and contribution to operating profit is attributable to the operation and management of department stores and all of Xi'an Shidai Parkson's turnover and contribution to operating profit is attributable to customers in the PRC. Accordingly no analysis of segment information is presented.

Other operating revenues comprise the following:

	For the period from 17th August, 2004 (date of registration) to 31st December, 2004 RMB'000	Six months ended 30th June, 2005 RMB'000
Promotion income	—	1,556
Administration fees	4	1,063
Services fees	—	1,133
Other income	32	897
	<u>36</u>	<u>4,649</u>

(b) Profit/(loss) from operations

The profit/(loss) from operations of Xi'an Shidai Parkson is arrived at after charging/(crediting):

	For the period from 17th August, 2004 (date of registration) to 31st December, 2004 RMB'000	Six months ended 30th June, 2005 RMB'000
Cost of inventories recognised as expenses	548	2,844
Staff costs:		
Wages, salaries and bonuses	155	1,745
Pension costs	5	104
Social welfare and other costs	34	256
	<u>194</u>	<u>2,105</u>
Depreciation	6	795
Operating lease rentals in respect of rented properties:		
Contingent rents (<i>Note</i>)	—	4,177
Gross rental income in respect of sub-letting of properties	(193)	(915)
Less: Outgoings	<u>—</u>	<u>—</u>
Net rental income	<u>(193)</u>	<u>(915)</u>

Note:

Contingent rents are calculated based on a percentage of relevant performance results of tenants pursuant to the rental agreements.

(c) Finance income

	For the period from 17th August, 2004 (date of registration) to 31st December, 2004 RMB'000	Six months ended 30th June, 2005 RMB'000
Interest income	<u>20</u>	<u>149</u>

(d) Retirement benefits scheme

Xi'an Shidai Parkson is required to participate in employee pension schemes operated by the relevant local government authorities in the PRC. The PRC government is responsible for the pension liability to these retired employees. Xi'an Shidai Parkson is required to make contributions for relevant employees who are registered as permanent residents in the PRC and are within the scope of the relevant PRC regulations at a rate of 20% of the employees' salaries for the Relevant Periods.

Xi'an Shidai Parkson's contributions to pension costs for the period ended 31st December, 2004 and the six months ended 30th June, 2005 amounted to approximately RMB5,000 and RMB104,000, respectively.

(e) Income tax

Under the relevant PRC income tax law, Xi'an Shidai Parkson is subject to corporate income tax at a rate of 33% on its taxable income.

Pursuant to applicable income tax laws and regulations of the PRC, newly formed trading enterprises are eligible to apply for income tax exemption for one year. Xi'an Shidai Parkson was granted an income tax exemption for 2005 by the relevant PRC tax authority.

The determination of current and deferred income tax was based on the enacted tax rates.

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

	For the period from 17th August, 2004 (date of registration) to 31st December, 2004 RMB'000	Six months ended 30th June, 2005 RMB'000
Current income tax	—	—
Deferred income tax	(397)	—
	<u>(397)</u>	<u>—</u>

A reconciliation of the income tax expense applicable to profit/(loss) from operations before income tax at the statutory income tax rate to the income tax expense at Xi'an Shidai Parkson's effective income tax rate, is as follows:

	For the period from 17th August, 2004 (date of registration) to 31st December, 2004 RMB'000	Six months ended 30th June, 2005 RMB'000
Profit/(loss) from operations before income tax	<u>(1,549)</u>	<u>3,987</u>
Income tax at the statutory income tax rate of 33%	(511)	1,316
Tax effect of expenses not deductible for tax purposes	114	—
Tax effect of preferential tax rate	<u>—</u>	<u>(1,316)</u>
	<u>(397)</u>	<u>—</u>

(f) Related party transactions

In addition to such transaction and balance which are disclosed in section 4 note (e), Xi'an Shidai Parkson had the following related party transactions:

		For the period from 17th August, 2004 (date of registration) to 31st December, 2004	Six months ended 30th June, 2005
	Notes	RMB'000	RMB'000
Rental expenses	(i)	<u>—</u>	<u>4,177</u>
Interest income	(ii)	<u>—</u>	<u>50</u>

Notes:

- (i) Represented rental expenses payable to Xi'an Xinrun Property Co., Ltd. ("Xi'an Xinrun"), an equity holder of Xi'an Shidai Parkson, which were determined based on 50% of the profit before income tax and rental expenses.
- (ii) Represented interest income from Xi'an Xinrun. Please refer to section 4 note (e) for details.

4. BALANCE SHEETS

		31st December, 2004	30th June, 2005
	Notes	RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	(a)	8,866	8,141
Deferred tax assets	(b)	<u>397</u>	<u>397</u>
		<u>9,263</u>	<u>8,538</u>
CURRENT ASSETS			
Inventories	(c)	2,638	2,811
Prepayments, deposits and other receivables	(d)	7,041	4,394
Loan to an equity holder	(e)	—	2,050
Cash and cash equivalents	(f)	<u>23,771</u>	<u>22,111</u>
		<u>33,450</u>	<u>31,366</u>
CURRENT LIABILITIES			
Trade payables	(g)	(13,280)	(12,405)
Deposits, other payables and accruals	(h)	(15,585)	(5,497)
Due to an equity holder	(i)	<u>—</u>	<u>(4,167)</u>
		<u>(28,865)</u>	<u>(22,069)</u>
NET CURRENT ASSETS		<u>4,585</u>	<u>9,297</u>
NET ASSETS		<u>13,848</u>	<u>17,835</u>
OWNERS' EQUITY		<u>13,848</u>	<u>17,835</u>

APPENDIX II

ACCOUNTANTS' REPORTS OF THE ACQUIRED STORES

Notes:

(a) Property, plant and equipment

	Leasehold improvements <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Equipment and fixtures <i>RMB'000</i>	Total <i>RMB'000</i>
At 17th August, 2004, date of registration	—	—	—	—
Additions	4,452	323	4,097	8,872
Depreciation charge for the period	<u>—</u>	<u>(5)</u>	<u>(1)</u>	<u>(6)</u>
At 31st December, 2004, net of accumulated depreciation	4,452	318	4,096	8,866
Additions	57	—	13	70
Depreciation charge for the period	<u>(441)</u>	<u>(31)</u>	<u>(323)</u>	<u>(795)</u>
At 30th June, 2005, net of accumulated depreciation	<u>4,068</u>	<u>287</u>	<u>3,786</u>	<u>8,141</u>
At 31st December, 2004				
Cost	4,452	323	4,097	8,872
Accumulated depreciation	<u>—</u>	<u>(5)</u>	<u>(1)</u>	<u>(6)</u>
Net carrying amount	<u>4,452</u>	<u>318</u>	<u>4,096</u>	<u>8,866</u>
At 30th June, 2005				
Cost	4,509	323	4,110	8,942
Accumulated depreciation	<u>(441)</u>	<u>(36)</u>	<u>(324)</u>	<u>(801)</u>
Net carrying amount	<u>4,068</u>	<u>287</u>	<u>3,786</u>	<u>8,141</u>

(b) **Deferred tax assets**

The principal components of Xi'an Shidai Parkson's deferred tax assets at the end of each of the Relevant Periods and the movements in deferred tax assets for the Relevant Periods are as follows:

	Balance at 17th August, 2004 (date of registration) <i>RMB'000</i>	Recognised in the income statement <i>RMB'000</i>	Balance at 31st December, 2004 <i>RMB'000</i>
Deferred tax assets:			
Pre-operating expenses	<u>—</u>	<u>397</u>	<u>397</u>

	Balance at 1st January, 2005 <i>RMB'000</i>	Recognised in the income statement <i>RMB'000</i>	Balance at 30th June, 2005 <i>RMB'000</i>
Deferred tax assets:			
Pre-operating expenses	<u>397</u>	<u>—</u>	<u>397</u>

(c) **Inventories**

	As at 31st December, 2004 <i>RMB'000</i>	As at 30th June, 2005 <i>RMB'000</i>
Merchandise, at cost	2,323	2,409
Consumables, at cost	<u>315</u>	<u>402</u>
	<u>2,638</u>	<u>2,811</u>

(d) **Prepayments, deposits and other receivables**

	As at 31st December, 2004 <i>RMB'000</i>	As at 30th June, 2005 <i>RMB'000</i>
Advances to suppliers	1,329	227
Prepayments	7	215
Deposits	400	400
Other receivables	<u>5,305</u>	<u>3,552</u>
	<u>7,041</u>	<u>4,394</u>

(e) **Loan to an equity holder**

The balance represented a loan to Xi'an Xinrun. The balance was secured by dividend and rental income from Xi'an Shidai Parkson, bore interest rate of 6% per annum and was settled in August 2005.

(f) **Cash and cash equivalents**

	As at 31st December, 2004 <i>RMB'000</i>	As at 30th June, 2005 <i>RMB'000</i>
Cash and bank balances	<u>23,771</u>	<u>22,111</u>

The bank balances earn interest of floating rates based on daily bank deposit rates.

Xi'an Shidai Parkson's cash and cash equivalents comprise cash on hand and cash at banks which are denominated in Renminbi ("RMB"). RMB is not freely convertible in the international market. The remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

(g) **Trade payables**

An aged analysis of the trade payables of Xi'an Shidai Parkson is as follows:

	As at 31st December, 2004 <i>RMB'000</i>	As at 30th June, 2005 <i>RMB'000</i>
Within 3 months	13,280	11,803
3 to 12 months	<u>—</u>	<u>602</u>
	<u>13,280</u>	<u>12,405</u>

(h) **Deposits, other payables and accruals**

	As at 31st December, 2004 <i>RMB'000</i>	As at 30th June, 2005 <i>RMB'000</i>
Deposits from concessionaire suppliers	3,678	1,502
Other payables and accruals	<u>11,907</u>	<u>3,995</u>
	<u>15,585</u>	<u>5,497</u>

(i) Due to an equity holder

The balance represented the amount due to Xi'an Xinrun. The balance was unsecured, interest free and was repayable on a quarterly basis. The directors of Xi'an Shidai Parkson have confirmed that the amounts due to an equity holder would be settled prior to the listing of the shares of Parkson Retail Group Limited on the Stock Exchange.

(j) Contingent liabilities

Xi'an Shidai Parkson did not have any significant contingent liabilities at the end of each of the Relevant Periods.

(k) Commitments

(i) Xi'an Shidai Parkson did not have any significant capital commitments at the end of each of the Relevant Periods.

(ii) Operating lease commitments

Operating lease commitments — as lessee

Xi'an Shidai Parkson has entered into an operating lease agreement as a lessee. The lease has a life of 20 years and renewals are at the option of Xi'an Shidai Parkson. There are no restrictions placed upon the lessee by entering into the lease. Pursuant to the agreement, the annual rental amount is calculated based on a percentage of profit before income tax and rental expenses.

(iii) Operating lease commitments — as lessor

Xi'an Shidai Parkson has entered into sub-leases on certain properties. These non-cancellable leases have remaining non-cancellable lease terms of between 1 and 10 years. All leases include a clause to enable upward revision of the rental charge at a fixed interval based on prevailing market conditions.

Future minimum rentals receivable under non-cancellable operating leases are as follows:

	As at 31st December, 2004 RMB'000	As at 30th June, 2005 RMB'000
Within one year	1,891	1,878
In the second to fifth years, inclusive	8,400	4,437
After five years	2,037	1,848
	<u>12,328</u>	<u>8,163</u>

(l) **Fair value of financial instruments**

The financial instruments of Xi'an Shidai Parkson mainly consist of cash and cash equivalents, prepayments, deposits and other receivables, a loan to an equity holder, trade payables, deposits, other payables and accruals and an amount due to an equity holder.

The carrying amounts of Xi'an Shidai Parkson's financial instruments were stated approximately at their fair value as at 31st December, 2004 and 30th June, 2005.

Fair value estimates are made at a specific point in time and based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(m) **Concentration of risks**

Xi'an Shidai Parkson is exposed to credit risk and foreign currency risk, as further explained below.

(i) *Credit risk*

Xi'an Shidai Parkson's cash and cash equivalents are deposited with banks in the PRC. The trade and other receivables included in the Financial Information represent Xi'an Shidai Parkson's major exposure to the credit risk attributable to its financial assets. Xi'an Shidai Parkson has no other significant concentrations of credit risk.

(ii) *Foreign currency risk*

Xi'an Shidai Parkson's business is conducted in RMB which cannot be freely exchanged into foreign currencies. As at 31st December, 2004 and 30th June, 2005, all of Xi'an Shidai Parkson's assets and liabilities were denominated in RMB.

5. STATEMENT OF CHANGES IN OWNERS' EQUITY

	Registered capital <i>RMB'000</i> <i>Note (a)</i>	Retained earnings/ (Accumulated losses) <i>RMB'000</i> <i>Note (b)</i>	Total <i>RMB'000</i>
At 17th August, 2004, date of registration	15,000	—	15,000
Net loss for the period	<u>—</u>	<u>(1,152)</u>	<u>(1,152)</u>
At 31st December, 2004 and 1st January, 2005	15,000	(1,152)	13,848
Net profit for the period	<u>—</u>	<u>3,987</u>	<u>3,987</u>
At 30th June, 2005	<u>15,000</u>	<u>2,835</u>	<u>17,835</u>

Notes:

(a) Capital

	As at 31st December, 2004 <i>RMB'000</i>	As at 30th June, 2005 <i>RMB'000</i>
Registered and paid-in capital	<u>15,000</u>	<u>15,000</u>

(b) Distributable reserves

In accordance with the relevant PRC regulations, Xi'an Shidai Parkson is required to transfer 10% of the profit after income tax, as determined under PRC accounting principles and financial regulations, to the statutory common reserve, until the balance of the fund reaches 50% of the registered capital of the company. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory common reserve may be used to offset against accumulated losses, if any.

Pursuant to the relevant PRC regulations, Xi'an Shidai Parkson is also required to transfer 5% to 10% of net profit, as determined under PRC accounting principles and financial regulations, to the statutory common welfare fund. This fund can only be used to provide staff welfare facilities and other collective benefits to the employees of the company. This fund is non-distributable other than in the event of liquidation.

6. CASH FLOW STATEMENTS

	For the period from 17th August, 2004 (date of registration) to 31st December, 2004 <i>RMB'000</i>	Six months ended 30th June, 2005 <i>RMB'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) from operations before income tax	(1,549)	3,987
Adjustments for:		
Interest income	(20)	(149)
Depreciation	6	795
Operating profit/(loss) before working capital changes	(1,563)	4,633
Increase in inventories	(2,638)	(173)
Decrease/(increase) in prepayments, deposits and other receivables	(7,041)	2,647
Increase/(decrease) in trade payables	13,280	(875)
Increase/(decrease) in deposits, other payables and accruals	15,585	(10,088)
Increase in an amount due to an equity holder	—	4,167
Cash generated from operating activities	17,623	311
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan to an equity holder	—	(2,050)
Purchases of fixed assets	(8,872)	(70)
Interest received	20	149
Net cash outflow from investing activities	(8,852)	(1,971)
Net cash inflow/(outflow) before financing activities	8,771	(1,660)
CASH FLOWS FROM FINANCING ACTIVITY		
Capital contribution from owners	15,000	—
Net cash inflow from financing activity	15,000	—
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	23,771	(1,660)
Cash and cash equivalents at beginning of period	—	23,771
CASH AND CASH EQUIVALENTS AT END OF PERIOD	23,771	22,111

7. SUBSEQUENT EVENT

On 12th May, 2005, Xi'an Parkson Shopping Center Co., Ltd., the equity holder of Xi'an Shidai Parkson entered into an equity transfer agreement with Xi'an Lucky King Parkson Plaza Co., Ltd., a subsidiary of Parkson Retail Group Limited, to sell its 51% equity interest in Xi'an Shidai Parkson for a cash consideration of RMB7.65million. In the opinion of the directors, the transaction was completed before the date of this report.

8. SUBSEQUENT FINANCIAL INFORMATION

No financial information has been prepared by Xi'an Shidai Parkson in respect of any period subsequent to 30th June, 2005.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

For illustrative purposes only, the unaudited pro forma financial information prepared in accordance with Listing Rule 4.29 is set out here to provide prospective investors with further financial information on (i) how the proposed listing and acquisition of the Acquired Stores might have affected the financial position of the Group after the completion of the Share Offer; (ii) how the proposed listing might have affected the unaudited pro forma forecast earnings per Share for the year ending 31st December, 2005 and (iii) how the acquisition of the Acquired Stores which took place after the Relevant Periods but before the completion of the Share Offer might have affected the performance and financial position of the Group.

The accompanying unaudited pro forma financial information of the enlarged group is based on currently available information along with a number of assumptions, estimates and uncertainties. As a result of these assumptions, estimates and uncertainties, the accompanying unaudited pro forma information of the enlarged group does not purport to describe the actual financial position or results of the enlarged group's operations that would have been attained had the acquisition transactions been completed, and the Reorganisation taken effect at the dates indicated herein. Further, the accompanying unaudited pro forma financial information of the enlarged group does not purport to predict the enlarged group's future financial position or results of operations.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of the unaudited pro forma adjusted net tangible assets of the Group, which has been prepared for the purpose of illustrating the effect of the Share Offer as if it had taken place on 30th June, 2005. It is based on the audited net tangible assets of the Group and the combined net tangible assets of the Acquired Stores as at 30th June, 2005, as shown in Part C of this Appendix and adjusted as follows:

	Net tangible assets of the Combined Group attributable to the shareholders of the Company <i>RMB'000</i> <i>(Note 1)</i>	Estimated net proceeds of the Offering <i>RMB'000</i> <i>(Note 2)</i>	Unaudited pro forma adjusted net tangible assets <i>RMB'000</i>	Unaudited pro forma adjusted net tangible assets per Share <i>RMB</i> <i>(Note 3)</i>	Unaudited pro forma adjusted net tangible assets per Share <i>HK\$</i>
Based on the Offer Price of HK\$8.40 per Share	<u>701,046</u>	<u>918,320</u>	<u>1,619,366</u>	<u>2.93</u>	<u>2.82</u>
Based on the Offer Price of HK\$9.80 per Share	<u>701,046</u>	<u>1,075,360</u>	<u>1,776,406</u>	<u>3.22</u>	<u>3.10</u>

Notes:

- The net tangible assets of the Combined Group attributable to shareholders of the Company as at 30th June, 2005 is prepared on the basis set out in page 504 of the Prospectus and has not taken into account the dividends of RMB204.3 million declared and paid subsequent to 30th June, 2005.

2. The estimated net proceeds of the Share Offer are based on the Offer Shares and the Offer Price, after deduction of underwriting fees and related expenses payable by the Company.
3. The unaudited pro forma adjusted net tangible asset value per Share is arrived at after the adjustments referred to in the preceding paragraph and on the basis that a total of 552,000,000 shares expected to be in issue immediately following the completion of the Share Offer and the Capitalisation Issue but takes no account of any Shares which may fall to be allotted and issued pursuant to the exercise of options granted under the Share Option Scheme, or which may be allotted and issued or purchased by the Company pursuant to the general mandates for the allotment and issue or purchase of Shares granted to the Directors as referred to in the section headed "Share Capital" in this Prospectus.
4. With reference to the valuation of the property interests of the Group as set out to Appendix V to this Prospectus, the aggregate revalued amount of the property interest of the Group was about RMB1,461 million. The unaudited net book value of these properties as at 31st August, 2005 was about RMB334 million. The revaluation surplus is about RMB1,127 million and which has not been included in the above adjusted net tangible assets of the Group. Such a revaluation surplus has not been recorded in the Financial Information of the Group set out in Appendix I and will not be recorded in the financial statements of the Group for the year ending 31st December, 2005 as the Group's property interests are stated at cost. If such revaluation surplus would be included to the financial statements of the Group for the year ending 31st December, 2005, the additional depreciation charge would amount to about RMB37 million.

B. UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

Forecast net profit attributable to shareholders of the
Company for the year ending 31st December, 2005

RMB242 million

Shares in issue before the Capitalisation Issue	80,100,000
Shares to be issued pursuant to the Capitalisation Issue	361,500,000
Shares to be issued pursuant to the Share Offer	<u>110,400,000</u>
Total	552,000,000
Unaudited pro forma forecast earnings per Share	RMB0.44

The unaudited pro forma forecast earnings per Share amount is calculated by dividing the forecast net profit attributable to shareholders of the Company for the year ending 31st December, 2005 by a total of 552,000,000 Shares.

C. UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION

Set out below is the unaudited pro forma combined profit and loss account and cash flow statement of the enlarged group for the year ended 31st December, 2004 and the six months ended 30th June, 2005 ("the Relevant Periods") and the unaudited pro forma balance sheet as at 31st December, 2004 and 30th June, 2005. The unaudited pro forma statements have been prepared based on the accountants' report of the Company, the text of which is set out in Appendix I to this Prospectus and the accountants' reports of the Acquired Stores, the text of which is set out in Appendix II to this Prospectus, and after giving effect to the pro forma adjustments described in the accompanying notes. A narrative description of the pro forma adjustments of the acquisition transactions and arrangements that are (i) directly attributable to the acquisition transactions; (ii) expected to have a continuing impact on the enlarged group; and (iii) factually supportable, are summarised in the accompanying notes.

**UNAUDITED PRO FORMA PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER, 2004**

	The Group (Note a) RMB'000	Unaudited pro forma balance of the Acquired Stores (Note b) RMB'000	Pro forma combined RMB'000	Pro forma adjustments RMB'000	Notes	Unaudited pro forma balance RMB'000
Revenues	750,038	422,366	1,172,404	(8,762) (569)	2 3	1,163,073
Other operating revenues	35,505	29,212	64,717	—		64,717
Total operating revenues	<u>785,543</u>	<u>451,578</u>	<u>1,237,121</u>	<u>(9,331)</u>	14	<u>1,227,790</u>
Operating expenses						
Purchase of goods and changes in inventories	(243,686)	(167,331)	(411,017)	569	3	(410,448)
Staff costs	(69,805)	(41,572)	(111,377)	—		(111,377)
Depreciation and amortisation	(52,070)	(15,620)	(67,690)	—		(67,690)
Rental expenses	(53,215)	(76,319)	(129,534)	—		(129,534)
Other operating expenses	(117,310)	(116,734)	(234,044)	8,762	2	(225,282)
Total operating expenses	<u>(536,086)</u>	<u>(417,576)</u>	<u>(953,662)</u>	<u>9,331</u>		<u>(944,331)</u>
Profit from operations	249,457	34,002	283,459	—		283,459
Finance income	3,014	1,943	4,957	—		4,957
Share of profit from an associate	449	—	449	—		449
Profit from operations before income tax	252,920	35,945	288,865	—		288,865
Income tax	(90,981)	(12,746)	(103,727)	—		(103,727)
Net profit for the year/ period from continuing operations	161,939	23,199	185,138	—		185,138
Discontinued operation						
Loss for the year from discontinued operation	—	(16,000)	(16,000)	—		(16,000)
Net profit for the year	<u>161,939</u>	<u>7,199</u>	<u>169,138</u>	<u>—</u>		<u>169,138</u>
Attributable to:						
Equity holders of the parent	152,771	3,489	156,260	(295) 242 288 (5,866)	5 6 7 8	150,629
Minority interests	9,168	3,710	12,878	295 (242) (288) 5,866	5 6 7 8	18,509
	<u>161,939</u>	<u>7,199</u>	<u>169,138</u>	<u>—</u>		<u>169,138</u>

Notes:

- The financial information of the Group is extracted from the accountants' report of the Company, the text of which is set out in Appendix I to this Prospectus.
- The unaudited combined financial information of the Acquired Stores is derived from the respective accountants' reports of the Acquired Stores and is adjusted for the effect of the proportional consolidation for those joint ventures (see note 10 to note 12).

UNAUDITED PRO FORMA PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER, 2004

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION

	Effect of proportional consolidation												Unaudited pro forma balance of the Acquired Stores RMB'000
	Shanxi Zhongyue Parkson Beijing Commercial Shopping and Trading Centre Co., Ltd. RMB'000	Shanghai Hongqiao Parkson Development Co., Ltd. RMB'000	Hefei Parkson Xiaoyao Plaza Co., Ltd. RMB'000	Chongqing Wanyou Shopping Plaza Co., Ltd. RMB'000	Guizhou Shenqi Parkson Retail Development Co., Ltd. RMB'000	Xi'an Chang'an Parkson Store Co., Ltd. RMB'000	Xi'an Shidai Parkson Store Co., Ltd. RMB'000	Combined balance of the Acquired Stores RMB'000	Beijing Commercial Shopping and Trading Centre Co., Ltd. (Note 10) RMB'000	Shanxi Zhongyue Parkson Commercial Co., Ltd. (Note 11) RMB'000	Xi'an Chang'an Parkson Store Co., Ltd. (Note 12) RMB'000	Xi'an Shidai Parkson Store Co., Ltd. (Note 12) RMB'000	
Revenues	41,558	37,040	143,270	68,543	56,056	543	2,055	458,223	(18,286)	(16,298)	(266)	(1,007)	422,366
Other operating revenues	1,454	2,838	8,444	5,234	1,978	263	36	31,248	(640)	(1,249)	(129)	(18)	29,212
Total operating revenues	43,012	39,878	151,714	73,777	58,034	806	2,091	489,471	(18,926)	(17,547)	(395)	(1,025)	451,578
Operating expenses													
Purchase of goods and changes in inventories	(27,993)	(10,110)	(54,530)	(36,033)	(20,122)	(118)	(548)	(184,423)	12,317	4,448	58	269	(167,331)
Staff costs	(3,987)	(3,573)	(12,527)	(6,286)	(5,114)	(176)	(194)	(45,079)	1,754	1,572	86	95	(41,572)
Depreciation and amortisation	(1,034)	(1,049)	(7,002)	(2,463)	(1,530)	(4)	(6)	(16,542)	455	462	2	3	(15,620)
Rental expenses	(5,410)	(14,646)	(17,922)	(13,364)	(10,129)	—	—	(85,143)	2,380	6,444	—	—	(76,319)
Other operating expenses	(3,952)	(12,658)	(40,567)	(14,795)	(6,722)	(1,786)	(2,912)	(126,345)	1,739	5,570	875	1,427	(116,734)
Total operating expenses	(42,376)	(42,036)	(138,298)	(72,941)	(43,617)	(2,084)	(3,660)	(457,532)	18,645	18,496	1,021	1,794	(417,576)
Profit/(loss) from operations	636	7,639	13,416	836	14,417	(1,278)	(1,569)	31,939	(281)	949	626	769	34,002
Finance income	55	299	368	732	249	5	20	2,111	(24)	(132)	(2)	(10)	1,943
Profit/(loss) from operations before income tax	691	(1,859)	13,784	1,568	14,666	(1,273)	(1,549)	34,050	(305)	817	624	759	35,945
Income tax	(776)	538	(6,918)	(587)	—	306	397	(12,505)	341	(237)	(150)	(195)	(12,746)
Net profit/(loss) for the year/period from continuing operations	(85)	(1,321)	6,866	981	14,666	(967)	(1,152)	21,545	36	580	474	564	23,199
Discontinued operation	—	—	—	—	—	—	—	(16,000)	—	—	—	—	(16,000)
Loss for the year from discontinued operation	—	—	—	—	—	—	—	(16,000)	—	—	—	—	(16,000)
Net profit/(loss) for the year	(85)	(1,321)	6,866	981	14,666	(967)	(1,152)	5,545	36	580	474	564	7,199
Attributable to:													
Equity holders of the parent	(85)	(1,321)	3,156	981	14,666	(967)	(1,152)	1,835	36	580	474	564	3,489
Minority interests	—	—	3,710	—	—	—	—	3,710	—	—	—	—	3,710
	(85)	(1,321)	6,866	981	14,666	(967)	(1,152)	5,545	36	580	474	564	7,199

**UNAUDITED PRO FORMA PROFIT AND LOSS ACCOUNT
FOR THE SIX MONTHS ENDED 30TH JUNE, 2005**

	The Group (Note a) RMB'000	Unaudited pro forma balance of the Acquired Stores (Note b) RMB'000	Pro forma combined RMB'000	Pro forma adjustments RMB'000	Notes	Unaudited pro forma balance RMB'000
Revenues	470,969	271,313	742,282	(5,201) (244)	2 3	736,837
Other operating revenues	33,993	24,143	58,136	—		58,136
Total operating revenues	<u>504,962</u>	<u>295,456</u>	<u>800,418</u>	<u>(5,445)</u>	14	<u>794,973</u>
Operating expenses						
Purchase of goods and changes in inventories	(154,613)	(107,971)	(262,584)	244	3	(262,340)
Staff costs	(45,194)	(26,530)	(71,724)	—		(71,724)
Depreciation and amortisation	(28,982)	(8,892)	(37,874)	—		(37,874)
Rental expenses	(35,334)	(43,230)	(78,564)	—		(78,564)
Other operating expenses	(73,648)	(56,279)	(129,927)	5,201	2	(124,726)
Total operating expenses	<u>(337,771)</u>	<u>(242,902)</u>	<u>(580,673)</u>	<u>5,445</u>		<u>(575,228)</u>
Profit from operations	167,191	52,554	219,745	—		219,745
Finance income	3,867	2,098	5,965	—		5,965
Share of profit from an associate	231	—	231	—		231
Profit from operations before income tax	171,289	54,652	225,941	—		225,941
Income tax	(55,818)	(14,142)	(69,960)	—		(69,960)
Net profit for the period	<u>115,471</u>	<u>40,510</u>	<u>155,981</u>	<u>—</u>		<u>155,981</u>
Attributable to:						
Equity holders of the parent	106,511	35,766	142,277	164 (962) (996) (4,931)	5 6 7 8	135,552
Minority interests	8,960	4,744	13,704	(164) 962 996 4,931	5 6 7 8	20,429
	<u>115,471</u>	<u>40,510</u>	<u>155,981</u>	<u>—</u>		<u>155,981</u>

Notes:

- The financial information of the Group is extracted from the accountants' report of the Company, the text of which is set out in Appendix I to this Prospectus.
- The unaudited combined financial information of the Acquired Stores is derived from the respective accountants' reports of the Acquired Stores and is adjusted for the effect of the proportional consolidation for those joint ventures (see note 10 to note 12).

APPENDIX III	UNAUDITED PRO FORMA FINANCIAL INFORMATION

— 498 —

APPENDIX III
UNAUDITED PRO FORMA FINANCIAL INFORMATION
**UNAUDITED PRO FORMA BALANCE SHEET
AS AT 31ST DECEMBER, 2004**

	The Group (Note a) RMB'000	Unaudited pro forma balance of the Acquired Stores (Note b) RMB'000	Pro forma combined RMB'000	Pro forma adjustments RMB'000	Notes	Unaudited pro forma balance RMB'000
NON-CURRENT ASSETS						
Property, plant and equipment	543,020	63,546	606,566	—		606,566
Lease prepayments	51,910	—	51,910	—		51,910
Intangible assets	3,112	—	3,112	—		3,112
Goodwill	—	2,356	2,356	10,248	13	12,604
Investment properties	18,726	—	18,726	—		18,726
Interests in an associate	1,548	—	1,548	—		1,548
Deferred tax assets	20,177	8,533	28,710	—		28,710
	<u>638,493</u>	<u>74,435</u>	<u>712,928</u>	<u>10,248</u>		<u>723,176</u>
CURRENT ASSETS						
Inventories	36,952	32,777	69,729	—		69,729
Trade receivables	23,920	986	24,906	(3,105)	2	20,289
				(1,512)	4	
Investments	76,706	—	76,706	—		76,706
Prepayments, deposits and other receivables	259,142	55,229	314,371	(37,529)	4	276,842
Due from a minority equity holder of a subsidiary	—	70,000	70,000	—		70,000
Due from an equity holder	—	8,404	8,404	—		8,404
Loan to an equity holder	—	1,020	1,020	—		1,020
Due from related parties	85,169	10,159	95,328	—		95,328
Pledged deposit	—	1,000	1,000	—		1,000
Time deposits	—	6,000	6,000	—		6,000
Cash and cash equivalents	408,522	199,668	608,190	(33,199)	1	551,841
				(4,800)	9	
				(18,350)	13	
	<u>890,411</u>	<u>385,243</u>	<u>1,275,654</u>	<u>(98,495)</u>		<u>1,177,159</u>
Non-current assets classified as held for sale	—	35,715	35,715	—		35,715
	<u>890,411</u>	<u>420,958</u>	<u>1,311,369</u>	<u>(98,495)</u>		<u>1,212,874</u>
TOTAL ASSETS	<u>1,528,904</u>	<u>495,393</u>	<u>2,024,297</u>	<u>(88,247)</u>		<u>1,936,050</u>
CURRENT LIABILITIES						
Interest-bearing loans and borrowings	(60,434)	(77,000)	(137,434)	20,000	4	(117,434)
Trade payables	(245,504)	(192,600)	(438,104)	578	4	(437,526)
Customers' deposits, other payables and accruals	(263,300)	(135,458)	(398,758)	3,105	2	(377,190)
				18,463	4	
Tax payable	(53,623)	(8,107)	(61,730)	—		(61,730)
Due to a minority equity holder of a subsidiary	—	(1,274)	(1,274)	—		(1,274)
Due to equity holders	—	(952)	(952)	—		(952)
Due to related parties	(77,432)	(159)	(77,591)	—		(77,591)
	<u>(700,293)</u>	<u>(415,550)</u>	<u>(1,115,843)</u>	<u>42,146</u>		<u>(1,073,697)</u>
Liabilities directly associated with non-current assets classified as held for sale	—	(33,715)	(33,715)	—		(33,715)
	<u>(700,293)</u>	<u>(449,265)</u>	<u>(1,149,558)</u>	<u>42,146</u>		<u>(1,107,412)</u>
NET CURRENT ASSETS/(LIABILITIES)	<u>190,118</u>	<u>(28,307)</u>	<u>161,811</u>	<u>(56,349)</u>		<u>105,462</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>828,611</u>	<u>46,128</u>	<u>874,739</u>	<u>(46,101)</u>		<u>828,638</u>
NON-CURRENT LIABILITIES						
Long term payables	(65,306)	(10,761)	(76,067)	—		(76,067)
Deferred tax liabilities	(41,005)	—	(41,005)	—		(41,005)
	<u>(106,311)</u>	<u>(10,761)</u>	<u>(117,072)</u>	<u>—</u>		<u>(117,072)</u>
NET ASSETS	<u>722,300</u>	<u>35,367</u>	<u>757,667</u>	<u>(46,101)</u>		<u>711,566</u>

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION

UNAUDITED PRO FORMA BALANCE SHEET *(continued)*

AS AT 31st DECEMBER, 2004

	The Group <i>(Note a)</i> RMB'000	Unaudited pro forma balance of the Acquired Stores <i>(Note b)</i> RMB'000	Pro forma combined RMB'000	Pro forma adjustments RMB'000	Notes	Unaudited pro forma balance RMB'000
Represented by:						
OWNERS' EQUITY	655,983	28,037	684,020	(33,199) (1,310) (2,257) (3,461) (13,122) (4,800) (18,350) 10,248	1 5 6 7 8 9 13 13	617,769
MINORITY INTERESTS	66,317	7,330	73,647	1,310 2,257 3,461 13,122	5 6 7 8	93,797
TOTAL EQUITY	<u>722,300</u>	<u>35,367</u>	<u>757,667</u>	<u>(46,101)</u>		<u>711,566</u>

Notes:

a. The financial information of the Group is extracted from the accountants' report of the Company, the text of which is set out in Appendix I to this Prospectus.

b. The unaudited combined financial information of the Acquired Stores is derived from the respective accountants' reports of the Acquired Stores and is adjusted for the effect of the proportional consolidation for those joint ventures (see note 10 to note 12).

APPENDIX III	UNAUDITED PRO FORMA FINANCIAL INFORMATION

— 501 —

UNAUDITED PRO FORMA FINANCIAL INFORMATION

— 502 —

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION

UNAUDITED PRO FORMA BALANCE SHEET AS AT 30TH JUNE, 2005

	The Group (Note a) RMB'000	Unaudited pro forma balance of the Acquired Stores (Note b) RMB'000	Pro forma combined RMB'000	Pro forma adjustments RMB'000	Notes	Unaudited pro forma balance RMB'000
NON-CURRENT ASSETS						
Property, plant and equipment	546,450	50,985	597,435	—		597,435
Lease prepayments	50,488	—	50,488	—		50,488
Intangible assets	16,366	—	16,366	—		16,366
Goodwill	—	2,356	2,356	10,248	13	12,604
Investment properties	18,060	—	18,060	—		18,060
Interests in an associate	1,779	—	1,779	—		1,779
Deferred tax assets	23,171	9,049	32,220	—		32,220
	<u>656,314</u>	<u>62,390</u>	<u>718,704</u>	<u>10,248</u>		<u>728,952</u>
CURRENT ASSETS						
Inventories	39,288	27,230	66,518	—		66,518
Trade receivables	31,559	978	32,537	(3,311)	2	28,905
				(321)	4	
Investments	1,742	—	1,742	—		1,742
Prepayments, deposits and other receivables	215,783	35,626	251,409	(15,934)	4	235,475
Due from a minority equity holder of a subsidiary	—	70,000	70,000	—		70,000
Due from equity holders	—	3,209	3,209	—		3,209
Loan to equity holders	—	2,065	2,065	—		2,065
Due from related parties	181,258	94	181,352	—		181,352
Pledged deposit	—	1,000	1,000	—		1,000
Time deposits	—	10,000	10,000	—		10,000
Cash and cash equivalents	483,229	170,402	653,631	(33,199)	1	597,282
				(4,800)	9	
				(18,350)	13	
	<u>952,859</u>	<u>320,604</u>	<u>1,273,463</u>	<u>(75,915)</u>		<u>1,197,548</u>
TOTAL ASSETS	<u>1,609,173</u>	<u>382,994</u>	<u>1,992,167</u>	<u>(65,667)</u>		<u>1,926,500</u>
CURRENT LIABILITIES						
Interest-bearing loans and borrowings	(79,200)	(50,000)	(129,200)	—		(129,200)
Trade payables	(253,393)	(153,733)	(407,126)	678	4	(406,448)
Customers' deposits, other payables and accruals	(248,296)	(116,083)	(364,379)	3,311	2	(345,491)
				15,577	4	
Tax payable	(50,500)	(8,217)	(58,717)	—		(58,717)
Due to a minority equity holder of a subsidiary	—	(1,041)	(1,041)	—		(1,041)
Due to equity holders	—	(2,809)	(2,809)	—		(2,809)
Due to related parties	(55,714)	(94)	(55,808)	—		(55,808)
	<u>(687,103)</u>	<u>(331,977)</u>	<u>(1,019,080)</u>	<u>19,566</u>		<u>(999,514)</u>
NET CURRENT ASSETS/(LIABILITIES)	<u>265,756</u>	<u>(11,373)</u>	<u>254,383</u>	<u>(56,349)</u>		<u>198,034</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>922,070</u>	<u>51,017</u>	<u>973,087</u>	<u>(46,101)</u>		<u>926,986</u>
NON-CURRENT LIABILITIES						
Long term payables	(67,924)	(8,967)	(76,891)	—		(76,891)
Deferred tax liabilities	(43,650)	—	(43,650)	—		(43,650)
	<u>(111,574)</u>	<u>(8,967)</u>	<u>(120,541)</u>	<u>—</u>		<u>(120,541)</u>
NET ASSETS	<u>810,496</u>	<u>42,050</u>	<u>852,546</u>	<u>(46,101)</u>		<u>806,445</u>

UNAUDITED PRO FORMA BALANCE SHEET *(continued)*

AS AT 30TH JUNE, 2005

	The Group (Note a) RMB'000	Unaudited pro forma balance of the Acquired Stores (Note b) RMB'000	Pro forma combined RMB'000	Pro forma adjustments RMB'000	Notes	Unaudited pro forma balance RMB'000
Represented by:						
OWNERS' EQUITY	747,707	33,430	781,137	(33,199)	1	718,586
				(1,146)	5	
				(3,219)	6	
				(4,457)	7	
				(7,628)	8	
				(4,800)	9	
				(18,350)	13	
				10,248	13	
MINORITY INTERESTS	62,789	8,620	71,409	1,146	5	87,859
				3,219	6	
				4,457	7	
				7,628	8	
TOTAL EQUITY	<u>810,496</u>	<u>42,050</u>	<u>852,546</u>	<u>(46,101)</u>		<u>806,445</u>

Notes:

- The financial information of the Group is extracted from the accountants' report of the Company, the text of which is set out in Appendix I to this Prospectus.
- The unaudited combined financial information of the Acquired Stores is derived from the respective accountants' reports of the Acquired Stores and is adjusted for the effect of the proportional consolidation for those joint ventures (see note 10 to note 12).
- Unaudited pro forma balance of net tangible assets of the Combined Group attributable to the shareholders of the Company of RMB701,046,000 is derived from the unaudited pro forma balance of owner's equity of RMB718,586,000 and is adjusted for unaudited pro forma balance of intangible assets, goodwill and deferred tax assets and deferred tax liabilities of RMB16,366,000, RMB12,604,000, RMB32,220,000 and RMB43,650,000, respectively.

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION

	Effect of proportional consolidation												Unaudited pro forma balance
	Shanxi Zhongyue Parkson Beijing Commercial Shopping and Trading Centre Co., Ltd.	Shanghai Hongqiao Parkson Development Co., Ltd.	Hefei Parkson Xiaoyao Plaza Co., Ltd.	Chongqing Wanyou Shopping Plaza Co., Ltd.	Guizhou Shengqi Parkson Retail Development Co., Ltd.	Xi'an Chang'an Parkson Store Co., Ltd.	Xi'an Shidai Parkson Store Co., Ltd.	Combined balance of the Acquired Stores	Shanxi				
									Zhongyue Parkson Commercial Shopping and Trading Centre Co., Ltd.	Beijing Shopping and Trading Centre Co., Ltd.	Xi'an Chang'an Parkson Store Co., Ltd.	Xi'an Shidai Parkson Store Co., Ltd.	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS													
Property, plant and equipment	2,398	2,497	11,908	9,827	5,708	6,190	8,141	60,161	(1,055)	(1,099)	(3,033)	(3,989)	50,985
Goodwill	—	—	1,331	1,025	—	—	—	2,356	—	—	—	—	2,356
Deferred tax assets	—	6,152	2,102	1,411	—	306	397	12,101	—	(2,707)	(150)	(195)	9,049
	2,398	8,649	15,341	12,263	5,708	6,496	8,538	74,618	(1,055)	(3,806)	(3,183)	(4,184)	62,390
CURRENT ASSETS													
Inventories	4,934	4,256	5,848	4,579	1,681	1,696	2,811	33,482	(2,171)	(1,873)	(831)	(1,377)	27,230
Trade receivables	812	—	523	—	—	—	—	1,335	(357)	—	—	—	978
Prepayments, deposits and other receivables	1,412	1,575	4,676	9,906	9,963	1,422	4,394	39,790	(621)	(693)	(697)	(2,153)	35,626
Due from a minority equity holder of a subsidiary	—	—	70,000	—	—	—	—	70,000	—	—	—	—	70,000
Due from equity holders	—	—	2,000	—	1,209	—	—	3,209	—	—	—	—	3,209
Loan to equity holders	—	—	—	—	—	2,000	2,050	4,050	—	—	(980)	(1,005)	2,065
Due from related parties	—	—	94	—	—	—	—	94	—	—	—	—	94
Pledged deposit	—	—	1,000	—	—	—	—	1,000	—	—	—	—	1,000
Time deposits	—	—	10,000	—	—	—	—	10,000	—	—	—	—	10,000
Cash and cash equivalents	9,718	21,105	40,091	20,295	38,180	13,779	22,111	201,550	(4,276)	(9,286)	(6,752)	(10,834)	170,402
	16,876	26,936	122,381	34,780	51,033	18,897	31,366	364,510	(7,425)	(11,852)	(9,260)	(15,369)	320,604
TOTAL ASSETS	19,274	35,585	137,722	47,043	56,741	25,393	39,904	439,128	(8,480)	(15,658)	(12,443)	(19,553)	382,994

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION

	Effect of proportional consolidation											Unaudited pro forma balance of the Acquired Stores RMB'000
	Shanxi Zhongyue Parkson Beijing Commercial Shopping and Trading Centre Co., Ltd. RMB'000	Shanghai Hongqiao Parkson Development Co., Ltd. RMB'000	Hefei Parkson Xiaoyao Plaza Co., Ltd. RMB'000	Chongqing Wanyou Shopping Plaza Co., Ltd. RMB'000	Guizhou Shenqi Parkson Retail Development Co., Ltd. RMB'000	Xi'an Chang'an Parkson Store Co., Ltd. RMB'000	Xi'an Shidai Parkson Store Co., Ltd. RMB'000	Combined balance of the Acquired Stores RMB'000	Beijing Commercial Shopping and Trading Centre (Note 10) RMB'000	Shanxi Zhongyue Parkson Commercial Co., Ltd. (Note 11) RMB'000	Xi'an Chang'an Parkson Store Co., Ltd. (Note 12) RMB'000	
CURRENT LIABILITIES												
Interest-bearing loans and borrowings	— (8,770)	— (13,193)	— (51,353)	— (23,854)	— (14,304)	— (7,980)	— (12,405)	— (50,000) (173,385)	— 3,859	— 5,805	— 6,078	— (50,000) (153,733)
Trade payables												
Customers' deposits, other payables and accruals	(14,580) (312)	(11,847) (576)	(26,175) (4,143)	(16,625) —	(17,009) —	(4,308) —	(5,497) —	(132,516) (8,607)	6,415 137	5,213 253	2,694 —	(116,083) (8,217)
Tax payable												
Due to a minority equity holder of a subsidiary	—	—	—	—	—	—	—	(1,041) (1,041)	—	—	—	(1,041)
Due to equity holders	—	(786)	—	(130)	—	(223)	(4,167)	(5,306) (94)	—	346 109	2,042	(2,809)
Due to related parties	—	—	—	—	—	—	—	—	—	—	—	(94)
	(23,662)	(26,402)	(81,671)	(40,609)	(31,313)	(12,511)	(22,069)	(370,949)	10,411	11,617	10,814	(331,977)
NET CURRENT ASSETS/(LIABILITIES)	(6,786)	534	(19,430)	(5,829)	19,720	6,386	9,297	(6,439)	2,986	(235)	(4,555)	(11,373)
TOTAL ASSETS LESS CURRENT LIABILITIES	(4,388)	9,183	(4,205)	6,434	25,428	12,882	17,835	68,179	1,931	(4,041)	(8,739)	51,017
NON-CURRENT LIABILITIES												
Long term payables	—	(11,341)	—	(2,616)	—	—	—	(13,957)	—	4,990	—	(8,967)
NET ASSETS/(LIABILITIES)	(4,388)	(2,158)	(4,205)	3,818	25,428	12,882	17,835	54,222	1,931	949	(8,739)	42,050
Represented by:												
OWNERS' EQUITY	(4,388)	(2,158)	(4,205)	3,818	25,428	12,882	17,835	45,602	1,931	949	(8,739)	33,430
MINORITY INTERESTS	—	—	—	—	—	—	—	8,620	—	—	—	8,620
TOTAL EQUITY	(4,388)	(2,158)	(4,205)	3,818	25,428	12,882	17,835	54,222	1,931	949	(8,739)	42,050

**UNAUDITED PRO FORMA CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER, 2004**

	The Group (Note a) RMB'000	Unaudited pro forma balance of the Acquired Stores (Note b) RMB'000	Pro forma combined RMB'000	Pro forma adjustments RMB'000	Notes	Unaudited pro forma balance RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit from operations before income tax	252,920	35,945	288,865	—		288,865
Adjustments for:						
Share of profit from an associate	(449)	—	(449)	—		(449)
Interest income	(5,778)	(4,333)	(10,111)	—		(10,111)
Interest expenses	1,946	2,390	4,336	—		4,336
Depreciation and amortisation	52,070	15,620	67,690	—		67,690
Exchange losses	818	—	818	—		818
Allowance for doubtful debt	5,526	2,621	8,147	—		8,147
Loss on disposal of fixed assets	2,340	71	2,411	—		2,411
Operating profit before working capital changes	309,393	52,314	361,707	—		361,707
Decrease/(increase) in inventories	328	(3,826)	(3,498)	—		(3,498)
Decrease/(increase) in trade receivables	(6,891)	370	(6,521)	3,105	2	(1,904)
				1,512	4	
Decrease/(increase) in prepayments, deposits and other receivables	(63,932)	3,442	(60,490)	37,529	4	(22,961)
Increase in amounts due from an equity holder	—	(7,794)	(7,794)	—		(7,794)
Decrease/(increase) in amounts due from related parties	80	(12,565)	(12,485)	—		(12,485)
Increase in trade payables	24,141	71,116	95,257	(578)	4	94,679
Increase/(decrease) in customers' deposits, other payables and accruals	(26,125)	45,806	19,681	(3,105)	2	(1,887)
				(18,463)	4	
Increase in amounts due to a minority equity holder of a subsidiary	—	1,274	1,274	—		1,274
Increase in amounts due to equity holders	—	349	349	—		349
Increase in amounts due to related parties	1,323	144	1,467	—		1,467
Increase in long term payables	5,393	2,262	7,655	—		7,655
Cash generated from operating activities	243,710	152,892	396,602	20,000		416,602
Interest paid	(1,946)	(2,390)	(4,336)	—		(4,336)
Income tax paid	(71,101)	(9,875)	(80,976)	—		(80,976)
Net cash inflow from operating activities	170,663	140,627	311,290	20,000		331,290
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from disposal of fixed assets	6,244	638	6,882	—		6,882
Purchases of fixed assets	(31,680)	(23,777)	(55,457)	—		(55,457)
Purchases of intangible assets	(3,277)	—	(3,277)	—		(3,277)
Net increase in investments	(29,977)	(16,000)	(45,977)	—		(45,977)
Decrease/(increase) in non-trade related due from related parties	80,797	(70,000)	10,797	—		10,797
Increase in non-trade related other receivables	(49,724)	(1,020)	(50,744)	—		(50,744)
Increase in time deposits	—	(3,000)	(3,000)	—		(3,000)
Dividend received	323	—	323	—		323
Acquisitions of subsidiaries, net of cash paid	—	18,115	18,115	(4,800)	9	(19,884)
				(33,199)	1	
Interest received	5,778	4,333	10,111	—		10,111
Net cash outflow from investing activities	(21,516)	(90,711)	(112,227)	(37,999)		(150,226)
Net cash inflow/(outflow) before financing activities	149,147	49,916	199,063	(17,999)		181,064

UNAUDITED PRO FORMA CASH FLOW STATEMENT(*continued*)
FOR THE YEAR ENDED 31ST DECEMBER, 2004

	The Group (Note a) RMB'000	Unaudited pro forma balance of the Acquired Stores (Note b) RMB'000	Pro forma combined RMB'000	Pro forma adjustments RMB'000	Notes	Unaudited pro forma balance RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES						
New bank loans and other loans	33,600	70,000	103,600	(20,000)	4	83,600
Repayment of bank loans and other loans	(18,245)	(1,000)	(19,245)	—		(19,245)
Decrease in non-trade related due to related parties	(86,344)	—	(86,344)	—		(86,344)
Cash contribution from owners	9,000	12,750	21,750	—		21,750
Capital contribution from a minority shareholder	9,000	—	9,000	—		9,000
Dividend paid	(12,588)	—	(12,588)	—		(12,588)
Net cash inflow/(outflow) from financing activities	<u>(65,577)</u>	<u>81,750</u>	<u>16,173</u>	<u>(20,000)</u>		<u>(3,827)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	83,570	131,666	215,236	(37,999)		177,237
Cash and cash equivalents at beginning of year	322,971	68,002	390,973	(18,350)	13	372,623
Exchange difference	<u>1,981</u>	<u>—</u>	<u>1,981</u>	<u>—</u>		<u>1,981</u>
Cash and cash equivalents at end of year	<u><u>408,522</u></u>	<u><u>199,668</u></u>	<u><u>608,190</u></u>	<u><u>(56,349)</u></u>		<u><u>551,841</u></u>

Notes:

- The financial information of the Group is extracted from the accountants' report of the Company, the text of which is set out in Appendix I to this Prospectus.
- The unaudited combined financial information of the Acquired Stores is derived from the respective accountants' reports of the Acquired Stores and is adjusted for the effect of the proportional consolidation for those joint ventures (see note 10 to note 12).

APPENDIX III	UNAUDITED PRO FORMA FINANCIAL INFORMATION

— 509 —

APPENDIX III	UNAUDITED PRO FORMA FINANCIAL INFORMATION

— 510 —

**UNAUDITED PRO FORMA CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE, 2005**

	The Group <i>(Note a)</i> <i>RMB'000</i>	Unaudited pro forma balance of the Acquired Stores <i>(Note b)</i> <i>RMB'000</i>	Pro forma combined <i>RMB'000</i>	Pro forma adjustments <i>RMB'000</i>	Notes	Unaudited pro forma balance <i>RMB'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit from operations before income tax	171,289	54,652	225,941	—		225,941
Adjustments for:						
Share of profit from an associate	(231)	—	(231)	—		(231)
Interest income	(6,259)	(4,145)	(10,404)	—		(10,404)
Interest expenses	2,346	2,047	4,393	—		4,393
Depreciation and amortisation	28,982	8,892	37,874	—		37,874
Exchange losses	46	—	46	—		46
Allowance for doubtful debt	2,123	—	2,123	—		2,123
Gain on disposal of a branch	—	(2,673)	(2,673)	—		(2,673)
Loss on disposal of fixed assets	117	—	117	—		117
Operating profit before working capital changes	198,413	58,773	257,186	—		257,186
Decrease in inventories	1,782	5,208	6,990	—		6,990
Decrease/(increase) in trade receivables	(9,739)	8	(9,731)	3,311	2	(6,099)
				321	4	
Decrease in prepayments, deposits and other receivables	87,510	19,277	106,787	15,934	4	122,721
Decrease in amounts due from an equity holder	—	7,195	7,195	—		7,195
Decrease/(increase) in amounts due from related parties	(150)	10,065	9,915	—		9,915
Decrease in trade payables	(25,305)	(29,162)	(54,467)	(678)	4	(55,145)
Decrease in customers' deposits, other payables and accruals	(27,833)	(14,398)	(42,231)	(3,311)	2	(61,119)
				(15,577)	4	
Decrease in amounts due to a minority equity holder of a subsidiary	—	(233)	(233)	—		(233)
Increase in amounts due to equity holders	—	1,857	1,857	—		1,857
Decrease in amounts due to related parties	(1,488)	(65)	(1,553)	—		(1,553)
Increase/(decrease) in long term payables	2,618	(1,794)	824	—		824
Cash generated from operating activities	225,808	56,731	282,539	—		282,539
Interest paid	(2,346)	(2,047)	(4,393)	—		(4,393)
Income tax paid	(59,290)	(14,549)	(73,839)	—		(73,839)
Net cash inflow from operating activities	164,172	40,135	204,307	—		204,307
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from disposal of fixed assets	421	110	531	—		531
Purchases of fixed assets	(22,510)	(1,147)	(23,657)	—		(23,657)
Cash outflow from disposal of a branch	—	(10,637)	(10,637)	—		(10,637)
Net decrease in investments	74,964	—	74,964	—		74,964
Increase in non-trade related due from related parties	(95,939)	(1,045)	(96,984)	—		(96,984)
Decrease in non-trade related other receivables	25,468	—	25,468	—		25,468
Increase in time deposits	—	(4,000)	(4,000)	—		(4,000)
Cash paid for acquisition	(9,800)	—	(9,800)	(4,800)	9	(47,799)
				(33,199)	1	
Interest received	6,259	4,144	10,403	—		10,403
Net cash outflow from investing activities	(21,137)	(12,575)	(33,712)	(37,999)		(71,711)
Net cash inflow/(outflow) before financing activities	143,035	27,560	170,595	(37,999)		132,596

UNAUDITED PRO FORMA CASH FLOW STATEMENT *(continued)*
FOR THE SIX MONTHS ENDED 30th JUNE, 2005

	The Group <i>(Note a)</i> <i>RMB'000</i>	Unaudited pro forma balance of the Acquired Stores <i>(Note b)</i> <i>RMB'000</i>	Pro forma combined <i>RMB'000</i>	Pro forma adjustments <i>RMB'000</i>	Notes	Unaudited pro forma balance <i>RMB'000</i>
CASH FLOWS FROM FINANCING ACTIVITIES						
New bank loans and other loans	39,200	—	39,200	—		39,200
Repayment of bank loans and other loans	(60,434)	(23,000)	(83,434)	—		(83,434)
Decrease in non-trade related due to related parties	(20,230)	—	(20,230)	—		(20,230)
Distribution to owners	(4,139)	—	(4,139)	—		(4,139)
Dividend paid	(20,530)	(33,826)	(54,356)	—		(54,356)
Net cash outflow from financing activities	<u>(66,133)</u>	<u>(56,826)</u>	<u>(122,959)</u>	<u>—</u>		<u>(122,959)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	76,902	(29,266)	47,636	(37,999)		9,637
Cash and cash equivalents at beginning of period	408,522	199,668	608,190	(18,350)	13	589,840
Exchange differences	<u>(2,195)</u>	<u>—</u>	<u>(2,195)</u>	<u>—</u>		<u>(2,195)</u>
Cash and cash equivalents at end of period	<u>483,229</u>	<u>170,402</u>	<u>653,631</u>	<u>(56,349)</u>		<u>597,282</u>

Notes:

- a. The financial information of the Group is extracted from the accountants' report of the Company, the text of which is set out in Appendix I to this Prospectus.
- b. The unaudited combined financial information of the Acquired Stores is derived from the respective accountants' reports of the Acquired Stores and is adjusted for the effect of the proportional consolidation for those joint ventures (see note 10 to note 12).

APPENDIX III	UNAUDITED PRO FORMA FINANCIAL INFORMATION

— 513 —

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION

UNAUDITED PRO FORMA CASH FLOW STATEMENT (continued)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

	Effect of proportional consolidation										Unaudited pro forma balance of the Acquired Stores
	Shanxi					Guizhou					
	Beijing Shopping Centre	Shangqiao Parkson Development Co., Ltd.	Hefei Parkson Xiaoyao Plaza Co., Ltd.	Chongqing Wanyou Shopping Plaza Co., Ltd.	Shenqi Parkson Retail Development Co., Ltd.	Chang'an Parkson Store Co., Ltd.	Xi'an Shidai Parkson Store Co., Ltd.	Combined balance of the Acquired Stores	Beijing Shopping Centre (Note 10)	Zhongyue Parkson Commercial and Trading Co., Ltd. (Note 11)	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES											RMB'000
Proceeds from disposal of fixed assets	—	—	22	88	—	—	—	—	—	—	—
Purchases of fixed assets	(78)	(14)	(535)	(243)	(69)	(333)	(70)	(1,384)	34	163	34
Cash outflow from disposal of a branch	—	—	—	—	—	—	—	(10,637)	—	—	—
Increase in non-trade related due from related parties	—	—	—	—	—	—	—	(2,050)	—	—	—
Increase in time deposits	—	—	(4,000)	—	—	—	—	(4,000)	—	—	—
Interest received	70	258	537	397	382	129	149	4,426	(31)	(63)	(72)
Net cash inflow/(outflow) from investing activities	(8)	244	(3,976)	242	313	(204)	(1,971)	(13,535)	3	100	967
Net cash inflow/(outflow) before financing activities	(2,144)	(5,142)	14,815	(2,456)	16,172	4,912	(1,660)	25,947	943	(2,407)	814
CASH FLOWS FROM FINANCING ACTIVITIES											
Repayment of bank loans and other loans	—	—	(20,000)	—	(3,000)	—	—	(23,000)	—	—	—
Dividend paid	—	—	—	—	(19,706)	—	—	(33,826)	—	—	—
Net cash outflow from financing activities	—	—	(20,000)	—	(22,706)	—	—	(56,826)	—	—	—
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(2,144)	(5,142)	(5,185)	(2,456)	(6,534)	4,912	(1,660)	(30,879)	943	(2,407)	814
Cash and cash equivalents at beginning of period	11,862	26,247	41,456	22,751	44,714	8,867	23,771	232,429	(5,219)	(11,549)	(11,648)
Cash and cash equivalents at end of period	9,718	21,105	36,271	20,295	38,180	13,779	22,111	201,550	(4,276)	(6,752)	(10,834)

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

- (1) As set out in the section headed “Corporate reorganisation” in Appendix VII to the Prospectus, subsequent to the period ended 30th June, 2005, the Group acquired the Acquired Stores at an aggregate consideration of RMB33,199,000 which is based on the respective share of the net asset value of the Acquired Stores. For the purpose of the preparation of this unaudited pro forma financial information, the above-mentioned acquisitions are accounted for by using acquisition accounting as if the acquisitions had been completed on 1st January, 2004, the beginning of the year being presented therein.
- For illustrative purposes only, this pro forma adjustment is prepared to account for the effect on the unaudited pro forma combined cash flow statement arising from the acquisition of the Acquired Stores at a consideration of RMB33,199,000. This adjustment does not reflect the actual cash flow impact that took place at later dates. The effect of reduction in interest income from this cash outflow of approximately RMB219,000 for the year ended 31st December, 2004 and RMB164,000 for the period ended 30th June, 2005 is not presented in the unaudited pro forma financial information because the effects are not material.
- (2) The adjustments represent the elimination of consultancy and management fees provided by Shanghai Lion Investment to the Acquired Stores. The transaction amounts were RMB8,762,000 for the year ended 31st December, 2004 and RMB5,201,000 for the period ended 30th June, 2005 and are adjusted in the unaudited pro forma profit and loss account thereof. The balances of RMB3,105,000 as at 31st December, 2004 and RMB3,311,000 as at 30th June, 2005 are eliminated in the unaudited pro forma balance sheet.
- (3) The adjustments represent the elimination of sales and purchase transactions among the Acquired Stores, Hefei Parkson and Shanghai Hongqiao Parkson, which amounted to approximately RMB569,000 and RMB244,000 for the year ended 31st December, 2004 and the period ended 30th June, 2005, respectively.
- (4) The adjustments represent the elimination of intra-group company balances. As at 31st December, 2004, the balances of trade receivables, trade payables, other receivables, other payables and a loan amounted to RMB1,512,000, RMB578,000, RMB37,529,000, RMB18,463,000 and RMB20,000,000, respectively. As at 30th June, 2005, the balances of trade receivables, trade payables, other receivables and other payables amounted to RMB321,000, RMB678,000, RMB15,934,000 and RMB15,577,000, respectively.
- (5) The pro forma adjustments represent the effect of minority interests of Chongqing Parkson of RMB1,310,000 and RMB1,146,000 as at 31st December, 2004 and 30th June, 2005, respectively. In addition, the share of profits and (loss) by minority interests amounted to approximately RMB295,000 and RMB164,000 for the year ended 31st December, 2004 and the period ended 30th June, 2005, respectively.
- (6) The pro forma adjustments represent the effect of minority interests of Xi’an Lucky Parkson in Xi’an Chang’an Parkson in the unaudited pro forma balance sheet of RMB2,257,000 and RMB3,219,000 as at 31st December, 2004 and 30th June, 2005, respectively. The share of (loss) and profit by minority interests in Xi’an Lucky Parkson amounted to approximately RMB242,000 and approximately RMB962,000 for the year ended 31st December, 2004 and the period ended 30th June, 2005, respectively.
- (7) The pro forma adjustments represent the effect of minority interests of Xi’an Lucky Parkson in Xi’an Shidai Parkson in the unaudited pro forma balance sheet of RMB3,461,000 and RMB4,457,000 as at 31st December, 2004 and 30th June, 2005, respectively. The share of (loss) and profit by minority interests in Xi’an Lucky Parkson amounted to RMB288,000 and RMB996,000 for the year ended 31st December, 2004 and the period ended 30th June, 2005.
- (8) The pro forma adjustments represent the effect of minority interests of Guizhou Parkson. The minority interest in the unaudited pro forma balance sheet amounted to RMB13,122,000 and RMB7,628,000 as at 31st December, 2004 and 30th June, 2005, respectively. For the year ended 31st December, 2004 and the period ended 30th June, 2005, minority share of profit of Guizhou Parkson amounted to RMB5,866,000 and RMB4,931,000, respectively.
- (9) Pursuant to the acquisition agreement, a cash balance of RMB4,800,000 of Chongqing Wanyou Plaza was retained by the preceding owner of the store and was adjusted as a reduction in cash balance in the unaudited pro forma balance sheet.

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION

- (10) The pro forma adjustments represent the effect of the proportional consolidation of Beijing Shopping Centre by the Group of 56%.
- (11) The pro forma adjustments represent the effect of the proportional consolidation of Shanxi Zhongyue Parkson Commercial and Trading Co., Ltd. by the Group of 56%.
- (12) The pro forma adjustments represent the effect of the proportional consolidation of each of Xi'an Chang'an Parkson Store Co., Ltd. and Xi'an Shidai Parkson Store Co., Ltd. by the Group of 51%.
- (13) As set out in the section headed "Corporate reorganisation" in Appendix VII to the Prospectus, subsequent to the period ended 30th June, 2005 the Group acquired the Acquired Stores from various independent parties and LDHB. For the purpose of preparation of this pro forma financial information, the acquisitions are accounted for as if the acquisitions had been completed on 1st January, 2004, the beginning of the year being presented therein.

For illustrative purpose, the aggregate amount of cash considerations paid by the Group for the acquisitions of Beijing Shopping Centre, Shanxi Zhongyue, Xi'an Chang'an Parkson, Xi'an Shidai Parkson and Chongqing Wanyou Plaza, which amounting to RMB18,350,000 was reflected as a reduction in cash balance in the pro forma balance sheets as at 31st December, 2004 and 30th June, 2005. The goodwill arising from the acquisitions of Beijing Shopping Centre, Shanxi Zhongyue and Chongqing Wanyou Plaza which amounting to RMB10,248,000 was adjusted in the pro forma balance sheet as at 31st December, 2004 and 30th June, 2005. The aggregate amount of negative goodwill arising from the acquisitions of Xi'an Chang'an Parkson and Xi'an Shidai Parkson which amounting to RMB2,916,000 is required to be recognised as income prior to 1st January, 2004.

The effect of reduction in interest income from above-mentioned cash outflow of approximately RMB132,000 for the year ended 31st December, 2004 and RMB66,000 for the period ended 30th June, 2005 is not presented in the pro forma financial information because the effects are not material.

The acquisitions of Step Summit, which is the holding company of Shanghai Hongqiao Parkson, Hefei Parkson and Guizhou Parkson, by the Group from LDHB involve exchange of shares between entities under common control and therefore no cash outflow or goodwill will be recognised by the Group.

- (14) The unaudited pro forma combined revenues are analysed as follow:

Unaudited pro forma combined revenues for the year ended 31st December, 2004

	The Group	Unaudited pro forma balance of the Acquired Stores	Pro forma combined	Pro forma adjustments	Unaudited pro forma balance
	<i>(Note a)</i>	<i>(Note b)</i>			
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Sales of goods — direct sales	292,842	191,602	484,444	(569)	483,875
Commission from concessionaire sales	357,592	216,648	574,240		574,240
Consultancy and management fee	47,220	—	47,220	(8,762)	38,458
Rental income	52,384	14,116	66,500		66,500
Other operating revenues	35,505	29,212	64,717	—	64,717
	<u>785,543</u>	<u>451,578</u>	<u>1,237,121</u>	<u>(9,331)</u>	<u>1,227,790</u>
Total operating revenues	<u>785,543</u>	<u>451,578</u>	<u>1,237,121</u>	<u>(9,331)</u>	<u>1,227,790</u>

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION

	Effect of proportional consolidation											Unaudited pro forma balance of the Acquired Stores RMB'000			
	Shanxi Zhongyue Parkson		Shanghai Hongqiao Parkson		Hefei Parkson	Chongqing Wanyou Shopping Plaza	Guizhou Shenqi Parkson		Xi'an Chang'an Parkson	Xi'an Shidai Parkson	Combined balance of the Acquired Stores RMB'000		Shanxi Zhongyue Parkson	Xi'an Chang'an Parkson	Xi'an Shidai Parkson
	Beijing Shopping Centre RMB'000	Commercial and Trading Co., Ltd. RMB'000	Development Co., Ltd. RMB'000	Parkson Xiaoyao Plaza Co., Ltd. RMB'000	Parkson Xiaoyao Plaza Co., Ltd. RMB'000	Shopping Plaza Co., Ltd. RMB'000	Retail Development Co., Ltd. RMB'000	Store Co., Ltd. RMB'000	Store Co., Ltd. RMB'000	Parkson Store Co., Ltd. RMB'000	Acquired Stores RMB'000	Beijing Shopping Centre Co., Ltd. RMB'000	Commercial and Trading Co., Ltd. RMB'000	Parkson Store Co., Ltd. RMB'000	Parkson Store Co., Ltd. RMB'000
Sales of goods — direct sales	31,106	11,500	42,006	62,260	39,941	23,136	134	649	210,732	(13,686)	(5,060)	(66)	(318)	191,602	
Commission from concessionaire sales	8,948	24,290	64,074	76,608	24,682	31,849	400	1,213	232,064	(3,938)	(10,688)	(196)	(594)	216,648	
Rental income	1,504	1,250	3,078	4,402	3,920	1,071	9	193	15,427	(662)	(550)	(4)	(95)	14,116	
Other operating revenues	1,454	2,838	11,001	8,444	5,234	1,978	263	36	31,248	(640)	(1,249)	(129)	(18)	29,212	
Total operating revenues	43,012	39,878	120,159	151,714	73,777	58,034	806	2,091	489,471	(18,926)	(17,547)	(395)	(1,025)	451,578	

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION

Unaudited pro forma combined revenues for the period ended 30th June, 2005

	The Group (Note a) RMB'000	Unaudited pro forma balance of the Acquired Stores (Note b) RMB'000	Pro forma combined RMB'000	pro Forma adjustments RMB'000	Unaudited pro forma balance RMB'000
Sales of goods — direct sales	186,609	121,138	307,747	(244)	307,503
Commission from concessionaire sales	224,102	141,272	365,374	—	365,374
Consultancy and management fee	29,715	—	29,715	(5,201)	24,514
Rental income	30,543	8,903	39,446	—	39,446
Other operating revenues	33,993	24,143	58,136	—	58,136
Total operating revenues	504,962	295,456	800,418	(5,445)	794,973

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION

	Effect of proportional consolidation												Unaudited pro forma balance of the Acquired Stores RMB'000
	Shanxi			Guizhou			Shanxi			Xi'an			
	Shanxi Zhongyue Parkson Beijing Commercial Shopping and Trading Centre RMB'000	Shanghai Hongqiao Parkson Development Co., Ltd. RMB'000	Hefei Parkson Xiaoyao Plaza Co., Ltd. RMB'000	Chongqing Wanyou Shopping Plaza Co., Ltd. RMB'000	Shenqi Parkson Retail Development Co., Ltd. RMB'000	Xi'an Chang'an Parkson Store Co., Ltd. RMB'000	Xi'an Shidai Parkson Store Co., Ltd. RMB'000	Combined balance of the Acquired Stores RMB'000	Zhongyue Parkson Beijing Commercial Shopping and Trading Centre Co., Ltd. RMB'000	Xi'an Chang'an Parkson Store Co., Ltd. RMB'000	Xi'an Shidai Parkson Store Co., Ltd. RMB'000		
Sales of goods — direct sales	16,646	5,689	23,595	42,672	25,349	13,574	3,327	3,418	134,270	(7,324)	(2,503)	(1,630)	121,138
Commission from concessionaire sales	4,324	15,107	39,504	43,993	14,465	20,749	10,319	12,583	161,044	(1,903)	(6,647)	(5,056)	141,272
Rental income	715	763	1,358	2,506	2,739	578	838	915	10,412	(314)	(336)	(411)	8,903
Other operating revenues	773	1,020	5,476	9,556	2,055	1,952	3,391	4,649	28,872	(340)	(449)	(1,662)	24,143
Total operating revenue	22,458	22,579	69,933	98,727	44,608	36,853	17,875	21,565	334,598	(9,881)	(9,935)	(8,759)	295,456

D. COMFORT LETTER ON UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS AND UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following is the text of a report from Ernst & Young, the reporting accountants to the Company, in respect of the unaudited pro forma net tangible assets.



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

17th November, 2005

The Directors
Parkson Retail Group Limited

Dear Sirs,

We report on the unaudited pro forma adjusted net tangible assets (“Pro Forma Adjusted NTA”) and the unaudited pro forma forecast earnings per share (“Pro Forma Forecast EPS”) of Parkson Retail Group Limited (the “Company”) together with its subsidiaries, joint ventures and associate (hereinafter collectively referred to as the “Group”) set out on in sections A and B, respectively, of Appendix III to the prospectus dated 17th November, 2005 (the “Prospectus”), in connection with the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited, which has been prepared, for illustrative purposes only. The Pro Forma Forecast EPS and the Pro Forma Adjusted NTA (collectively the “Unaudited Pro Forma Financial Information”) provides information about how the proposed listing and the acquisition of the Acquired Stores which took place subsequent to the date to which the latest accountants’ report of the Group were made up but prior to the listing of the Company, which has resulted in the formation of an enlarged group, might have affected the relevant financial information of the Group presented.

RESPONSIBILITIES

It is the sole responsibility of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

It is our responsibility to form an opinion, as required by the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information, beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on unaudited pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

Our work does not constitute an audit or review made in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants and, accordingly, we do not express any such assurance on the Unaudited Pro Forma Financial Information.

The Unaudited Pro Forma Financial Information has been prepared in accordance with the basis set out on pages 493 to 494 for illustrative purposes only and, because of its nature, it may not be indicative of:

- the earnings per share of the Group for any future periods; or
- the financial position of the Group at any future date.

OPINION

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

E. COMFORT LETTER ON UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION



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

17th November, 2005

The Directors
Parkson Retail Group Limited

Dear Sirs,

We report on the unaudited pro forma combined financial information (“Unaudited Pro Forma Combined Financial Information”) of Parkson Retail Group Limited (the “Company”) together with its subsidiaries, joint ventures and associate (herein after collectively referred to as the “Group”) set out in Section C of Appendix III to the prospectus dated 17th November, 2005 (the “Prospectus”) in connection with the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited, which has been prepared, for illustrative purposes only, to provide information on how the acquisition of the Acquired Stores resulting in the formation of an enlarged group (“the Enlarged Group”) might have affected the financial information of the Group presented therein.

RESPONSIBILITIES

It is the sole responsibility of the directors of the Company to prepare the Unaudited Pro Forma Combined Financial Information in accordance with the basis of preparation described in the notes to the Unaudited Pro Forma Combined Financial Information set out in Appendix III to the Prospectus and paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

It is our responsibility to form an opinion, as required by the Listing Rules, on the Unaudited Pro Forma Combined Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Combined Financial Information, beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our work in accordance with Statements of Investment Circular Reporting Standards and Bulleting 1998/8 “Reporting on unaudited pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Combined Financial Information with the directors of the Company.

Because the above work does not constitute an audit or review made in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, we do not express any such assurance on the Unaudited Pro Forma Combined Financial Information.

The Unaudited Pro Forma Combined Financial Information has been prepared based on the Accountants' Report of the Group as set out in Appendix I and the Accountants' Reports of the Acquired Stores as set out in Appendix II to the Prospectus for illustrative purposes only and, because of its nature, it may not be indicative of the financial position or results of:

- (a) the Enlarged Group had the acquisition of the Acquired Stores actually occurred at the beginning of the year ended 31st December, 2004; or
- (b) the Enlarged Group for any future periods.

OPINION

In our opinion:

- (a) the Unaudited Pro Forma Combined Financial Information has been properly compiled on the basis stated in the notes to the Unaudited Pro Forma Combined Financial Information set out in Section C of Appendix III to the Prospectus;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The forecast of the combined profit attributable to the shareholders of the Company for the year ending 31st December, 2005 is set out in the paragraph headed “Profit Forecast” under the section headed “Financial Information” in this prospectus.

1. BASES AND ASSUMPTIONS

The forecast of the combined profit attributable to the shareholders of the Company for the year ending 31st December, 2005 prepared by the Directors is based on the audited financial information of the Group for the six months ended 30th June, 2005, unaudited management accounts of the Group for the three months ended 30th September, 2005 and a forecast of the results of the Group for the three months ending 31st December, 2005. The forecast has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted by the Group as summarised in the Accountants’ Report, the text of which is set out in Appendix I to this prospectus and is based on the following principal assumptions:

- (a) there will be no material changes in existing government policies or political, legal (including changes in legislation or regulations or rules), fiscal, market or economic conditions in any of the countries, regions or industries in which the Group operates;
- (b) there will be no significant fluctuations in currency exchange rates, interest rates and tariffs and duties in the PRC in which the Group operates; and
- (c) there will be no material changes in the bases or rates of tax applicable to the Group in the respective jurisdictions in which the Group operates.

2. LETTERS

(i) Letter from Ernst & Young

Set out below are texts of letters, prepared for inclusion in this Prospectus, received by the Directors from the Company's reporting accountants, Ernst & Young, and from the Sponsors in connection with the forecast of the combined profit after tax and minority interests but before extraordinary items of the Group for the year ending 31st December, 2005.



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

17th November, 2005

The Directors
Parkson Retail Group Limited
BNP Paribas Peregrine Capital Limited

Dear Sirs,

We have reviewed the accounting policies and calculations adopted in arriving at the forecast of the combined profit after tax and minority interests of Parkson Retail Group Limited (the "Company"), its subsidiaries, joint ventures and associate (hereinafter collectively referred to as the "Group") for the year ending 31st December, 2005 (the "Forecast") as set out in the paragraph headed "Profit Forecast" under the section headed "Financial Information" in the prospectus of the Company dated 17th November, 2005 (the "Prospectus"), for which you as directors of the Company are solely responsible. The Forecast has been prepared by the directors of the Company based on the audited combined results of the Group for the six months ended 30th June, 2005, the unaudited combined results of the Group for the three months ended 30th September, 2005 and a forecast of the combined results of the Group for the remaining three months ending 31st December, 2005.

In our opinion, so far as the accounting policies and calculations are concerned, the Forecast has been properly compiled in accordance with the bases and assumptions made by the directors of the Company as set out in section 1 of this appendix, and is presented on a basis consistent in all material respects with the accounting policies presently adopted by the Group as set out in our Accountants' Report dated 17th November, 2005, the text of which is set out in Appendix I to the Prospectus.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

(ii) Letter from BNP Paribas Peregrine

BNP PARIBAS PEREGRINE

The Directors
Parkson Retail Group Limited
9th Floor, Parkson Plaza
No. 101 Fuxingmennei Avenue
Xicheng District
Beijing 100031
PRC

17th November, 2005

Dear Sirs,

We refer to the forecast of the combined profit of Parkson Retail Group Limited (the “Company”), its subsidiaries, joint ventures and associate (together the “Group”) attributable to the shareholders of the Company for the year ending 31st December, 2005 (the “Forecast”) as set out in the paragraph headed “Profit Forecast” under the section headed “Financial Information” in the prospectus of the Company dated 17th November, 2005.

The Forecast, for which the directors of the Company (the “Directors”) are solely responsible, has been prepared by them based on the audited combined results for the six months ended 30th June, 2005, unaudited combined results of the Group for the three months ended 30th September, 2005 and a forecast of the combined results of the Group for the remaining three months ending 31st December, 2005.

We have discussed with you the bases and assumptions upon which the Profit Forecast has been made. We have also considered the letter dated 17th November, 2005 addressed to you and us from Ernst & Young regarding the accounting policies and calculations upon which the Forecast has been made.

On the basis of the foregoing and on the bases and assumptions made by you and the accounting policies and calculations adopted by you and reviewed by Ernst & Young, we have formed the opinion that the Forecast, for which you as Directors are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
BNP Paribas Peregrine Capital Limited
Isadora Li
Managing Director

The following is the text of a letter, summary of valuation and valuation certificates, prepared for the purpose of incorporation in this prospectus of the Group dated 17th November, 2005 received from Vigers Appraisal & Consulting Limited, an independent property valuer, in connection with its valuation as at 31st August, 2005.

**Vigers Appraisal & Consulting Limited
International Assets Appraisal Consultants**

10th Floor, The Grande Building
398 Kwun Tong Road
Kowloon
Hong Kong



17th November, 2005

The Directors
Parkson Retail Group Limited
9th Floor, Parkson Plaza
No.101 Fuxingmennei Avenue
Xicheng District
Beijing 100031
PRC

Dear Sirs,

In accordance with your instructions for us to value of the property interests exhibited to us as held and leased by Parkson Retail Group Limited (the “Company”) and its subsidiaries (together referred to as the “Group”) in the People’s Republic of China (the “PRC”), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interests for the purpose of incorporation in the prospectus as at 31st August, 2005.

Our valuation is our opinion of the market value of the property interest which we would define market value as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

In valuing the property interests in Group I, which are held by the Group in the PRC, we have adopted the Direct Comparison Approach whenever market comparable transactions are available and where appropriate on the basis of capitalisation of the net income shown on the documents handed to us. We have allowed for outgoings and, in appropriate cases, made provisions for reversionary income potential.

In valuing the property interests in Group II, which are leased by the Group in the PRC and portion of these property interests have been subleased to various independent third parties, we have adopted the income capitalisation approach. In the income capitalisation approach, market value of the properties is derived by capitalising the specific stream of income under the remaining term of tenancy of the property from the valuation date at an appropriate investment yield. This approach is most applicable to investment and general-use properties where there is an established and identifiable rental market.

Our valuation has been made on the assumption that the owner sells the properties on the open market in its existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property interests.

In the course of our valuation, we have not caused title searches to be made for the property interests at the relevant government bureau. We have not been provided with the original copies of these title search documents to verify the correctness of the information or to ascertain any subsequent amendment, if any, which may not appear on the copies handed to us.

In undertaking our valuation for property interests, we have relied on the legal opinion provided by the Group's PRC legal adviser ("the PRC Legal Opinion").

In respect of the properties, we have been provided with some copies but not full title documents in relation to the respective properties. For the purposes of these valuations, we have accepted your advice that the Group has the lawful rights to occupy these properties and the use of these properties will not contravene to the lawful use conferred upon these properties.

We have inspected the exterior and, where possible, the interior of the properties. In the course of our inspection, we did not note any serious defects. However, we have not carried out a structural survey nor have we inspected woodwork or other parts of the structures which are covered, unexposed or inaccessible and we are therefore unable to report that any such parts of the property interests are free from defect.

We have relied to a considerable extent on information provided by you and have accepted advice given to us by you on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, site and floor areas and in the identification of the property interests in which the Group has a valid interest. All documents and leases have been used for reference only. All dimensions measurements and areas are approximations.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We were also advised by the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view.

In valuing the property interests, we have complied with all the requirements set out in Chapter 5 and Practice Notes 12 and 16 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited. In addition, our valuations are prepared in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors (HKIS).

Unless otherwise stated, all money amounts stated are in Hong Kong Dollars. The exchange rate used in valuing the property interests in the PRC on 31st August, 2005 was HK\$1 = RMB1.04. There has been no significant fluctuation in the exchange rates for RMB against Hong Kong dollars between that date and the date of this letter.

We enclose herewith a summary of valuation and valuation certificates.

Yours faithfully,
For and on behalf of
Vigers Appraisal & Consulting Limited
Raymond Ho Kai Kwong
Registered Professional Surveyor
MRICS, MHKIS MSc(e-com)
Executive Director

Note: Raymond Ho Kai Kwong, Chartered Surveyor, MRICS, MHKIS MSc(e-com), has over nineteen years' experience in undertaking valuations of properties in Hong Kong and has over twelve years' experiences in valuations of properties in the PRC respectively.

SUMMARY OF VALUATION

Group I — Property interests held by the Group in the PRC

Property	Market Value as at 31st August, 2005	Interest attributable to the Group	Market Value attributable to the Group as at 31st August, 2005
1. Level 1 to Level 9 and basement levels 1 to 2, No. 127 Renming Zhong Road, Wuxi City, Jiangsu Province, the PRC	RMB619,000,000 (equivalent to approximately HK\$595,200,000)	60%	RMB371,400,000 (equivalent to approximately HK\$357,100,000)
2. No. 239, Dongda Street, Beilin District, Xi'an, Shaanxi Province, the PRC	RMB317,000,000 (equivalent to approximately HK\$304,800,000)	91%	RMB288,500,000 (equivalent to approximately HK\$277,400,000)
3. Basement Level 1 and Levels 1 to 7, No. 98 WenChang Road Middle, Yangzhou City, Jiangsu Province, the PRC	RMB103,000,000 (equivalent to approximately HK\$99,000,000)	55%	RMB56,700,000 (equivalent to approximately HK\$54,500,000)
4. No. 37 Jinrong Main Road and No. 101 Fuxingmennei Street, Xicheng District, Beijing, the PRC	RMB836,000,000 (equivalent to approximately HK\$803,800,000)	56%	RMB468,200,000 (equivalent to approximately HK\$450,200,000)
Sub-total	RMB1,875,000,000 (equivalent to approximately <u>HK\$1,802,800,000</u>)		RMB1,184,800,000 (equivalent to approximately <u>HK\$1,139,200,000</u>)

Group II — Property interest leased by the Group in the PRC

		Market Value as at 31st August, 2005	Interest attributable to the Group	Market Value attributable to the Group as at 31st August, 2005
Property				
5.	No. 30 Youhao South Road, Urumqi, Xinjiang Autonomous Region, the PRC	No commercial value	28.56%	No commercial value
6.	Basement 1 and Levels 1-8, No. 918, Huaihai Road Central, Luwan District, Shanghai, the PRC	No commercial value	100%	No commercial value
7.	Basement 1 and Levels 1 to 6, No. 77 Chang Jiang Er Road, Da Ping, Yu Zhong District, Chongqing City, the PRC	No commercial value	70%	No commercial value
8.	Levels 1-2, No. 17 Anchang Road, Mianyang City, Sichuan Province, the PRC	No commercial value	60%	No commercial value
9.	Basement 1 and Levels 1-5 of Block 1 and Levels 1-5 of Block 2, No. 38 Chang'anzhong Road, Yanta District, Xi'an, Shaanxi Province, the PRC	No commercial value	46.41%	No commercial value

APPENDIX V	PROPERTY VALUATION

	Property	Market Value as at 31st August, 2005	Interest attributable to the Group	Market Value attributable to the Group as at 31st August, 2005
10.	Shi Dai Sheng Dian Da Sha, West Street, Xi'an, Shaanxi Province, the PRC	No commercial value	46.41%	No commercial value
11.	No. 38 Xueyuan Road Jia, Haidian District, Beijing, the PRC	No commercial value	56%	No commercial value
12.	No. 189, Qinxian Bei Street, Taiyuan, Shanxi Province, the PRC	No commercial value	56%	No commercial value
13.	Basement 1 and Levels 1-5, Shanghai City Mall, No.100 Zunyi Road, Changning District, Shanghai, the PRC	No commercial value	100%	No commercial value
14.	Basement 1, No. 238 Furong Zhong Road Central, Changsha City, Hunan Province, the PRC	No commercial value	100%	No commercial value
15.	Levels 1-4 and one basement level located at No. 42 Dongmaoling Road, Yueyang City, Hunan Province, the PRC	No commercial value	100%	No commercial value

APPENDIX V
PROPERTY VALUATION

Property	Market Value as at 31st August, 2005	Interest attributable to the Group	Market Value attributable to the Group as at 31st August, 2005
16. Basement Level 1, Levels 1-4 and portion of Level 5, Xiaoyao Square, No.77 Huaihe Road, Luyang District, Hefei City, Anhui Province, the PRC	No commercial value	100%	No commercial value
17. Basement Level 1 and Levels 1 to 6, No. 88 ErDao Street, TieDong District, Anshan City, Liaoning Province, the PRC	No commercial value	51%	No commercial value
18. Basement Levels 1 to 2 and Levels 1 to 5 of Chongqing Langgao Haytt Hotel located at No. 2 Nan Ping Xi Road, Nan'an District, Chongqing City, the PRC	RMB13,500,000 (equivalent to approximately HK\$12,980,000)	70%	RMB9,500,000 (equivalent to approximately HK\$9,130,000)
19. Basement 1 and Levels 1 to 4 located at No. 94 Tai Bai Road, Wanzhou District, Chongqing City, the PRC	No commercial value	70%	No commercial value

APPENDIX V	PROPERTY VALUATION

				Market Value attributable to the Group as at 31st August, 2005
Property	Market Value as at 31st August, 2005	Interest attributable to the Group		
20. Basement Level 1 and Levels 1 to 4 (including the mezzanine floor) of Longgang International Centre located at No. 118 Zhonghuazhong Road (also known as “No. 117 Zhonghuazhong Road”), Guiyang, Guizhou Province, the PRC	No commercial value	60%		No commercial value
21. Basement Level 1 and Levels 1 to 6, No. 167-217 YouYi Road, DaoLi District, Ha’er Bin City, Hei Long Jiang Province, the PRC	No commercial value	56%		No commercial value
22. The portion on Levels 1-5, No. 72 Dongtaikang Road, Zhengzhou City, Henan Province, the PRC	No commercial value	56%		No commercial value
23. Unit 818 on Level 8, No. 159 Tongyuan Road, Shanghai, the PRC	No commercial value	100%		No commercial value

APPENDIX V	PROPERTY VALUATION

Property	Market Value as at 31st August, 2005	Interest attributable to the Group	Market Value attributable to the Group as at 31st August, 2005
24. Units 301 to 309 and a carparking space on the east portion on Level 1, Ancillary Block, Jiushifuxing Building, No. 85 Shaanxi Road South, Shanghai, the PRC	No commercial value	35%	No commercial value
25. Levels 1 and 3, Phase 2, Lifeng Building, No. 239 Dongda Street, Xi'an City, Shaanxi Province, the PRC	No commercial value	91%	No commercial value
26. West portion of South section on Level 1 West section of No. 88 ErDao Road, Tiedong District, An Shan City, Liaoning Province, the PRC	No commercial value	100%	No commercial value

APPENDIX V	PROPERTY VALUATION

Property	Market Value as at 31st August, 2005	Interest attributable to the Group	Market Value attributable to the Group as at 31st August, 2005
27. Levels 1 to 2, No. 1-4, Block E (also known as Block 5) and Levels 1 to 5, Block B (also known as Block 2), Xinchengshi Plaza, No. 1 Xida Street, Qingyang District, Chengdu City, Sichuan Province, the PRC	No commercial value	100%	No commercial value
Sub-total	RMB13,500,000 (equivalent to approximately <u>HK\$12,980,000</u>)		RMB9,500,000 (equivalent to approximately <u>HK\$9,130,000</u>)
Grand-total	RMB1,888,500,000 (equivalent to approximately <u>HK\$1,815,780,000</u>)		RMB1,194,300,000 (equivalent to approximately <u>HK\$1,148,330,000</u>)

VALUATION CERTIFICATE

Group I — Property interests held by the Group in the PRC

			Market Value as at 31st August, 2005
Property	Description	Particulars of the occupancy	
1. Level 1 to Level 9 and basement levels 1 to 2, No. 127 Renming Zhong Road, Wuxi City, Jiangsu Province, the PRC	The property comprises the whole on Levels 1 to 9 and the basement levels 1 to 2 of a 11-storey building completed in 1997. The property has a total gross floor area of approximately 30,498.61 sq.m.. The property is held under land use rights for a term expiring on 22nd April, 2044 for commercial services uses.	The property is currently occupied by the Group as department store.	RMB619,000,000 (equivalent to approximately HK\$595,200,000) Interest attributable to the Group 60% Market Value attributable to the Group as at 31st August, 2005 RMB371,400,000 (equivalent to approximately HK\$357,100,000)

Notes:

1. Pursuant to a State-owned Land Use Right Certificate dated 12th November, 2002 (Document No.: Xichonguoyong (2002) Zi No. 446), the land use rights of the property having a site area of approximately 3,915.9 sq.m. and an expiry date of 22nd April, 2044 for commercial services uses has been granted to Wuxi Parkson.
2. Building Ownership Certificate:

(a) Pursuant to a Building Ownership Certificate (Document No.: Xifangquanzhengchonganzi No. 10035408-1), dated 26th November, 2002, the building ownership of property from basement level 2 to Level 3 with the gross floor area of 14,147.02 sq.m. is vested in Wuxi Parkson.

(b) Pursuant to a Building Ownership Certificate (Document No.: Xifangquanzhengchonganzi No. 10035408-3), dated 26th November, 2002, the building ownership of property from Level 4 to Level 8 with the gross floor area of 16,020.86 sq.m. is vested in Wuxi Parkson.

(c) Pursuant to a Building Ownership Certificate (Document No.: Xifangquanzhengchonganzi No.10035408-2), dated 26th November, 2002, the building ownership of property from Level 9 with the gross floor area of 330.73 sq.m. is vested in Wuxi Parkson.

3. Pursuant to a lease agreement entered into between Wuxi Parkson (Party A) and Shanghai Pizza Hut Company Limited (Party B) on 5th July, 2000, Party A agrees to lease the property to Party B with a total area of 492.5 sq.m. on the ground floor and some of the important terms stipulated in the lease agreement are, inter alia, as follows:

- i. The lease term is for 10 years from 1st July, 2000 to 30th June, 2010.
- ii. Party B agrees to pay an annual rent to Party A with agreed payment terms as follows:

Year	Annual Payment (RMB)
10	The higher between 886,500 annual and 8% of business income excluding value added tax

4. Pursuant to a supplement contract agreement entered into between Wuxi Parkson (Party A) and Shanghai Pizza Hut Company Limited (Party B) on 4th August, 2004.

- i. Party B agrees to pay an annual rent to Party A with agreed payment terms as follows:

Year	Annual Payment (RMB)
1st April, 2004 to 30th June, 2010	The higher between 1,100,000 annual and 8% of business income excluding value added tax

5. Pursuant to a lease agreement entered into between Wuxi Parkson (Party A) and Xi'an Runhe Gongmao Company Limited (Party B) with a total area of 1,000 sq.m. on 7th floor on 20th December, 2001, Party A agrees to lease the property to Party B and some of the important terms stipulated in the lease agreement are, inter alia, as follows:

- i. The lease term is for 5 years from 1st April, 2002 to 31st March, 2007.
- ii. Party B agrees to pay an annual rent to Party A with agreed payment terms as follows:

Year	Annual Payment (RMB)
1st — 2nd	600,000 each year
3rd	630,000 each year
4th	661,500 each year
5th	694,575 each year

6. Pursuant to a supplemental contract entered into between Wuxi Parkson (Party A) and Xi'an Runhe Gongmao Company Limited (Party B) on 21st March, 2005.

- i. The gross floor area is reduced to 500 sq.m. from 21st March, 2005.
- ii. Party B agrees to pay an annual rent to Party A with agreed payment terms as follows:

Year	Annual Payment (RMB)
From 21st March, 2005 First year	300,000
2nd	315,000

7. Pursuant to a lease agreement entered into between Wuxi Parkson (Party A) and Wuxi Baihua Hunsha Sheying Co., Ltd. (Party B) with a total area of 2,500 sq.m. on Level 8 on 11th December, 2001 and a supplemental agreement on 4th April, 2003, Party A agrees to lease the property to Party B and some of the important terms stipulated in the lease agreement are, inter alia, as follows:

- i. The lease term is for 8 years from 21st March, 2002 to 20th March, 2010.
- ii. Party B agrees to pay an annual rent to Party A with agreed payment terms as follows:

Year	Annual Payment (RMB)
1st — 2nd	700,000 each year
3rd	721,000 each year
4th	742,630 each year
5th	764,908.9 each year
6th	787,856.167 each year
7th	811,491.852 each year
8th	835,836.608 each year

8. We have been provided with a legal opinion on the property prepared by the Group’s PRC legal adviser, which contains, inter alia, the following information:

- (a) Pursuant to the State-owned Land Use Right Certificate mentioned in Note 1 above, Wuxi Parkson has the rights to freely transfer, let, sell and mortgage the land use rights subject to the payment of land premium by Wuxi Distribution. Wuxi Parkson has to comply with the conditions set out in the Contract for Grant of State-owned Land Use Rights concluded by Wuxi Distribution and relevant land administration bureau which the Group failed to obtain the Land Transfer Agreement in respect of development and utilization of the land use rights in order to transfer and let the land use rights. Other than this, Wuxi Parkson can use, transfer, let or mortgage the said land use rights without prior consent, approval and permission from any of the relevant government authorities, without having to pay to any of the government authorities any land transfer fee and land use rights charges, after completing the registration and filing procedures.
- (b) Wuxi Parkson has legally obtained the building ownership of the property and has the right to freely transfer, let, sell and mortgage the building ownership of the property.
- (c) As confirmed by Wuxi Parkson, it has not transferred, sold, mortgaged or established any third party interests of the land use rights and building ownership.
- (d) The property is not subject to any requisite, legal proceedings or other major legal proceedings that might seriously affect the land use rights and building ownership.

9. According to the information provided, Wuxi Parkson is a sino-foreign equity joint venture enterprise established under the laws of the PRC on 6th February, 1993 and an indirect subsidiary of the Company, which is owned as to 60% by the Group and as to 40% by Wuxi Distribution.

VALUATION CERTIFICATE

			Market Value as at 31st August, 2005
Property	Description	Particulars of the occupancy	
2. No. 239, Dongda Street, Beilin District, Xi'an, Shaanxi Province, the PRC	The property comprises portion of Levels 1 to 4 and the basement of an 18-storey composite building completed in 2003. The property has a total gross floor area of approximately 17,755.44 sq.m.. The property is held under land use rights for a term expiring on 1st May, 2043 for commercial (composite) uses.	The property is currently occupied by the Group as department store.	RMB317,000,000 (equivalent to approximately HK\$304,800,000) Interest attributable to the Group 91% Market Value attributable to the Group as at 31st August, 2005 RMB288,500,000 (equivalent to approximately HK\$277,400,000)

Notes:

- Pursuant to a State-owned Land Use Rights Certificate dated 27th January, 2005 (Document No.: Xibei Guo Yong (2005 Chu) No.051), the land use rights of the property having a site area of approximately 1,624.1 sq.m. and an expiry date of 1st May, 2043 for commercial (composite) uses has been granted to Xi'an Lucky King Parkson Plaza Co., Ltd. (referred hereinafter to as "Xi'an Lucky Parkson").
- Pursuant to a Building Ownership Certificate (Document No.: Xi An Shi Fang Quan Zheng Bei Lin Qu Zi No.1125108013 IV-30-1-10000) dated 29th December, 2001, the building ownership of the property with the gross floor area of 17,755.44 sq.m. is vested in Xi'an Lucky Parkson.
- Pursuant to two mortgage agreements, the property is subject to mortgages both in favour of Bank of China Shaanxi Province Branch to the extent of RMB25,000,000 from 4th February, 2005 to 3rd February, 2006 and RMB15,000,000 from 28th September, 2004 to 27th September, 2005.
- We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, which contains, inter alia, the following information:
 - Pursuant to the State-owned Land Use Right Certificate mentioned in Note 1 above, Xi'an Lucky Parkson has the rights to freely transfer, sell and mortgage the land use rights subject to the payment of land premium by Lifeng (Xi'an) Real Estates Development Co., Ltd. (referred hereinafter to as "Xi'an Lifeng") and subject to the prior consent of Bank of China Shaanxi Province Branch and has reserved the rights to freely let the property in the open market. Xi'an Lucky Parkson has to comply with the conditions set out in the Contract for Grant of State-owned Land Use Rights in respect of development and utilization of the land use rights in order to transfer and let the land use rights. Other than this, Xi'an Lucky Parkson can use, transfer, let or mortgage the said land

use rights without prior consent, approval and permission from any of the relevant government authorities, without premium payable to any of the government authorities, any land transfer fee and land use rights charges, after completing the registration and filing procedures and subject to the prior consent of the Bank of China (Shaanxi Province Branch).

- (b) Xi'an Lucky Parkson has legally obtained the building ownership of the property and has the right to freely transfer, sell and mortgage the building ownership of the property with the prior consent from the Mortgagee, and Xi'an Lucky Parkson has legal right to freely let.
 - (c) Except for the above mortgages, Xi'an Lucky Parkson has not transferred, sold, mortgaged or established any third party interests of the land use rights and building ownership.
 - (d) The property is not subject to any requisite, legal proceedings or other major legal proceedings that might seriously affect the land use rights and building ownership.
 - (e) The mortgage agreements mentioned in Note 3 above has been registered with the relevant government bureau. The mortgage agreements are valid.
5. According to the information provided, Xi'an Lucky Parkson is a sino-foreign equity joint venture enterprise established under the laws of the PRC on 23rd May, 1997 and an indirect subsidiary of the Company, which is owned as to 91% by the Group and as to 9% by Xi'an Lifeng.

VALUATION CERTIFICATE

			Market Value as at 31st August, 2005
Property	Description	Particulars of the occupancy	
3. Basement Level 1 and Levels 1 to 7, No. 98 WenChang Road Middle, Yangzhou City, Jiangsu Province, the PRC	The property comprises a department store on Level 1 to 7 and basement Level 1 of a 7-storey building completed in 2000. The property has a total gross floor area of approximately 21,485.46 sq.m.. The property is held under land use rights for a term expiring on 20th September, 2034 for commercial uses.	The property is currently occupied by the Group as department store.	RMB103,000,000 (equivalent to approximately HK\$99,000,000)
			Interest attributable to the Group
			55%
			Market Value attributable to the Group as at 31st August, 2005
			RMB56,700,000 (equivalent to approximately HK\$54,500,000)

Notes:

- Pursuant to a State-owned Land Use Rights Certificate dated 21st September, 1999 (Document No.: Yanguoyong (1999) Zi No. 60484), the land use rights of the property having a site area of approximately 7,666.9 sq.m. and an expiry date of 20th September, 2034 for commercial use has been granted to Yangzhou Parkson Plaza Co., Ltd. (referred hereinafter to as “Yangzhou Parkson”).
- Pursuant to a Building Ownership Certificate (Document No.: Yangfangquan Zheng Guangzi No. 0221031828) dated 13th September, 2000, the building ownership of property with the gross floor area of 21,485.46 is vested in Yangzhou Parkson.
- We have been provided with a legal opinion on the property prepared by the Group’s PRC legal adviser, which contains, inter alia, the following information:
 - Pursuant to the State-owned Land Use Right Certificate mentioned in Note 1 above, subject to the payment of annual land grant fee by Yangzhou Commercial, Yangzhou Parkson has the rights to freely transfer, let, sell and mortgage the land use rights. Yangzhou Parkson has to comply with the conditions set out in the Contract for Grant of State-owned Land Use Rights in respect of development and utilization of the land use rights in order to transfer and let the land use rights and Yangzhou Commercial has to pay the annual land grant fee. Other than these, Yangzhou Parkson can use, transfer, let or mortgage the said land use rights without prior consent, approval and permission from any of the relevant government authorities, without having to pay to any of the government authorities any land grant fee and land use rights charges, after completing the registration and filing procedures.
 - Yangzhou Parkson has legally obtained the building ownership of the property and has the right to freely transfer, let, sell and mortgage the building ownership of the property.

- (c) Yangzhou Parkson has not transferred, sold, mortgaged or established any third party interests of the land use rights and building ownership.
 - (d) The property is not subject to any requisite, legal proceedings or other major legal proceedings that might seriously affect the land use rights and building ownership.
4. According to the information provided, Yangzhou Parkson is a sino-foreign equity joint venture enterprise established under the laws of the PRC on 16th May, 1996 and an indirect subsidiary of the Company, which is owned as to 55% by the Group and as to 45% by Yangzhou Commercial.

VALUATION CERTIFICATE

			Market Value as at 31st August, 2005
Property	Description	Particulars of the occupancy	
4. No. 37 Jinrong Main Road and No. 101 Fuxingmennei Street, Xicheng District, Beijing, the PRC	The property comprises portion of two buildings on the corner of Jinrong Main Road and Fuxinmennei Street.	The property is currently occupied by the Group as department store.	RMB836,000,000 (equivalent to approximately HK\$803,800,000)
	The property comprises portion of Levels 1 to 10 and four levels of basement of a 10-storey building completed in 1998, which is owned by Beijing Parkson and this building is located at No. 37 Jinrong Road ("owned portion").		Interest attributable to the Group 56%
	The owned portion of the property has a total gross floor area of approximately 60,888.59 sq.m..		Market Value attributable to the Group as at 31st August, 2005
	The owned portion of the property is held under land use rights for terms expiring on 30th October, 2047 for commercial uses.		RMB468,200,000 (equivalent to approximately HK\$450,200,000)
	The property also comprises levels 1 to 7 of a 7-storey commercial building (exclusive of basement levels), which is leased to Beijing Parkson and this building is located at No. 101 Fuxingmennei Street ("leased portion").		

Notes:

1. According to three State-owned Land Use Right Certificates (Document Nos.: Jing Shi Xi She Wai Guo Yong (2004 Chu) Zi No. 10054, 10055 and 10056) all dated 18th January, 2004, the land use right of the owned portion of the property with a total site area of approximately 6,066.35 sq.m. has been granted to Beijing Parkson for terms of 50 years with an expiry date on 30th October, 2047 for commercial use.
2. According to a Building Ownership Certificate (Document No.: Jing Fang Quan Zheng Shi Xi She Wai Zi No. 10044) dated 18th January, 2004, the ownership of the basement levels 1 to 4 of the owned portion of the property with a total gross floor area of approximately 15,868.58 sq.m. is vested in Beijing Parkson.
3. According to a Building Ownership Certificate (Document No.: Jing Fang Quan Zheng Shi Xi She Wai Zi No. 10045) dated 18th January, 2004, the ownership of the supermarket on the basement level 1, cockloft and levels 1 to 4 of the owned portion of the property with a total gross floor area of approximately 22,147.33 sq.m. is vested in Beijing Parkson.
4. According to a Building Ownership Certificate (Document No.: Jing Fang Quan Zheng Shi Xi She Wai Zi No. 10046) dated 18th January, 2004, the ownership of the levels 5 to 10 of the owned portion of the property with a total gross floor area of approximately 22,872.68 sq.m. is vested in Beijing Parkson.

5. According to a lease agreement (referred hereinafter as “Agreement A”) entered into between China Arts & Crafts and Beijing Parkson dated 1st November, 2003, portion of the leased portion of the property (levels 1 to 4, 6, 序廳 (room) 1 to 3, basement D1-002 and two office rooms) with a total gross floor area of approximately 18,000 sq.m. has been leased from China Arts & Crafts to Beijing Parkson for a term of 20 years commencing from 1st November, 2003 to 31st October, 2023. The annual rent for the term from 1st November, 2003 to 31st October, 2023 is RMB16,109,200, the annual rental will be increased by not more than 15% every 5 years.
6. According to an agreement (referred hereinafter as “Agreement B”) entered into between China Arts & Crafts and Beijing Parkson dated 1st August, 2003, level 7 of the leased portion of the property with a total gross floor area of approximately 2,519.23 sq.m. has been leased to Beijing Parkson for a term of 20 years commencing from 1st August, 2003 to November 2023 at an annual rent of RMB1,700,000 for the period from 1st August, 2003 to 31st July, 2004 and RMB2,000,000 for the period from 1st August, 2004 to 31st July, 2008 and the rental will be increased in accordance with the price index of the PRC but must not higher than 15%.
7. According to a lease agreement (referred hereinafter as “Agreement C”) entered into between China Arts & Crafts and Beijing Parkson dated 15th March, 2004, 側廳一層及夾層 (a portion of level 1 and mezzanine level) of the leased portion of the property with a total gross floor area of approximately 240 sq.m. has been leased to Beijing Parkson for a term commencing from 30th April, 2004 to November 2023 at an annual rent of RMB830,000 for the period from 30th April, 2004 to 29th April, 2005 and the rental will be increased by RMB20,000 annually for the period from 30th April, 2005 to 29th April, 2008.
8. Pursuant to a supplemental lease agreement (referred hereinafter as “Supplemental Lease Agreement”) to Agreements A to C, various changes have been incorporated. Details of which are listed as follows:
 - (a) the expiry date of Agreement A changed to 30th September, 2014.
 - (b) The total rental from 1st October, 2005 to 30th September, 2014 revised to RMB137,370,000.
 - (c) In the existence of any conflicting arrangement in regards to the content of Agreements A to C and that of the Supplemental Agreement, the Supplemental Agreement should prevail.
9. According to a Building Ownership Certificate (Document No.: Xi Guo Zi Di 00174), China Arts & Crafts is the current registered owner of 101 Fuxingmennei Street of the leased portion of the property and the leased portion of the property is subject to a mortgage in favour of China Construction Bank (Beijing Branch) with an expiry date on 17th December, 2008.
10. According to a mortgage agreement, portion of the property having a site area and total gross floor area of approximately 1,305.75 sq.m. and 13,109.96 sq.m. respectively is subject to a mortgage in favour of Bank of Beijing (Shuang Yu Shu Branch) registered on 28th September, 2005 (for the building portion) and on 19th October, 2005 (for the land portion).

According to a mortgage agreement, portion of the property having a site area and total gross floor area of approximately 1,429.25 sq.m. and 14,345.54 sq.m. respectively is subject to a mortgage in favour of Industrial and Commercial Bank of China (the Sales Department of the head office) registered on 12th March, 2004 for both building and land portion.

According to a mortgage agreement, portion of the property (Levels 5 to 6) is subject to a mortgage in favour of Industrial and Commercial Bank of China (the Sales Department of the head office) which has not been duly registered and its effectiveness will be commenced soon.

11. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, which contains, inter alia, the following information:
- (a) Pursuant to the State-owned Land Use Right Certificates mentioned in Note 1 above, subject to the payment of annual land use fee, Beijing Parkson has the rights to freely transfer, let, sell and mortgage the land use rights, saved as disclosed in Note 11(c). Beijing Parkson has to comply with the conditions set out in the Contract for Grant of State-owned Land Use Rights in respect of development and utilization of the land use rights in order to transfer and let the land use rights and it has to pay the annual land use fee. Other than these, Beijing Parkson can use, transfer, let or mortgage the said land use rights without prior consent, approval and permission from any of the relevant government authorities, without having to pay to any of the government authorities any land grant fee and land use rights charges, after completing the registration and filing procedures, and saved as disclosed in Note 11(c).
 - (b) Saved as disclosed in Note 11(c), Beijing Parkson has legally obtained the building ownership of the owned portion of the property and has the right to freely transfer, let, sell and mortgage the building ownership of the owned portion of the property.
 - (c) Pursuant to the State-owned Land Use Right Certificates (Document Nos.: Jing Shi Xi She Wai Guo Yong (2004 Chu) Zi Nos. 10056 and 10055) and Building Ownership Certificates (Document Nos.: Jing Fang Quan Zheng Shi Xi She Wai Zi Nos.: 10046 and 10045), Beijing Parkson has the right to freely transfer, sell and mortgage subject to the consent of the two banks as mentioned in Note 10.
 - (d) Except the above mortgages, Beijing Parkson has not transferred, sold, mortgaged or established any third party interests of the land use rights and building ownership.
 - (e) The owned portion of the property is not subject to any requisite, legal proceedings or other major legal proceedings that might seriously affect the land use rights and building ownership.
 - (f) China Arts & Crafts is entitled to lease the leased portion of the property and the tenancy agreements entered into between China Arts & Crafts and Beijing Parkson are valid, effective and legally binding on both parties.
 - (g) As the lease agreement dated 15th March, 2004 was entered after the mortgage as mentioned in Note 10 the tenancy agreement is not enforceable against the new owner of the mortgaged property.
12. According to the information provided, Beijing Parkson is a sino-foreign co-operative joint venture enterprise established under the laws of the PRC on 20th October, 1993, and converted into a sino-foreign equity joint venture enterprise on 11th August, 2003, and an indirect subsidiary of the Company, which is owned as to 56% by the Group, as to 43% by China Arts & Crafts, as to 0.9% by China Arts & Crafts Culture and as to 0.1% by Arts & Crafts Exhibition.

VALUATION CERTIFICATE

Group II — Property interests leased by the Group in the PRC

Property	Description	Particulars of the occupancy	Market Value as at 31st August, 2005
5. No. 30 Youhao South Road, Urumqi, Xinjiang Autonomous Region, the PRC	The property comprises the commercial portion on levels 1 to 4 and basement levels 1 to 2, carparking spaces on levels 1 to 5 and basement levels 1 to 2 and an area not less than 500 sq.m. of Zone A on Level 5 of a 5-storey building completed in 2002. The property has a total gross floor area of approximately 67,506.9 sq.m..	The property is leased to Xingjiang Parkson by Xinjiang Friendship (Group) Co., Ltd. (referred hereinafter to as “Xinjiang Youhao”) for a term of 20 years commencing from 28th December, 2002 at an annual rental of RMB21,500,000 for the period from 1st January, 2003 to 31st December, 2003, RMB23,750,000 for the period from 1st January, 2004 to 31st December, 2004 and RMB25,000,000 for the period from 1st January, 2005 to 31st December, 2013. Thereafter, rent to be negotiated after taking into consideration of PRC consumer price index but shall not be more than 25%. The property is currently occupied by the Group as department store.	No commercial value

Notes:

1. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, which contains, inter alia, the following information:
 - (a) According to 14 Building Ownership Certificates, Xinjiang Youhao, a connected party, is the current registered owner of the property, which is entitled to lease the property in the open market.
 - (b) The lease agreements are legally valid, binding on the lessor and lessee. The obligations and responsibilities under such agreements can be enforceable or being protected by the PRC law.

(c) The property is free from any mortgage, orders, legal charges and other encumbrances which may cause adversely effect to the enjoyment of the property.

2. According to the information provided, Xinjiang Parkson is a limited liability company established under the laws of the PRC on 11th November, 2002 and an indirect subsidiary of the Company, which is owned as to 51% by the Beijing Parkson and as to 49% by Xinjiang Youhao.

Beijing Parkson is a sino-foreign co-operative joint venture enterprise established under the laws of the PRC on 20th October, 1993, and converted into a sino-foreign equity joint venture enterprise on 11th August, 2003, and an indirect subsidiary of the Company, which is owned as to 56% by the Group, as to 43% by China Arts & Crafts, as to 0.9% by China Arts & Crafts Culture and as to 0.1% by Arts & Crafts Exhibition.

Thus, Xinjiang Parkson is owned by 28.56% by the Group.

VALUATION CERTIFICATE

			Market Value as at 31st August, 2005
Property	Description	Particulars of the occupancy	
6. Basement 1 and Levels 1-8, No. 918, Huaihai Road Central, Luwan District, Shanghai, the PRC	The property comprises a department store on Levels 1-8 and Basement 1 of a 17-storey commercial composite building erecting on a 8-storey podium completed in 1996. The property has a total gross floor area of approximately 26,786 sq.m..	The property is currently occupied by the Group as department store.	No commercial value

Notes:

1.

Pursuant to a Shanghai Certificate of Real Estate Ownership dated 13th October, 1997 (Document No.: Hufang Diluzi (1997) No. 000755), the property on the allocated land for composite use is vested to Shanghai Nine Sea Industry, a connected party.
2.

Pursuant to a cooperation contract entered into between Shanghai Nine Sea Industry (Party A) and Exonbury Limited (Party B) on 25th September, 1994, a cooperation company named Shanghai Nine Sea Parkson would come into existence by Party A and Party B and some of the important terms stipulated in the cooperation contract are, inter alia, as follows:

i.

the cooperation term is for 30 years from the date of 30th November, 1994 to 29th November, 2024

ii.

Party B agree to pay an annual rent to Party A with agreed payment terms as follows:

Year	Annual Payment (USD)
1 — 4	3,000,000
5 — 30	3,000,000 and the rental will be increased by 4% annually until the expiration of the cooperation contract

3.

We have been provided with a legal opinion on the property prepared by the Group’s PRC legal adviser, which contains, inter alia, the following information:

(a)

The lease agreement is not protected by the PRC Laws and is not enforceable since Shanghai Nine Sea Industry, (the Chinese partner of Shanghai Nine Sea Parkson) a connected party to the Group, has not yet obtained the approval for leasing out property erected on allocated land from Land and Building Management Bureau and has not submitted the revenue from land.

(b)

On the condition that the lease arrangement of Shanghai Nine Sea Parkson is not revoked or terminated by the relevant land administration authorities, Shanghai Nine Sea Parkson may use the property as regulated in the Cooperation Contract during the cooperation term of 30 years and should not be subject to any fine or other punishments.

- (c) Portion of the property has been sub-leased to independent third parties.
- (d) The property is erected on an allocated land. Without approval by land administration authorities, the property erected on allocated land should not be used by a joint venture (Shanghai Nine Sea Parkson is a joint venture). Though Shanghai Nine Sea Parkson did not obtain such an approval, according to the confirmation reply given by the Building and Land Administration Bureau of Shanghai Luwan District dated 10th August, 2005, the Bureau acknowledged such use. As such, the PRC legal adviser to the Company are of the view the possibility of the lease arrangement in relation to the property to be revoked by the Bureau is remote.

VALUATION CERTIFICATE

			Market Value as at 31st August, 2005
Property	Description	Particulars of the occupancy	
7. Basement 1 and Levels 1 to 6, No. 77 Chang Jiang Er Road, Da Ping, Yu Zhong District, Chongqing City, the PRC	The property comprises a department store on basement 1 to level 6 of a 13-storey commercial/residential composite building completed in 1996. The property has a total gross floor area of approximately 10,800 sq.m..	The property is currently occupied by the Group as department store.	No commercial value

Notes:

1.

Pursuant to the State-owned Land Use Rights Certificate (Document No.: Yaguoyong (98) Zi No.99), the owner of the land use right of the property is China Armament Group Company South-West Military Bureau.
2.

Pursuant to the Building Ownership Certificate (Document No.: (99) Zi No.971531), the owner of the building ownership of the property is China Armament Group Company South-West Military Bureau.
3.

Pursuant to a lease agreement entered into between Chongqing Yuhing Real Estate Composite Development Company (an independent third party, Party A) and Chongqing Wanyou Parkson Plaza Co., Ltd. (hereinafter referred to as “Chongqing Parkson”) (Party B) on 23rd January, 1996, Party A agreed to lease the property to Party B and some of the important terms stipulated in the lease agreement are, inter alia, as follows:

i.

the lease term is for 30 years from 16th November, 1995 to 15th November, 2025.

ii.

Party B agrees to pay an annual rent to Party A with agreed payment terms as follows:

Year	Annual Payment (RMB)
1 — 3	2,800,000 (each year)
4th year and afterwards	3% increment per year (each year); maximum RMB6,000,000

- iii.

Party B has the right to sublet the property.
4.

Pursuant to an agreement dated 23rd January, 1996, the rental arrangement as mentioned in Note 3 above was amended. The rental as mentioned in Note 3 is treated as a basic rental. The rental will be the higher of the basic rental and the amount of 3% of the annual turnover.
5.

Pursuant to a supplementary agreement 2 entered into between Chongqing Wanyou Economic Development Co., Ltd. (hereinafter referred to as “Chongqing Wanyou”) (Party A) and Chongqing Parkson on 20th September, 2000, Party A agreed to lease the Basement 1 Car Park of Wanyou Kangnian Hotel located at No.77 Chang Jiang Er Road, Da Ping, Yu Zhong District, Chongqing City for a term expiring on 15th November, 2025 with rental arrangement as follows:

Year	Annual Payment (RMB)
1st — 3rd	500,000
4th and afterwards	3% increment per year (each year); basic rental maximum RMB1,000,000; the higher of the basic rental and the amount of 3% of the annual turnover

6. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, which contains, inter alia, the following information:
- (a) Pursuant to a Chongqing Real Estate Mortgage Agreement (Document No.: (Yu Zhong Qu 98) Di Ya No.: 441), the property is subject to a mortgage in favour of Industrial and Commercial Bank of China commencing from 30th June, 1998 to 29th June, 2008. The PRC legal opinion stated that this Chongqing Real Estate Mortgage Agreement is valid and legally effective as the mortgage in this agreement was recorded on the building ownership certificate in Note 2.
- The lease agreement in Note 3 was signed before the Mortgage Agreement, so the new owner of the leased portion of the property under this lease agreement should be bound by the lease agreement in Note 3. And lease agreement in Note 5 was signed after the Mortgage Agreement, so the new owner of the leased portion of the property under this lease agreement would not be bound by the lease agreement in Note 5.
- (b) According to the PRC laws, the maximum lease term of a lease agreement is 20 years, the period exceed 20 years is invalid. Other than that, the lease agreements are valid.
- (c) According to a confirmation letter issued by China Armament Group Company South-West Military Bureau, the ownership of the property is vested in China Armament Group Company South-West Military Bureau, Chongqing Yuhing Real Estate Composite Development Company has been authorised to lease out the property to Chongqing Parkson.
7. According to the information provided, Chongqing Parkson is a sino-foreign equity joint venture enterprise established under the laws of the PRC on 2nd March, 1995 and an indirect subsidiary of the Company, which is owned as to 70% by the Group and as to 30% by Chongqing Wanyou.

VALUATION CERTIFICATE

			Market Value as at 31st August, 2005
Property	Description	Particulars of the occupancy	
8. Levels 1-2, No. 17 Anchang Road, Mianyang City, Sichuan Province, the PRC	The property comprises a portion of Levels 1 and 2 of a 11-storey commercial/ residential composite building erecting on a 2-storey podium completed in 1997. The property has a total gross floor area of approximately 19,860.4 sq.m..	The property is currently occupied by the Group as department store.	No commercial value

Notes:

1.

Pursuant to the State-owned Land Use Rights Certificates (Document Nos.: Mianchengguoyong (Zong 1998) Zi No.9974 and 0967), the owner of the land use right of the property is 四川綿陽富臨房地產開發有限公司 (Sichuan Mianyang Fu Lin Real Estate Development Company Limited).
2.

Pursuant to the Building Ownership Certificates (Document Nos.: Fangquanzhengshifangjianzi No.0000013037, 0000013038,0000013039, 0000000946, 0000000592, 0000004863, 0000004894, 000001416, 0000014165), the owner of the property is 四川綿陽富臨房地產開發有限公司 (Sichuan Mianyang Fu Lin Real Estate Development Company Limited).
3.

Pursuant to a lease agreement entered into between 四川綿陽富臨房地產開發有限公司 (Sichuan Mianyang Fu Lin Real Estate Development Company Limited) (Party A), a connected party, and Mianyang Fulin Parkson Plaza Co., Ltd. (hereinafter referred to as “Mianyang Parkson”) (Party B) on 7th March, 1997 (first lease), Party A agreed to lease portion of the property having a total gross floor area of approximately 18,500 sq.m. to Party B and some of the important terms stipulated in the lease agreement are, inter alia, as follows:

i.

the lease term for the first lease is for 30 years commencing from 7th March, 1997.

ii.

Party B agrees to pay an annual rent to Party A with agreed payment terms as follows:

Year	Annual Payment (RMB)
1 — 5	5,000,000 (each year)
6 — 10	5,500,000 (each year)
11 — 30	the annual rent will be increased by 3% annually

iii.

Party B has the right to sublet the property.
4.

According to a supplementary lease agreement entered into between Sichuan Fulin Industrial Group Co., Ltd. (Sichuan Fulin) and Party B dated 20th September, 2003, portion on level 2 of the property (formerly known as Fulin Bowling Playground) having a gross floor area of approximately 1,360.4 sq.m. has been leased to Party B for a term commencing from 1st October, 2003 and expiring on the same expiry date of the first lease at a monthly rent of RMB15 per sq.m. for the period until 31st March, 2004. The rental afterward will be subject to the negotiation between Sichuan Fulin and Party B, and a rent free period is provided by Sichuan Fulin from 1st October, 2003 to 31st March, 2004.

5. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, which contains, inter alia, the following information:
- (a) According to the PRC laws and regulations, if a leased property is subject to mortgage, the effectiveness of the tenancy agreement would not be adversely affected under the mortgage. Pursuant to a Confirmation Letter of Mortgagor, portion of the property with a gross floor area of approximately 400 sq.m. has been mortgaged.
- According to a Certificate of Property of Other Party's Rights issued by the Mianyang Real Estate Management Bureau dated 4th November, 2003 (Document No.: Mian Fang Shi Fang Ta Ta Zi No. 20031116), Portion of the property is subject to a mortgage in favour of Industrial and Commercial Bank of China (Mianyang Branch). The tenancy agreement is still enforceable under the mortgage.
- (b) According to the PRC laws, the maximum lease term of a lease agreement is 20 years, the period exceed 20 years is invalid. Other than that, the lease agreements are valid.
- (c) The lease agreement entered into between Party A and Party B has been duly registered and has obtained a Lease Registration Permit validating from 1st July, 2005 to 30th June, 2006. However, the supplementary lease agreement entered into between Sichuan Fulin and Mianyang Parkson has not been registered. According to the laws of the PRC, the supplementary agreement is required to register in the relevant government authorities. However, the Group is free from any legal obligation although the supplementary agreement has not been duly registered.
- (d) The consent from the current registered owner of the property, in relating to the tenancy of the property has been obtained. Thus, the supplementary agreement is valid, effective and legally binding on the parties.
6. According to the information provided, Mianyang Parkson is a sino-foreign co-operative joint venture enterprise incorporated under the laws of the PRC on 16th April, 1997, and converted into a sino-foreign equity joint venture enterprise on 24th October, 2003, and an indirect subsidiary of the Company, which is owned as to 60% by the Group and as to 40% by Sichuan Fulin.

VALUATION CERTIFICATE

			Market Value as at 31st August, 2005
Property	Description	Particulars of the occupancy	
9. Basement 1 and Levels 1-5 of Block 1 and Levels 1-5 of Block 2, No. 38 Chang'anzhong Road, Yanta District, Xi'an, Shaanxi Province, the PRC	The property comprises portion of Levels 1 to 5 and the basement of a 8-storey commercial building and Levels 1 to 5 of another 8-storey commercial building completed in 2000. The property has a total gross floor area of approximately 24,013.93 sq.m..	The property at present is occupied by the Group as department store, warehouse and office uses.	No commercial value

Notes:

1. The lessor, Shaanxi Chang'an Information is a connected party of the Group.
2. Pursuant to a lease agreement entered into between Shaanxi Chang'an Information (a connected party, Party A) and 西安百盛購物中心有限公司 (Xi'an Parkson Shopping Centre Company Limited) (Party B) on 1st August, 2004, Party A agreed to lease the property to Party B and some of the important terms stipulated in the lease agreement are, inter alia, as follows:

i. the lease term is for 15 years from 1st December, 2004 to 30th November, 2019.

ii. Party B agrees to pay an annual rent to Party A with agreed payment terms as follows:

Year	Annual Payment (RMB)
1 — 15	50% of profit before tax (each year)

iii. Party B has the right to assign the lease or to sublet the property.

3. According to a transfer agreement dated 9th November, 2004, Shaanxi Chang'an Information agreed to transfer the rights and obligations of the lease agreement as mentioned in Note 2 above from 西安百盛購物中心有限公司 (Xi'an Parkson Shopping Centre Company Limited) to Xi'an Chang'an Parkson Store Co., Ltd. (hereinafter referred to as "Xi'an Chang'an Parkson")
- 555 —

4. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, which contains, inter alia, the following information:

- (a) According to the PRC laws and regulations, if the property is mortgaged before the effectiveness of the lease agreement, the lease agreement is not enforceable with the new owner of the mortgaged property; whereas if the property is mortgaged after the effectiveness of the lease agreement, the lease agreement is enforceable with the new owner of the mortgaged property. However, as the Group failed to obtain the relevant information about the mortgage time from the relevant landlords, the PRC legal adviser cannot give clear and specific opinions on the property.
- (b) The ownership of the property has been transferred to 1,057 independent third parties (Party C) and their Building Ownership Certificates are under application. Furthermore, Party C has leased the property to Shaanxi Chang'an Information and according to a confirmation letter issued by Shaanxi Chang'an Information, Party C has authorised Shaanxi Chang'an Information to sublet the property to Xi'an Chang'an Parkson.

At present, the ownership of the property is vested in Shaanxi Chang'an Information, the Building Ownership Certificates of the property under the names of Party C are under application, there is no foreseeable legal impediment to obtain such Building Ownership Certificates. However, Shaanxi Chang'an Information is authorised to sublease the property to Xi'an Chang'an Parkson subject to the lease agreement.

- (c) According to a confirmation letter issued by Shaanxi Chang'an Information dated 16th August, 2005, Party C has obtained the relevant Real Estate Ownership Certificate and has authorised Shaanxi Chang'an Information to sublet the property to Xi'an Chang'an Parkson. If this confirmation letter is reliable, the lease agreement is valid, effective and legally binding on both parties.

5. According to the information provided, Xi'an Chang'an Parkson is a limited liability company established under the laws of the PRC on 8th November, 2004 and an indirect subsidiary of the Company, which is owned as to 51% by the Xi'an Lucky Parkson and as to 49% by Shaanxi Chang'an Information.

Xi'an Lucky Parkson is a sino-foreign equity joint venture enterprise established under the laws of the PRC on 23rd May, 1997 and an indirect subsidiary of the Company, which is owned as to 91% by the Group and as to 9% by Xi'an Lifeng.

Thus, Xi'an Chang'an Parkson is 46.41% owned by the Group.

VALUATION CERTIFICATE

			Market Value as at 31st August, 2005
Property	Description	Particulars of the occupancy	
10. Shi Dai Sheng Dian Da Sha, West Street, Xi'an, Shaanxi Province, the PRC	The property comprises portion of Levels 1 to 5 of a 9-storey commercial building completed in 2000. The property has a total gross floor area of approximately 36,084.38 sq.m..	The property at present is occupied by the Group as department store, warehouse and office uses.	No commercial value

Notes:

1. The lessor, Xi'an Xinrun Property Co., Ltd. (referred hereinafter to as "Xi'an Xinrun") is a connected party of the Group.
2. Pursuant to a lease agreement entered into between Xi'an Xinrun (Party A), a connected party, and Xi'an Shidai Parkson Store Co., Ltd. (hereinafter referred to as "Xi'an Shidai Parkson") (Party B) on 18th August, 2004, Party A agreed to lease the property to Party B and some of the important terms stipulated in the lease agreement are, inter alia, as follows:

i. the lease term is for 20 years from 1st October, 2004 to 30th September, 2024.

ii. Party B agrees to pay an annual rent to Party A with agreed payment terms as follows:

Year	Annual Payment (RMB)
1 — 20	50% of profit before tax (each year)

iii. Party B has the right to assign the lease or to sublet the property.
3. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, which contains, inter alia, the following information:

(a) The lease agreements are legally valid, binding on the lessor and lessee. The obligations and responsibilities under such agreements can be enforceable or being protected by the PRC law subject to the relevant Building Ownership Certificates are obtained.

(b) The property is free from any mortgages.

(c) According to the laws of the PRC, lease agreement is required to register in the relevant government organizations, however, the Group is free from any legal obligation although the lease agreements of this property have not been duly registered.
4. According to the information provided, Xi'an Shidai Parkson is a limited liability company established under the laws of the PRC on 17th August, 2004 and an indirect subsidiary of the Company, which is owned as to 51% by Xi'an Lucky Parkson and as to 49% by Xi'an Xinrun.

Xi'an Lucky Parkson is a sino-foreign equity joint venture enterprise established under the laws of the PRC on 23rd May, 1997 and an indirect subsidiary of the Company, which is owned as to 91% by the Group and as to 9% by Xi'an Lifeng.

Thus, Xi'an Shidai Parkson is 46.41% owned by the Group.

VALUATION CERTIFICATE

			Market Value as at 31st August, 2005
Property	Description	Particulars of the occupancy	
11. No. 38 Xueyuan Road Jia, Haidian District, Beijing, The PRC	The property comprises portion of Levels 1 to 5 and the basement of a 9-storey commercial building completed in 2000. The property has a total gross floor area of approximately 12,600 sq.m..	The property at present is occupied by the Group as department store, warehouse and office uses.	No commercial value

Notes:

1.

(i)

Pursuant to a lease agreement (Agreement) entered into between 北京海升集團公司 (Beijing Heisheng Group Company) (an independent third party, Party A) and Beijing Parkson Shopping Centre (referred hereinafter to as “Beijing Shopping Centre”) (Party B) on 28th January, 1997, Party A agreed to lease the property with a total gross floor area of approximately 12,600 to Party B. Detail information abstracted from the Agreement contains, inter alia, as follows:

(a)

the lease term is for 24 years commencing from 1st January, 1997 and expiring on 31st December, 2020.

(b)

The agreed annual rental payable as stipulated in the lease agreement are as follows:

Year	Annual Payment (RMB)
1st January, 1997 to 31st December, 1999	5,000,000 (each year)
1st January, 2000 to 31st December, 2000	7,000,000
Since 1st January, 2001	An increment at 7% of the annual rent payable every 5 years in Year 2000.
- (ii)

Pursuant to the supplemental agreement to the Agreement, Party A agreed the arrangement that all rights and obligation under the Agreement shall be assigned from Beijing Shopping Centre to Beijing Parkson.

2.

We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, which contains, inter alia, the following:

(a)

The land portion of the property is of collectively-owned land in nature. According to the PRC laws, for the land is of collectively-owned land in nature and buildings erected thereon could not transfer or lease for non-agricultural use prior to the change in nature of the land use rights to grant land.

(b)

According to the lease agreement, Beijing Shopping Centre is being recognized as the lessee under this lease agreement. On account of the land portion is of collectively-owned land in nature and the use of the property is for non-agricultural use, thus, the content of the lease agreement has contradicted to the PRC laws and as a result, the lease agreement is not legally binding on both parties under the PRC law, and the relevant government organizations has reserved right to terminate the lease agreement. However, Beijing Parkson would not be rendered any liability or punishment legally.

- (c) According to the PRC laws, the maximum lease term of a lease agreement is for 20 years, the lease period beyond the twentieth year would be considered null and void. Other than that, the content for the Agreement and its supplementary agreement are considered not compliant with the PRC laws and regulation and not binding.
 - (d) Portion of the property has been sub-leased to independent third parties.
 - (e) The lease agreement of the property and the sub-leasing of the portion of the property are invalid because the building portion of the property is erected on collectively-owned land which, under the PRC laws, is not allowed to be used for non-agricultural use.
3. According to the information provided, Beijing Parkson is a sino-foreign co-operative joint venture enterprise established under the laws of the PRC on 20th October, 1993, and converted into a sino-foreign equity joint venture enterprise on 11th August, 2003, and an indirect subsidiary of the Company, which is owned as to 56% by the Group, as to 43% by China Arts & Crafts, as to 0.9% by China Arts & Crafts Culture and as to 0.1% by Arts & Crafts Exhibition.

VALUATION CERTIFICATE

			Market Value as at 31st August, 2005
Property	Description	Particulars of the occupancy	
12. No. 189, Qinxian Bei Street, Taiyuan, Shanxi Province, the PRC	The property comprises portion of Levels 1 to 4 and the basement of a 9-storey commercial building completed in 2000. The property has a total gross floor area of approximately 34,627 sq.m..	The property at present is occupied by the Group as department store, warehouse and office uses.	No commercial value

Notes:

- Pursuant to a lease agreement (Agreement) entered into between 山西梅園工貿集團有限公司 (Shanxi Mei Yuan Trade Group Company Limited) (an independent third party, Party A) and 北京中躍旅遊產品公司 (Beijing Zhong Yue Tourism Production Company) (Party B) on 21st June, 2002, Party A agreed to lease the property with a total gross floor area of approximately 34,627 sq.m. to Party B. Detail information abstracted from the Agreement contains, inter alia, inter alia, as follows:
 - the lease term is for 20 years commencing from 1st September, 2002 and Party A has offered Party B a rent free period from 1st September, 2002 to 30th September, 2002.
- Pursuant to a supplementary lease agreement dated 21st June, 2002, the opening date for Party B started from 1st September, 2002, with the rent free period commencing from 1st September, 2002 and expiring on 30th September, 2002.
- Pursuant to another supplementary lease agreement dated 8th August, 2005, Beijing Parkson agrees to inherit all the rights and responsibilities under the Agreement from Party B. Party A gave its consent to the transfer.

According to this supplementary lease agreement, the existing annual rental payable are as follows:

Period	Annual Rental Payable (RMB)
From 1st January, 2004 to 31st December, 2004	RMB10,000,000 (inclusive of the rentals of property and equipment and management fee) together with 5.4% on the sales revenue which exceed RMB300,000,000.
From 1st January, 2005 to 31st December, 2005	RMB12,800,000 (inclusive of the rentals of property and equipment and management fee) together with 5.4% on the sales revenue which exceed RMB300,000,000.
From 1st January, 2006 to the expiry date of the lease agreement	RMB15,500,000 (inclusive of the rentals of property and equipment and management fee) together with 5.4% on the sales revenue which exceed RMB300,000,000.

4. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, which contains, inter alia, the following information:
- (a) According to five Building Ownership Certificates (Documents Nos.: Fangquanzhengbingzi No. 00121658, 00121659, 00121660, 00121661 and 00121662), the current registered owner of portion of the property with a total gross floor area of approximately 16,131.66 sq.m. is Party A.
- According to five Building Ownership Certificates (Documents Nos.: Fangquanzhengbingzi No. 00109087, 00109088, 00109089, 00109090 and 00109091), the current registered owner of portion of the property with a total gross floor area of approximately 18,429.73 sq.m. is 山西煤炭工業綜合經營總公司 (Shanxi Coal Industry Composite Company) (referred hereinafter as "Party C").
- (b) According to a document issued by Party C on 27th June, 2002, Party C has entrusted Party A to lease out the portion of the property owned by Party C. Furthermore, the tenancy agreement entered into between Party A and Party B has been consented by Party C.
- (c) According to the laws of the PRC, the lease agreement and the supplementary agreement are required to register in the relevant government authorities. However, the Group is free from any legal obligation although the lease agreement has not been duly registered.
- (d) The consent from the current registered owner of the property, Party C, in relating to the tenancy of the property has been obtained. Thus, the lease agreement and the supplementary agreement are valid, effective and legally binding on the parties.
5. According to the information provided, Beijing Parkson is a sino-foreign co-operative joint venture enterprise established under the laws of the PRC on 20th October, 1993, and converted into a sino-foreign equity joint venture enterprise on 11th August, 2003, and an indirect subsidiary of the Company, which is owned as to 56% by the Group, as to 43% by China Arts & Crafts, as to 0.9% by China Arts & Crafts Culture and as to 0.1% by Arts & Crafts Exhibition.

VALUATION CERTIFICATE

			Market Value as at 31st August, 2005
Property	Description	Particulars of the occupancy	
13. Basement 1 and Levels 1-5, Shanghai City Mall, No.100 Zunyi Road, Changning District, Shanghai, the PRC	The property comprises a portion of Levels 1-5 and Basement 1 of a 25-storey commercial/residential/office composite building erecting on a 6-storey podium completed in 2001. The property has a total gross floor area of approximately 32,000 sq.m. distributing part of the podium.	The property is currently occupied by the Group as department store.	No commercial value

Notes:

1. Pursuant to a Shanghai Certificate of Real Estate Ownership dated 26th April, 2001 (Document No.: Hufangdishizi (2001) No. 002849), the property having an expiry date on 7th March, 2043 for composite use is vested to 上海華天房地產發展有限公司 (Shanghai Huatian Real Estate Development Company Limited).
2. Pursuant to a lease agreement (named 虹橋上海城商場租賃合同 “Hongqiao Shanghai City Shopping Arcade Tenancy Agreement”) entered into between 上海華天房地產發展有限公司 (Shanghai Huatian Real Estate Development Company Limited) (an independent third party, Party A) and Shanghai Nine Sea Parkson Plaza Co., Ltd. (referred hereinafter to as “Shanghai Nine Sea Parkson”) (Party B) on 5th July, 2002, Party A agreed to lease the property to Party B and some of the important terms stipulated in the lease agreement are, inter alia, as follows:

(a) the lease term is for 10 years from 1st December, 2002 to 30th November, 2012.

(b) Party B agrees to pay an annual rent to Party A with agreed payment terms as follows:

Year	Annual Payment (RMB)
1 — 5	4.5% of general merchandise retail part of business income excluding value added tax plus 2% of supermarket part of business income excluding value added tax
6 — 10	5% of general merchandise retail part of business income excluding value added tax plus 2% of supermarket part of business income excluding value added tax

(c) Party B has the right to sublet the property to third party, with written approval in advance and putting on records by Part A necessarily within 3 days after the sublet contract signed.

(d) the gross floor area for subletting could not be over 10% of the total gross floor area of the property.

3. Pursuant to a transfer agreement of rights and obligations entered into between Party A, Party B and Shanghai Hongqiao Parkson Development Co., Ltd. (hereinafter referred to as “Shanghai Hongqiao Parkson”) (Party C) in December 2002, Party B transferred the rights and obligations listed in the lease agreement (named 虹橋上海城商場租賃合同) to Party C, Party A accepted the transformation.
- 562 —

4. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, which contains, inter alia, the following information:
- (a) According to the Shanghai Certificate of Real Estate Ownership mentioned in Note 1, the current registered owner of the property is Party A, Party A is entitled to lease the property to the Group.
 - (b) The property is free from any mortgages.
 - (c) The lease agreements are legally valid, binding on the lessor and lessee. The obligations and responsibilities under such agreements can be enforceable or being protected by the PRC laws.
 - (d) The tenancy of the property has been duly registered.

VALUATION CERTIFICATE

			Market Value as at 31st August, 2005
Property	Description	Particulars of the occupancy	
14. Basement 1, No. 238 Furong Zhong Road Central, Changsha City, Hunan Province, the PRC	The property comprises a portion of basement 1 of a 3-storey commercial basement building completed in or about 2002. The property has a total gross floor area of approximately 12,459 sq.m..	The property is currently occupied by the Group as department store.	No commercial value

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate (Document No.: Changguoyong 97 No. 583), the underground land use rights of the property having a site area of approximately 12,453.04 sq.m. and a term of 50 years with an expiry date of 4th July, 2047 for commercial use has been granted to 湖南益友置業發展有限公司 (Hunan Yiyou Development Company Limited). It is noted that the land use rights is a space use rights of basements 1 to 3 with a site area of 12,453.04 sq.m. of the Red Line Range.
2. Pursuant to the Building Ownership Certificate (Document No.: Changfangquanzhengfurongzi No. 00290781), the owner of the building of the property is 湖南益友置業發展有限公司 (Hunan Yiyou Development Company Limited).
3. Pursuant to a lease agreement entered into between 湖南益友置業發展有限公司 (Hunan Yiyou Development Company Limited) (an independent third party, Party A) and Shanghai Hongqiao Parkson Development Co., Ltd. (hereinafter referred to as "Shanghai Hongqiao Parkson") (Party B), Party A agreed to lease the property to Party B and some of the important terms stipulated in the lease agreement are, inter alia, as follows:

(a) The lease term is for 3 years from 1st January, 2004 to 31st December, 2006.

(b) Party B agrees to pay a monthly rent of RMB833,333 with inclusion of management fee to Party A.

(c) Party B has the right to assign the lease or to sublet the property after informing Party A, as well as record to Party A within 3 days.
4. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, which contains, inter alia, the following information:

(a) According to the Building Ownership Certificate mentioned in Note 2, the current registered owner is Party A, Party A is entitled to lease the property to the Group.

(b) The property is free from any mortgages.

(c) The tenancy of the property has been duly registered.

(d) The lease agreements are legally valid, binding on the lessor and lessee. The obligations and responsibilities under such agreements can be enforceable or being protected by the PRC laws.

VALUATION CERTIFICATE

			Market Value as at 31st August, 2005
Property	Description	Particulars of the occupancy	
15. Levels 1-4 and one basement level located at No. 42 Dongmaoling Road, Yueyang City, Hunan Province, the PRC	The property comprises a portion of Levels 1 to 4 and one basement level in a 21-storey commercial building erecting on a 5-storey podium and a basement. The podium and basement put into use in 2003, as well as the building is under construction. The property has a total gross floor area of approximately 20,082.79 sq.m..	The property is currently occupied by the Group as department store and supermarket.	No commercial value

Notes:

1. Pursuant to the State-owned Land Use Rights Certificate (Document No.: Yueshiguoyong (2002) Zi No. 212), the land use rights of the property having a site area of approximately 9,992.00 sq.m. with an expiry date of 2nd September, 2042 for commercial use has been granted to 岳陽匯澤房地產有限公司 (Yueyang Huize Real Estate Company Limited).
2. Pursuant to a lease agreement (Agreement) entered into between 岳陽匯澤房地產有限公司 (Yueyang Huize Real Estate Company Limited) (an independent third party, Party A) and Shanghai Nine Sea Parkson Plaza Co., Ltd. (referred hereinafter to as “Shanghai Nine Sea Parkson”) (Party B) on 8th September, 2003, Party A agreed to lease the property to Party B, and some of the important terms stipulated in the lease agreement are, inter alia, as follows:

(a) the lease term is for 15 years commencing from 26th December, 2003.

(b) Party B agree to pay a quarterly rent to Party A with agreed payment detail as follows:

• 3.5% from Net Business Income.

• Net Business Income is defined as Business Income of Party B in the property deducting value-added tax, as well as excluding income of sale and transaction of fixed asset.

• Party B has the right to assign the lease or to sublet the property.

3. Pursuant to a supplementary lease agreement to the above-mentioned Agreement, Shanghai Hongqiao Parkson Development Co., Ltd. (hereinafter referred to as “Shanghai Hongqiao Parkson”) agrees to inherit all the rights and responsibilities under the Agreement from Party B. Party A gave its consent to the transfer.

4. We have been provided with a legal opinion on the property prepared by the Group’s PRC legal adviser, which contains, inter alia, the following information:

(a) The lease agreements are legally valid, binding on the lessor and lessee. The obligations and responsibilities under such agreements can be enforceable or being protected by the PRC law.

(b) The land use rights of the property is not subject to any other rights registration including mortgage.

(c) The property is subject to a mortgage and the lease is not enforceable against the mortgagee.

(d) The Building Ownership Certificate of the property is under application due to the property is under construction, on the condition that the landlord is complying with all the PRC laws and regulations in relation to real estate, there are no material legal impediments for the landlord of the property to obtain the Building Ownership Certificate.
- 565 —

VALUATION CERTIFICATE

			Market Value as at 31st August, 2005
Property	Description	Particulars of the occupancy	
16. Basement Level 1, Levels 1-4 and portion of Level 5, Xiaoyao Square, No.77 Huaihe Road, Luyang District, Hefei City, Anhui Province, the PRC	The property comprises a portion of Levels 1-4, portion of Level 5 and Basement 1 completed in 2000. The property has a total gross floor area of approximately 35,000 sq.m..	The property is currently occupied by the Group as department store.	No commercial value

Notes:

1.

Pursuant to six Building Ownership Certificates (Documents Nos.: Hechanzi 024533, 024532, 024530, 024529, 024528 and 024527), the building with a total gross floor area of approximately 37,185.643 sq.m. is vested in Hefei Jinxin Industry Development Company (合肥錦信實業發展公司).
2.

Pursuant to a lease agreement entered into between Hefei Jinxin Industry Development Company (合肥錦信實業發展公司) (an independent third party, Party A) and Shanghai Nine-sea Parkson Plaza Co., Ltd. (上海九海百盛廣場有限公司) (hereinafter referred to as “Shanghai Nine Sea Parkson”) (Party B) on 13th January, 2001, Party A agreed to lease the property to Party B and some of the important terms stipulated in the lease agreement are, inter alia, as follows:

(a)

the lease term is for 15 years from 13th January, 2001 to 12th January, 2016.

(b)

Party B agrees to pay an annual rent to Party A with agreed payment terms as follows:

Year	Annual Payment (RMB)
1	2,600,000
2	The higher between 2,600,000 and 2.25% of business income excluding value added tax
3	The higher between 3,500,000 and 2.25% of business income excluding value added tax
4 — 15	The higher between rent of the third year and 2.5% of business income excluding value added tax

(c)

Party B has the right to sublet the property to third party, with putting on records later by Part A necessarily.
3.

Pursuant to a supplementary lease agreement to the above-mentioned Agreement, Hefei Parkson Xiaoyao Plaza Co., Ltd. (hereinafter referred to as “Hefei Parkson”) agreed to inherit all the rights and responsibilities under the Agreement from Party B. Party A gave its consent to the transfer.
4.

We have been provided with a legal opinion on the property prepared by the Group’s PRC legal adviser, which contains, inter alia, the following information:

(a)

The lease agreements are legally valid, binding on the lessor and lessee. The obligations and responsibilities under such agreements can be enforceable or being protected by the PRC laws.

(b)

The property is not subject to any other rights registration including mortgage.

VALUATION CERTIFICATE

			Market Value as at 31st August, 2005
Property	Description	Particulars of the occupancy	
17. Basement Level 1 and Levels 1 to 6, No. 88 ErDao Street, TieDong District, Anshan City, Liaoning Province, the PRC	The property comprises a portion of Levels 1 to 6 and Basement Level 1 of a 6-storey commercial composite building erecting on a 6-storey podium completed in 1987. The property has a total gross floor area of approximately 42,184 sq.m..	The property is currently occupied by the Group as department store.	No commercial value

Notes:

1.

Pursuant to a State-owned Land Use Right Certificate, the land use right of the property is vested to Anshan Tianxing International Properties Development Co., Ltd. (referred hereinafter to as “Anshan Tianxing”).
2.

Pursuant to the Building Ownership Certificate (Document No.: Anfanguanzheng (Tiedong) Zi No. 200004280032), the owner of the property is Anshan Tianxing.
3.

Pursuant to a lease agreement entered into between Anshan Tianxing (Party A) and Anshan Tianxing Parkson Shopping Centre Co., Ltd. (hereinafter referred to as “Anshan Parkson”) (Party B) on 21st March, 2002, Party A agreed to lease Levels 1 to 5 and Basement Level 1 of the property to Party B and some of the important terms stipulated in the lease agreement are, inter alia, as follows:

(a)

the lease term is for 15 years from 28th April, 2002 to 31st December, 2017.

(b)

Party B agrees to pay an annual rent to Party A with agreed payment terms as follows:

Year	Annual Payment (RMB)
1 — 2	13,000,000 (each year) (when Party B has made profit, party need to pay 15,000,000)
3 — 15	15,000,000 (each year)

(c)

Party B has the right to assign the lease or to sublet the property.
4.

According to a supplementary lease agreement entered into between Party A and Party B dated 4th November, 2005, Level 6 of the property having a total gross floor area of approximately 6,920 sq.m. has been leased from Party A to Party B for a term commencing from the property handed over to Party B to 31st December, 2017 at an annual rent of RMB1,500,000.

5. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, which contains, inter alia, the following information:
- (a) According to the PRC laws and regulations, if the property is mortgaged before the effectiveness of the lease agreement, the lease agreement is not enforceable with the new owner of the mortgaged property; whereas if the property is mortgaged after the effectiveness of the lease agreement, the lease agreement is enforceable with the new owner of the mortgaged property. However, as the Group failed to obtain the relevant information about the mortgage time from the relevant landlords, the PRC legal adviser cannot give clear and specific opinions on the property.
 - (b) According to the laws of the PRC, the supplementary lease agreement is required to register in the relevant government authorities. However, the Group is free from any legal obligation although the supplementary agreement has not been duly registered.
6. According to the information provided, Anshan Parkson is a limited liability company established under the laws of the PRC on 8th April, 2002 and an indirect subsidiary of the Company, which is owned as to 51% by the Group and as to 49% by Anshan Tianxing.

VALUATION CERTIFICATE

			Market Value as at 31st August, 2005
Property	Description	Particulars of the occupancy	
18. Basement Levels 1 to 2 and Levels 1 to 5 of Chongqing Langgao Haytt Hotel located at No.2 Nan Ping Xi Road, Nan'an, District, Chongqing City, the PRC	The subject development comprises a commercial complex with an office building erected thereon and a hotel building is being built on this commercial complex. The property comprises the whole of Basement Levels 1 to 2 and Level 1 to level 5 of a 6-storey commercial complex (exclusive of basement levels). The property has a total gross floor area of approximately 23,764 sq.m.	The property is currently occupied by the Group as department store.	RMB13,500,000 (equivalent to approximately HK\$12,980,000) Interest attributable to the Group 70% Market Value attributable to the Group as at 31st August, 2005 RMB9,500,000 (equivalent to approximately HK\$9,130,000)

Notes:

1.

Pursuant to a State-owned Land Use Right Certificate (Document No.: Yuguoyong (1997) Zi No. 057), the land use rights to the development is vested in 重慶凱悅房地產開發有限公司 (Chongqing Kai Yue Real Estate Development Company Limited).
2.

Pursuant to a lease agreement entered into between 重慶凱悅房地產開發有限公司 (Chongqing Kai Yue Real Estate Development Company Limited) (an independent third party, Party A) and Chongqing Wanyou (Party B) on 31st May, 2002, Party A agreed to lease the property to Party B and some of the important terms stipulated in the lease agreement are, inter alia, as follows:

(a)

the lease term is for 15 years from 1st January, 2002.

(b)

Party B agreed to pay an annual rent to Party A with agreed payment terms as follows:

Year	Annual Payment (RMB)
1	9,273,600 (each year)
2	6,500,960 (each year)
3 — 15	11,128,320 (each year)

(c)

Party B has the right to assign the lease or to sublet the property.

3. Pursuant to a supplementary lease agreement dated 2nd August, 2005 to the above-mentioned Agreement, Chongqing Parkson agreed to inherit all the rights and responsibilities under the Agreement from Party B. Party A gave its consent to the transfer.
4. According to a Lease Registration Certificate, the tenancy of the property has been duly registered in the relevant government organization.
5. Profit rent attributable to Party B for the property has been assessed due to the following conditions:
 - (i) Permission of sublease clause;
 - (ii) A long lease term; and
 - (iii) The rental payable is lower than the market rent.
6. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, which contains, inter alia, the following information:
 - (a) The lease agreements are legally valid, binding on the lessor and lessee subject to the relevant building ownership certificate is obtained. The obligations and responsibilities under such agreements can be enforceable or being protected by the PRC laws.
 - (b) The property is not subject to any other rights registration including mortgage.
 - (c) The leasehold interests under the Agreement can be freely transferable by Party B to any other third party.
 - (d) There is still one building ownership certificate outstanding.
 - (e) The Building Ownership Certificate of the property is under application due to the subject development is under construction, on the condition that the landlord is complying with all the PRC laws and regulations in relation to real estate, there are no material legal impediments for the landlord of the property, Party A, to obtain the Building Ownership Certificate.
 - (f) The supplementary agreement is valid, effective and legally binding on the parties subject to the relevant building ownership certificate is obtained.
7. According to the information provided, Chongqing Parkson is a sino-foreign equity joint venture enterprise established under the laws of the PRC on 2nd March, 1995 and an indirect subsidiary of the Company, which is owned as to 70% by the Group and as to 30% by Chongqing Wanyou.

VALUATION CERTIFICATE

			Market Value as at 31st August, 2005
Property	Description	Particulars of the occupancy	
19. Basement 1 and Levels 1 to 4 located at No. 94 Tai Bai Road, Wanzhou District, Chongqing City, the PRC	The property comprises a portion of basement 1 to level 4 of an 8-storey commercial/residential composite building completed in 2003. The property has a total gross floor area of approximately 19,464 sq.m..	The property is currently occupied by the Group as department store.	No commercial value

Notes:

1. Pursuant to four State-owned Land Use Rights Certificates (Document Nos.: Wan Long Guo Yong (2004) Zi Di 39926; Wan Long Guo Yong (2005) Zi Di 45465, Wan Long Guo Yong (2005) Zi Di 45464; Wan Long Guo Yong (2005) Zi Di 45128), the land use right of the property is vested in 重慶萬州博達房地產開發有限公司 (Chongqing Wanzhou Bo Da Industry Company Limited (an independent third party to the Group, Party A).
2. Pursuant to four Building Ownership Certificates (Document Nos.: Fang Quan Zheng 301 Zi No. 047728, 047729, 042238, 042239), the building ownership of the property is vested in 重慶萬州博達房地產開發有限公司 (Chongqing Wanzhou Bo Da Industry Company Limited) (an independent third party to the Group, Party A).
3. Pursuant to various lease agreements entered into between 270 owners (collectively known as the “Owner”), the Owner have the proper title to portion of the property with a total gross floor area of approximately 5,497.9 sq.m. (referred hereinafter as the “Leased Property”) and 重慶市萬州區博達實業有限公司 (Chongqing Wanzhou Bo Da Industry Company Limited) (referred hereinafter as the “Tenant”), the Owner agreed to let the Leased Property to the Tenant and authorized the Tenant to sub-let the Leased Property to the third party.
4. Pursuant to an authorisation letter dated 5th August, 2005, the Tenant has authorized Party A to let the Leased Property to any other third party.
5. Pursuant to a lease agreement entered into between Party A and Chongqing Wanyou (Party B) on 20th March, 2004, Party A agreed to lease the property with a total gross floor area of approximately 19,464 sq.m. to Party B and some of the important terms stipulated in the lease agreement contains, inter alia, as follows:

(a) the lease term is for 15 years from 28th April, 2004.

(b) Party B agrees to pay an annual rent (maximum RMB7,000,000) to Party A with agreed payment terms as follows:

(i)

Year	Annual Payment (RMB)
1 — 3	Basic rent: 1,200,000 (each year);
4 — 15	3% increment of the basic rent per annum (each year); or

(ii) 2% of net turnover for supermarket portion, 3% of net turnover for the other portion of the property, which is higher.

(c) Party B has the right to sublet the property.
- 571 —

6. Pursuant to a supplementary lease agreement to the above-mentioned Agreement, Chongqing Parkson agreed to inherit all the rights and responsibilities under the Agreement from Party B. Party A gave its consent to the transfer.
7. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, which contains, inter alia, the following information:

- (a) The owned portion of the property is not subject to any other rights registration including mortgage.
- (b) According to the PRC laws and regulations, if the property is mortgaged before the effectiveness of the lease agreement, the lease agreement is not enforceable with the new owner of the mortgaged property; whereas if the property is mortgaged after the effectiveness of the lease agreement, the lease agreement is enforceable with the new owner of the mortgaged property. However, as the Group failed to obtain the relevant information about the mortgage time from the relevant landlords, the PRC legal adviser cannot give clear and specific opinions on the property.
- (c) The lease agreements are legally valid and binding subject to the owner has the proper title.
- (d) According to the PRC laws, any action conduct by an agent, which is beyond the capacity of the agent defined in the agency agreement, unless ratified by the principle, the action conducted by the agent is considered null.

The term of the lease agreement mentioned in Note 5 above is for 15 years commencing from 28th April, 2004. The expiry date of this lease agreement is beyond the expiry dates of some of the lease agreements mentioned in Note 3 above. After the expiry dates of some of the lease agreements, if Party A cannot obtained further approval from the respective owners to sub-let the portion of the Leased Property to Chongqing Parkson, Chongqing Parkson then has no rights to use the Leased Property.

- (e) The content of the lease agreement is compliance with the PRC laws and regulations.
 - (f) Chongqing Parkson required to obtain consent from the lessors of the lease agreements mentioned in Note 3 and Note 5 before transferring all the interests in the lease agreement to any third party. Hence, the transfer of all the rights and responsibility under the lease agreement is restrictive in nature.
 - (g) Real Estate Bureau of Chongqing Wanzhou District has issued a lease registration certificate for the lease to Party A and Party B, we understand that the issuance of the certificate should certify that the government has examined the lease qualification of Party A, thus Party A has legal right to lease the property.
8. According to the information provided, Chongqing Parkson is a sino-foreign equity joint venture enterprise established under the laws of the PRC on 2nd March, 1995 and an indirect subsidiary of the Company, which is owned as to 70% by the Group and as to 30% by Chongqing Wanyou.

VALUATION CERTIFICATE

			Market Value as at 31st August, 2005
Property	Description	Particulars of the occupancy	
20. Basement Level 1 and Levels 1 to 4 (including the mezzanine floor) of Longgang International Centre located at No. 118 Zhonghuazhong Road (also known as “No. 117 Zhonghuazhong Road”), Guiyang, Guizhou Province, the PRC	The property comprises whole of Levels 1 to 4 (including the mezzanine floor) and Basement Level 1 of a 9-storey commercial building completed in 2000. The property has a total gross floor area of approximately 20,825.624 sq.m.	The property at present is occupied by the Group as department store, warehouse and office uses.	No commercial value

Notes:

1.

Pursuant to various lease agreements entered into between various owners (collectively known as the “Owner”), having the proper title to the property with a total gross floor area of approximately 20,825.624 sq. m. and 貴州華偉物業發展有限公司 (Guizhou Huawei Property Development Company Limited) (referred hereinafter as the “Lessee”), the Owner agreed to let the property to the Lessee and authorised the Lessee to sub-let the property to the third party.
2.

Pursuant to a lease agreement entered into between 貴州華偉物業發展有限公司 (Guizhou Huawei Property Development Company Limited) (an independent third party, Party A) and Guizhou Parkson (Party B) on 28th August, 2002, Party A agreed to lease the property to Party B and some of the important terms stipulated in the lease agreement are, inter alia, as follows:

(a)

the lease term is for 20 years from date of opening.

(b)

Party B agrees to pay an annual rent to Party A with agreed payment terms as follows:

Year	Annual Payment (RMB)
1 — 20	Certain portion of net sale turnover: 2% of net sale turnover for items relating to jewelry, electric appliance and supermarket; 5.5% of net sale turnover for other items (including men’s wear, women’s wear, and shoes).

(c)

During the term of the lease agreement, Party B has the rights to jointly operate, lease out the counter or use other means to lease and sub-let portion of the property.

3. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, which contains, inter alia, the following information:

- (a) Some of the lease agreements (Document Nos.: 8, 15, 16, 21, 32 to 40, 42 to 44, 46-51 and 56, referred hereinafter as the "Expired Lease Agreement") were expired. The Lessee does not have the rights to use the respective portion of the property under Expired Lease Agreement. Furthermore, the Lessee does not have the rights to sub-let the respective portion of the property under the Expired Lease Agreement.
- (b) Except for the portion of the property under the Expired Lease Agreement, the Lessee has the rights to sub-let the remaining portion of the property, which are under effective and valid lease agreements entered into between the respective owners that assumable to have the proper titles to this remaining portion of the property, to Party B.
- (c) According to the PRC laws, any action conducted by an agent, which is beyond the capacity of the agent defined in the agency agreement, unless ratified by the principle, the action conducted by the agent is considered null.

The term of the lease agreement mentioned in Note 2 above is for 20 years commencing from the date of opening of the store. The expiry date is beyond the expiry dates of all the lease agreements mentioned in Note 1 above. After the expiry dates of all the lease agreements mentioned in Note 1, if Party A cannot obtained further approval from the respective owners to sub-let the portion of the property to Party B, Party A then has no rights to sub-let the property to Party B. Hence, Party B does not have the rights to use the property.

- (d) The lease agreement mentioned in Note 2 is valid and the content of the lease agreement is compliance with the PRC laws and regulations. The interest of Party B under the lease agreement is protected by the PRC laws.
- (e) Pursuant to the leasing permit, the lease term permitted under the lease agreement commencing from 18th January, 2003 and expiring on 17th January, 2023.
- (f) Currently, Party B uses the property as department store. The current use is in compliance with the permitted use in the lease agreement.
- (g) Party B required to obtain consent from the lessors of the lease agreements mentioned in Note 1 and Note 2 before transferring all the interests in the lease agreement to any third party. Hence, the transfer of all the rights and responsibility under the lease agreement is restrictive in nature.
- (h) The State-owned Land Use Rights Certificate and Building Ownership Certificate of the property are under application.
- (i) As both Party A and the Owner have not obtained the building ownership certificates, there is no direct legal basis for the PRC legal adviser to give opinion on whether the Owner has the right to lease the property to Party A and whether Party A has the right to lease the property to the Group. However, as the lease agreement has been examined by and registered with the competent land and building administration authority, it is understood that the lease arrangement has been justified by the relevant authority, hence the lease arrangement is legally effective and binding.
- (j) According to the confirmation from the Party A, the address of the property also known as "No. 117 Zhonghuazhong Road".

4. According to the information provided, Guizhou Parkson is a limited liability company established under the laws of the PRC on 28th August, 2002 and converted into a sino-foreign equity joint venture enterprise on 29th September, 2005 and an indirect subsidiary of the Company, which is owned as to 60% by the Group and as to 40% by Guizhou Shenqi Enterprise.

VALUATION CERTIFICATE

			Market Value as at 31st August, 2005
Property	Description	Particulars of the occupancy	
21. Basement Level 1 and Levels 1 to 6, No. 167-217 YouYi Road, DaoLi District, Ha'er Bin City, Hei Long Jiang Province, the PRC	The property comprises a portion of Basement Level and Levels 1 to 6 of a 7-storey commercial composite building erecting on a 7-storey podium completed in 2004. The property has a total gross floor area of approximately 41,220.6 sq.m..	The property is currently occupied by the Group as department store.	No commercial value

Notes:

1.

Pursuant to a State-owned Land Use Rights Certificate, the land use right of the property is vested to 哈爾濱萬達商業廣場有限公司 (Ha'er Bin Wan Da Commercial Plaza Company Limited).
2.

Pursuant to a lease agreement entered into between 哈爾濱萬達商業廣場有限公司 (Ha'er Bin Wan Da Commercial Plaza Company Limited) (an independent third party, Party A) and Beijing Parkson (Party B) on 10th October, 2004, Party A agreed to lease the property to Party B and some of the important terms stipulated in the lease agreement are, inter alia, as follows:

(a)

the lease term is for 15 years from 28th April, 2005 to 27th April, 2020.

(b)

Party B agrees to pay an annual rent to Party A with agreed payment terms as follows:

Year	Annual Payment (RMB)
1 — 2	48 (each month per sq.m.)
3 — 5	increased by 2.5% as compared with the previous year
6 — 10	increased by 3% as compared with the previous year
11 — 15	To be negotiated

(c)

Party B has the right to assign the lease or to sublet the property.

3. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, which contains, inter alia, the following information:
- (a) Pursuant to the Building Ownership Certificate (Document No.: Hafangquanzheng (Li) Zi No. 00063241), the owner of the property is 哈爾濱萬達商業廣場有限公司 (Ha'er Bin Wan Da Commercial Plaza Company Limited).
 - (b) According to the laws of the PRC, the lease agreement and the supplementary lease agreement are required to register in the relevant government authorities. However, the Group is free from any legal obligation although the lease agreement and the supplementary lease agreement have not been duly registered.
 - (c) The lease agreements are legally valid, binding on the lessor and lessee. The obligations and responsibilities under such agreements can be enforceable or being protected by the PRC laws.
4. According to the information provided, Beijing Parkson is a sino-foreign co-operative joint venture enterprise established under the laws of the PRC on 20th October, 1993, and converted into a sino-foreign equity joint venture enterprise on 11th August, 2003, and an indirect subsidiary of the Company, which is owned as to 56% by the Group, as to 43% by China Arts & Crafts, as to 0.9% by China Arts & Crafts Culture and as to 0.1% by Arts & Crafts Exhibition.

VALUATION CERTIFICATE

			Market Value as at 31st August, 2005
Property	Description	Particulars of the occupancy	
22. The portion on Levels 1-5, No. 72 Dongtaikang Road, Zhengzhou City, Henan Province, the PRC	The property comprises a portion of Levels 1 to 5 of a 6-storey commercial building erecting on a 1-storey basement completed in or about 2002. According to the lease agreement, the property has a total gross floor area of approximately 50,000 sq.m..	The property is currently occupied by the Group as department store.	No commercial value

Notes:

- Pursuant to the State-owned Land Use Rights Certificates (Document Nos.: Zhengguoyong (1998) Zi No. 0184 and Zhengguoyong (1998) Zi No. 0185), the land use rights of the property with an expiry date of 21st July, 2048 for commercial and residential use has been granted to 鄭州中誠置業發展有限公司 (Zhengzhou Zhong Cheng Real Estate Development Company Limited).
- Pursuant to a lease agreement entered into between 鄭州中誠置業發展有限公司 (Zhengzhou Zhong Cheng Real Estate Development Company Limited) (an independent third party, Party A) and Beijing Parkson (Party B) on 23rd April, 2004, Party A agreed to lease the property to Party B, and some of the important terms stipulated in the lease agreement are, inter alia, as follows:
 - the lease term is for 15 years commencing from 1st August, 2004.
 - Party B agree to pay an annual rent with exclusion of management fee to Party A with agreed payment divided into three parts as follows:
 - Fixed rent:

Year	Annual Payment (RMB)
1	16,000,000
2	18,000,000
3-15	20,000,000

ii) Additional rent:

Precondition	Annual Payment (RMB)
Annual Net Business Income not exceeding RMB300 million	0
Annual Net Business Income exceeding RMB300 million, but not exceeding RMB800 million	4% x (Annual Business Income - 300,000,000)
Annual Net Business Income exceeding RMB800 million	4% x (800,000,000 - 300,000,000)
Annual Net Business Income is defined as Business Income of Party B in the property deducting value-added tax, as well as excluding non-business income restricted in the lease agreement.	

iii) Management fee: RMB12 per sq.m. monthly

iv) Party B has the right to sublet the property

3. We have been provided with a legal opinion on the property prepared by the Group’s PRC legal adviser, which contains, inter alia, the following information:
- (a) The tenancy of the property has been duly registered and has obtained a Lease Registration Permit. According to this Lease Registration Permit, Party A is entitled to lease the property to the Group.
 - (b) The lease agreements are legally valid, binding on the lessor and lessee. The obligations and responsibilities under such agreements can be enforceable or being protected by the PRC laws.
 - (c) The Building Ownership Certificate of the property is under application, on the condition that the landlord is complying with all the PRC laws and regulations in relation to real estate, there are no material legal impediments for the landlord of the property to obtain the Building Ownership Certificate.
4. According to the information provided, Beijing Parkson is a sino-foreign co-operative joint venture enterprise established under the laws of the PRC on 20th October, 1993, and converted into a sino-foreign equity joint venture enterprise on 11th August, 2003, and an indirect subsidiary of the Company, which is owned as to 56% by the Group, as to 43% by China Arts & Crafts, as to 0.9% by China Arts & Crafts Culture and as to 0.1% by Arts & Crafts Exhibition.

VALUATION CERTIFICATE

			Market Value as at 31st August, 2005
Property	Description	Particulars of the occupancy	
23. Unit 818 on Level 8, No. 159 Tongyuan Road, Shanghai, the PRC	The property comprises a unit on Level 8 of a 10-storey building completed in or about 2004. The property has a gross floor area of approximately 52 sq.m..	The property at present is leased to the Group by an independent third party for a term of five years commencing from 1st March, 2005 to 28th February, 2010 at a monthly rent of RMB1,560. The property at present is occupied by the Group for office use.	No commercial value

Notes:

1. Pursuant to a Shanghai Certificate of Real Estate Ownership, the owner of the property is vested to Shanghai Pudong Gaoqiao Enterprise Company (上海浦東高橋實業公司).
2. The lessor, Shanghai Pudong Gaoqiao Enterprise Company (上海浦東高橋實業公司), is an independent third party of the Group.
3. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, which contains, inter alia, the following information:

(a) According to Shanghai Certificate of Real Estate Ownership, the lessor, Shanghai Pudong Gaoqiao Enterprise Company (上海浦東高橋實業公司), is the current registered owner of the property, which is entitled to lease the property to the Group.

(b) The lease agreement entered into between Shanghai Pudong Gaoqiao Enterprise Company (上海浦東高橋實業公司) and the Group is valid, effective and legally binding on both parties.

(c) According to the laws of the PRC, lease agreement is required to register in the relevant government organizations. However, the Group is free from any legal obligation although the lease agreement of the property has not been duly registered.

(d) The property is free from any mortgages.

VALUATION CERTIFICATE

			Market Value as at 31st August, 2005
Property	Description	Particulars of the occupancy	
24. Units 301 to 309 and a carparking space on the east portion on Level 1, Ancillary Block, Jiushifuxing Building, No. 85 Shaanxi Road South, Shanghai, the PRC	The property comprises 9 units on Level 3 together with a carparking space on Level 1 of a 10-storey building completed in or about 2004. The property has a total lettable area of approximately 281.1 sq.m.	The property at present is leased to the Group by Shanghai Nine Sea Industry for a term of two years commencing from 1st January, 2004 to 31st December, 2005 at a monthly rent of RMB4,216.5. The property at present is occupied by the Group for office and carparking uses.	No commercial value

Notes:

1. Pursuant to a Shanghai Certificate of Real Estate Ownership, the owner of the property is Shanghai Nine Sea Industry.
2. The lessor, Shanghai Nine Sea Industry, is a joint venture partner of the Group.
3. We have been provided with a legal opinion on the property prepared by the Group’s PRC legal adviser, which contains, inter alia, the following information:

(a) The lessor, Shanghai Nine Sea Industry, is the current registered owner of the property and is entitled to lease the property to the Group.

(b) The lease agreement entered into between Shanghai Nine Sea Industry and the Group is valid, effective and legally binding on both parties.

(c) Currently, the Group uses the property as office. The current use is in compliance with the permitted use in the lease agreement.

(d) The Group requires to obtain consent from the lessor before transferring all the interests in the lease agreement to any third party. Hence, the transfer of all the rights and responsibility under the lease agreement is restrictive in nature.

(e) The property is free from any mortgages

(f) The lease agreement has been duly registered.
4. According to the information provided, Shanghai Lion Property is a sino-foreign co-operative joint venture enterprise with Shanghai Nine Sea Industry, as the Chinese joint venture party. The distributable profits of Shanghai Lion Property are shared between the Group and Shanghai Nine Sea Industry at the ratio of 35% and 65% respectively.

VALUATION CERTIFICATE

			Market Value as at 31st August, 2005
Property	Description	Particulars of the occupancy	
25. Levels 1 and 3, Phase 2, Lifeng Building, No. 239 Dongda Street, Xi'an City, Shaanxi Province, the PRC	The property comprises the whole on Level 1 and Level 3 of a 11-storey building completed in or about 1997. The property has a total gross floor area of approximately 5,511.77 sq.m..	The property at present is leased to the Group by an independent third party for a term of ten years commencing from 1st November, 2004 to 31st October, 2014 at an annual rent of RMB2,500,000 for the period from 1st November, 2004 to 31st October, 2009 and the rental will be increased by 5% annually since 1st November, 2009 exclusive of management fee. The property at present is occupied by the Group for commercial use.	No commercial value

Notes:

- Pursuant to a lease agreement, 西安百盈商業管理有限公司 (Xi'an Baiying Commercial Management Company Limited) (referred hereinafter as the "Manager") is the agreed lessor of the property with a total gross floor area of approximately 5,511.77 sq. m. in Phase 2 of Lifeng Building (referred hereinafter as "Leased Property"), the lease term is for 10 years commencing from 1st November, 2004 and expiring on 31st October, 2014 with rental arrangement as follows:

Year	Annual Payment (RMB)
1st November, 2004 to 31st October, 2009	RMB2,500,000
1st November, 2009 to 31st October, 2014	Increased by 5% based on the previous year's annual rental

- Pursuant to various agency contracts entered into between the 88 owners (collectively known as the "Owner") to the Leased Property and the Manager (act as the agent), the Manager was assigned with the authority to let the Leased Property to Xi'an Lucky Parkson. The owner and the Manager are independent third parties to the Group.

3. We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, which contains, inter alia, the following information:

- (a) The Manager is entitled to lease the Leased Property to the Group subject to the owner has the proper title.
- (b) The tenancy agreement entered into between the Manager and the Group is valid, effective and legally binding on both parties.
- (c) According to the PRC laws, any action conducted by an agent, which is beyond the capacity of the agent defined in the agency agreement, unless ratified by the principle, the action conducted by the agent is considered null.

The term of the lease agreement expires on 31st October, 2014, which is beyond the expiry dates of some of the agency contracts. After the expiry dates of some of the agency contracts, if the Manager cannot obtained further approval from the respective owners to sub-let the portion of the Leased Property to Xi'an Lucky Parkson, Xi'an Lucky Parkson then has no rights to use the Leased Property.

- (d) The content of the lease agreement is compliance with the PRC laws and regulations.
- (e) Xi'an Lucky Parkson required to obtain consent from the lessor of the lease agreement before transferring all the interests in the lease agreement to any third party. Hence, the transfer of all the rights and responsibility under the lease agreement is restrictive in nature.

4. According to the information provided, Xi'an Lucky Parkson is a sino-foreign equity joint venture enterprise established under the laws of the PRC on 23rd May, 1997 and an indirect subsidiary of the Company, which is owned as to 91% by the Group and as to 9% by Xi'an Lifeng.

VALUATION CERTIFICATE

			Market Value as at 31st August, 2005
Property	Description	Particulars of the occupancy	
26. West portion of South section on Level 1	The property comprises a unit of a 5-storey building completed in or about 2003.	The property at present is leased to the Group by a connected party for a term of five years commencing from 19th April, 2005 at a monthly rent equal to 7% of the turnover.	No commercial value
West section of No. 88 ErDao Road, Tiedong District, An Shan City, Liaoning Province, the PRC	The property has a gross floor area of approximately 240 sq.m..	The property at present is occupied by the Group for retail use.	

Notes:

1. The lessor, Anshan Tianxing International Properties Development Co., Ltd. (hereinafter referred to as “Anshan Tianxing”), is a connected party of the Group.
2. We have been provided with a legal opinion on the property prepared by the Group’s PRC legal adviser, which contains, inter alia, the following information:

(a) According to the Building Ownership Certificate (Document No.: Anfangquanzheng (Tiedong) Zi No. 200004280032), the current registered owner of the property is the lessor, Anshan Tianxing, Anshan Tianxing is entitled to lease the property of the Group.

(b) The property is free from any mortgages.

(c) According to the laws of the PRC, tenancy of the property is required to register in the relevant government organization. The Group is free from any legal obligation although the tenancy of this property has not been duly registered.

(d) The tenancy agreement is valid, effective and legally binding on both parties.

VALUATION CERTIFICATE

			Market Value as at 31st August, 2005
Property	Description	Particulars of the occupancy	
27. Levels 1 to 2, No. 1-4, Block E (also known as Block 5) and Levels 1 to 5, Block B (also known as Block 2), Xinchengshi Plaza, No. 1 Xida Street, Qingyang District, Chengdu City, Sichuan Province, the PRC	The property comprises the whole on Levels 1 and 2 of a 3-storey building (Block E) and Levels 1 to 5 of a 5-storey building (Block B) both completed in 2005. The property has a total gross floor area of approximately 23,282.11 sq.m.	The property at present is occupied by the Group as department store, warehouse and office uses.	No commercial value

Notes:

- Pursuant to a lease agreement entered into between Chengdu Tong Jiang He Neng Real Estate Company Limited (成都統建合能房地產有限公司) (an independent third party, Party A) and Shanghai Lion Parkson Investment Consultant Co., Ltd. (上海獅寶投資諮詢有限公司) (Party B) dated 28th May, 2004, the property having a total gross floor area of approximately 23,282.11 sq.m. has been leased to Party B for a term of 20 years commencing from 28th June, 2005. The annual rental payable are as follows:
 - The annual rent payable in accordance with the gross floor area (hereinafter referred to as "Rent A"). In which, Rent A of the portion of property located on Block B is RMB38 per sq.m. monthly and the Rent A of the portion of property located on Block E is RMB115 per sq.m. monthly. Furthermore, a rate of 3% will be increased on Rent A per three years, or
 - An amount equivalent to 4.8% of the net sales profit (hereinafter referred to as "Rent B"), whichever is higher.
- According to a tenancy transfer agreement entered into between Party A, Party B and Sichuan Development (Party C) dated 1st June, 2005, the tenant of the property has been changed from Party B to Party C.
- According to a tenancy transfer agreement entered into between Party A, Party C and Sichuan Shishang Parkson Retail Development Co., Ltd. (hereinafter referred to as "Sichuan Shishang Parkson") (四川時尚百盛商業發展有限公司) (Party D) dated 8th November, 2005, the tenant of the property has been changed from Party C to Party D.
- Pursuant to a State-owned Land Use Right Certificate (Document No.: Cheng Guo Yong (2003) No. 1734), the land use right of the property has been granted to Chengdu City Min Yong Jiang Zhu Tong Yi Construction Office of Chengdu Tong Jiang He Neng Real Estate Company Limited (成都統建合能房地產有限公司成都市民用建築統一建設辦公室) for residential and commercial uses.
- We have been provided with a legal opinion on the property prepared by the Group's PRC legal adviser, which contains, inter alia, the following information:
 - The lease agreement and the tenancy transfer agreement are valid, effective and legally binding on the parties subject to Note 5(b).
 - Party A is entitled to lease the property to Party D subject to the Building Ownership Certificate and the consent issued by Chengdu City Min Yong Jiang Zhu Tong Yi Construction Office of Chengdu Tong Jiang He Neng Real Estate Company Limited on such transferral of tenancy are obtained.
 - There is no foreseeable legal impediment for the property to obtain the Building Ownership Certificate.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

SUMMARY OF THE CONSTITUTION OF THE COMPANY

1. Memorandum Of Association

The Memorandum of Association of the Company was adopted on 3rd August, 2005 and states, inter alia, that the liability of members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix VIII in the section headed “Documents delivered to the Registrar of Companies in Hong Kong and available for inspection”.

2. Articles Of Association

The Articles of Association of the Company were adopted on 3rd August, 2005 and include provisions to the following effect:

2.1 *Classes of Shares*

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles of Association is HK\$390,000 divided into 3,900,000 shares of HK\$0.10 each.

2.2 *Directors*

2.2.1 Power to allot and issue Shares

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such time and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

2.2.2 Power to dispose of the assets of the Company or any subsidiary

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

2.2.3 Compensation or payment for loss of office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

2.2.4 Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors and associates which are equivalent to the restrictions imposed by the Companies Ordinance.

2.2.5 Financial assistance to purchase Shares

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

2.2.6 Disclosure of interest in contracts with the Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director

holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall he be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his associates has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (a) the giving to such Director or any of his associates of any security or indemnity in respect of money lent or obligations incurred by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (b) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (c) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (d) any proposal concerning any other company in which the Director or any of his associates is/are interested only, whether directly or indirectly, as an officer, executive or shareholder or in which the Director or any of his associates is/are beneficially interested in shares of that company, provided that the Director and any of his associates, are not in aggregate beneficially interested in five per cent. or more of the issued shares of any class of such company (or of any third company through which his interest or that of any of his associates is derived) or of the voting rights;
- (e) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (i) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his associates may benefit;

- (ii) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his associates as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (iii) any contract or arrangement in which the Director or any of his associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his interest in shares or debentures or other securities of the Company.

2.2.7 Remuneration

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or about the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

2.2.8 Retirement, appointment and removal

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by special resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment or office as a result of the termination of his appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (a) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (b) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (c) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (d) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

- (e) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (f) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (g) if he shall be removed from office by a special resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

2.2.9 Borrowing powers

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

The rights of the Directors to exercise these powers may only be varied by a special resolution.

2.2.10 Proceedings of the Board

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.3 Alteration to constitutional documents

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 Variation of rights of existing shares or classes of shares

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the

provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall mutatis mutandis apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class, and that any holder of shares of the class present in person (or in the case of corporation, by its duly authorised representative) or by proxy may demand a poll.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.5 Alteration of Capital

The Company in general meeting may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- 2.5.1 consolidate and divide all or any of its share capital into shares of larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- 2.5.2 cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law; and

2.5.3 sub-divide its shares of any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital, any capital redemption reserve or any share premium account in any manner authorised and subject to any conditions prescribed by the Companies Law.

2.6 Special resolution - majority required

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.7 Voting rights (generally, on a poll and right to demand a poll)

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a show of hands every member of the Company who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) shall have one vote, and on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member of the Company is, under the Listing Rules, required to abstain from voting on any particular resolution or is restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote, whether on a show of hands or on a poll, by any person authorised in such circumstances to do so and such person may vote on a poll by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be counted in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded or otherwise required under the Listing Rules. A poll may be demanded by:

2.7.1 the chairman of the meeting; or

2.7.2 at least five members of the Company present in person (or in the case of a corporation, by its duly authorised representative) or by proxy and entitled to vote; or

2.7.3 any member or members of the Company present in person (or in the case of a corporation, by its duly authorised representative) or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all members of the Company having the right to attend and vote at the meetings; or

2.7.4 any member or members of the Company present in person (or in the case of a corporation, by its duly authorised representative) or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

On a poll votes may be given either personally or by proxy.

If a recognised clearing house (or its nominee) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall

specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee) which he represents as that recognised clearing house (or its nominee) could exercise if it were an individual member of the Company holding the number and class of shares specified in such authorisation.

2.8 Annual general meetings

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months (or such longer period as the Stock Exchange may authorise) shall elapse between the date of one annual general meeting of the Company and that of the next.

2.9 Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection of members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date at which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at any annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.10 Notice of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by not less than 21 days' notice in writing and any other extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be inclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

2.10.1 in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and

2.10.2 in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (a) the declaration and sanctioning of dividends;
- (b) the consideration and adoption of the accounts and balance sheets and the reports of the Directors and the auditors and other documents required to be annexed to the balance sheet;
- (c) the election of Directors in place of those retiring;
- (d) the appointment of auditors;
- (e) the fixing of, or the determining of the method of fixing of, the remuneration of the Directors and of the auditors;
- (f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20 per cent. (or such other percentage as may from time to time be specified in the Listing Rules) in nominal value of its then existing issued share capital and the number of any securities repurchased pursuant to sub-paragraph (g) below; and

- (g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

2.11 *Transfer of Shares*

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such maximum as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the instrument of transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days' notice being given by advertisement in the newspaper or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.12 Power of the Company to purchase its own Shares

The Company is empowered by the Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong.

2.13 Power of any subsidiary of the Company to own Shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.14 Dividends and other methods of distributions

Subject to the Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive

an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.15 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to demand or join in demanding a poll and to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.16 Calls on Shares and forfeiture of Shares

The Directors may from time to time make calls upon the members of the Company in respect of any moneys unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment) pay to the Company at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other moneys due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15 per cent. per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment on or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be sold, re-allotted or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15 per cent. per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.17 Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 14 days' notice being given by advertisement in the newspapers, or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association be closed at such times and for such periods as the Directors may from time to time determine

either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of such fee not exceeding HK\$2.50 (or such higher amount as may from time to time be permitted under the Listing Rules) as the Directors may determine for each inspection.

2.18 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in sub-paragraph 2.4 above.

2.19 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.20 Procedure on liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. And if in

a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.21 Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (i) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) the Company has not during that time or before the expiry of the three month period referred to in (iv) below received any indication of the whereabouts or existence of the member; (iii) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (iv) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS LAW AND TAXATION**1. Introduction**

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2. Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 3th August, 2005 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

3. Share capital

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “share premium account”. At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4. Dividends and distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see 3 above for further details).

5. Shareholders' suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6. Protection of minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7. Disposal of assets

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8. Accounting and auditing requirements

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9. Register of members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10. Inspection of books and records

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11. Special resolutions

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

12. Subsidiary owning shares in parent

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13. Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75 per cent. in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court of the Cayman Islands is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

14. Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90 per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

15. Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

16. Liquidation

A company is placed in liquidation either by an order of the court or by a special resolution (or, in certain circumstances, an ordinary resolution) of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

17. Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

18. Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor in Cabinet:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concession Law (1999 Revision).

The undertaking is for a period of twenty years from 23 August, 2005.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

19. Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

20. General

Maples and Calder the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section "Documents delivered to the Registrar of Companies in Hong Kong and available for inspection" in Appendix VIII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT THE COMPANY**1. Incorporation**

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law on 3rd August, 2005. The Company has established a principal place of business in Hong Kong at 28th Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong and was registered as an overseas company in Hong Kong under Part XI of the Companies Ordinance on 19th October, 2005. Seng Sze Ka Mee, Natalia of 28th Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong has been appointed as the Company's agent for the acceptance of service of process in Hong Kong.

As the Company was incorporated in the Cayman Islands, it operates subject to Cayman Islands law and its constitutive documents comprising a memorandum of association and articles of association. A summary of various provisions of its constitution and relevant aspects of Cayman Islands company law is set out in Appendix VI.

2. Changes in share capital of the Company

- (a) As at the date of incorporation of the Company, its authorised share capital was HK\$390,000 divided into 3,900,000 Shares of a par value of HK\$0.10 each.
- (b) On 3rd August, 2005, one Share was allotted and issued for cash at par to the initial subscriber, which was subsequently transferred to PRG Corporation on 11th August, 2005.
- (c) Pursuant to written resolutions of the then sole shareholder of the Company passed on 9th November, 2005, the authorised share capital of the Company was increased from HK\$390,000 to HK\$150,000,000 by the creation of an additional 1,496,100,000 Shares of HK\$0.10 each ranking pari passu in all respects with the existing Shares.

Upon completion of the Offering and the Capitalisation Issue referred to in paragraph A(3) of this Appendix, (i) the authorised share capital of the Company will be HK\$150,000,000 divided into 1,500,000,000 Shares and the issued share capital will be HK\$55,200,000 divided into 552,000,000 Shares fully paid or credited as fully paid, and 948,000,000 Shares will remain unissued. Other than pursuant to the exercise of any options which may be granted under the Share Option Scheme, there is no present intention to issue any part of the authorised but unissued share capital of the Company and, without the prior approval of the shareholders of the Company in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as aforesaid, there has been no alteration in the share capital of the Company since the date of its incorporation.

3. Written resolutions of the sole shareholder of the Company passed on 9th November, 2005

By written resolutions of the then sole shareholder of the Company passed on 9th November, 2005, resolutions were passed under which:

- (a) the Company approved and adopted its new Memorandum of Association and Articles of Association;
- (b) conditional upon the same conditions as stated in the paragraph headed “Conditions” under the section “Structure of the Offering” of this prospectus, the Company approved the Offering and authorised the Directors to allot and issue the Offer Shares;
- (c) conditional upon the Listing Committee of the Stock Exchange granting approval of and permission to deal in the Shares falling to be issued pursuant to the exercise of any options granted under the Share Option Scheme, the Company approved and adopted the rules of the Share Option Scheme and authorised the Directors, at their absolute discretion, to grant options thereunder and to allot and issue Shares pursuant to the exercise of subscription rights attaching to any options which may be granted under the Share Option Scheme and to take all such actions as they consider necessary or desirable to implement the Share Option Scheme;
- (d) conditional upon the share premium account of the Company being credited as a result of the Offering, the Company will capitalise and will apply HK\$36,150,000 of such amount so credited in paying up in full at par 361,500,000 Shares for allotment and issue to holders of the Shares on the register of members at the close of business on 17th November, 2005 in the same proportion as their then shareholdings (save that no Shareholder shall be entitled to be allotted or issued any fraction of a Share), and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the existing issued Shares;
- (e) the Company granted the Directors a general unconditional mandate to allot, issue and deal with, otherwise than by way of rights or pursuant to the exercise of any options which may be granted under any share option scheme or by virtue of scrip dividend schemes or similar arrangements in accordance with the Articles of Association, Shares with an aggregate nominal value not exceeding:
 - (i) 20% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Offering and the Capitalisation Issue; and
 - (ii) the aggregate nominal amount of the share capital of the Company repurchased under the authority referred to in sub-paragraph (f) below; and
- (f) the Company granted the Directors a general unconditional mandate to exercise all powers of the Company to repurchase on the Stock Exchange, or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, up to 55,200,000 Shares, representing 10% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Offering and the Capitalisation Issue.

Each of the general mandates referred to in sub-paragraphs (e) and (f) above will remain in effect until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual meeting of the Company is required to be held; or
- (iii) the time when such mandate is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting.

4. Corporate reorganisation

In preparation for the listing of Shares on the Stock Exchange, the companies comprising the Group underwent a reorganisation and the Company became the holding company of the Group. The following paragraphs set out the corporate development of the Group:

Parkson Investment and its operating subsidiaries

(i) Parkson Investment

Parkson Investment, previously known as Eddington Investment Pte. Ltd., was incorporated in Singapore on 14th October, 1992. As at the date of incorporation, the authorised share capital was S\$100,000 divided into 100,000 shares of S\$1.00 each and one share was issued to each of Thiang Thin Poh, Joseph and Teng Chai Hai. On 30th June, 1994, the authorised share capital of Parkson Investment was increased to S\$5,000,000 divided into 5,000,000 shares of S\$1 each. On the same day, Thiang Thin Poh, Joseph and Teng Chai Hai transferred their respective shares to Lion Asia Investment Pte. Ltd. Allotment of 999,998 shares of S\$1 each at par for cash in Parkson Investment were made in the following manner:

Number of shares

Lion Asia Investment Pte. Ltd.	299,998
Sukhothai Food Sdn Bhd	300,000
Supreme Nominees Sdn Bhd	200,000
Natvest Parkson Sdn Bhd	200,000

On 10th December, 1994, Parkson Investment further allotted 3,500,000 shares in favour of the following parties:

Number of shares

Lion Asia Investment Pte. Ltd.	1,050,000
Sukhothai Food Sdn Bhd	1,050,000
Supreme Nominees Sdn Bhd	700,000
Natvest Parkson Sdn Bhd	700,000

On 31st December, 1994, Parkson Investment increased its authorised share capital from S\$5,000,000 to S\$9,000,000 and 4,500,000 shares were allotted to the following parties:

Number of shares

Lion Asia Investment Pte. Ltd.	1,350,000
Sukhothai Food Sdn Bhd	1,350,000
Supreme Nominees Sdn Bhd	900,000
Natvest Parkson Sdn Bhd	900,000

On 29th July, 1995, Parkson Investment further increased its authorised share capital from S\$9,000,000 to S\$10,000,000, and 1,000,000 shares were allotted to the following parties:

Number of shares

Lion Asia Investment Pte. Ltd.	300,000
Parkson Retail Consulting and Management Sdn Bhd (formerly known as Subang Parade Steak House Sdn Bhd)	700,000

On 3rd August, 2004, each of Lion Asia Investment Pte. Ltd., Sukothai Food Sdn Bhd, LLB Nominees Sdn Bhd (formerly known as Supreme Nominees Sdn Bhd), Natvest Parkson Sdn Bhd and Parkson Retail Consulting and Management Sdn Bhd transferred all of their shares in Parkson Investment to LDHB and Parkson Investment became a wholly-owned subsidiary of LDHB.

(ii) *Rosenblum*

Rosenblum is a private company limited by shares incorporated in Singapore on 26th February, 2000 and as at the date of incorporation, its authorised share capital was S\$100,000 divided into 100,000 shares of S\$1.00 each. One share was issued to each of Poh Siew Hua and Geraldine Norris.

On 25th May, 2000, each of Poh Siew Hua and Geraldine Norris transferred their share to Thiang Thin Poh, Joseph and Tan Keok Boon, respectively. On 29th June, 2001, each of Thiang Thin Poh, Joseph and Tan Keok Boon transferred their share to Kok Kim Swee and Kwan Sau Tung, respectively. On 30th June, 2001, Kok Kim Swee and Kwan Sau Tung transferred their shares to Parkson Investment and Rosenblum became a wholly-owned subsidiary of Parkson Investment.

(iii) *Beijing Parkson*

Beijing Parkson, previously known as Beijing Parkson Light Industry Development Company Limited, was incorporated as a sino-foreign cooperative joint venture enterprise in the PRC on 20th October, 1993. As at the date of incorporation, the registered capital of Beijing

Parkson was US\$12,700,000. The joint venture partners were China Arts & Crafts and Parkson Investment. China Arts & Crafts contributed by way of land use rights and the payment of relocation and demolition expenses in connection with the property development, while Parkson Investment contributed by way of injection of working capital necessary for infrastructure construction.

Pursuant to the approval dated 30th December, 2002 issued by the PRC Ministry of Trade and Economic Cooperation (中華人民共和國對外貿易合作部), Beijing Parkson was converted to a sino-foreign equity joint venture enterprise with a registered capital of US\$12,700,000, of which 44% was contributed by China Arts & Crafts, China Arts & Crafts Culture and China Arts & Crafts Exhibition and 56% was contributed by Parkson Investment and Rosenblum.

Pursuant to two equity transfer agreements both dated 26th August, 2002, China Arts & Crafts transferred 0.9% and 0.1% of equity interest in Beijing Parkson to China Arts & Crafts Culture and China Arts & Crafts Exhibition, respectively, and pursuant to another equity transfer agreement dated 27th August, 2002, Parkson Investment transferred 14% of equity interest in Beijing Parkson to Rosenblum. As a result of such transfers, the ownership of equity interest in Beijing Parkson was as follows:

	<i>Percentage</i>
China Arts & Crafts	43%
Parkson Investment	42%
Rosenblum	14%
China Arts & Crafts Culture	0.9%
China Arts & Crafts Exhibition	0.1%

Pursuant to the approval dated 6th February, 2005 issued by the Ministry of Commerce, the registered capital of Beijing Parkson was increased to US\$16,680,000 and the proportion of capital contribution remained unchanged. The said approval also approved the establishment by Beijing Parkson of branches in Taiyuan, Changchun, Haerbin, Tianjin, Beijing and Zhengzhou.

Zhengzhou Branch was established on 15th March, 2005 and Haerbin Branch was established on 23rd March, 2005, while Taiyuan Branch and Beijing Haidian Branch were established on 8th August, 2005 and 14th July, 2005, respectively.

(iv) *Xinjiang Parkson*

Xinjiang Parkson was incorporated as a limited liability company in the PRC on 11th November, 2002. At as the date of incorporation, the registered capital of Xinjiang Parkson was RMB20,000,000, of which 51% was contributed by Beijing Parkson and 49% was contributed by Xinjiang Youhao.

Exonbury and its operating subsidiaries**(i) *Exonbury***

Exonbury was incorporated as a limited liability company in Hong Kong on 27th January, 1994. As at the date of incorporation, the authorised share capital was HK\$1,000 divided into 1,000 shares of HK\$1.00 each. One share was issued to each of Sands Nominees Limited and Sands Agents Limited, respectively.

On 6th July, 1994, Sands Nominees Limited and Sands Agents Limited transferred their respective share to Lion Asia Limited (with one share held on trust by Sands Nominees Limited), and on 30th March, 1999, Lion Asia Limited transferred the two shares in Exonbury to Ambang Jaya Sdn. Bhd. (with one share held on trust by Sands Nominees Limited).

On 14th July, 1999, Sands Nominees Limited, holding one share on trust for Ambang Jaya Sdn. Bhd., transferred such share to Benavon Nominees Limited, which held the share on trust for Ambang Jaya Sdn. Bhd.

On 2nd February, 2005, Ambang Jaya Sdn. Bhd. transferred its one share to Lion Subang Parade Sdn. Bhd and one share to LDHB.

After the above transfers, Exonbury became a wholly-owned subsidiary of LDHB.

(ii) *Shanghai Lion Property*

Shanghai Lion Property was incorporated as a sino-foreign cooperative joint venture enterprise in the PRC on 26th March, 1996. As at the incorporation date, the registered capital of Shanghai Lion Property was US\$220,000, of which 54.5% was contributed by Shanghai Nine Sea Industry and 45.5% was contributed by Exonbury, both contributions were made by way of cash. The registered capital of Shanghai Lion Property was subsequently increased to US\$365,000, of which Shanghai Nine Sea Industry contributed an additional US\$80,000, while Exonbury contributed an extra US\$65,000, both by way of cash.

(iii) *Shanghai Nine Sea Parkson*

Shanghai Nine Sea Parkson was established as a sino-foreign cooperative joint venture enterprise in the PRC on 30th November, 1994. As at the date of incorporation, the registered capital of Shanghai Nine Sea Parkson was US\$12,000,000. Shanghai Nine Sea Industry contributed by way of property using rights and Exonbury contributed US\$12,000,000 by way of cash.

(iv) *Shanghai Lion Investment*

Shanghai Lion Investment was incorporated as a wholly foreign-owned enterprise in the PRC on 3rd March, 1998 by Parkson Retail Consulting and Management Sdn. Bhd. As at the date of incorporation, the registered capital of Shanghai Lion Investment was US\$500,000.

Pursuant to an equity transfer agreement dated 6th November, 2003, Parkson Retail Consulting and Management Sdn. Bhd. transferred its entire equity interest in Shanghai Lion Investment to Serbadagang Holdings. After such transfer, Shanghai Lion Investment was wholly-owned by Serbadagang Holdings.

Pursuant to an equity transfer agreement dated 19th April, 2005, Serbadagang Holdings transferred all its interest in Shanghai Lion Investment to Exonbury.

After such transfer (which was legally effected on 31st May, 2005), Shanghai Lion Investment became a wholly-owned subsidiary of Exonbury.

The Beijing branch of Shanghai Lion Investment was established on 30th July, 2002.

(v) *Beijing Century*

Beijing Century, formerly known as Beijing Fujishengjia Electronics and Commerical Company Limited (北京富基盛家電子商務有限公司), was incorporated as a limited liability company in the PRC on 13th July, 2000. As at the date of incorporation, the registered capital of Beijing Century was RMB600,000, of which 51% was contributed by Shanghai Lion Investment and 49% was contributed by Hainan Fuji Computer Company Limited (海南富基電腦有限公司) (“Fuji Computer”).

Pursuant to an equity transfer agreement dated 25th November, 2002, Fuji Computer transferred its 49% equity interest in Beijing Century to Billson Investment.

Pursuant to an equity transfer agreement dated 23rd March, 2005, Billson Investment transferred 48% of the equity interest in Beijing Century to Shanghai Lion Investment. Pursuant to another equity transfer agreement dated 23rd March, 2005, Billson Investment transferred 1% of the equity interest in Beijing Century to Shanghai Nine Sea Parkson.

After the above transfers (which were legally effected on 17th June, 2005), Beijing Century was held as to 99% by Shanghai Lion Investment and 1% by Shanghai Nine Sea Parkson.

(vi) *Wuxi Parkson*

Wuxi Parkson was incorporated as a sino-foreign equity joint venture enterprise in the PRC on 6th February, 1993. Pursuant to the approval dated 30th March, 1996 issued by the Management Committee for the Use of Foreign Capital of the Wuxi City (無錫市利用外資管理委員會), the registered capital of Wuxi Parkson was RMB150,000,000, of which 40% was contributed by Wuxi Distribution by way of cash and 60% was contributed by Serbadagang Holdings by way of cash.

Pursuant to the approvals dated 14th August, 2002 and 23rd November, 2003, both issued by the Management Committee for the Use of Foreign Capital of the Wuxi City (無錫市利用外資管理委員會), the registered capital of Wuxi Parkson was reduced from RMB150,000,000 to RMB100,000,000, and from RMB100,000,000 to RMB80,000,000, respectively, while the proportion of capital contribution remained unchanged in both instances.

Pursuant to an equity transfer agreement dated 19th April, 2005, Serbadagang Holdings transferred its 60% equity interest in Wuxi Parkson to Exonbury.

After such transfer (which was legally effected on 20th July, 2005), Wuxi Parkson was owned as to 60% by Exonbury and 40% by Wuxi Distribution.

(vii) *Yangzhou Parkson*

Yangzhou Parkson was incorporated as a sino-foreign equity joint venture enterprise in the PRC on 16th May, 1996. As at the date of incorporation, the registered capital of Yangzhou Parkson was RMB84,230,000, of which 45% was contributed by Yangzhou Commercial by way of buildings and equipment, and 55% was contributed by Serbadagang Holdings by way of cash.

Pursuant to the approval dated 4th August, 2000 issued by the Committee of Foreign Trade and Economic Cooperation of the Yangzhou City (揚州市對外經濟貿易委員會), the registered capital of Yangzhou Parkson was reduced from RMB84,230,000 to RMB64,643,100, and the proportion of capital contribution remained unchanged.

Pursuant to an equity transfer agreement dated 19th April, 2005, Serbadagang Holdings transferred its 55% equity interest in Yangzhou Parkson to Exonbury.

After such transfer (which was legally effected on 15th July, 2005), Yangzhou Parkson was held as to 55% by Exonbury and 45% by Yangzhou Commercial.

(viii) *Hong Kong Fen Chai*

Hong Kong Fen Chai was incorporated as a limited liability company in Hong Kong on 28th May, 2005. As at the date of incorporation, the authorised share capital was HK\$10,000 divided into 10,000 shares of HK\$1.00 each and one share was issued to Jian Yu Feng.

Pursuant to a share transfer agreement dated 14th September, 2005, Jian Yu Feng transferred one share in the share capital of Hong Kong Fen Chai, representing the entire issued share capital, to Exonbury. The consideration of such transfer is RMB52,000,000. Exonbury will also capitalise Hong Kong Fen Chai in the amount of RMB13,000,000 by way of injection of equity. The above terms were arrived at after arm's-length commercial negotiations, taking into account its profits in the past years and the average price earning ratio.

After such transfer (which was legally effected on 12th October, 2005), Hong Kong Fen Chai Investment Limited became a wholly-owned subsidiary of Exonbury.

(ix) *Xi'an Lucky Parkson*

Xi'an Lucky Parkson was incorporated as a sino-foreign equity joint venture enterprise in the PRC on 23rd May, 1997. At as the date of incorporation, the registered capital of Xi'an Lucky Parkson was RMB65,000,000, of which 49% was contributed by Xi'an Lifeng by way of settlement of outstanding sums due under a construction project for Xi'an Lucky Parkson, and 51% was contributed by Serbadagang Holdings by way of cash.

Pursuant to the approval dated 5th February, 2002 issued by the Bureau of Foreign Trade and Economic Cooperation of Lifeng in Xi'an City (西安市對外貿易合作局), the registered capital of Xi'an Lucky Parkson was reduced from RMB65,000,000 to RMB32,500,000, and the proportion of capital contribution remained unchanged.

Pursuant to an equity transfer agreement dated 19th May, 2005, Serbadagang Holdings transferred its 51% equity interest in Xi'an Lucky Parkson to Exonbury. Pursuant to another equity transfer agreement dated 31st May, 2005, Xi'an Lifeng transferred 40% of its equity interest in Xi'an Lucky Parkson to Hong Kong Fen Chai.

After the above transfers (which were legally effected on 20th September, 2005), Xi'an Lucky Parkson was held as to 40% by Hong Kong Fen Chai, 9% by Xi'an Lifeng and 51% by Exonbury.

(x) *Xi'an Chang'an Parkson*

Xi'an Chang'an Parkson was incorporated as a limited liability company in the PRC on 8th November, 2004. As at the date of incorporation, the registered capital of Xi'an Chang'an Parkson was RMB10,000,000, of which 51% was contributed by Xi'an Parkson Shopping Centre Company Limited (西安百盛購物中心有限公司) ("Xi'an Shopping") and 49% was contributed by Shaanxi Chang'an Information.

Pursuant to an equity transfer agreement dated 12th May, 2005, Xi'an Shopping transferred its 51% equity interest in Xi'an Chang'an Parkson to Xi'an Lucky Parkson at a consideration of RMB5,100,000. The consideration was arrived at after arm's-length commercial negotiations, taking into consideration the original investment cost of RMB5,100,000.

After such transfer (which was legally effected on 2nd August, 2005), Xi'an Chang'an was held as to 51% by Xi'an Lucky Parkson and 49% by Shaanxi Chang'an Information.

(xi) *Xi'an Shidai Parkson*

Xi'an Shidai Parkson was incorporated as a limited liability company in the PRC on 17th August, 2004. As at the date of incorporation, the registered capital of Xi'an Shidai Parkson was RMB15,000,000, of which 51% was contributed by Xi'an Shopping and 49% was contributed by Xi'an Xinrun.

Pursuant to an equity transfer agreement dated 12th May, 2005, Xi'an Shopping transferred its 51% equity interest in Xi'an Shidai Parkson to Xi'an Lucky Parkson at a consideration of RMB7,650,000. The consideration was arrived at after arm's-length commercial negotiations, taking into consideration the original investment cost of RMB7,650,000.

After such transfer (which was legally effected on 2nd August, 2005), Xi'an Shidai Parkson was held as to 51% by Xi'an Lucky Parkson and 49% by Xi'an Xinrun.

Parkson Supplies and its operating subsidiaries***(i) Parkson Supplies***

Parkson Supplies was incorporated as a private company limited by shares in Singapore on 27th August, 1993. As at the date of incorporation, the authorised share capital of Parkson Supplies was S\$100,000 divided into 100,000 shares of S\$1.00 each and one share was issued to each of Cheng Theng Kee and Cheng Yong Kwang.

On 30th June, 1996, Cheng Theng Kee and Cheng Yong Kwang transferred their shares in Parkson Supplies to Lion Asia Investment Pte. Ltd.. On the same date, Parkson Supplies allotted 28 shares and 70 shares to Lion Asia Investment Pte. Ltd. and Natvest Parkson Sdn Bhd, respectively. On 1st June, 2004 and 14th June, 2004, Lion Asia Investment Pte. Ltd. and Natvest Parkson Sdn Bhd transferred all of their shares in Parkson Supplies to LDHB, respectively.

(ii) Mianyang Parkson

Mianyang Parkson was incorporated as a sino-foreign cooperative joint venture enterprise in the PRC on 16th April, 1997. As at the date of incorporation, the registered capital of Mianyang Parkson was RMB15,000,000. Mianyang Fulin contributed by way of the property using rights, while Serbadagang Holdings injected RMB15,000,000 of cash.

Pursuant to an assignment contract dated 8th August, 1997 signed between Serbadagang Holdings and Parkson Pacific, Serbadagang Holdings transferred its interests, rights and obligations in Mianyang Parkson to Parkson Pacific.

According to the approval dated 30th June, 2003 issued by the Bureau of Foreign Trade and Economic Cooperation of Mianyang City (綿陽市對外貿易經濟合作局), Mianyang Parkson was converted to a sino-foreign equity joint venture enterprise. In addition, the registered capital of Mianyang Parkson was increased to RMB30,000,000, of which 40% was contributed by Mianyang Fulin and 60% was contributed by Parkson Pacific.

Pursuant to an equity transfer agreement dated 3rd December, 2002, Mianyang Fulin transferred its interest, right and obligation in Mianyang Parkson to Sichuan Fulin.

Pursuant to an equity transfer agreement dated 6th June, 2005, Parkson Pacific transferred its 60% equity interest in Mianyang Parkson to Parkson Supplies.

After such transfer (which was legally effected on 7th July, 2005), Mianyang Parkson was held as to 40% by Sichuan Fulin and 60% by Parkson Supplies.

(iii) Chongqing Parkson

Chongqing Parkson was incorporated as sino-foreign equity joint venture enterprise in the PRC on 2nd March, 1995. As at the date of incorporation, the registered capital of Chongqing Parkson was RMB20,000,000, of which 30% was contributed by Chongqing Wanyou and 70% was contributed by Parkson Supplies, both contributions were made by way of cash.

Pursuant to an equity transfer agreement dated 12th December, 2003, Parkson Supplies transferred its 5% of equity interest in Chongqing Parkson to Chongqing International Trust and Investment Company Limited (重慶國際信託投資有限公司) (“Chongqing Trust”).

Pursuant to the approval issued by the Ministry of Commerce dated 30th April, 2004, the registered capital of Chongqing Parkson was increased to RMB30,000,000, of which 30%, 65% and 5% was contributed by Chongqing Wanyou, Parkson Supplies and Chongqing Trust, respectively.

Pursuant to an equity transfer agreement dated 23rd May, 2005, Chongqing Trust transferred its 5% equity interest in Chongqing Parkson to Parkson Supplies.

After such transfer (which was legally effected on 19th August, 2005), Chongqing Parkson was held as to 70% by Parkson Supplies and 30% by Chongqing Wanyou.

The Chongqing Wanzhou Branch and the Chongqing Nanping Branch were both incorporated on 25th August, 2005.

Step Summit and its operating subsidiaries

(i) Step Summit

Step Summit was incorporated as a limited liability company in Hong Kong on 21st March, 2005. As at the date of incorporation, the authorised share capital was HK\$10,000 divided into 10,000 shares of HK\$1.00 each and one share was issued to GNL05 Limited. On 2nd April, 2005, GNL05 Limited transferred the one share to Chan Chi Ming, Christopher.

Pursuant to a share transfer agreement dated 22nd August, 2005, Chan Chi Ming, Christopher transferred his one share in the share capital of Step Summit to PRG Corporation. The consideration of such transfer was US\$65.4 million which was arrived at after arm's-length commercial negotiations, taking into account the consolidated profits of Step Summit for the past three years and the average price earning ratio.

After such transfer (which was legally effected on 2nd November, 2005), Step Summit became a wholly-owned subsidiary of PRG Corporation.

(ii) Guizhou Parkson

Guizhou Parkson was incorporated as a limited liability company in the PRC on 28th August, 2002. As at the date of incorporation, the registered capital of Guizhou Parkson was RMB10,000,000, of which 30%, 25%, 25% and 20% was contributed by Zhang Zhi Jun (張之君), Zhang Pei (張沛), Zhang Ya (張婭) and Zhang Yun Hui (張雲會), respectively.

Pursuant to the equity transfer agreements dated 30th October, 2003, Zhang Pei (張沛) and Zhang Ya (張婭) each transferred his respective 15% of equity interest in Guizhou Parkson to Chen Yi (陳奕). On the same date, each of Zhang Zhi Jun (張之君) and Zhang Yun Hui (張雲會) entered into an equity transfer agreement with Chen Wei (陳偉), transferring 20% and 10% of equity interest in Guizhou Parkson, respectively.

Pursuant to an equity transfer agreement dated 27th May, 2005, each of Zhang Zhi Jun (張之君), Zhang Pei (張沛), Zhang Ya (張婭) and Zhang Yun Hui (張雲會) transferred his or her respective 10% of equity interest in Guizhou Parkson to Guizhou Shenqi Enterprise, which is held as to 40% by Zhang Zhi Jun (張之君), 30% by Zhang Pei (張沛) and 30% by Zhang Ya (張婭).

After the above transfers, the ownership of equity interest in Guizhou Parkson was as follows:

	<i>Percentage</i>
Guizhou Shenqi Enterprise	40%
Chen Yi (陳奕)	30%
Chen Wei (陳偉)	30%

Pursuant to two equity transfer agreements both dated 27th May, 2005, each of Chen Yi (陳奕) and Chen Wei (陳偉) transferred his respective 30% equity interest in Guizhou Parkson to Step Summit at a consideration of RMB4,900,000 each. The consideration was arrived at after arm's-length commercial negotiations, taking into consideration net asset value of Guizhou Parkson as at 28th February, 2005 amounting to RMB16,296,807.

After such transfers (which were legally effected on 29th September, 2005), Guizhou Parkson was held as to 60% by Step Summit and 40% by Guizhou Shenqi Enterprise.

(iii) *Shanghai Hongqiao Parkson*

Shanghai Hongqiao Parkson was incorporated as a limited liability company in the PRC on 29th November, 2002. As at the date of incorporation, the registered capital of Shanghai Hongqiao Parkson was RMB5,000,000, of which 50% contributed by Chen Yi (陳奕) and 50% was contributed by Chen Wei (陳偉).

Pursuant to an equity transfer agreement dated 26th May, 2005, each of Chen Yi (陳奕) and Chen Wei (陳偉) transferred all of their equity interest in Shanghai Hongqiao Parkson to Step Summit at a consideration of RMB850,000 each. The consideration was arrived at after arm's-length commercial negotiations, taking into consideration the net asset value of Shanghai Hongqiao Parkson as at 28th February, 2005 amounting to RMB1,643,520.

After such transfer (which was legally effected on 26th October, 2005), Shanghai Hongqiao Parkson became a wholly-owned subsidiary of Step Summit.

The Changsha Branch and the Yueyang Branch were established on 17th January, 2004 and 18th November, 2003, respectively.

(iv) *Hefei Parkson*

Hefei Parkson was incorporated as a limited liability company in the PRC on 10th May, 2001. As at the date of incorporation, the registered capital of Hefei Parkson was RMB500,000, of which 50% was contributed by 北京華德昌經貿有限責任公司 and 50% was contributed by 北京愛客家經貿有限公司.

As at 24th July, 2001, the registered capital of Hefei Parkson was increased to RMB8,000,000. The ownership of equity interest in Hefei Parkson was as follows:

	<i>Percentage</i>
Beijing Huadechang Trading Company Limited (北京華德昌經貿有限責任公司)	3.125%
Beijing Aikejia Trading Company Limited (北京愛客家經貿有限公司)	3.125%
Chen Yi (陳奕)	50%
Chen Wei (陳偉)	43.75%

Pursuant to the equity transfer agreements dated 25th May, 2005, all the above-mentioned equity interest holders transferred all of their equity interest in Hefei Parkson to Step Summit at a total consideration of RMB3,348,800. The consideration was arrived at after arm's-length commercial negotiations, taking into consideration the net asset value of Hefei Parkson as at 28th February, 2005 amounting to RMB3,209,011.

After such transfer (which was legally effected on 17th October, 2005), Hefei Parkson became a wholly-owned subsidiary of Step Summit.

(v) *Anshan Parkson*

Anshan Parkson was incorporated as a limited liability company in the PRC on 8th April, 2002. As at the date of incorporation, the registered capital of Anshan Parkson was RMB10,000,000, of which 51% was contributed by Shenzhen Xinhui Shiye Company Limited (深圳市鑫輝實業有限公司) ("Shenzhen Xinhui") and 49% was contributed by Anshan Tianxing.

Pursuant to an equity transfer agreement dated 12th April, 2004, Shenzhen Xinhui transferred its 51% equity interest in Anshan Parkson to Hefei Parkson.

After such transfer (which was legally effected on 19th July, 2004), Anshan Parkson was held as to 51% by Hefei Parkson and 49% by Anshan Tianxing.

5. Changes in the share capital of the subsidiaries

The subsidiaries of the Company are listed in the accountants' report, the text of which is set out in Appendix I.

The following alterations in the share capital of the Company's subsidiaries have taken place within the two years preceding the date of this prospectus:

- (a) on 23rd November, 2003, the registered capital of Wuxi Parkson decreased from RMB100,000,000 to RMB80,000,000;
- (b) on 30th April, 2004, the registered capital of Chongqing Parkson increased from RMB20,000,000 to RMB30,000,000;

- (c) on 6th February, 2005, the registered capital of Beijing Parkson increased from US\$12,700,000 to US\$16,680,000;
- (d) on 10th August, 2005, the registered capital of Shanghai Lion Property increased from US\$220,000 to US\$365,000; and
- (e) on 9th November, 2005, Grand Parkson allotted and issued four shares at par value of HK\$0.10 each, credited as fully paid to PRG Corporation.

Save as disclosed above, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years preceding the date of this prospectus.

6. Repurchase by the Company of its own securities

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

(a) *Provisions of the Listing Rules*

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) *Shareholders' approval*

All proposed repurchases of securities by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval of a specific transaction.

(ii) *Source of funds*

Repurchases must only be funded out of funds legally available for the purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands. A company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Any repurchases may be made out of funds legally available for the purpose, namely profits or the proceeds of a fresh issue of shares made for the purpose, or, if so authorised by its Articles of Association and subject to the Companies Law, out of capital. Any premium on a purchase may be made out of profits or the Company's share premium account or, if so authorised by its Articles of Association and subject to the Companies Law, out of capital.

(iii) *Trading restrictions*

The total number of shares which a company is authorised to repurchase on the Stock Exchange is such number of shares which represents up to a maximum of 10% of the existing issued share capital of the Company as at the date of the resolution approving the repurchase. A company may not issue or announce an issue of securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant

to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange.

(iv) *Shares to be purchased*

The Listing Rules provide that the shares which are proposed to be purchased by a company must be fully paid up.

(v) *Status of repurchased securities*

The listing of all repurchased securities (whether on the Stock Exchange or otherwise) is automatically cancelled and the relative certificates for those securities must be cancelled and destroyed. Under the laws of the Cayman Islands, a company's repurchased securities are to be treated as cancelled.

(vi) *Suspension of repurchases*

Securities repurchases are prohibited after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information has been publicly announced. In addition, the Stock Exchange reserves the right to prohibit repurchases of securities on the Stock Exchange if a company has breached the Listing Rules.

(vii) *Reporting requirements*

Repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 9:30 a.m. (Hong Kong time) on the following business day. In addition, the company's annual report is required to disclose details regarding repurchases of securities made during the year, including the number of securities repurchased and the aggregate prices paid.

(viii) *Connected persons*

A company is prohibited from knowingly repurchasing securities on the Stock Exchange from a "connected person", that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or their associates (as defined in the Listing Rules), and a connected person is prohibited from knowingly selling his securities to the company.

(b) **Share capital**

Exercise in full of the repurchase mandate, on the basis of 552,000,000 Shares in issue immediately following completion of the Offering and the Capitalisation Issue (assuming no options granted under the Share Option Scheme are exercised), could accordingly result in up to 55,200,000 Shares being repurchased by the Company during the period prior to the date on which such repurchase mandate expires or terminates (as referred to in the note to paragraph A(3) in this Appendix).

(c) ***General information relevant to the repurchase mandate***

- (i) The Directors believe that it is in the best interests of the Company and its shareholders to have a general authority from shareholders to enable the Directors to repurchase Shares in the market. Repurchases of shares will only be made when the Directors believe that such repurchases will benefit the Company and its shareholders. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of the Company and its assets and/or its earnings per Share.
- (ii) There might be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in this prospectus) in the event that the buyback mandate is exercised in full. However, the Directors do not propose to exercise the repurchase mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.
- (iii) None of the Directors or, to the best of their knowledge having made all reasonable enquiries, any of their respective associates, have any present intention to sell any Shares to the Company or its subsidiaries if the repurchase mandate is exercised.
- (iv) The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate only in accordance with the Listing Rules, the Articles of Association and the applicable laws of the Cayman Islands. The Company shall procure the broker who effects the repurchase of securities to disclose to the Stock Exchange such information in relation to the purchase as the Stock Exchange may request.
- (v) If as a result of a repurchase of securities a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a shareholder (or a group of shareholders acting in concert, as defined in the Takeovers Code) could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences that may arise under the Takeovers Code as a result of a repurchase pursuant to the repurchase mandate.
- (vi) Any repurchase of Shares which results in the amount of Shares held by the public being reduced to less than 25% could only be implemented with the agreement of the Stock Exchange to waive the requirement regarding the public shareholding referred to above. Except in extraordinary circumstances, a waiver of this provision would not normally be given by the Stock Exchange.
- (vii) No connected person (as defined in the Listing Rules) has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so, if the repurchase mandate is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS**1. Summary of material contracts**

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this prospectus and are, or may be, material:

- (a) an equity transfer agreement (in Chinese) dated 6th November, 2003, Parkson Retail Consulting and Management Sdn. Bhd. transferred its entire equity interest in Shanghai Lion Investment to Serbadagang Holdings;
- (b) an equity transfer agreement (in Chinese) dated 12th December, 2003, Parkson Supplies transferred its 5% of equity interest in Chongqing Parkson to Chongqing Trust, as supplemented by an equity transfer supplemental agreement (in Chinese) dated 13th December, 2003 entered into between Parkson Supplies and Chongqing Trust;
- (c) an equity trust agreement (in Chinese) dated 12th December, 2003 entered into between Parkson Supplies, Parkson Management and Chongqing Trust under which, inter alia, Chongqing Trust agreed to hold 5% of equity interest in Chongqing Parkson on trust for Parkson Supplies, as supplemented by an equity trust supplemental agreement (in Chinese) dated 13th December, 2003 entered into between Parkson Supplies, Parkson Management and Chongqing Trust;
- (d) An equity transfer agreement (in Chinese) dated 23rd March, 2005 entered into between Billson Investment and Shanghai Lion Investment under which Billson Investment agreed to transfer to Shanghai Lion Investment 48% of the equity interest in Beijing Century for a consideration of RMB9,600,000;
- (e) An equity transfer agreement (in Chinese) dated 23rd March, 2005 entered into between Billson Investment and Shanghai Nine Sea Parkson under which Billson Investment agreed to transfer to Shanghai Nine Sea Parkson 1% of the equity interest in Beijing Century for a consideration of RMB200,000;
- (f) An equity transfer agreement (in Chinese) dated 12th April, 2004 entered into between Shenzhen Xinhui and Hefei Parkson under which Shenzhen Xinhui agreed to transfer to Hefei Parkson 51% of the equity interest in Anshan Parkson for a consideration of RMB5,100,000;
- (g) An equity transfer agreement (in Chinese) dated 19th April, 2005 entered into between Serbadagang Holdings and Exonbury under which Serbadagang Holdings agreed to transfer to Exonbury 60% of the equity interest in Wuxi Parkson for a consideration of RMB48,000,000;
- (h) An equity transfer agreement (in Chinese) dated 19th April, 2005 entered into between Serbadagang Holdings and Exonbury under which Serbadagang Holdings agreed to transfer to Exonbury 55% of the equity interest in Yangzhou Parkson for a consideration of RMB35,553,700;

- (i) An equity transfer agreement (in Chinese) dated 19th April, 2005 entered into between Serbadagang Holdings and Exonbury under which Serbadagang Holdings agreed to transfer to Exonbury 100% of the equity interest in Shanghai Lion Investment for a consideration of US\$500,000;
- (j) An equity transfer agreement (in Chinese) dated 19th May, 2005 entered into between Serbadagang Holdings and Exonbury under which Serbadagang Holdings agreed to transfer to Exonbury 51% of the equity interest in Xi'an Lucky Parkson for a consideration of RMB16,575,000;
- (k) An equity transfer agreement (in Chinese) dated 12th May, 2005 entered into between Xi'an Shopping and Xi'an Lucky Parkson under which Xi'an Shopping agreed to transfer to Xi'an Lucky Parkson 51% of the equity interest in Xi'an Chang'an Parkson for a consideration of RMB5,100,000;
- (l) An equity transfer agreement (in Chinese) dated 12th May, 2005 entered into between Xi'an Shopping and Xi'an Lucky Parkson under which Xi'an Shopping agreed to transfer to Xi'an Lucky Parkson 51% of the equity interest in Xi'an Shidai Parkson for a consideration of RMB7,650,000;
- (m) An equity transfer agreement (in Chinese) dated 19th May, 2005 entered into between Parkson Investment and Sea Coral under which Parkson Investment agreed to transfer to Sea Coral 51% of the equity interest in Nanning Brilliant for a consideration of RMB10,200,000;
- (n) An equity transfer agreement (in Chinese) dated 23rd May, 2005 entered into between Chongqing Trust and Parkson Supplies under which Chongqing Trust agreed to transfer to Parkson Supplies 5% of the equity interest in Chongqing Parkson for a consideration of RMB1,738,245;
- (o) an equity trust termination agreement (in Chinese) dated 23rd May, 2005 entered into between Parkson Supplies, Parkson Management and Chongqing Trust under which, inter alia, the parties agreed to terminate the equity trust agreement (in Chinese) dated 12th December, 2003 entered into between Parkson Supplies, Parkson Management and Chongqing Trust;
- (p) Equity transfer agreements (in Chinese) all dated 25th May, 2005 entered into between Step Summit and each of Beijing Huadechang Trading Company Limited (北京華德昌經貿有限責任公司), Beijing Aikejia Trading Company Limited (北京愛客家經貿有限公司), Chen Yi (陳奕) and Chen Wei (陳偉) under which each of the vendor parties agreed to transfer their respective equity interest holding in Hefei Parkson (amounting to 100%) to Step Summit for an aggregate consideration of RMB3,348,800;
- (q) An equity transfer agreement (in Chinese) dated 26th May, 2005 entered into between Exonbury and Sea Coral under which Exonbury agreed to transfer to Sea Coral 90% of the equity interest in Dalian Shishang for a consideration of RMB18,000,000;

- (r) Two equity transfer agreements (in Chinese) dated 27th May, 2005 entered into between Step Summit and each of Chen Yi (陳奕) and Chen Wei (陳偉) under which Chen Yi and Chen Wei agreed to each transfer to Step Summit 30% of the equity interest in Guizhou Parkson for a consideration of RMB4,900,000;
- (s) An equity transfer agreement (in Chinese) dated 31st May, 2005 entered into between Xi'an Lifeng and Hong Kong Fen Chai under which Xi'an Lifeng agreed to transfer to Hong Kong Fen Chai 40% of the equity interest in Xi'an Lucky Parkson for a consideration of RMB13,000,000;
- (t) An equity transfer agreement (in Chinese) dated 6th June, 2005 entered into between Parkson Pacific and Parkson Supplies under which Parkson Pacific agreed to transfer to Parkson Supplies 60% of the equity interest in Mianyang Parkson for a consideration of RMB18,000,000;
- (u) Two equity transfer agreements (in Chinese) dated 6th June, 2005 entered into between Step Summit and each of Chen Yi (陳奕) and Chen Wei (陳偉) under which Chen Yi and Chen Wei agreed to each transfer to Step Summit 50% of the equity interest in Shanghai Hongqiao Parkson to Step Summit for a consideration of RMB850,000;
- (v) A share purchase agreement dated 14th September, 2005 entered into between Exonbury and Jian Yu Feng under which Jian Yu Feng agreed to transfer the entire issued share capital of Hong Kong Fen Chai to Exonbury for a consideration of RMB52 million;
- (w) An assets and business acquisition agreement (in Chinese) dated 20th January, 2005, as supplemented by a supplemental agreement (in Chinese) dated 25th January, 2005, entered into between Xi'an Lucky Parkson and Xi'an Shopping under which Xi'an Lucky Parkson agreed to purchase the assets, liabilities and business of Xi'an Shopping for a consideration of RMB1;
- (x) An assets and business acquisition agreement (in Chinese) dated 20th August, 2005 entered into between Chongqing Parkson and Chongqing Wanyou Shopping Plaza Co., Ltd. (重慶萬友百貨廣場有限公司) under which Chongqing Parkson agreed to purchase the assets, liabilities and business of Chongqing Wanyou Shopping Plaza Co., Ltd. (重慶萬友百貨廣場有限公司) (including those situated at Wanzhou District) for a consideration of RMB1;
- (y) An assets and business acquisition agreement (in Chinese) dated 18th August, 2005 entered into between Beijing Parkson and Shanxi Zhongyue under which Beijing Parkson agreed to purchase the assets, liabilities and business of Shanxi Zhongyue for a consideration of RMB10 million;
- (z) An assets and business acquisition agreement (in Chinese) dated 18th August, 2005 entered into between Beijing Parkson and Beijing Shopping Centre (北京百盛購物中心) under which Beijing Parkson agreed to purchase the assets, liabilities and business of a branch office of Beijing Shopping Centre for a consideration of RMB1;

- (aa) A termination agreement (in Chinese) dated 20th August, 2005 between Beijing Parkson and China Arts & Crafts under which the parties agreed to terminate the property sale and purchase agreement dated 30th September, 1999 in relation to the sale and purchase of premises located at 5th to 10th floors, Parkson Building Phase 2, 101 Fuxingmennei Street, West City District, Beijing;
- (bb) A supplemental lease agreement (in Chinese) dated 20th August, 2005 between Beijing Parkson and China Arts & Crafts under which the parties agreed to amend the payment terms of the original lease agreements dated 1st November, 2003, 1st August, 2003 and 15th March, 2004 and that Beijing Parkson shall prepay, on a lump sum-basis, the rent for the period from 1st October, 2005 to 30th September, 2014;
- (cc) An agreement (in Chinese) dated 20th August, 2005 between Beijing Parkson and China Arts & Crafts under which the parties agreed on the settlement of certain arrangements between Beijing Parkson and China Arts & Crafts including, among other things, the terms for the discharge of a guarantee granted by Beijing Parkson in favour of the lending bank with respect to a third party bank loan of China Arts & Crafts and the repayment of an advance made by Beijing Parkson to China Arts & Crafts;
- (dd) The following entrusted loan agreements, direct loan agreements and guarantees (in Chinese) between members of the Group and the relevant counterparties:

Date	Borrower	Lender	Bank	Amount of loan (RMB)
April 2004	Inner Mongolia Zhong Tou Commercial Plaza Co., Ltd. (內蒙古中投商業廣場有限公司)	Beijing Parkson	China Merchants Bank, Beijing branch	5,000,000
19th November, 2003	China Arts & Crafts Culture	Beijing Parkson	China Merchants Bank, Beijing branch	20,000,000
17th December, 2003	China Arts & Crafts Culture	Beijing Parkson	China Merchants Bank, Beijing branch	5,000,000
11th January, 2005	Xinjiang Parkson	Beijing Parkson	China Merchants Bank, Beijing branch	5,000,000
22nd April, 2004	Shenyang Plaza	Shanghai Nine Sea Parkson	Shenzhen Development Bank	10,000,000
16th December, 2004	Shanghai Hongqiao Parkson	Shanghai Nine Sea Parkson	China Merchants Bank, Shanghai Hualing branch	20,000,000

APPENDIX VII

STATUTORY AND GENERAL INFORMATION

Date	Borrower	Lender	Bank	Amount of loan (RMB)
26th January, 2005	Xi'an Lucky Parkson	Shanghai Nine Sea Parkson	China Merchants Bank, Shanghai Hualing branch	20,000,000
21st March, 2005	Wuxi Parkson	Shanghai Nine Sea Parkson	China Merchants Bank, Shanghai Hualing branch	20,000,000
21st March, 2005	Beijing Parkson	Shanghai Nine Sea Parkson	China Merchants Bank, Shanghai Hualing branch	30,000,000
20th August, 2005	Sichuan Fulin	Mianyang Parkson	China Construction Bank, Mianyang branch	6,000,000
(A guarantee dated 18th April, 2005 was given by Sichuan Fulin to Mianyang Parkson in respect of this entrusted loan)				
10th September, 2005	Sichuan Fulin	Mianyang Parkson	China Construction Bank, Mianyang branch	6,000,000
(A guarantee dated 18th August, 2005 was given by Sichuan Fulin to Mianyang Parkson in respect of this entrusted loan)				
9th December, 2004	Guizhou Parkson	Sichuan Development	Agricultural Bank of China, Chengdu Zongfu branch	3,000,000
21st December, 2004	Dalian Zhongsheng Department Store Co., Ltd. (大連鍾盛百貨有限公司)	Shanghai Hongqiao Parkson	China Merchants Bank, Shanghai Hualing branch	8,000,000
18th November, 2003	Guangdong Zhongtai Parkson Co., Ltd. (廣東中泰百盛商業有限公司)	Shanghai Hongqiao Parkson	Shenzhen Development Bank	10,000,000
4th March, 2004	Guangdong Zhongtai Parkson Co., Ltd. (廣東中泰百盛商業有限公司)	Shanghai Hongqiao Parkson	Shenzhen Development Bank, Shanghai Lujiazui branch	5,000,000
22nd September, 2005	Anshan Tianxing	Anshan Parkson	CITIC Industrial Bank, Dalian branch	50,000,000

(A guarantee dated 22nd September, 2005 was given by Anshan Tianxing to Anshan Parkson in respect of this entrusted loan)

Date	Borrower	Lender	Bank	Amount of loan (RMB)
28th June, 2004	Chongqing Wanyou	Chongqing Parkson	China Merchants Bank, Daping branch	15,000,000
13th September, 2004	Chongqing Kaiyue Property Development Co., Ltd. (重慶凱悅房地產開發有限公司)	Chongqing Parkson	Industrial and Commercial Bank of China, Chongqing Yuzhong branch	14,900,000
22nd September, 2005	Anshan Tianxing	Anshan Parkson	CITIC Industrial Bank, Dalian branch	20,000,000
(A guarantee dated 22nd September, 2005 was given by Anshan Tianxing to Anshan Parkson in respect of this entrusted loan)				
26th September, 2005	Shanghai Lion Investment	Shanghai Nine Sea Parkson	China Merchants Bank, Shanghai branch	20,000,000
26th September, 2005	Xi'an Lucky Parkson	Shanghai Nine Sea Parkson	China Merchants Bank, Shanghai branch	20,000,000
18th October, 2005	Xi'an Lucky Parkson	Shanghai Nine Sea Parkson	China Merchants Bank, Shanghai branch	20,000,000

Date	Borrower	Lender	Amount of loan (RMB)
22nd October, 2004	Guiyang Shenqi Xingdao Hotel Co., Ltd. (貴陽神奇星島酒店有限公司)	Guizhou Parkson	5,000,000
9th December, 2004	Shaanxi Chang'an Information	Xi'an Chang'an Parkson	2,000,000
29th January, 2002	Sichuan Mianyang Fulin Property Development Co., Ltd. (四川綿陽富臨房地產開發有限公司)	Mianyang Parkson	3,000,000
20th January, 2005	Xi'an Lifeng	Xi'an Lucky Parkson	30,000,000
31st January, 2005	Xi'an Xinrun	Xi'an Shidai Parkson	2,000,000

Date	Borrower	Guarantor	Lender	Amount of underlying loan (RMB)
17th February 2005	China Arts & Crafts	Beijing Parkson	China Merchants Bank, Beijing branch	20,000,000
(ee) An equity transfer agreement (in Chinese) dated 15th January, 2005 entered into between Shanghai Hongqiao Parkson and Chen Yi (陳奕) under which Shanghai Hongqiao Parkson agreed to transfer 80.4% of the equity interest in Shenyang Plaza for a consideration of RMB2 million;				
(ff) An equity transfer agreement (in Chinese) dated 15th January, 2005 entered into between Hefei Parkson and Chen Wei (陳偉) under which Hefei Parkson agreed to transfer 19.6% of the equity interest in Shenyang Plaza for a consideration of RMB1;				
(gg) An assets and business acquisition agreement (in Chinese) dated 25th February, 2005 entered into between Hefei Parkson and Shantou Commercial under which Shantou Commercial agreed to purchase the assets, liabilities and business of Hefei Parkson's branch in Shantou for a consideration of RMB1;				
(hh) A trust agreement (in Chinese) dated 23rd August, 2004, as supplemented by a supplemental agreement dated 25th August, 2004, entered into between Shanghai Nine Sea Parkson and Chongqing Trust under which Chongqing Trust held the 10% equity interest in Dalian Shishang on trust for Shanghai Nine Sea Parkson, and was terminated by a termination agreement dated 6th June, 2005;				
(ii) A share swap agreement dated 9th November, 2005 entered into between LDHB and Grand Parkson under which LDHB agreed to transfer the entire issued share capital of Parkson Investment to Grand Parkson, the consideration of which is settled by way of allotment and issuance of one share in Grand Parkson credited as fully paid in favour of PRG Corporation, thereby creating an intra-company loan between PRG Corporation and LDHB;				
(jj) A share swap agreement dated 9th November, 2005 (as supplemented by an agreement dated 10th November, 2005) entered into between LDHB, Lion Subang Parade Sdn Bhd (holding its share on trust for LDHB) and Grand Parkson under which LDHB and Lion Subang Parade Sdn Bhd agreed to transfer the entire issued share capital of Exonbury, and procure Serbadagang Holdings to assign a receivable of RMB89,233,256 due from Exonbury, to Grand Parkson, the consideration of which is settled by way of allotment and issuance of one share in Grand Parkson credited as fully paid in favour of PRG Corporation, thereby creating an intra-company loan between PRG Corporation and LDHB;				

- (kk) A share swap agreement dated 9th November, 2005 entered into between LDHB and Grand Parkson (as supplemented by an agreement dated 10th November, 2005) under which LDHB agreed to transfer the entire issued share capital of Parkson Supplies, and procure Parkson Pacific to assign a receivable of RMB17,653,698 due from Parkson Supplies, to Grand Parkson, the consideration of which is settled by way of allotment and issuance of one share in Grand Parkson credited as fully paid in favour of PRG Corporation, thereby creating an intra-company loan between PRG Corporation and LDHB;
- (ll) A share swap agreement dated 9th November, 2005 entered into between PRG Corporation and Grand Parkson under which PRG Corporation agreed to transfer the entire issued share capital of Step Summit to Grand Parkson, the consideration of which is settled by way of allotment and issuance of one share in Grand Parkson credited as fully paid in favour of PRG Corporation;
- (mm) A share swap agreement dated 9th November, 2005 entered into between the Company and PRG Corporation under which PRG Corporation agreed to transfer the entire issued share capital of Grand Parkson to the Company, in consideration of which 80,099,999 Shares were allotted and issued credited as fully paid in favour of PRG Corporation;
- (nn) a deed of assignment dated 11th November, 2005 entered into between Serbadagang Holdings, Grand Parkson and Exonbury under which Serbadagang Holdings assigns a receivable of RMB89,233,256 due from Exonbury to Grand Parkson;
- (oo) a deed of assignment dated 12th November, 2005 entered into between Parkson Pacific, Grand Parkson and Parkson Supplies, under which Parkson Pacific assigns a receivable of RMB17,653,698 due from Parkson Supplies to Grand Parkson;
- (pp) A trademark licence agreement dated 9th November, 2005 entered into between Parkson Corporation and Shanghai Lion Investment under which Parkson Corporation agreed to grant an exclusive licence of certain trademarks owned by it to Shanghai Lion Investment in consideration of an annual royalty of RMB30,000 per retail store in respect of each sub-licence granted by Shanghai Lion Investment;
- (qq) A deed of indemnity dated 16th November, 2005 given by LDHB and PRG Corporation in favour of the Company;
- (rr) The Deed of Non-Competition dated 10th November, 2005 given by LDHB in favour of the Company; and
- (ss) The Hong Kong Underwriting Agreement dated 16th November, 2005 entered into between, among others, the Company and the Hong Kong Underwriters, details of which are set out in the section “Underwriting” in this prospectus.

2. Intellectual property rights of the Group

- (a) As at the Latest Practicable Date, the Group is the registered owner of the following trademarks:

Trademark	Place of Registration	Class	Registration Number	Registration Date (DD-MM-YYYY)	Expiry Date (DD-MM-YYYY)
PARKSON 百盛 & Device	PRC	35	989593	21-04-1997	20-04-2007
PARKSON 百盛 & Device	PRC	35	1754207	21-04-2002	20-04-2012
PARKSON 百盛 & Device	PRC	35	3508706	28-11-2004	27-11-2014

- (b) As at the Latest Practicable Date, the Group is the registered owner of the following copyrights:

Copyright	Registration Number	Place of Registration	Registration Date
Future - POS Retail Management System V3.0 (Future - POS 商業零售業務管理系統 V3.0)	2004SR10575	PRC	01-05-1999
Future - ERP Commercial Group ERP System V.1.0 (Future - ERP 商業集團 ERP系統 V.1.0)	2004SR10574	PRC	01-06-2002
Parkson Supplies Chain Management ("Parkson SCM System") V2.0 (百盛供應鏈管理系統 (簡稱：SCM系統 V2.0))	2003SR5002	PRC	01-07-2001

- (c) As at the Latest Practicable Date, the Group is the registered owner of the following domain name(s):

Domain Name	Period of Registration (DD-MM-YYYY)
parkson.com.cn	07-12-1998 to 07-12-2006
parkson.cn	04-11-2003 to 04-11-2008
parksonlink.com.cn	11-08-2001 to 11-08-2007

(d) As at the Latest Practicable Date, the Group has the licence to use the following trademarks:

Trademark	Place of Registration	Class	Registration Number	Registration Date (DD-MM-YYYY)	Expiry Date (DD-MM-YYYY)
百盛	PRC	2	3508671	07-01-2005	06-01-2015
百盛	PRC	3	804007	07-01-1996	06-01-2006
百盛	PRC	3	3508670	07-03-2005	06-03-2015
百盛	PRC	5	3508668	14-01-2005	13-01-2015
百盛	PRC	10	3508683	07-09-2004	06-09-2014
百盛	PRC	13	3508680	07-09-2004	06-09-2014
百盛	PRC	14	3508679	28-10-2004	27-10-2014
百盛	PRC	15	3508678	28-01-2005	27-01-2015
百盛	PRC	16	811272	28-01-1996	27-01-2006
百盛	PRC	16	3508707	21-01-2005	20-01-2015
百盛	PRC	17	3508677	07-01-2005	06-01-2015
百盛	PRC	18	3508676	28-04-2005	27-04-2015
百盛	PRC	22	3508692	14-02-2005	13-02-2015
百盛	PRC	23	3508691	14-02-2005	13-02-2015
百盛	PRC	24	815715	14-02-1996	13-02-2006
百盛	PRC	24	3508690	28-04-2005	27-04-2015
百盛	PRC	25	823748	14-03-1996	13-03-2006
百盛	PRC	26	3508688	07-01-2005	06-01-2015
百盛	PRC	27	3508687	07-01-2005	06-01-2015
百盛	PRC	28	809497	21-01-1996	20-01-2006
百盛	PRC	29	799111	14-12-1995	13-12-2005
百盛	PRC	29	1405758	07-06-2000	06-06-2010
百盛	PRC	29	3508686	14-09-2004	13-09-2014
百盛	PRC	30	812807	07-02-1996	06-02-2006
百盛	PRC	30	3508685	07-09-2004	06-09-2014
百盛	PRC	31	804758	07-01-1996	06-01-2006

APPENDIX VII	STATUTORY AND GENERAL INFORMATION

Trademark	Place of Registration	Class	Registration Number	Registration Date (DD-MM-YYYY)	Expiry Date (DD-MM-YYYY)
百盛	PRC	31	3508684	07-08-2004	06-08-2014
百盛	PRC	32	808962	21-01-1996	20-01-2006
百盛	PRC	36	3508701	28-04-2005	27-04-2015
百盛	PRC	38	3508699	07-01-2005	06-01-2015
百盛	PRC	39	3508698	07-01-2005	06-01-2015
百盛	PRC	40	3508697	28-11-2004	27-11-2014
百盛	PRC	43	3508694	14-02-2005	13-02-2015
百盛	PRC	44	3508705	14-04-2005	13-04-2015
百盛	PRC	45	3508704	14-04-2005	13-04-2015
百盛 & Device	PRC	39	1115700	28-09-1997	27-09-2007
百盛 & Device	PRC	42	1109568	21-09-1997	20-09-2007
PARKSON & Device	PRC	1	3508815	14-02-2005	13-02-2015
PARKSON & Device	PRC	2	3508814	07-01-2005	06-01-2015
PARKSON & Device	PRC	3	763083	28-08-1995	27-08-2005 (renewal application pending)
PARKSON & Device	PRC	3	3508813	07-03-2005	06-03-2015
PARKSON & Device	PRC	4	3508812	07-12-2004	06-12-2014
PARKSON & Device	PRC	6	3508810	14-09-2004	13-09-2014
PARKSON & Device	PRC	10	3508806	07-09-2004	06-09-2014
PARKSON & Device	PRC	12	3508652	07-10-2004	06-10-2014
PARKSON & Device	PRC	13	3508651	07-09-2004	06-09-2014

APPENDIX VII

STATUTORY AND GENERAL INFORMATION

Trademark	Place of Registration	Class	Registration Number	Registration Date (DD-MM-YYYY)	Expiry Date (DD-MM-YYYY)
PARKSON & Device	PRC	15	3508649	28-01-2005	27-01-2015
PARKSON & Device	PRC	16	781370	07-10-1995	06-10-2005 (renewal application pending)
PARKSON & Device	PRC	18	766498	14-09-1995	13-09-2005
PARKSON & Device	PRC	18	3508647	28-04-2005	27-04-2015
PARKSON & Device	PRC	22	3508663	14-02-2005	13-02-2015
PARKSON & Device	PRC	23	3508662	14-02-2005	13-02-2015
PARKSON & Device	PRC	24	765118	07-09-1995	06-09-2005 (renewal application pending)
PARKSON & Device	PRC	24	3508661	28-04-2005	27-04-2015
PARKSON & Device	PRC	25	753696	28-06-1995	27-06-2005 (renewal application pending)
PARKSON & Device	PRC	26	3508659	14-01-2005	13-01-2015
PARKSON & Device	PRC	27	3508658	07-01-2005	06-01-2015
PARKSON & Device	PRC	28	811516	28-01-1996	27-01-2006
PARKSON & Device	PRC	29	754382	07-07-1995	06-07-2005 (renewal application pending)

APPENDIX VII	STATUTORY AND GENERAL INFORMATION

Trademark	Place of Registration	Class	Registration Number	Registration Date (DD-MM-YYYY)	Expiry Date (DD-MM-YYYY)
PARKSON & Device	PRC	29	1405759	07-06-2000	06-06-2010
PARKSON & Device	PRC	29	3508657	21-09-2004	20-09-2014
PARKSON & Device	PRC	30	3508656	07-09-2004	06-09-2014
Parkson & Device	PRC	31	753090	28-06-1995	27-06-2005 (renewal application pending)
PARKSON & Device	PRC	31	3508655	07-08-2004	06-08-2014
PARKSON & Device	PRC	32	754524	07-07-1995	06-07-2005 (renewal application pending)
PARKSON & Device	PRC	33	3508654	07-10-2004	06-10-2014
PARKSON & Device	PRC	34	3509587	07-08-2004	06-08-2014
PARKSON & Device	PRC	36	3509612	28-04-2005	27-04-2015
PARKSON & Device	PRC	37	3508643	14-04-2005	13-04-2015
PARKSON & Device	PRC	39	1115698	28-09-1997	27-09-2007
PARKSON & Device	PRC	39	3508641	07-01-2005	06-01-2015
PARKSON & Device	PRC	40	3508640	28-11-2004	27-11-2014
PARKSON & Device	PRC	41	3508639	07-09-2004	06-09-2014
PARKSON & Device	PRC	42	1109598	21-09-1997	20-09-2007

APPENDIX VII	STATUTORY AND GENERAL INFORMATION				

Trademark	Place of Registration	Class	Registration Number	Registration Date (DD-MM-YYYY)	Expiry Date (DD-MM-YYYY)
PARKSON & Device	PRC	42	3508638	28-03-2005	27-03-2015
PARKSON & Device	PRC	43	3508637	14-02-2005	13-02-2015
PARKSON & Device	PRC	44	3508636	14-05-2005	13-05-2015
PARKSON & Device	PRC	45	3508673	14-05-2005	13-05-2015
PARKSON 百盛 & Device	Hong Kong	3	200201475	24-04-2001	24-04-2008
PARKSON 百盛 & Device	Hong Kong	8	200201476	24-04-2001	24-04-2008
PARKSON 百盛 & Device	Hong Kong	35	200203018	24-04-2001	24-04-2008
愛客家xtra SUPERCENTER & Device	PRC	25	1381102	07-04-2000	06-04-2010
愛客家xtra & Device	PRC	30	1450617	28-09-2000	27-09-2010
愛客家xtra SUPERCENTER & Device	PRC	30	3728436	28-04-2005	27-04-2015
愛客家xtra SUPERCENTER & Device	PRC	32	1387990	21-04-2000	20-04-2010
愛客家xtra SUPERCENTER & Device	PRC	33	3728435	07-05-2005	06-05-2015
愛客家xtra SUPERCENTER & Device	PRC	34	3728434	07-05-2005	06-05-2015
愛客家xtra SUPERCENTER & Device	PRC	35	1400610	21-05-2000	20-05-2010

APPENDIX VII	STATUTORY AND GENERAL INFORMATION

Trademark	Place of Application	Class(es)	Application Date (DD-MM-YYYY)	Application Number
百盛	PRC	1	01-04-2003	3508672
百盛	PRC	4	01-04-2003	3508669
百盛	PRC	6	01-04-2003	3508667
百盛	PRC	7	01-04-2003	3508666
百盛	PRC	8	01-04-2003	3508665
百盛	PRC	9	01-04-2003	3508664
百盛	PRC	11	01-04-2003	3508682
百盛	PRC	12	01-04-2003	3508681
百盛	PRC	19	01-04-2003	3508675
百盛	PRC	20	01-04-2003	3508674
百盛	PRC	21	01-04-2003	3508693
百盛	PRC	25	01-04-2003	3508689
百盛	PRC	33	01-04-2003	3508703
百盛	PRC	34	01-04-2003	3508702
百盛	PRC	37	01-04-2003	3508700
百盛	PRC	41	01-04-2003	3508696
百盛	PRC	42	01-04-2003	3508695
PARKSON & Device	PRC	5	01-04-2003	3508811
PARKSON & Device	PRC	7	01-04-2003	3508809
PARKSON & Device	PRC	8	01-04-2003	3508808
PARKSON & Device	PRC	9	01-04-2003	3508807
PARKSON & Device	PRC	11	01-04-2003	3508653
PARKSON & Device	PRC	14	01-04-2003	3508650
PARKSON & Device	PRC	17	01-04-2003	3508648

Trademark	Place of Application	Class(es)	Application Date (DD-MM-YYYY)	Application Number
PARKSON & Device	PRC	19	01-04-2003	3508646
PARKSON & Device	PRC	20	01-04-2003	3508645
PARKSON & Device	PRC	21	01-04-2003	3508644
PARKSON & Device	PRC	25	01-04-2003	3508660
PARKSON & Device	PRC	38	01-04-2003	3508642
PARKSON	Hong Kong	16, 18, 21, 24, 25, 35, 41, 42, 43 & 44	26-07-2005	300464706
百盛	Hong Kong	16, 18, 21, 24, 25, 35, 41, 42, 43 & 44	26-07-2005	300464698
(A) 	Hong Kong	16, 18, 21, 24, 25, 35, 41, 42, 43 & 44	26-07-2005	300464715
(B) 				
愛客家extra SUPERCENTER & Device	PRC	3	23-09-2003	3728446
愛客家extra SUPERCENTER & Device	PRC	11	23-09-2003	3728445
愛客家extra SUPERCENTER & Device	PRC	14	23-09-2003	3728444
愛客家extra SUPERCENTER & Device	PRC	16	23-09-2003	3728443

APPENDIX VII	STATUTORY AND GENERAL INFORMATION

Trademark	Place of Application	Class(es)	Application Date (DD-MM-YYYY)	Application Number
愛客家xtra SUPERCENTER & Device	PRC	18	23-09-2003	3728442
愛客家xtra SUPERCENTER & Device	PRC	21	23-09-2003	3728441
愛客家xtra SUPERCENTER & Device	PRC	24	23-09-2003	3728440
愛客家xtra SUPERCENTER & Device	PRC	25	23-09-2003	3728439
愛客家xtra SUPERCENTER & Device	PRC	28	23-09-2003	3728438
愛客家xtra SUPERCENTER & Device	PRC	29	23-09-2003	3728437
愛客家xtra SUPERCENTER & Device	PRC	35	23-09-2003	3728433
愛客家xtra SUPERCENTER & Device	PRC	36	23-09-2003	3728432
愛客家 xtra SUPERCENTER & Device	PRC	37	23-09-2003	3728431
愛客家 xtra SUPERCENTER & Device	PRC	38	23-09-2003	3728430
愛客家 xtra SUPERCENTER & Device	PRC	39	23-09-2003	3728429
愛客家 xtra SUPERCENTER & Device	PRC	40	23-09-2003	3728428

Trademark	Place of Application	Class(es)	Application Date (DD-MM-YYYY)	Application Number
愛客家 xtra SUPERCENTER & Device	PRC	41	23-09-2003	3728427
愛客家 xtra SUPERCENTER & Device	PRC	42	23-09-2003	3728419
愛客家 xtra SUPERCENTER & Device	PRC	43	23-09-2003	3728418
愛客家 xtra SUPERCENTER & Device	PRC	44	23-09-2003	3728417
愛客家 xtra SUPERCENTER & Device	PRC	45	23-09-2003	3729006

The contents of the website(s), registered or licensed, do not form part of this prospectus.

For the purpose of this section, brief descriptions of the classes of the relevant trademarks are as below:

- Class 1

Chemicals used in industry, science and photography, as well as in agriculture, horticulture and forestry; unprocessed artificial resins, unprocessed plastics; manures; fire extinguishing compositions; tempering and soldering preparations; chemical substances for preserving foodstuffs; tanning substances; adhesives used in industry.
- Class 2

Paints, varnishes, lacquers; preservatives against rust and against deterioration of wood; colorants; mordants; raw natural resins; metals in foil and powder form for painters, decorators, printers and artists.
- Class 3

Bleaching preparations and other substances for laundry use; cleaning, polishing, scouring and abrasive preparations; soaps; perfumery, essential oils, cosmetics, hair lotions; dentifrices.
- Class 4

Industrial oils and greases; lubricants; dust absorbing, wetting and binding compositions; fuels (including motor spirit) and illuminants; candles and wicks for lighting.

- Class 5 Pharmaceutical and veterinary preparations; sanitary preparations for medical purposes; dietetic substances adapted for medical use, food for babies; plasters, materials for dressings; material for stopping teeth, dental wax; disinfectants; preparations for destroying vermin; fungicides, herbicides.
- Class 6 Common metals and their alloys; metal building materials; transportable buildings of metal; materials of metal for railway tracks; non-electric cables and wires of common metal; ironmongery, small items of metal hardware; pipes and tubes of metal; safes; goods of common metal not included in other classes; ores.
- Class 7 Machines and machine tools; motors and engines (except for land vehicles); machine coupling and transmission components (except for land vehicles); agricultural implements other than hand-operated; incubators for eggs.
- Class 8 Hand tools and implements (hand operated); cutlery; side arms; razors.
- Class 9 Scientific, nautical, surveying, photographic, cinematographic, optical, weighing, measuring, signalling, checking (supervision), life-saving and teaching apparatus and instruments; apparatus and instruments for conducting, switching, transforming, accumulating, regulating or controlling electricity; apparatus for recording, transmission or reproduction of sound or images; magnetic data carriers, recording discs; automatic vending machines and mechanisms for coin operated apparatus; cash registers; calculating machines, data processing equipment and computers; fire-extinguishing apparatus.
- Class 10 Surgical, medical, dental and veterinary apparatus and instruments, artificial limbs, eyes and teeth; orthopaedic articles; suture materials.
- Class 11 Apparatus for lighting, heating, steam generating, cooking, refrigerating, drying, ventilating, water supply and sanitary purposes.
- Class 12 Vehicles; apparatus for locomotion by land, air or water.
- Class 13 Firearms; ammunition and projectiles, explosives; fireworks.
- Class 14 Precious metals and their alloys and goods in precious metals or coated therewith, not included in other classes; jewellery, precious stones; horological and chronometric instruments.
- Class 15 Musical instruments.
- Class 16 Paper, cardboard and goods made from these materials, not included in other classes; printed matter; book binding material; photographs; stationery; adhesives for stationery or household purposes; artists' materials; paint brushes; typewriters and office requisites (except furniture); instructional and teaching material (except apparatus); plastic materials for packaging (not included in other classes); printers' type; printing blocks.

- Class 17 Rubber, gutta-percha, gum, asbestos, mica and goods made from these materials and not included in other classes; plastics in extruded form for use in manufacture; packing, stopping and insulating materials; flexible pipes, not of metal.
- Class 18 Leather and imitations of leather, and goods made of these materials and not included in other classes; animal skins, hides; trunks and travelling bags; umbrellas, parasols and walking sticks; whips, harness and saddlery.
- Class 19 Building materials (non-metallic); non-metallic rigid pipes for building; asphalt, pitch and bitumen; non-metallic transportable buildings; monuments, not of metal.
- Class 20 Furniture, mirrors, picture frames; goods (not included in other classes) of wood, cork, reed, cane, wicker, horn, bone, ivory, whalebone, shell, amber, mother-of-pearl, meerschaum and substitutes for all these materials, or of plastics.
- Class 21 Household or kitchen utensils and containers (not of precious metal or coated therewith); combs and sponges; brushes (except paint brushes); brush-making materials; articles for cleaning purposes; steel wool; un-worked or semi-worked glass (except glass used in building); glassware, porcelain and earthenware not included in other classes.
- Class 22 Ropes, string, nets, tents, awnings, tarpaulins, sails, sacks and bags (not included in other classes); padding and stuffing materials (except of rubber or plastics); raw fibrous textile materials.
- Class 23 Yarns and threads, for textile use.
- Class 24 Textiles and textile goods, not included in other classes; bed and table covers.
- Class 25 Clothing, footwear, headgear.
- Class 26 Lace and embroidery, ribbons and braid; buttons, hooks and eyes, pins and needles; artificial flowers.
- Class 27 Carpets, rugs, mats and matting, linoleum and other materials for covering existing floors; wall hangings (non-textile).
- Class 28 Games and playthings; gymnastic and sporting articles not included in other classes; decorations for Christmas trees.
- Class 29 Meat, fish, poultry and game; meat extracts; preserved, dried and cooked fruits and vegetables; jellies, jams, fruit sauces; eggs, milk and milk products; edible oils and fats.

Class 30	Coffee, tea, cocoa, sugar, rice, tapioca, sago, artificial coffee; flour and preparations made from cereals, bread, pastry and confectionery, ices; honey, treacle; yeast, baking-powder; salt, mustard; vinegar, sauces (condiments); spices; ice.
Class 31	Agricultural, horticultural and forestry products and grains not included in other classes; live animals; fresh fruits and vegetables, seeds, natural plants and flowers; foodstuffs for animals; malt.
Class 32	Beers; mineral and aerated waters and other non-alcoholic drinks; fruit drinks and fruit juices; syrups and other preparations for making beverages.
Class 33	Alcoholic beverages (except beers).
Class 34	Tobacco; smokers' articles; matches.
Class 35	Advertising; business management; business administration; office functions.
Class 36	Insurance; financial affairs; monetary affairs; real estate affairs.
Class 37	Building construction; repair; installation services.
Class 38	Telecommunications.
Class 39	Transport; packaging and storage of goods; travel arrangement.
Class 40	Treatment of materials.
Class 41	Education; providing of training; entertainment; sporting and cultural activities.
Class 42	Scientific and technological services and research and design relating thereto; industrial analysis and research services; design and development of computer hardware and software; legal services.
Class 43	Services for providing food and drink; temporary accommodation.
Class 44	Medical services; veterinary services; hygienic and beauty care for human beings or animals; agriculture, horticulture and forestry services.
Class 45	Personal and social services rendered by others to meet the needs of individuals; security services for the protection of property and individuals.

Save as aforesaid, there are no other trade or service marks, patents, other intellectual or industrial property rights which are or may be material in relation to the Group's business.

C. FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF**1. Particulars of Directors' service agreements**

Each of Cheng Yoong Choong and Chew Fook Seng has entered into a service contract with the Company on 9th November, 2005 under which they agreed to act as executive Directors for a term of three years commencing from 9th November, 2005. The appointment may be terminated before such expiry by not less than three months' written notice.

Under these service contracts, Cheng Yoong Choong will receive an annual Director's fee of approximately HK\$150,000. Chew Fook Seng will receive an initial annual salary of RMB1,273,440. The annual salary may, subject to the discretion of the board of Directors and the remuneration committee, be increased. Chew Fook Seng will also receive an annual Director's fee of HK\$150,000. Each of the executive Directors will also be entitled to a discretionary bonus as may be decided by the remuneration committee. The amount of the annual salary increment and the bonus payable under such service contracts are at the discretion of the board of Directors and the remuneration committee, provided that the respective parties to such service contracts shall abstain from voting and not be counted in the quorum in respect of any such determination of the board of Directors in relation to him.

Tan Sri Cheng Heng Jem has signed a letter of appointment dated 9th November 2005 with the Company under which he agreed to act as the non-executive Director for a period of three years commencing from 9th November, 2005. The appointment may be terminated before such expiry by not less than three months' written notice. The initial annual Director's fee for the non-executive Director is HK\$150,000.

Each of Fong Ching, Eddy, Studer Werner Josef, Ko Tak Fai, Desmond has signed a letter of appointment dated 9th November, 2005 with the Company under which they agreed to act as independent non-executive Directors for a period of one year and shall continue thereafter subject to a maximum of three years unless terminated in accordance with the terms of the appointment letters. The initial annual Director's fee for each independent non-executive Director is HK\$150,000.

Save as disclosed in this prospectus, none of the Directors has, nor is it proposed that any of them will have, a service contract with the Company other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

2. Directors' remuneration

In respect of the year ended 31st December, 2004, the aggregate of the remuneration paid and benefits in kind granted to the Directors by the Group was approximately RMB2,189,500.

Under the arrangements currently in place, the estimated aggregate amount that the Directors will be entitled to receive in the form of remuneration and benefits in kind for the year ending 31st December, 2005 is approximately RMB320,800 (excluding any discretionary bonuses payable to the Directors).

3. Disclosure of interests and short positions in the share capital of the Company and its associated corporations

So far as the Directors are aware, immediately following the completion of the Capitalisation Issue and the Offering (assuming that the option which may be granted under the Share Option Scheme is not exercised), the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of SFO (including interests and short positions which they are taken or deemed to have under such provisions of SFO) once the Shares are listed, or which will be required, pursuant to section 352 of SFO, to be entered in the register referred to therein once the Shares are listed, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to the Company and the Stock Exchange once the Shares are listed, will be as follows:

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

Name of corporation	Nature of interest	Name of registered owner	Name of beneficial owner	Number and class of securities	Approximate percentage of shareholding
Company	Corporate Interest	PRG Corporation ¹	PRG Corporation	386,400,000 ordinary shares	70%

Note:

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

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

Name of associated corporation	Nature of interest	Name of registered owner	Name of beneficial owner	Number and class of securities	Approximate percentage of shareholding
PRG Corporation	Corporate Interest	LDHB	LDHB	1 ordinary share	100%
LDHB	Beneficial Interest and Corporate Interest	Tan Sri Cheng Heng Jem and a series of controlled corporations	Tan Sri Cheng Heng Jem and a series of controlled corporations	332,133,808 ordinary shares	64.29% ¹

Note:

1. This represents Tan Sri Cheng Heng Jem's interest as at the Latest Practicable Date. This figure will increase if any of the debentures referred in sub-paragraph (c) below are converted into shares in LDHB.

The following are the associated corporations (as defined in the SFO) of the Company which are non-wholly owned subsidiaries of LDHB, and in which Tan Sri Cheng Heng Jem is deemed interested solely as a result of his controlling interest in LDHB (the figures in brackets represent LDHB's interests in these corporations): Qingdao No. 1 (52.60%), Hamba Research & Development Co., Ltd. (98%), Nanning Brilliant (51%), Dalian Tianhe (60%) and Aktif-Sunway Sdn. Bhd. (80%).

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

Name of associated corporation	LDHB's interest	Additional deemed interest
Lion Mahkota Parade Sdn. Bhd.	99.99%	0.01% ^A
Likom CMS Sdn. Bhd.	99.98%	0.02% ^B
LDH Investment Pte. Ltd.	60%	40% ^C

Notes:

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

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

Through beneficial and corporate interests, Tan Sri Cheng Heng Jem is deemed to be interested in 99.9% of the RM97.2 million 2% redeemable convertible unsecured loan stock due May 2009 issued by LDHB ("RCULS") as follows:

- corporate interest¹ (through Amsteel Corporation Berhad) in 95% of the RCULS;
- corporate interest² (through Lion Industries Corporation Berhad) in 4.9% of the RCULS.

In addition, Tan Sri Cheng Heng Jem has a beneficial interest in the RCULS held by Amsteel Corporation Berhad and Lion Industries Corporation Berhad (amounting in aggregate to 72.5% of the RCULS in issue) as follows:

- option granted by Amsteel Corporation Berhad to Tan Sri Cheng Heng Jem to acquire 69% of the RCULS held by Amsteel Corporation Berhad;
- option granted by Lion Industries Corporation Berhad to Tan Sri Cheng Heng Jem to acquire 3.5% of the RCULS.

The above options are and will remain exercisable until 15th December, 2006.

Through corporate interest, Tan Sri Cheng Heng Jem is interested in 100% of the RM92.5 million 2% irredeemable convertible unsecured loan stock due May 2009 issued by LDHB ("ICULS") as follows:

- corporate interest³ (through Narajaya Sdn. Bhd.) in 66.12% of the ICULS;
- corporate interest⁴ (through Ributasi Holdings Sdn. Bhd.) in 20.60% of the ICULS; and
- corporate interest⁵ (through Likom Computer System Sdn. Bhd.) in 13.28% of the ICULS.

Notes:

1. Corporate interest through Amsteel Corporation Berhad. Tan Sri Cheng Heng Jem is entitled to exercise or control the exercise of more than one third of the voting power at general meetings of this company. Accordingly, Tan Sri Cheng Hem Jem is interested in the RCULS held by Amsteel Corporation Berhad.
2. Corporate interest through Lion Industries Corporation Berhad. Tan Sri Cheng Heng Jem is entitled to exercise or control the exercise of more than one third of the voting power at general meetings of this company. Accordingly, Tan Sri Cheng Hem Jem is interested in the RCULS held by Lion Industries Corporation Berhad.
3. Corporate interest through Narajaya Sdn. Bhd. Tan Sri Cheng Heng Jem is entitled to exercise or control the exercise of more than one third of the voting power at general meetings of this company. Accordingly, Tan Sri Cheng Hem Jem is interested in the ICULS held by Narajaya Sdn. Bhd.
4. Corporate interest through Ributasi Holdings Sdn. Bhd. Tan Sri Cheng Heng Jem is entitled to exercise or control the exercise of more than one third of the voting power at general meetings of this company. Accordingly, Tan Sri Cheng Hem Jem is interested in the ICULS held by Ributasi Holdings Sdn. Bhd.
5. Corporate interest through Likom Computer System Sdn. Bhd. Tan Sri Cheng Heng Jem is entitled to exercise or control the exercise of more than one third of the voting power at general meetings of this company. Accordingly, Tan Sri Cheng Hem Jem is interested in the ICULS held by Likom Computer System Sdn. Bhd.
6. The percentage figures given above with respect to the RCULS and the ICULS are as at the Latest Practicable Date. These figures will change upon the exercise of any of these debentures.

(d) Short Positions of Tan Sri Cheng Heng Jem

Name of corporation	Nature of Interest	Basis for the short position	Exercise period	Exercise price	Approximate percentage of shareholding
Company	Corporate Interest	Corporate Interest ¹	See note 2	Offer Price	4.5%

Notes:

1. Since Tan Sri Cheng Heng Jem is deemed to be interested in the shares held by PRG Corporation in the Company, he also has a short position by virtue of the Over-allotment Option that PRG Corporation will grant to BNP Paribas Peregrine pursuant to the International Placing Underwriting Agreement.
2. From the date of signing of the International Underwriting Agreement to the 30th day from the last date for lodging applications under the Hong Kong Public Offering.

Save as disclosed above, none of the Directors will at the aforesaid time have any interests which require disclosure.

4. Substantial shareholders

Information on the persons, not being Directors or chief executives of the Company, who will have, immediately following completion of the Offering and the Capitalisation Issue (without taking into account any Shares which may be issued and allotted pursuant to the Share Option Scheme), an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO is set out in the section headed “Substantial Shareholders” of this prospectus.

So far as the Directors are aware, information on the persons, not being a Director or chief executive of the Company, who will be, immediately following completion of the Offering and the Capitalisation Issue (without taking into account any Shares which may be issued and allotted pursuant to the Share Option Scheme), directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group is set out below:

Substantial Shareholder	Member of the Group	Percentage of equity interest held
China Arts & Crafts	Beijing Parkson	44%
Xinjiang Youhao	Xinjiang Parkson	49%
Wuxi Distribution	Wuxi Parkson	40%
Yangzhou Commercial	Yangzhou Parkson	45%
Shaanxi Chang'an Information ¹	Xi'an Chang'an Parkson	49%
Xi'an Xinrun ²	Xi'an Shidai Parkson	49%

Substantial Shareholder	Member of the Group	Percentage of equity interest held
Sichuan Fulin ³	Mianyang Parkson	40%
Chongqing Wanyou	Chongqing Parkson	30%
Guizhou Shenqi Enterprise ⁴	Guizhou Parkson	40%
Anshan Tianxing ⁵	Anshan Parkson	49%
Shanghai Nine Sea Industry	Shanghai Lion Property	71% ⁶
Shanghai Nine Sea Industry	Shanghai Nine Sea Parkson	29% ⁶

Notes:

1. 長安信息(產業)集團股份有限公司 (Chang'an Information (Property) Group Holding Company Limited), a PRC joint stock company, the shares of which are being listed on the Shanghai Stock Exchange and an Independent Third Party, owns 65.45% of the equity interest of Shaanxi Chang'an Information, representing a 32.07% indirect equity interest in Xi'an Chang'an Parkson.
2. 陝西雙翼石油化工有限公司 (Shaanxi Shuangyi Petroleum and Chemical Company Limited), an Independent Third Party, owns 39.1% of the equity interest in Xi'an Xinrun, representing a 19.16% indirect equity interest in Xi'an Shidai Parkson.
3. 安治富 (An Zhifu), an Independent Third Party, owns 51% of the equity interest in Sichuan Fulin, representing a 20.40% indirect equity interest in Mianyang Parkson.
4. 張沛 (Zhang Pei), 張之君 (Zhang Zhi Jun) and 張姪 (Zhang Ya) own 30%, 40% and 30% of the equity interest in Guizhou Shenqi Enterprise, respectively, representing a 12%, 16% and 12% indirect equity interest in Guizhou Parkson.
5. Each of 鞍山市金羽經貿有限公司 (Anshan City Jinyu Jingmao Company Limited) and 香港貿明有限公司 (Praise Shine Company Limited), the equity interests of which are held by individuals who are all Independent Third Parties, owns 50% of the equity interest in Anshan Tianxing, representing 24.5% indirect equity interest in Anshan Parkson.
6. Shanghai Lion Property and Shanghai Nine Sea Parkson are cooperative joint venture enterprises established under the laws of the PRC. The percentages are calculated based on the voting rights attributable to Shanghai Nine Sea Industry pursuant to the respective co-operative joint venture contracts. The percentages to distributable profits are different. Please refer to the section headed "Group structure" in this prospectus.

5. Agency fees or commissions received

Information on the agency fees or commissions received by the Underwriters is set out in the section headed "Underwriting" in this prospectus.

Save as disclosed in this prospectus, none of the Directors of the Company or the experts named in the paragraph headed "Consents of experts" in this Appendix have received any agency fees, commissions, discounts, brokerages, or been granted any other special terms, in connection with the issue or sale of any capital of any member of the Group within the two years preceding the date of this prospectus.

6. Disclaimers

Save as disclosed in this prospectus:

- (a) none of the Directors or any of the experts referred to in the paragraph headed “Consents of experts” in this Appendix has any direct or indirect interest in the promotion of the Company, or in any assets which have been within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, any member of the Group, or are proposed to be so acquired, disposed of or leased;
- (b) none of the Directors or any of the experts referred to in the paragraph headed “Consents of experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;
- (c) none of the experts referred to in the paragraph headed “Consents of experts” in this Appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, save in connection with the Underwriting Agreements, nor is in the employment of an officer of the Company; and
- (d) none of the Directors, any of their associates (as defined in the Listing Rules) or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the issued share capital of the Company) has any interest in any of the Group’s five largest suppliers or five largest customers.

D. SHARE OPTION SCHEME**1. Summary of terms**

The following is a summary of all the principal terms of the Share Option Scheme conditionally adopted by a resolution in writing passed by all shareholders of the Company on 9th November, 2005.

(a) *Purpose of the Share Option Scheme*

The purposes of the Share Option Scheme are to attract and retain the best available personnel, to provide additional incentive to employees, directors, consultants, business associates and advisors of the Group and to promote the success of the business of the Group.

The Share Option Scheme provides that the Company may specify a minimum holding period and performance conditions which must be satisfied before options can be exercised by the option holders. In addition, the basis for the determination of the exercise price of the options has been set out in the Share Option Scheme. The Board considers that the aforesaid criteria and the terms of the Share Option Scheme will serve to preserve the value of the Company and encourage option holders to acquire proprietary interests in the Company.

(b) *Who may join*

The Board may offer any employee (whether full-time or part-time), director, consultant, business associate or adviser of the Group (the “Eligible Person”) options to subscribe for Shares at a price calculated in accordance with paragraph (c) below and subject to the other terms of the Share Option Scheme summarised below. No consideration is payable upon acceptance of the option by the grantee.

(c) *Maximum number of Shares*

- (i) The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company shall not exceed such number of Shares as shall represent 30% of the issued share capital of the Company from time to time;
- (ii) Subject always to the overall limit specified in paragraph (c)(i) above:
 - the Board may grant options under the Share Option Scheme, generally and without further authority, in respect of such number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes in aggregate not exceeding 10% of the issued share capital of the Company as at the date on which dealings in the Shares commence on the Main Board (the “Scheme Mandate Limit”) (being 55,200,000 Shares). For the avoidance of doubt, options lapsed in accordance with the Share Option Scheme shall not be counted for the purpose of calculating the Scheme Mandate Limit;
 - the Scheme Mandate Limit may be renewed by obtaining approval of the Shareholders in general meeting provided that such renewed limit shall not exceed 10% of the Shares in issue as at the date of approval of such limit (the “Refreshed Limit”). Options previously granted under the Share Option Scheme (including those outstanding, cancelled, lapsed in accordance with the Share Option Scheme or exercised options) shall not be counted for the purpose of calculating the Refreshed Limit. The Company shall send a circular to the Shareholders in accordance with and containing such information as required under rule 17.03(3) of the Listing Rules; and
 - the Board may grant options in excess of the 10% limit to specifically identified Eligible Persons by first obtaining approval of the Shareholders in general meeting to grant the options in the amounts and to the Eligible Persons specified in the resolution. The Company shall send a circular to the Shareholders in accordance with and containing such information as required under rule 17.03(3) of the Listing Rules.
- (iii) Unless approved by the Shareholders in general meeting (with such Eligible Person and his associates abstaining from voting), the total number of Shares issued and to be issued upon the exercise of the options granted to each Eligible Person (including both exercised, cancelled and outstanding options) in any 12 month period shall not exceed 1% of the relevant class of securities of the Company in issue.

(d) *Performance target*

The Share Option Scheme does not set out performance targets which must be achieved before the options may be exercised. However, on the grant of options by the Board, the Board may specify, as part of the terms and conditions of such option, the performance condition which must be satisfied before the option can be exercised.

(e) *Exercise price*

The amount payable for each Share to be subscribed for under an option in the event of the option being exercised shall be determined by the Board and shall be not less than the greater of:

- (i) the closing price of the Shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on the date, which must be a Business Day, of the written notice from the Company granting the option (the "Date of Grant");
- (ii) the average closing price of the Shares on the Main Board as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the Date of Grant; and
- (iii) the nominal value of the Shares.

(f) *Rights are personal to grantee*

An option which has been granted and has neither lapsed nor been cancelled or exercised in full (the "Subsisting Option") and an offer to grant an option shall be personal to the Eligible Person to whom it is granted or made and shall not be assignable.

(g) *Options granted to Directors or substantial Shareholders*

- (i) Any options granted to an Eligible Person who is a Director, chief executive or substantial Shareholder (as defined in the Listing Rules) of the Company or any of their respective associates shall be approved by the independent non-executive Directors and in any event if the proposed grantee is an independent non-executive Director, the vote of such grantee shall not be counted for the purpose of approving such grant.
- (ii) Any options granted to an Eligible Person who is a substantial Shareholder (as defined in the Listing Rules) or independent non-executive Director or their respective associates, which will result in the total number of Shares issued and to be issued upon exercise of all the options already granted and to be granted (including options whether exercised, cancelled and outstanding) to such person in the period of 12 months up to and including the date of such grant:
 - representing in aggregate over 0.1% of the issued share capital of the Company; and
 - having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5,000,000.

such further grant of options must be approved by the Shareholders in general meeting by poll convened and held in accordance with the Articles. All connected persons (as defined in the Listing Rules) of the Company shall abstain from voting at such general meeting. The aforementioned circular shall contain such information as required under rule 17.04(3) of the Listing Rules.

(h) *Grant of option*

- (i) Each grantee of options will receive a written notice of grant from the Company specifying the number of options granted and specifying the applicable terms and conditions relating to such options. These terms and conditions may include provisions as to the performance conditions which must be satisfied before the option can be exercised, the minimum period for which an option must be held before it can be exercised, vesting conditions (if any), lapse conditions and such other provisions as the Board may determine provided such provisions are not inconsistent with the relevant requirements of the Listing Rules.
- (ii) The Board shall not grant any option under the Share Option Scheme after a price sensitive development concerning the Company or any of its subsidiaries has occurred or a price sensitive matter concerning the Company or any of its subsidiaries has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the Listing Rules. In particular, no option shall be granted during the period of one month immediately preceding the earlier of (1) the date of the Board meeting for the approval of the Company's published results for (a) any year and half-year period, and (b) where the Company has elected to publish them, any quarterly or other interim period; and (2) the deadline for the Company to publish an announcement of its results for (a) any year or half-year period in accordance with the Listing Rules, and (b) where the Company has elected to publish them, any quarterly or any other interim period, and ending on the date of the results announcement for such year, half-year, quarterly or interim period (as the case may be).

(i) *Time of exercise of an option*

An option may be exercised in whole or in part by the option holder in accordance with the terms of the Share Option Scheme at any time during the "Exercise Period", that is, the period to be notified by the Board to each option holder upon the grant of options, such period to commence not less than one year and not to exceed ten years from the Date of Grant of the relevant option.

(j) *Cancellation of options*

Any cancellation of any Subsisting Option shall be conditional on the approval by the Board (including the approval of independent non-executive Directors) and the option holder(s) concerned.

In the event that the Board elects to cancel Subsisting Options and issue new options to the same option holder, the issue of such new options shall be made with available unissued options (excluding the cancelled options) within the Scheme Mandate Limit or the Refreshed Limit, as the case may be.

(k) *Voting and dividend rights*

No voting rights shall be exercisable and no dividends shall be payable in relation to options that have not been exercised.

(l) *Effects of alterations in the capital structure of the Company*

Subject to the provisions as to the maximum number of shares available for subscription, in the event of capitalisation issue, rights issue, consolidation, subdivision or reduction of the share capital of the Company in accordance with applicable laws and regulatory requirements, such corresponding alterations (if any) shall be made in relation to any Subsisting Option to (i) the number of Shares subject to the unexercised option; and/or (ii), the exercise price; and/or (iii) in the event of a consolidation and subdivision of the share capital of the Company, the maximum number of Shares referred to in paragraph (c) above. Any such corresponding alterations to the Subsisting Option shall be certified by the auditors for the time being of the Company as being fair and reasonable, and shall give an option holder the same proportion of the issued share capital of the Company as that to which he was previously entitled but so that no such alteration shall have the effect of enabling any Share to be issued at less than its nominal value or which would result in the aggregate amount payable on the exercise of any option in full being increased.

(m) *Rights on a takeover*

If during the Exercise Period an offer is made to acquire all or part of the issued Shares (other than those held by the offeror and persons acting in concert with it) and such offer becomes or is declared unconditional, the Company shall give written notice to all persons then holding Subsisting Options and each such option holder may, by notice in writing to the Company, within 14 days of the date of such notice, exercise his option in full or to the extent specified in such notice.

(n) *Rights on schemes of compromise or arrangement*

If during the Exercise Period an application is made to the court (otherwise than where the Company is being voluntarily wound up), pursuant to sections 166 and 167 of the Companies Ordinance, in connection with a proposed compromise or arrangement between the Company and its creditors (or any class of them) or between the Company and its members (or any class of them), an option holder may by notice in writing to the Company, within a period of 21 days after the date of such application, exercise his option in full or to the extent specified in such notice.

(o) *Rights on a voluntary winding up*

In the event of a notice of a meeting being convened to consider a resolution for the voluntary winding up of the Company during the Exercise Period, the Company shall forthwith upon notice of such meeting being given, give written notice to option holders of the convening of such meeting and an option holder may thereupon by notice in writing to the Company exercise any Subsisting Option at any time not later than five Business Days prior to the proposed general meeting of the Company to its full extent or to the extent specified in such notice.

(p) *Ranking of Shares*

Shares issued or transferred on the exercise of an option shall rank equally in all respects with the other Shares of the same class in issue at the date of allotment (including without limitation as to voting, dividend and transfer rights and rights arising on the liquidation of the Company) and will be subject to all the provisions of the Articles. They shall not rank for any rights attaching to Shares by reference to a record date preceding the date of allotment.

(q) *Present status of the Share Option Scheme*

The Share Option Scheme shall take effect subject to and is conditional on the listing committee of the Stock Exchange granting approval of the Share Option Scheme, and the listing of and permission to deal in the Shares which may be issued pursuant to the exercise of the options.

The Board considers that it is not appropriate to state the value of all options that can be granted under the Share Option Scheme as if they had been granted on the Latest Practicable Date, as a number of variables which are crucial for the calculation of the option value have not been determined. Such variables include the exercise price, exercise period, lock up period (if any), performance targets set (if any) and other relevant variables. The Board believes that any calculation of the value of the options as at the Latest Practicable Date would be based on a great number of speculative assumptions and would henceforth not be meaningful and be misleading to Shareholders.

As at the date of this prospectus, no option has been granted or agreed to be granted by the Company under the Share Option Scheme.

(r) *Duration of the Share Option Scheme*

The Share Option Scheme will remain in force for a period to be notified by the Board, such period not to exceed the period of ten years from the date on which it is adopted by resolution of the Shareholders in general meeting.

(s) *Amendment of the Share Option Scheme*

- (i) Subject to paragraph (ii) below, the Board may amend any of the provisions of the Share Option Scheme or withdraw or otherwise terminate the Share Option Scheme at any time but no amendments shall be made to the advantage of any option holder

unless approved by the Shareholders in general meeting. In addition, no alteration shall operate to affect adversely any rights which have accrued to any option holder at that date.

- (ii) The Company in general meeting must approve in advance by ordinary resolution any proposed change which relates to the following:
- the category of Eligible Persons to or for whom Shares may be provided under the Share Option Scheme;
 - the authority of the Board in relation to any alteration to the terms of the Share Option Scheme;
 - the limitations on the number of Shares which may be issued under the Share Option Scheme;
 - the individual limit for each option holder under the Share Option Scheme;
 - the determination of the exercise price of the option;
 - any rights attaching to the options and the Shares;
 - the terms of granted options;
 - the rights of option holders in the event of a capitalisation issue, rights issue, sub-division or consolidation of shares or reduction or any other variation of capital of the Company;
 - the provisions under the Share Option Scheme regarding the amendment of the Share Option Scheme;
 - any matters set out in rule 17.03 of the Listing Rules as amended from time to time; and
 - any alterations to the Share Option Scheme which are of a material nature.
- (iii) Except as described in paragraph (ii) above, the Board need not obtain the approval of the Shareholders in general meeting for any minor changes:
- to benefit the administration of the Share Option Scheme;
 - to comply with or take account of the provisions of any proposed or existing legislation;
 - to take account of any changes to the legislation; or
 - to obtain or maintain favourable tax, exchange control or regulatory treatment of the Company or any of its subsidiaries or any present or future option holder.

- (iv) Unless otherwise approved by the Stock Exchange, the amended terms of the Share Option Scheme or the Subsisting Options shall comply with the relevant requirements of the Listing Rules.

(t) *Lapse of options*

An option shall lapse forthwith (to the extent not already exercised) on the earliest of the following events:

- (i) expiry of the Exercise Period;
- (ii) the first anniversary of the death of the option holder;
- (iii) in the case of an option holder who is an employee of the Group or a Director, upon the option holder ceasing to be an employee of the Group or its Director by reason of dismissal from employment or termination of office, in the case of an option holder who is a consultant or advisor of the Group, by reason of termination by the Company or any of its subsidiaries of the contract for provision of such services, in each case on the ground of:
 - the option holder's misconduct;
 - the option holder committing an act of bankruptcy;
 - the option holder becoming insolvent or making any arrangements or composition with his creditors generally; or
 - the option holder being convicted of any criminal offence involving his or her integrity or honesty;
- (iv) three months after the option holder ceases to be an employee of the Group by reason of:
 - his retirement on or after attaining normal retirement age;
 - his resignation;
 - ill health or disability;
 - the company by which he is employed ceasing to be a subsidiary or associate of the Company;
 - the expiry of his contract of employment with the Group; or
 - termination of his employment with the Group for reasons other than the reasons specified in paragraphs (ii) and (iii) above;
- (v) three months after the option holder ceases to be a Director for reasons other than the reasons specified in paragraphs (ii) and (iii) above;
- (vi) in the case of any takeovers, schemes of compromise or arrangement and liquidation, the expiry of the periods of notice as specified in the Share Option Scheme; provided that in the scheme of compromise or arrangement, such proposed compromise or arrangement becomes effective;

(vii) save as otherwise provided, in the case of a voluntary winding up of the Company during the Exercise Period, the earlier of the close of business on the fifth Business Day prior to the general meeting convened to consider such voluntary winding up or the date of the commencement of the winding up of the Company;

(viii) any breach of the provision described in paragraph (f) above; or

(ix) in the case of an option holder who is a consultant or advisor of the Group, on the date which is the later of (1) the date on which the Board resolves in its reasonable opinion that the option holder no longer provides consultancy or advisory (as appropriate) services to the Group; and (2) the date which falls three months after the date on which the option holder is notified of such resolution.

(u) *Termination*

In the event that the Board elects to terminate the operation of the Share Option Scheme, no further notice shall be offered but the provisions of the Share Options Scheme shall remain in force in all other respects. All options granted prior to such termination and not then exercised shall continue to be valid and exercisable subject to and in accordance with the terms of the Share Option Scheme.

(v) *Disclosure of the Share Option Scheme*

The Company shall disclose all information as required by the Listing Rules or any other applicable rules and regulations in its annual and interim reports.

2. Present status of the Share Option Scheme

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares which may be issued pursuant to the exercise of any options granted under the Share Option Scheme.

E. OTHER INFORMATION

1. Estate duty, tax indemnity and other indemnity

Pursuant to the deed of indemnity given by LDHB and PRG Corporation in favour of the Company (please refer to the agreement referred to in paragraph (qq) in the section “Summary of material contracts” of this Appendix), LDHB and PRG Corporation agreed to provide, on a joint and several basis, an indemnity in respect of any liability in connection with, among other things, (1) taxes (including income taxes and profit taxes) (except for taxes and claims for which provisions or allowances have been provided for in the audited financial statements of the Group as at 30th June,

2005) arising in connection with the Reorganisation and payable in respect of the assets and rights which have been transferred to the Company pursuant to the Reorganisation, (2) certain property-related matters, (3) any failure of the Group to obtain relevant licences and permits, (4) potential liability of the Company to pay to the relevant PRC authorities the interest income earned from inter-enterprise direct loans made by any of the Group Companies and (5) estate duty.

The Company has been advised that no material liability for estate duty is likely to fall on any member of the Group in the Cayman Islands, BVI, Singapore or the PRC.

2. Litigation

The Group is involved in legal proceedings in the ordinary course of business including being the plaintiff or defendant in litigation or arbitration proceedings. The Directors confirm that there are no litigation or arbitration proceedings in existence, pending or threatened against the Group or any of its directors that could have a material adverse effect on the Group's financial condition or results of operation.

3. Sponsor

BNP Paribas Peregrine has made an application on behalf of the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, and any Shares which may fall to be issued pursuant to the exercise of any options granted under the Share Option Scheme.

4. Preliminary expenses

The preliminary expenses of the Company are estimated to be approximately HK\$26,000, and are payable by the Company.

5. Particulars of the Selling Shareholder

Certain particulars of the Selling Shareholder as at the Latest Practicable Date are set out as follows:

Name:	PRG Corporation Limited
Registered address:	P.O. Box 173, Kingston Chambers, Road Town, Tortola, British Virgin Islands
Authorised share capital:	HK\$390,000
Directors:	Cheng Yoong Choong Chew Fook Seng
Description of business:	Investment holding

6. Information on other directorships

During the period from 2000 to 2004, the Lion Group underwent a groupwide corporate and debt restructuring exercise as a result of which certain members of the Lion Group implemented creditor schemes of arrangement. Tan Sri Cheng Heng Jem is and remains a director in those members of the Lion Group. Tan Sri Cheng and Cheng Yoong Choong were directors of one member of the Lion Group which went into liquidation by way of a creditors' winding up in 1998. Cheng Yoong Choong was a director of another member of the Lion Group which was wound up in 1999.

7. Promoter

The Company has no promoter.

8. Qualifications of experts

The following are the qualifications of the experts which have given their opinions or advice which are contained, or referred to, in this prospectus:

Expert	Qualification
BNP Paribas Peregrine Capital Limited	corporation licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Ernst & Young	Certified Public Accountants
Vigers Appraisal & Consulting Limited	Chartered professional surveyors and valuers
Maples and Calder	Cayman Islands attorneys-at-law
Jingtian & Gongcheng	Registered law firm in the PRC

9. Consents of experts

Each of the Sponsor, Ernst & Young, Vigers Appraisal & Consulting Limited, Maples and Calder and Jingtian & Gongcheng has given and has not withdrawn its written consent to the issue of this prospectus with inclusion of its report and/or letter and/or valuation certificate(s) and/or the references to its name in the form and context in which they are respectively included.

10. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

11. Miscellaneous

Save as disclosed in this prospectus:

- (a) within the two years preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid for either cash or a consideration other than cash;
- (b) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (c) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries;
- (d) since 30th June, 2005 (being the date to which the latest audited financial statements of the Group were made up) there has not been any material adverse effect in the financial or trading position of the Group;
- (e) no founders, management or deferred shares of the Company or any of its subsidiaries have been issued or agreed to be issued;
- (f) all necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement; and
- (g) no company within the Group is presently listed on any stock exchange or traded on any trading system.

12. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided under section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

APPENDIX VIII DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE**, **YELLOW** and **PINK** application forms, the particulars of the Selling Shareholder, the written consents referred to in the paragraph headed “Consents of experts” in Appendix VII and copies of the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix VII.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Simmons & Simmons at 35th Floor, Cheung Kong Center, 2 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (1) the Memorandum of Association and Articles of Association;
- (2) the accountants’ reports prepared by Ernst & Young the text of which is set out in Appendix I and Appendix II;
- (3) such audited financial statements as have been prepared for each of the companies comprising the Group for each of the three years ended 31st December, 2004 and the six months ended 30th June, 2005 or from their respective dates of incorporation where this is a shorter period;
- (4) the letter from the reporting accountants in respect of the unaudited pro forma financial information as set out in Appendix III;
- (5) the letters relating to the profit forecast, the texts of which are set out in Appendix IV;
- (6) the letter, summary of valuation and valuation certificates relating to the property interests of the Group prepared by Vigers Appraisal & Consulting Limited, the text of which is set out in Appendix V;
- (7) a copy of the letter of advice prepared by Maples and Calder summarising certain aspects of Cayman Islands company law referred to in Appendix VI;
- (8) the rules of the Share Option Scheme;
- (9) the material contracts (in English or Chinese) referred to in the paragraph headed “Summary of material contracts” in Appendix VII;
- (10) the service contracts referred to in the paragraph headed “Particulars of Directors’ service agreements” in Appendix VII;

APPENDIX VIII DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION

- (11) the PRC legal opinions (in Chinese only) issued by Jingtian & Gongcheng, the legal advisers to the Company on PRC law, referred to in Appendix V and Appendix VII;
- (12) the particulars of the Selling Shareholder including its name, address and description;
- (13) the written consents referred to in the paragraph headed “Consents of experts” in Appendix VII; and
- (14) the Companies Law.