

# Chairman's Statement

## Introduction

This is the first annual report of the Group after the listing of the Company's shares on the Stock Exchange on 30 November 2005. We are pleased to report that 2005 was another very successful and record-breaking year for the Group. We reported an increase of 54.6% on our operating revenue and a 62.3% increase in net profits attributable to the shareholders. On the back of this successful result the Board has recommended a final dividend payment of RMB 0.26 per share.

## Business History

The "Parkson" brand was introduced to the PRC market in 1994 when the PRC government started to allow foreign brands to operate in Beijing and the Special Economic Zones. Our first Parkson store located in Fuxingmennei Avenue, Beijing was opened in the same year and we positioned our store in the middle to middle-upper end of the department stores sector. The "Parkson" brand is the pioneer among the foreign brands operating in the PRC market and we enjoyed the first-mover advantage.

We faced strong challenges during the early years of our operation. The department store business is a much localised business and being a new foreign entrant in this challenging and competitive market, we spent the early years learning and adopting to the local culture and demands of the PRC market.

Having the right merchandise mix and brand mix in our stores, offering products with high quality and good value, providing personalised services and the ability to create strong loyalty to the "Parkson" brand has been crucial to the success of our business in this huge but diverse market.

The valuable experiences accumulated from operating in South East Asian countries with similar diverse market conditions allowed our dedicated and committed management team to ride through the challenges, continued to expand our business and created a strong brand loyalty for Parkson.

Without doubt we are now one of the biggest department store operators in the PRC and we have the most complete network of operating and managing 39 stores covering 26 major cities in the PRC.



TAN SRI CHENG HENG JEM  
CHAIRMAN



## Market Overview

The PRC economy has been registering impressive growth for the past two decades. In line with this rapid economy and strong gross domestic product (“GDP”) per capita growth, the living standard and purchasing power of the PRC population improved, leading to a booming domestic consumption market. According to the report released by the National Bureau of Statistics of China, the retail industry grew by approximately 12.9% during the year under review to RMB6.7 trillion. The department store sector is believed to have approximately 10% market share of the retail industry with a total market size of approximately RMB670.0 billion.

The recently announced “eleventh five-year plan” by the PRC government is expected to further stimulate domestic consumption. The retail industry will emerge as one of the main beneficiaries of such plan. Home to approximately 1.3 billion increasingly affluent consumers, the department store sector will be at the forefront of this domestic consumption boom.



## Looking Forward

Looking forward into 2006, the PRC economy is expected to continue its rapid growth even on the back of uncertainties on oil price, interest rates and the exchange rates of Renminbi (“RMB”). The coming year will see the Group strive to further strengthen its position as a leading department store operator in the PRC. The Group will continue its expansion plan steadily, consistently upgrade the merchandise in response to the changes in market demand, continue to refurbish and reinvent the stores and work closely with our suppliers to introduce new brands and new product lines to the market.

The coming year is not without challenge to the Group. The liberalisation of the foreign ownership in the retail-industry is expected to bring along the emergence of various formats of retail or retail related businesses. However, we believe that the department store sector, in particular the lifestyle and fashion orientated department store would continue to be the preferred format of shopping for the PRC population.

The Group is confident that with our proven business model, experienced management team, strong brand equity and healthy financial position, we are able to continue our growth, maintain our position as one of the leading department store operators in the PRC and maximise returns to our shareholders.

On behalf of the Board, I would like to express my sincere gratitude to the staff for their hard work and dedication, my sincere thanks to the shareholders and our business associates for their support. Last but not least, I would like to express my appreciation to the Board members and the senior officers for their close cooperation, contribution and devotion to the Group.

TAN SRI CHENG HENG JEM  
CHAIRMAN  
31 MARCH 2006