

Managing Director's Statement

The year 2005 was a year of growth, progress and accomplishment for our Group on all fronts. We made considerable progress towards advancing our financial and business objectives. The Group achieved an impressive growth in revenue and profit during the year under review on the back of the continuously rapid economy and strong per capita GDP growth across the PRC, leading to an increasingly strong demand by affluent consumers in fashion and lifestyle related products.

Our operating revenue improved by 54.6% to RMB1,214.7 million, and our comparable store sales were up 19.1%. Our net profit increased by 69.4% to RMB274.3 million and our net profit margin of 22.6% remains amongst the highest in the industry. Profits attributable to the Company (excluding minority interests) increased by 62.3% to RMB248.0 million, and basic earnings per share improved to RMB0.55, an improvement of 57.1% from previous year.

Cash from continuing operating activities before financing and investing activities totaled more than RMB520.0 million and together with the net proceeds of RMB1,074.1 million raised from our initial public offering ("IPO"), the cash position of the Group at the end of the year improved to more than RMB2.0 billion, enabling the Group to pay a cash dividend and providing cash for our immediate expansion plans through new store openings and potential acquisitions in the coming months.

To share the benefits of these fruitful results with our shareholders, the Board has recommended payment of a final dividend of RMB0.26 per share in full to all the shareholders.



CHENG YOONG CHOONG
MANAGING DIRECTOR



Corporate Development

On the corporate front, our IPO was a big success, thanks to the efforts and diligence of our staff and the professional parties. The Hong Kong public offering portion of our IPO achieved a subscription rate of more than 40 times. The Company was successfully listed on 30 November 2005 and raised RMB1,074.1 million in new capital to expand our business in view of the opportunities in the coming years.

Our successful listing on the Stock Exchange also improved the visibility of the “Parkson” brand internationally. We believe that Parkson is today the most recognised brand of department store operator in the PRC amongst the international and domestic community.

Business Review

On the business front, during the year under review, we further improved our business model, merchandise mix and brand mix with great success. We continued to expand our businesses in the PRC through the opening of new stores and the acquisitions of managed stores.

Our new stores in Haerbin, Zhengzhou and Chengdu with an aggregated retailing space of approximately 105,000 square metres further consolidated our position as a leading department store operator and strengthened our nationwide network. The liberalisation by the PRC government on foreign ownership in the retail industry provided more flexibility to our expansion plans and enabled the Group to now have 100% ownership of our stores.

One of the key areas that we focused on in the year 2005 was the change of sales mix in our stores. Encouraged by the revenue trend that reflects an excitement about the increasing demand for the lifestyle and fashion related products, we entered the year 2005 determined to make adjustment to the sales mix in our stores by focusing on the “fashion and apparel” and “cosmetics and accessories” categories which produce higher revenue and gross margin per square meter. The results for the year 2005 have been very fruitful with the combined sales of these two categories of products improved by 71.6% from the previous year, a higher rate of increase compare to the 60.9% increase in total sales. As a percentage to total sales, the combined sales of these two categories of products also improved to 76.5% from 72.4% recorded in the previous year.



On the merchandising front, we continued with our policy of listening to our customers and offered brands and innovative product lines in our stores with their opinions and preferences in mind. We believe that such customers orientated merchandising approach delivers value and helps to further differentiate our stores from our competitors making Parkson Stores true retail magnets for the discerning customers.

Refurbishing and reinventing our existing stores continued to be one of our top priorities. We invested RMB40.0 million to refurbish and reinvent our department stores in order to ensure that Parkson stores remain firmly attached to the middle to middle-upper market segment in the fast growing and dynamic cities in the PRC.





Last year, we continued to build the “Parkson” brand through aggressive advertising campaigns and we issued the co-branded credit card with the China Merchant Bank to further enhance the already strong loyalty to the “Parkson” brand. Members of our strong Parkson Loyalty card program increased to 3.0 million and the newly introduced co-branded credit card with China Merchant Bank has attracted more than 100,000 card members and is growing very strongly.





Prospects

Our strong performances and accomplishments in the year 2005 have set the stage to deliver another great year for Parkson in the year 2006.

We will remain firmly focused in the department store business in the PRC, expanding our retailing floor space steadily by opening new stores and through acquisitions. We intend to open few new stores in the year 2006, some in new cities to further strengthen our strong network and others in cities that already have Parkson stores to further consolidate our leadership position. We will also continue to explore acquisition opportunities in cities that meet our strategic initiatives and return on capital requirements. Our strong financial and cash position has provided the backbone for our expansion plan and our existing equity and capital structure is well positioned for further capital needs if necessary.

In Parkson, we believe in innovation. In the coming years, we will further upgrade our stores profile and image in line with the changing demand of the increasingly affluent consumers in the PRC. We have allocated between RMB60 million to RMB80 million for such maintenance capital expenditure.





for their hard work. I would like to take this opportunity to also thank our shareholders for their confidence in us. I assure you that we remain committed to managing our business both ethically and responsibly and to representing the best interests of our shareholders through good corporate governance.

CHENG YOONG CHOONG
MANAGING DIRECTOR
31 MARCH 2006

Throughout Parkson's long history of business establishment both in the PRC and other markets, we have built good relationships with many global brand names. Looking into the year 2006, we will continue to refine our merchandise and brand mix and add excitement to our merchandise assortments through introduction of high quality and good value brands and innovative product lines to meet the demand of our increasingly affluent customers.

The key factors to the success of Parkson in the PRC are our well-established brand, our promise of value and convenience and our focus on our core customers, the young and trendy.

We believe that "Parkson" is now a brand name synonymous with lifestyle and fashion to the increasingly affluent middle to middle-upper consumers in the PRC.

Going forward, we are committed to further strengthen and reinforce our leadership position as the premiere department store in the PRC.

I want to thank all our business associates, partners and suppliers for their support, the Board member for their guidances and directions, the senior officers and all of our staff

