PARKSON RETAIL GROUP LIMITED

2006 INTERIM REPORT

STOCK CODE : 3368

PARKSON

2006 INTERIM REPORT

CONTENTS

CORPORATE INFORMATION	2
FINANCIAL HIGHLIGHTS AND BUSINESS SUMMARY	3
SUPPLEMENTAL FINANCIAL INFORMATION	4
INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT	6
INTERIM CONDENSED CONSOLIDATED BALANCE SHEET	7
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	9
INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT	10
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL REPORT	12
REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL REPORT	25
OPERATIONAL REVIEW	26
PROSPECTS	27
FINANCIAL REVIEW	28
CONNECTED TRANSACTIONS	33
INTERIM DIVIDEND	35
CLOSURE OF REGISTER OF MEMBERS	35
DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES	36
SUBSTANTIAL SHAREHOLDERS OF THE GROUP	40
OTHER INFORMATION	43
APPRECIATION	44

Corporate Information

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS:

CHENG YOONG CHOONG
(MANAGING DIRECTOR)

CHEW FOOK SENG
(CHIEF EXECUTIVE OFFICER)

NON-EXECUTIVE DIRECTOR:

TAN SRI CHENG HENG JEM
(CHAIRMAN)

INDEPENDENT NON-EXECUTIVE DIRECTORS:

FONG CHING, EDDY
STUDER WERNER JOSEF
KO TAK FAI, DESMOND

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

SUITE 1316, PRINCE's BUILDING
10 CHATER ROAD
CENTRAL
HONG KONG

COMPANY SECRETARY

SENG SZE KA MEE, NATALIA FCIS,
FCS, FHKIOD

QUALIFIED ACCOUNTANT

WONG KANG YEAN CLARENCE ACCA, CA (MIA)

AUTHORISED REPRESENTATIVES

CHENG YOONG CHOONG
CHEW FOOK SENG

COMPLIANCE ADVISER

BNP PARIBAS PEREGRINE CAPITAL LIMITED

AUDIT COMMITTEE

FONG CHING, EDDY (CHAIRMAN)
STUDER WERNER JOSEF
KO TAK FAI, DESMOND

REMUNERATION COMMITTEE

CHENG YOONG CHOONG (CHAIRMAN)
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
26TH FLOOR TESBURY CENTRE
28 QUEEN's ROAD EAST
WANCHAI
HONG KONG

PRINCIPAL BANKERS IN CHINA

BANK OF CHINA
AGRICULTURAL BANK OF CHINA
INDUSTRIAL AND COMMERCIAL BANK OF CHINA
CHINA MERCHANTS BANK

PRINCIPAL BANKERS IN HONG KONG

BNP PARIBAS HONG KONG BRANCH
STANDARD CHARTERED BANK (HONG KONG) LIMITED

AUDITORS

ERNST & YOUNG
CERTIFIED PUBLIC ACCOUNTANTS

LEGAL ADVISORS

SIMMONS & SIMMONS

WEBSITE

WWW.PARKSON.COM.CN

Financial Highlights and Business Summary

Total gross sales proceeds, increased to RMB2,671.8 million, an increase of 102.4% and 18.8% over the Reported numbers[(2)] and Proforma numbers[(3)] respectively for the corresponding period in 2005.

Comparative store sales growth[(1)] from the Proforma numbers remains strong at 17.0%.

Total operating revenues for the six months ended 30 June 2006 improved to RMB942.5 million, an increase of 86.7% and 18.6% over the Reported numbers and Proforma numbers respectively for the same period in 2005.

Profit from operations for the six months ended 30 June 2006 increased to RMB304.1 million, an increase of 81.9% and 38.4% over the Reported numbers and Proforma numbers respectively for the same period in 2005.

Net profit attributable to the Company[(4)] for the six months ended 30 June 2006 increased to RMB196.2 million, an increase of 84.2% and 44.7% over the Reported numbers and Proforma numbers respectively for the same period in 2005.

Earnings per share for the period was RMB0.36.

Interim dividend of RMB0.15 per share.

(1) Year on year percentage change in total gross sales proceeds for stores in operation throughout the first half of current and the immediate preceding year.

(2) Audited consolidated numbers for the corresponding period in the year 2005.

(3) The Unaudited Proforma financial information for the period ended 30 June 2005 (the "Proforma numbers") have been extracted from the Company's prospectus for Initial Public Offering ("IPO") dated 17 November 2005.

(4) Parkson Retail Group Limited.

Supplemental Financial Information

The Unaudited Proforma financial information for the period ended 30 June 2005 (the "Proforma numbers") has been extracted from the Company's prospectus for Initial Public Offering ("IPO") dated 17 November 2005, which has been prepared by the directors solely for illustrative purpose to provide information on how the acquisitions in the year 2005 which took place before the completion of the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") might have affected the performance and financial position of the Company, its subsidiaries, jointly controlled entities and an associate (the "Group") assuming the acquisitions were completed on 1 January 2005.

	For the six months ended 30 June	
	2006	2005
	Unaudited	Unaudited Proforma
	RMB'000	RMB'000
Revenues	853,089	736,837
Other operating revenue	89,448	58,136
Total operating revenue	942,537	794,973
Operating expenses		
Purchase of goods and changes in inventories	(284,712)	(262,340)
Staff costs	(86,897)	(71,724)
Depreciation and amortisation	(39,282)	(37,874)
Rental expenses	(98,379)	(78,564)
Other operating expenses	(129,191)	(124,726)
Total operating expenses	(638,461)	(575,228)
Profit from operations	304,076	219,745
Finance income, net	21,784	5,965
Share of profit from an associate	259	231
Profit from operations before income tax	326,119	225,941
Income tax	(103,150)	(69,960)
Net profit for the period	222,969	155,981
Attributable to:		
Equity holders of the parent	196,207	135,552
Minority interests	26,762	20,429
	222,969	155,981
Interim dividend	82,800	N/A
Interim dividend per share	RMB0.15	N/A
Earnings per share – Basic	RMB0.36	N/A

NOTES:

1. REVENUES

	For the six months ended 30 June	
	2006 Unaudited RMB'000	2005 Unaudited Proforma RMB'000
Sales of goods – direct sales	340,688	307,503
Commissions from concessionaire sales	441,952	365,374
Rental income	48,199	39,446
Consultancy and management service fees	22,250	24,514
	853,089	736,837
Other operating revenues	89,448	58,136
	942,537	794,973

2. GROSS SALES PROCEEDS

	For the six months ended 30 June	
	2006 Unaudited RMB'000	2005 Unaudited Proforma RMB'000
Direct Sales	340,688	307,503
Concessionaire Sales	2,171,181	1,819,966
Total merchandise sales	2,511,869	2,127,469
Others (including consultancy and management service fees, rental income and other operating revenues)	159,897	122,096
Total gross sales proceeds	2,671,766	2,249,565

Interim Condensed Consolidated Income Statement

for the six months ended 30 June 2006

	Notes	For the six months ended 30 June 2006 Unaudited RMB'000	2005 Reported RMB'000
Revenues	3	853,089	470,969
Other operating revenue	3	89,448	33,993
Total operating revenue		942,537	504,962
Operating expenses			
Purchase of goods and changes in inventories		(284,712)	(154,613)
Staff costs		(86,897)	(45,194)
Depreciation and amortisation		(39,282)	(28,982)
Rental expenses		(98,379)	(35,334)
Other operating expenses		(129,191)	(73,648)
Total operating expenses		(638,461)	(337,771)
Profit from operations	4	304,076	167,191
Finance income, net	5	21,784	3,867
Share of profit from an associate		259	231
Profit from operations before income tax		326,119	171,289
Income tax	6	(103,150)	(55,818)
Net profit for the period		222,969	115,471
Attributable to:			
Equity holders of the parent		196,207	106,511
Minority interests		26,762	8,960
		222,969	115,471
Interim dividend	7	82,800	—
Interim dividend per share	7	RMB0.15	—
Earnings per share – Basic	8	RMB0.36	RMB0.24

Interim Condensed Consolidated Balance Sheet

at 30 June 2006

	Notes	As at 30 June 2006 Unaudited RMB'000	As at 31 December 2005 Reported RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	560,367	581,535
Intangible assets		81,864	82,191
Lease prepayments		47,643	49,066
Investment properties		16,728	17,394
Investment in an associate		1,935	2,120
Investment deposits	22	210,031	—
Other financial assets		68,589	72,629
Deferred tax assets		34,945	32,789
		1,022,102	837,724
CURRENT ASSETS			
Inventories	10	71,172	80,938
Trade receivables	11	18,568	16,737
Investments		—	1,842
Prepayments, deposits and other receivables	12	211,422	233,250
Cash and cash equivalents	13	1,718,008	2,080,407
		2,019,170	2,413,174
CURRENT LIABILITIES			
Interest-bearing loans and borrowings	14	132,701	154,856
Trade payables	15	460,385	569,003
Customers' deposits, other payables and accruals	16	282,640	355,448
Tax payable		62,289	94,629
		938,015	1,173,936
NET CURRENT ASSETS		1,081,155	1,239,238
TOTAL ASSETS LESS CURRENT LIABILITIES		2,103,257	2,076,962

at 30 June 2006

	Notes	As at 30 June 2006 Unaudited RMB'000	As at 31 December 2005 Reported RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	14	69,833	79,446
Long-term payables		79,321	77,895
Deferred tax liabilities		48,280	46,295
		197,434	203,636
NET ASSETS		1,905,823	1,873,326
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		57,436	57,436
Reserves		1,766,009	1,723,444
		1,823,445	1,780,880
Minority interests		82,378	92,446
TOTAL EQUITY		1,905,823	1,873,326

Cheng Yoong Choong
Director

Chew Fook Seng
Director

Interim Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 June 2006

	Attributable to equity holders of the parent								
	Issued share capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000	PRC reserve funds RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2006	57,436	1,024,964	154,442	43,956	15,460	484,622	1,780,880	92,446	1,873,326
Net profit for the period	—	—	—	—	—	196,207	196,207	26,762	222,969
Adjustment to share issue costs	—	(1,637)	—	—	—	—	(1,637)	—	(1,637)
Transfer to the PRC reserve fund	—	—	—	12,427	—	(12,427)	—	—	—
Changes in the exchange reserve	—	(761)	—	—	(7,724)	—	(8,485)	—	(8,485)
Dividends paid (note 20)	—	(143,520)	—	—	—	—	(143,520)	—	(143,520)
Dividends of subsidiaries	—	—	—	—	—	—	—	(36,830)	(36,830)
At 30 June 2006	57,436	879,046	154,442	56,383	7,736	668,402	1,823,445	82,378	1,905,823

for the six months ended 30 June 2005 (Reported)

	Attributable to equity holders of the parent								
	Issued share capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000	PRC reserve funds RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2005	—	—	—	24,289	19,201	612,493	655,983	66,317	722,300
Distribution to owners	—	—	—	—	—	(4,139)	(4,139)	—	(4,139)
Net profit for the period	—	—	—	—	—	106,511	106,511	8,960	115,471
Transfer to the PRC reserve funds	—	—	—	7,002	—	(7,002)	—	—	—
Changes in the exchange reserve	—	—	—	—	(2,149)	—	(2,149)	—	(2,149)
Business combination	—	—	—	—	—	—	—	(457)	(457)
Appropriation	—	—	—	—	—	(8,499)	(8,499)	(12,031)	(20,530)
At 30 June 2005	—	—	—	31,291	17,052	699,364	747,707	62,789	810,496

Interim Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2006

	Notes	For the six months ended 30 June 2006 Unaudited RMB'000	2005 Reported RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit from operations before income tax		326,119	171,289
Adjustments for:			
Share of profit of an associate		(259)	(231)
Interest income	5	(27,428)	(6,259)
Interest expenses	5	5,544	2,346
Depreciation and amortisation	4	39,282	28,982
Exchange losses	4	100	46
Allowance for doubtful debts	4	—	2,123
Loss on disposal of items of fixed assets	4	136	117
Operating profit before working capital changes		343,494	198,413
Decrease in other financial assets		4,040	—
Decrease in inventories		9,766	1,782
Increase in trade receivables		(1,831)	(9,739)
Decrease in prepayments, deposits and other receivables		23,828	87,510
Increase in amounts due from related parties		—	(150)
Decrease in trade payables		(108,618)	(25,305)
Decrease in customers' deposits, other payables and accruals		(72,808)	(27,833)
Decrease in amounts due to related parties		—	(1,488)
Increase in long-term payables		1,426	2,618
Cash generated from operating activities		199,297	225,808
Interest paid		(5,644)	(2,346)
Income tax paid		(135,661)	(59,290)
Net cash inflow from operating activities		57,992	164,172

for the six months ended 30 June 2006

	Notes	For the six months ended 30 June 2006 Unaudited RMB'000	2005 Reported RMB'000
Net cash inflow from operating activities		57,992	164,172
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of items of property, plant and equipment		633	421
Purchases of items of property, plant and equipment		(16,467)	(22,510)
Business combination		—	(9,800)
Deposits paid for a business combination transaction	22	(210,031)	—
Net decrease in investments		1,842	74,964
Increase in non-trade related amounts due from related parties		—	(95,939)
(Increase)/decrease in non-trade related other receivables		(2,000)	25,468
Dividends received		444	—
Interest received		27,428	6,259
Net cash outflow from investing activities		(198,151)	(21,137)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		—	39,200
Repayment of bank loans		(31,768)	(60,434)
Decrease in non-trade related amounts due to related parties		—	(20,230)
Adjustments to share issue costs		(1,637)	—
Distribution to owners		—	(4,139)
Dividends paid		(143,520)	(20,530)
Dividends of subsidiaries		(36,830)	—
Net cash outflow from financing activities		(213,755)	(66,133)
NET INCREASE IN CASH AND CASH EQUIVALENTS		(353,914)	76,902
Cash and cash equivalents at 1 January		2,080,407	408,522
Exchange differences		(8,485)	(2,195)
CASH AND CASH EQUIVALENTS AT 30 JUNE	13	1,718,008	483,229

Notes to the Interim Condensed Consolidated Financial Report

at 30 June 2006

1. CORPORATE INFORMATION AND GROUP REORGANISATION

The Company was incorporated in the Cayman Islands with limited liability under the Companies Law of Cayman Islands on 3 August 2005. The Company's ultimate holding company is Lion Diversified Holdings Berhad ("LDHB"), a company incorporated in Malaysia and listed on the Main Board of Bursa Malaysia.

The Company has established a principal place of business in Hong Kong at Suite 1316, Prince's Building, 10 Chater Road, Central, Hong Kong. The principal activities of the Group are the operations of department store business in the People's Republic of China ("PRC"). Pursuant to a reorganisation in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the Group since 9 November 2005. Details of the reorganisation are set out in the prospectus issued by the Company dated 17 November 2005 (the "Prospectus"). Dealings of the shares of the Company on the Stock Exchange of Hong Kong Limited were commenced on 30 November 2005.

2. BASIS OF PREPARATION

The interim condensed consolidated financial report for the six months ended 30 June 2006 (the "Interim Condensed Consolidated Financial Report") has been prepared in accordance with International Accounting Standards ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board.

The Interim Condensed Consolidated Financial Report does not include all the information and disclosures required in the financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2005 and the audited financial information for the six months ended 30 June 2005 which was set out in Appendix I to the Prospectus.

3. REVENUES AND SEGMENT INFORMATION

	For the six months ended 30 June 2006 Unaudited RMB'000	2005 Reported RMB'000
Sales of goods — direct sales	340,688	186,609
Commissions from concessionaire sales	441,952	224,102
Rental income	48,199	30,543
Consultancy and management service fees	22,250	29,715
	853,089	470,969
Other operating revenues	89,448	33,993
	942,537	504,962

Revenues are recognised to the extent that it is probable that the economic benefits of a transaction will flow to the Group. Revenues are categorised to include the sales of goods — direct sales, the commissions from concessionaire sales, the consultancy and management service fees, the rental income and the other operating revenues.

Over 90% of the Group's revenues and contribution to operating profit is attributable to the operation and management of department stores in the PRC. Accordingly, no analysis of segment information is presented.

	For the six months ended 30 June 2006 Unaudited RMB'000	2005 Reported RMB'000
Direct Sales	340,688	186,609
Concessionaire Sales	2,171,181	1,039,346
Total merchandise sales	2,511,869	1,225,955
Others (including consultancy and management service fees, rental income and other operating revenues)	159,897	94,251
Total gross sales proceeds	2,671,766	1,320,206

3. REVENUES AND SEGMENT INFORMATION (continued)

OTHER OPERATING REVENUES

	For the six months ended 30 June	
	2006	2005
	Unaudited	Reported
	RMB'000	RMB'000
Promotion income	20,328	7,516
Administration & credit card handling fees	33,431	11,466
Government grant	10,136	1,977
Others	25,553	13,034
	89,448	33,993

4. PROFIT FROM OPERATIONS

The Group's profit from operations is arrived at after charging/(crediting):

	For the six months ended 30 June 2006 Unaudited RMB'000	2005 Reported RMB'000
Cost of inventories recognised as expenses	284,712	154,613
Staff costs excluding directors' remuneration:		
Wages, salaries and bonuses	66,238	36,220
Pension costs	6,910	2,912
Social welfare and other costs	12,066	5,041
	85,214	44,173
Directors' remuneration	1,683	1,021
	86,897	45,194
Depreciation and amortisation	39,282	28,982
Operating lease rentals in respect of leased properties	98,379	35,334
Loss on disposal of items of property, plant and equipment	136	117
Auditors' remuneration	2,675	—
Allowance for doubtful debts	—	2,123
Gain on disposal of investments	(6)	(1,212)
Exchange losses	100	46
Gross rental income in respect of:		
Investment properties	(8,939)	(1,260)
Sub-letting of properties:		
Minimum lease payments	(16,344)	(14,276)
Contingent lease payments *	(22,916)	(15,007)
	(39,260)	(29,283)
Total gross rental income	(48,199)	(30,543)
Less: Direct operating expenses	—	2,957
Net rental income	(48,199)	(27,586)

* *The contingent lease payments are calculated based on a percentage of relevant performance of the tenants pursuant to the rental agreements.*

5. FINANCE INCOME, NET

	For the six months ended 30 June 2006 Unaudited RMB'000	2005 Reported RMB'000
Interest expenses on bank and other loans, wholly repayable within five years	(5,544)	(2,346)
Interest income	27,428	6,259
Exchange losses	(100)	(46)
	21,784	3,867

6. INCOME TAX

The Group is subject to income tax on an entity basis on the profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operates.

Under the relevant PRC income tax law, except for certain preferential treatment available to certain PRC subsidiaries and jointly-controlled entities of the Group, the PRC companies of the Group are subject to corporate income tax at a rate of 33% on their respective taxable income.

An analysis of the provision for tax is as follows:

	For the six months ended 30 June 2006 Unaudited RMB'000	2005 Reported RMB'000
Current income tax	103,321	56,167
Deferred income tax	(171)	(349)
	103,150	55,818

7. DIVIDEND

	For the six months ended 30 June 2006 Unaudited RMB'000	2005 Reported RMB'000
Proposed (not recognised as a liability as at 30 June)		
Interim 2006: RMB0.15 per ordinary share	82,800	—

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2006 is based on the net profit attributable to equity holders of the parent for the period of approximately RMB196,207,000 and the 552,000,000 shares in issue during the period.

The calculation of basic earnings per share for the six months ended 30 June 2005 is based on the net profit attributable to equity holders of the parent for the period of approximately RMB106,511,000 and the assumption that the 441,600,000 shares issued to the parent company pursuant to the group reorganisation in preparation for the Company's public offering had been in issue throughout the six months ended 30 June 2005.

Diluted earnings per share amounts for the six months ended 30 June 2006 and 2005 have not been disclosed because no diluting events existed during the two periods.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2006, the Group acquired property, plant and equipment at a total cost of RMB16,467,000.

Property, plant and equipment with a net book value of RMB769,000 were disposed of by the Group during the six months ended 30 June 2006, resulting in a net loss on disposal of RMB136,000.

10. INVENTORIES

	30 June 2006 Unaudited RMB'000	31 December 2005 Reported RMB'000
Merchandise, at cost	62,254	71,287
Consumables, at cost	8,918	9,651
	71,172	80,938

11. TRADE RECEIVABLES

An aged analysis of the trade receivables is as follows:

	30 June 2006 Unaudited RMB'000	31 December 2005 Reported RMB'000
Within 3 months	5,376	6,815
3 to 12 months	10,089	9,876
Over 1 year	5,902	2,845
	21,367	19,536
Less: Allowance for doubtful debts	(2,799)	(2,799)
	18,568	16,737

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2006 Unaudited RMB'000	31 December 2005 Reported RMB'000
Deposits	22,910	15,426
Prepayments	12,445	10,534
Advances to suppliers	15,117	18,398
Receivables from jointly-controlled entities	27,768	27,768
Receivables from joint venture partners	2,570	1,620
Receivables from minority equity holders	77,359	84,276
Designated loans *(note)*	16,900	14,900
Other receivables	36,712	60,687
	211,781	233,609
Less: Allowance for doubtful debts	(359)	(359)
	211,422	233,250

Note: The balances represented designated loans to a landlord of the Group. These designated loans bear interest at rates of 5.8% to 6.9% (2005: 5.8%) per annum, with a term of one year and are secured by the Group's right to off-set the outstanding designated loans balances against future rental payments to the borrower.

13. CASH AND CASH EQUIVALENTS

	30 June 2006 Unaudited RMB'000	31 December 2005 Reported RMB'000
Short-term deposits	1,004,814	1,107,062
Cash and bank balances	713,194	973,345
Cash and cash equivalents	1,718,008	2,080,407

The bank balances earn interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Cash and cash equivalents of the Group aggregating RMB826,595,000 as at 30 June 2006 (31 December 2005: RMB998,677,000) 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.

14. INTEREST-BEARING LOANS AND BORROWINGS

	30 June 2006 Unaudited RMB'000	31 December 2005 Reported RMB'000
Bank loans, secured	202,534	234,302
Bank loans repayable:		
Within one year or on demand	113,750	154,856
In the second year	—	19,512
In the third to fifth years, inclusive	88,784	59,934
	202,534	234,302
Less: Portion classified as current liabilities	(132,701)	(154,856)
Long term portion	69,833	79,446

The bank loan balances at balance sheet dates were secured by pledges of certain of the buildings, lease prepayments and investment properties of the Group and buildings of a minority equity holder.

The annual interest rates of the short-term bank loans during the period varied from 5.6% to 6.2%. The annual interest rate of the long-term bank loans during the period was 5.9%. As at 30 June 2006 and 31 December 2005, the Group's interest-bearing bank loans were denominated in Renminbi.

15. TRADE PAYABLE

An aged analysis of the trade payables is as follows:

	30 June 2006 Unaudited RMB'000	31 December 2005 Reported RMB'000
Within 3 months	443,694	554,896
3 to 12 months	12,020	9,947
Over 1 year	4,671	4,160
	460,385	569,003

16. CUSTOMERS' DEPOSITS, OTHER PAYABLES AND ACCRUALS

	30 June 2006 Unaudited RMB'000	31 December 2005 Reported RMB'000
Customers' deposits	22,817	24,229
Payables to joint venture partners	1,184	13,139
Provision for coupon liabilities *(note)*	47,048	44,434
Accrued wages and salaries	55,708	55,141
Other payables and accruals	155,883	218,505
	282,640	355,448

Note:

The balance of provision for coupon liabilities is analysed as follows:

	RMB'000
At 1 January 2006	44,434
Arising during the period	20,201
Utilised	(11,113)
Unused amounts reversed	(6,474)
At 30 June 2006 (Unaudited)	47,048

17. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2006.

18. COMMITMENTS

(I) OPERATING LEASE COMMITMENTS

Operating lease commitments — Group as lessee

The Group had the following future minimum rentals payable under non-cancellable operating leases:

	30 June 2006 Unaudited RMB'000	31 December 2005 Reported RMB'000
Within one year	133,432	115,166
In the second to fifth years, inclusive	492,137	477,496
After five years	1,182,499	1,322,877
	1,808,068	1,915,539

A lease that is cancellable only upon the occurrence of some remote contingency is a non-cancellable operating lease as defined under IAS.

Pursuant to the relevant lease agreements, the Group is entitled to terminate the underlying lease agreement if the attributable department store business has incurred losses in excess of a prescribed amount or such department store will not be in a position to continue its business because of the losses.

Operating lease commitments — Group as lessor

The Group had the following future minimum rentals receivable under non-cancellable operating leases:

	30 June 2006 Unaudited RMB'000	31 December 2005 Reported RMB'000
Within one year	22,120	26,721
In the second to fifth years, inclusive	58,875	84,172
After five years	23,246	18,356
	104,241	129,249

(II) ACQUISITION COMMITMENTS

As further disclosed in note 22 to this Interim Condensed Consolidated Financial Report, the Group had acquisition commitments attributable to a business combination transaction amounting to RMB315,047,000. Such balance was fully settled by the Group in July 2006.

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash at banks and short-term deposits and bank loans. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as prepayments, deposits and other receivables, trade receivables, trade payables, customers' deposits, other payables and long term payables which arise directly from its operations.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken other than the disposal of investments on government bond securities of RMB1,842,000 which were acquired by the Group in the period before the Company's listing in November 2005.

The main risks arising from the Group's financial instruments are credit risk, interest rate risk, foreign currency risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

(I) CREDIT RISK

The cash at banks and short term deposits, trade receivables and prepayments, deposits and other receivables included in the Interim Condensed Consolidated Financial Report 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 loans except for the bank and other loans disclosed in note 14 to the Interim Condensed Consolidated Financial Report 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 30 June 2006, a substantial amount of the Group's assets and liabilities was denominated in RMB. Fluctuation of the exchange rates of RMB against the other currencies can affect the Group's results of operations.

The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

(IV) LIQUIDITY RISK

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing loans. As at 30 June 2006, the Group had a bank loan balance of RMB202,534,000. The directors have reviewed the Group's working capital and capital expenditure requirements and determined that the Group has no significant liquidity risk.

20. SHARE PREMIUM

The Company's 2005 final dividend totalling RMB143,520,000 was distributed out of the Company's share premium account. Under the Companies Law of the Cayman Islands, the share premium is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

21. RELATED PARTY TRANSACTIONS

The Group had the following significant transactions with related parties:

(A) CONTINUING TRANSACTIONS:

	Notes	For the six months ended 30 June 2006 Unaudited RMB'000	2005 Reported RMB'000
Royalty fee expenses	(i)	525	1,242
Consultancy fee income	(ii)	2,750	4,966
Property management fee expenses	(iii)	4,647	4,647

Notes:

(i) The royalty fee expenses are payable 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. On or before 9 November 2005, the royalty fee of US$300,000 per annum was charged according to the underlying contract. After 9 November 2005, the royalty fee was charged based on RMB30,000 per annum for each department store owned or managed by the Group.

(ii) The consultancy fee income is received from the jointly-controlled entities and Qingdao No.1 Parkson Co., Ltd., a fellow subsidiary of the Company. The consultancy fee income is determined according to the underlying contracts.

(iii) The property management fee expenses are payable to Shanghai Nine Sea Lion Properties Management Co., Ltd., an associate of the Company. The property management fee was charged according to the underlying contract.

(B) COMPENSATION OF KEY MANAGEMENT PERSONNEL (AS DEFINED UNDER IAS 24, RELATED PARTY DISCLOSURES) OF THE GROUP:

	For the six months ended 30 June 2006 Unaudited RMB'000	2005 Reported RMB'000
Fees	412	—
Other emoluments:		
Salaries, allowances, bonuses and other benefits	1,219	975
Pension costs	52	46
	1,683	1,021

22. SUBSEQUENT EVENTS

On 23 January 2006, the Group and China Arts & Crafts (Group) Company ("China Arts & Crafts") entered into a preliminary framework agreement (the "Framework Agreement") under which China Arts & Crafts agreed to dispose of and the Group agreed to acquire a 44% equity interest in Parkson Retail Development Co., Ltd. ("Beijing Parkson"), a jointly controlled entity of the Group. The execution of the Framework Agreement is conditional on the approval from the relevant government authorities in the PRC.

On 26 May 2006, the Group entered into a sale and purchase agreement with China Arts & Crafts to acquire the aforesaid 44% equity interest in Beijing Parkson for a total cash consideration of RMB525,078,000. As at 30 June 2006, deposits of RMB210,031,000 were paid by the Group.

Subsequent to the period ended 30 June 2006, the transaction was approved by the Ministry of Commerce in the PRC on 4 July 2006 and the Group obtained the relevant equity interest and control in Beijing Parkson thereafter. The Group has fully settled the remaining balance of the purchase consideration of RMB315,047,000 in July 2006. This business combination transaction is not dealt with in the Interim Condensed Consolidated Financial Report because it was effective after the period ended 30 June 2006.

This business combination transaction will be accounted for under the purchase method in the Group's annual financial statements for the year ending 31 December 2006.

23. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL REPORT

The Interim Condensed Consolidated Financial Report was approved and authorised for issue by the board of directors on 14 August 2006.

Report on Review of Interim Condensed Consolidated Financial Report

ERNST & YOUNG
安永會計師事務所

To the board of directors
Parkson Retail Group Limited
(Incorporated in the Cayman Islands with limited liability)

We have been instructed by the Company to review the interim financial report of the Company and its subsidiaries (the "Group") for the six-month period ended 30 June 2006 as set out on pages 6 to 24.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of the interim financial report to be in compliance with International Accounting Standard 34 "Interim Financial Reporting" promulgated by the International Accounting Standards Board and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of the Group's management and applying analytical procedures to the interim financial report 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, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six-month period ended 30 June 2006.

Ernst & Young
Certified Public Accountants

Hong Kong
14 August 2006

Operational Review

The PRC economy continued to record impressive growth. The gross domestic product ("GDP") expanded by approximately 9.9% for the year 2005 and 10.9% for the first half of the year 2006. In line with the strong economy growth, the retail industry grew solidly for the corresponding period on the back of the rising personal disposable incomes. Urbanisation continued to improve, middle class has reached a critical mass, demographic changes and consumers becoming increasingly affluent are the key factors contributing to the unleash of the spending power of the middle class PRC consumers and supporting the retail industry growth. Parkson is a brand name synonymous to lifestyle and fashion in the PRC market and with such strong brand equity, the Group is well positioned to capitalise on the booming middle to middle-upper end consumer market.

During the period under review, the Group achieved a strong double digit comparative store sales growth of 17.0% through attractive promotional campaigns to improve traffic flow and consistently varying the merchandise mix and upgrading the brand mix to more accurately target the intended customers in this diverse and fast growing market.

Both the concessionaire sales and direct sales showed strong consistent growth of 108.9% and 82.6% respectively. In particular, the concessionaire sales, which accounted for approximately 86.4% of the total sales proceeds (comprises direct sales and concessionaire sales only) as the maturing younger stores enable the Group to increase the sales of higher value merchandises on a concessionaire basis.

The Group further consolidated its position as one of the leading department store operators in the PRC by signing three new lease agreements to add a total of approximately 60,000 square meter of retailing space to our existing portfolio. The Group has also entered into an agreement to acquire the 44.0% minority stake of Parkson Retail Development Co., Ltd. ("Beijing Parkson"), a jointly controlled entity that owns and operates six Parkson brand department stores in five different cities in the PRC. This acquisition was successfully completed in the month of July 2006 and it will immediately enhance the Group's performance. The Group can account for 100% performance of Beijing Parkson starting from 1 July 2006.

Prospects

The PRC has been one of the world's fastest growing economies over the past decade. According to the China statistical yearbook 2005, the GDP grew at a compounded growth rate of more than 11.3% per annum over the past decade to reach RMB18.3 trillion in the year 2005. The economy expanded by another 10.9% for the first half of this year, in line with the strong GDP growth, the retail industry was up 13.3% for the same period in 2006. Encouraged by the robust growth and the Group's own strong performances in the first half of this year, we are confident that the year 2006 will be another great year for the Group.

The Group will remain firmly focused in the department store business in the PRC, the Group will continue to maintain a strong growth and further consolidate our position as one of the leading department store operators through multiple strategies including:

i) leveraging on our proven business model to maintain a double-digit comparative stores sales growth;

ii) finding new sites to open new stores;

iii) pursuing the acquisition of the minority interests of the existing stores and controlling stakes of the existing managed stores; and

iv) exploring the opportunity for other acquisition that meet our strategic initiatives and return on capital requirements.

Going forward, the Group is committed to further strengthen and reinforce our management and to up hold the best corporate governance practice to maximise returns to our shareholders.

Financial Review

TOTAL GROSS SALES PROCEEDS AND OPERATING REVENUES

During the period under review, the Group generated a total gross sales proceeds received or receivable worth RMB2,671.8 million (comprises of direct sales, sales proceeds from concessionaire sales, rental incomes, consultancy and management fees and other operating revenues). Total gross sales proceeds for the period represent a growth of 102.4% or RMB1,351.6 million from the Reported numbers of RMB1,320.2 million recorded in the same period of last year as a result of the strong comparative store sales growth and sales contribution from the stores opened and acquired in the second half of the year 2005. Commission rate of concessionaire sales declined marginally to 20.4% due to the lower commission rate from the new stores opened and stores acquired in the second half of the year 2005.

Total gross sales proceeds increased by RMB422.2 million or 18.8% from the Proforma numbers for the same period of last year due to the strong comparative store sales growth of approximately 17.0% and full 6 months contribution from new stores opened last year. Commission rate of concessionaire sales improved by 0.3% from the Proforma numbers due to the maturing younger stores acquired in the second half of the year 2005.

The Group generated total merchandising sales of approximately RMB2,511.9 million during the period under discussion. The concessionaire sales contributed approximately 86.4% of the merchandise sales and the direct sales contributed the balance of 13.6%

The Fashion & Apparel category made up approximately 49.7% of the total merchandise sales, the Cosmetics & Accessories category contributed approximately 28.7%. The Household & Electrical category and the Groceries & Perishables category contributed 9.1% and 12.5% respectively.

Total operating revenues of the Group for the period under review grew by RMB437.6 million to RMB942.5 million or 86.7% from the Reported numbers in the same period of last year. The impressive growth rate was contributed by the strong comparative store sales growth offsetting the marginal decline of commission rate of concessionaire sales and the decline of the consultancy and management service fees from lesser managed stores after the acquisitions of the managed stores in the second half of the year 2005.

Total operating revenues increased by RMB147.6 million or 18.6% from the Proforma numbers for the same period last year due to the strong comparative store sales growth and a higher commission rate of concessionaire sales, despite partly offset by the slower rate of increase for direct sales and marginal decline of consultancy and management service fees.

OPERATING EXPENSES

PURCHASE OF GOODS AND CHANGES IN INVENTORIES

The purchase of goods and changes in inventories refer to mainly the cost of sales for the direct sales and a marginal portion of RMB170,000 computer software purchase cost in relation to the information technology services provided to our department stores. In line with the increase of direct sales, the cost of sales increased to RMB284.7 million, an increase of RMB130.1 million or 84.1% from the Reported numbers in the same period of last year. The direct sales gross profit margin of 16.5% decreased marginally by 1.8% due to the lower gross profit margin from the new stores opened and stores acquired in the second half of the year 2005. The gross profit margin for the period under discussion increased by 1.2% from the Proforma numbers of 15.3% recorded in the same period of last year.

STAFF COSTS

Staff costs increased by RMB41.7 million or 92.3% to RMB86.9 million, the increase was contributed by i) the inclusion of staff costs for new stores opened and stores acquired in the second half of the year 2005, ii) the increase in staff force for the store design department and business development department in line with the business expansion plans and iii) the additional provision for the incentives in line with the increase of revenues and net profit for the period under discussion.

As a percentage to total operating revenues, the staff cost increased marginally from the Reported numbers of 8.9% and from the Proforma numbers of 9.0% for the same period of last year to 9.2% for the period under discussion due to additional staff force for the store design department and business development department and additional provision for incentive payments in line with the increase of revenues and net profit for the period under discussion.

DEPRECIATION AND AMORTISATION

Depreciation and amortisation for the period ended 30 June 2006 increased by RMB10.3 million or 35.5% to RMB39.3 million from the Reported numbers of RMB29.0 million for the same period of last year. The increase was contributed by the inclusion of depreciation cost for the new stores opened and the stores acquired in the second half of the year 2005.

As a percentage to total operating revenues, depreciation and amortisation cost dropped to 4.2% from the Reported numbers of 5.7% and from the Proforma numbers of 4.8% in the same period of last year. The drop is in line with the increase comparative store operating revenues growth and operating revenues contribution from new stores opened and stores acquired in the year 2005 which are all on long leases and have no building cost and land use rights subject to depreciation and amortisation.

RENTAL EXPENSES

Rental expenses for the period ended 30 June 2006 increased by 178% to RMB98.4 million from the Reported numbers for the same period of last year. The increase was mainly due to the inclusion of the rental cost for the new stores opened and the stores acquired in the second half of the year 2005.

The rental cost increased by 25.2% to RMB98.4 million from the Proforma numbers of RMB78.6 million in the same period of last year. The increase was due to the inclusion of full 6 months rental expenses for Haerbin store opened in May 2005 and also inclusion of full 6 months rental expenses for Sichuan store opened in November 2005. The increase was also partly due to the payment of contingent rent for stores that have exceeded the target sales or profit stipulated in the lease agreements.

As a percentage to total operating revenues, the rental expenses rose to 10.4%, moved up 3.4% from the Reported numbers in the same period of last year due to i) there are now more stores on operating leases, 19 out of 23 self-owned stores compared to 6 out of 10 self-owned stores that contributed to the Group's performance for the same period of last year and ii) the payment of contingent rent for stores that have exceeded the target sales or profit stipulated in the lease agreements.

The ratio increased marginally by 0.5% from 9.9% Proforma numbers in the same period of last year. The increase was mainly due to the additional payment of contingent rents for stores that have exceeded the target sales or profit stipulated in the lease agreements.

OTHER OPERATING EXPENSES

Other operating expenses, which consist of mainly the utilities cost, marketing and promotional cost, property management cost, general administrative cost and others, increased to RMB129.2 million, moved up 75.4% from the Reported numbers and 3.6% from the Proforma numbers for the same period of last year. This is generally in line with the increase in operating revenues.

As a percentage to total operating revenues, other operating expenses ratio was 13.7%, reduced by 0.9% from 14.6% Reported numbers in the same period of last year and down by 2.0% from the Proforma numbers due to benefits from the economies of scale and the slower pace of increase of the expenses compared to the increase of operating revenues.

PROFIT FROM OPERATIONS

Profit from operations for the period ended 30 June 2006 increased to RMB304.1 million, an improvement of 81.9% from the Reported numbers and 38.4% from the Proforma numbers for the same period of last year in line with the growth of operating revenues.

Profit from operations as a percentage to total operating revenues for the period ended 30 June 2006 was 32.3%, came down marginally by 0.8% from Reported numbers in the same period of last year due to the inclusion of performances from new stores opened and stores acquired in the second half of the year 2005. In comparison to the Proforma numbers, profit from operations as a percentage to operating revenues improved by 4.7% due to the growth of operating revenues and the improved operating efficiency of the maturing younger stores.

FINANCE INCOME

Finance income, which comprises of interest income, foreign currency exchange gain/(losses) and net of interest expenses increased to RMB21.8 million, an increase of 463.4% from the Reported numbers for the same period of last year due to the increased interest incomes from the placement of deposit with licensed banks in Hong Kong and the PRC..

SHARE OF PROFIT FROM AN ASSOCIATE

This is the share of profit from Shanghai Nine Sea Lion Properties Management Co., Ltd, an associate of the Company, the share of profit grew from RMB231,000 reported last year to RMB259,000 for the period under discussion, an increase of 12.1%.

INCOME TAX

The Group's income tax expense for the period ended 30 June 2006 increased by RMB47.3 million or 84.8% in line with the increase in profit from operations. The increase of income tax expense was however partly offset by the lower effective tax rate of 31.6%, a decline of 1.0% from 32.6% reported in the same period of last year due to the inclusion of higher portion of non taxable interest income and the inclusion of profit from the stores with preferential tax rate such as the Chonqing Wanzhou store, the Chongqing Nanping store, the Hefei store and the Guizhou store.

NET PROFIT FOR THE PERIOD

In line with the increase in revenues, the net profit for the period ended 30 June 2006 increased to RMB223.0 million, an improvement of 93.1%. The net profit margin improved to 23.7% from 22.9% Reported numbers for the same period of last year due to the lower effective tax rate, growth in operating revenues and improved operating efficiency.

The net profit improved by 4.1% from the Proforma numbers in the same period of last year. The net profit margin improved to 23.7% from the Proforma numbers of 19.6% for the corresponding period in the year 2005 due the improved operating efficiency and the increase of operating revenues, in particular the new stores opened in the year 2005 and the maturing younger stores.

PROFIT ATTRIBUTABLE TO THE COMPANY

Profit attributable to the Company for the period ended 30 June 2006 increased to RMB196.2 million, an increase of 84.2% from the Reported numbers for the same period of last year. This is in line with the increase in operating revenues and the profit from operations.

Profit attributable to the Group rose by 44.7% from Proforma numbers of RMB135.6 million for the same period of last year, this is in line with the increase in operating revenues and profit from operations.

PROFIT ATTRIBUTABLE TO MINORITY INTERESTS

Profit attributable to minority interests increased by RMB17.8million or 198.7% from the Reported numbers for the same period last year due to the increased of net profit for the year and the inclusion of profits from stores with higher percentage of minority interest acquired in the year 2005.

LIQUIDITY AND FINANCIAL RESOURCES

The cash and cash equivalents balance of the Group stood at RMB1,718.0 million as at the end of June 2006, representing a reduction of 17.4% from the balance of RMB2,080.4 million recorded as at the end of December 2005. The reduction was mainly due to the payment of dividends of approximately RMB143.5 million to the shareholders of the Company and payment of approximately RMB210.0 million deposits for the acquisition of Beijing Parkson, offsetting the positive cash flow of approximately RMB58.0 million generated from the operating activities. The Group was at net cash position of RMB1,515.5 million after netting off the interest bearing loans and borrowings of approximately RMB202.5 million. Total debt to equity ratio of the Group expressed as a percentage of interest bearing loans and bank borrowings over the total equity of RMB1,905.8 million were 10.6% as at 30 June 2006.

NET CURRENT ASSETS AND NET ASSET

The Group's net current assets as at 30 June 2006 was approximately RMB1,081.2 million, a decrease of 12.8% or RMB158.0 million from the balance of RMB1,239.2 million recorded as at 31 December 2005. Net asset rose to RMB1,905.8 million, an increase of RMB32.5 million or 1.7% over the balance as at 31 December 2005. The increase was due to the net profit contribution for the six months ended 30 June 2006 after offsetting the dividends paid during the same period.

PLEDGE OF ASSETS

As at 30 June 2006, certain of the Group's property, plant and equipment with an aggregated carrying value of RMB57.2 million, lease prepayments with an aggregated carrying value of RMB9.5 million and certain of the Group's investment properties with an aggregate carrying value of RMB4.1 million were pledged to the banks to secure general banking facilities of the Group.

CONNECTED TRANSACTIONS

The following sets out details of certain connected transactions of the Group.

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.

1. Entrusted loans of Mianyang Parkson

   Mianyang Parkson entered into interest-bearing entrusted loan agreement on 10 September 2005 with Sichuan Fulin Industrial Group Co., Ltd. ("Sichuan Fulin"), pursuant to which loan facilities of an aggregate amount of RMB6.0 million were made to Sichuan Fulin through China Construction Bank, Mianyang Branch. The loans are due in September 2006.

2. Entrusted loans of Anshan Parkson

   Anshan Parkson entered into two interest-bearing entrusted loan agreements on 22 September 2005 with Anshan Tianxing International Properties Development Co., Ltd ("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.

DISCLOSEABLE AND CONNECTED TRANSACTION ACQUISITION OF 44% OF BEIJING PARKSON

The Company originally owns 56% of the equity interest in Beijing Parkson through its wholly-owned subsidiaries. The remaining 44% interest was jointly held by the China Arts & Crafts, China Arts & Craft Culture Company and Arts & Crafts Exhibition Company (collectively "China Arts & Crafts Companies"). As at 19 July 2006, the acquisition of this remaining 44% of the equity interest in Beijing Parkson by the Company was completed, upon which Beijing Parkson became a wholly-owned subsidiary of the Company.

China Arts & Crafts Companies were substantial shareholders of Beijing Parkson and therefore are connected persons of the Company.

Details of transactions are set out in note 22 to the Interim Condensed Consolidated Financial Report.

CONTINUING CONNECTED TRANSACTIONS

Continuing connected transactions exempt from independent shareholders' approval requirement

Name of connected person	Nature of transaction	Six months ended 30 June 2006 RMB'000
China Arts & Crafts [1]	Rental	7,528
Sichuan Fulin [1]	Rental	3,532
Chongqing Wanyou Economic Development Co., Ltd [1].	Rental	2,451
Shaanxi Chang'an Information Property Investment Co., Ltd. [1]		
Xi'an Xinrun Property Co., Ltd. [1]	Rental	6,896
Guizhou Huawei Real Estate Development Co., Ltd. [1]	Rental	6,690
Anshan Tianxing International Properties Development Co., Ltd. [1]		
Xinjiang Friendship (Group) Co., Ltd. [1]	Rental	12,383
Lucky King (Xi'an) Real Estate Development Co. Ltd [2]	Rental	Nil
Shanghai Lion Parkson Investment Consultant Co., Ltd. [3]	Management fee	4,548
Guizhou Shenqi Parkson Shopping Centre Co., Ltd. [4]	Management fee	1,145

Notes:

1. Persons directly or indirectly interested in 10% or more of the voting power at any general meetings of the non wholly-owned subsidiaries within the Group, therefore as defined in the Listing Rules, a connected person of the Company. Details of connected parties are set out under the section "Substantial shareholders of the Group".

2. Mr Yan Ming, who is one of the directors of Xi'an Lucky Parkson, holds indirectly more than 30% of the equity interest in Xi'an Lifeng. As Xi'an Lifeng is an associate (as defined in the Listing Rules) of Mr Yan Ming, it is a connected person of the Company.

3. Shanghai Lion Investment currently provides, and will continue to provide, management consultancy services to certain members of the Lion Group, pursuant to management consultancy agreements between Shanghai Lion Investment and each of the stores under the Lion Group which 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.

4. Mr Zhang Zhi Jun as a director of Guizhou Parkson, a subsidiary of the Company, is a connected person of the Company. Mr Zhang Zhi Jun has a 50% interest in Guizhou Shenqi therefore Guizhou Shenqi is an associate of Mr Zhang Zhi Jun. Guizhou Shenqi is therefore a connected person of the Company.

The above constitute continuing connected transactions under Chapter 14A of the Listing Rules and a waiver from strict compliance with the disclosure and/or shareholders' approval requirements under Rule 14A of the Listing Rules has been granted by the Stock Exchange.

The above continuing connected transactions were:

(i) carried out in the ordinary and usual course of business of the Company;

(ii) carried out on normal commercial terms or on terms no less favourable than those available to or from independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

INTERIM DIVIDEND

The Board of Directors has declared the payment of interim dividend for the six months ended 30 June 2006 of RMB0.15 (2005:Nil) in cash per share. The interim dividend will paid in Hong Kong dollars, such amount calculated by reference to the middle rate published by the People's Bank of China for the conversion of Renminbi to Hong Kong dollars as at 5 September 2006.

The dividends will be payable on or about 18 September 2006 to shareholders whose names appear on the Register of Members of the Company at close of business on 5 September 2006.

CLOSURE OF REGISTER OF MEMBERS

The Company's Register of Members will be closed from 30 August 2006 to 5 September 2006 (both dates inclusive), during such period no transfer of shares will be registered. In order to qualify for the interim dividend, all share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 29 August 2006.

Directors' and Chief Executives' Interests in Shares and Underlying Shares

(i) As at 30 June 2006, the interests of the Directors and Chief Executive of the Company in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Director or Chief Executive is taken or deemed to have under such provisions of the SFO) or which were required to be entered into the register required to be kept by the Company under section 352 of the SFO or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, were 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	361,560,000 ordinary shares	65.50%

Note:

1. Tan Sri Cheng Heng Jem, together with his wife, Puan Sri Chan Chow Ha alias Chan Chau Har, 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 Lion Diversified Holdings Berhad ("LDHB"). Since LDHB is entitled to exercise or control the exercise of 100% of the voting power at general meetings of PRG Corporation Limited ("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%
Lion Mahkota Parade Sdn. Bhd.	Corporate interest	LDH Management Sdn. Bhd.	LDH Management Sdn. Bhd.	400,000 preference shares	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	415,090,930 ordinary shares	61.08%[1]

Note:

1. This represents Tan Sri Cheng Heng Jem's interest as at the 30 June 2006. 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 in which Tan Sri Cheng Heng Jem is deemed interested 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%), Aktif-Sunway Sdn. Bhd. (80%) and Inner Mongolia Leader (25%).

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 (Ordinary Shares)	Additional deemed interest
Lion Mahkota Parade Sdn. Bhd. [D]	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 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, he is deemed to be interested in the shares held by Likom Computer System 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.

D. Interest in the class of preference shares of Lion Mahkota Parade Sdn. Bhd is disclosed in the preceding table under sub-paragraph (b) above.

(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 72.62% of the RM49.6 million 2% redeemable convertible unsecured loan stock due 31 May 2009 issued by LDHB ("RCULS") as follows:

- corporate interest[1] (through Amsteel Corporation Berhad) in 69.15% of the RCULS;
- corporate interest[2] (through Lion Industries Corporation Berhad) in 3.47% 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 72.62% of the RCULS in issue) as follows:

- option granted by Amsteel Corporation Berhad to Tan Sri Cheng Heng Jem to acquire 69.15% of the RCULS held by Amsteel Corporation Berhad;
- option granted by Lion Industries Corporation Berhad to Tan Sri Cheng Heng Jem to acquire 3.47% of the RCULS.

The above options are and will remain exercisable until 15 December 2006.

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 Heng 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 Heng Jem is interested in the RCULS held by Lion Industries Corporation Berhad.

3. The percentage figures given above with respect to the RCULS are as at 30 June 2006. These figures will change upon the exercise of any of these debentures.

(c) Long Positions of Cheng Yoong Choong 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
LDHB	Beneficial interest	Cheng Yoong Choong	Cheng Yoong Choong	998,846 ordinary shares	0.15%

Save as disclosed in this circular, as at the 30 June 2006, none of the Directors or Chief Executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

(ii) As at 30 June 2006, none of the Directors had any direct or indirect interest in any assets which have since 31 December 2005 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

Substantial Shareholders of the Group

As at 30th June 2006, to the best knowledge of the directors, the following persons (other than the directors or Chief Executive of the Company) who had 5% or more interests in the shares or underlying shares in respect of equity derivatives of the Company that would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were a follows.

Name of shareholder	Nature of interest	Number of shares	Percentage of shareholding (direct or indirect)
PRG Corporation	Beneficial	361,560,000	65.50%
LDHB	Corporate	361,560,000 *(Note 2)*	65.50%
Puan Sri Chan Chau Ha alias Chan Chow Har *(Note 3)*	Interest of spouse	361,560,000	65.50%
Lion Development (Penang) Sdn. Bhd.	Beneficial and corporate	361,560,000 *(Note 4)*	65.50%
Pangkor Investments (Cayman Islands) Limited	Beneficial	54,648,000	9.9%
Khazanah Nasional Berhad	Corporate	54,648,000 *(Note 5)*	9.9%
JPMorgan Chase & Co.	Beneficial and corporate	32,999,500 *(Note 6)*	5.98%

Notes:

1. All of the above are long positions.
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. Puan Sri Chan Chau Ha alias Chan Chow Har is the wife of Tan Sri Cheng Heng Jem and is deemed to be interested in 361,560,000 shares which Tan Sri Cheng Heng Jem is deemed to be interested in for the purposes of the SFO.
4. 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.
5. Pangkor Investments (Cayman Islands) Limited is a wholly-owned subsidiary of Khazanah Nasional Berhad. As such Khazanah Nasional Berhad is deemed to be interested in the 54,648,000 Shares held by Pangkor Investments (Cayman Islands) Limited for the purposes of the SFO.
6. The capacities of JPMorgan Chase & Co. in holding the 32,999,500 shares were as to 27,118,500 shares as investment manager and as to 5,881,000 shares in the lending pool as custodian corporation/approved lending agent. The corporate interest of JPMorgan Chase & Co. was attributable on account through a number of its wholly owned subsidiaries.

As at 30 June 2006, so far as the Directors are aware, each of the following persons, not being a Director or Chief Executive of the Company, was 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:

Substantial Shareholder	Member of the Group	Percentage of equity interest held
China Arts & Crafts [1]	Beijing Parkson	44%
Xinjiang Youhao [2]	Xinjiang Parkson	49%
Wuxi Distribution [3]	Wuxi Parkson	40%
Yangzhou Commercial [4]	Yangzhou Parkson	45%
Shannxi Chang'an Information [5]	Xi'an Chang'an Parkson	49%
Xi'an Xinrun [6]	Xi'an Shidai Parkson	49%
Sichuan Fulin [7]	Mianyang Parkson	40%
Chongqing Wanyou [8]	Chongqing Parkson	30%
Guizhou Shenqi Enterprise [9]	Guizhou Parkson	40%
Anshan Tianxing [10]	Anshan Parkson	49%
Shanghai Nine Sea Industry [11]	Shanghai Lion Property	71%[12]
Shanghai Nine Sea Industry	Shanghai Nine Sea Parkson	29%[12]

Notes:

1. 中國工藝美術（集團）公司 (China Arts & Crafts (Group) Company), owns 44% of the equity interest of Beijing Parkson.

2. 新疆友好（集團）股份有限公司 (Xinjiang Friendship (Group) Co., Ltd), owns 49% of the equity interest of Xinjiang Parkson.

3. 無錫市供銷合作總社 (Wuxi Distribution Corporation), owns 40% of the equity interest of Wuxi Parkson.

4. 揚州商業大廈 (Yangzhou Commercial Plaza), owns 45% of the equity interest of Yangzhou Parkson..

5. (i) 陝西長安信息置業投資有限公司 (Shaanxi Chang'an Information Property Investment Co., Ltd), owns 49% of Xi'an Chang'an Parkson.

   (ii) 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 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.

6. (i) 西安新潤置業有限公司 (Xi'an Xinrun Property Co., Ltd.), owns 49% of the equity interest of Xi'an Shidai Parkson.

   (ii) 陝西雙翼石油化工有限責任公司 (Shaanxi Shuangyi Petroleum and Chemical Company Limited), owns 39.1% of the equity interest in Xi'an Xinrun, representing a 19.16% indirect equity interest in Xi'an Shidai Parkson.

7. (i) 四川富臨實業集團有限公司 (Sichuan Fulin Industrial Group Co., Ltd.), owns 40% of the equity interest of Mianyang Parkson.

   (ii) 安治富 (An Zhifu), owns 51% of the equity interest in Sichuan Fulin, representing a 20.40% indirect equity interest in Mianyang Parkson.

8. 重慶萬友經濟發展有限責任公司 (Chongqing Wanyou Economic Development Co., Ltd.), owns 30% of the equity interest of Chongqing Parkson.

9. (i) 貴州神奇實業有限公司 (Guizhou Shenqi Enterprise Co., Ltd.), owns 40% of the equity interst of Guizhou Parkson.

   (ii) 張沛(Zhang Pei), 張之君 (Zhang Zhi Jun) and 張婭 (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.

10. (i) 鞍山天興國際置業發展有限公司 (Anshan Tianxing International Properties Development Co., Ltd.), owns 30% of the equity interest of Anshan Parkson.

    (ii) 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), owns 50% of the equity interest in Anshan Tianxing, representing 24.5% indirect equity interest in Anshan Parkson.

11. 上海九海實業有限公司 (Shanghai Nine Sea Industry Co., Ltd.), where they distribute 65% of Shanghai Lion Property.'s profits.

12. 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.

Mr. Cheng Yoong Choong and Mr. Chew Fook Seng are directors of PRG Corporation, which is a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO. Save as disclosed in this circular and so far as the Directors are aware, as at the 30 June 2006, no other person had an interest or short position in the Company's shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was otherwise 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 the Group.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at 30 June 2006, none of the Directors and directors of the Company's subsidiaries, or their respective associates had interests in businesses, other than being a director of the Company and/or its subsidiaries and their respective associates, which compete or are likely to compete, either directly or indirectly, with the businesses of the Company and its subsidiaries as required to be disclosed pursuant to the Listing Rules, except for the interests held by Tan Sri Cheng Heng Jem in LDHB which owns 11 department stores in the PRC. These 11 excluded department stores are managed by the Group.

NO MATERIAL ADVERSE CHANGE

As at 30 June 2006, none of the Directors was aware of any material adverse change in the financial or trading position of the Group since 31 December 2005 (being the date to which the latest published audited financial statements of the Group were made up).

Other Information

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed interest in any of the Company's shares during the six months ended 30 June 2006.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association although there are no restrictions against such rights under the laws of the Cayman Islands.

EMPLOYEES

As at the end of June 2006, the total number of employees for the Group was approximately 5,000. The Group ensures that all levels of employees are paid competitively within the standard in the market and employees are rewarded on performance related basis within the framework of the Group's salary, incentives and bonus scheme.

No option has been granted since the date of adoption of the employee share option scheme by the Company on 9 November 2005.

MAJOR CUSTOMERS AND SUPPLIERS

As the Group is principally engaged in retail sales, none of its customers and suppliers accounted for more than 5% of its turnover during the six months ended 30 June 2006. None of the Directors or shareholders who owned 5% or more of the issued shares capital of the Company during the six months ended 30 June 2006 or any of their respective associates held any interest in any of the five largest customers and suppliers of the company during the six months ended 30 June 2006.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the period from the date of listing of shares to 30 June 2006.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the Code on Corporate Governance Practices, as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") for the six months ended 30 June 2006.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"). The Directors have complied with the standard set out in the Model Code for the six months ended 30 June 2006.

AUDIT COMMITTEE

An Audit Committee ("Committee") has been established by the Company to review and supervise the financial reporting process and internal control procedures of the Group. The Committee and the Company's auditors have reviewed the Group's results for the six months ended 30 June 2006. The Committee comprises the three independent Non-executive Directors of the Company.

POST BALANCE SHEET EVENTS

As 19 July 2006, the acquisition of 44% of Beijing Parkson was completed, upon which Beijing Parkson became a wholly-owned subsidiary of the Company. Details of transactions are set out in note 22 to the Interim Condensed Consolidated Financial Report.

Appreciation

The Board would like to thank the management and all our staffs for their hard works and dedication. The Board would also take this opportunity to thank the shareholders and our business associates for their strong support to the Group.

On behalf of the Board
Cheng Yoong Choong
Managing Director

14 August 2006