

Managing Director's Statement

The PRC economy continued its remarkable growth for the year 2006. In line with the strong economic growth and the booming domestic consumption market, the Group made further progresses during the year. The Group achieved a strong double digit Same Store Sales (the "SSS") growth of approximately 17.1% for the year under review. The impressive SSS growth was made possible through attractive promotional activities to increase the traffic flow and our philosophy of innovation by continuously varying our merchandise mix and brand mix to accurately target our intended customers.



CHENG YOONG CHOONG
MANAGING DIRECTOR

As disposable income growth in the PRC is driving the consumption for more upscale branded merchandise, we see opportunities to bring distinctive fashion and affordable luxury brands to our customers. Last year we introduced the likes of "Aquascutum", "Armani Collezioni", "Cartier", "Dunhill", "Hugo Boss" and "Lancel" brands to our Beijing and Shanghai flagship stores.

Besides maintaining a strong SSS growth, the Group continues to execute earning accretive and strategic acquisitions to further expand our business and enhance the earning for our shareholders. The Group acquired in the month of July last year, the minority interest of six Parkson branded department stores through the successful acquisition of the remaining 44% equity interest not already owned in Parkson Retail Development Co., Ltd (the "44% Beijing Parkson"). The acquisition has immediately enhanced the profitability of the Group and allowed the Group greater flexibility in the implementation of Beijing Parkson's business expansion plan.

The Group acquired a 100% ownership of the two Parkson branded managed stores in Kunming, (the "Kunming Stores") in the month of November last year. The acquisition has not only immediately enhanced the profitability of the Group but also complement the Group's long term growth strategy in the south-west region of the PRC, in particular the Yunnan Province.



The Group further consolidated our position as one of the leading department store operators in the PRC by signing five new lease arrangements throughout the year to add a total of approximately 120,000 square meters of retailing space to our existing portfolio. The Group targets to roll out all the five new stores in the year 2007.

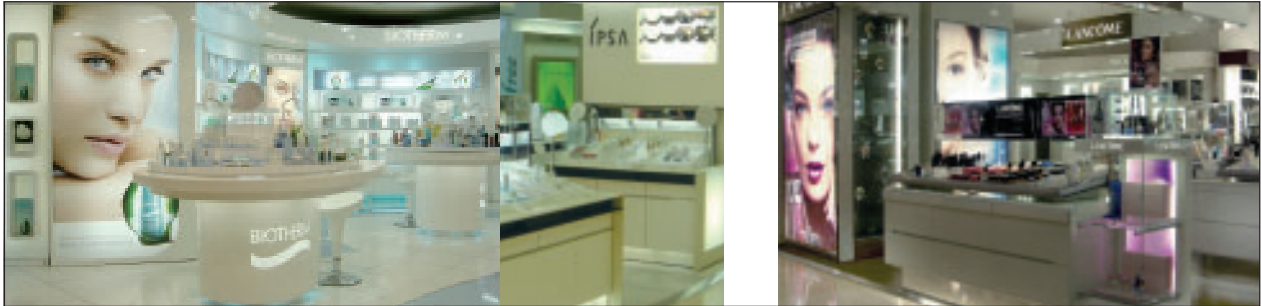
In November 2006, the Group issued a 5-years US\$200 million High Yield Notes (the "High Yield Notes") that carry an annual coupon of 7.875%. The gross proceeds from the High Yield Notes was used to subscribe for a Credit Link Note (the "CLN") issued by JPMorgan Chase Bank N.A., London Branch, and simultaneously JPMorgan Chase Bank N.A., Shanghai Branch extended approximately RMB1.5 billion of Commercial Banking Loans (the "Commercial Loans") to our subsidiaries in the PRC to fund our future expansion plans (the arrangements are collectively known as "Structure Financing"). The Structure Financing will eliminate the Group's exposure to exchange rate and interest rate fluctuations and allows the Group to borrow in the most cost efficient way for its long term fundings needs.

Prospect

The retail industry in the PRC is expected to maintain its strong growth momentum in the near future in line with the economic expansion and the booming domestic consumption. The continuous efforts and policies from the PRC government to increase the disposable incomes and rebalance the economic growth will complement and ensure the sustainable growth in the retail industry.

To capitalize on the anticipated booming retail industry, we strive to continue our proven business model, to upgrade our stores, continue to alter the merchandise mix and brand mix in line with the development in each individual market that we operate to maintain a healthy SSS growth for the existing stores and continue to build on our already strong brand equity to open new stores in existing markets and in new markets. We will also continue to seek for acquisition opportunities that allow us to further consolidate our position in existing markets and to gain a fast entrance into new markets and use it as the platform to quickly expand our presence in those markets.





We will keep pursuing the acquisition on minority interest of our existing stores and the controlling interest of the Parkson branded managed stores at an earning accretive price to enhance the earning for our shareholders.

As we move into the year 2007, we remain confident in our strategies, and believe that Parkson Retail Group is well-positioned to consolidate its leadership and increase its market share in the PRC.

Cheng Yoong Choong
Managing Director
26 FEBRUARY 2007