



PARKSON RETAIL GROUP LIMITED

百盛商業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3368)

UNAUDITED QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2007

The board of Directors (the “Board”) of Parkson Retail Group Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries together with its jointly-controlled entities and an associate (hereinafter collectively referred to as the “Group”) for the quarter ended 31 March 2007.

The unaudited quarterly results of the Group are released in conjunction with the announcement of the quarterly results of Lion Diversified Holdings Berhad, the holding company of the Company in Malaysia pursuant to the Kuala Lumpur Stock Exchange Main Board Listing Requirements. This announcement is made pursuant to paragraph 13.09 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

HIGHLIGHTS

Total gross sales proceeds improved to RMB2,255.4 million, an increase of 58.4%

Same store sales⁽¹⁾ (SSS) growth remains strong at 19.8%

Total operating revenues improved to RMB775.4 million, an increase of 58.1%

Profit from operations improved to RMB253.4 million, an increase of 60.7%

Net profit for the period improved to RMB180.2 million, an increase of 53.7%

Net profit attributable to the Group improved to RMB160.5 million, an increase of 55.5%.

Earnings per share was RMB0.29, an improvement of 55.5%

(1) Year on year change in total gross sales proceeds for stores in operation throughout the comparative periods

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Note</i>	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
		CURRENT YEAR QUARTER 31/03/2007 <i>RMB'000</i>	PRECEDING YEAR CORRESPONDING QUARTER 31/03/2006 <i>RMB'000</i>	CURRENT YEAR TO DATE 31/03/2007 <i>RMB'000</i>	PRECEDING YEAR CORRESPONDING YEAR TO DATE 31/03/2006 <i>RMB'000</i>
Operating revenues	1	775,364	490,525	775,364	490,525
Operating expenses					
Purchase of goods and changes in inventories	2	233,210	159,328	233,210	159,328
Staff costs	3	76,398	45,557	76,398	45,557
Depreciation and amortisation	4	24,956	14,831	24,956	14,831
Rental expenses	5	75,782	55,298	75,782	55,298
Other operating expenses	6	111,647	57,891	111,647	57,891
Total operating expenses		521,993	332,905	521,993	332,905
Profit from operations	7	253,371	157,620	253,371	157,620
Finance income / (finance cost)	8	(20,200)	9,446	(20,200)	9,446
Share of profit from associate		25	0	25	0
Profit from operations before income tax		233,196	167,066	233,196	167,066
Income tax	9	53,041	49,855	53,041	49,855
Net profit for the year		180,155	117,211	180,155	117,211
Attributable to:					
Equity shareholders of the parent	10	160,477	103,185	160,477	103,185
Minority interest		19,678	14,026	19,678	14,026

UNAUDITED CONSOLIDATED BALANCE SHEET

	As at 31 March 2007 <i>(Unaudited)</i> RMB'000	As at 31 December 2006 <i>(Audited)</i> RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	767,698	749,923
Investment properties	226,052	227,368
Lease prepayments	428,780	431,550
Intangible assets	689,424	689,565
Investment in an associate	2,239	2,214
Investment deposit	51,007	—
Other assets	103,800	107,408
Entrusted loan	120,000	—
Held-to-maturity investments	1,546,840	1,561,740
Deferred tax assets	<u>45,376</u>	<u>45,460</u>
 Total non-current assets	 <u>3,981,216</u>	 <u>3,815,228</u>
CURRENT ASSETS		
Inventories	114,187	109,904
Trade receivables	25,173	18,489
Prepayments, deposits and other receivables	283,906	259,492
Cash and cash equivalents	<u>3,066,941</u>	<u>3,271,366</u>
 Total current assets	 <u>3,490,207</u>	 <u>3,659,251</u>
CURRENT LIABILITIES		
Interest-bearing bank loans	(49,000)	(83,886)
Trade payables	(855,329)	(871,618)
Customers' deposits, other payables and accruals	(606,339)	(611,097)
Tax payable	<u>(119,142)</u>	<u>(113,518)</u>
 Total current liabilities	 <u>(1,629,810)</u>	 <u>(1,680,119)</u>
 NET CURRENT ASSETS	 <u>1,860,397</u>	 <u>1,979,132</u>
 TOTAL ASSETS LESS CURRENT LIABILITIES	 <u>5,841,613</u>	 <u>5,794,360</u>

	As at 31 March 2007 (Unaudited) RMB'000	As at 31 December 2006 (Audited) RMB'000
NON-CURRENT LIABILITIES		
Interest-bearing bank loans	(1,500,000)	(1,607,027)
Long term payables	(94,443)	(93,994)
Senior guaranteed notes	(1,513,366)	(1,526,806)
Deferred tax liabilities	<u>(246,323)</u>	<u>(247,050)</u>
Total non-current liabilities	<u>(3,354,132)</u>	<u>(3,474,877)</u>
NET ASSETS	<u>2,487,481</u>	<u>2,319,483</u>
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	57,445	57,436
Reserves	<u>2,343,050</u>	<u>2,170,151</u>
	2,400,495	2,227,587
Minority interests	<u>86,986</u>	<u>91,896</u>
TOTAL EQUITY	<u>2,487,481</u>	<u>2,319,483</u>

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three-month period ended 31 March 2007

	Attributable to equity holders of the parent										
	Issued share capital	Share premium	Contributed surplus	PRC reserve funds	Exchange reserve	Share option reserve	Assets revaluation reserve	Retained earnings	Total	Minority interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	57,436	798,644	154,442	87,320	3,481	—	224,245	902,019	2,227,587	91,896	2,319,483
Exchange realignment	—	—	—	—	(3,691)	—	—	—	(3,691)	—	(3,691)
Total income and expense for the period recognised directly in equity	—	—	—	—	(3,691)	—	—	—	(3,691)	—	(3,691)
Profit for the period	—	—	—	—	—	—	—	160,477	160,477	19,678	180,155
Total income and expense for the period	—	—	—	—	(3,691)	—	—	160,477	156,786	19,678	176,464
Transfer to the PRC reserve funds	—	—	—	207	—	—	—	(207)	—	—	—
Equity-settled share option arrangements	—	—	—	—	—	12,693	—	—	12,693	—	12,693
Employee share options exercised	9	3,622	—	—	—	(202)	—	—	3,429	—	3,429
Dividends of subsidiaries	—	—	—	—	—	—	—	—	—	(24,588)	(24,588)
At 31 March 2007 (Unaudited)	<u>57,445</u>	<u>802,266*</u>	<u>154,442*</u>	<u>87,527*</u>	<u>(210)*</u>	<u>12,491*</u>	<u>224,245*</u>	<u>1,062,289*</u>	<u>2,400,495</u>	<u>86,986</u>	<u>2,487,481</u>

* These reserve accounts as at 31 March 2007 comprise the consolidated reserves of RMB2,343,050,000 in the interim condensed consolidated balance sheet for the three-month period ended 31 March 2007.

For the three-month period ended 31 March 2006

	Attributable to equity holders of the parent										
	Issued share capital	Share premium	Contributed surplus	PRC reserve funds	Exchange reserve	Share option reserve	Assets revaluation reserve	Retained earnings	Total	Minority interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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
Exchange realignment	—	—	—	—	(6,143)	—	—	—	(6,143)	—	(6,143)
Total income and expense for the period recognised directly in equity	—	—	—	—	(6,143)	—	—	—	(6,143)	—	(6,143)
Profit for the period	—	—	—	—	—	—	—	103,185	103,185	14,026	117,211
Total income and expense for the period	—	—	—	—	(6,143)	—	—	103,185	97,042	14,026	110,068
Transfer to the PRC reserve funds	—	—	—	1,467	—	—	—	(1,467)	—	—	—
Dividends of subsidiaries	—	—	—	—	—	—	—	—	—	(17,722)	(17,722)
At 31 March 2006 (Unaudited)	<u>57,436</u>	<u>1,024,964</u>	<u>154,442</u>	<u>45,423</u>	<u>9,317</u>	<u>—</u>	<u>—</u>	<u>586,340</u>	<u>1,877,922</u>	<u>88,750</u>	<u>1,966,672</u>

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

	For the three-month period ended 31 March	
	2007	2006
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash inflow from operating activities	119,357	41,854
Net cash outflow from investing activities	(157,019)	(2,539)
Net cash outflow from financing activities	<u>(163,072)</u>	<u>(54,773)</u>
Net decrease in cash and cash equivalents	(200,734)	(15,458)
Cash and cash equivalents at beginning of period	3,271,366	2,080,407
Exchange differences	<u>(3,691)</u>	<u>(6,143)</u>
Cash and cash equivalents at end of period	<u><u>3,066,941</u></u>	<u><u>2,058,806</u></u>

Notes to Income Statement

1. Operating Revenues

	For the three-month period	
	ended 31 March	
	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Direct sales	279,258	189,376
Commissions from concessionaire sales	368,683	233,319
Consultancy and management service fees	10,591	7,952
Rental income	37,102	23,115
Other operating revenues	<u>79,730</u>	<u>36,763</u>
Operating revenues	<u>775,364</u>	<u>490,525</u>
Direct sales	279,258	189,376
Concessionaire sales	<u>1,848,643</u>	<u>1,166,555</u>
Total merchandise sales	2,127,901	1,355,931
Others (including consultancy and management fees		
Rental income and other operating revenues)	127,423	67,830
Total gross sales proceeds	<u>2,255,324</u>	<u>1,423,761</u>
Promotion income	15,647	9,441
Credit card handling fees	25,518	6,127
Display space leasing fees	7,892	5,264
Administration fees	8,576	3,317
Service fees	—	390
Government grants	3,402	3,410
PRC tax compensations	3,553	—
Other income	<u>15,142</u>	<u>8,814</u>
Other operating revenues	<u>79,730</u>	<u>36,763</u>

During the period under review, the Group generated a total gross sales proceeds received or receivable of RMB2,255.3 million (comprises of direct sales, sales proceeds from concessionaire sales, rental incomes, consultancy and management service fees and other operating revenues). Total gross sales proceeds for the period represent a growth of 58.4% or RMB831.6 million from RMB1,423.8 million reported in the same period of last year primarily due to i) the strong SSS growth of approximately 19.8% ii) the inclusion of the sales performances of the 44% Beijing Parkson's minority interest and the 100% Kunming Stores acquisition which was completed in the month of July 2006 and November 2006 respectively. The growth was also partly contributed by the change in tax requirement which resulted in a change of recognition method for certain of the other operating revenues receivable from the concessionaires. Specifically, prior to July 2006, the practice was to recognize such other operating revenues after deducting the corresponding expenses incurred in relation to the revenues. However, the practice has changed since then, where the Group now recognized in full such revenues receivables and the corresponding expenses will also be reflected in full in the other operating expenses.

The combined merchandise sales of our Beijing Parkson flagship store and the Shanghai Ninesea flagship store during the period contributed approximately 29.6% to our total merchandise sales, a drop of 4.6% compared to 34.2% for the full of last year.

The Group generated total merchandise sales of approximately RMB2,127.9 million. The concessionaire sales contributed approximately 86.9% and the direct sales contributed the balance of 13.1%. The Fashion & Apparel category made up approximately 49.0% of the total merchandise sales, the Cosmetics & Accessories category contributed approximately 29.3%, the Household & Electrical category contributed approximately 9.0% and the balance of approximately 12.7% came from the Groceries and Perishables category.

Commission rate from concessionaire sales remain flat at 19.9% and the direct sales margin improved marginally by 0.6% to 16.5% compared to the same period last year.

Total operating revenues of the Group for the period under review grew by RMB284.8 million to RMB775.4 million or 58.1% from the numbers reported in the same period of last year. The impressive growth rate was in line with the growth of the total gross sales proceeds.

2. Purchase of goods and changes in inventories

The purchase of goods and change in inventories refer to the cost of sales for the direct sales. In line with the increase of direct sales, the cost of sales increased to RMB233.2 million, an increase of RMB73.9 million or 46.4% from RMB159.3 million recorded for the same period of last year. The increase was however partially offset by the improved gross margin of direct sales.

3. Staff cost

Staff costs increased by RMB30.8 million or 67.7% to RMB76.4 million, the increase was primarily contributed by i) the inclusion of full year employee share option cost of RMB12.7 million for the share options granted and vested during the period, additional options will only be vested in the first quarter of next year ii) the additional staff cost from the 44% Beijing Parkson and Kunming Stores acquisition which was completed in the month of July 2006 and November 2006 respectively.

As a percentage to total operating revenues, the staff cost increased marginally by 9.9% due to the aforesaid reasons.

On 10 January 2007, a total of 8,188,950 share options were granted to 482 eligible employees of the Company at nil consideration and with an exercise price of HK\$36.75 per share pursuant to an employee share option scheme. Further details of the share options granted are set out below:

The share options	Exercise period	Number of share options granted	Number of share options exercised	Number of share options outstanding at 31 March 2007
Lot 1*	24 January 2007 to 23 January 2010	5,955,600	94,800	5,860,800
Lot 2*	2 January 2008 to 1 January 2011	2,233,350	—	2,233,350
		<u>8,188,950</u>	<u>94,800</u>	<u>8,094,150</u>

* Grant date: 10 January 2007

The fair value of the options granted is estimated at the date of grant using a Black-Scholes-Metron option pricing model, taking into account the terms and conditions upon which the options were granted. The 5,955,600 share options granted under Lot 1 are exercisable from 24 January 2007 to 23 January 2010 and have no other vesting conditions. The 2,233,350 share options granted under Lot 2 are exercisable from 2 January 2008 to 1 January 2011 and required an employee service period until 2 January 2008.

4. **Depreciation and amortisation**

Depreciation and amortisation increased by RMB10.1 million or 68.3% to RMB25.0 million, the increase was primarily contributed by the depreciation and amortisation cost of the 44% Beijing Parkson and 100% Kunming Stores acquisition which was completed in the month of July 2006 and November 2006 respectively. In particular, the additional depreciation and amortisation cost from the Beijing Parkson flagship store that owned part of the buildings that it currently occupied.

As a percentage to total operating revenues, depreciation and amortisation cost increased marginally by 0.2% to 3.2% from 3.0% reported for the same period of last year due to the aforesaid reasons.

5. **Rental expenses**

Rental expenses increased by RMB20.5 million or 37.0% to RMB75.8 million. The increase was largely due to the inclusion of additional rental cost from the 44% Beijing Parkson and 100% Kunming Stores acquisition which was completed in the month of July 2006 and November 2006 respectively. The increase was also partly due to the increase payment of contingent rent for the performance related lease agreements.

As a percentage to total operating revenues, the rental expenses dropped to 9.8%, downed 1.5% from the same period of last year in line with the management's expectation.

6. **Other operating expenses**

Other operating expenses which consist of mainly the utilities cost, marketing and promotional cost, credit card handling expenses, property management cost and general administrative cost rose by RMB53.8 million or 92.9% to RMB111.6 million due primarily to the change in tax requirement which resulted in an increased recognition of other operating expenses previously discussed in Note 1 above. The increase was also partly contributed by the 44% Beijing Parkson and 100% Kunming Stores acquisition which was completed in the month of July 2006 and November 2006 respectively.

As a percentage to operating revenues, other operating expenses ratio was 14.4%, increased by 2.6% due to the aforesaid reasons.

7. **Profit from Operation**

Profit from operations increased to RMB253.4 million, an improvement of RMB95.8 million or 60.7%, this is generally in line with the growth of operating revenues. Profit from operations as a percentage to operating revenues also improved marginally to 32.7% from 32.1% recorded in the same period of last year, this is due to the improved operating efficiency of the stores.

8. Finance income/(cost)

	For the three-month period ended 31 March	
	2007 (Unaudited) RMB'000	2006 (Unaudited) RMB'000
Finance income:		
Interest income from held-to-maturity investments	37,889	—
Bank interest income	14,303	13,091
Interest income from loans receivable	<u>1,407</u>	<u>1,365</u>
	<u>53,599</u>	<u>14,456</u>
Finance costs:		
Interest expenses on senior guaranteed notes	31,998	—
Interest expenses on bank loans and other loans, wholly repayable within five years	<u>41,801</u>	<u>5,010</u>
	<u>73,799</u>	<u>5,010</u>
Net finance income/ (cost)	(20,200)	9,446

In November 2006, we implemented a financing arrangement which includes issuance of high yield notes, a subscription of a credit link notes with the proceeds of the high yield notes and drawdown of on shore commercial loans (collectively “Structure Financing”) to obtain funding for our operating entities in the People’s Republic of China for business expansion. As a result, we suffered a net interest expense of RMB20.2 million for the quarter ended 31 March 2007 compared to net interest income of RMB9.4 million for the same quarter of last year.

9. INCOME TAX

The Group’s income tax expense increased by RMB3.2 million or 6.4% in line with the increase in profit from operations. The increase was however partly offset by the lower effective tax rate of 22.7%, a decline of 7.1% from 29.8% recorded for the same period of last year due to the inclusion of higher amount of non taxable interest income, increase number of stores with preferential tax rate and an one off refund of approximately RMB10.1 million of paid income tax to certain stores that were granted preferential tax rate during the quarter to 31 March 2007.

10. Profit attributable to the Company

As the result of the foregoing, profit attributable to the Company increased to RMB160.5 million, an increase of RMB57.3 million or 55.5% from RMB103.2 million recorded for the same period of last year.

By Order of the Board
PARKSON RETAIL GROUP LIMITED
Cheng Yoong Choong
Managing Director

Hong Kong, 18 May 2007

As at the date of this announcement, Mr CHENG Yoong Choong and Mr CHEW Fook Seng are the executive directors of the Company, Tan Sri CHENG Heng Jem is the non-executive director of the Company and Mr YAU Ming Kim, Robert, Mr STUDER Werner Josef and Mr KO Tak Fai, Desmond are the independent non-executive directors of the Company.

Please also refer to the published version of this announcement in South China Morning Post.