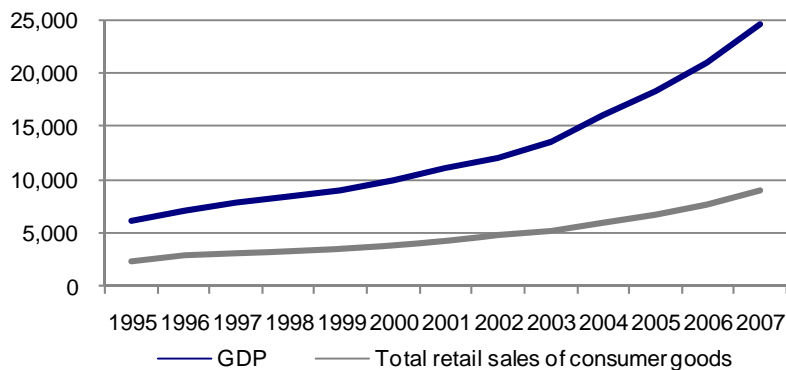


Key points:

- Mid-teen growth rate of China's retail sector.
- Nationwide presence with a well-established brand.
- Targeting the middle to upper-middle market.
- Around 15.0% annual floor area increase planned.
- Concessionaire rate to stay stable.

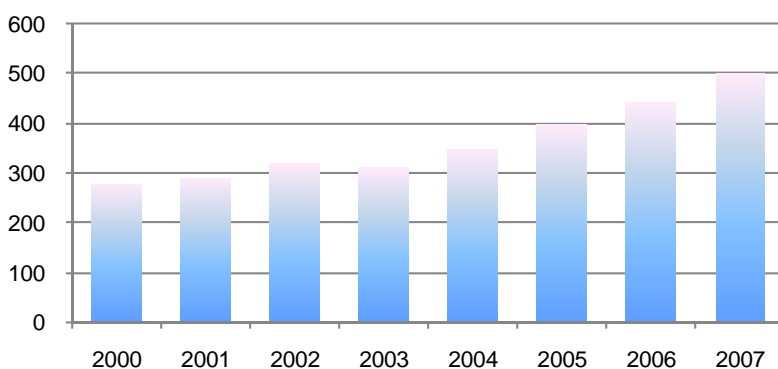
Industry overview. Buoyed by strong economic growth, China's mass retail market surged over the past decade. The market size of department stores rose from RMB277bn in 2000 to RMB498bn in 2007 and we expect the momentum to remain robust (mid-teen growth rate), given the country's economic expansion, efforts to boost domestic consumption and department stores' competitiveness in fashion products.

Chart 1: China's GDP and retail market growth (RMBbn)



Source: National Bureau of Statistics

Chart 2: Market size of department stores in China (RMBbn)



Source: Euromonitor

China Retail

Mon, 07 Apr 2008

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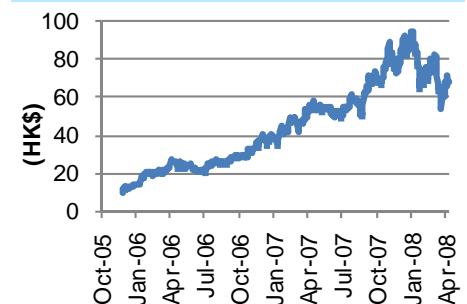
Stock data

Price	HK\$68.80
12 mth range	HK\$46.00-96.00
Market cap.	US\$4,927.9m
No. shares o/s	557.3m
Daily t/o, 3 mth	US\$18.0m
Free float %	46.4%
Major shareholder	Cheng Heng Jem – 53.5%
Ticker	3368.HK/3368 HK

Financial summary

Year to Dec	07A
Yield (%)	0.9
ROE (%)	28.1
Net gearing (%)	4.1
Net debt/sh. (RMB)	0.193
BV/sh. (RMB)	5.00
Consensus EPS (RMB)	
- 12/08F	1.722
- 12/09F	2.290

Price Chart



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Business summary. Established in 1994, Parkson Retail is a retail arm of Malaysia-based Lion Group, operating mainly department stores in China. The company targets the mid-to-upper-mid market, focusing on fashionable lifestyle products, in particular ladies' fashion and cosmetics. By end-2007, it had 41 stores (29 self-owned and 12 managed) in 26 cities.

Competitive strength. Parkson's strength comes mainly from its renowned brand, nationwide network and favorable market position. The first two factors boost the company's bargaining power with concessionaires, while the last one allows it to benefit from China's booming middle-class consumer spending.

Table 1: Hong Kong-listed Chinese department stores

	Parkson	Golden Eagle	Intime	New World
Ticker	3368 HK	3308 HK	1833 HK	825 HK
Gross sales in 2007 (RMBm)	9,003.4	4,858.1	1,549.8 **	4164.4 ***
Number of stores	29 *	10	8	18*
Operating regions	Nationwide	Jiangsu, Yunnan, Shanxi	Zhejiang	Nationwide

Source: Company data

* excluding stores operated under management agreements

** interim figure for 1H FY12/07A

*** in the Hong Kong dollar

Growth drivers. Other than the market's organic growth momentum, which has been largely reflected in Parkson's same-store sales growth each year (18.4% in FY12/07A), the company expands by extending its sales network in China. It plans to increase its floor space by around 15.0% each year. In 2008, it will open at least five new stores and acquire up to four stores, one to two from its parent and the rest from competitors.

Margin trend. Concessionaire sales accounted for 82.8% of total gross sales in FY12/07A and the effective commission rate was 20.3%, down 0.2pcp YoY. The concessionaire rate may come under pressure due to new stores coming on stream and adjustments in the company's merchandise mix to include more premium brands. The management expects the overall rate to remain steady as concessionaire rates in green stores improve.

Main risks. Inflation could be a short-term concern. The company has yet to see any impact but admits that ultimately inflation could hurt its sales. In our view, other risks may come from the operating side.

Corporate governance. The company went to public via a global offering in Nov 2005 at HK\$9.80 per share. Three placements (Aug 2006, Jan 2008 and Mar 2008) were priced at HK\$24.20 (44.2m shares), HK\$78.66 (8.0m shares) and HK\$71.00 (14.2m shares), respectively. Substantial shareholders include Cheng Heng Jem (53.5%), JP Morgan (11.3%) and Deutsche Bank (7.5%).

Valuation. The counter is trading at HK\$68.80, representing 50.8 multiples of FY12/07A EPS or 36.0x one-year forward, based on consensus estimates, which is the highest among HK-listed peers. .

Table 2: Valuation comparison

Company	Ticker	Fiscal year-end	Mkt cap (US\$m)	Consensus P/E (x)	
				1-yr forward	2-yr forward
New World Department Store	825 HK	06/2008	1,917.8	36.9	26.3
AEON	984 HK	12/2007	538.0	15.8	13.0
Lifestyle	1212 HK	12/2007	3,991.3	27.4	24.9
Intime	1833 HK	12/2006	1,337.1	26.6	20.1
Golden Eagle	3308 HK	12/2007	1,681.6	25.7	19.7
Parkson	3368 HK	12/2007	4,927.9	36.0	27.1
Hefei Department Store	000417 CH	12/2006	465.1	74.3	54.9
Beijing Hualia	000882 CH	12/2006	294.2	n.a.	n.a.
Guangzhou Friend	000987 CH	12/2006	965.6	37.4	27.8
Shanghai Bailian	600631 CH	12/2007	2,061.3	31.7	24.0
Dashang Group	600694 CH	12/2007	1,753.9	28.8	22.6
Yinzuobohai	600858 CH	12/2006	735.0	50.8	38.5
Beijing Wang Fu Jing	600859 CH	12/2006	2,039.0	58.9	38.7
Average				37.5	28.1
- HK				28.1	21.8
- China				47.0	34.4

Source: Bloomberg

Table 3: P&L

Year to Dec (RMBm)	05A	06A	07A
Gross sales	3,308.0	6,168.7	9,003.4
Sales of goods - direct sales	441.2	758.0	1,044.1
Commission from concessionaire sales	577.5	1,027.1	1,511.5
Rental income	65.5	115.2	138.8
Consultancy and management service fees	47.7	41.7	32.6
Other operating revenues	82.7	242.0	332.7
Total operating revenues	1,214.6	2,184.0	3,059.7
Purchases of goods and changes in inventories	(363.5)	(632.3)	(865.7)
Staff costs	(120.3)	(196.6)	(268.2)
Depreciation and amortization	(64.1)	(88.7)	(113.8)
Rental expenses	(103.9)	(227.1)	(324.8)
Other operating expenses	(165.8)	(331.4)	(470.7)
Profit from operations	397.1	707.9	1,016.5
Finance income / (cost), net	8.4	23.5	(73.8)
Share of profit from an associate	0.5	0.5	0.5
Profit from operations before income tax	406.1	732.0	943.3
Income tax	(131.8)	(218.8)	(215.5)
Net profit for the year	274.2	513.2	727.8
Attributable to:			
Equity holders of the parent	248.0	460.8	676.0
Minority interests	26.2	52.4	51.8
EPS - basic (RMB)	0.55	0.83	1.22
EPS - diluted (RMB)	n.a.	n.a.	1.22
Dividend	143.5	231.8	332.6

Source: Company data