



FINANCIAL REVIEW

Analysis of profit excluding impact of IPO and convertible bonds

	2006 RMB'000	2005 RMB'000
As reported (Continuing operations)	231,997	225,954
Add:		
Administrative expenses directly linked to IPO	18,211	—
Fair value changes on embedded financial derivatives	24,816	—
Interest expenses on convertible bonds	15,272	—
Less:		
Interest income from listing proceeds of IPO	(28,006)	—
	<u>262,290</u>	<u>225,954</u>

Excluding the impact of IPO and convertible bonds, profits attributable to the shareholders of the Company's Continuing Business grew to about RMB262.3 million for the year 2006, a growth of about 16.1% or RMB36.3 million from that of the year 2005. The growth is mainly contributed by the growth in both the gross sales proceeds and turnover of the Group which is analyzed as below:

Gross sales proceeds and turnover

The gross sales proceeds ("GSP") of the business operations of the Group, namely the Company and Goldjoint Group Limited, and the business operation of Nanjing Xinjiekou Store, Nantong Store, Yangzhou Store, Suzhou Store, Xuzhou Store, Xi'an Store, Xi'an Gaoxin Store and Taizhou Store (the "Continuing Business" and the stores themselves, the "Stores") grew to about RMB3,577.0 million for the year 2006, representing a growth of about 25.1% or RMB718.3 million from that of the year 2005. The growth was mainly contributed by the same store growth of about 22.5% and the increase in daily unit area sales of about 5.7% for the year 2006. Nanjing Xinjiekou Store (the flagship store of the Group), Yangzhou Store and Xuzhou Store, being the Stores that experienced the highest same store growth of about 16.3%, 28.6% and 40.9% respectively for the year 2006. By enhancing the merchandise mix of the Stores and strengthening the promotional activities during the year 2006, the Group enjoyed an impressive growth in terms of GSP.

Regarding the contribution to GSP by the Stores during the year 2006, Nanjing Xinjiekou Store remained the highest contributor and contributed about 50.3% or RMB1,799.1 million of the total GSP. Yangzhou Store and Xuzhou Store contributed about 16.9% and 16.2% of the total GSP, compared to 16.5% and 14.4% in 2005, respectively. Yangzhou Store and Xuzhou Store are still growing rapidly and as a result of the increased contributions by the Yangzhou Store and the Xuzhou Store, the contribution to GSP by Nanjing Xinjiekou Store as a percentage of the GSP has decreased during the year 2006 from 54.0% in 2005.

During the year 2006, concessionaire sales of the Continuing Business contributed about 90.2% (2005: about 89.0%) of the GSP and direct sales contributed about 9.4% (2005: about 10.8%) of the GSP.

The commission rate for concessionaires of the Continuing Business was about 18.7% for the year 2006 (2005: about 19.0%). The commission rate was about 21.9% (2005: about 22.2%) of GSP (exclusive of value-added tax). The Directors intend to maintain the commission rate by conducting periodic review to enhance and strengthen the merchandise mix with a view to provide better shopping experience for the customers and to strengthen the Group's business. Hence, the average commission rate for concessionaires remained stable when compared with that of the year 2005.

Turnover of the Continuing Business increased by about RMB160.0 million or 21.6%, from about RMB739.8 million in the year 2005 to RMB899.8 million in the year 2006. The increase in turnover was in line with the increase in GSP.

Management Discussion and Analysis

Cost of sales

Cost of sales of Continuing Business represented the cost of goods sold under the direct sales method. It was increased by about RMB22.1 million or 10.7% from about RMB207.0 million in the year 2005 to about RMB229.1 million in the year 2006. The increase was generally in line with the increase in direct sales in the year 2006.

Selling expenses

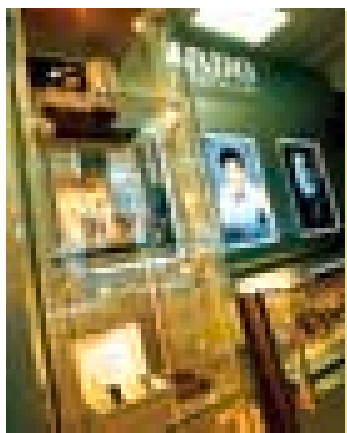
Selling expenses of the Continuing Business increased by about RMB59.0 million, or 51.3%, from about RMB115.1 million in the year 2005 to about RMB174.1 million in the year 2006. The increase was mainly due to the increase in rental expenses of the Xi'an Gaoxin Store, the increase in advertising expenses for the introduction of the 2 new stores in year 2006 and the increase in promotional activities in old stores in order to attract more customers with an ultimate goal to increase the GSP for the year.

Administrative expenses

Administrative expenses of the Continuing Business increased by about RMB63.1 million, or 76.1%, from about RMB82.9 million in the year 2005 to about RMB146.0 million in the year 2006. The increase in administrative expenses was mainly due to the one-off expenses for the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in March 2006 (the "Listing"), the foreign exchange loss and the strengthening of the operation of the Xi'an Store and the opening of the Xi'an Gaoxin Stores, Taizhou Store and Shanghai Golden Eagle Industries Limited during the year 2006 which all required the employment of additional human resources.

Other operating income

Other operating income of the Continuing Business increased by about RMB46.2 million or 152%, from about RMB30.3 million in the year 2005 to about RMB76.5 million in the year 2006. The increase was mainly due to the interest income from the additional capital received from the Listing and issue of convertible bonds.



Finance cost

The interest expenses of the Continuing Business increased by about RMB4.9 million or 13.8% from about RMB35.4 million in the year 2005 to about RMB40.3 million in the year 2006. The increase in interest expenses was mainly due to the effective interest expense (for accounting purposes only) on convertible bonds of about RMB15.3 million in the year 2006. Except the impact on convertible bonds, the interest expenses decreased by about 29.4% due to the decrease in bank borrowings.

Taxation

The increase in taxation charge for the year 2006 was mainly due to the increase in the profit before taxation of the Company and non tax deductible expenses, such as the impact on convertible bonds. The applicable income tax rate for the Group during the year was 33%.

Profit for the year

Profit for the year of the Continuing Business increased by about RMB2.1 million or 0.9%, from about RMB227.5 million in the year 2005 to RMB229.6 million in the year 2006. The increase was negatively impacted by the IPO and convertible bonds. Excluding the above impact, profit for the year would have increased by about RMB32.4 million, representing an increase of 14.2%.

Net current assets/liabilities

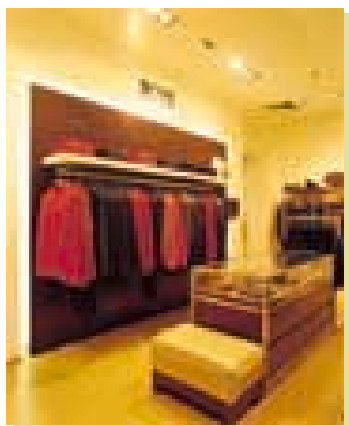
The net current liabilities position has been improved to a net current asset position after the Listing, from a net current liabilities of about RMB336.9 million in the year 2005 to net current asset of about RMB6.6 million in the year 2006. The improvement from net current liabilities to net current assets was mainly due to the operating cash flow generated during the year 2006.



Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

During the year, the Group's source of funding was cash generated from operating activities, proceeds from the Listing and issue of convertible bonds. As at 31 December 2006, the Group's bank balances and cash in hand were about RMB1,099.2 million (2005: RMB219.6 million) whereas all the short term and long term bank loans were fully settled during the year 2006. The issue of convertible bonds led to an increase in long term liabilities of RMB 796.8 million in the year 2006 (2005: Nil).



CONTINGENT LIABILITIES

As at 31 December 2006, the Group had no material contingent liabilities.

PLEDGE OF ASSETS

As at 31 December 2006, no property, plant and equipment of the Group were pledged to secure general banking facilities of the Group (2005: about 803.9 million).

FOREIGN EXCHANGE RISKS

Most of the Group's revenues and operating costs were denominated in Renminbi. As the proceeds from the Global Offering were received in Hong Kong Dollars, the Group is exposed to foreign exchange risks. For 2006, the Group has recorded a net exchange loss of about RMB15.0 million. The Group's operating cash flow or liquidity is not subject to any exchange into fluctuations. The Group did not enter into any foreign exchange hedging arrangements as at 31 December 2006.

SEGMENT INFORMATION

The Group's Continuing Business engages in the development and operation of a stylish premium department store chain in the PRC and hence no geographical segment information is presented.



EMPLOYEES

As at 31 December 2006, the Company had about 2,300 employees. Staff remuneration is paid in accordance with relevant policies in Hong Kong and the PRC. Other corresponding benefits include MPF (Mandatory Provident Fund) contribution, share option scheme, pension, unemployment insurance, housing fund, etc.

GEARING RATIO

As at 31 December 2006, the total assets of the Group amounted to about RMB3,015.2 million (2005: RMB2,033.5 million) whereas the bank borrowings and convertible bonds of the Group amounted to about RMB796.8 million (2005: RMB931.8 million). The gearing ratio was about 26.4%, decreased substantially from about 45.8% as at 31 December 2005.