

FINANCIAL REVIEW

Results for the year

The profits attributable to the shareholders of the Company's continuing operation (the "Continuing Business") grew to about RMB225.9 million for the year 2005, a growth of about 145.7% or RMB133.9 million from that of the year 2004. The growth is mainly contributed by the growth in both the gross sales proceeds ("GSP") and turnover of the Continuing Business, and the opening of the Xi'an Store, which is analyzed as below.

Gross sales proceeds and turnover

The GSP of the Continuing Business grew to about RMB2,858.7 million for the year 2005 which represents the growth of about 35.7% or RMB751.7 million from that of the year 2004 while the turnover of the Continuing Business experienced a growth of about 53.6% for the same corresponding year. The significant growth was mainly contributed by the same store growth in the year 2005. Nanjing Xinjiekou Store (the flagship store of the Group), Yangzhou Store and Xuzhou Store, being the Group's leading stores in terms of same store growth, experienced a growth rate of about 27.7%, 35.3% and 68.5% respectively in the year 2005. By enhancing the merchandise mix of the stores of the Group (the "Stores") and the strengthening of promotion activities during the year 2005, the Group enjoyed an impressive growth in terms of GSP.

Regarding the contribution to GSP by the Stores for the year 2005, the highest contributor remains to be the Nanjing Xinjiekou Store which contributed about 54.0% (2004: 57.4%) or RMB1,544.7 million to the total GSP of the Group. Yangzhou Store and Xuzhou Store contributed about 16.5% (2004: 16.5%) and 14.4% (2004: 11.6%) to the total GSP of the Group. Yangzhou Store and Xuzhou Store are still fast growing and ramping up quickly. As a result of the contributing by the Stores other than Nanjing Xinjiekou Store, the contribution to GSP by Nanjing Xinjiekou Store as a percentage of the GSP has decreased in the year 2005.

During the year 2005, concessionary sales of the Continuing Business contributed about 90% (2004: about 90%) to the total GSP and direct sales contributed about 10% (2004: about 10%) to the total GSP. It maintains to be the Group's strategy to have the ratio in such neighbourhood in order to minimise the risk of having obsolete inventories and the tidying up of working capital.

The commission rate for concessionaires of the Continuing Business was about 19% (2004: 16%). The commission rate was about 22% (2004: 19%) when value-added tax is excluded from the GSP. Based on the performance of the suppliers and concessionaires of the Group, the Group conducts periodic review to enhance and strengthen the merchandise mix with a view to providing a better shopping experience for the customers. Hence, the average commission rate for concessionaires increased when comparing with that of the year 2004.



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 increased by about 33.9% or RMB52.4 million, from about RMB154.6 million in the year 2004 to RMB207.0 million in the year 2005. The increase was in line with the increase in direct sales in the year 2005.

Staff cost

Staff cost of the Continuing Business increased by about 8.5% or RMB2.7 million, from about RMB31.3 million in the year 2004 to RMB33.9 million in the year 2005. The increase in staff salaries was mainly due to the annual increment and the opening of Xi'an Store in July 2005 which additional human resources have been employed since then.

Depreciation

Depreciation of the Continuing Business decreased by about 1% or RMB0.3 million, from about RMB31.2 million in the year 2004 to about RMB30.8 million in the year 2005. Depreciation remained at a similar level for both the year 2005 and 2004 as there was no significant movement in the property plant and equipment of the Group during such years.

Promotional expenses

Promotional expenses of Continuing Business increased by about 27.3% or RMB5.2 million, from about RMB19.2 million in the year 2004 to RMB24.4 million in the year 2005. The increase was mainly due to the increase in promotional activities for attracting more business. The promotional expenses was maintained at about 0.9% to the GSP of the Continuing Business for both year 2005 and 2004.

Other operating income

Other operating income of the Continuing Business increased by about 253.7% or RMB21.7, million from about RMB8.6 million in the year 2004 to RMB30.3 million in the year 2005. The increase was mainly due to the interest income received from the fellow subsidiaries of the Group which was fully repaid before the listing of the Company.

Profit from operation

Profit from operation of the Continuing Business increased by about 133.2% or RMB208.5 million, from about RMB156.5 million in the year 2004 to about RMB365.0 million in the year 2005. The increase was mainly due to the increase in turnover which outpaced the increase in operating expenses.



MANAGEMENT DISCUSSION AND ANALYSIS

Finance cost

The interest expenses of the Continuing Business increased by about 30.1% or RMB8.2 million, from about RMB27.2 million in the year 2004 to RMB35.4 million in the year 2005. The increase in interest expenses was mainly due to the increase in bank borrowings in the year 2005.

Taxation

The increase in taxation from about RMB37.9 million in the year 2004 to RMB102.1 million in the year 2005 was in line with the increase in the profit before taxation of the Company. 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 149.1% or RMB136.2 million, from about RMB91.3 million in the year 2004 to RMB227.5 million in the year 2005. The increase was mainly due to the increase in turnover which outpaced the increase in operating expenses.

Net current assets/ liabilities

The net current liabilities of the Continuing Business decreased by about 68.4% or RMB729.1 million, from about RMB1,066.1 million as at 31 December 2004 to RMB336.9 million as at 31 December 2005. The improvement in net current liabilities was mainly due to the amount owed by the fellow subsidiaries of the Group was recorded as an "amount due from fellow subsidiaries" in the current assets of the Group after the reorganisation as mentioned in note 1 to the combined financial statements. In addition, the Group had reduced some of its short term bank borrowings and drawn down long term bank borrowings. As a result, the long term bank borrowings increased from about RMB140 million as at 31 December 2004 to about RMB280 million as at 31 December 2005. Upon the Listing in March 2006, the bank balances were increased by the net proceeds from the listing of about HK\$1 billion. The Group continues to improve the financing structure and according to the unaudited management accounts of the Group as at 31 March 2006, the short term bank borrowings had been lowered to about RMB410 million from about RMB651.8 million as at 31 December 2005 which include the repayment of about RMB208 million by the proceeds. Besides, the long term bank borrowings were also increased from about RMB280 million as at 31 December 2005 to about RMB408 million as at 31 March 2006. Together with the operating cash flow generated during the first quarter of 2006, based on the unaudited management accounts of the Group as at 31 March 2006, the net current liabilities position as at 31 December 2005 had been improved to a net current assets position as at 31 March 2006.



MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

During the year, the Group's source of fund was cash generated from operating activities and bank borrowings. As at 31 December 2005, the Group's bank balances and cash in hand were about RMB219.6 million (2004: RMB102.7 million) whereas the short term bank borrowings were about RMB651.8 million (2004: RMB697.6 million) and long term bank borrowings were about RMB280.0 million (2004: RMB140.0million).

PLEDGE OF ASSETS

As at 31 December 2005, certain property, plant and equipment of the Group with carrying value of about RMB803.9 million were pledged to certain lending banks for securing general banking facilities of the Group.

FOREIGN EXCHANGE EXPOSURE

During the year 2005, all the operations of the Group were denominated in RMB. The Group did not have any hedging or other arrangement in relation to this currency.

SEGMENT INFORMATION

The Group's Continuing Business was engaged in the development and operation of a stylish premium department store chain in the PRC during the year 2005 and hence no geographical segment information is presented. Details of the segment information on the business segments of Continuing Business and discontinuing businesses are set out in note 6 to the combined financial statements.

EMPLOYEES

As at 31 December 2005, the Group had about 2,200 employees. Employees' remunerations are paid in accordance with relevant policies in the PRC. Appropriate salaries and bonuses are paid which are commensurate with the actual practices of the Group. Other corresponding benefits include pension, unemployment insurance, housing allowance, etc.

GEARING RATIO

As at 31 December 2005, the total assets of the Group amounted to about RMB2,033.5 million (2004: RMB1,191.1 million) whereas the bank borrowings amounted to about RMB931.8 million (2004: RMB837.6 million). The gearing ratio was about 45.8%, decreased substantially from about 70.3% as at 31 December 2004.

