FINANCIAL REVIEW

Analysis of profit excluding the impact of the convertible bonds

	2008 RMB'000	2007 RMB'000
As reported	**617,693**	385,735
Excluding the effects of:		
Changes in fair value of derivative financial instruments	**(74,071)**	14,890
Effective interest expense on convertible bonds	**81,444**	80,477
Exchange realignment on convertible bonds	**(48,606)**	(57,337)
	576,460	423,765

Excluding the impact of the convertible bonds, profit attributable to shareholders of the Company achieved a year-on-year growth of approximately 36.0% or RMB152.7 million for the year 2008. The growth was mainly driven by the growth in revenue and other operating income for the year 2008.

GSP and revenue

GSP of the Group grew to approximately RMB6,249.0 million, representing a year-on-year increase by approximately 28.6% or RMB1,390.7 million. The growth was mainly contributed by approximately 21.5% same store sales growth, the inclusion of the full year sales performance of the new stores opened in the year 2007 and the sales performance of the new stores opened in the year 2008. Despite of the high base comparison, Nanjing Xinjiekou Store (the flagship store of the Group), Yangzhou Store and Xuzhou Store all maintained double digit same store sales growth of approximately 14.3%, 21.8% and 26.8% respectively for the year 2008.In addition, younger stores like Xi'an Gaoxin Store and Taizhou Store, with less than 3 years of operation, have became the new driving force of the Group's sales growth and recorded same store sales growth of approximately 77.4% and 59.5% respectively for the year 2008.

Regarding the contribution to GSP by stores during the year 2008, Nanjing Xinjiekou Store remained the largest contributor which contributed approximately 41.8% or RMB2,609.9 million of the total GSP. As a result of the contribution to GSP from stores with less than 24 months of operation increased from 0.9% to 6.4% for the year 2008, the contribution to GSP from Nanjing Xinjiekou Store decreased from 47.0% to 41.8% for the year 2008.

During the year 2008, concessionaries sales contributed approximately 92.6% (2007: 92.2%) of the Group's GSP or increased from RMB4,478.7 million to RMB5,786.7 million and direct sales contributed approximately 7.0% (2007: 7.5%) of the Group's GSP or increased from RMB362.6 million to RMB438.5 million. The commission rate for concessionaires sales increased slightly to approximately 20.7% (2007: 20.6%). The Directors intend to maintain stability of commission rate by conducting periodic review and enhancing the merchandise mix according to the changing consumption demand.

In terms of percentage to GSP by product categories, apparel and accessories contributed approximately 57.3% of the GSP; merchandises in gold, jewellery and timepieces contributed approximately 14.1%, comestics contributed approximately 6.9% and the remaining categories including tobacco and wine, household and electronic appliances, sportswear, children's wear and toys contributed the remaining 21.7%. The contribution proportion of GSP by category is similar to the same period of year 2007.

For the year 2008, the Group's total revenue increased to approximately RMB1,432.1 million, representing a year-on-year increase by approximately 29.3% or RMB324.5 million. The increase in revenue was generally in line with the GSP growth. The revenue to cost of sales ratio remained stable at approximately 77.9% (2007: 78.1%) for the year 2008.

Cost of sales

Cost of sales represented the cost of goods sold under the direct sales business model. During the year under review, cost of sales of the Group increased by approximately RMB74.4 million, or 30.7% to approximately RMB316.8 million. The increase was generally in line with the increase in direct sales for the year 2008.

Selling and administrative expenses

Selling and administrative expenses increased by approximately RMB114.8 million, or 31.9% to approximately RMB474.4 million for the year 2008. Increase in selling and administrative expenses was mainly due to the costs incurred for opening of two new stores during the year, Huai'an Store and Yancheng Store which were opened in August and December 2008 respectively, and the inclusion of the full year operating costs of the new stores opened in the year 2007.

Excluding the expenses incurred due to the aforesaid reasons, selling and administrative expenses increased by approximately RMB30.7 million or 9.0% as a result of the increase in revenue. Selling and administrative expenses to GSP ratio remained stable at approximately 7.6% for the year 2008, a 0.2 percentage point increase as compared to 7.4% last year.

Other income

Other income of the Group increased to approximately RMB210.9 million, representing a year-on-year increase by 12.3%, or approximately RMB23.1 million for the year 2008. The improvement was mainly due to the increase in income generated from the Group's investments in interest bearing instruments of approximately RMB43.0 million or 165.0% , where the Group placed its surplus capital in short-term entrusted loans arranged by a bank, and increase in income from suppliers of approximately RMB25.8 million or 135.6% which is in line with the increase in GSP.

The increase was partly offset by the decrease in government grants of approximately RMB32.9 million or 67.2% due to the decrease in reinvestment incentives granted by local government towards dividends received and reinvested by the Group and the decrease in gains arising from changes in fair value of held-for-trading investments of approximately RMB17.3 million or 56.7%.

Finance costs

The Group's finance costs represent the effective interest expense (for accounting purposes only) of the convertible bonds which was approximately RMB81.4 million for the year 2008. Other than the effective interest expense relating to the convertible bonds, no other interest expense was paid during the period under review.

Taxation

The income tax expense of the Group increased by approximately RMB14.4 million or 6.8% to approximately RMB226.7 million due to the increase in profit before income tax. The effective income tax rate during the year 2008 was 26.8%, representing a decrease of approximately 8.7 percentage points as compared to 35.5% last year. The decrease was mainly due to the reduction of PRC Enterprise Income Tax rate from 33% to 25% for the majority of the Company's subsidiaries located in the PRC from 1 January 2008 onwards.

Profit for the year

Profit attributable to shareholders of the Company grew to approximately RMB617.7 million for the year 2008, representing a growth of approximately 60.1% or RMB232.0 million from that of last year. The net profit margin was increased to approximately 43.1% from 34.8% last year which was mainly due to the growth in revenue and the gain arising from changes in fair value of derivative component of the convertible bonds.

Capital expenditure

Capital expenditure of the Group during the year amounted to approximately RMB632.7 million (2007: RMB61.7 million). The increase was mainly resulting from the constructions of two greenfield projects, Huai'an Store and Yancheng Store, and the upgrade of certain retail spaces of the Group during the year in order to further enhance the shopping environment.

LIQUIDITY AND FINANCIAL RESOURCES

The Group relies mainly on cash flows generated from its operating activities as a primary source of liquidity. As at 31 December 2008, the Group's bank balances and cash were approximately RMB2,040.6 million (2007: RMB1,747.9 million) and structured bank deposit was RMB50 million (2007: Nil) whereas the convertible bonds amounted to approximately RMB852.8 million (2007: RMB820.0 million).

The total assets of the Group as at 31 December 2008 amounted to approximately RMB4,770.6 million (2007: RMB3,926.6 million) whereas the total liabilities amounted to approximately RMB3,076.9 million (2007: RMB2,590.1 million), resulting in a net assets position of RMB1,693.7 million (2007: RMB1,336.5 million). The increase was mainly contributed by the net profit generated during the year. The gearing ratio, calculated by total bank borrowings and convertible bonds over total assets of the Group was decreased to approximately 17.9% (2007: 20.9%) at the end of the year 2008.

During the year, the liability component of the convertible bonds had been reclassified as current liabilities from non-current liabilities, in accordance with the requirements of HKAS 1 "Presentation of Financial Statements", as the bondholders may exercise their early redemption option on 23 October 2009 to redeem the convertible bonds at 115.8% of the principal amount. The remaining unredeemed amounts will be reclassified to non-current liabilities subsequent to 23 October 2009 and on the subsequent balance sheet date as of 31 December 2009. Management had carefully considered the liquidity of the Group and consider that the Group has sufficient liquid assets generated from its operations to enable the Group to meet in full its financial obligations as they fall due in the foreseeable future after taking into consideration the cash inflows to be generated from its operations, bank balances and cash on hand, the structured bank deposit and the available unutilised banking facilities and reserved borrowing facilities.

CONTINGENT LIABILITIES

As at 31 December 2008, the Group had no material contingent liabilities.

PLEDGE OF ASSETS

As at 31 December 2008, no property, plant and equipment of the Group was pledged to secure general banking facilities of the Group (2007: Nil).

FOREIGN EXCHANGE EXPOSURE

Certain bank balances and cash and convertible bonds of the Group are denominated in Hong Kong dollar which exposed the Group to foreign exchange risks. For the year ended 31 December 2008, the Group recorded a net foreign exchange gains of approximately RMB47.0 million (2007: RMB41.4 million).

The Group has not entered into any foreign exchange hedging arrangements as at 31 December 2008 and the Group's operating cash flows is not subject to any exchange fluctuation.

EMPLOYEES

As at 31 December 2008, the Group employed a total of approximately 3,200 employees (2007: 2,900) with aggregate remuneration of approximately RMB129.3 million (2007: RMB113.1 million). The Group's remuneration policies are formulated according to market practices, experiences, skills and performance of individual employee and will be reviewed every year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the year 2008, the Company repurchased 43,367,000 ordinary shares on the Stock Exchange at a total consideration of approximately HK$181.0 million (equivalent to approximately RMB159.5 million).

Subsequent to the year end date, the Company repurchased 6,629,000 ordinary shares on the Stock Exchange at a total consideration of approximately HK$32.7 million (equivalent to approximately RMB29.1 million).

The repurchases were effected by the Directors for the enhancement of shareholders' value. All the repurchased shares were cancelled upon repurchase.