## OVERVIEW

We are a rapidly-growing department store group in China with an emphasis on high-end and luxury products, which are generally targeted at high-income earners. We position the majority of our stores in the market by offering a more sophisticated, upscale shopping experience consistent with the branding and image of the high-end and luxury merchandise in our stores. As at the Latest Practicable Date, we operate or provide management consultancy services to sixteen department stores and one outlet mall in Beijing and seven provinces in China. Among these, nine are our self-owned stores and we provide management consultancy services to the remaining seven department stores and one outlet mall. We own the properties on which three of the self-owned stores are located and have entered into leases or store cooperation agreements for the other six self-owned stores, including Scitech Plaza in Beijing, which we lease from our Controlling Shareholders. Our self-owned store operations include eight "巴黎春天" branded department stores and one "Scitech" branded department store. Our managed store operations include one store in each of Xiamen and Xian, five in the Guizhou province and one outlet mall in Beijing. Our managed store in Xiamen is a "PCD" branded store, and this store as well as our managed store in Xian use the "Fleur de Lys" logo. The Beijing Scitech Premium Outlet Mall, to which we provide management consultancy services, also uses the "Fleur de Lys" logo. Two of our managed stores, Guiyang Guomao and Guiyang Nanguo Huajin, are in the process of rebranding and we expect these stores to start using the "Fleur de Lys" logo. Our other managed stores do not use the "Fleur de Lys" logo. Four of the seven department stores and one outlet mall to which we provide management consultancy services are operated by connected persons of our Group and the remaining three managed stores are operated by Independent Third Parties.

Since January 1, 2006, our network of self-owned stores has increased from four to nine stores. The new additions include our PCD stores in Xiamen, Qingdao, Changchun, Nanning, as well as Scitech Plaza in Beijing. Since January 1, 2006, the total gross floor area at our self-owned stores has increased from approximately 66,485 sq.m. to approximately 192,527 sq.m. Our revenue and net profit in the year ended December 31, 2008 were RMB717.8 million and RMB174.1 million, respectively, representing an increase of 43.3% and 28.5% from revenue and net profit of RMB500.9 million and RMB135.5 million, respectively, in the year ended December 31, 2007. Our revenue and net profit for the six months ended June 30, 2009 were RMB358.9 million and RMB124.1 million, respectively. Scitech Plaza, a well-known shopping center in Beijing, is our major contributor of revenue and net profit. For the six months ended June 30, 2009, our audited consolidated revenue and net profit attributable to Scitech Plaza were RMB185.4 million and RMB73.2 million, respectively, which constituted approximately 51.7% and 59.0% of our total revenue and net profit, respectively, for the same period.

Our department stores and outlet mall primarily target China's high-income earners, with the majority of our stores positioned as high-end and luxury department stores that offer a diverse collection of international branded goods under one roof and provide those customers a pleasant shopping experience in convenient locations. As of June 30, 2009, we carried over 1,600 brands in our self-owned stores, including Armani Collezioni, Burberry, Cartier, Ermenegildo Zegna, Hugo Boss, Ralph Lauren and Ports 1961, and we offered an extensive range of merchandise that can be broadly categorized into the following:

- Ladies' fashion
- Men's fashion
- Jewelry, watches, leather goods, accessories
- Sports wear and shoes
- Jeans, kidswear, underwear
- Cosmetics
- Household goods and others

Our principal business strategy is to bring Chinese consumers luxury and high-end merchandise that is tailored to local market preferences, by operating flagship department stores throughout China that offer a pleasant shopping environment under the PCD brand. Our flagship stores are situated in affluent Chinese cities that we believe offer promising market potential in long-term sustainable consumer spending power and growth. We establish flagship stores through purchasing, leasing or entering into long-term store cooperation agreements for prime sites. In seeking sites for our stores, we look principally for existing department stores with strong, established customer traffic located in established retail areas, coupled with the potential for us to transfer or upgrade the property significantly by refurbishing, re-positioning, optimizing brand mix or making significant operational improvements.

We earn our revenue primarily through concessionaire sales, which accounted for 69.8% and 64.8% of our total revenue for the year ended December 31, 2008 and for the six months ended June 30, 2009, respectively. Concessionaire sales refer to arrangements under which we allow suppliers of branded goods (namely concessionaires) to occupy designated areas of our stores and sell their merchandise. In return, we receive a commission, generally expressed as a percentage of their gross sales proceeds, from the concessionaires. In line with industry practice in China, we sell all of our cosmetics products through direct sales to customers. Our direct sales accounted for 22.9% and 23.0% of our total revenue for the year ended December 31, 2008 and for the six months ended June 30, 2009, respectively. We also provide management consultancy services to seven department stores and one outlet mall pursuant to management agreements. Revenue from management fees accounted for approximately 3.4% and 8.1% of our total revenue for the year ended December 31, 2008 and for the six months ended June 30, 2009, respectively.

We also provide retail space at certain of our self-owned stores to businesses that are typically not associated with department stores but which complement our high-end retail business. This is done through both subleases and concessionaire arrangements. For example, our Scitech Plaza store has agreements with food suppliers that offer premium grocery products. In addition, we sublease space in some of our self-owned stores to businesses which we believe complement our retail business such as restaurants.

## OUR COMPETITIVE STRENGTHS

We believe the following are our key competitive strengths:

### Highly experienced and competent management team with a successful track record of establishing, integrating and operating department stores

We have a highly experienced and competent senior management team comprising industry veterans with extensive expertise in China's retail industry, well-established relationships with widely known international and domestic brands and a track record of integrating additional stores into our network. Our senior management team has contributed significantly to our success, including in the following areas:

- ***China retail experience.*** The Chan Family acquired the PORTS brand of luxury apparel and accessories in 1989 and introduced PORTS Products into China in 1993. Experience gained in developing PORTS Products provides us with expertise in the retail market for internationally recognized luxury products. The management has built up a strong track record of successfully operating in the Chinese retail market, and has placed us in a competitive position to sell luxury goods in the Chinese market. We have well-established relationships with various participants in the PRC retail industry and possess in-depth knowledge of operating retail business in various Chinese cities.

- ***Well-established relationships with well-known brands.*** With the experience in and knowledge of China's retail industry, we have developed solid relationships with various well-known international and domestic brands. We believe the highly experienced management team and PCD's brand and reputation make us an attractive business partner for a wide variety of high-end and luxury brands, which enable us to offer a broad range of appealing merchandise in our stores.

- ***Track record for establishing, integrating, and operating department stores.*** We have demonstrated a track record of successfully establishing and integrating new stores into our Group. Our extensive knowledge of, and experience in, the Chinese retail market, obtained by the Chan Family through the PORTS business, have allowed us to effectively identify and integrate stores into our self-owned store network. For example, Scitech Plaza was added into our store network in July 2007 and underwent major revamp of its store layout, tenant mix and operation management. It has become a successful upscale department store in Beijing and our major revenue contributor. In addition, our understanding of Chinese consumer preferences for high-end and luxury brands and the variations of those preferences in different local markets have allowed us to adapt our business model to an evolving business environment and successfully expand into various regions of China. This also helps us to identify and effectively integrate additional stores to further drive our growth.

### Premium brand positioning in the Chinese high-end and luxury retail market

We have established a strong brand in the high-end retail market in several major cities in China. We believe our PCD brand and its positioning attract sustainable demand from customers with strong and growing spending power in various economic climates. We believe that the use of our distinctive "Fleur de Lys" logo as well as the "Fleur de Lys" logo which has the Chinese characters "巴黎春天" embedded in it will assist customers in differentiating our stores from other unaffiliated stores that also use the "巴黎春天" trade name. We engage in extensive brand-building activities, including launch parties and store visits by high-profile celebrities. We also offer exclusive VIP benefits and privileges, such as VIP lounges and bar areas and on-site personal shoppers and style consultants. Through our operations in the department store business, we are able to analyze a particular market and optimize the positioning of our department store in that market to further expand our market share in existing markets and target new markets and areas of the Chinese retail industry.

**Prime store locations with long-term market growth potential**

A prime location is a key factor for a successful retail operation. Our network covers major cities in China including Beijing, Xiamen, Xian, Changchun, Qingdao, Taiyuan, Nanning and Guiyang. A majority of our stores are located in commercial areas with high customer traffic, and the stores are highly visible and easily accessible to car and pedestrian traffic. As a result, we believe that our stores can continuously attract a high volume of consumers. Moreover, we generally only operate department stores in cities that we believe offer the most compelling growth prospects.

**Excellent customer service and loyal customer base**

Emphasis on provision of excellent customer service has enabled us to secure a group of loyal customers, which lays a solid foundation for our success in the long run. We work closely with our concessionaires and maintain a dedicated customer services team to provide high quality customer services. We establish a customer loyalty program in most of our stores through which customers who purchase a certain amount of merchandise enjoy discounts on future purchases and other benefits. See "Our Business — Marketing and Promotion — Customer Loyalty Program." The number of members in our customer loyalty program reached approximately 371,000 as of June 30, 2009, and sales to our customer loyalty program members accounted for approximately 51.0% of our total gross sales proceeds in the six months ended June 30, 2009. Furthermore, our information technology systems allow us to efficiently manage our customer loyalty program and engage in effective cross marketing based on our customers' historical purchases.

**Our broad network of operation helps to achieve economies of scale and to attract new brands**

Our network consists of sixteen department stores and one outlet mall in Beijing and seven provinces in China. Our broad network of operation enables us to attract highly regarded concessionaires and internationally recognized brands, negotiate favourable contract terms and establish close relationships with concessionaires and suppliers. It also enhances our ability to source in-demand products quickly. In addition, our broad network of operation helps us achieve cost efficiency in corporate back-office staffing and investment of information technology, thus achieving economies of scale.

Furthermore, as more high-end and luxury brands consider entering the Chinese market, we believe that our extensive network of department stores across multiple locations in China provides an attractive retail platform for our concessionaires to rapidly expand into the PRC.

## OUR STRATEGIES

Our key strategy in building our department store business is to secure prime retail properties or existing department stores with established customer traffic, which are located in established retail areas and have the potential to implement operational improvements. We plan to secure these properties or store operations through property ownership, long-term leases or store cooperation agreements. We will then draw on our extensive experience and resource in the PRC department store industry to improve retail shopping environment, enhance the merchandise mix through optimizing brand offerings and build customer loyalty through our established VIP programs.

We intend to continue to expand our store network to become a dominant operator of high-end and luxury department stores and outlet malls. We aim to maximize shareholder value and pursue these overall strategies by:

### Continuing expansion through developing new flagship stores in prime locations

In the short to medium term, we will focus on securing prime department store sites, as we believe this will offer the highest rate of growth. As opening a new store may require significant time to generate desirable levels of customer traffic, we often seek out stores with established customer base in markets where we believe we can become dominant operators. Such markets are characterized by good prospects of local economic growth in terms of long-term sustainable spending power and a sufficient population pool to provide an established customer base.

As part of our expansion strategy, we seek out stores which would suit our business strategies and integration plan. After we identify a store with growth potential, we may seek to integrate the store into our self-owned store network or to provide management consultancy services to the store so that we can thoroughly and diligently evaluate its performance before we determine whether this store is suitable for integration. Once we take control of a store, we may consider re-branding the store after taking into account local sensibilities with respect to the previous owner's brand, if any.

In the long term, we want to become a dominant operator of high-end and luxury department stores in China. We prefer to grow only in cities where we believe we can become dominant operators, as opposed to opening single stores in multiple locations across China. Some of the cities we are currently considering for expansion include Beijing, Shanghai, Xian and Shenyang.

### Driving operational improvements to achieve full potential at existing sites

We will continue to improve the operational efficiency of the stores we add to our network to achieve full potential of these stores. We believe we can leverage both our senior management's experience in the Chinese department store market as well as our retail experience gained through PDL to manage the stores better than previous owners. For example, we believe that our broad knowledge of the Chinese market, particularly due to the Chan Family's experience with PORTS Products, helps us to negotiate favourable terms with our concessionaires. Additionally, we intend to make improvements by strengthening brand negotiation power to boost margins, maximizing net selling space in stores, optimizing the brand mix and developing other income streams such as credit cards.

**Expanding flagship stores**

We identify potential flagship stores in part on the basis that they are located on properties that have adjacent sites that can be potentially secured to expand the size and scale of our flagship stores in the future. For example, our Scitech Plaza flagship store is located next to space that may potentially be available for future expansion of that store. Although we cannot guarantee that future additions to our network will feature such adjacent space, the potential availability of such space is a factor in our decision when selecting store sites. As the Chinese market for luxury and high-end goods continues to grow, we intend to expand our existing flagship stores to meet new demand.

**Entering into outlet mall business**

We are expanding into the outlet mall business. We believe outlet malls with international offerings have strong appeal to Chinese consumers who look for branded products at good value, and those outlet malls also offer a solution to concessionaires looking for the right channel that matches their brand position to sell off-season inventory. Through the operation of outlet malls, we believe we can attract a new pool of customers and gradually convert them into regular shoppers at our high-end department stores. We can also capitalize on our existing brand relationships and capture downstream opportunities on off-season merchandise and build new brand relationships for our future expansion. We currently provide management consultancy services to the Beijing Scitech Premium Outlet Mall under a management contract, and we are studying plans to enter into the outlet mall business in other cities in China, including Shenyang and a site in the Shandong province.

## PROPERTIES

With respect to our nine self-owned stores, we own the properties on which PCD Zhongshan Lu, PCD Jiahe and PCD Qingdao are located, with an aggregate gross floor area of 49,868 sq.m. We lease or occupy pursuant to store cooperation agreements the premises on which our remaining six self-owned stores are located with an aggregate gross floor area of 142,659 sq.m. The properties we own are all subject to mortgages granted to relevant PRC banks in connection with our bank borrowings. The following table sets out certain information relating to the properties of our self-owned store operations at the Latest Practicable Date:

| Store | Property owned/ leased/SCA(1) | Date of ownership/ Expiry of lease term | City | Gross floor area(3) |
|---|---|---|---|---|
| | | | | *(sq.m.)* |
| PCD Zhongshan Lu . . | Owned | November 16, 2004 | Xiamen | 19,332 |
| PCD World Trade . . . | SCA | March 27, 2012 | Xiamen | 10,807 |
| PCD Taiyuan . . . . . . | SCA | February 28, 2015 | Taiyuan | 16,336 |
| PCD Continental . . . . | Leased(4) | October 31, 2013 | Xiamen | 20,001 |
| PCD Jiahe . . . . . . . . | Owned | August 20, 2005 | Xiamen | 11,449 |
| PCD Qingdao . . . . . . | Owned(2) | October 13, 2006 | Qingdao | 19,087 |
| PCD Changchun . . . . | SCA | November 30, 2021 | Changchun | 47,737 |
| Scitech Plaza . . . . . . | Leased(5) | June 30, 2019 | Beijing | 27,670 |
| PCD Nanning . . . . . . | SCA | January 2018 | Nanning | 20,108 |

Notes:

(1) SCA denotes store cooperation agreement.

(2) We also lease office space of gross floor area of 1,753 sq.m. on level 6 of the premises on which PCD Qingdao is located from two Independent Third Parties.

(3) All the GFA numbers reflected in the table above are limited to the areas which relate to the operation as a department store.

(4) We also lease office space of gross floor area of approximately 1,500 sq.m. on level 7 of the premises on which PCD Continental is located from an Independent Third Party.

(5) We also lease office space of gross floor area of 1,056 sq.m. on level M of the premises on which Scitech Plaza is located from Scitech Group.

## RISK FACTORS

### Risks relating to our business

- If we encounter difficulties in executing our expansion strategy, our growth prospects may be limited.

- Operating in the high-end and luxury market is inherently risky because it is a lower volume business and is subject to fluctuation in consumer tastes, spending power, general economic conditions and consumer sentiment.

- If we fail to make any of our recently established department stores profitable or manage our growth, our results of operations could be adversely affected.

- If we cannot find stores in suitable locations and on commercially acceptable terms, our growth prospects may be adversely affected.

- If we do not identify and offer attractive, high-end and luxury merchandise or do not foresee or adjust to frequently changing fashion trends and consumer demands and preferences, our operating results may be adversely affected.

- We are reliant on Scitech Plaza for a significant portion of our revenue and profit.

- If we do not integrate certain of our managed stores after the management contract period expires, our pace of expansion will be affected and our growth prospects will be limited.

- We may be exposed to certain litigation or reputational risks associated with providing management consultancy services and licensing our brand name or trademark to certain stores or outlet malls.

- We are exposed to funding risks, third party liability risks and other risks and liabilities associated with the development and construction of Xian Phase II and may be unable to complete the project on time.

- The expansion of our operations to the outlet mall business involves risks and our failure to manage such risks may delay or adversely affect our ability to generate anticipated revenues and may impede our overall growth strategy.

- As we derive substantially all of our revenue from the PRC, any downturn in the broader PRC economy may harm our business.

- Any failure to obtain relevant governmental approvals in relation to the Beijing Scitech Premium Outlet Mall may affect our management income and the value of the Outlet Mall Option.

- Any fundamental upgrade or repositioning of existing stores or stores that we take over carry inherent risks of losing the existing level of business.

- As we integrate additional stores into our Group, our financial performance and results of operation may be affected and we cannot be certain of the future profitability of the new stores.

- We rely on concessionaires for the substantial portion of our revenue.

- We rely on key direct sales suppliers for a substantial amount of our purchases.

- We rely on our VIP customers for a substantial portion of our sales. Any decrease in VIP sales may materially and adversely affect our business and results of operations.

- A sudden decrease in market demand for our cosmetics products may result in inventory build up or obsolescence.
- We depend heavily on our key personnel and our success also depends on our ability to attract and retain talented personnel.
- If any leases or store cooperation agreements for our existing department stores are terminated, or if we are unable to renew any of our leases or store cooperation agreements when they expire, our operating results may be adversely affected.
- Some of our leased properties lack requisite building ownership certificates and lease registrations and we may be required to relocate our stores.
- Our historical financials may be of limited value in assessing our performance or in giving an indication of our financial performance going forward.
- Our current liabilities exceeded our current assets and if we are unable to meet our liabilities as they become due, our business and financial condition will be materially and adversely affected.
- We have incurred a high level of debt over the Track Record Period.
- Our business relies on the proper performance of our information systems and any malfunction of the systems for an extended period could adversely affect our ability to operate.
- If we fail to obtain or renew the regulatory licenses, approvals and permits we are required to have for our operations, our existing operations may be interrupted and our expansion plans may be adversely affected.
- The issuance of prepaid gift cards by us may not be in compliance with the applicable PRC laws and regulations.
- Our practice of intra-group lending may not be in compliance with PRC regulations and we may be subject to penalties.
- Our right to use the "巴黎春天" (Ba Li Chun Tian) trade name is not exclusive or protected under PRC law outside the administrative areas where we had registered such trade name.
- Our limited insurance coverage may not be sufficient to cover the risks related to our operations.
- Our Controlling Shareholders may exert substantial influence over us and may not act in the best interests of our public shareholders.
- There can be no assurance that we will pay dividends in the future.
- Our profitability may be affected by annual revaluation of our investment property as required by IFRS.

- The valuation attached to our property interests contains assumptions that may or may not materialize.
- Our Controlling Shareholders' interest in us may be significantly reduced.

**Risks relating to the industry**

- We operate in a highly competitive market.
- China's accession to the WTO may result in an increase in competition in our industry.
- We may be subject to product liability claims relating to defective merchandise provided by concessionaires and, as a result, our reputation and operating results may be adversely affected.
- Seasonality and weather affect our sales.
- Merchandise sold in our department stores may be subject to third party intellectual property rights.
- As we derive substantially all of our revenue from the PRC, any downturn in the broader PRC economy may harm our business.

**Risks relating to the People's Republic of China**

- Political and economic policies of the Chinese government may affect our business and operational results and may result in our inability to sustain our growth and expansion strategies.
- Future fluctuations in foreign exchange rates and government control in currency conversion may adversely affect our financial condition and operational results, and our ability to remit dividends.
- Current tax policies providing us with preferential tax treatment may change.
- Dividends payable to us by our wholly-owned operating subsidiaries may be subject to PRC withholding taxes, or we may be subject to PRC taxation on our worldwide income. Dividends distributed to our investors may be subject to PRC withholding taxes under the new PRC tax law.
- There are uncertainties regarding the PRC legal system and the interpretation and enforcement of PRC laws.
- PRC regulations relating to acquisitions of PRC companies by foreign entities may limit our ability to acquire PRC companies and adversely affect the implementation of our strategy as well as our business and prospects.

- Any future epidemic or outbreak or occurrence of other unpredictable events may adversely affect our operational results.
- Our business may be harmed by power shortages in the PRC.
- Payment of dividends by our operating subsidiaries in China is subject to restrictions under PRC law.
- It may be difficult to effect service of process upon, or secure judgments against, our subsidiaries that are incorporated in the PRC.

## SUMMARY HISTORICAL FINANCIAL INFORMATION

You should read the summary historical consolidated financial information below in conjunction with Appendix I — "Accountants' Report," which has been prepared in accordance with IFRS. The summary historical consolidated statement of comprehensive income data for the financial years ended December 31, 2006, 2007 and 2008, and the six months ended June 30, 2008 and 2009, and the consolidated statement of financial position data as of December 31, 2006, 2007 and 2008, and June 30, 2009 set forth below have been derived from the "Accountants' Report" in Appendix I, which includes the consolidated financial information prepared by us and the opinion thereon issued by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

### Consolidated Statements of Comprehensive Income

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2008 | 2009 |
| | | | *(RMB in millions)* | | |
| | | | | *(unaudited)* | |
| **Revenue**[1] | 171.1 | 500.9 | 717.8 | 353.9 | 358.9 |
| Other Income[2] | 22.1 | 64.0 | 80.7 | 40.2 | 43.2 |
| Change in fair value of investment property | — | 20.8 | 10.0 | 20.0 | 20.0 |
| Purchase of and changes in inventories | (30.0) | (82.4) | (127.2) | (58.5) | (63.6) |
| Employee benefits expense | (23.5) | (87.0) | (115.9) | (61.8) | (47.5) |
| Depreciation and amortization | (14.9) | (22.1) | (30.5) | (14.2) | (16.1) |
| Operating lease rental expense | (25.1) | (71.9) | (96.2) | (47.9) | (47.7) |
| Other operating expenses | (42.6) | (139.4) | (141.1) | (67.7) | (61.1) |
| Finance costs | (3.0) | (26.4) | (49.3) | (24.3) | (23.7) |
| Profit before taxation | 54.1 | 156.5 | 248.3 | 139.7 | 162.4 |
| Income tax charge | (8.0) | (21.0) | (74.2) | (43.8) | (38.3) |
| **Profit for the year/period** | 46.1 | 135.5 | 174.1 | 95.9 | 124.1 |
| Attributable to: | | | | | |
| Owners of our Company | 45.5 | 135.1 | 173.8 | 95.8 | 123.8 |
| Minority interests | 0.6 | 0.4 | 0.3 | 0.1 | 0.3 |
| | 46.1 | 135.5 | 174.1 | 95.9 | 124.1 |

Notes:

(1) Revenue breakdown

| | Year ended December 31, | | | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2006 | | 2007 | | 2008 | | 2008 | | 2009 | |
| | *(RMB in millions)* | *(%)* | *(RMB in millions)* | *(%)* | *(RMB in millions)* | *(%)* | *(RMB in millions) (unaudited)* | *(%)* | *(RMB in millions)* | *(%)* |
| Commissions from concessionaire sales . | 113.9 | 66.6 | 364.3 | 72.7 | 500.7 | 69.8 | 253.5 | 71.6 | 232.6 | 64.8 |
| Sales of goods — direct sales . . . . . . . . . . . . | 37.8 | 22.1 | 105.4 | 21.0 | 164.5 | 22.9 | 76.2 | 21.5 | 82.7 | 23.0 |
| Management consultancy services income . . . . | 10.1 | 5.9 | 12.5 | 2.5 | 24.3 | 3.4 | 10.5 | 3.0 | 28.9 | 8.1 |
| Rental income. . . . . . . . | 9.3 | 5.4 | 18.7 | 3.8 | 28.3 | 3.9 | 13.7 | 3.9 | 14.7 | 4.1 |
| Total . . . . . . . . . . . . . . | 171.1 | 100.0 | 500.9 | 100.0 | 717.8 | 100.0 | 353.9 | 100.0 | 358.9 | 100.0 |

(2) Other income breakdown

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2008 | 2009 |
| | | | *(RMB in millions)* | | |
| | | | | *(unaudited)* | |
| Property management income . . . . | 3.9 | 14.8 | 15.8 | 8.1 | 7.7 |
| Advertisement and promotion administration income . . . . . . . | 3.0 | 16.0 | 26.6 | 11.1 | 17.3 |
| Display space leasing income . . . . | 2.5 | 7.1 | 8.6 | 5.2 | 2.8 |
| Interest income from a related party | — | 5.7 | — | — | 2.5 |
| Net foreign exchange gains. . . . . . | 3.8 | — | 0.6 | 0.8 | — |
| Bank interest income . . . . . . . . . . | 2.5 | 1.5 | 2.3 | 1.4 | 0.5 |
| Credit card handling income . . . . . | 0.3 | 6.1 | 13.0 | 6.6 | 6.1 |
| Others . . . . . . . . . . . . . . . . . . . . | 6.1 | 12.8 | 13.8 | 7.0 | 6.3 |
| Total . . . . . . . . . . . . . . . . . . . . . | 22.1 | 64.0 | 80.7 | 40.2 | 43.2 |

## Consolidated Statements of Financial Position

| | At December 31, | | | At June 30, |
|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **NON-CURRENT ASSETS** | | | | |
| Property, plant and equipment | 498,527 | 593,171 | 588,761 | 576,219 |
| Investment property | — | 480,000 | 490,000 | 510,000 |
| Land use rights | 20,343 | 19,583 | 66,430 | 65,424 |
| Goodwill | 2,008 | 2,008 | 2,008 | 2,008 |
| Long-term prepaid rentals | 14,637 | 63,675 | 43,353 | 39,078 |
| Deferred tax assets | — | 1,930 | 1,762 | 3,598 |
| Restricted bank balances | — | 12,000 | 12,000 | 12,000 |
| | 535,515 | 1,172,367 | 1,204,314 | 1,208,327 |
| **CURRENT ASSETS** | | | | |
| Inventories | 12,568 | 23,724 | 34,043 | 32,913 |
| Prepayments, trade and other receivables | 13,181 | 33,349 | 104,520 | 90,936 |
| Land use rights | 760 | 760 | 2,013 | 2,013 |
| Amounts due from related parties | 58,137 | 10,165 | 200,249 | 628,705 |
| Restricted bank balances | — | — | 11,500 | 11,500 |
| Bank balances and cash | 50,679 | 268,291 | 110,277 | 93,994 |
| | 135,325 | 336,289 | 462,602 | 860,061 |
| **CURRENT LIABILITIES** | | | | |
| Trade and other payables | 162,396 | 657,080 | 630,471 | 481,859 |
| Tax payable | 4,422 | 7,594 | 19,139 | 8,043 |
| Dividend payables | — | 78,348 | 1,250 | 1,250[(1)] |
| Bank borrowings — due within one year | 73,000 | 124,316 | 394,780 | 519,395 |
| Amounts due to related parties | 27,868 | 158,682 | 87,317 | 21,284 |
| | 267,686 | 1,026,020 | 1,132,957 | 1,031,831 |
| **NET CURRENT LIABILITIES** | (132,361) | (689,731) | (670,355) | (171,770) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | 403,154 | 482,636 | 533,959 | 1,036,557 |
| **NON-CURRENT LIABILITIES** | | | | |
| Bank borrowings — due after one year | 105,000 | 430,391 | 300,659 | 671,126 |
| Deferred tax liabilities | — | 71,557 | 79,766 | 87,778 |
| | 105,000 | 501,948 | 380,425 | 758,904 |
| **TOTAL ASSETS LESS TOTAL LIABILITIES** | 298,154 | (19,312) | 153,534 | 277,653 |
| **CAPITAL AND RESERVES** | | | | |
| Paid-in capital/share capital | 42,343 | 382 | 382 | 382 |
| Reserve | 254,339 | (21,611) | 152,204 | 276,038 |
| Equity attributable to owners of our Company | 296,682 | (21,229) | 152,586 | 276,420 |
| Minority interests | 1,472 | 1,917 | 948 | 1,233 |
| | 298,154 | (19,312) | 153,534 | 277,653 |

Note:

(1) The dividend payable of RMB1,250,000 has been paid by PCD Songbai Department Stores to Wuhan Electronics Co., Ltd. on November 27, 2009.

As at December 31, 2006, 2007 and 2008 and June 30, 2009, we had net current liabilities of approximately RMB132.4 million, RMB689.7 million, RMB670.4 million and RMB171.8 million respectively, as a result of current liabilities exceeding current assets as at those dates.

The net current liabilities position as at December 31, 2006, 2007 and 2008 and June 30, 2009 was primarily attributable to (i) the conversion of our current assets (such as cash) into long-term assets (such as real estate properties); and (ii) our taking advantage of the suppliers' credit period to partly finance our operation and utilizing short-term borrowings for establishment of new stores. This strategy has allowed us to expand our department store network and helped us create strategic value and improve profitability for the long run. One of the advantages for using short-term borrowings is because the interest rates for short-term borrowings are generally lower than that for long-term borrowings in the PRC. The nature of our business of operating department stores is such that the majority of our liabilities are short term, consisting mainly of trade and other payables, amounts due to related parties and short term bank borrowings, giving rise to our net current liabilities position. We carry little inventory as a majority of our department stores generate revenue by concessionaires. We also have limited receivables as we first collect cash and credit card payments from shoppers for most concessionaire and direct sales. The general practice in the department store industry in China is for department stores to pay for goods only after they are sold. We normally pay our concessionaires 30 days to 60 days after the beginning of the relevant month in which we sell their goods. We return unsold goods to our direct sales suppliers after three to four months following the date on which we receive the merchandise.

We historically have been able to service our short term bank loans primarily due to our strong operating cash inflows during the three years ended December 31, 2008 and our good credit history. We have not breached the repayment terms of any of our bank borrowings. We currently service our debts primarily through cash generated from operations and renewal of short-term bank borrowings. We have not experienced any difficulty in raising funds by rolling over the short-term loans borrowed from various commercial banks in China during the Track Record Period up to the Latest Practicable Date. Our gearing ratio, defined as total debt divided by total equity, was 4.5 and 4.3, respectively, as of December 31, 2008 and June 30, 2009. The high gearing ratio was largely due to approximately RMB625 million non-trade unsecured loans we extended to related parties. As of October 31, 2009, we have received the full repayment of such loans. We reduced our net current liabilities by discharging certain of the short-term bank loans using a portion of these proceeds. As a result, our total debt level has been reduced since June 30, 2009 and our gearing ratio was 1.8 as of October 31, 2009.

We have historically been able to discharge our short term liabilities as they fell due, and we expect to be able to continue to do so. However, there is no guarantee that we will be able to continue to do so. See "Risk Factors — Risks Relating to Our Business — Our current liabilities exceeded our current assets and if we are unable to meet our liabilities as they become due, our business and financial condition will be materially and adversely affected."

We have traditionally met our working capital and other capital requirements primarily from the net cash generated by operating activities, bank borrowings and credit taken from our concessionaires and direct sales suppliers.

As of June 30, 2009, we had credit facilities of RMB550.0 million, of which RMB249.3 million was unutilized.

## DIVIDEND AND DIVIDEND POLICY

We declared a special dividend of RMB78.3 million on October 31, 2007, which we paid on January 9, 2008 and April 3, 2008.

The payment and the amount of any dividends will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors which our Directors deem relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Companies Law, including the approval of shareholders. In addition, our Controlling Shareholders will be able to influence the approval by our shareholders in a general meeting for any payment of dividends.

Future dividend payments will also depend upon the availability of dividends received from our subsidiaries in China. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require foreign-invested enterprises, such as some of our subsidiaries in China, to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses or in accordance with any restrictive covenants in bank credit facilities, convertible bond instrument or other agreements that we or our subsidiaries may enter into in the future. Our wholly-owned subsidiaries, Dragon Talent and Well Power, are companies incorporated in Hong Kong and hold a 100% interest in PCD Real Estate (Xiamen) and Zhongshan PCD Stores (Xiamen) respectively, which in turn hold the equity interests in our PRC subsidiaries. If Dragon Talent and Well Power are considered non-resident enterprises for purposes of the New EIT Law, a withholding tax of no more than 5% would be imposed on dividends paid to us by our PRC subsidiaries and may reduce our net income as we derive all of our income from dividend payments made by our PRC subsidiaries. See "Risk Factors — Risks Relating to the People's Republic of China — Dividends payable to us by our wholly-owned operating subsidiaries may be subject to PRC withholding taxes, or we may be subject to PRC taxation on our worldwide income. Dividends distributed to our investors may be subject to PRC withholding taxes under the new PRC tax law."

Subject to the factors above, we currently plan to pay annual dividends of not less than 40% of our annual distributable profit attributable to owners of our Company, commencing with respect to the financial year ending December 31, 2009. The dividend payable of RMB1,250,000 as at June 30, 2009 has been paid by PCD Songbai Department Stores to Wuhan Huaxing on November 27, 2009. Cash dividends on our Shares, if any, will be paid in Hong Kong dollars. Other distributions, if any, will be paid to our shareholders by any means which our Directors deem legal, fair and practicable. See "Risk Factors — Risks Relating to Our Business — There can be no assurance that we will pay dividends in the future."

## PROFIT FORECAST FOR THE FINANCIAL YEAR ENDING DECEMBER 31, 2009

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