## RISKS RELATING TO OUR BUSINESS

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

Since we commenced operations in 2004, the number of stores we operate or to which we provide management consultancy services has increased to sixteen stores and one outlet mall as of the Latest Practicable Date. Among these, we operate nine department stores and provide management consultancy services to the remaining seven department stores and one outlet mall. We plan to continue expanding, primarily through developing new stores or integrating existing managed stores into our self-owned store network, as part of our ongoing business strategy. Our ability to expand depends on, among other things:

- our ability to identify, and the availability of, suitable strategic acquisition targets and joint venture partners;
- our ability to attract and reach agreement with potential acquisition targets on commercially reasonable terms;
- our ability to identify suitable flagship store properties and successfully enter into leases, management contracts or purchase agreements for these properties on commercially viable terms;
- the availability of financing to complete larger acquisitions or investments;
- our ability to successfully expand our outlet mall business;
- our ability to obtain all required governmental and third-party consents, approvals and permits; and
- our ability to effectively compete in the cities which both we and our major competitors may expand into.

We may not be able to achieve our planned expansion objectives. If we are unable to open stores in prime locations, whether by acquisition or lease, or through management contracts, our ability to grow our business and increase our revenue may be adversely affected. We cannot assure you that we will be able to expand by developing new stores or integrating existing managed stores into our self-owned store network. Some of our competitors may be more successful than us at expanding operations into new geographical markets in the PRC. Failure to effectively execute our expansion strategy would reduce our rate of growth, which could result in lost market share, a decline in revenue and reduced profitability.

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

The success of our department stores, particularly with respect to stores selling high-end and luxury fashion products, cosmetics and accessories, depends mainly on consumers' demand which is a function of their personal preferences, their shopping patterns, their disposable income, their confidence in the economy and many other factors beyond our control. There can be no assurance that our customers will continue to shop at our department stores. Any change in customer demand due to changes in economic conditions and consumer confidence could materially and adversely affect our operations and financial results. The recent global economic downturn has restrained consumer spending, which in turn has negatively affected sales at some of our stores. In addition, although the PRC economy has shown signs of recovery, there is no assurance that it can regain the rapid growth of the past. If the development of the PRC economy slows down in the long term, or the recent global economic recession continues, consumer spending may be further reduced potentially causing our overall financial results to be adversely affected.

**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.**

We have experienced rapid growth in the past by integrating existing, or establishing new, department stores. In general, however, it may take considerable time to integrate an existing store or develop a start-up operation. We cannot assure you that any particular addition to our store network in the future will produce the intended benefits. A number of factors could affect the ability of any newly added or established stores to achieve sales or profitability levels comparable to our existing stores, or to become profitable at all. Even if we are able to establish new operations, our success may be affected by our ability to, among other things:

- integrate the added business or joint venture enterprise, its personnel and corporate philosophy and culture into our operations;
- realize the benefits, if any, of the added business, the joint venture or investment;
- maintain adequate management and financial resources for expanded operations;
- attract and enter into commercially viable agreements with suitable concessionaires;
- position our stores in new geographical markets;
- adapt to the evolving competitive environment;
- improve our operational and management systems, including our information technology systems, to cover an expanded network of stores; and
- hire, train and retain skilled personnel, in particular key employees of an added business.

We may incur additional costs to restructure or re-position the newly added stores and higher costs as a percentage of sales for marketing, advertising and administration associated with the opening of new stores. We cannot assure you that we will be able to operate our newly added or established stores at a profitable level. Our ability to effectively integrate new stores into our operations will depend on our ability to continue to implement and improve our operational, financial and management information systems on a timely basis and to expand and train our management team. Any of these could strain our managerial, operational and financial resources. If we are unable to successfully integrate any added business or gain business synergies from our existing and newly added stores, our revenue, profitability, financial condition and results of operations may be adversely affected.

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

Our performance depends, to a significant extent, on the location of our stores. When selecting a site for a store, we take into account various factors, such as:

- whether it is located in a prime shopping district in a city with strong growth prospects;
- its convenience and accessibility to our target consumer demographics;
- the expected customer traffic;
- the size of the available space and whether adjoining land would be available suitable for future development; and
- the level of competition.

The supply of department stores in prime locations is scarce, and as a result, the competition to secure these properties is intense. Our ability to purchase or lease suitable properties on terms acceptable to us will be critical to the success of our expansion strategy. We cannot assure you that we will be able to identify and purchase or lease suitable properties on terms commercially acceptable to us. Moreover, our competitors may secure prime locations earlier and quicker than us. In the event that we encounter difficulties in securing suitable store sites, our growth prospects will 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.**

Fashion trends and consumer demands and preferences in the PRC are unpredictable, rapidly changing and depend upon various factors, including, among other things, global fashion and lifestyle trends, influence of celebrities, disposable income, consumer confidence in the economy and other factors beyond our control. As our stores seek to cater primarily to the trendy demographics in China, our success depends on our ability to identify fashion trends and anticipate and respond in a timely manner to constantly changing consumer demands and preferences. We cannot assure you that our choice of merchandise, or the choices of our concessionaires will accurately reflect the prevailing fashion trends or customer preferences at any given time. Consequently, we and our concessionaires must identify emerging fashion trends and consumer demands and anticipate trends and fashions which appeal to our customer base. Any failure on our or their part to identify, anticipate and respond effectively and in a timely manner to changing consumer demands and fashion trends could adversely affect our business.

In order to maintain the fashionable, high-end luxury image of our stores, we must continue to provide the merchandise that meets the taste and preferences of our target consumer group. Our ability to provide such merchandise, in turn, depends on our ability to attract and maintain qualified concessionaires who provide attractive merchandise. If we are unable to do so, we may not maintain our market image and our revenue may be adversely affected.

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

We operate Scitech Plaza pursuant to a 12-year lease with Scitech Group, which owns the Scitech Complex in which Scitech Plaza is located. The lease commenced on July 1, 2007. Renovations of Scitech Plaza were completed in the first half of 2008 and new international brands such as Burberry and Armani Collezioni commenced operations since then. Scitech Plaza has been rebranded with the trademark and PCD's VIP programs have been implemented. Please see "Our Business — Our Self-owned Store Operations — Scitech Plaza" and "Relationship with our ultimate Controlling Shareholders and Connected Transactions — Continuing Connected Transactions — (D) Properties leased by Scitech Group."

Scitech Plaza has been the major contributor to our revenue since its addition to our network. For the year ended December 31, 2008 and the six months ended June 30, 2009, our revenue from Scitech Plaza was RMB382.3 million and RMB185.4 million, respectively, which constituted approximately 53.2% and 51.7% of our total revenue for the same periods respectively.

We expect Scitech Plaza to continue to account for a significant portion of our revenue and profit going forward. Until we build up a larger network of stores, any circumstances that may adversely affect the operations or business of Scitech Plaza, or its attractiveness to customers or concessionaires, such as fire, water damage, terrorism, legal restrictions or other causes or factors, may have a material adverse impact on our results of operations.

**If we do not integrate certain of our managed stores, our pace of expansion will be affected and our growth prospects will be limited.**

As part of our expansion strategy, we seek out stores which would suit our business strategies and integration plan. After a store with growth potential is identified, we would discuss the potential of integration with the store's operator. In order for us to thoroughly and diligently evaluate the store, we may seek to provide management consultancy services to the store under a management agreement for a certain period of time. We believe this will allow us to make an informed assessment of the store and facilitate future integration. At the end of or during the term of the management agreement, if we believe that the store is suitable for integration into our self-owned store network, we would negotiate with the operator in respect of the terms thereof. If, for any reason, we do not integrate the managed stores that are potential integration targets, we may not be able to execute our expansion strategy and our growth prospects may 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.**

During the term of a management contract, suppliers and customers may associate our PCD or Scitech brand with the managed store or outlet mall under management. We may be exposed to reputational or litigation risks associated with providing management consultancy services to certain stores. For example, after the New Age Laiya department store in Xiamen closed as a result of its owner's financial difficulties, certain concessionaires named PCD Songbai Department Stores as one of the defendants in their actions for payment collection. We are vigorously defending the suit. See "Our Business — Legal Compliance and Litigation — Legal proceedings." As a result of the publicity surrounding the closure of the New Age Laiya department store, the Laiya brand name was negatively affected in Xiamen. We may be subject to litigation or reputational risks associated with providing management consultancy services in the future. If, for instance, the relevant management contracts are terminated as a result of any such litigation, our financial performance and results of operations may be adversely affected. As a retailer emphasizing on high-end and luxury products, we are highly dependent on our reputation and consumer perception. Any negative publicity associated with our brand name or stores may adversely affect our reputation and thus our sales, results of operations and business prospects.

**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.**

In January 2008, we, through our subsidiary Xian Century Changan Property Investment, acquired the land use rights to a parcel of land located adjacent to PCD Xian with an area of approximately 5,565.6 sq.m. for a consideration of RMB49.8 million (the "Land Premium"). The Land Premium has been fully paid by us and we have obtained the relevant land use right certificates. We subsequently undertook with a third party developer to jointly develop a complex of 26 floors, which will include retail, commercial and hotel components with a total gross floor area of approximately 120,000 sq.m. on the land ("Xian Phase II"). The third party developer will be responsible for the construction of the entire complex. The total construction costs for Xian Phase II are estimated to be approximately RMB900 million, of which we will be responsible for the construction costs for the retail portion of the complex in the amount of approximately RMB735 million. The third party developer will be responsible for the remaining construction costs. Upon completion of the construction, which is expected to be in the second quarter of 2010, we intend to lease the department store in the retail portion of the complex to Mei Mei, an Independent Third Party, and provide management consultancy services to Mei Mei in relation to this store until December 31, 2011, and thereafter operate the department store as a self-owned store. See "Our Business — Our Managed Store Operations — Xian Phase II" for further details.

Under our contract with the relevant government agency which granted the land use rights for Xian Phase II to us, we are required to complete the development and construction of the site before December 13, 2010, a period which is extendable for up to one year if agreed to by the grantor (the "Completion Date"). Whether we can successfully complete the development and construction on time, however, depends on a number of factors, such as our ability and the third party developer's ability to fund the project and the ability to obtain the requisite permits or approvals, some of which are beyond our control. Our PRC legal advisers have advised us that if we fail to complete the development of the project on time we may be subject to a penalty of 0.1% of the Land Premium per day starting from the day after the Completion Date.

Of our total funding commitment of approximately RMB735 million for the construction of the retail portion of the project, there is no assurance that we will be able to finance our funding commitment from internal or external sources. Further, the timely completion of the project also depends on the third party developer's ability to obtain adequate financing for the construction costs that it is responsible for. If it fails to obtain the necessary financing, we may have to absorb the additional funding requirements, which may impose significant strains on our cash flow, working capital and financial resources, or delay the completion of the project.

The development and construction of Xian Phase II will also expose us to risks and liabilities typical for a property developer. We do not have any experience in property development and construction and will therefore have to rely heavily on the third party developer to complete the construction of this project. The third party developer may, among other things, experience delays in obtaining the necessary construction, completion or inspection certificates or licenses from government agencies, fail to ensure construction meets adequate standards of quality, fail to progress construction in accordance with the scheduled timetable, fail to adhere to the planned specifications of the construction, or experience serious construction accidents resulting in injuries or delays.

In addition, there is no assurance that the operation of the department store will be successful. If construction of the commercial and hotel areas within the complex is delayed or the operations of these areas are not successful, the image of the store and foot traffic in the store may be negatively impacted. Further, we may have disagreements with the third party developer which may impede the successful development and construction of Xian Phase II or may have an adverse effect on the operation of the department store. The occurrence of these events may materially and adversely affect our business, financial conditions and results of operations.

**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.**

Our growth strategy contemplates our entry into the outlet mall business. The outlet mall sector is relatively new in China and its acceptance among Chinese consumers is uncertain. There are very few local outlet mall operators in China, and, to the knowledge of the Directors, established outlet mall operators from Europe and North America have not currently been able to enter this market in China. As a result, there is a shortage of industry knowledge and experienced management in this sector in China.

(i) *Beijing Scitech Premium Outlet Mall*

We began to provide management consultancy services to Beijing Scitech Premium Outlet Mall in July 2009 pursuant to a management contract. However, there are risks associated with entering into a new business field and there is no assurance that Beijing Scitech Premium Outlet Mall will succeed at this stage. We have an option to acquire Even Time, the indirect holder of 100% equity interest in Beijing Scitech Outlet Commerce, which is the current operator of the Beijing Scitech Premium Outlet Mall, for a consideration that equals the lower of (i) the cost of investment incurred by our Controlling Shareholders in Even Time and its subsidiaries and (ii) the prevailing fair market value of Even Time as determined by an independent firm of international valuers. See "Relationship with our ultimate Controlling Shareholders and Connected Transactions — Beijing Scitech Premium Outlet Mall." However, there is no guarantee that we will exercise this option.

(ii) *Shandong Outlet Mall*

We are reviewing a site in Shandong province and are conducting a study together with the owner of the land use rights for the site, an Independent Third Party, on the feasibility of establishing an outlet mall on this site. On October 16, 2009, we entered into a five-year consultancy services agreement with the owner of the site. The consultancy agreement may be terminated by either party on the payment of RMB500,000 by the party terminating the contract to the other party. We may decide to continue to provide consultancy services to the site owner for the remainder of the term of the current agreement, or seek to renegotiate with the site owner to operate the outlet mall directly or to provide management and consultancy services in respect of the outlet mall based on a different scope of services and/or remuneration structure, or enter into some other arrangement altogether with the site owner. There is no guarantee that we or the site owner will reach agreement to establish an outlet mall on the site, or that we will operate or manage such outlet mall or otherwise continue to remain involved with this project on a longer term basis. See "Our Business — Recent Development — Shandong Outlet Mall".

(iii) *Shenyang Outlet Mall*

Our Controlling Shareholders are currently in preliminary discussions with an Independent Third Party in relation to the operation of an outlet mall in Shenyang. If the project materialises, our Controlling Shareholders will first offer the opportunity to operate the outlet mall to us. Our decision whether to operate the outlet mall will be subject to approval by our independent non-executive Directors and compliance with the Listing Rules. If we decide not to accept the offer and our Controlling Shareholders or a company controlled by them proceed to accept the engagement as operator, our Controlling Shareholders have undertaken that they will grant us an option to, at any time, acquire all the shares of the operator of the outlet mall or its holding company for a consideration that equals the lower of (i) the cost of investment incurred by our Controlling Shareholders in the operator of the outlet mall and (ii) the prevailing fair market value of the operator of the outlet mall as determined by an independent firm of international valuers. Our Company will exercise this outlet mall option as soon as practicable upon verification that the operator of the Shenyang Outlet Mall has achieved a net profit for two consecutive financial years as shown in its audited financial statements, which exercise will be subject to the approval by our independent non-executive Directors and our compliance with the provisions of Chapter 14A of the Listing Rules. We will also be entitled to exercise this option at any time during the term of the option even if the above profit requirement has not been satisfied through our right to waive such profit requirement. In addition, our Controlling Shareholders have also undertaken to engage us to provide management and consultancy services to the outlet mall for the entire term of the option for a percentage of the GSP to be agreed. See "Relationship with our ultimate Controlling Shareholders and Connected Transactions — Recent Development of Our Controlling Shareholders — Shenyang Outlet Mall." However, since our Controlling Shareholders are still in preliminary discussions in respect of the Shenyang outlet mall project, there is no guarantee that the project will materialize, and, as a result, we may be unable to exercise our option at all.

The success of the outlet mall business will be dependent, in part, upon our ability to:

- successfully attract customers;
- successfully attract concessionaires with brand name merchandise that meets customer expectations;
- engage in effective marketing and promotion;
- successfully position the outlet mall business to prevent cannibalization of business at our department stores;
- recruit qualified personnel to manage outlet malls;
- successfully find suitable locations for outlet malls; and
- respond to rapid changes in China's retail industry.

The challenges and risks involved in expanding our business to the outlet mall business 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.**

The retail industry is very sensitive to macroeconomic trends as retail purchases tend to decline in recessionary periods. Substantially all of our revenue is derived from retail sales made at our department stores in the PRC and from management consultancy services in the PRC. A recession in the economy of the PRC, or uncertainties regarding future economic prospects of the PRC could affect consumer spending habits there, including a reduction in consumer spending, and would have an adverse effect on our business. A sustained economic downturn in the PRC would likely have an adverse effect on our results of operations and financial condition.

Recent global market and economic conditions have been unprecedented and challenging with tight credit conditions and recession in most major economies continuing into 2009. The negative economic outlook has affected business and consumer confidence. The Chinese economy also faces challenges in the short to medium term. The stimulus plans and other measures implemented by the Chinese government may not work effectively or quickly enough to avert a severe downturn in economic activity. Any decline in consumer spending or change in consumer habits as a result of the economic downturn may negatively affect our results of operation. For example, in the six months ended June 30, 2009, our revenue from commissions from concessionaire sales was RMB232.6 million, representing a decrease of RMB20.9 million, or 8.2%, from RMB253.5 million in the six months ended June 30, 2008, which was primarily attributable to lower gross sales proceeds at Scitech Plaza and PCD Qingdao as a result of the economic slowdown. Continued turbulence in the international markets and prolonged declines in consumer spending, as well as any slowdown of economic growth in China, may adversely affect our liquidity and financial condition, including our ability to access the capital markets to meet liquidity needs.

**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.**

Our Controlling Shareholders are in the process of obtaining relevant governmental approvals in relation to the operation of the Beijing Scitech Premium Outlet Mall. The Beijing Scitech Premium Outlet Mall has commenced trial operations in relation to part of the outlet mall in July 2009 prior to obtaining all governmental approvals because the process of obtaining such approvals is very lengthy, and our Controlling Shareholders have obtained the preliminary support of the local governmental authority. Our PRC legal advisers are of the view that by providing management consultancy services to the Beijing Scitech Premium Outlet Mall, our Group has not breached and does not breach any relevant PRC laws and regulations. However, in the event that the Beijing Scitech Premium Outlet Mall is required to cease operations, our management contract for the Beijing Scitech Premium Outlet Mall may be terminated. Also, in the event that requisite approvals are not granted, it may adversely affect our management income arising from the management agreement entered into with Even Time and the value of our option to acquire Even Time as detailed in the section headed "Relationship with our ultimate Controlling Shareholders and Connected Transactions — Beijing Scitech Premium Outlet Mall" in this document.

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

High-end and luxury retailing in the PRC is inherently difficult. The success of any upgrade or repositioning of stores to increase standards of service and merchandise depends, in part, on the maturity of local market conditions. If we fail to assess the readiness for high-end and luxury stores in the markets we operate in, or to execute the standards required for high-end or luxury retailing, we may be unsuccessful in upgrading or repositioning of our existing stores or stores that we take over, and this could have a material adverse effect on our business.

Any upgrade or renovation to the retail space of an existing store may disrupt its business and cause loss of sales during the upgrade or renovation. Also, it may require significant time to achieve the optimal brand mix and generate the desirable levels of customer traffic at a store after an upgrade or a renovation. If we are unable to complete such upgrade or renovation in a timely manner, our revenue and results of operations may be materially and adversely affected.

**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.**

Our self-owned store network includes five stores that we have integrated into our network since January 1, 2006, including our stores in Xiamen, Qingdao, Beijing, Changchun and Nanning. We have also acquired a department store property in Xian, which is subject to an existing lease, and we intend to operate our own store on this property following the expiration of such lease. In addition, we plan to continue expanding our network as part of our ongoing business strategy. We anticipate that the addition of new stores to our network will eventually increase our revenue significantly. However, we cannot predict with any certainty that these newly integrated stores will be profitable given their limited history of operations, or that other stores at which we have recently commenced operations will achieve or sustain profitability. For details of the actual impact of the addition of the stores during the Track Record Period, see the section titled "Financial Information."

In addition, our acquisition targets may carry negative current liabilities and may incur losses. The combination of financial results of our acquisition targets with those of our Group may, at least in the short term, have a negative impact on our Group's profitability and results of operations.

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

We derived approximately 66.6%, 72.7%, 69.8% and 64.8% of our revenue for the three years ended December 31, 2006, 2007 and 2008, and for the six months ended June 30, 2009, respectively, from commissions from concessionaire sales. In addition, commissions from concessionaire sales from the five largest concessionaires comprised approximately 7.3%, 4.6%, 6.1% and 5.7% of our revenue during the same periods. One of our top five concessionaires, Century Ports Apparel (Xiamen) Ltd., is a connected party owned by PDL Group and constituted 1.5% and 2.4% of our total revenue, respectively, in the financial years ended December 31, 2007 and 2008. See "Relationship with our ultimate Controlling Shareholders and Connected Transactions — Continuing Connected Transactions."

Our success depends to a significant extent on our ability to retain existing, and attract new, concessionaires. Our concessionaire agreements generally have a term of six to twelve months, with a termination notice period of 30 days. If any of our major concessionaires or a significant number of our concessionaires terminate or fail to renew their agreements with us and we fail to find suitable replacements, our results of operations could be adversely affected.

As of June 30, 2009, we carried over 1,600 brands in our self-owned stores through concessionaire arrangements. If we are unable to maintain good relationships with our existing concessionaires or develop and maintain new concessionaire relationships, we may be unable to continue to carry high-end and luxury merchandise. Consequently, our revenue, market positioning and image may be adversely affected.

We derive our revenue from concessionaire arrangements in the form of commissions. Our concessionaires generally pay us a percentage of their sales. To the extent that our concessionaires are able to reduce the commission percentage when renewing their concessionaire arrangements with us, our revenue may decrease and our results of operations may be adversely affected.

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

We purchase cosmetic products for direct sales from limited key suppliers. During the three years ended December 31, 2008 and the six months ended June 30, 2009, our Group's five largest direct sales suppliers together accounted for approximately 75.8%, 82.7%, 81.8% and 79.9%, respectively, of our Group's total purchases. During the same period, the largest direct sales supplier accounted for approximately 23.2%, 28.4%, 27.8% and 24.4%, respectively, of our Group's total purchases. If we fail to maintain a stable supply of such products from our key suppliers and we are unable to secure alternative or supplemental suppliers in a timely manner, the performance of our direct sales may be materially and adversely affected.

**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.**

Sales to our VIP customers have accounted for a substantial and increasing portion of our gross sales. For the three years ended December 31, 2008, and the six months ended June 30, 2009, sales to our VIP customers accounted for 42.8%, 51.7%, 51.9% and 51.0%, respectively, of our gross sales proceeds. There is no assurance that our VIP customers will continue to visit and purchase merchandise from our stores. A decrease in VIP purchases could materially and adversely affect our business, profitability and financial results.

**A sudden decrease in market demand for our cosmetics products may result in inventory build up or obsolescence.**

Direct sales comprise primarily sales of cosmetic products and constituted 22.1%, 21.0%, 22.9% and 23.0% of our revenue for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively. The number of our average inventory turnover days (being our average inventory balance divided by purchase of and changes in inventories and multiplied by number of days in a relevant year/period) was 83, 80, 83 and 95 during the years ended December 31, 2006, 2007, 2008 and for the six months ended June 30, 2009, respectively. For each of the three years ended December 31, 2008 and the six months ended June 30, 2009, we made no provisions for obsolete inventory.

The cosmetics industry is subject to constantly shifting market trends. A sudden decrease in market demand for our cosmetics products could lead to an unanticipated drop in the sales of our products. If our cosmetics vendors strictly enforced their contractual rights by not permitting us to return or exchange cosmetics products unless such merchandise is damaged, unsold inventory could accumulate, possibly rendering our inventory obsolete and requiring us to write off such inventory. This unsold inventory could adversely affect our financial condition and results of operations. For more details on our inventory controls, please see the section headed "Our Business — Inventory Management" in this document.

**We depend heavily on our key personnel and our success also depends on our ability to attract and retain talented personnel.**

We have been, and will continue to be, heavily dependent on the continued efforts of our senior management team and other key employees for our success. In particular, we rely on the expertise and experience of Alfred Chan, our Chairman and co-founder of the PDL Group. Alfred Chan, together with other members of our senior management team, have formulated our strategies and been fundamental to our achievements to date. The loss of Alfred Chan or any of our other key employees could impair our ability to operate and impede the execution of our strategies. We may not be able to replace such persons within a reasonable period of time or with other persons of equivalent expertise and experience. Consequently, our business may be severely disrupted and our financial condition may be impaired.

In addition, our continued success will also depend on our ability to attract and retain qualified administrative, customer service, supervisory and management personnel to manage our existing operations and future growth. Qualified and talented individuals are scarce and in high demand. Consequently, competition for these individuals from other domestic and foreign-owned chain retailers in China, including non-specialty retailers such as supermarket and hypermarket operators, is intense. We may not be able to successfully attract, assimilate or retain the personnel that we require. In addition, we may need to offer superior compensation and other benefits to attract and retain key personnel in the future, and we therefore cannot assure you that we will have the resources to fully achieve our staffing needs. In connection with our store additions and investments, our ability to retain certain existing personnel will have a significant effect on our success in these expansion efforts. Our failure to attract and retain qualified personnel could have a negative impact on our ability to maintain our competitive position and to grow our business.

**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.**

We occupy the premises on which we operate six of our nine self-owned department stores pursuant to certain leases and/or store cooperation agreements. Accordingly, it is important to our business operations that we maintain our existing leases and store cooperation agreements and that they are not terminated for any reason, including, among other things, the lack on the part of the lessors of valid and enforceable building ownership rights, land use rights or the relevant rights or authorities to sublease these premises to us, or creditors' enforcement of their rights secured by properties we use. In the event that any of our leases and store cooperation agreements are terminated for any reason prior to their expiration dates, we may need to relocate to alternative premises. For example, in June 2009, the owner of the premises on which the PCD Nanning store is located initiated arbitration proceedings over a contractual dispute and demanded, among other things, the termination of the store cooperation agreement before its expiration date. See "Our Business — Legal Compliance and Litigation — Legal Proceedings" for further information. If this arbitration is not resolved in our favour, our reputation may be impaired and we may be required to pay damages and relocate the PCD Nanning store to other premises, which may in turn cause business disruptions and adversely affect our results of operations. In the event of a dispute with a landlord, our business may be disrupted. In addition, we cannot assure you that in the case of PCD Nanning or any other case, we would be able to find suitable premises on commercially reasonable terms, or at all. If any of our leases and store cooperation agreements are terminated and we are not able to find suitable premises on commercially acceptable terms, it could have a material adverse effect on our business.

None of our existing leases and store cooperation agreements for our department stores will expire before 2012, and the terms of our leases and store cooperation agreements range from eight to fifteen years. Our rights of first refusal to renew leases or store cooperation agreement in a number of stores are conditioned upon us meeting specified gross sales proceeds targets. As a result, if we do not meet such gross sales proceeds targets, we will need to negotiate the terms and conditions on which the lease agreement may be renewed. We cannot assure you that we will be able to renew our lease agreements and store cooperation agreements on terms and conditions, in particular the rent and the proportion of income sharing, that are favourable or otherwise acceptable to us, or at all. In such an event, we may be required to pay increased rent or relocate to alternative premises, and we will incur additional costs in so doing, if we are able to at all.

**Some of our leased properties lack requisite building ownership certificates and lease registrations and we may be required to relocate our stores.**

We occupy the premises on which we operate six of our nine self-owned department stores pursuant to certain leases and/or store cooperation agreements. Accordingly, our lessors' possession of valid and enforceable building ownership rights, or of the relevant rights or authority to sub-lease such premises to us, is important to our business operation.

As of the Latest Practicable Date, the lessors of our PCD Nanning store and portions of the premises on which our PCD Changchun store and PCD Continental store are located have not been able to provide us with evidence of their valid and enforceable building ownership rights, or their relevant rights or authority to sub-lease, in respect to our leased premises. The total floor area of our leased stores which lack building ownership certificates is approximately 36,181 sq.m., accounting for approximately 16.5% of the total floor area of all of the properties for which we owned or entered into leases or store cooperation agreements. We cannot assure you that no third party will seek to assert their ownership rights against these lessors or challenge the leases and the store cooperation agreement in the future. Should disputes arise due to title encumbrances on such properties or lessors' failure to register the relevant leases with the government authorities, we may encounter difficulties in our continued leasing of such properties. In this event, we will be required to relocate our stores, resulting in business interruption and additional relocation costs. Furthermore, we may not be able to find suitable alternative premises or have to relocate to less desirable locations. If any of these events occurs, our revenues may be materially and adversely affected. See "Our Business — Properties — Titles and Registrations" for further information.

**Our historical financials may be of limited value in assessing our performance or in giving an indication of our financial performance going forward.**

We have expanded the size of our store network rapidly, beginning with two stores as of January 1, 2004, to sixteen stores and one outlet mall to which we operate or provide management consultancy services as of the Latest Practicable Date. As such, we have only a limited history of operations. Due to our recent rapid expansion, the number of stores in our network varied during the three years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009. For example, Scitech Plaza, our primary revenue generator, commenced operations on July 1, 2007. Primarily because of the addition of Scitech Plaza, our revenue increased to RMB500.9 million in 2007 and RMB717.8 million in 2008 from RMB171.1 million in 2006, representing a CAGR of 104.8%. We may not be able to achieve the same rate of growth in the future. As a consequence, 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.**

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. We also had net liabilities as at December 31, 2007 due to a reduction of equity attributable to owners of our Company which resulted from the Reorganization. The net current liabilities position as at December 31, 2006, 2007 and 2008, and June 30, 2009 was primarily attributable to our taking advantage of longer suppliers' credit terms to partly finance our operation and utilizing short-term borrowings to expand our business through establishment or integration of new stores. One of the advantages for using short-term borrowings is lower interest cost because the interest rates for short-term borrowings are generally lower than that for long-term borrowings in the PRC.

However, this approach requires us to obtain sufficient funds or generate adequate working capital to satisfy such short-term liabilities as they become due. If revenues from retail sales at our stores decline significantly, we may not be able to generate sufficient funds for the repayment of short-term loans. For example, for the six months ended June 30, 2009, our Group had negative operating cash flow. We have historically been able to discharge or roll-over our short term bank borrowings as they become due. However, there is no guarantee that we will be able to continue to do so. In addition, although we have been able to make use of the longer credit term of trade payables to partially finance our operations, there is no assurance that we can continue to do so in the future. If we failed to do so, we would be in default of our payment obligations and our business and results of operations would be adversely affected.

**We have incurred a high level of debt over the Track Record Period.**

As at December 31, 2006, 2007 and 2008, and June 30, 2009, our outstanding borrowings amounted to RMB178.0 million, RMB554.7 million, RMB695.4 million and RMB1,190.5 million, respectively. As at September 30, 2009, our outstanding borrowings were increased to RMB1,284.7 million. As our operations expand, we may need to raise further funds through incurring additional indebtedness or other forms of financing. Due to our high leverage, lenders may not be willing to continue to provide credit to us in the future, which may increase our lending costs and affect our ability to obtain credit facilities or other bank financing. As a result, the costs of financing may increase significantly and our profitability may be adversely affected.

In addition, the majority of our borrowings are secured by our properties, buildings and land use rights. If we are not able to service these borrowings, such properties may be subject to foreclosure and we may be required to relocate existing department store operations on such premises to elsewhere. As a result, our business and operations could be disrupted, which may have a material adverse effect on our business, financial conditions and results of operations.

**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.**

We use advanced information systems for the timely exchange of business information between our department stores and our principal offices in Xiamen. These systems are critical for our business operations. We cannot assure you that our information systems will always operate without interruption or malfunction. Any prolonged breakdown of, or damage to, our information system due to, among other things, viruses and hacking, may adversely affect our ability to operate and manage our business, our business performance and our profitability.

**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.**

Our current operations require that we obtain a number of regulatory licenses, approvals and permits. In addition, we plan to expand our business to cities and provinces in which we do not currently operate. Accordingly, we have acquired, and will continue to seek to acquire, relevant licenses, approvals and permits at the municipal, provincial and/or ministry levels. See the section titled "Industry Overview and Regulation — Regulation — Licenses" for more information. According to our PRC legal advisers, we have obtained all relevant approvals and licenses required for our operations. We cannot assure you, however, that upon expiration of these licenses, approval or permits, we will be able to successfully renew them, or that if the relevant authorities enact new regulations, we will be able to successfully meet their requirements.

Further, we may expand to other cities in the PRC where we do not possess the same level of familiarity with the regulatory and business environment. Pursuant to the PRC government's undertakings to the World Trade Organization, or WTO, since December 11, 2004, all foreign investment enterprises engaging in retail business have been permitted to operate nationwide and are no longer subject to a territory limitation. However, the establishment of foreign investment enterprises and the opening of stores by them are still subject to the approval by the Ministry of Commerce, or the Ministry of Commerce provincial delegates of their respective provinces. As a foreign investment enterprise, we are required to seek approvals and permits from the relevant authorities when we select a new location for a store and upon establishment of a new store.

We cannot assure you that we will be able to obtain the relevant approvals and permits or that, once obtained, our experience in our established locations will be fully relevant in the new locations. Any failure to obtain regulatory approvals and permits in a timely manner and any unforeseen difficulties arising from the unfamiliar locations may adversely affect our expansion plans, future operations and financial performance.

**The issuance of prepaid gift cards by us may not be in compliance with the applicable PRC laws and regulations.**

As of the Latest Practicable Date, all of our self-owned stores issued prepaid gift cards. Sales generated from prepaid gift cards constituted a material portion of our gross sales proceeds. Our PRC legal advisers are of the view that by offering prepaid gift cards, we may not be in compliance with the requirements under the Emergency Notice on Prohibition of Issuing and Using Tokens (or Token Cards) (the "Emergency Notice") (關於嚴禁發放使用各種代幣券(卡)的緊急通知) jointly promulgated by the State Economic and Trade Commission (國家經濟貿易委員會), Office of Correcting Industrial Improper Practice at the State Council (國務院糾正行業不正之風辦公室) and the People's Bank of China on January 19, 2001. As of the Latest Practicable Date, our Directors are not aware of any administrative action having been taken by the relevant authorities against us in respect of such non-compliance.

On October 27, 2008, the Xiamen Municipal Trade Development Bureau (廈門市貿易發展局), the Xiamen City Branch of the People's Bank of China (中國人民銀行廈門市中心支行), the Xiamen Regulatory Bureau of the China Banking Regulatory Commission (中國銀行業監督管理委員會廈門監管局) and certain other government authorities in Xiamen jointly issued the Notice on Strengthening Regulations of Prepaid Shopping Coupons (Cards) in the Retail Industry (關於加強零售業購物券(卡)管理的通知) (the "2008 Xiamen Notice"). Pursuant to the 2008 Xiamen Notice, retailers may issue prepaid shopping cards in the Xiamen municipal area, subject to the proper registration of such practice with the Xiamen Municipal Trade Development Bureau.

Our PRC legal advisers are of the view that, although the publication of the 2008 Xiamen Notice does not have the effect of overriding the Emergency Notice, there is no practical legal risk associated with issuing prepaid gift cards by our four self-owned stores in the Xiamen municipal area, subject to the proper registration of such practice with the Xiamen Municipal Trade Development Bureau. After negotiating and finalising the logistical arrangements for issuing such prepaid gift cards with a third party financial institution, we completed the registration process with the Xiamen Municipal Trade Development Bureau on August 5, 2009. Our PRC legal advisers have confirmed that as we have registered such practice with the Xiamen Municipal Trade Development Bureau, we will not be subject to the payment of any penalty for late registration.

There is a possibility that the relevant PRC central governmental authorities will enforce the provisions of the Emergency Notice against our self-owned stores, including invalidating the practice permitted by the relevant governmental authorities in Xiamen. This is an area of changing rules and regulations and there can be no certainty that relevant PRC governmental authorities may not promulgate new, or change the existing, rules and regulations or require that our issuance of prepaid gift cards be modified or terminated, and in which case, there is no assurance that we would be able to continue to operate in such manner and/or comply with any such requirement, which may have an adverse effect on our operational and financial conditions.

If the Emergency Notice is enforced, with regards to our self-owned stores in Beijing, Taiyuan, Changchun, Qingdao and Nanning, the People's Bank of China may order us to stop issuing prepaid gift cards. We may also need to repurchase all outstanding prepaid gift cards and return to customers the unused amount. The outstanding balance of prepaid gift cards issued by our self-owned stores totalled approximately RMB25.9 million, RMB128.4 million, RMB147.6 million and RMB152.4 million, respectively, as of December 31, 2006, 2007, 2008 and June 30, 2009. See "Financial Information — Other Payables" for the outstanding balance of prepaid gift cards issued by each of our self-owned stores as of December 31, 2006, 2007 and 2008, and June 30, 2009. If we were required to repurchase any outstanding prepaid gift cards, it may have an adverse effect on our cash flow. In addition, with regards to prepaid gift cards issued by our self-owned stores in Xiamen prior to their registration and those issued by our self-owned stores in Beijing, Taiyuan, Changchun, Qingdao and Nanning, the People's Bank of China may order us to cancel all outstanding prepaid gift cards and our PRC legal advisers have advised us that the People's Bank of China may impose a maximum aggregate fine of up to RMB1,800,000 on the Group on the basis of its fine of RMB200,000 per operating entity.

Although our Controlling Shareholders have undertaken to indemnify us against any costs and penalties that we may suffer due to any breach of the applicable PRC laws and regulations regarding the issuance of the prepaid gift cards, our reputation may be materially and adversely affected if we are subject to such fines and penalties.

**Our practice of intra-group lending may not be in compliance with PRC regulations and we may be subject to penalties.**

As part of our intra-group funding arrangements, we extended non-trade loans and advances to members of the companies held by the Controlling Shareholders. As of June 30, 2009, our amounts due from related parties totalled approximately RMB625 million, including unsecured loans of RMB400 million to PCD Stores (Xiamen). Our PRC legal advisers are of the opinion that this practice of intra-group lending is not in compliance with Section 61 of the General Principals of Loans (貸款通則) promulgated by the People's Bank of China in 1996, which prohibits lending and capital raising among non-financial institutions. The People's Bank of China could cancel our intra-group loans and impose a fine on us equal to one to five times of our interest income from such loans. We received in aggregate RMB8.1 million in interest income from related parties for the three years ended December 31, 2008 and six months ended June 30, 2009.

As of October 31, 2009, we have received the full repayment of approximately RMB625 million in non-trade unsecured loans we granted to related parties. Our Group will work with our PRC legal advisers and our internal legal department to closely monitor any change in the legal position relating to intra-group loans and advances, with a view to ensuring any future loans and advances will be made in compliance with the relevant PRC laws and regulations and the Listing Rules. However, in the event that the People's Bank of China imposes a fine on us retrospectively, our results of operation may be adversely affected. Although our Controlling Shareholders have undertaken to indemnify us against any costs and penalties that we may suffer due to any breach of the applicable PRC laws and regulations and the Listing Rules regarding such intra-group loans, our reputation may be materially and adversely affected if we are subject to such fines and 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.**

We use a combination of the "巴黎春天" (Ba Li Chun Tian) trade name and the trademark in connection with our self-owned stores — PCD Zhongshan Lu, PCD World Trade, PCD Taiyuan, PCD Qingdao, PCD Continental, PCD Jiahe, PCD Changchun and PCD Nanning. We use the trademark for our Scitech Plaza store. The trademark is owned by PCD Stores, an entity outside of our Group. We have been granted a non-exclusive right to use the trademark in China until 2012 pursuant to license agreements between PCD Stores and us. Although PCD Stores has registered as a trademark, we cannot register the trade name "巴黎春天" at the national level, which would allow exclusive use of the trade name "巴黎春天" in the PRC, because our PRC legal advisers have advised us that the Chinese characters "巴黎春天" are too generic to register at the national level. See "Appendix VII — Statutory and General Information — Further Information about our Business — Intellectual property rights" for further detail.

We distinguish our brand from other stores in China that use the "巴黎春天" trade name by the registration of the trade name "巴黎春天" in connection with our operations of our eight self-owned stores, namely PCD Zhongshan Lu, PCD World Trade, PCD Continental and PCD Jiahe in the city of Xiamen, PCD Taiyuan in the city of Taiyuan, PCD Qingdao in the city of Qingdao, PCD Changchun in the province of Jilin, and PCD Nanning in the city of Nanning to prevent any other department stores from using "巴黎春天" in the same location carrying on the same business. In addition, our Company believes 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 also assist our customers in differentiating our stores from other unaffiliated stores.

There are at least four unaffiliated department stores in the PRC that presently use the "巴黎春天" trade name pursuant to trade name registrations at the municipal level. These stores are located in Shanghai, Chengdu, Shenyang and Kunshan. Although we are not related to or associated with any of these stores that use the "巴黎春天" (Ba Li Chun Tian) trade name in these four cities, any negative publicity concerning such stores may have an adverse impact on the image and brand recognition of our Group and have a material adverse effect on our business.

For the three years ended December 31, 2008, and the six months ended June 30, 2009, the amount of revenue generated from stores using the "巴黎春天" trade name was RMB95.1 million, RMB214.4 million, RMB219.6 million and RMB143.9 million, respectively, which constituted 55.6%, 42.8%, 30.6% and 40.1% of our revenue for the same periods, respectively. The decrease in the percentage of our revenue generated from stores using the "巴黎春天" trade name in the years ended December 31, 2007 and 2008, and six months ended June 30, 2009 was primarily attributable to the addition of Scitech Plaza, which does not use the "巴黎春天" trade name, to our store network. We expect that revenues generated from stores using the "巴黎春天" trade name will continue to constitute a substantial portion of our revenues going forward. Any impairment to the "巴黎春天" trade name or our right to use this trade name may adversely affect our business and results of operations.

PCD Stores is in the process of registering the "巴黎春天百货" and trademarks in the PRC. These applications to the Trademark Office of the PRC State Administration for Industry and Commerce were lodged on January 31, 2007. We have received notice that preliminary assessment and announcement for registering these trademarks in certain classes may be made on December 6, 2009. However, we have been informed by our PRC legal advisers that there is no clear deadline as to when the first stage of a two-stage review of the trademark registration process is likely to be completed in all of the classes we lodged applications for. Accordingly, it is not possible to confirm when registrations are likely to be completed. See "Our Business — Intellectual Property — Trademark and trade name" for details on the trademark registration process.

**Our limited insurance coverage may not be sufficient to cover the risks related to our operations.**

We have obtained insurance coverage for the operation of our business, covering risks such as loss of and damage to property, risks associated with public liability, employees' compensation, goods in transit, and other customary risks of our business. We do not carry, however, insurance in respect of certain risks that we believe are not insured under normal industry practice in China, or which are uninsurable on commercially acceptable terms, if at all, such as those caused by war and civil disorder. Accordingly, there may be circumstances in which we will not be covered or compensated for specific losses, damages and liabilities. Furthermore, our existing insurance coverage may be inadequate to compensate us for a specific loss. To the extent that our insurance coverage may be inadequate to compensate us for a specific loss, such inadequacy could have a material adverse effect on our financial condition and results of operations.

**Our Controlling Shareholders may exert substantial influence over us and may not act in the best interests of our shareholders.**

Our Controlling Shareholders will be in a position to exert significant influence over our affairs, and will be able to significantly influence the outcome of any shareholders' resolution, irrespective of how other shareholders may vote. The interests of our Controlling Shareholders may not necessarily be aligned with those of our independent shareholders. In the event that the interests of our Controlling Shareholders conflict with those of our other shareholders, or if our Controlling Shareholders choose to cause us to pursue objectives that would conflict with the interests of our other shareholders, such other shareholders could be left in a disadvantageous position by such actions caused by our Controlling Shareholders.

**There can be no assurance that we will pay dividends in the future.**

Any future declaration of dividends will be proposed by our Board and the amount of any dividends will depend on various factors, including our results of operations, financial condition, future business prospects and other factors that our Board may determine to be important. Further details of our dividend policy is set out in the section headed "Financial Information — Dividend and Dividend Policy" in this document.

**Our profitability may be affected by annual revaluation of our investment property as required by IFRS.**

Our investment property currently consists of the property in Xian that we acquired in connection with our acquisition of the equity interest in Xian Century Changan Property Investment on August 10, 2007. As we continue to expand, we may acquire additional properties that are accounted for as investment property. Under IFRS, we are required to reassess the fair value of our investment property at every reporting date for which we issue financial statements and recognize changes to the fair value of our investment property as a gain or loss (as applicable) in our consolidated statement of comprehensive income. Our valuations will be based on market value as adopted by the independent property valuer, such as capitalisation of net rental income derived from the existing tenancy agreements with allowance for the reversionary income potential of the property, and by reference to comparable sales evidence as available in the relevant market. During the six months ended June 30, 2009, we recorded a fair value gain of our investment property amounting to approximately RMB20 million. Our forecasted profit attributable to owners of our Company for the financial year ending December 31, 2009 includes gains arising from revaluation of our investment property, and our profit forecast involves estimates and assumptions in this regard. The amount of revaluation adjustments has been, and may continue to be, significantly affected by the prevailing property market conditions and may be subject to market fluctuations. We cannot assure you that the fair value of our investment property will not decrease in the future. Any such decrease in the fair value of our investment property will reduce our profits.

**The valuation attached to our property interests contains assumptions that may or may not materialize.**

Under IFRS, gains or losses arising from changes in the fair value of our investment property are included in our consolidated statements of comprehensive income in the period in which they arise. The valuation of our properties as of September 30, 2009, prepared by DTZ Debenham Tie Leung Limited, is contained in the section headed "Appendix IV — Property Valuation" to this document. The valuations are based on certain assumptions which, by their nature, are subjective and uncertain and may differ materially from actual results. Accordingly, the valuations are not a prediction of the actual value we expect to realize from these properties. Unanticipated results or changes in particular property developments, or changes in general or local economic conditions or other relevant factors, including changes in government regulations, could affect such values. In addition, valuation differences of investment property are recognized in our consolidated statements of comprehensive income. Accordingly, a decrease in the value of our investment property would reduce the amount of our net income and could result in a net loss during a particular period.

**Our Controlling Shareholders' interest in us may be significantly reduced.**

As of the Latest Practicable Date, 15% of the voting rights of our Company was charged by our Controlling Shareholder, Bluestone, to Deutsche Bank as continuing security for the payment and performance of CRC under the New Deutsche Bonds, which will be fully released upon full payment of the outstanding principal amount of RMB54 million in February 2010. In the event that CRC fails to make the payment under the New Deutsche Bonds, Deutsche Bank may enforce the share charge and require Bluestone to transfer 15% of the voting rights of our Company to it. In such a case, our Controlling Shareholders' interest in our Company will be significantly reduced.

## RISKS RELATING TO THE INDUSTRY

**We operate in a highly competitive market.**

The retail industry, and particularly the department store sector, is highly competitive in China. We face competition from national and international operators of department stores, wholesale markets, hypermarkets, convenience stores, specialty retailers, discount stores, small retail shops, and other retail sites and forms of retail business in the areas in which we currently operate or into which we plan to enter. All of these stores owned by third parties compete with our stores.

Our competitors are rapidly expanding into new markets. Some of these competitors may have more financial resources than we do. Any one of our competitors could succeed in attaining a high level of brand-recognition before we do. A number of different competitive factors could have a material adverse effect on our results of operations and financial condition in the current markets in which we operate, including, among other things,

- increased competition as a result of China's accession to the WTO;
- higher operational efficiencies of competitors;
- competitive pricing strategies in the retail market;
- concessionaires establishing their own stores through e-commerce or other distribution methods;
- expansion by existing competitors;
- entry by new competitors into current markets;
- successful establishment of national brand recognition by one or more of our competitors; and
- adoption by competitors of innovative store formats or retail sales methods.

We compete with other retailers in China based on, among other things,

- the degree of brand recognition and store image;

- the location and size of a store;
- understanding of the retail industry, fashion trends and market demand in the relevant market;
- the brands and merchandise offered;
- the quality of the merchandise;
- the terms of the concessionaire arrangement, such as the concession rate;
- customer service; and
- flexibility and speed in responding to customer demand.

Our competitors may have an advantage in one or more of the areas set out above. To the extent this is the case, our business and results of operations may be adversely affected.

**China's accession to the WTO may result in an increase in competition in our industry.**

Due to China's accession to the WTO in 2001, and the subsequent complete lifting of certain restrictions on foreign investment in China's retail sector since late 2004, we believe that foreign investment in this sector will increase. In April 2004, the PRC government promulgated the Administrative Measures on Foreign Investments in Commercial Sectors, with a view to liberalizing the regulatory framework for foreign investment in China's retail industry. In addition, on December 11, 2004, the PRC government removed the restrictions on territory and shareholding proportions of foreign enterprises engaging in the PRC retailing business. We believe that these measures are likely to further intensify competition, particularly from large international retailers, and we cannot assure you that we will be able to maintain our performance, profitability and market share in such an operating environment.

**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.**

According to existing PRC law, manufacturers and suppliers who produce or sell defective goods in the PRC are liable for the damage or personal injury caused by merchandise. Pursuant to agreements between us and our concessionaires, all of our concessionaires are obligated to indemnify us for any claims brought against us concerning merchandise sold by the concessionaires in our stores. We cannot assure you, however, that the concessionaires will have adequate financial resources or insurance coverage to fulfill their obligations under these indemnities. We have not maintained any insurance for product liability from concessionaire sales due to the minimal number of historical claims against us and also due to PRC industry practice. Accordingly, if our department stores are found liable for damages suffered as a result of merchandise sold by concessionaires in our stores, we may be responsible for compensating the damage. In these circumstances, our profitability and reputation may be adversely affected.

**Seasonality and weather conditions affect our sales.**

We experience seasonal fluctuations in revenue and operating results as our business is sensitive to consumer spending patterns. Consumer spending patterns are typically affected by seasonal shopping patterns. As a result, we generally record higher sales in our department stores during major festivals and holidays, including the spring holidays during the Chinese New Year, the Labour Day holiday in early May, the National Day holiday in early October, the Mid-Autumn Festival holiday, and Christmas. In terms of the calendar year, we generally experience higher sales from October to March relative to sales from April to September. In addition, merchandise, particularly apparel, for autumn and winter, is generally seasonal in nature and carries higher selling prices relative to spring and summer merchandise. Accordingly, any adverse trends in sales during these periods, and other factors such as any unexpected shifts in the timing of holidays, infectious disease outbreaks or other unpredictable events may affect our results of operations during these periods, as well as our annual results. As a result, our interim reports may not be indicative of our performance for the year or our future performance, and period-to-period comparisons may not be meaningful due to the seasonal fluctuations in sales and other reasons beyond our control. We cannot assure you that our operating results will meet the expectations of market analysts or our investors for a certain period. If we fail to meet their expectations, there may be a decline in our Share price.

In addition, weather conditions in the areas in which our stores are located may affect our results of operations. For example, heavy snowfall, typhoons or other extreme weather conditions over a prolonged period might make it difficult for our customers to travel to our stores. Our business is also susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures during the winter season or cool temperatures during the summer season could render a portion of our concessionaires' inventory unsellable, leading to a decrease of our commissions received from concessionaire sales.

**Merchandise sold in our department stores may be subject to third party intellectual property rights.**

Although we have adopted measures to minimize potential infringement of intellectual property rights of third parties, including requiring written evidence that concessionaires have the necessary intellectual property rights relating to the merchandise they have supplied to us, these measures may not always be adequate or sufficient to prevent infringement. In the event that we or our concessionaires sell merchandise which infringes on third party intellectual property rights at our department stores, we, in our capacity as a retailer, may be found liable for intellectual property infringement and be compelled to discontinue the sale of the merchandise or pay damages. Where our concessionaires sell merchandise that infringes on third party intellectual property rights at our stores, we may be considered jointly liable in circumstances where we have knowledge of their conduct, which is a question of fact. If any claims alleging infringement of third party intellectual property rights are brought against us or our concessionaires, our reputation and image may be damaged and as a result, our business and sales may be adversely affected.

## RISKS RELATING TO THE PEOPLE'S REPUBLIC OF CHINA

Substantially all of our assets are located in China, and substantially all of our revenue is derived from our operations in China. Accordingly, our business, financial condition, results of operations and prospects are subject to the risks of future economic, political and legal developments in 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.**

At present, China is a developing economy. It differs from developed economies of the world in many respects, including:

- its structure;
- the level of governmental involvement;
- the level of development;
- its growth rate;
- the control of foreign exchange; and
- the allocation of resources.

Prior to the PRC government's adoption of reform and the "Open Door" policies in the late 1970's, China was a planned economy. Since then, the Chinese government has implemented a number of measures to encourage growth and to guide the allocation of resources, thus resulting in significant economic and social development in the past 20 years. Annual and five-year state plans, however, are still adopted by the PRC government in connection with the development of the economy. China is in the process of transitioning into a more market-oriented economy.

While the PRC government continues to own a significant portion of the productive assets in China, economic reform policies since the late 1970's have encouraged the development of autonomous and privately owned businesses, the utilization of market forces, and the establishment of good corporate governance measures in China. Although we believe these reforms will benefit us in our long-term development, we cannot predict whether the PRC government will continue this economic reform. Any changes in PRC government policy or the PRC's political, economic and social conditions, or in relevant laws and regulations, may adversely affect our current or future business, results of operation or financial condition. These changes in government policy may be implemented through various means, including changes in laws and regulations, implementation of anti-inflationary measures, changes in the tax rate or taxation system and the imposition of additional restrictions on currency conversion and imports. Furthermore, given the PRC's largely export-driven economy, any changes in the economies of the PRC's principal trading partners and other export-oriented nations may adversely affect our operations and financial results. Our ability to successfully expand our business operations in China depends on a number of factors, including macroeconomic and other market conditions, and credit availability from lending institutions. The PRC government has from time to time articulated the need to control economic growth and tighten the increase in lending. Stricter lending policies in China may affect our ability to obtain financing, thus reducing our ability to implement our expansion strategies. We cannot assure you that future governmental measures to tighten the increase in lending will not be implemented, or that, if implemented, it will not adversely affect our future results of operations or profitability. Furthermore, we cannot assure you that our historical economic and market conditions will continue, or that we will be able to sustain our growth.

**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.**

Substantially all of our revenue and expenditure are denominated in Renminbi, which is currently not a freely convertible currency. We will require foreign currencies for dividend payments (if any) to our shareholders. In addition, the price at which we purchase merchandise from our suppliers may be affected to the extent our suppliers' merchandise are imported or otherwise subject to foreign currency fluctuations. For example, if the value of the Renminbi declined against foreign currencies, imported merchandise offered by our concessionaires could increase in cost, which could make their merchandise more expensive for our customers and result in lower sales. We will therefore be exposed to foreign currency fluctuations.

The value of the Renminbi is subject to changes in the PRC government's policies and depends to a large extent on domestic and international economic and political developments, as well as supply and demand in the local market. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi was permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy caused the Renminbi to appreciate approximately 21.5% against the U.S. dollar over the following three years. Since reaching a high against the U.S. dollar in July 2008, however, the Renminbi has traded within a narrow band against the U.S. dollar, remaining within 1% of its July 2008 high but never exceeding it. As a consequence, the Renminbi has fluctuated since July 2008 against other freely traded currencies, in tandem with the U.S. dollar. It is difficult to predict how long the current situation may last and when and how it may change again.

Should there be any further significant changes in the exchange rates of U.S. dollars against Hong Kong dollars or Renminbi, our ability to make dividend payments in foreign currencies may be adversely affected, and our purchase price from suppliers may also increase. This may in turn adversely affect our financial and operational results. In addition, any significant change in the exchange rates of the Renminbi against the U.S. dollar or the Hong Kong dollar could adversely affect the value of our dividends, which would be funded by Renminbi but paid in Hong Kong dollars.

**Current tax policies providing us with preferential tax treatment may change.**

Our PRC operating subsidiaries are subject to PRC income tax. In March 2007, the National People's Congress adopted the New EIT Law, which provides that the income tax for both domestic and foreign-invested enterprises is unified at 25%, effective January 1, 2008. Under the

New EIT Law, enterprises that enjoyed a preferential tax rate prior to the New EIT Law's promulgation would gradually migrate to the new tax rate over five years from the effective date of the New EIT Law. Enterprises that were entitled to a fixed period of tax exemptions or reductions prior to the New EIT Law's promulgation would continue to enjoy such treatment until such fixed term expires. A number of our subsidiaries benefit from income tax rates of 20% in 2009, compared to the national rate of 25% generally applied. The preferential tax treatment enjoyed by these subsidiaries will be gradually phased out under the New EIT Law. We will be required to pay more taxes after the expiration of these tax benefits, which may have a material adverse effect on our result of operations.

**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.**

We are incorporated under the laws of the Cayman Islands with substantially all of our operations conducted through our PRC subsidiaries. Under the New EIT Law, dividends, interests, rents and royalties payable by a foreign invested enterprise in the PRC to its foreign investor who is a non-resident enterprise, as well as gains on transfers of shares of a foreign-invested enterprise in the PRC by such a foreign investor, will be subject to a 10% withholding tax, unless such non-resident enterprise's jurisdiction of incorporation has a tax treaty with the PRC that provides for a reduced rate of withholding tax. Our wholly owned subsidiaries Dragon Talent and Well Power are Hong Kong incorporated companies and each holds 100% interest, respectively, in PCD Real Estate (Xiamen) and Zhongshan PCD Stores (Xiamen), which in turn hold the equity interests in our PRC subsidiaries. According to the Mainland and Hong Kong Special Administrative Region Arrangement on Avoiding Double Taxation or Evasion of Taxation on Income agreed between China and Hong Kong in August 2006, dividends paid by a foreign-invested enterprise in China to its direct holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the foreign investor owns directly at least 25% of the shares of the foreign invested enterprise, which is the case of our Company). Therefore, if Dragon Talent and Well Power are considered non-resident enterprises for purposes of the New EIT Law, this new withholding tax imposed on dividends paid to us by our PRC subsidiaries would reduce our net income as we derive all of our income from dividend payments made by our PRC subsidiaries to us.

In addition, under the New EIT Law, an enterprise established outside the PRC with its "de facto management body" within the PRC is considered a "resident enterprise" and will be subject to the enterprise income tax at the rate of 25% on its worldwide income. The "de facto management body" is defined as the organizational body that effectively exercises overall management and control over production and business operations, personnel, finance and accounting, and properties of the enterprise. It remains unclear how the PRC tax authorities will interpret such a broad definition. If the PRC tax authorities subsequently determine that we should be classified as a resident enterprise, then our worldwide income will be subject to income tax at a uniform rate of 25%, which will decrease our earnings from operations. Notwithstanding the foregoing provision, the New EIT Law also provides that, if a resident enterprise directly invests in another resident enterprise, the dividends received by the investing resident enterprise from the invested enterprise are exempted from income tax, subject to certain conditions.

Therefore, if we are classified as a resident enterprise, the dividends that we receive from our PRC operating entities may be exempted from income tax. However, it remains unclear how the PRC tax authorities will interpret the PRC tax resident treatment of an offshore company having ownership interest in a PRC enterprise.

In addition, because there remains uncertainty regarding the interpretation and implementation of the New EIT Law and its implementation rules, if we are regarded as a PRC resident enterprise, any dividends to be distributed by us to our non-PRC shareholders or any gains realized by non-PRC shareholders from transfer of our Shares may be subject to PRC tax. If we are required under the New EIT Law to withhold PRC income tax on the dividends or if investors are subject to PRC income tax on gains on sale of our Shares, the investment in our Shares may be materially and adversely affected.

**There are uncertainties regarding the PRC legal system and the interpretation and enforcement of PRC laws**

Our business and operations are primarily conducted in the PRC and are governed by PRC laws, rules and regulations. The Chinese legal system is based on written statutes, and prior court decisions can only be cited as reference. Since 1979, the PRC government has been developing a comprehensive system of laws, rules and regulations in relation to economic matters, such as foreign investment, corporate organization and governance, commerce, taxation and trade, with a view to developing a comprehensive system of commercial law, including laws relating to the retail industry. However, given that these laws and regulations have not been fully developed, and given the limited volume of published cases and their non-binding nature, the interpretation and enforcement of these laws, rules and regulations is uncertain, and may not be as consistent or predictable as in other more developed jurisdictions. Depending on the government agency or how an application or case is presented to such agency, we may receive less favourable interpretations of laws and regulations than our competitors, or we may receive interpretations that are inconsistent with our interpretations. In addition, as the legal system in the PRC is subject to further development, companies operating in China such as ours may face uncertainties as a result of any introduction of new laws and regulations and changes to the existing legislation and the interpretation thereof by the relevant authorities. There is no assurance that our business will not be adversely affected by any such future changes in laws and regulations or the interpretation thereof.

In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. All these uncertainties may cause difficulties in the enforcement of our statutory and contractual rights and interests.

**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.**

The Provisions on the Acquisition of Domestic Enterprises by Foreign Investors (2006 Revision) (關於外國投資者併購境內企業的規定) (the "M&A Provisions"), effective from September 8, 2006, provide the rules with which foreign investors must comply should they seek to purchase by agreement the equities of the shareholders of a domestic non-foreign-funded enterprise or subscribe to the increased capital of a domestic company, and thus change the domestic company into a foreign-funded enterprise. It stipulates that the business scope upon acquisition of domestic enterprises must conform to the Foreign Investment Industrial Guidance Catalogue (外商投資產業指導目錄), and restricts the scope of market access. It also provides the procedures for the share right takeover of domestic companies.

Our PRC legal advisers has advised us that there are uncertainties as to how the recent M&A Provisions will be interpreted or implemented. If we decide to acquire a PRC company, we cannot assure you that we or the owners of such PRC company can successfully complete all necessary approval requirements under the M&A Provisions. This may restrict our ability to implement our acquisition strategy and adversely affect our business and prospects.

**Any future epidemic or outbreak or occurrence of other unpredictable events may adversely affect our operational results.**

In 2009, thousands of cases of H1N1 influenza were discovered in Mainland China and Hong Kong. In the first half of 2003, certain Asian countries, including China, encountered an outbreak of Severe Acute Respiratory Syndrome, or SARS, a highly contagious form of atypical pneumonia. If an outbreak of H1N1 influenza, avian flu, SARS or any other epidemic occurs in the future and any of our employees or our customers in our stores are suspected of having contracted such epidemic or any of our stores are identified as a possible source of spreading such epidemic, we may be required to quarantine the employees that have been suspected of becoming infected, as well as others that had come into contact with those employees. We may also be required to disinfect the affected stores and therefore suffer a temporary suspension of our retail operations.

As department stores are generally located in public areas with high customer traffic, they are potential sites for terrorist attacks, public demonstrations and other unpredictable events. Any such unpredictable events, especially in Xiamen, where our headquarters is located and where we own four store operations and manage one store, may have an adverse effect on the business of our department stores. Any quarantine or suspension of our retail operations, whether due to the outbreak of an epidemic or occurrence of other unpredictable event would adversely affect our business and prospects.

**Our business may be harmed by power shortages in the PRC.**

We consume substantial amounts of electricity for lighting and displays at our department stores. The cities in which we operate have periodically imposed limitations, on a city-wide basis, on the usage of electricity. These limitations did not have a material adverse effect on our operations or on our results of operations. There can be no assurance, however, that the limitations on the usage of electricity will not become more prevalent or restrictive, and that these limitations will not have a material adverse effect on our ability to operate. In addition, in the event of any power brownout or blackout for a significant period of time, our business operations may be materially adversely affected. During the three years ended December 31, 2008, and for the six months ended June 30, 2009, we have not experienced any significant power brownout or blackouts.

**Payment of dividends by our operating subsidiaries in China is subject to restrictions under PRC law.**

We are a holding company incorporated in the Cayman Islands and operate our core business through our subsidiaries in China. Therefore, the availability of funds to us to pay dividends to our shareholders depends on dividends received from these subsidiaries. Under PRC law, dividends may be paid only out of taxed profits and after compensation for losses and provisions for reserves. Distributable profits with regards to our operating subsidiaries means their after-tax profits as determined under PRC GAAP, less any recovery of accumulated losses and allocations to statutory funds that it is required to make. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. The calculation of distributable profits under PRC GAAP differs in many respects from the calculation under IFRS. As a result, our operating subsidiaries may not be able to pay any dividend in a given year to us if they do not have distributable profits as determined under PRC GAAP, even if they have profits for that year as determined under IFRS. Moreover, if our subsidiaries incur debt or losses, such indebtedness or loss may impair their ability to pay dividends to us. Accordingly, since our Company derives a substantially portion of its profits from these operating subsidiaries, it may not have sufficient distributable profits to pay dividends to its shareholders.

**It may be difficult to effect service of process upon or secure judgments against, our subsidiaries that are incorporated in the PRC.**

Almost all of our operating subsidiaries are established in the PRC and most of our Directors and members of senior management reside within China, and substantially all of our assets and the assets of our Directors and members of senior management are located within China. Therefore, it may not be possible for investors to effect service of process upon us, our Company or our Directors or members of senior management inside China or to enforce against any one of them in China any judgments obtained from non-PRC courts. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, Japan, the Cayman Islands and some other Western countries. Therefore, recognition and enforcement in China of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

On July 14, 2006, the Supreme People's Court of the PRC and the Hong Kong government signed an Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned. Under such arrangement, where any designated People's Court of the Mainland or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing by the parties, any party concerned may apply to the relevant People's Court of the Mainland or Hong Kong court for recognition and enforcement of the judgment. However, the rights under the arrangement are limited and as of the Latest Practicable Date, no announcement has been made on when the arrangement will come into effect. When the arrangement is implemented, the outcome and effectiveness of any action brought under the arrangement may still be uncertain.