
OUR BUSINESS

OVERVIEW

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

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

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

- Ladies’ fashion
- Men’s fashion
- Jewelry, watches, leather goods, accessories
- Sportswear and shoes
- Jeans, kidswear, underwear
- Cosmetics
- Household goods and others

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

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

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

OUR COMPETITIVE STRENGTHS

We believe the following are our key competitive strengths:

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

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

- ***China retail experience.*** The Chan Family acquired the PORTS brand of luxury apparel and accessories in 1989 and introduced PORTS Products into China in 1993. Experience gained in developing PORTS Products provides us with expertise in the

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retail market for internationally-recognized luxury products. The management has built up a strong track record of successfully operating in the Chinese retail market, and has placed us in a competitive position to sell luxury goods in the Chinese market. We have well-established relationships with various participants in the PRC retail industry and possess in-depth knowledge of operating retail business in various Chinese cities.

- ***Well-established relationships with well-known brands.*** With the experience in and knowledge of China’s retail industry, we have developed solid relationships with various well-known international and domestic brands. We believe the highly experienced management team and PCD’s brand and reputation make us an attractive business partner for a wide variety of high-end and luxury brands, which enable us to offer a broad range of appealing merchandise in our stores.
- ***Track record for establishing, integrating, and operating department stores.*** We have demonstrated a track record of successfully establishing and integrating new stores into our Group. Our extensive knowledge of, and experience in, the China retail market, obtained by the Chan Family through the PORTS business, have allowed us to effectively identify and integrate stores into our self-owned store network. For example, Scitech Plaza was added into our store network in July 2007 and underwent major revamp of its store layout, tenant mix and operation management. It has become a successful upscale department store in Beijing and our major revenue contributor. In addition, our understanding of Chinese consumer preferences for high-end and luxury brands and the variations of those preferences in different local markets have allowed us to adapt our business model to an evolving business environment and successfully expand into various regions of China. This also helps us to identify and effectively integrate additional stores to further drive our growth.

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

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

Through our operations in the department store business, we are able to analyze a particular market and optimize the positioning of our department store in that market to further expand our market share in existing markets and target new markets and areas of the Chinese retail industry.

Prime store locations with long-term market growth potential

A prime location is a key factor for a successful retail operation. Our network covers major cities in China including Beijing, Xiamen, Xian, Changchun, Qingdao, Taiyuan, Nanning and Guiyang. A majority of our stores is located in commercial areas with high target customer

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traffic, and the stores are highly visible and easily accessible to car and pedestrian traffic. As a result, we believe that our stores can continuously attract a high volume of consumers. Moreover, we generally only operate department stores in cities that we believe offer the most compelling growth prospects.

Excellent customer service and loyal customer base

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

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

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

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

OUR STRATEGIES

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

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

Continuing expansion through developing new flagship stores in prime locations

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

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

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

Driving operational improvements to achieve full potential at existing sites

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

Expanding flagship stores

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

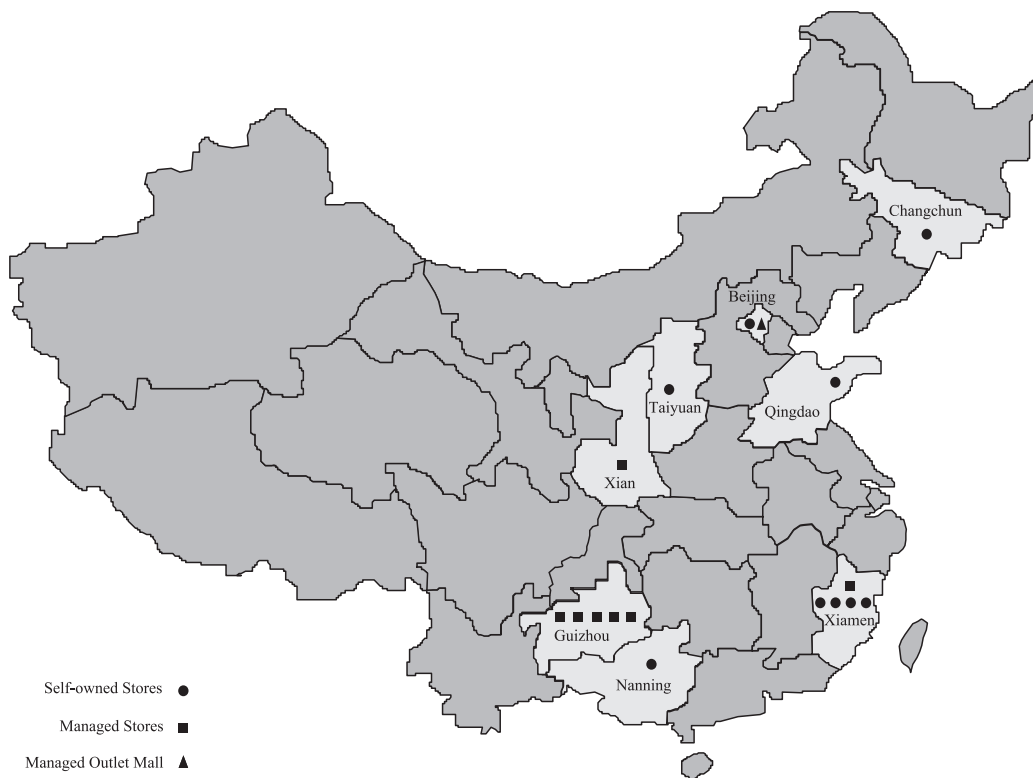
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Entering into outlet mall business

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

OUR STORE NETWORK

Our network consists of sixteen department stores and one outlet mall located in Beijing and seven provinces in China of which nine are self-owned stores, seven managed stores and one outlet mall under management contract. Most of these stores are located in prime shopping locations of their respective cities that are highly visible and easily accessible to car and/or pedestrian traffic and as a result, we believe that the stores in our network can continue to attract a high volume of consumers. Moreover, recognizing that the location of a store is essential to its success, we only operate in cities that we believe offer the most compelling growth prospects and contribute to our overall high-end and luxury brand image, which we believe distinguishes us from our competitors.



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Our Self-Owned Store Operations

The following table sets out a breakdown of our self-owned stores by the manner in which we occupy the property, geographical location, gross floor area, and date of commencement of operations.

Store	Property owned/ leased/SCA ⁽¹⁾	Date we commenced operations	Operated by	City	Gross floor area ⁽²⁾ <i>(sq.m.)</i>
PCD Zhongshan Lu	Owned	January 1, 2004	Zhongshan PCD Stores (Xiamen)	Xiamen	19,332
PCD World Trade	SCA	January 1, 2004	PCD World Trade (Xiamen)	Xiamen	10,807
PCD Taiyuan	SCA	March 9, 2005	PCD Stores (Taiyuan)	Taiyuan	16,336
PCD Continental	Leased ⁽⁵⁾	September 3, 2005	PCD Continental Department Stores (Xiamen)	Xiamen	20,001
PCD Jiahe	Owned	January 16, 2006	Xiamen Lotus Department Stores ⁽³⁾	Xiamen	11,449
PCD Qingdao	Owned ⁽⁴⁾	October 9, 2006	Zhongshan PCD Stores (Qingdao)	Qingdao	19,087
PCD Changchun	SCA	December 1, 2006	PCD Stores (Jilin)	Changchun	47,737
Scitech Plaza	Leased ⁽⁶⁾	July 1, 2007	Beijing Scitech Department Stores	Beijing	27,670
PCD Nanning	SCA	January 2008	PCD Stores (Guangxi)	Nanning	20,108
Total gross floor area					<u>192,527</u>

Notes:

- (1) SCA denotes store cooperation agreement, the terms of which usually include our fee arrangement with the owner of the premises and the term of our operations at the store.
- (2) The operating floor area at each of our stores is significantly less than the gross floor area. Operating floor area includes floor area used for concessionaire and direct sales counters, operating floor area leased by us and hallways, but excludes the floor area of facility storage space, restrooms, escalators, staircases, freight elevators, office space and in-store warehouse areas. We estimate that the operating floor area at each of our stores is between 50%–60% of gross floor area. All the GFA numbers reflected in the table above are limited to the areas which relate to the operation as a department store.
- (3) PCD Jiahe was previously operated by PCD Songbai Department Stores.
- (4) We also lease office space of gross floor area of 1,753 sq.m. on level 6 of the premises on which PCD Qingdao is located from two Independent Third Parties.
- (5) We also lease office space of gross floor area of approximately 1,500 sq.m. on level 7 of the premises on which PCD Continental is located from an Independent Third Party.
- (6) We also lease office space of gross floor area of 1,056 sq.m. on level M on which Scitech Plaza is located from Scitech Group.

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The following table sets out certain operating data for our self-owned stores during the Track Record Period.

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
PCD Zhongshan Lu					
GSP (RMB in millions)	165.1	217.6	224.7	111.0	114.1
Approximate total gross floor area at end of year/period (square meter).	19,332	19,332	19,332	19,332	19,332
Approximate GSP per square meter (RMB) ⁽¹⁾	8,539.1	11,254.3	11,623.5	5,741.1	5,900.8
Approximate daily GSP per square meter (RMB) ⁽²⁾	23.4	30.8	31.8	31.7	32.6
PCD World Trade					
GSP (RMB in millions)	57.8	55.3	56.5	24.7	28.0
Approximate total gross floor area at end of year/period (square meter).	10,807	10,807	10,807	10,807	10,807
Approximate GSP per square meter (RMB) ⁽¹⁾	5,348.8	5,115.1	5,228.1	2,282.8	2,593.1
Approximate daily GSP per square meter (RMB) ⁽²⁾	14.7	14.0	14.3	12.6	14.3
PCD Taiyuan					
GSP (RMB in millions)	101.6	114.5	115.2	59.6	55.3
Approximate total gross floor area at end of year/period (square meter).	16,336	16,336	16,336	16,336	16,336
Approximate GSP per square meter (RMB) ⁽¹⁾	6,218.0	7,007.8	7,053.4	3,649.6	3,386.0
Approximate daily GSP per square meter (RMB) ⁽²⁾	17.0	19.2	19.3	20.2	18.7
PCD Continental					
GSP (RMB in millions)	67.9	105.7	133.8	61.5	73.6
Approximate total gross floor area at end of year/period (square meter).	20,001	20,001	20,001	20,001	20,001
Approximate GSP per square meter (RMB) ⁽¹⁾	3,396.6	5,284.8	6,687.5	3,074.9	3,681.1
Approximate daily GSP per square meter (RMB) ⁽²⁾	9.3	14.5	18.3	17.0	20.3
PCD Jiahe⁽³⁾					
GSP (RMB in millions)	148.1	154.3	161.7	80.6	76.7
Approximate total gross floor area at end of year/period (square meter).	11,449	11,449	11,449	11,449	11,449
Approximate GSP per square meter (RMB) ⁽¹⁾	12,936.4	13,477.4	14,119.3	7,038.8	6,697.9
Approximate daily GSP per square meter (RMB) ⁽²⁾	37.0	36.9	38.7	38.9	37.0
PCD Qingdao⁽⁴⁾					
GSP (RMB in millions)	79.7	346.7	291.8	172.9	99.2
Approximate total gross floor area at end of year/period (square meter).	19,087	19,087	19,087	19,087	19,087
Approximate GSP per square meter (RMB) ⁽¹⁾	4,175.6	18,165.1	15,286.5	9,057.5	5,196.0
Approximate daily GSP per square meter (RMB) ⁽²⁾	49.7	49.8	41.9	50.0	28.7

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	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
PCD Changchun⁽⁵⁾					
GSP (RMB in millions)	17.0	217.6	242.9	115.8	137.6
Approximate total gross floor area at end of year/period (square meter)	47,737	47,737	47,737	47,737	47,737
Approximate GSP per square meter (RMB) ⁽¹⁾	355.1	4,557.5	5,088.5	2,426.2	2,882.9
Approximate daily GSP per square meter (RMB) ⁽²⁾	11.5	12.5	13.9	13.4	15.9
Scitech Plaza⁽⁶⁾					
GSP (RMB in millions)	—	702.2	1,332.3	649.5	591.4
Approximate total gross floor area at end of year/period (square meter)	—	27,670	27,670	27,670	27,670
Approximate GSP per square meter (RMB) ⁽¹⁾	—	25,378.9	48,149.1	23,472.6	21,373.7
Approximate daily GSP per square meter (RMB) ⁽²⁾	—	137.9	131.9	129.7	118.1
PCD Nanning⁽⁷⁾					
GSP (RMB in millions)	—	10.1	49.4	22.0	24.5
Approximate total gross floor area at end of year/period (square meter)	—	20,108	20,108	20,108	20,108
Approximate GSP per square meter (RMB) ⁽¹⁾	—	502.6	2,457.3	1,095.2	1,217.0
Approximate daily GSP per square meter (RMB) ⁽²⁾	—	5.6	6.7	6.1	6.7
Total					
GSP (RMB in millions)	637.2	1,924.0	2,608.2	1,297.6	1,200.4
Approximate weighted average gross floor area of year/period (square meter)	85,901	163,656	192,527	192,527	192,527
Approximate GSP per square meter (RMB) ⁽⁸⁾	7,417.3	11,756.1	13,547.3	6,739.7	6,235.0
Approximate daily GSP per square meter (RMB) ⁽²⁾	20.3	32.2	37.1	37.2	34.4

Notes:

- (1) Calculated as GSP divided by gross floor area at the end of the relevant year/period.
- (2) Calculated as approximate GSP per sq.m. divided by 365 or by number of business days as indicated in the applicable notes (3) to (8) below. Total gross floor area used in the calculation for the six months ended June 30, 2009 is multiplied by 181/365. The decrease in daily GSP per square meter for the six months ended June 30, 2009 compared to the six months ended June 30, 2008 is mainly due to the decrease in the daily GSP per square meter of Scitech Plaza and PCD Qingdao.
- (3) In financial year 2006, PCD Jiahe was in operation for 350 days.
- (4) In financial year 2006, PCD Qingdao was in operation for 84 days.
- (5) In financial year 2006, PCD Changchun was in operation for 31 days.
- (6) In financial year 2007, Scitech Plaza was in operation for 184 days.
- (7) In financial year 2007, PCD Nanning was in trial operation for 90 days.
- (8) Calculated as GSP divided by weighted average gross floor area of the year/period.

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PCD Zhongshan Lu

We commenced operations of our first department store, PCD Zhongshan Lu, on January 1, 2004. PCD Zhongshan Lu is located in the Siming district of Xiamen in one of the busiest shopping areas in the city. We own the premises on which PCD Zhongshan Lu is located, with a gross floor area of approximately 19,332 sq.m. The department store occupies part of the basement floor and levels 1 to 6. We dedicate the basement floor primarily to shoes, the first floor to cosmetics and apparel, the second and third floors to jewelry, handbags and ladies' fashion, the fourth floor to menswear and sportswear, the fifth floor to children's apparel, bedding and home electronics, and the sixth floor to toys, a customer service center and a VIP lounge. PCD Zhongshan Lu is our flagship store in Xiamen.

PCD World Trade

We commenced operations at PCD World Trade on January 1, 2004. The store is located on Jiahe Road, a busy street in the Siming district of Xiamen. The gross floor area of this store is approximately 10,807 sq.m. PCD World Trade occupies part of levels 1 to 4 of a 5-storey commercial podium named "World Trade". We dedicate the first floor to apparel and watches, the second floor to jewelry and ladies' fashion, the third floor to accessories, ladies' fashion and shoes, and the fourth floor to men's menswear, sportswear, luggage and a customer service center.

We operate PCD World Trade pursuant to a store cooperation and management agreement dated March 28, 2002 granted by Xiamen Guifeng Real Estate Development Co. Ltd. (廈門貴豐房地產開發有限公司), the owner of the premises at which PCD World Trade is operated and an Independent Third Party. The term of the agreement is 10 years commencing on March 28, 2002 and ending on March 27, 2012. Under the agreement, we have a right of first refusal to renew the agreement one year before expiration of the agreement. The agreement is terminable by the consent of both parties upon three months' notice.

PCD Taiyuan

We commenced operations at PCD Taiyuan on March 9, 2005. The store is located on Kai Hua Si Street in a busy commercial area of the Yingze district of Taiyuan. We operate PCD Taiyuan through a store cooperation and management agreement and the gross floor area of this store is approximately 16,336 sq.m. PCD Taiyuan is located on levels 1 to 6 of a 17-storey composite building named Taiyuan Times Square. PCD Taiyuan is a six-floor department store. We dedicate the first floor to apparel, jewelry, watches and shoes. On the second and third floors, we primarily sell handbags, menswear and ladies' fashion. We dedicate the fourth floor to ladies' fashion and cosmetics, the fifth floor to shoes and sportswear and the sixth floor to bedding and children's apparel.

Levels 1 and 2 of the store premises are owned by Shanxi Yu Hua Yuan Times Square Co. Ltd. (山西御花園時代廣場有限公司), and levels 3, 4, 5 and 6 are owned legally and beneficially by Shanxi Zhonglian Shiye Stock Co., Ltd. (山西中聯實業股份有限公司), both of which are Independent Third Parties. PCD Stores (Taiyuan) currently operates PCD Taiyuan pursuant to a store cooperation and management agreement entered into with Shanxi Yu Hua Yuan Times Square Co. Ltd. and Shanxi Zhonglian Shiye Stock Co. Ltd. On September 16, 2005, pursuant to the agreement, Shanxi Yu Hua Yuan Times Square Co. Ltd. and Shanxi Zhonglian Shiye Stock

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Co. Ltd. agreed to provide the premises to PCD Stores (Taiyuan) for operating PCD Taiyuan for the period from March 1, 2005, retrospectively, to February 28, 2015. The agreement provides that a fee calculated based on a fixed percentage of after-tax sales revenue for PCD Taiyuan is payable to Shanxi Yu Hua Yuan Times Square Co. Ltd. as Shanxi Yu Hua Yuan Times Square Co. Ltd. and Shanxi Zhonglian Shiye Stock Co. Ltd. are in the same group of companies.

PCD Continental

We commenced operations at PCD Continental on September 3, 2005. PCD Continental is located in the Siming district of Xiamen, at the intersection of Zhongshan Road and Siming Road. We lease the premises on which PCD Continental is located, with a gross floor area of approximately 20,001 sq.m., in an art-deco style property consisting of two basement floors and six floors, is a trendy department store offering mid-end cosmetics and sporting goods. A miniature basketball court is located in the center of the store to promote a sporty image for the store. We dedicate one of the two basement floors to sporting goods, the first floor to jewelry, cosmetics and ladies' shoes, the second and third floors to ladies' fashion and underwear, the fourth floor to menswear, luggage and watches, and the fifth floor to children's apparel. This store was previously named Laiya Continental and was rebranded as PCD Continental in March 2009.

The two basement floors and levels 1, 2, 3, 5 and 6 of the store premises are owned by Xiamen Jiutian Real Estate Development Co. Ltd. (廈門九天房地產開發有限公司), an Independent Third Party, and are leased by us. The term of the lease commenced on August 1, 2005 and will end on October 31, 2013. Xiamen Tiandi Kaiming Cinema City (廈門市天地開明電影城) owns level 4 of the premises, which is leased by us. The term of the lease commenced retroactively on January 1, 2009 and will end on October 31, 2013.

PCD Jiahe

We commenced operations at PCD Jiahe on January 16, 2006. PCD Jiahe is located on Jiahe Street in Siming district of Xiamen. We own the premises on which PCD Jiahe is located, with a gross floor area of approximately 11,449 sq.m. PCD Jiahe occupies levels 1 to 4 of a 30-storey commercial building. We dedicate the first floor to cosmetics, ladies' shoes, watches and a customer service center, the second floor to ladies' fashion, jewelry and a cafe, the third floor to ladies' fashion and maternity clothing, and the fourth floor to menswear, luggage, sportswear and a VIP service center. This store was previously named Laiya Jiahe and was rebranded as PCD Jiahe in March 2009.

PCD Qingdao

We commenced operations at PCD Qingdao on October 9, 2006. This store is located on Shandong Road in the Shinan district of Qingdao. The total gross floor area is approximately 19,087 sq.m. PCD Qingdao occupies levels one to five and part of level 6 of a six-storey commercial podium. We dedicate the first floor to jewelry, apparel and accessories, the second floor to ladies' fashion and shoes, the third floor to ladies' fashion, the fourth floor to menswear, the fifth floor to sportswear, home products and golf products. On the sixth floor, there is a customer service center, beauty parlour and a VIP recreation room to offer other services to our VIP clients.

OUR BUSINESS

We own levels one to five of the premises at which PCD Qingdao is operated and we lease level 6 from Liu Xun and Peng Wen, two natural persons and Independent Third Parties. The lease expires on September 30, 2013.

PCD Changchun

We commenced operations at PCD Changchun on December 1, 2006. The store is located on Gongnong Road, a busy intersection of two major streets in the Chaoyang district of Changchun. We operate PCD Changchun through a store cooperation agreement granted by Jilin Ji Chun Industrial and Trading Co. Ltd. (吉林省吉春工貿有限責任公司), an Independent Third Party. The gross floor area of this store is approximately 47,737 sq.m. After completing renovations in December 2007, PCD Changchun became a full line department store with a basement and seven floors. We dedicate the basement floor to a discount section, the first floor to shoes, jewelry and cosmetics, the second and third floors to ladies’ fashion and accessories, the fourth floor to menswear, the fifth floor to sportswear and sporting goods, the sixth floor to children’s apparel, home products and a VIP lounge, and the seventh floor to a food court and arcade.

Pursuant to a store cooperation agreement, Jilin Ji Chun Industrial and Trading Co. Ltd. agreed that Zhongshan PCD Stores (Xiamen) shall operate and manage PCD Changchun. In return, Zhongshan PCD Stores (Xiamen) is required to pay Jilin Ji Chun Industrial and Trading Co. Ltd. a fixed percentage of after-tax sales revenue. After such payments reach a pre-determined threshold, the percentage of after-tax sales revenue to be paid during certain holiday periods is reduced. The term of the store cooperation agreement commenced on November 28, 2006 and ends on December 1, 2021, 15 years from the commencement date of the store.

Scitech Plaza

We commenced operations at Scitech Plaza on July 1, 2007. Scitech Plaza, located on Jianguomenwai Road, is a retail shopping podium which forms part of the Scitech Complex. The Scitech Complex occupies several adjacent buildings, including a hotel, two office buildings and a nightclub. We lease the premises at which Scitech Plaza is operated, with a gross floor area of approximately 27,670 sq.m. The store occupies two basement floors and levels 1 to 5. We dedicate one of the basement floors to electronics, home and office products, and the other to a pharmacy and supermarket. We sell jewelry, cosmetics, apparel and watches on the first floor, ladies’ fashion and accessories on the second floor, menswear and luggage on the third floor, sportswear, sporting goods and handbags on the fourth floor. Children’s apparel, restaurants and a VIP center are located on the fifth floor.

The Scitech Complex is owned by Scitech Group, which is owned as to 85% by Alfred Chan, Edward Tan and their respective immediate family members. Beijing Scitech Department Stores and Scitech Group entered into a 12-year lease on August 17, 2007 with respect to the Scitech Plaza. See “Relationship with Our Ultimate Controlling Shareholders and Connected Transactions — Continuing Connected Transactions — Properties leased by Scitech Group.” For the six months ended June 30, 2009, our revenue and net profit from Scitech Plaza were RMB185.4 million and RMB73.2 million, respectively, which constituted 51.7% and 59.0% of our total revenue and net profit, respectively, for the same period.

OUR BUSINESS

Since the addition of the store to our network in 2007, we have upgraded Scitech Plaza from a mid-market shopping center with mostly domestic brands into a department store targeting the high-end market. We phased out certain then-existing concessionaires in favour of concessionaires selected by us and renovated the store. 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 granted the  trademark and PCD's VIP programs have been implemented.

PCD Nanning

We commenced full operations of PCD Nanning in January 2008 after preparation and trial work in 2007. PCD Nanning is located on Minzu Da Road of Nanning, which is near the Nanning International Convention and Exhibition Center. The store has a gross floor area of approximately 20,108 sq.m. and occupies levels 1 to 5. We dedicate the first floor to menswear, the second floor to jewelry, handbags and apparel, the third and fourth floors to ladies' accessories, and the fifth floor to children's apparel, home products and a VIP lounge.

We identified this as a potentially good site in 2006 and, on March 10, 2006, PCD Stores (Xiamen) entered into a store cooperation agreement with Guangxi Oriental Hangyang Investment Group (廣西東方航洋實業集團有限公司) (formerly known as Guangxi Dongfang Shi Ye Co. Ltd. (廣西東方實業有限公司), an Independent Third Party, to use and manage levels 1 to 5 of the premises as a department store.

The term of the store cooperation agreement is fifteen years from March 10, 2006, and the agreement contains a right of first refusal to renew the agreement upon expiration of the agreement. Under the agreement, as amended, PCD Stores (Xiamen) agreed to pay Guangxi Oriental Hangyang Investment Group a certain percentage of the store's total revenue after tax, which is set to increase incrementally over the course of the first five years of the term of the agreement and remain the same thereafter. Under the store cooperation agreement, PCD Stores (Xiamen) is independently responsible for merchandising, operation, management, organizational structure, the management team and staffing, with a right to implement its own choice of management mode and manner of cooperation with suppliers. It is also responsible for the finance and cash management of the store and has a right to sub-lease certain parts of the store premises for use by suppliers. Guangxi Oriental Hangyang Investment Group has a right to be fully informed and to monitor the progress of, but do not have a right to make decisions on PCD Nanning's management and operation. Further, the store cooperation agreement provides that Guangxi Oriental Hangyang Investment Group is responsible for, without affecting the normal operation and management of the store, ensuring proper maintenance and timely repair of the assets within the store premises and be responsible for all related costs.

The store cooperation agreement was subsequently assigned from PCD Stores (Xiamen) to PCD Stores (Guangxi) pursuant to an assignment agreement dated July 20, 2007 and Guangxi Oriental Hangyang Investment Group consented to the assignment.

In June 2009, Guangxi Oriental Hangyang Investment Group entered arbitration proceedings against us in relation to a contractual dispute. See section headed “— Legal Compliance and Litigation.”

OUR BUSINESS

Our Managed Store Operations

In addition to our self-owned store operations, we also provide management consultancy services to seven department stores and one outlet mall. Pursuant to the management contracts, we are entitled to receive management fees calculated based upon a fixed management fee and/or an agreed percentage of the relevant store or outlet mall’s gross sales proceeds. The gross sales proceeds are collected by the relevant operators of the department stores. Based on the relevant management contract terms, we then receive an agreed management fee from the operators of the relevant department stores. 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. If, during or at the end of the term of the management agreement, we believe that the store is suitable for integration into our self-owned store network, we would seek to negotiate with the operator in respect of the terms of integration.

As a part of our management consultancy services, we provide consultancy and advisory services on merchandising, management and marketing to all of these stores. We also place some senior management staff at each store to oversee their daily operations. The main duties and responsibilities of such senior management staff typically include attending regular operational and business performance review meetings, advising and reviewing brand recruitment plans, major marketing and promotional campaigns and major capital expenditure plans (including store renovations), evaluating managerial staff performance and assisting in recruiting key positions at the managed stores and seeking necessary resources to improve the operation of the managed stores. However, our representatives do not have the authority to enter into contracts on behalf of the store operators. Under the terms of the management agreements, we are not entitled to any operating profits nor do we bear any losses resulting from the operations of the managed stores. As a result of the litigation in relation to New Age Laiya, we began to emphasize the monitoring the financial position of all of our managed stores. Details of the litigation are set out under the section headed “— Legal Compliance and Litigation”.

The following table sets out the geographical location, certain particulars of the management contracts and the ownership of the store properties of our managed stores.

Store	Term of management contract	City	Fee structure	Signing parties	Owner of the property	Approximate gross floor area (sq.m.)
Xiamen Shengming Laiya ⁽¹⁾ . . .	January 5, 2006–December 31, 2009 (terminated in March 2009)	Xiamen	Fixed fee plus percentage of the managed store’s gross revenue	Xiamen Shengming Laiya Department Management (Xiamen)	Xiamen SM Commercial Town Co., Ltd. (廈門SM商業城有限公司) ⁽²⁾	N/A
New Age Laiya ⁽¹⁾ . . .	April 1, 2006–March 31, 2011 (terminated in March 2009)	Xiamen	Fixed fee plus percentage of the managed store’s gross revenue	Xiamen Jintongcheng Properties Development Co. Ltd. (廈門金同成置業發展有限公司) Laiya Department Management (Xiamen)	Xiamen Jintongcheng Properties Development Co., Ltd. (廈門金同成置業發展有限公司) ⁽²⁾	N/A

OUR BUSINESS

Store	Term of management contract	City	Fee structure	Signing parties	Owner of the property	Approximate gross floor area (sq.m.)
Jicheng Laiya ⁽¹⁾	January 5, 2006–February 28, 2010 (terminated in March 2009)	Jinjiang	Fixed fee plus percentage of the managed store’s gross revenue	Jicheng Laiya Department Stores Limited (晉江市吉成來雅百貨有限公司) Laiya Department Management (Xiamen)	Fupu SM Guangchang International Co., Ltd. (福建省晉江市福埔SM國際廣場有限公司) ⁽⁷⁾	N/A
Jicheng Laiya (Qinyang Branch) ⁽¹⁾	June 1, 2007–May 31, 2012 (terminated in March 2009)	Jinjiang	Fixed fee plus percentage of the managed store’s gross revenue	Jicheng Laiya Department Stores Limited (Qinyang Branch) (晉江市吉成來雅百貨有限公司青陽陽光分公司) Laiya Department Management (Xiamen)	Yanguang Real Estate Development Co., Ltd. (晉江陽光房地產開發有限公司) ⁽⁷⁾	N/A
Chengdu Shengming Laiya ⁽¹⁾	January 5, 2006–July 31, 2010 (terminated in March 2009)	Chengdu	Fixed fee plus percentage of the managed store’s gross revenue	Chengdu Shengming Laiya Department Stores Limited (成都市盛名來雅百貨有限公司) Laiya Department Management (Xiamen)	Chengdu Chenghua SM Guangchang Co., Ltd. (成都成華SM廣場有限公司) ⁽⁷⁾	N/A
PCD Xian	January 1, 2008–December 31, 2011	Xian	Fixed fee	PCD Retail Operations Shannxi Mei Mei Changan Department Store Co., Ltd. ⁽¹³⁾ Total Luck Enterprises Limited ⁽¹³⁾ Liu Po ⁽¹³⁾	Xian Century Changan Property Investment ⁽⁸⁾	21,310
Zunyi Guomao	January 1, 2009–December 31, 2017	Zunyi	Percentage of the managed store’s gross revenue	Zunyi Guomao Guangchang Department Stores Limited (遵義國貿廣場百貨有限公司) ⁽¹³⁾ Xian Century Changan Property Investment	Zunyi Hengtong Shiye Developments Co., Ltd. (遵義恒通實業發展有限公司) ⁽⁷⁾	23,600 ⁽¹⁴⁾
Guiyang Guomao	January 1, 2009–December 31, 2011 ⁽⁹⁾	Guiyang	Percentage of the managed store’s GSP with minimum amount	Guangchang ⁽²⁾ Xian Century Changan Property Investment	China Zhenhua Technology (Group) Holding Co., Ltd. (中國振華(集團)科技股份有限公司), The Foods Department of the Guizhou Province (貴州省糧食局), Guizhou Rui Fu Real Estate Development Ltd. (貴州瑞福房地產開發有限公司) and Guangchang ⁽¹¹⁾	22,000 ⁽¹⁴⁾
Guiyang Nanguo Huajin	January 1, 2009–December 31, 2011 ⁽⁹⁾	Guiyang	Percentage of the managed store’s GSP with minimum amount	Guiyang Nanguo Huajin Chun Tian Department Stores Limited (貴陽南國花錦春天百貨有限公司) ⁽³⁾ Xian Century Changan Property Investment	Guangchang ⁽¹⁰⁾	19,700 ⁽¹⁴⁾
Guomao Liupanshui	January 1, 2009–December 31, 2011 ⁽⁹⁾	Liupanshui	Percentage of the managed store’s GSP with minimum amount	Liupanshui Guomao Guangchang Chun Tian Department Stores Limited (六盤水國貿廣場春天百貨有限公司) ⁽⁴⁾ Xian Century Changan Property Investment	Guizhou Yutian Group Real Estate Development Co., Ltd. (貴州雨田集團房地產開發有限公司) ⁽⁷⁾	15,000 ⁽¹⁴⁾
Guizhou Guochen	January 1, 2009–December 31, 2017	Guiyang	Percentage of the managed store’s gross revenue	Guiyang Guochen Department Stores Limited (貴陽國晨百貨有限公司) ⁽¹³⁾ Xian Century Changan Property Investment	Guizhou Tengda Real Estate Development Co., Ltd. (貴州騰達房地產開發有限公司) ⁽⁷⁾	11,700 ⁽¹⁴⁾

OUR BUSINESS

Store	Term of management contract	City	Fee structure	Signing parties	Owner of the property	Approximate gross floor area (sq.m.)
PCD Ruijing . . .	March 1, 2009– December 31, 2011 ⁽⁹⁾	Xiamen	Percentage of the managed store’s GSP with minimum amount	Xiamen Ruijing Chun Tian (廈門瑞景春天百貨有限公司) ⁽⁵⁾ Xian Century Changan Property Investment	Xiamen Hongwen Properties Development Co., Ltd. (廈門洪文居住區開發有限公司) ⁽⁷⁾	18,600 ⁽¹⁴⁾
Beijing Scitech Premium Outlet Mall .	July 1, 2009– December 31, 2011 ⁽⁹⁾	Beijing	Percentage of the managed store’s gross revenue	PCD Retail Operations Even Time ⁽⁶⁾	Beijing Cuijie County Government (北京崔各鄉政府) ⁽⁷⁾	43,700 ⁽¹⁴⁾
Approximate total gross floor area:						175,610

Notes:

- (1) Management contract was terminated by our Group during the Track Record Period prior to the expiry of the term provided therein.
- (2) Guangchang is a connected person of our Group, details of which are set out under the heading “Relationship with our ultimate Controlling Shareholders and Connected Transactions — Guiyang Guomao, Guomao Liupanshui and Guiyang Nanguo Huajin”.
- (3) Guiyang Nanguo Huajin Chun Tian Department Stores Limited is a connected person of our Group, being a 51% owned subsidiary of Guangchang, details of which are set out under the heading “Relationship with our ultimate Controlling Shareholders and Connected Transactions — Guiyang Guomao, Guomao Liupanshui and Guiyang Nanguo Huajin”.
- (4) Liupanshui Guomao Guangchang Chun Tian Department Stores Limited is a connected person of our Group, being a 51% owned subsidiary of Guangchang, details of which are set out under the heading “Relationship with our ultimate Controlling Shareholders and Connected Transactions — Guiyang Guomao, Guomao Liupanshui and Guiyang Nanguo Huajin”.
- (5) Xiamen Ruijing Chun Tian is a connected person of our Group, details of which are set out under the heading “Relationship with our ultimate Controlling Shareholders and Connected Transactions — PCD Ruijing”.
- (6) Even Time is a connected person of our Group, details of which are set out under the heading “Relationship with our ultimate Controlling Shareholders and Connected Transactions — Beijing Scitech Premium Outlet Mall”.
- (7) The owner of the store property is an Independent Third Party of and unrelated to our Group, our Directors, substantial shareholders and their respective associates.
- (8) We own the property at which the store is operated.
- (9) The term of the management agreement will be automatically renewed every three years subject to compliance with Chapter 14A of the Listing Rules.
- (10) Guangchang, a connected person of our Group, owns the store property.
- (11) A portion of the store property is owned by Guangchang, a connected person of our Group, and the remaining portion is owned by parties unrelated to our Group, our Directors, substantial shareholders and their respective associates.
- (12) PCD Ruijing was formerly known as Laiya Ruijing and managed pursuant to a management contract with our Group from December 2007 to November 2010. The store was rebranded as PCD Ruijing in March 2009 and a new management contract was entered into from such date.
- (13) The signing party is an Independent Third Party.
- (14) The approximate gross floor area figure is based on the relevant lease entered into with the store operator.

OUR BUSINESS

For the three years ended December 31, 2008 and the six months ended June 30, 2009, management fees received or receivable under management contracts accounted for approximately 5.9%, 2.5%, 3.4%, and 8.1% of our revenue, respectively.

In November 2008, the New Age Laiya department store in Xiamen closed due to financial difficulties of its owners and operator, and we terminated our management contract as a result. As we believed that the Laiya trade name was negatively affected after reviewing the impact of the incident, we undertook a review of our strategy going forward with respect to the remaining five Laiya-branded department stores. We discussed with the respective operators of each Laiya-branded department store the feasibility of upgrading such Laiya-branded department store into a high-end "PCD" branded department store, and the possibility of the operator selling that store to us. However, we could not reach agreement on the strategy going forward with the respective operators of the remaining Laiya-branded department stores. Accordingly, the management contracts for the remaining Laiya-branded stores were terminated. In the case of Ruijing Laiya, its operation was acquired by PCD Stores (Xiamen) and rebranded as PCD Ruijing in March 2009.

We did not have any dispute with the operators of the Laiya-branded department stores upon the termination of the relevant management contracts. There were no outstanding liabilities and obligations between us and the operators of these stores upon the termination of such management contracts.

Further details of our seven managed stores and one outlet mall are set forth below:

PCD Xian

We began to provide management consultancy services to PCD Xian on January 1, 2008. PCD Xian is located on Nanguanzheng Street in Xian. The department store occupies the basement floor, level 1 and part of level 2. The basement is dedicated to apparel and a supermarket, the first floor to accessories, men's and ladies' fashion and a dessert shop, and the second floor to ladies' fashion.

We own the premises on which PCD Xian is located. We have entered into a lease and a cooperation agreement with a third party pursuant to which that party operates the store. Under the PCD Xian agreement, we agreed to provide management consultancy services to the store operator in relation to PCD Xian.

As part of our strategy of adding new stores in prime locations to our network, on August 10, 2007, we acquired from the Xian Vendors the entire equity interest in Xian Century Changan Property Investment pursuant to a sale and purchase agreement effective from July 22, 2007 for a consideration of RMB137 million. Xian Century Changan Property Investment holds title to the lower floors of the Xian Changan Metropolis Center, which is a prime department store property of approximately 21,310 sq.m. located on Nanguanzheng Street in Xian. A majority of the remaining portion of Xian Changan Metropolis Center, consisting of several office towers and a service apartment building which is in the process of construction, is owned by a party who is, to the Director's understanding, an affiliate of the Xian Vendors.

OUR BUSINESS

Pursuant to the sale and purchase agreement, in addition to the consideration of RMB137 million which has been paid, we have also assumed the mortgaged loans borrowed by Xian Century Changan Property Investment from the Bank of East Asia Xian branch with an aggregate principal amount of RMB280 million. The Xian Vendors and three Independent Third Parties, namely Jiang Shi Hao, Shaanxi Alin Catering Management Limited and Shaanxi Changan Construction Investment Limited, had provided guarantees to the Bank of East Asia Xian branch for these loans prior to the acquisition. Pursuant to the sale and purchase agreement, we have agreed to guarantee these loans, and the guarantees assumed by the Xian Vendors and the aforementioned three Independent Third Parties will be released. The outstanding balance owed to the bank is approximately RMB223.1 million as at June 30, 2009.

In addition, we assumed a RMB156.9 million debt owed by the Xian Vendors to Xian Century Changan Property Investment.

The registration of the change in shareholding of Xian Century Changan Property Investment was completed on August 10, 2007. Our PRC legal advisers have advised us that under PRC law, we are the legal owners of Xian Century Changan Property Investment.

Xian Century Changan Property Investment entered into a lease dated June 25, 2007 (which was subsequently amended) with Shaanxi Bali Chun Tian Department Store Co. Ltd (formerly known as Shaanxi Mei Mei Changan Department Store Co., Ltd) ("Mei Mei"), an Independent Third Party which is affiliated with the Xian Vendors. Pursuant to the amended lease, Xian Century Changan Property Investment leased to Mei Mei the above premises for the period from July 1, 2007 to December 31, 2010, with rental payment starting on July 1, 2008, at the rate of RMB3.2 million per calendar quarter. At the time of our acquisition of Xian Century Changan Property Investment and presently, Mei Mei operated a department store in the Xian Changan Metropolis Center owned by Xian Century Changan Property Investment.

The Xian Vendors have informed us that they and their affiliates prefer to retain control over the tenant composition at Xian Changan Metropolis Center to ensure that Xian Changan Metropolis Center is and remains a high-end retail complex until such time as the construction of the office towers and service apartment are completed and opened to the public. We have agreed to allow Mei Mei to continue to operate PCD Xian provided that PCD Xian is branded as a PCD store and Mei Mei engages us to provide management consultancy services in relation to PCD Xian. Accordingly, on August 15, 2007, we, through PCD Retail Operations, our wholly-owned subsidiary, entered into a cooperation agreement, as subsequently amended by various supplemental agreements, with Mei Mei and certain other parties associated with the Xian Vendors. The agreement became effective on January 1, 2008 and will terminate on December 31, 2011. Pursuant to the cooperation agreement, Mei Mei and us agreed to jointly coordinate the operation of the department store and the property at which it is operated to ensure their luxury and high-end positioning, including coordination in terms of advertising and marketing, sales and promotions, as well as merchandising and tenant recruitment in relation to the store. Further, under the cooperation agreement, we agreed to endeavour to improve the traffic flow and prospects of the shopping complex where the store is located, and Mei Mei agreed to be responsible for all costs, expenses, claim or liabilities arising from the operation of the store.

OUR BUSINESS

Pursuant to the terms of the cooperation agreement, Mei Mei has agreed to pay PCD Retail Operations a fixed fee of HK\$8.75 million per quarter in 2009, and HK\$10.0 million per quarter in 2010 and 2011, in each case payable at the end of each quarter since January 1, 2009.

Upon the expiration of the cooperation agreement with Mei Mei, we intend to integrate the store into our self-owned store network. On April 1, 2008, we granted Mei Mei a license to use the "Fleur de Lys" logo for PCD Xian. Our conversion plan includes extending employment offers to most of Mei Mei's current operating staff and renewing contracts with brands and suppliers while making slight adjustments to the brand mix.

Xian Phase II

On January 13, 2008, we, through Xian Century Changan Property Investment, acquired the land use rights in respect of a parcel of land located adjacent to PCD Xian with an area of approximately 5,566 sq.m. for a consideration of RMB49.8 million from Xian Municipal National Land Resources Bureau (西安市國土資源局) as the grantor of the land use rights. Under the acquisition contract with the grantor, Xian Century Changan Property Investment is required to complete the development and construction of the project to be located on this land, as described below, prior to December 13, 2010, extendable by a maximum of one year if agreed by the grantor.

In connection with this parcel of land, Xian Century Changan Property Investment has entered into certain cooperation and development agreements with, among others, 陝西長安建設投資開發有限責任公司 (Shaanxi Changan Construction Investment and Development Co., Ltd), a property developer and an Independent Third Party, and PCD Stores (Xiamen). Under these agreements, Xian Century Changan Property Investment, PCD Stores (Xiamen) and Shaanxi Changan Construction Investment and Development Co., Ltd have agreed to cooperate in the development of a modern and high-end retail, commercial and hotel complex at the site and in conjunction with adjacent sites owned by Shaanxi Changan Construction Investment and Development Co., Ltd. ("Xian Phase II"). Shaanxi Changan Construction Investment and Development Co., Ltd will be responsible for the construction of the complex.

Upon completion of the construction, Xian Century Changan Property Investment will become the owner of the retail portion of the complex comprising the basement level and ground floor to level 6 with a total building area of not less than 45,000 sq.m together with certain car parking spaces. The other portions of the complex will be owned by Shaanxi Changan Construction Investment and Development Co., Ltd.. Xian Century Changan Property Investment is responsible for the payment of a total of RMB735 million as development, construction and decoration costs of the retail portion and associated car parking spaces. RMB735 million of the total amount will be paid by us at different stages of the construction in cash.

OUR BUSINESS

Construction of Xian Phase II is expected to be completed by the second half of 2010. Pursuant to an agreement dated November 20, 2009, Mei Mei has agreed to enter into a lease with us to lease the premises for the department store to be situated at Xian Phase II and to engage us to provide management consultancy services in respect of such department store upon the completion of its construction. Mei Mei will pay us a quarterly rental fee of RMB4.5 million under the lease and a quarterly fee of RMB500,000 under the management consultancy agreement. Both the lease agreement and management consultancy agreement with Mei Mei will expire on December 31, 2011, and we intend to operate the department store located at Xian Changan Metropolis Center as a self-owned store upon the expiry of these agreements. We have decided to allow Mei Mei to operate the department store at Xian Phase II and to provide management consultancy services to it so as to enable Mei Mei to operate both department stores within the Xian Changan Metropolis Center (PCD Xian and Xian Phase II) on a consistent basis and to avoid any potential conflict of interests pending the expiry of our lease with Mei Mei in respect of PCD Xian.

Based on current conditions of our Group and the market, and the absence of any unforeseen events, our Directors currently expect that we will generate positive cash flow in the financial year ending December 31, 2010. As we have historically been able to use other fixed assets as collateral for our bank financing and given the long-standing relationships that we have with our lending banks, our Directors believe that we will be able to obtain the necessary bank financing for the development of Xian Phase II. We cannot however assure you that construction of Xian Phase II will be completed or the planned department store will commence operations according to schedule. We also cannot assure you that the operation of a department store at the premises will be profitable or that we can obtain the financing as we expect. Please refer to the section entitled “Risk Factors — Risks Relating to Our Business — 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” for a discussion of the risks involved.

Guizhou stores

Guiyang Guomao

We began to provide management consultancy services to Guiyang Guomao on January 1, 2009. Guiyang Guomao is located on Zhonghua Road North in Guiyang. The department store occupies the basement floor and levels 1 to 5. The basement floor is dedicated primarily to sports brands, the first floor to cosmetics, jewelry and apparel, the second and third floors to ladies’ fashion, and the fourth and fifth floors to children’s apparel and bedding. Guiyang Guomao is operated by Guangchang and the store property is owned by China Zhenhua Technology (Group) Holding Co., Ltd. (中國振華(集團)科技股份有限公司), The Grains Bureau of the Guizhou Province (貴州省糧食局) and Guangchang. Gain Win Limited is the holder of 51% of the equity interests in Guangchang. Gain Win Limited is owned by Goal Gain Investments Limited, which in turn is held as to 100% by Jacqueline Tan, daughter of Edward Tan, on trust for and on behalf of LDP Management Limited, a company held as to 50% each by Alfred Chen and Edward Tan, our Controlling Shareholders.

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On December 30, 2008, Xian Century Changan Property Investment entered into management and trademark license agreements with Guangchang, under which Xian Century Changan Property Investment agreed to provide management consultancy services to Guangchang from January 1, 2009 to December 31, 2011, including but not limited to providing advice on merchandising, management and marketing and providing assistance on the implementation of advice on the operation and management of Guiyang Guomao, and to sub-license the right to use the “Fleur de Lys” trademark, altogether for an annual fee of RMB11.8 million to be paid every three months. Pursuant to supplemental agreements entered into between Xian Century Changan Property Investment and Guangchang on October 28, 2009, the amount of the management and trademark license fees payable by Guangchang to us under the management and trademark license agreements will be amended to 2.5% of GSP of Guiyang Guomao with a minimum annual fee of RMB11.8 million. The minimum annual fee for Guiyang Guomao is significantly higher than those of Guiyang Nanguo Huajin and Guomao Liupanshui because Guiyang Guomao has a larger scale of operations and generates a higher level of sales. The management and trademark license agreements will be automatically renewed every three years subject to compliance with Chapter 14A of the Listing Rules by the Company on the same terms, except that the minimum annual management fee will not be applicable upon renewal. In addition, Xian Century Changan Property Investment may terminate the management agreement upon completion of the assumption of business pursuant to the Guangchang Option.

On May 10, 2007, Zhongshan PCD Stores (Xiamen) and Guangchang entered into a Sino-foreign joint venture contract (中外合資經營企業合同). The agreement contemplates the establishment of a Sino-foreign invested joint venture known as “Guiyang Guomao PCD” in China to engage in retail and department store business. Upon the incorporation of Guiyang Guomao PCD, Zhongshan PCD Stores (Xiamen) will own 51% interest in Guiyang Guomao PCD and Guangchang will own the remaining 49%. As Gain Win Limited, a connected person of our Company, currently holds 51% equity interest in Guangchang, the incorporation of Guiyang Guomao PCD will constitute a connected transaction of our Company. Accordingly, our Company will comply with the relevant requirements under Chapter 14A of the Listing Rules in respect of the incorporation of Guiyang Guomao PCD.

Upon the incorporation of Guiyang Guomao PCD and the obtaining of relevant approvals, Gain Win Limited intends to allow Guiyang Guomao PCD and/or its subsidiaries to operate Guiyang Guomao, Guiyang Nanguo Huajin and Guomao Liupanshui. In this regard, Guangchang has granted us the Guangchang Option and the Guangchang Second Option. Please refer to the section headed “Relationship with Our Ultimate Controlling Shareholders and Connected Transactions — Guiyang Guomao, Guomao Liupanshui and Guiyang Nanguo Huajin” for further details.

Guiyang Nanguo Huajin

We began to provide management consultancy services to Guiyang Nanguo Huajin on January 1, 2009. Guiyang Nanguo Huajin is located on Zhonghua Road Central in Guiyang. The department store occupies the basement floor and levels 1 to 6 and the basement floor is dedicated primarily to food and beverage and home products, the first to third floors to accessories and ladies’ fashion, the fourth floor to menswear, the fifth floor to casual wear and underwear, and the sixth floor to sportswear and a basketball court.

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On December 30, 2008, Xian Century Changan Property Investment entered into management and trademark license agreements with Guiyang Nanguo Huajin Department Stores Limited, a company 51% owned by Guangchang, and also the operator of Guiyang Nanguo Huajin. Under the management and trademark license agreements, Xian Century Changan Property Investment agreed to provide management consultancy services to Guiyang Nanguo Huajin Department Stores Limited from January 1, 2009 to December 31, 2011, including but not limited to providing advice on merchandising, management and marketing and providing assistance on the implementation of advice on the operation and management of Guiyang Nanguo Huajin and to sub-license the right to use the “Fleur de Lys” trademark, altogether for an annual fee of RMB3,320,000. Pursuant to supplemental agreements entered into between Xian Century Changan Property Investment and Guiyang Nanguo Huajin Department Stores Limited on October 28, 2009, the amount of fees payable by the operator to us under the agreements will be amended to 2.5% of GSP of Guiyang Nanguo Huajin with a minimum annual fee of RMB3,320,000. The management and trademark license agreements will be automatically renewed every three years subject to compliance with Chapter 14A of the Listing Rules by the Company on the same terms, except that the minimum annual management fee will not be applicable upon renewal. In addition, Xian Century Changan Property Investment may terminate the management agreement upon completion of the assumption of business pursuant to the Guangchang Option. See “Relationship with our ultimate Controlling Shareholders and Connected Transactions — Guiyang Guomao, Guomao Liupanshui and Guiyang Nanguo Huajin”.

Guomao Liupanshui

We began to provide management consultancy services to Guomao Liupanshui on January 1, 2009 pursuant to a management agreement dated December 30, 2008. Guomao Liupanshui is located in the Zhongshan Development Area in Liupanshui. The department store occupies four floors and the first floor is dedicated to cosmetics and accessories, the second floor to ladies’ fashion, the third floor to menswear and the fourth floor to home products and bedding.

The management agreement dated December 30, 2008 was entered into between Xian Century Changan Property Investment and Liupanshui Guomao Guangchang Chun Tian Department Stores Limited, a company 51% owned by Guangchang, and also the operator of Guomao Liupanshui. Under the management agreement, Xian Century Changan Property Investment agreed to provide management consultancy services from January 1, 2009 to December 31, 2011, including but not limited to providing advice on merchandising, management and marketing and providing assistance on the implementation of advice on the operation and management of Guomao Liupanshui, for a monthly fee of RMB10,000 to be paid every three months. Pursuant to a supplemental agreement entered into between Xian Century Changan Property Investment and Liupanshui Guomao Guangchang Chun Tian Department Stores Limited on October 28, 2009, the amount of the management fee payable by the operator to us under the management agreement will be amended to 2.5% of GSP of Guomao Liupanshui with a minimum annual management fee of RMB120,000. The management agreement will be automatically renewed every three years subject to compliance with Chapter 14A of the Listing Rules by our Company on the same terms, except that the minimum annual management fee will not be applicable upon renewal. In addition, Xian Century Changan Property Investment may terminate

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the management agreement upon completion of the assumption of business pursuant to the Guangchang Option. See “Relationship with Our Ultimate Controlling Shareholders and Connected Transactions — Guiyang Guomao, Guomao Liupanshui and Guiyang Nanguo Huajin”.

Guizhou Guochen

We began to provide management consultancy services to Guizhou Guochen in October 2008 pursuant to a management agreement. Guizhou Guochen is located on Zhongshan Road West in Guiyang. The department store occupies the basement floor and levels 1 to 5 and the basement floor is dedicated to primarily to sportswear, the first floor to cosmetics and jewelry, the second and third floors to ladies’ fashion, the fourth floor to menswear and the fifth floor to home products and children’s apparel.

The current management agreement dated January 1, 2009 was entered into between Xian Century Changan Property Investment and Guizhou Guochen Department Stores Limited, the operator of Guizhou Guochen and an Independent Third Party. Under the management agreement, Xian Century Changan Property Investment agreed to provide management consultancy services from January 1, 2009 to December 31, 2017, including but not limited to providing advice on merchandising, management and marketing and providing assistance on the implementation of advice on the operation and management of Guizhou Guochen, for a fee amounting to 1.53% of gross sales.

Zunyi Guomao

We began to provide management consultancy services to Zunyi Guomao in October 2008 pursuant to a management agreement. Zunyi Guomao is located on Zhongshan Road in the Dingzikou district in Zunyi. The department store occupies the basement floor and three floors and the basement floor is dedicated to primarily to home products and bedding, the first floor to jewelry and cosmetics, the second and third floors to apparel and sportswear.

The current management agreement dated January 1, 2009 was entered into by Xian Century Changan Property Investment and Zunyi Guomao Guangchang Department Stores Limited, the operator of Zunyi Guomao and an Independent Third Party. Under the management agreement, Xian Century Changan Property Investment agreed to provide consulting and management consultancy services from January 1, 2009 to December 31, 2017, including but not limited to providing advice on merchandising, management and marketing and providing assistance on the implementation of advice on the operation and management of Zunyi Guomao, for a fee amounting to 1.53% of gross sales.

PCD Ruijing

Laiya Department Management (Xiamen), one of our subsidiaries, entered into a management agreement with PCD Ruijing’s operator, Xiamen Ruijing Chun Tian on June 1, 2007 and an amended management agreement on December 1, 2007. Since December 1, 2007, Laiya Department Management (Xiamen) began to provide management consultancy services to the store operator. PCD Ruijing is located at the Ruijing Commercial Complex Square in Xiamen.

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The department store occupies levels 1 to 3 and the first floor is dedicated to cosmetics, apparel and luggage, the second floor to ladies’ fashion, menswear and sportswear, and the third floor to children’s apparel, bedding and home products.

On August 11, 2009, the operator became a wholly-owned subsidiary of PCD Stores (Xiamen). PCD Ruijing was formerly known as Laiya Ruijing. On February 26, 2009, Xian Century Changan Property Investment entered into a new management agreement with the operator, under which Xian Century Changan Property Investment agreed to provide management consultancy services from March 1, 2009 to December 31, 2011, including but not limited to providing advice on merchandising, management and marketing and providing assistance on the implementation of advice on operation and management of PCD Ruijing, for a monthly fee of RMB250,000 to be paid every three months. This management agreement was superceded by a management agreement entered into between Xian Century Changan Property Investment and Xiamen Ruijing Chun Tian on October 26, 2009, which contains the same terms except that the amount of the management fee payable by the Xiamen Ruijing Chun Tian to us will be amended to 2.5% of GSP of PCD Ruijing with a minimum monthly management fee of RMB250,000. The management agreement will be automatically renewed every three years subject to compliance with Chapter 14A of the Listing Rules by our Company on the same terms, except that the minimum annual management fee will not be applicable upon renewal. In addition, Xian Century Changan Property Investment may terminate the management agreement upon completion of the acquisition pursuant to the Ruijing Option. See “Relationship with Our Ultimate Controlling Shareholders and Connected Transactions — PCD Ruijing” for further details of the Ruijing Option. On March 1, 2009, the operator was granted a license to use the “Fleur de Lys” trademark.

Beijing Scitech Premium Outlet Mall

We began to provide management consultancy services to Beijing Scitech Premium Outlet Mall on July 1, 2009. This is an outdoor mall located within the prestigious villa area along Xiangjiang Bei Road in Chaoyang district of Beijing. Merchandise offered by stores at the outlet mall includes sportswear, casual wear, menswear, ladies’ fashion, shoes and leather goods, cashmere products and underwear. It combines the suburban outlet mall concept prevalent across Europe and North America with local PRC characteristics.

On November 29, 2009, PCD Retail Operations entered into a management agreement with Even Time, the company which indirectly owns 100% of the equity interest in Beijing Scitech Outlet Commerce, the operator of the Beijing Scitech Premium Outlet Mall. Under the management agreement, we agreed to advise and provide management consultancy services to Even Time, with respect to the management of operation, marketing, recruitment, staffing, human resources and property management. The term of the management agreement is three years, and will be automatically renewed every three years subject to compliance with Chapter 14A of the Listing Rules on the same terms. The management fee is 2% of the GSP of the Beijing Scitech Premium Outlet Mall. In addition, PCD Retail Operations may terminate the management agreement upon completion of the acquisition pursuant to the Outlet Mall Option. Please refer to the section titled “Relationship with Our Ultimate Controlling Shareholders and Connected Transactions — Beijing Scitech Premium Outlet Mall” for further details on the Outlet Mall Option.

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We have been granted an option by LDP Management Limited, a company beneficially owned by the Chan Family, to acquire its interests in Even Time for a consideration equal to the lower of (i) the costs of investment incurred by our Controlling Shareholders in Even Time and (ii) the prevailing 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 the Outlet Mall Option.

Our Controlling Shareholders are in the process of obtaining relevant governmental approvals in relation to the operation of 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 the commencement of operations has obtained 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 such approval is not granted, it may 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.

RECENT DEVELOPMENT

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. Pursuant to the consultancy services agreement, we have agreed to provide consultancy services to the owner of the site, including assisting in market and feasibility studies, the establishment of the proposed outlet mall, coordination relating to human resources, training, interior design, liaising with brand owners and information technology, in consideration for a consultancy fee of RMB300,000 per year. The consultancy services agreement has a term of five years commencing from October 16, 2009, and it may be terminated by either party on the payment of RMB500,000 by the party terminating the contract to the other party. During the term of the consultancy services agreement, we will have the flexibility of seeking to renegotiate the terms of our involvement in this project. In this regard, 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. Given the above, 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.

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OUR MERCHANDISE IN OUR SELF-OWNED STORES

We seek to provide our target customer group with a selection of premium luxury merchandise from recognized brands. Our focus is on apparel, jewelry, watches, accessories and cosmetics. Consequently, we do not focus on the combination department store/supermarket format in order to communicate our high-end positioning.

The following table sets out the broad categories of our merchandise and the gross sales derived from each category for the periods indicated in our self-owned stores.

	Year ended December 31,						Six months ended June 30,	
	2006		2007		2008		2009	
	Total	%	Total	%	Total	%	Total	%
	<i>(RMB in millions, except percentages)</i>							
Ladies' fashion	184.5	29.0%	473.1	24.6%	599.1	23.0%	299.7	25.0%
Men's fashion	108.5	17.0%	323.7	16.8%	362.4	13.9%	176.1	14.7%
Jewelry, watches, leather goods, accessories . . .	111.5	17.5%	270.5	14.1%	364.1	14.0%	161.8	13.5%
Sportswear and shoes . . .	91.2	14.3%	226.3	11.8%	291.0	11.2%	119.3	9.9%
Jeans, kidswear, underwear	55.1	8.6%	171.5	8.9%	211.8	8.1%	113.5	9.5%
Cosmetics	48.0	7.5%	151.5	7.9%	228.1	8.7%	108.1	9.0%
Household goods and others	38.4	6.1%	307.3	15.9%	551.7	21.1%	221.8	18.4%
Gross sales proceeds . . .	637.2	100.0%	1,924.0	100.0%	2,608.2	100.0%	1,200.4	100.0%

As at June 30, 2009, we offered merchandise from over 1,600 brands through our self-owned stores. The following table sets out certain of the brands available at our self-owned stores⁽¹⁾.

International fashion/luxury brands

Ermenegildo Zegna	Armani Collezioni	Burberry	Aquascutum	Versace
Canali	Dunhill	Givenchy	Trussardi Jeans	Hugo Boss
MaxMara	Ports 1961	Aigner	Ralph Lauren	Gieves & Hawkes

Local fashion brands

Kaiser	Exception	Vicutu	Elegant & Prosper	Jorya
Marisfrolg	Kaltendin	Ying Er	L'ORFEO	Jefen

Jewelry, watches, leather goods and accessories

Piaget	Rolex	Cartier	Audemars Piguet	Omega
Vertu	TSL	Longines	Glasstique	Mont Blanc
S.T. Dupont	LANCEL	Alviero Martini	Chow Sang Sang	Emperor Watch & Jewelry

Sportswear and shoes

Dunhill Links	Le Coq Sportif	Lacoste	Fila	Munsingwear
Callaway Golf	Nike	Adidas	Reebok	Puma
BMW Lifestyle	Nine West	Timberland	Nautica	Le Saunda

Other fashion apparel (casual wear, jeans, kidswear and underwear)

Max Studio	Tommy Hilfiger	Jessica	Episode	Esprit
Moiselle	Calvin Klein Jeans	Levi's	Adidas Kids	Nike Kids
E. Land Kids	Les Enphants	Byford	Triumph	Embry Form

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Cosmetics

Chanel	Christian Dior	Shiseido	Lancome	Clinique
Estee Lauder	La Mer	Aupres	La Prairie	Guerlain

Household goods and others

Lladro	Frette	Tittot	Sheridan	Best Buy Premium
Panasonic	Braun	Bose	Franz	Philips

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- (1) Not all brands are available at all of our self-owned stores, although some brands use our self-owned stores as a platform for entry into China and are available in many of our self-owned stores.

Merchandising

Our brands recruitment department is responsible for negotiating the arrangements with concessionaires. Negotiations with certain key international brands are performed by senior management. For other brands, we generally delegate the responsibility to negotiate arrangements with concessionaires to the individual stores because many brands have different distributors in each geographical area. Individual store managers choose brands based on the themes and fashion they want to highlight in their particular stores and based on how the different brands complement each other. Generally, our brands recruitment department negotiates our direct sales agreements with cosmetics suppliers.

We believe that market positioning and image play a central role in creating a luxury shopping environment for our customers. We believe a key component of our success involves the selection of brands and merchandise we offer. When selecting direct sales suppliers and concessionaires, we take into account the position of the brand in the market and its compatibility with our image, the financial background of the concessionaire or supplier and the historical results for, and the market image of, the brand.

We enter into an agreement with each of our concessionaires. The typical term of the agreement is approximately six to twelve months, which allows us flexibility in adjusting our brand portfolio. For major international brands, the term of the agreement may extend to three years. For our cosmetics products, we enter into agreements with each of our direct sales suppliers. The typical term of such agreements is approximately one year, and the credit term is about 30 days to 60 days. We generally negotiate direct sales supplier contracts based on the form agreement of the cosmetics supplier.

We undergo a strategic review of our brand portfolio periodically. Each store must submit a proposed brand recruitment plan to our corporate headquarters for approval. Once our corporate headquarters gives approval, the stores may implement the proposed brand recruitment plans. In addition, we monitor and adjust our brand portfolio on an ongoing basis to meet changing consumer preferences. On occasion, if sales of a particular brand fail to achieve the agreed sales target, we will generally either refuse to renew the concessionaire arrangement for that brand or, in the event we believe the situation warrants, set revised minimum sales quotas for that brand.

We had approximately 2,100 concessionaire arrangements in place as at June 30, 2009. For the three years ended December 31, 2008, and for the six months ended June 30, 2009, commissions from concessionaire sales from the five largest concessionaires in aggregate

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accounted for approximately 7.3%, 4.6%, 6.1% and 5.7%, respectively, of our revenue. During the same periods, commissions from our single largest concessionaire accounted for approximately 2.0%, 1.5%, 2.4% and 2.2%, respectively, of our total revenue. In the financial year ended December 31, 2008, one of our top five concessionaires, Century Ports Apparel (Xiamen) Ltd., was a connected party owned by PDL Group and constituted 2.4% of our total revenue.

Sales

We generate revenue from sales of merchandise primarily through commissions from concessionaire sales, and to a lesser extent, direct sales.

Concessionaire sales

We enter into concessionaire agreements with concessionaires. Under these agreements, we permit concessionaires to occupy designated areas of our stores, establish their own sales counters and sell their branded merchandise. With the exception of some cosmetics products and related accessories, which we source directly from a number of cosmetics suppliers, all of our merchandise is sold under concessionaire arrangements. Under the concessionaire agreements, we generally charge the concessionaires a percentage of their gross sales proceeds.

We believe that the concessionaire arrangement enables us to offer a large range of merchandise to our customers because we generally do not bear the risks and costs of inventory management, including the risks associated with obsolete merchandise.

We generally enter into a standard concessionaire agreement with our concessionaires. The following is a summary of the major terms covered by the concessionaire agreements we enter into with the different concessionaires:

Terms which generally apply to concessionaires

- representation by concessionaires that their products comply with all laws and applicable quality standards and are required to pay to us an amount as warranty, from which we may make deductions under specified circumstances;
- settlement arrangements (such as removal of furnishings and fittings) upon end of term;
- our right to deal with any customer complaints at our discretion, and the requirement for concessionaires to cooperate with us in any actions so taken by us;
- settlement terms generally range from 30 to 60 days after sales of goods from the beginning of the month of the relevant sale;
- commission rates generally range from 15% to 25%;

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- provisions relating to operations, such as opening times, receipt of money from customers only through our cashiers, inspection of goods by us, ensuring security of goods and obtaining insurance, requiring concessionaires to cooperate in any promotional events we plan and requiring advertising and/or marketing activities of concessionaires to be approved by us in advance; and
- our right to relocate a concessionaire where such concessionaire cannot achieve the agreed sales target or where the concessionaire commits a material breach of the concessionaire agreement.

Terms which differ for each concessionaire

- the store and floor area to be occupied by the concessionaire;
- type of product sold;
- choice of determination of payment to us (as a percentage of gross proceeds; as a percentage of gross proceeds exceeding a minimum amount payable irrespective of actual proceeds; or as a predetermined lump sum);
- duration of the arrangement; and
- other terms which may be agreed between the parties in each specific case.

While our standard concessionaire agreement specifies the type(s) of merchandise the concessionaire may sell in our stores, concessionaires retain the right to set the prices for their merchandise. This price, however, may not exceed the price for the same merchandise sold by the concessionaire at another outlet nearby.

The concessionaires have the right, subject to our approval, to design, decorate and renovate their designated areas in accordance with guidelines established by us, and, in all cases, are responsible for the associated costs. We generally do not bear any cost of renovations. Other than the concessionaire agreements entered into pursuant to the Master PDL Agreement, as further described in "Relationship with Our Ultimate Controlling Shareholders and Connected Transactions — Continuing Connected Transactions — Concessionaire Arrangement with PDL Group," we generally charge our concessionaires:

- operation and property management fees, based on the floor area occupied by the concessionaire;
- fees for basic facilities, including air-conditioning and lighting; and
- fees for cashier, security, maintenance, cleaning and personnel management consultancy services.

In addition, concessionaires generally pay us fees of 1 to 2% of gross sales for advertisements and our regular and special promotions, as well as use of display space. Moreover, the concessionaires generally pay for their own costs, including but not limited to, electricity usage, credit card fees and promotional fees.

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The concessionaires are generally responsible for employing their own sales staff and for maintaining merchandise and service quality acceptable to us. Although the concessionaires employ their sales staff, we provide these sales staff with training, require them to abide by our guidelines, have the right to manage them and may request the concessionaires to terminate the employment of such personnel in the event that they do not meet the standards set by our stores. In addition, we actively monitor the quality and mix of merchandise, the service provided by the concessionaires and their sales volume. We constantly interact with our concessionaires, providing guidance and recommendations relating to their sales performance, marketing and promotional strategies, merchandise mix and quality and the visual presentation of their designated area. If any concessionaire fails to meet these operating requirements, we generally do not renew the concessionaire's sales agreement.

We collect the gross proceeds from the sale of merchandise by the concessionaires. Our staff confirm with each concessionaire the amount sold by that concessionaire on a monthly basis. At the agreed time for payment, typically on a monthly basis, we remit the gross proceeds after deducting all relevant commissions and expenses to the concessionaire.

During the three years ended December 31, 2008 and the six months ended June 30, 2009, there were no material claims made against us for damages caused by defective goods sold in our stores by our concessionaires.

During the year ended December 31, 2006, income from one of our top 5 concessionaires, Etac Fashion (Xiamen) Co., Ltd., a connected party owned by PDL Group, constituted 1.5% of our total revenue for that year. Subsequently, income from one of our top five concessionaires, Century Ports Apparel (Xiamen) Ltd., another connected party owned by PDL Group, constituted 1.5%, 2.4% and 2.2%, respectively of our total revenue in the years ended December 31, 2007, 2008 and six months ended June 30, 2009.

Direct sales

We enter into direct sales agreements with cosmetics suppliers, which is a standard practice in the PRC department store industry. This practice stems from the fact that, so far as our Directors are aware, foreign cosmetic brands in China are able to secure payment for their goods (instead of shipping on consignment) with upfront payment arrangement. However, in line with common practice in the PRC department store industry, most foreign cosmetic companies agree in practice to take back or exchange any goods that have not been sold. Accordingly, our Directors are of the view that direct sales of cosmetics in China carries low inventory risks. The typical length of such agreements is approximately one year, and credit terms generally range from 30 to 60 days. We generally negotiate direct sales supplier contracts based on the form of agreement provided by the cosmetics supplier. In general, the terms of the contracts with our cosmetics suppliers stipulate that we can only return inventory for credit in case of defects. However, for the reasons cited above, our cosmetics vendors in practice normally allow us to return any unsold inventory.

For the three years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, direct sales accounted for 22.1%, 21.0%, 22.9% and 23.0% of our total revenue, respectively. See "Risk Factors — Risks Relating to Our Business — A sudden decrease in market demand for our cosmetics products may result in inventory buildup or obsolescence."

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During the three years ended December 31, 2008 and the six months ended June 30, 2009, purchases from our five largest direct sales suppliers together accounted for approximately 75.8%, 82.7%, 81.8% and 79.9%, respectively, of our 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 total purchases.

None of our Directors or their respective associates (as defined in the Listing Rules) or, so far as our Directors are aware, any shareholder who owns 5% or more of our issued share capital had, during the Track Record Period, any interest in any of our five largest direct sales suppliers.

Concessions and sub-leases to complementary businesses

We provide space at certain of our department stores to businesses that complement our high-end retail business, either through sub-leases or concessionaire arrangements. For example, we have agreements with food suppliers to offer premium grocery products at Scitech Plaza. In addition, we sublease space in our department stores to businesses such as restaurants, which we believe complement our retail business. For the three years ended December 31, 2008 and the six months ended June 30, 2009, revenue from rental income accounted for approximately 5.4%, 3.8%, 3.9% and 4.1% of our total revenue, respectively.

Customers

We principally operate in the retail market. As a result, none of our customers individually accounted for more than 1% of our revenue during the Track Record Period, so far as our Directors are aware.

None of our Directors or their respective associates (as defined in the Listing Rules) or, so far as our Directors are aware, any shareholder who owns 5% or more of our issued share capital has as at the Latest Practicable Date any interest in any of our five largest customers.

STORE MANAGEMENT AND OPERATIONS

Corporate Headquarters

Our corporate headquarters, which is located in Xiamen, is primarily responsible for formulating policy, reviewing the merchandise and brand mixes of the stores, cash flow and financial management, human resources, planning our overall strategy and supervising our overall performance. Our central merchandizing department negotiates contracts with key concessionaires. It is provided with regular sales reports generated from our supplier management system to assist them with management and monitoring of the performance of the stores. In addition, our principal executive office is responsible for selecting potential sites for additional stores, and negotiating the leases, if any, for the selected sites.

Stores

Our stores focus on daily operations, local marketing, customer service, concessionaire and supplier relationships, and the establishment and maintenance of relationships with local governmental authorities under the management and supervision of corporate headquarters.

OUR BUSINESS

MARKETING AND PROMOTION

Promotions

We frequently organize different promotions and brand building events to not only increase revenue but also promote and enhance our brand name and market image. We have organized a series of trendy and fashionable promotional events. Our sales promotions include discounts, gifts, lucky draws, and bonus points for our customer loyalty program.

During different seasons, holidays and festivals, we hold sales campaigns, generally together with our concessionaires and direct sales suppliers. These include, among other things, seasonal sales, store anniversaries, holiday sales during Christmas, Chinese New Year and National Day, and festival sales during the Mid-Autumn Festival. In addition, we organize events promoting specific categories of merchandise. We advertise our sales promotions primarily through newspaper advertisements.

Customer Loyalty Program

We have a customer loyalty program in some of our stores through which we issue customer loyalty cards to our customers. Sales to our VIP customers constituted 42.8%, 51.7%, 51.9% and 51.0% of our gross sales proceeds in the years ended December 31, 2006, 2007 and 2008, and six months ended June 30, 2009. Customer loyalty cardholders receive a discount on purchases of merchandise, the extent of which is determined by their card tier. We divide our customer loyalty card program into two tiers, gold cards and platinum cards, with platinum card status being the higher tier. One benefit includes a discount of up to 10% on undiscounted store goods for gold members and a discount of up to 15% on undiscounted store goods for platinum members. Frequent and regular consumption by members is also rewarded with complimentary gifts as well as points that are directly proportional to sales volume and that can be used as store credit.

The store credits were accounted for as a separately identifiable component of the sales transaction in which they are granted ("Initial Sale"). According to IFRIC 13 Customer Loyalty Programmes issued by the International Accounting Standards Board, we allocated a portion of the proceeds derived from Initial Sale to the awarded credits (under customer loyalty programmes) as deferred revenue, which is recognised as revenue when award credits are redeemed or expired and we fulfil or discharge our obligations. The amount of store credits outstanding is nil, RMB946,000, RMB1,025,000 and RMB1,134,000 as at December 31, 2006, 2007 and 2008 and June 30, 2009 respectively.

Additional member benefits include invitations to exclusive events organized for privilege VIPs and complimentary added-value services, including personal shopping, umbrella rental, baby stroller rental and gift wrapping. Platinum members also have complete access to the Platinum Lounge at the relevant stores, which have bars with complimentary snacks and drinks, a magazine reading area, as well as a concierge desk where home or office delivery can be arranged.

In addition to in-house benefits, the customer loyalty program has also formed partnerships with local businesses, including restaurants, hotels, spa and fitness clubs, entertainment facilities and hair and beauty salons, which provide benefits including discounts, special offers, and complimentary gifts.

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Requirements to join the customer loyalty program vary based on local market dynamics. For example, for our customers in Xiamen, to reach gold status a customer is required to spend either RMB2,000 or more in one day or RMB5,000 or more within one month. To reach platinum status a customer is required to spend either RMB10,000 or more in one day or RMB50,000 or more within one month. All existing members who have been at the gold level for at least one year will automatically be upgraded to platinum status upon spending RMB6,000 or more in one day or RMB20,000 or more within one month. An upgrade to the platinum privilege card can also be achieved by gold card members who have accumulated 300 points within one year. Gold status and platinum status can also be reached by becoming a PCD Dragon “silver” and “gold” credit cardholder, respectively. See “ — Co-branded credit card” below. Finally, to attract new members during the early stages of opening a store in a new location, customers can reach gold status upon accumulating 300 points in an “Accumulated Points Card.” See “— Co-branded credit card”.

We aim to increase gold and platinum member subscription levels across all stores. Our efforts to build awareness of the customer loyalty program and hence subscription levels include training of all floor staff to promote the program, as well as displaying large posters about the program in eye-catching locations throughout our stores. Special events organized for VIPs and their guests are used to promote program awareness.

To identify the needs of our target customers, we collect data from various sources, such as VIP application forms, VIP sales trends reports, marketing event questionnaires, points exchange management studies, as well as other types of customer and data analyses. The data collected allow us to have an ongoing means to further develop our customer loyalty program. For example, we organized a finance and investment seminar offered for a small segment of VIP members who showed particular interest in this topic. We have also organized events such as wine tasting, test drives of luxury cars and painting classes for children as a part of our VIP programs. Our VIP guest management system provides us with data that enables a better understanding of customer preferences, needs and habits in each of our locations. The collected data permit us to tailor marketing programs to different customer groups within the VIP programs throughout China. By servicing the most valued customer segment in a manner to which they have become accustomed, we intend to solidify the loyalty of existing VIP club members as well as gain the trust of new members.

As at June 30, 2009, we had approximately 371,000 customer loyalty cards in issue, comprising of approximately 324,000 gold cards and 47,000 platinum cards.

	As at and for the year ended			As at and for the six months ended
	December 31,			June 30,
	2006	2007	2008	2009
Number of customer loyalty cardholders	170,941	317,756	336,880	371,158
Total customer loyalty cardholder purchases as a percentage of revenue (excluding sales from our food and beverage outlets)	42.8%	51.7%	51.9%	51.0%

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As advised by our PRC legal advisers, the operation of our customer loyalty programmes, which involves issuing customer loyalty cards, giving discounts and/or complimentary gifts to members of our customer loyalty programmes, is in compliance with applicable laws and regulations of the PRC.

Customer service

We believe that the provision of excellent customer service increases customer loyalty and satisfaction. Each of our stores has a customer service center. The customer services provided vary by store and include, among other things:

- VIP program inquiry;
- VIP card services (application, renewal, upgrade, and reissue);
- Points inquiry and exchange;
- Baby stroller and umbrella rental;
- Paging service;
- Personal shopping;
- Corporate/Group purchases;
- Delivery service;
- Prepaid gift card purchases; and
- Lost and found counters.

PCD and Scitech Premium Outlet websites

Our websites, “www.pcds.com.cn” and “www.scitechoutlet.com”, provide a promotional and informative channel and interface with the public and our VIP customers.

The PCD website provides visitors with an introduction to our company and details relating to the individual department stores in our network including location, store hours and details of our VIP program of each store. The website also provides a customer service channel for our customers through which they can provide suggestions, make enquiries or file complaints. In the future, we plan to conduct surveys of our customer loyalty cardholders via our website, and arrange for members of our VIP customer loyalty program to review their status and the amount of points accumulated via a VIP portion of the website. We further expect to implement a secure area for concessionaires and suppliers on the PCD website to facilitate access to their sales and inventory information at each PCD stores location.


For the avoidance of doubt, information on our websites does not constitute part of this document.

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Prepaid gift cards

We sell prepaid gift cards at all of our self-owned stores. Customers purchase these cards in varying amounts, generally as gifts for friends or relatives, which can be used to purchase merchandise at a later date. If the individual using the card wishes to purchase an item that costs more than the cash value stored on the card, the customer must pay the difference between the amount of the merchandise and the amount stored on the card. Money received from purchases of gift cards is booked on the consolidated statement of financial position as “trade and other payables” and revenue is recognized only when the card is used to purchase merchandise. See “Financial Information — Other Payables.” The issuance of prepaid gift cards involve certain regulatory risks, see “Risk Factors — Risks Relating to Our Business — The issuance of prepaid gift cards by us may constitute a breach of the applicable PRC laws and regulations,” and “Our Business — Legal Compliance and Litigation.”

Co-branded credit cards

As of June 30, 2009, we had approximately 129,000 credit cards in issue that were co-branded with a number of banks including China Construction Bank. These co-branded credit cards carry the  trademark and the name of the issuing bank. The co-branded credit card also serves as a customer loyalty card for the cardholder. As a result, the cardholder can enjoy the benefits of our customer loyalty program when utilizing the co-branded credit card. There are two varieties of co-branded credit cards: silver cards and gold cards. Depending on various factors, such as customer’s income, assets and residency, the issuing bank determines which card to issue to the customer, with gold cards having more stringent requirements. See “— Customer Loyalty Program.”

INFORMATION TECHNOLOGY

We believe that information technology is fundamental to the efficient management and operation of our business and performs a key role in our success and future growth. Important areas that rely on our information technology include sales, concessionaire and supplier management, brand management, promotional activities, customer loyalty program management, financial and sales information and analysis.

We established our information system and have developed it into a comprehensive information management system capable of supporting the needs for retail businesses of department stores. The system comprises a POS system, or point-of-sale system, a concessionaire and supplier management system, an accounting system, a sales system and a VIP guest management system. The sales system, in particular, is internally connected through VPN, so that each store may obtain updates of sales in all stores within a reasonable time frame. Our information system mainly comprises the following functions:

- **POS system.** Our POS system supports the sales in all stores, prints invoices, and supports various credit cards, guest cards and prepaid gift cards. Finance personnel can use the system to update and verify sales in real time, and management may also obtain sales updates in the stores on a real time basis.

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- **Concessionaire and supplier management system.** Our concessionaire and supplier management system provides support related to concessionaire and suppliers, including concessionaire and supplier information management, contract management, commodity management, expense management and sale proceeds settlement management. We track concessionaire and supplier sales, manage settlements, as well as combine account settlement seamlessly with the accounting system.
- **Accounting system.** Our accounting system enables us to track operational revenue, analyze current financial performance and conduct routine book entry through the system. The system also supports the analysis of various brands on a periodical basis, and supports on-line verification of accounts with concessionaire and suppliers as well as on-line bank payments.
- **Sales system.** Our sales system enables us to conduct performance analysis by store, floor and brand on a daily, weekly, monthly and annual basis. Moreover, we can compare sales trends according to current and historical performance or performance comparison between stores.
- **VIP guest management system.** We use our VIP guest management system to maintain our VIP information database, calculate various consumption data, keep records of preferential treatments and bonuses provided to VIP card holders, send mail or messages in respect of activities organized by stores to VIP guests in accordance with recorded guest information and to conduct analyses by categories of consumption ability, age, gender and income. The system also supports preferential refunding activities such as the ability to exchange gifts with points or to convert points into store credit.

We have not experienced any material system failure that has resulted in widespread and substantial loss of service or other significant damages. While we do not presently have an off-site back-up system, we have a back-up system at our corporate headquarters. Moreover, the data we store in our corporate headquarters replicates the data stored at each of our stores, which provides redundancy of data in the case of a catastrophe at any one of our stores, or at the corporate headquarters.

QUALITY ASSURANCE

We believe that the provision of quality merchandise contributes to the maintenance of our market image. All merchandise available for sale in our stores is subject to random inspection upon delivery and while the merchandise is available for sale. We apply a strict standard of quality for merchandise sold under concessionaire arrangements. In practice, we return all merchandise that we find to be defective to the relevant concessionaire or supplier.

We have not purchased any insurance to cover against product liability that may arise from the sale of merchandise by our stores. Under the terms of our standard supply contract with concessionaires, the concessionaires provide merchandise quality assurance to us and bear all product liability relating to merchandise supplied by them and sold in our stores will be borne by the concessionaires. See the section titled “Risk Factors — Risks Relating to the Industry — We may be subject to product liability claims relating to defective merchandise provided by

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concessionaires and, as a result, our reputation and operating results may be adversely affected” for more information. When selecting concessionaires, we take into account the quality of the merchandise of the brand and the concessionaires.

INVENTORY MANAGEMENT

For our concessionaire arrangements, we do not generally bear any inventory risk. For our direct sales, which accounted for approximately 22.9% and 23.0% of our revenue for the year ended December 31, 2008 and the six months ended June 30, 2009, respectively, we have adopted an inventory policy intended to ensure that we maintain an appropriate level of inventory at our stores. Representatives from the direct sales suppliers review our inventory of their merchandise on a regular basis and take orders from our merchandizing department when appropriate. We perform stock counts for direct sales merchandise on a monthly basis. For the year ended December 31, 2008, the average inventory turnover days was 83 days. See “Financial Information — Critical accounting policies and estimates — Inventory.” Our Group enters into direct sales agreements with direct sales suppliers (which relate primarily to cosmetic products) where our Group is contractually required to make upfront payments. However, in-line with common practice in the PRC department store industry in relation to the sale of such products, most direct sales suppliers agree in practice to take back or exchange any goods that have not been sold or become obsolete. As most of our Group’s inventory relates to direct sales of cosmetic products, inventory risks are therefore relatively low. Inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less all the estimated costs to completion and costs to be incurred in marketing, selling and distribution. Our Group has implemented certain operational procedures to monitor inventories. With respect to aged inventories, management reviews the inventory aging list periodically. This involves a comparison of the carrying value of the aged inventory items with the respective net realizable value. The purpose behind this comparison is to ascertain whether allowance is required to be made in the financial statements for any obsolete and slow-moving items. Our Group bases these estimates on the current market condition and the historical experience of selling merchandise of a similar nature. These estimates could change significantly as a result of action taken by competitors in response to severe industry cycles. Our Group reassesses the estimates on each reporting date. During the Track Record Period, our Group did not make any provisions for inventories and did not experience any inventory write-offs.

CASH MANAGEMENT

We have set up a collection department, which is responsible for cash management. The collection department monitors sales and cash balances of cashier registers through a sales monitoring system. Cash sales is the second most popular sales method in our department stores. In every store, a cashier-in-charge provisionally collects cash from the cash registers based on data generated by the monitoring system and any bulk cash is directly deposited into a secured collection room. Cashiers submit all monies generated from sales to the collection room at the end of their shifts each day. Cashier staff in the collection room collect all monies generated from daily sales and deposit them into the department store treasury. The aggregated amount is then verified by the head of the collection department and passed on to security escorts who collect money from us on a daily basis for bank deposit. Credit card sales is the most popular sales method in our stores. The accounts department of the store reconciles daily sales data of credit

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card sales with sales receipts to confirm revenue generated from such sales. To enhance security, we maintain insurance coverage for loss of cash for all our department stores. During the Track Record Period, there have been no incidents of embezzlement of our cash or other assets.

All cash deposited by our stores is aggregated into our corporate headquarters via our bank’s network. Individual stores are required to make an application to headquarters for the approval of any required external payments or disbursements. Payments can only be made after approval is obtained and the funds for payment have been made available.

EMPLOYEES

We employed 2,011 employees as at June 30, 2009. The following table sets out the total number of our employees by function as at the dates indicated.

	As at December 31,						As at June 30,	
	2006		2007		2008		2009	
	No. of Employees	% of total	No. of Employees	% of total	No. of Employees	% of total	No. of Employees	% of total
Management and								
Senior Executives . . .	42	2.8%	47	1.9%	52	2.4%	40	2.0%
Customer Service	92	6.1%	163	6.7%	118	5.5%	129	6.4%
Finance	107	7.1%	163	6.7%	161	7.5%	140	7.0%
General Administration	90	5.9%	166	6.9%	141	6.6%	122	6.1%
Human Resources	42	2.8%	61	2.5%	45	2.1%	52	2.6%
IT	29	1.9%	37	1.5%	35	1.6%	37	1.8%
Commercial and								
Planning.	102	6.7%	166	6.9%	145	6.8%	148	7.4%
Cashier	335	22.1%	530	21.9%	460	21.4%	420	20.9%
Property.	173	11.4%	262	10.8%	235	11.0%	212	10.5%
Floor management and								
warehouse	290	19.1%	540	22.3%	486	22.6%	450	22.4%
Engineering,								
maintenance and								
security	213	14.1%	287	11.8%	268	12.5%	261	13.0%
Total	1,515	100.0%	2,422	100.0%	2,146	100.0%	2,011	100.0%

Since our concessionaires and most of our direct sales suppliers are responsible for employing their own salespeople, our operational staff primarily consist of cashiers, floor supervisors and security personnel. Few direct sales suppliers request us to employ sales personnel on their behalf. We categorize these sales personnel under “floor management and warehouse” in the above table.

We believe that successful implementation of our growth and business strategies relies on a team of experienced, motivated and well-trained management and employees at all levels. Our senior management has extensive operating expertise and in-depth understanding of the retail industry generally.

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The employees of our self-owned store operations participate in statutory pension schemes organized by the relevant PRC municipal and provincial government under which we are required to make monthly contributions to these plans. The local government is responsible for the planning, management, and supervision of the scheme, including collecting and investing the contributions, and paying out the pensions to the retired employees.

The total amount of contributions we made for such employee pension schemes for the three years ended December 31, 2008, and the six months ended June 30, 2009 was approximately RMB2.3 million, RMB14.3 million, RMB24.7 million, and RMB11.2 million, respectively.

We enter into separate labor contracts with each of our employees and we believe the terms and conditions of the labor contracts are in full compliance with the relevant PRC labor laws and employment decrees. In addition, we provide our employees with various insurance policies as are required by relevant PRC labor laws.

Our Directors have confirmed that we have been in compliance with the relevant national and local labor and social welfare laws and regulations, and that we have paid relevant contributions in accordance with the aforesaid laws and regulations during the Track Record Period.

Training

We have established various training programs for our managerial personnel and employees. For our mid-level and senior-level management staff, we set up training programs primarily conducted by external trainers and supplemented by internal seminars that aim to improve the management and communication skills of our mid-level and senior-level management staff as well as to impart to them our core management values. For our base-level management staff, we have training programs which aim to improve their work ethics and management skills and their understanding of our organizational culture. We also have training programs in place for our store managers which focus on improving their supervisory, management and professional technical skills as well as their understanding of our various brand cultures, store product presentation and color coordination skills. Training programs for base-level management staff and store managers and supervisors are primarily conducted by way of internal lectures. Store managers and supervisors also have internal secondment opportunities with other stores in our Group. Other than formal training, we also organize various group activities, interactive sessions and gatherings for our employees to gain a better understanding of our organizational culture and core values.

INSURANCE

We maintain different types of insurance policies, including all-property insurance, public safety liability insurance and cash storage insurance.

We do not maintain any product liability insurance, which we believe is an industry practice for department stores in the PRC. During the three years ended December 31, 2008, and the six months ended June 30, 2009, the number of defective goods claims has been minimal. In addition, under the terms of our supply contracts with concessionaires, all product liability in respect of any product supplied to us and sold in our stores will be borne by the concessionaires.

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See “Risk Factors — Risks Relating to the Industry — We may be subject to product liability claims relating to defective merchandise provided by concessionaires and, as a result, our reputation and operating results may be adversely affected” for more details.

We maintain all property insurance for all the properties owned by our Group, to protect our assets against any unexpected losses.

PROPERTIES

Self-Owned Stores

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

Store	Property owned/ leased/SCA ⁽¹⁾	Date of ownership/ Expiry of lease term or SCA	City	Gross floor area ⁽³⁾ <i>(sq.m.)</i>
PCD Zhongshan Lu . . .	Owned	November 16, 2004	Xiamen	19,332
PCD World Trade . . .	SCA	March 27, 2012	Xiamen	10,807
PCD Taiyuan	SCA	February 28, 2015	Taiyuan	16,336
PCD Continental	Leased ⁽⁴⁾	October 31, 2013	Xiamen	20,001
PCD Jiahe	Owned	August 20, 2005	Xiamen	11,449
PCD Qingdao	Owned ⁽²⁾	October 13, 2006	Qingdao	19,087
PCD Changchun	SCA	November 30, 2021	Changchun	47,737
Scitech Plaza	Leased ⁽⁵⁾	June 30, 2019	Beijing	27,670
PCD Nanning	SCA	March 9, 2021	Nanning	20,108

Note:

- (1) SCA denotes store cooperation agreement.
- (2) We also lease office space of gross floor area of 1,753.16 sq.m. on level 6 of the premises on which PCD Qingdao is located from two Independent Third Parties.
- (3) All the GFA numbers reflected in the table above are limited to the areas which relate to the operation as a department store.
- (4) We also lease office space of gross floor area of approximately 1,500 sq.m. on level 7 of the premises on which PCD Continental is located from an Independent Third Party.
- (5) We also lease office space of gross floor area of 1,056 sq.m. on level M on which Scitech Plaza is located from an Independent Third Party.

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PCD Zhongshan Lu

The premises at which PCD Zhongshan Lu is operated (comprising a total of 226 units) were acquired by PCD Real Estate (Xiamen) through a public auction from Xiamen Zhong Zheng Auctioneer Co. Ltd. (廈門中正拍賣行有限公司) on November 16, 2004. On January 1, 2006, Zhongshan PCD Stores (Xiamen) leased the premises from the member of our Group that owns the store premises, PCD Real Estate (Xiamen). The initial term of the lease was one year to December 31, 2006 and contained a right of first refusal to rent upon expiration of the term of the lease. Thereafter, the lease was renewed for consecutive terms with the most recent expiration on December 30, 2008. The current lease term will expire on December 31, 2009.

We have obtained building ownership certificates for 115 units out of 226 units. We do not have the relevant building ownership certificates with respect to the remaining 111 units. The total area of the remaining 111 units is 7,545 sq.m. Our PRC legal advisers are of the opinion that as the subject properties were acquired through an auction and a formal court order was also granted in relation to the transfer of the ownership of the relevant properties, our Group's ownership and title to the subject properties are valid, legal and effective and will not depend on the issue of building ownership certificates and there is no risk of any legal action by any authority as a result of the lack of building ownership certificates. In addition, our PRC legal advisers have advised that there are no legal impediments to PCD Real Estate (Xiamen) obtaining title to these units and therefore obtaining the necessary building ownership certificates. We are liaising with the court appointed officers to complete and perfect the transfer procedures to obtain the building ownership certificates in relation to these units.

PCD World Trade

PCD World Trade was previously operated by PCD Stores (Xiamen), which obtained the right to operate the store pursuant to a store cooperation and management agreement dated March 28, 2002 between PCD Stores (Xiamen) and Xiamen Guifeng Real Estate Development Co. Ltd. (廈門貴豐房地產開發有限公司), the owner of the premises on which PCD World Trade is located and an Independent Third Party. On January 1, 2004, PCD Stores (Xiamen) assigned to PCD World Trade (Xiamen) its rights and obligations under the agreement. The term of the agreement is 10 years commencing on March 28, 2002 and ending on March 27, 2012. Under the agreement, we have a right of first refusal to renew the agreement one year before expiration of the agreement and we are required to pay to Xiamen Guifeng Real Estate Development Co. Ltd. a monthly payment amounting to the product of sales revenue from the store multiplied by different rates of percentages fixed in the contract for different categories of merchandise that contribute to the sales revenue. The agreement is terminable by the consent of both parties upon three months' notice.

PCD Taiyuan

Levels 1 and 2 of the store premises are owned by Shanxi Yu Hua Yuan Times Square Co. Ltd. (山西御花園時代廣場有限公司), and levels 3, 4, 5 and 6 are owned legally and beneficially by Shanxi Zhonglian Shiye Stock Co. Ltd. (山西中聯實業股份有限公司), both of which are Independent Third Parties. PCD Stores (Taiyuan) currently operates PCD Taiyuan pursuant to a store cooperation and management agreement entered into with Shanxi Yu Hua Yuan Times Square Co. Ltd. and Shanxi Zhonglian Shiye Stock Co. Ltd. On September 16, 2005, pursuant to

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the agreement, Shanxi Yu Hua Yuan Times Square Co., Ltd. and Shanxi Zhonglian Shiye Stock Co. Ltd. agreed to provide the premises to PCD Stores (Taiyuan) for operating PCD Taiyuan for the period from March 1, 2005, retrospectively, to February 28, 2015. The agreement provides that a fee calculated based on a fixed percentage of after-tax sales revenue for PCD Taiyuan is payable to Shanxi Yu Hua Yuan Times Square Co. Ltd. as Shanxi Yu Hua Yuan Times Square Co. Ltd. and Shanxi Zhonglian Shiye Stock Co. Ltd. are in the same group of companies.

PCD Continental

The two basement floors and levels 1, 2, 3, 5 and 6 of the store premises are owned by Xiamen Jiutian Real Estate Development Co. Ltd. (廈門九天房地產開發有限公司), an Independent Third Party, and leased by PCD Stores (Xiamen) pursuant to two lease agreements dated June 15, 2005 (as amended). The rights and obligations of PCD Stores (Xiamen) under the lease agreements were subsequently assigned to PCD Continental Department Stores. PCD Continental Department Stores currently occupies the two basement floors and levels 1, 2, 3, 5, 6 and 7 of the store premises pursuant to a supplemental agreement (《租賃合同》補充協議二) (as amended) entered into with PCD Stores (Xiamen), PCD Real Estate Development (Xiamen), Xiamen Jiutian Real Estate Development Co. Ltd. and Xiamen Jiutian Group, Ltd., also an Independent Third Party. The term of the lease commenced on August 1, 2005 and will end on October 31, 2013. Xiamen Tiandi Kaiming Cinema City (廈門市天地開明電影城) owns level 4 of the premises, which is leased by PCD Continental Department Stores under a lease agreement dated April 30, 2009. The term of the lease commenced retroactively on January 1, 2009 and will end on October 31, 2013.

PCD Jiahe

Xiamen Lotus Department Stores currently operates PCD Jiahe pursuant to a lease agreement dated October 10, 2009 entered into with the member of our Group that owns the store premises, PCD Real Estate (Xiamen). The term of the lease is 10 years, commencing on September 1, 2009 and ending on August 30, 2017 and we have a first right of refusal to renew the lease upon expiration of the term of the lease. PCD Jiahe was previously operated by PCD Songbai Department Stores. On August 20, 2005, PCD Real Estate (Xiamen) acquired 95% of the equity interest in PCD Songbai Department Stores through a public auction, with the remaining 5% equity interest owned by Wuhan Huaxing. We gained control of the board of directors of PCD Songbai Department Stores and began consolidating it for accounting purposes on January 16, 2006. Through the same public auction, PCD Real Estate (Xiamen) also acquired five units of the store premises, representing approximately 51% of the total area of the premises. Subsequently, PCD Real Estate (Xiamen) purchased the remaining three units of the store premises from Xiamen Zhong Bo Real Estate Co. Ltd. (廈門市中博地產有限公司) pursuant to a sale and purchase agreement dated April 27, 2007, and six units on level 5 of the store premises for office and other use from Wang Hua, an Independent Third Party, pursuant to sale and purchase agreements dated August 21, 2007.

PCD Qingdao

PCD Real Estate (Xiamen) acquired levels 1 to 5 of the store premises from Qingdao Haixin Shi Ye Holding Co. Ltd. (青島海信事業股份有限公司), an Independent Third Party, pursuant to a sale and purchase agreement entered into on September 18, 2006. Zhongshan PCD Stores

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(Qingdao) currently operates PCD Qingdao pursuant to a lease agreement dated June 19, 2009 entered into with the member of our Group that owns the store premises, PCD Real Estate (Xiamen). Zhongshan PCD Stores (Qingdao) has a right of first refusal to renew the lease upon expiration of the lease. The term of the lease is one year commencing on July 1, 2009 and ending on June 30, 2010.

Zhongshan PCD Stores (Qingdao) leases level 6 from Liu Xun and Peng Wen, two natural persons and Independent Third Parties. The lease expires on September 30, 2013.

PCD Changchun

The premises on which PCD Changchun is located consist of two blocks. Block 1 includes a basement and levels 1 to 7, and block 2 includes a basement and levels 1 to 5. The basement and levels 1 to 7 of block 1 are owned by Jilin Ji Chun Industrial and Trading Co. Ltd. (吉林省吉春工貿有限責任公司), an Independent Third Party.

Zhongshan PCD Stores (Xiamen) entered into a store cooperation agreement (as amended) with Jilin Ji Chun Industrial and Trading Co. Ltd. on November 28, 2006 pertaining to the basement floor and levels 1 to 7 of block 1 and the basement floor and levels 1 to 5 of block 2. Jilin Ji Chun Industrial and Trading Co. Ltd. does not own the basement and levels 1 to 5 of block 2. These premises were originally owned by Changchun Red Flag Mall (長春市紅旗商場). Changchun City Development (Group) Co., Ltd. (長春城市開發(集團)有限公司) had acquired part of level 4, levels 5 to 7 of block 2 and obtained a building ownership certificate thereof, and Jilin Shidai Department Co. Ltd. (吉林省時代百貨有限公司) had purchased and therefore has beneficial ownership of the basement, levels 1 to 3 and the other part of level 4 of block 2. All of Changchun Red Flag Mall, Changchun City Development (Group) Co., Ltd. and Jilin Shidai Department Co. Ltd. are Independent Third Parties.

Pursuant to a series of authorisations and lease agreements issued or entered into by Changchun City Development (Group) Co. Ltd. and other parties, Jilin Ji Chun Industrial and Trading Co. Ltd. was authorised to lease part of level 4 and level 5 of block 2 to PCD Stores (Jilin).

Jilin Ji Chun Industrial and Trading Co. Ltd and Jilin Shidai Development Co. Ltd. are within the same group of companies. Pursuant to a confirmation dated September 4, 2007 issued by Jilin Shidai Department Co. Ltd., Jilin Shidai Department Co. Ltd. allows Jilin Ji Chun Industrial and Trading Co. Ltd. to use, as well as to cooperate with third party for the use of, the basement, levels 1 to 3 and part of level 4 of block 2 for no consideration.

Scitech Plaza

The premises on which our Scitech Plaza store is situated comprise two basement floors, and levels 1 to 5 of the north tower and south tower of the shopping center, with a gross floor area of 27,670 sq.m. The lease with respect to the premises on which Scitech Plaza is located is for a term of twelve years with effect from July 1, 2007 to June 30, 2019. Under the lease, we agree to use the premises for the purposes of operating shopping mall and department stores. See

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the section titled “Relationship with Our Ultimate Controlling Shareholders and Connected Transactions — Continuing Connected Transactions — Properties leased by Scitech Group” for more information.

PCD Nanning

PCD Nanning is located in Minzu Da Road of Nanning. It commenced full operations in January 2008. PCD Nanning is a 20,108 sq.m. retail podium which is near the Nanning International Convention and Exhibition Center. PCD Nanning occupies the first to fifth floors of the premises.

On March 10, 2006, PCD Stores (Xiamen) entered into a store cooperation agreement with Guangxi Oriental Hangyang Investment Group (廣西東方航洋實業集團有限公司) (formerly known as Guangxi Dongfang Shi Ye Co. Ltd. (廣西東方實業有限公司), an Independent Third Party, to use and manage levels 1 to 5 of the premises as a department store.

The term of the store cooperation agreement is fifteen years from March 10, 2006, and the agreement contains a right of first refusal to renew the agreement upon expiration of the term of the agreement. The store cooperation agreement was subsequently assigned from PCD Stores (Xiamen) to PCD Stores (Guangxi) pursuant to an assignment agreement dated July 20, 2007 and Guangxi Oriental Hangyang Investment Group consented to the assignment.

Managed Stores

We own the premises on which PCD Xian is located and Guangchang, a connected person, owns the premises on which Guiyang Nanguo Huajin is located and part of premises on which Guiyang Guomao is located. Furthermore, one of our connected parties has the rights to occupy the premises on which the Beijing Scitech Premium Outlet Mall is located under the cooperation agreement entered into between the connected party and the owners of the land. We do not have a direct property interest in the properties on which PCD Ruijing, Zunyi Guomao, Guomao Liupanshui and Guiyang Guochen are located.

Xian Changan Metropolis Center

As part of our strategy of adding new stores in prime locations to our network, on August 10, 2007, we acquired from the Xian Vendors the entire equity interest in Xian Century Changan Property Investment for a total consideration of RMB294.0 million. Pursuant to the sale and purchase agreement, we are obliged to pay the Xian Vendors the consideration for the acquisition of RMB126 million and a further RMB12 million for a bank deposit of the same amount held by Xian Century Changan Property Investment, less certain payables of approximately RMB1 million assumed by Xian Century Changan Property Investment before the completion of the transfer of the equity interest. In addition, we assumed two 10-year mortgage loans between Xian Century Changan Property Investment and the Bank of East Asia Xian branch with an aggregate principal amount of RMB280 million (the outstanding balance was approximately RMB217 million as at September 30, 2009). Xian Century Changan Property Investment holds the title to the lower floors (21,310 sq.m.) of the Xian Changan Metropolis Center, which is a prime department store property located at 88 Nanguanzheng Street in Xian. Pursuant to a lease agreement effective from July 1, 2007, the property is leased to Mei Mei.

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Titles and Registrations

As at the Latest Practicable Date, we are not aware of any challenges by third parties to the title of our owned and leased properties.

Leased premises without lease registration

We have not completed lease registrations for: (1) the seventh floor of the premises on which PCD Continental is located (1,500 sq.m.); (2) a portion of level M on which Scitech Plaza is located (1,056 sq.m.); and (3) Room 218 on which Scitech Plaza is located (46 sq.m.).

The total floor area without lease registration is at least 2,602 sq.m., which accounts for 1.2% of the total floor area of all the properties owned and leased by our Company (being at least 219,174 sq.m.). Due to the residual defect in the seventh floor of the premises on which PCD Continental is located, we are not able to register the lease for this floor. Our PRC legal advisers have advised us that we should request the landlord to make registrations for the seventh floor. Otherwise, there is a risk that the Real Estate Management Authorities will impose a fine on our lessor in the amount of between RMB1,000 and RMB3,000 per day. However, the failure to register the leases do not affect their legal validity. Should a landlord refuse to perform the registration procedures, the risk of a fine will be imposed on the landlord due to such refusal but the failure to register will not affect the validity of the lease.

Our PRC legal advisers have advised us that "cooperation agreements" are agreements made between two parties governing the relationship between the parties in relation to a specific project jointly undertaken by the parties. Such agreements include, without limitation, terms governing the distribution of profits and each party's contribution to the project. Payments required pursuant to store cooperation agreements are generally variable, based on a percentage of the store's turnover and are not fixed as under traditional lease agreements. Since this is substantially different from a lease, provincial authorities may rightfully refuse to register the cooperation agreements. Cooperation agreements are not required to be registered in the PRC. We have one store cooperation agreement without a lease registration, PCD Changchun. According to our PRC legal advisers, the relevant provincial lease registration authorities have confirmed that PCD Changchun does not require lease registration on the basis that it is a store cooperation agreement as opposed to a lease. As of the Latest Practicable Date, we have store cooperation agreements in relation to four stores, PCD Taiyuan, PCD World Trade, PCD Nanning and PCD Changchun.

Pursuant to the lease agreement between Scitech Group and Beijing Yuanyongxin Info Consulting, Scitech Group leases an office space to Beijing Yuanyongxin Info Consulting located on level 2 of Scitech Plaza with a term for four years. According to our PRC legal advisers, Scitech Group has the building and land use right for this property and the right to lease the premise to Beijing Yuanyongxin Info Consulting. In addition, our PRC legal advisers have also confirmed that there is no legal impediment for Beijing Yuanyongxin Info Consulting to use the premises.

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Owned properties without building ownership certificates

Our owned properties that lack building ownership certificates comprise of a portion of the property (111 out of 226 units) on which PCD Zhongshan Lu is located (7,545 sq.m.).

We purchased 226 units constituting the property on which PCD Zhongshan Lu is located through an auction on November 16, 2004. We have obtained building ownership certificates for 115 units and are taking steps to obtain building ownership certificate for the remaining 111 units. Our PRC legal advisers have confirmed that, as the subject units were acquired through an auction and a formal court order was also granted in relation to the transfer of the ownership of the relevant units, our Group's ownership and title to the subject units are valid, legal and effective and will not depend on the issue of building ownership certificates, and there is no risk of any legal action by any authority as a result of the lack of building ownership certificates. In addition, our Company's PRC legal advisers have also confirmed that there is no legal impediment in obtaining the relevant building ownership certificates.

The percentage of the floor area of the owned properties in question (being 7,545 sq.m.) relative to the total floor area occupied by us (being at least 219,174 sq.m.) is approximately 3.4%.

Leased premises with lease registration which lack building ownership certificates

We operate PCD Nanning at levels 1 to 5, Hangyang International Commercial Centre, No. 131 Minzu Da Road, Nanning pursuant to a store cooperation agreement entered into with Guangxi Oriental Hangyang Investment Group. This property has completed completion verification and Guangxi Oriental Hangyang Investment Group has not obtained the building ownership certificate thereof. Our PRC legal advisers have advised us that Guangxi Oriental Hangyang Investment Group has the legal right to allow us to use this property and the store cooperation agreement is valid and effective. However, if Guangxi Oriental Hangyang Investment Group cannot obtain the building ownership certificate in due course, there is a risk that we may need to find other suitable place to operate PCD Nanning.

The percentage of the floor area of the leased properties in question (being at least 20,108 sq.m.) relative to the total floor area occupied by us (being at least 219,174 sq.m.) is approximately 9.2%.

Leased premises without lease registration which lack building ownership certificates

Our leased properties without lease registration which lack building ownership certificates are (1) basement, levels 1 to 3 and part of level 4 of block 2 of the property on which PCD Changchun is located ("Changchun Property"), and (2) level 7 of the property on which PCD Continental is located.

The percentage of the floor area of the leased properties in question (being at least 16,073 sq.m.) relative to the total floor area occupied by us (being at least 219,174 sq.m.) is approximately 7.3%.

OUR BUSINESS

1. *Changchun Property*

We occupy the basement floor and levels 1 to 7 of block 1 and the basement floor and levels 1 to 5 of block 2 of the Changchun Property pursuant to a lease agreement and a store cooperation agreement entered into with Jilin Ji Chun Industrial and Trading Co. Ltd. Jilin Ji Chun Industrial and Trading Co. Ltd. has a building ownership certificate in respect of block 1, but not block 2. The basement and levels 1 to 7 of block 2 were originally owned by Changchun Red Flag Mall (長春市紅旗商場). Changchun City Development (Group) Co. Ltd. (長春城市開發(集團)有限公司) had acquired part of level 4, levels 5 to 7 of block 2 and obtained a building ownership certificate thereof, and Jilin Shidai Department Co. Ltd. (吉林省時代百貨有限公司) had purchased the basement and levels 1 to 3 and the other part of level 4 of block 2.

Pursuant to a series of authorizations and lease agreements issued or entered into by Changchun City Development (Group) Co. Ltd. and other parties, Jilin Ji Chun Industrial and Trading Co. Ltd. was authorised to lease part of level 4 and level 5 of block 2 to PCD Stores (Jilin). Our PRC legal advisers have advised us that Jilin Ji Chun Industrial and Trading Co. Ltd. has the legal right to lease these floors and that the lease with PCD Stores (Jilin) is legal and effective.

Pursuant to a confirmation dated September 4, 2007 issued by Jilin Shidai Department Co. Ltd., Jilin Shidai Department Co. Ltd. has agreed to allow Jilin Ji Chun Industrial and Trading Co. Ltd. to use, as well as to cooperate with third parties for the use, of the basement floor and levels 1 to 4 of block 2 for no consideration. Our PRC legal advisers have advised us that Jilin Ji Chun Industrial and Trading Co. Ltd. has the right to sublease these floors and that our confirmation with PCD Stores (Jilin) is legal and effective. However, although Jilin Shidai Department Co. Ltd. has produced the sale and purchase agreement for the premises, it is unable to produce a valid building ownership certificate for the basement, levels 1 to 3 and the remaining portion of level 4 as transfer formalities have not been completed. If a third party successfully claims ownership of these floors, PCD Stores (Jilin) will have to negotiate and enter into an agreement with such third party. Accordingly, there is a risk that PCD Stores (Jilin) will be required to reduce the operating area of PCD Changchun or relocate the store.

2. *Level 7 of PCD Continental*

We occupy level 7 of PCD Continental as office space pursuant to a supplemental lease agreement with Xiamen Jiutian Real Estate Development Co. Ltd. Xiamen Jiutian Real Estate Development Co. Ltd. does not have building ownership certificate in respect of level 7. Level 7 was built in excess of the permitted limit, constituting an illegal structure. There is a risk that we will need to vacate level 7. The premises on level 7 of PCD Continental are not directly related to our store operations as they are used as offices and no revenue or operational profits are generated from them.

Due to lack of evidence showing building ownership rights on the part of the lessors for the seventh floor of the premises on which PCD Continental is located, no lease registration is possible for these premises. If the lessor does not obtain the ownership certificate, there is a risk that the Real Estate Management Authorities may impose a fine of

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RMB1,000 to RMB3,000 on the lessor and demand the termination of our lease. If the lease is terminated at the request of the Real Estate Management Authorities, we may need to move from level 7 of the PCD Continental premises. Our PRC legal advisers have advised us that we should make supplemental registration for the lease once the lessor obtains the ownership certificate. Otherwise, there is a risk that the Real Estate Management Authorities will impose a fine on our lessor in the amount of 0.3% of the monthly rent per day. Should a landlord refuse to perform the registration procedures, the risk of a fine will be imposed on the landlord due to such refusal. However, the failure to register will not affect the validity of the lease.

Due to the lack of building ownership certificates for these properties, we may need to reduce the operating area of, or undergo relocation for PCD Nanning, PCD Changchun or offices on level 7 of PCD Continental. We believe that these stores or offices are not individually crucial to our Group’s operation. The revenue contribution of these stores against the total revenue of the Group expressed in percentages during the Track Record Period are as follows: (i) for PCD Nanning, 0.4%, 1.3% and 1.4% for the years ended December 31, 2007, 2008 and the six months ended June 2009 respectively; and (ii) for PCD Changchun, 2.6%, 8.4%, 5.5% and 5.8% for the three years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009 respectively. The offices on level 7 of PCD Continental do not contribute revenue of the Group during the Track Record Period. If we are required to evict from the existing properties of PCD Nanning or PCD Changchun, we believe it may be difficult to find alternative locations which can offer the same or comparable qualities within a short period of time. The estimated costs for any such relocations for PCD Nanning and PCD Changchun will each range from RMB5 million to RMB10 million. As we only use level 7 of PCD Continental as office space, we believe that it will not be difficult for us to find alternative locations nearby PCD Continental and the relocation costs will be not be substantial. See “Risk Factors — Risks Relating to Our Business — Some of our leased properties lack requisite building ownership certificates and lease registrations and we may be required to relocate our stores”.

In the event the owners of the properties which we occupy are in default or do not hold valid title, PIEL and Bluestone, our Controlling Shareholders, will indemnify us for any loss that we may suffer as a result of (i) the absence of lease registration or title certificates for our leased properties (ii) the lack of a valid building ownership certificate in relation to any properties owned by our Group, or (iii) the ownership and identity of the lessor of any leased properties of our Group being uncertain.

Our PRC legal advisers have advised us that for our leased properties that are subject to landlords’ mortgage loans, there is no need for the landlord to obtain consents from the mortgage lenders in order to lease the properties to us.

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The following table sets out certain information concerning our owned properties, including the status of building ownership certificates for such properties:

<u>Location</u>	<u>Owner</u>	<u>Size</u> <i>(sq.m.)</i>	<u>Building Ownership Certificate</u>
Owned properties that have building ownership certificate			
115 units, No. 76–132 Zhongshan Lu, Siming District, Xiamen	PCD Real Estate (Xiamen)	11,787	Yes
S12, S14, 2S1, 2S2, 3S1, S13, 3S2, 4S1, Wuhan Building, 261–265 Jiahe Road, Siming District, Xiamen	PCD Real Estate (Xiamen)	11,450	Yes
5A, 5B, 5C, 5D, 5E, 5F, Wuhan Building, 261–265 Jiahe Road, Siming District, Xiamen	PCD Real Estate (Xiamen)	750	Yes
Levels 1–6, Shenye Centre, 9 Shandong Road, Shinan District, Qingdao	PCD Real Estate (Xiamen)	19,087	Yes
Basement, level 1 and part of level 2 of Blocks A and D, Xian Changan Metropolis Center, 88 Nanguanzheng Street, Xian	Xian Century Changan Property Investment	21,310	Yes
Total:		<u>64,384</u>	
Owned properties that have no building ownership certificate			
111 units, 76–132 Zhongshan Lu, Siming District, Xiamen	PCD Real Estate (Xiamen)	7,545	No
Grand total of area of owned properties:		<u>71,929</u>	

OUR BUSINESS

The following table sets out certain information concerning our leased properties, including the status of building ownership certificates for such properties:

Location	Lessor	Lessee	Size (sq.m.)	Building Ownership Certificate	Lease Registration
Leased properties where the lessor has building ownership certificates					
Part of levels 1 to 4, 888 Xiahe Lu, Siming District, Xiamen	Xiamen Guifeng Real Estate	PCD World Trade (Xiamen)	10,807	Yes	Yes
Levels 1–6, 42 Kai Hua Si Street (formerly No. 53 Dong Mishu Street), Yingze District, Taiyuan	Shanxi Yuhuayuan Time Square	PCD Stores (Taiyuan)	16,336	Yes	Yes
Basement, levels 1 to 3 and levels 5 and 6, Dalu Commercial Building, 65–81 Siming South Road, 193–215 Zhongshan Road, Siming District, Xiamen	Xiamen Jiutian Real Estate	PCD Continental Department Stores	17,400	Yes	Yes
Level 4, Dalu Commercial Building, 65–81 Siming South Road, 193–215 Zhongshan Road, Siming District, Xiamen	Tiandi Kaiming Cinema City	PCD Continental Department Stores	2,601	Yes	Yes
Levels 1 to 7, block 1, 1055 Gongnong Dalu, Chaoyang District, Changchun	Jilin Ji Chun Industrial and Trading Co., Ltd.	PCD Stores (Jilin)	24,590	Yes	Lease registration not necessary according to local authority
South portion of basement 2 and levels 1 to 5, North portion of basements 1 and 2 and level 1 to 6 Scitech Plaza, 22 Jianguomenwai Street, Chaoyang District, Beijing	Scitech Group	Beijing Scitech Department Stores	27,670	Yes	Yes
Portion of level M, Scitech Plaza, 22 Jianguomenwai Street, Chaoyang District, Beijing	Scitech Group	Beijing Scitech Department Stores	1,056	Yes	No
Room 1101, No. 2, 410 Siming South Road, Siming District, Xiamen	Xiamen Siming District Xiagang Street Office	Laiya Department Management (Xiamen)	80	Yes	Yes
Portions of level 6 of Shenye Centre, 9 Shandong Road, Shinan District, Qingdao	Peng Wen, Liu Xun	Zhongshan PCD (Qingdao)	1,753	Yes	Yes
Section D, level 1, 29–31 Bishan Road, Siming District, Xiamen	Xiamen Siming District Xiagang Street Office	Jiahe Chun Tian	150	Yes	Yes
Room 218, Scitech Plaza, 22 Jianguomenwai Street, Chaoyang District, Beijing	Scitech Group	Beijing Yuanyongxin Info Consulting	46	Yes	No
Total:			102,489		

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Location	Lessor	Lessee	Size (sq.m.)	Building Ownership Certificate	Lease Registration
Leased properties where the lessor does not have building ownership certificate but there should be no legal impediments against the obtaining of such certificates or the legal owner or purchaser of the leased property has granted to lessor to lease out					
Level 1 to 5, Hangyang International Commercial Centre, 131 Minzu Da Road, Nanning	Guangxi Oriental Hangyang Investment Group	PCD Stores (Guangxi)	20,108	No	Yes
Leased properties where the lessor has building ownership certificates and has a right to sub-lease					
Part of level 4 and level 5, block 2, 1055 Gongnong Dalu, Chaoyang District, Changchun	Jilin Ji Chun Industrial and Trading Co. Ltd. (Legal owner: Changchun City Development (Group) Co., Ltd.)	PCD Stores (Jilin)	5,671	Yes	Lease registration not necessary according to local authority
Leased properties where the lessor has a right to sub-lease but the transfer of the building ownership certificates is not yet completed					
Levels 1 to 3 and part of level 4, block 2, 1055 Gongnong Dalu, Chaoyang District, Changchun	Jilin Ji Chun Industrial and Trading Co. Ltd. (Purchaser of property: Jilin Shidai Department Co. Ltd.)	PCD Stores (Jilin)	11,868	Yes	Lease registration not necessary according to local authority
Basements, Block 2, 1055 Gongnong Dalu, Chaoyang District, Changchun	Block 2: Purchaser of property: Jilin Shidai Department Co. Ltd.	PCD Stores (Jilin)	2,705	Yes	Lease registration not necessary according to local authority
Leased properties where the lessor has building ownership certificates but descriptions within are unclear					
Basements, Block 1, 1055 Gongnong Dalu, Chaoyang District, Changchun	Block 1: Jilin Ji Chun Industrial and Trading Co. Ltd.	PCD Stores (Jilin)	2,904	Yes	Lease registration not necessary according to local authority
Total:			<u>43,256</u>		
Leased properties where the lessor does not have building ownership certificate and there is impediment against obtaining the certificate					
Level 7, Dalu Commercial Building, 65–81 Siming South Road, 193–215 Zhongshan Road, Siming District, Xiamen	Xiamen Jiutian Real Estate	PCD Continental Department Stores	1,500 ⁽¹⁾	No	No
Grand total of area of leased properties:			<u>147,245</u>		
Grand total of area of owned and leased properties:			<u>219,174</u>		

Notes:

(1) Based on our best estimates, by reference to the size of level 6 of the Dalu Commercial Building.

OUR BUSINESS




INTELLECTUAL PROPERTY


Our use of trade names

Our self-owned stores currently use two tradenames, namely “巴黎春天” and “賽特”, and their respective trademarks. For the three years ended December 31, 2008 and six months ended June 30, 2009, stores using the “巴黎春天” trade name contributed 55.6%, 42.8%, 30.6% and 40.1% of our revenue, respectively. For the same periods, the store using the “賽特” trade name contributed nil, 38.1%, 53.2% and 51.7%, respectively. The remainder of our revenue was contributed by our managed stores.

While we expect the stores using the “巴黎春天” tradename to continue to constitute a substantial portion of our revenue in the future, we believe that brand name is just one of the many elements that distinguish our department stores from our peers. We believe other factors include, but are not limited to, the brand, merchandise mix, quality of facilities and service, are all important differentiators of our stores. In addition, many of our stores also carry our distinctive “Fleur de Lys” logo, which helps customers identify our stores easily.

Trademark registration in PRC

PCD Stores owns the  trademark which is registered in the PRC in class 35 in respect of services, such as “organization of commercial or advertising trade fairs.” PCD Stores also owns the  trademark which is registered in the PRC in class 35 in respect of “agency for import and export and promotion (for others).” Free use of these two trademarks at PCD Zhongshan Lu, PCD World Trade, PCD Taiyuan, PCD Qingdao, PCD Changchun, PCD Nanning, PCD Jiahe and PCD Continental are authorized pursuant to authorization letters issued by PCD Stores until 2011 and 2012 respectively. The Beijing Scitech Premium Outlet uses the  trademark.

PCD Stores is in the process of registering the 巴黎春天百货 trademark in the PRC in classes 1, 2, 3, 5, 6, 7, 8, 9, 11, 12, 14, 15, 16, 18, 19, 20, 24, 25, 26, 28, 30, 31, 33, 35 and 42, and the  trademark in the PRC in classes 4, 10, 13, 17, 21, 22, 23, 27, 29, 32, 34, 36, 37, 38, 39, 40, 41, 43, 44 and 45. These applications to the Trademark Office of the PRC State Administration for Industry and Commerce were lodged on January 31, 2007. The first stage review of the applications to register the respective trademarks in classes 6, 7, 10 and 12 has been completed and the preliminary assessment and announcement is expected to be made on December 6, 2009.


According to the PRC Trademark Laws (2001 amendments) promulgated on October 27, 2001 and the Regulation on the Implementation PRC Trademark Regulations No. 358 effective since September 15, 2002 in relation to trademark registrations already submitted for application, such trademark registrations will be required to go through a two-stage review process: (i) preliminary assessment and announcement and (ii) confirmation of registration and announcement.




Based on this two-stage review process, a trademark registration application is open to opposition for three months from the date of the first stage assessment. The trademark will only be confirmed for registration and an announcement will be made upon expiration of the initial three-month period if no opposition has been initiated against the trademark during this timeframe.

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Notwithstanding the above, we have been informed by our PRC legal advisers that there is no clear deadline as to when the first stage review process is likely to be completed by and that, accordingly, it is not possible for us to ascertain when registrations, once lodged, are likely to be completed. As at the Latest Practicable Date, the registration of the trademarks at the Trademark Office of the PRC State Administration for Industry and Commerce, as discussed above, have yet to be completed.

Scitech trademark 赛特 is registered in the PRC in class 35 and is owned by Scitech Group. Our subsidiary Beijing Scitech Department Stores is authorized to use this trademark until April 6, 2013, pursuant to an authorization letter issued by Scitech Group to Beijing Scitech Department Stores dated November 15, 2007. The Beijing Scitech Premium Outlet Mall does not use the Scitech trademark and use the the  trademark instead.

Our Company has received undertakings dated September 30, 2009 from the owners of the trademarks "" and "赛特" respectively that they will renew the registration of such trademarks with the relevant PRC government authorities upon their expiry in 2011, 2012 and 2013, respectively, and will grant our Group the right to use such trademarks for an additional term of 10 years on the same terms as the existing authorizations upon expiration of the current registration period. Our Company believes these undertakings from the relevant trademark owners will ensure that our Group's right to use the relevant trademarks extends continuously once the current authorization period expires.

The  trademark has not been injected into our Group because our parent company reserves the right to use the  trademark for other purposes that are non-competitive with our Group, although our parent company currently has no such plans to use the  trademark for other purposes. We license the logo at no cost, which we believe is in our best interest.

The Scitech trademark 赛特 has not been injected into our Group because we only operate the department store at Scitech Plaza and not the rest of the Beijing Scitech Complex. The license fee is RMB100,000 per year, which we believe is in our best interest.

Registration of the authorization agreements

According to Article 43 of the Implementing Regulations of the Trademark Law of the People's Republic of China, parties that are authorized to use trademarks under licensing agreements must register and submit a copy of the authorisation agreements to the PRC Trademark Office within three months of signing. Rule 19 of the Several Questions on the Application of Law in Trial of Trademark Civil Dispute Cases Interpretation states however, that a failure to register a licensing agreement does not render the agreement invalid, unless otherwise agreed between the parties to the licensing agreement. The failure to register such an agreement only renders the agreement unenforceable against bona fide third-parties.

Our PRC legal advisers have confirmed that, as most of the trademark authorisations are not registered, there is a small risk that our use of the trademarks may be affected. We are in the process of registering all authorization letters. Our PRC legal advisers have advised us that there is no legal impediment to such registration but they cannot confirm when such registrations can be completed. Moreover, our PRC legal advisers have advised us that according to the Trademark Licensing Contract Recording Procedures (promulgated August 1, 1997) of the PRC Trademark

OUR BUSINESS

Laws, there is no penalty for the delay in the registration of the authorization letters and the amount thereof. Our Controlling Shareholders have agreed to provide us with a general intellectual property indemnity that covers risks associated with third-party infringement of our intellectual property.

Other intellectual property rights

We are the registrant of the domain name of www.pcds.com.cn and www.scitechoutlet.com.

See the section titled “Appendix VII — Statutory and General Information — Further information about our business — Intellectual property rights” for more information.

Third-party intellectual property rights and infringement claims

We have adopted measures to prevent infringement of third-party intellectual property rights. These include requiring all of our concessionaires to prove that they hold licenses for the brands they sell, as well as requiring representations and warranties in our concessionaire agreements that the concessionaires will not violate third-party intellectual property rights.

Since the commencement of the Track Record Period and until the Latest Practicable Date, we have not received any third-party intellectual property infringement claims.

COMPETITION

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, supermarkets, 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. Our key competitors are other local and foreign department stores in the cities in which we operate that offer a similar range of merchandise at similar price points as us. Some of our concessionaires may operate their own flagship stores in the cities where we have self-owned stores or managed stores, and we may face competition from these flagship stores.

The high-end and luxury department store segment is particularly fragmented, with most players concentrated in top-tier cities such as Shanghai and Beijing, operating only a few stores. In the mid- to high-end segment, leading players are expanding into secondary cities. We expect competition in these secondary Chinese cities to come mainly from national players.

As a result of China’s accession to the WTO and the opening up of the PRC retail industry to foreign enterprises, competition in the retail industry will further intensify. See the sections titled “Risk Factors — Risks Relating to the Industry — China’s accession to the WTO may result in an increase in competition in our industry” and “Industry Overview and Regulation — The impact of the WTO on the PRC Retail Industry” of this document.

OUR BUSINESS

LEGAL COMPLIANCE AND LITIGATION

We conduct our operations and carry out our business in compliance with relevant PRC laws and regulations in all material respects. We have retained legal advisers and a PRC auditor, who advise us on compliance and other related matters.

MOFCOM requirements

In September 2008, MOFCOM published the Notice on Delegation of Approval Authority for Matters Relating to Foreign Invested Enterprises (關於下放外商投資商業企業審批事項的通知), which clarifies “the State Council’s Resolution on Repealing and Adjusting the Fourth Batch of Administrative Examination and Approval Items” (國務院關於第四批取消和調整行政審批項目的決定), promulgated on 9 October 2007. The administration decision, together with the notice, provide that, with certain exceptions, the administrative examination and approval of the establishment and changes of foreign invested commercial enterprise would be delegated to provincial branches of MOFCOM (i.e. MOFTEC). Our PRC legal advisers have informed us that, subject to the requirements of this notice, the the establishment of and changes in our operating entities in the PRC are subject to the administrative examination and approval of the relevant MOFTEC.

The stores which had commenced operation prior to obtaining MOFCOM approval are PCD Jiahe, PCD Qingdao and Scitech Plaza department stores, which have been operating before the relevant transfer of the equity interest of their operating entities into our Group. Our Company’s PRC legal advisers have advised us that no MOFCOM approvals were required at that time. The need for MOFCOM approvals only arise as a result of the relevant share transfer to the Group from the relevant parties. For the reason that each of these stores has obtained the business license with commercial and retail businesses as its business scope, hence, according to the Regulations of the People’s Republic of China on Administration of Registration of Companies (中華人民共和國公司登記管理條例) and the Administrative Licence Law of the People’s Republic of China (中華人民共和國行政許可法), the stores were not required to cease operations pending MOFCOM approvals. At the same time, in each case, we had duly applied to the relevant authorities for approval and continued operations while the applications were pending. Our Group has since obtained all relevant MOFCOM approvals and/or local MOFTEC approvals in respect of its self-owned stores. Therefore, our PRC legal advisers have informed us that such department store operations pending the relevant MOFTEC approvals were legal and not in breach of any PRC laws and regulations then in force.

Customer Loyalty Programmes and Pre-paid Gift Cards

As advised by our PRC legal advisers, the operation of our customer loyalty programmes, which involves issuing customer loyalty cards, giving discounts and/or complimentary gifts to members of our customer loyalty programmes, is in compliance with applicable laws and regulations of the PRC.

As advised by our PRC legal advisers, 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 People’s Bank of China jointly promulgated Emergency Notice on Prohibition of Issuing and Using Tokens (or Token Cards) (關於嚴禁發放使用各種代幣券(卡)的

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緊急通知) (the “Emergency Notice”) on January 19, 2001, which prohibits corporations from printing, offering, purchasing and/or using any kind of prepaid shopping tokens or shopping cards. Pursuant to Section 20 and Section 45 of the People’s Bank Law of the People’s Republic of China (中華人民共和國人民銀行法), the People’s Bank of China may order the offender to stop issuing prepaid shopping cards and impose a maximum fine of RMB200,000 per operating entity.

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 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.

As of the Latest Practicable Date, all of our self-owned stores issued prepaid gift cards. 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. Up to the Latest Practicable Date, our Directors are not aware of any administrative actions having been taken by the relevant authority against us in respect of such non-compliance.

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.

According to our PRC legal advisers’ understanding, the issuance of prepaid gift cards is a commonly seen practice among department stores in the PRC. As such, our PRC legal advisers are of the opinion that the risk of imposition of fines and enforcement by the People’s Bank of China against our Group in this regard is small.

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.

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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, and 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. In such a case, our Directors undertake to ensure that our Group will have sufficient financial resources to repurchase all outstanding prepaid gift cards within the prescribed period of time for repurchase under the requirements of the relevant PRC governmental authorities. If we were required to repurchase any outstanding prepaid gift cards, this may have an adverse effect on our cash flow position. 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.

In this respect, we have implemented a number of measures to monitor the issue of such prepaid gift cards, including obtaining monthly updates from each of the self-owned stores on the outstanding balance of prepaid gift cards issued via the POS system, ensuring that we continue to maintain certain level of surplus cash to allow for repurchase of such outstanding prepaid gift cards if required by the relevant PRC governmental authorities or otherwise. We have also arranged for our internal legal department to monitor on a regular basis any changes in the legal position under the relevant PRC laws and regulations as well as any incidents of enforcement by the relevant authorities in the PRC. We have further requested our PRC legal advisers to keep us informed should revised laws or regulations come into effect which may impact on the issue of prepaid gift cards and/or the enforcement of the provisions of the Emergency Notice by the relevant PRC governmental authorities.

We will limit the outstanding balance of prepaid gift cards at our self-owned stores which may not be in compliance with relevant PRC laws and regulations to 8% of the total gross sales proceeds over a twelve-month period as shown in the Group’s most recent management accounts (the “Gift Cards Threshold”). As at September 30, 2009, the outstanding balance of prepaid gift cards issued by our self-owned stores totalled approximately RMB194.7 million, or approximately 7.5% of the total gross sales proceeds at our self-owned stores for the year ended December 31, 2008.

Our Directors will designate our financial controller to supervise and monitor the compliance of our Group with the Gift Cards Threshold to ensure that the Gift Cards Threshold will not be exceeded. In the event that the outstanding balance of the prepaid gift cards at our self-owned stores exceeds the Gift Card Threshold, our financial controller will immediately notify our Directors, and our Directors will ensure that we will promptly cease issuing any further prepaid gift cards at our self-owned stores until the outstanding balance is below the Gift Cards Threshold. Further, we will provide ongoing training to relevant staff responsible for monitoring compliance with the Gift Cards Threshold.

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In addition, 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.

Given (i) the indemnity from our Controlling Shareholders; (ii) the uncertainties over the application of the relevant PRC laws and regulations in respect of prepaid gift cards as cited above; (iii) our understanding that it is common market practice in the department store industry in the PRC for department stores to issue prepaid gift cards; and (iv) the fact that the cessation of the issue of prepaid gift cards may put our Group at a competitive disadvantage compared to other department store operators in the PRC (which may, in the long-term, have an adverse effect on the Group’s business operation and its financial condition), we intend to continue to issue prepaid gift cards.

Please see “Risk Factors — Risks Relating to Our Business — The issuance of prepaid gift cards by us is not in compliance with the applicable PRC laws and regulations”.

Intra-group lending

Section 61 of the General Principles of Loans (貸款通則), promulgated by the People’s Bank of China in 1996, prohibits lending and capital raising among non-financial institutions. The People’s Bank of China could invalidate loans among non-financial institutions and impose a fine on the lender of one to five times of the interest income from such loans.

On February 1, 2000, the Ministry of Finance and the State Administration of Taxation published the Notice on the Question Regarding Sales Tax on Borrowing and Lending by Non-Financial Institutions (關於非金融機構統借統還業務徵收營業稅問題的通知), which provided that no sales tax would be levied when a corporate borrower lends funds to its subsidiaries at a rate less than or equal to the interest rate charged by a financial institution on loans of a similar nature. Furthermore, on November 28, 2007, the State Council promulgated the Implementation Rules of the Enterprise Income Tax Law, Section 38(2) of which states that the interest payment between two non-financial enterprises is tax deductible when such interest payment is calculated at a rate less than that of a loan of a similar nature charged by a financial institution. On April 6, 2004, the People’s Bank of China and the China Banking Regulatory Commission published the revised General Principles of Loans (Comment Solicitation Draft) (貸款通則 (徵求意見稿)), which removed Section 61 of the existing General Principles of Loans.

As of June 30, 2009, we granted to related parties, including PCD Stores (Xiamen), approximately RMB625 million in non-trade unsecured loans. These loans and advances were in compliance with the respective articles of association of the relevant companies within our Group. These loans and advances were granted at an interest of 6.3% or interest free, which approximated to their respective borrowing costs, in order to comply with the PRC laws and regulations detailed in the above paragraph. However, our PRC legal advisers have advised us that engaging in intra-group lending is not in compliance with Section 61 of the existing General Principles of Loans. The People’s Bank of China could cancel our related party loans and impose a fine on us of one to five times of our interest income from such loans (being a maximum of RMB40.7 million). Our PRC legal advisers have advised us that the practical risk of enforcement by the relevant PRC authorities and the imposing of such a fine is small. We received RMB8.1 million in interest income from related parties for the three years ended December 31, 2008 and six months ended

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June 30, 2009. As of October 31, 2009, we have received the full repayment of these non-trade unsecured loans from our related parties. Our Group will work with our PRC legal advisers and internal legal department to closely monitor any change in the legal position relating to intra-group loans and advances going forward, with a view to ensuring any future loans and advances will only be made in compliance with the relevant PRC laws and regulations and the Listing Rules. In this regard, 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. Please see “Risk Factors — Risks Relating to Our Business — Our practice of intra-group lending may not be in compliance with PRC regulations and we may be subject to penalties.”

Compliances with other laws and regulations

Our Directors have confirmed that we have complied in all material respects with all applicable laws and regulations during the Track Record Period and have obtained all relevant and material approvals, licenses, permits and certificates necessary to conduct our operations from all relevant government bodies, except (i) issuing prepaid gift cards as described in the section headed “— Legal Compliance and Litigation — Customer Loyalty Programmes and Pre-paid Gift Cards”; (ii) obtaining registrations of certain tenancy agreements in conjunction with our leased properties in Xiamen and Beijing as described in “Appendix IV — Property Valuation”; and (iii) obtaining registrations for certain trademarks which we currently use, as described in “Our Business — Intellectual Property — Trademark and tradenames — PRC.” PIEL and Bluestone, our Controlling Shareholders, have agreed to indemnify us with respect to any losses and costs incurred by our Group arising out of or in relation to any material non-compliance with applicable laws and regulations.

Our PRC legal advisers have advised us that according to the Fire Protection Regulations of the People’s Republic of China (effective as of October 1, 1984), which was later superseded by Fire Control Law of the People’s Republic of China (effective as of September 1, 1998) (the “Fire Control Law”), department stores which commence operation or undergo major renovation after September 1, 1998 are required to apply for fire inspection certificates; while department stores which commenced operation before September 1, 1998 are not required to apply for fire inspection certificates unless there are subsequent major renovations.

Our PRC legal advisers have advised us that we have obtained fire inspection certificates for each of PCD World Trade, PCD Continental, PCD Jiahe and PCD Taiyuan. In addition, our PRC legal advisers have confirmed that PCD Zhongshan Lu, PCD Qingdao, PCD Changchun and Scitech Plaza have commenced operation before September 1, 1998 by Independent Third Parties and these stores were not required to apply for fire inspection certificate then. In about 2005 and 2006, certain portions of PCD Zhongshan Lu, PCD Changchun and Scitech Plaza have undergone major renovations and all these stores have applied for and obtained fire inspection certificates.

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Legal proceedings

On August 10, 2007 we effectuated a transfer agreement to acquire from the Xian Vendors the entire equity interest in Xian Century Changan Property Investment. Completion of registration of the change in shareholding of Xian Century Changan Property Investment took place on August 10, 2007. On May 20, 2007, Shaanxi Litian Economic and Trade Co Ltd (陝西利天經濟貿易有限公司) (“Shaanxi Litian”) launched a claim against Xian Century Changan Property Investment and Shaanxi Mei Mei Changan Department Store Co., Ltd. seeking compensation for economic loss of RMB1,815,278 and costs of litigation. Shaanxi Litian entered into a lease with Xian Century Changan Property Investment for the leasing of restaurant premises within Xian Changan Metropolis Center for a period of 5 years from May 30, 2006 to April 29, 2011. Shaanxi Litian claimed that Xian Century Changan Property Investment was in breach of the lease, and by, among other things, failing to promptly allow Shaanxi Litian to start renovation works which caused a delay in the commencement of Shaanxi Litian’s restaurant business. The Xian Vendors have agreed to indemnify us against any and all losses arising from this claim. Further, our PRC legal advisers have informed us that the aforementioned litigation will not cause any operational impact on Xian Century Changan Property Investment and us.

Since December 2008, approximately 70 concessionaires sued the operator and a substantial shareholder of the operator of New Age Laiya, a department store in Xiamen, to collect payment on goods sold. We provided management consultancy services to New Age Laiya from April 2006 to November 2008. The closure of the store due to financial difficulties of its owner and operator resulted in the termination of our management contract. PCD Songbai Department Stores was named as a co-defendant in the proceedings on the allegation that it undertook to acquire New Age Laiya. We have vigorously defended against these proceedings. Six of the concessionaires withdrew their cases during the course of the proceedings and on September 12, 2009, the court of first instance dismissed the remainder of these proceedings. On around September 21, 2009, a number of plaintiffs filed appeals with the intermediate people’s court in Xiamen. The total amount in dispute against PCD Songbai Department Stores in relation to the appeal is approximately RMB8.1 million. According to the law firm representing PCD Songbai Department Stores in the appeal proceedings, the appeals have no factual and legal basis.

On June 29, 2009, Guangxi Oriental Hangyang Investment Group, the owner of the premises on which the PCD Nanning store is located, commenced arbitration proceedings against us related to a contractual dispute. Guangxi Oriental Hangyang Investment Group disputed the accuracy of the gross sales proceeds based on which the amount of fees payable to it was calculated and alleged that we underpaid the amount due to it under the store cooperation agreement. Guangxi Oriental Hangyang Investment Group demanded liquidated damages totaling RMB23.7 million and the termination of the store cooperation agreement. This proceeding is before the Shanghai Arbitration Committee. Our PRC legal advisers have advised that the arbitration proceeding is in an early stage of documentary discovery and evidence gathering. The operations at PCD Nanning are not presently materially affected by these proceedings. However, if this arbitration is not resolved in our favour, we may be required to pay damages and/or relocate the PCD Nanning store to other premises, which may in turn cause business disruption and/or adversely affect our results of operations. Save in respect of the liability for damages (if any), the termination of the store cooperation agreement on PCD Nanning is not currently expected to have a material adverse impact on our Group, since revenues attributable to PCD Nanning constituted 0.4%, 1.3% and

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1.4% of our total revenues in the two years ended December 31, 2008 and the first six months of 2009, respectively, and PCD Nanning had a net loss of RMB252,000 for the six months ended June 30, 2009. As at the Latest Practicable Date, we have not made any provision in respect of the claim for liquidated damages of RMB23.7 million. Based on the opinion of the law firm representing PCD Nanning in the arbitration, the allegation by Guangxi Oriental Hangyang Investment Group is without basis and merit.

Save as disclosed in this section, our Directors confirm that there are no other litigation or arbitration proceedings pending or threatened against us or any of our Directors that could have a material adverse effect of our financial condition or results of operation.