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 of 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 department 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. Our self-owned store operations include eight "巴黎春天" branded department stores and one "Scitech" branded department store. Our managed store operations include one store in each of Xiamen and Xian, five in the Guizhou province and one outlet mall in Beijing. Our managed store in Xiamen is a "PCD" branded store and this store as well as our managed store in Xian use the "Fleur de Lys" logo. The Beijing Scitech Premium Outlet Mall, to which we provide management consultancy services, also uses the "Fleur de Lys" logo. Two of our managed stores, Guiyang Guomao and Guiyang Nanguo Huajin are in the process of rebranding and we expect these stores to use the "Fleur de Lys" logo in the near future. 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 service are operated by connected persons of our Group and the remaining three managed stores are operated by Independent Third Parties.

Our revenue and net profit for the six months ended June 30, 2009 were RMB358.9 million and RMB124.1 million, respectively, representing an increase of 1.4% and 29.4% from revenue and net profit of RMB353.9 million and RMB95.9 million, respectively, for the six months ended June 30, 2008. Our revenue was RMB171.1 million, RMB500.9 million and RMB717.8 million, respectively, in the three years ended December 31, 2008, representing a CAGR of 104.8%. Our net profit was RMB46.1 million, RMB135.5 million and RMB174.1 million, respectively, in the three years ended December 31, 2008, representing a CAGR of 94.3%.

Since January 1, 2006, the number of our self-owned stores has increased from four to nine stores. These new additions include our PCD stores in Xiamen, Qingdao, Changchun and Nanning, as well as Scitech Plaza, a well-known shopping center in Beijing, which 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.

We earn our revenue primarily through concessionaire sales, which accounted for 66.6%, 72.7%, 69.8% and 64.8% of our total revenue for the financial years ended December 31, 2006, 2007, 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 gross sales proceeds, from the concessionaires. Our second largest stream of revenues during the Track Record Period is direct sales, primarily cosmetics products, which we purchase from suppliers and resell in our stores to customers. Our direct sales accounted for 22.1%, 21.0%, 22.9% and 23.0% of our total revenue for each of the financial years ended December 31, 2006, 2007, 2008 and for the six months ended June 30, 2009, respectively. In addition, we also earn from management consultancy services we provide to department stores and an outlet mall. Our management consultancy services income accounted for 5.9%, 2.5%, 3.4% and 8.1% of our total revenue for financial years 2006, 2007, 2008 and the six months ended June 30, 2009, respectively. In addition, we earn rental income by subleasing space in our department stores to businesses which we believe complement our retail business such as restaurants and banks. Our rental income accounted for 5.4%, 3.8%, 3.9% and 4.1% of our total revenue for financial years 2006, 2007, 2008 and the six months ended June 30, 2009, respectively.

BASIS OF PRESENTATION

Our Company was incorporated on January 8, 2007 in the Cayman Islands as Tiger Power Investments Limited. Our Company subsequently changed its name to PCD Stores (Group) Limited on August 15, 2007. Our registered office is located at Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands and our corporate headquarters is located at No. 76–132 Zhongshan Road, Siming District, Xiamen, PRC.

Our Group has undertaken the Reorganization pursuant to which the business of our Group held by PCD Stores was transferred to our Company. The Reorganization involved (1) the incorporation of our Company, Beijing Scitech Department Stores, PCD Retail Operations and other intermediate holding companies, (2) the transfer of shares in a number of PRC operating subsidiaries to various intermediate holding companies, as well as PCD China Real Estate and PCD Retail Operations, and (3) following this, the transfers of the entire issued share capital in PCD China Real Estate and PCD Retail Operations by PCD Stores to our Company in return for an issue of Shares by our Company and the distribution of a portion of the consideration shares to our corporate investors in connection with the restructuring and termination of the Private Equity Convertible Bonds. Please see "Appendix VII — Statutory and General Information" of this document for further details.

The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2006, 2007 and 2008 and six months ended June 30, 2009 include the results, changes in equity and cash flows of the companies now comprising our Group as if we had always been the holding company of our Group and the current group structure had been in existence throughout the years ended December 31, 2006, 2007 and 2008, and the six months ended June 30, 2009 or since their respective dates of incorporation/establishment or acquisition where this is a shorter period. The consolidated statement of financial position of our Group as at December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009 have been prepared to present the assets and liabilities of the companies now comprising our Group as at December 31, 2006 as if the current group structure had been in existence at that date, taking into account the effective date of acquisitions of entity from outsiders. The financial information is presented in Renminbi ("RMB"), the currency of the primary economic environment in which our principal subsidiaries operate.

Except for the acquisition of the business of PCD Jiahe and the acquisition of Xian Century Changan Property Investment, we have increased the number of self-owned stores during the Track Record Period by purchasing, leasing or entering into store cooperation agreements in respect of properties on which existing department store operations are located and by setting up new PRC companies as our subsidiaries to operate the department stores located on such properties. These subsidiaries are considered Member Companies and their financial results were included in our financial statements set out in "Appendix I — Accountants' Report" starting from the respective incorporation dates of such Member Companies and considered part of the Reorganization for merger accounting purposes.

The only subsidiaries we acquired during the Track Record Period are PCD Songbai Department Stores, our company that operated PCD Jiahe until August 31, 2009, and Xian Century Changan Property Investment, our company that holds title to the lower floors of the Xian Changan Metropolis Center and of which we own the entire equity interest. The acquisition of subsidiaries, other than those acquired as part of the Reorganization, is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, and liabilities incurred or assumed by our Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date.

Because the number of stores in our network increased during the Track Record Period, in particular with the addition of Scitech Plaza in July 2007, our historical financials may not be indicative of our financial performance or growth going forward. See "Risk Factors — Our historical financials may be of limited value in accessing our performance or in giving an indication of our financial performance going forward".

GENERAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Condition of the PRC economy

The level of disposable income of PRC consumers and growth of the PRC economy directly impacts our results of operations. Generally, an increase in disposable income of PRC consumers would lead to greater purchasing power in the market, affecting the sales volume and turnover of retailers such as ourselves. The PRC has experienced rapid economic growth since the introduction of economic reforms in the late 1970s. According to the National Bureau of Statistics of China, in the ten years from 1999 to 2008, the PRC's GDP grew from approximately RMB8,967.7 billion to RMB30,067.0 billion, representing a CAGR of 14.4%, and making the PRC one of the fastest growing economies in the world. Per capita annual disposable income of urban households and per capital annual net income of rural households also increased over the same period, growing at a CAGR of 11.6% and 8.9% respectively. Increases in disposable income have also had a noticeable effect on product choices made by PRC consumers, particularly demand for high price luxury products including designer-brand and imported goods. However, the recent global economic downturn has caused economic growth in China to slow down, which has in turn negatively affected gross sales proceeds at some of our stores. Any further decline in consumer spending or change in consumer habits as a result of the recent economic downturn may have an adverse effect on our results of operation. Going forward, the health of the PRC economy will continue to directly affect the revenue and product mix of retailers such as ourselves.

Concession rates from concessionaire sales

We derive a substantial portion of our revenue through concessionaire arrangements under which we allow as concessionaires to occupy designated areas of our self-owned stores and sell their merchandise in exchange for a percentage of their gross sales proceeds. We recognize the commission we receive from concessionaires as revenue when their merchandise is sold in our department stores, based on a rate we agree with each concessionaire. The majority of our contracts with concessionaires require them to pay us a minimum monthly guaranteed commission. For the years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, commissions from concessionaire sales as a percentage of gross sales proceeds of concessionaires were approximately 19.0%, 20.0%, 20.5% and 20.8%, respectively. For the three years ended December 31, 2008 and the six months ended June 30, 2009, commissions from concessionaire sales as a percentage of total revenue were approximately 66.6%, 72.7%, 69.8% and 64.8%, respectively.

The revenue we derive from concessionaire sales is directly affected by the concession rates we are able to charge concessionaires to allow them to sell their merchandise in our self-owned stores. In addition, the commissions we are able to charge vary significantly among the different categories of merchandise, which have different gross margins from their direct sales. For example, we are able to receive higher commissions from the sales of men's and women's apparel than the other products we carry. To the extent the relative contribution of each category of merchandise varies from period to period, our operating profits may fluctuate. As a result, the mix of merchandise sold in our self-owned stores also affects the commissions we receive.

Seasonality and weather

We typically experience higher sales in our department stores during major festivals and holidays, such as the spring holidays during Chinese New Year, the Labor Day holiday in early May, the National Day holiday in early October, the Mid-Autumn Festival holiday and Christmas. In terms of the calendar year, we generally experience higher sales from October to March compared to sales from April to September, primarily because there are more major holidays from October to March in China and because merchandise, particularly apparel, is generally seasonal in nature and carries higher average selling prices in autumn and winter compared to spring and summer.

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

Expansion of our store network

We plan to expand our store network through selective store additions and by entering into management contracts in relation to stores or outlet malls that we may want to integrate into our store network in the future. The number of stores, in particular the self-owned stores, in our network (and, as a result, the amount of floor space we have) will directly impact our revenue and cost of sales. As our network has expanded from four stores in 2006 to sixteen stores and one outlet mall in 2009, particularly with the addition of Scitech Plaza in 2007, our revenue increased from RMB171.1 million for the year ended December 31, 2006 to RMB717.8 million for the year ended December 31, 2008, representing a CAGR of 104.8%.

Composition of brands

We continually adjust the brand mix of various categories of merchandise in our department stores. The brands of merchandise available in our department stores affect our revenue as the more popular brands we have available in our stores, the higher our revenues will be. In addition, we are not contractually obligated to renew our arrangements with underperforming brands, which enables us to adjust the brand mix in our stores and continue to improve our concessionaire sales and direct sales.

Level of income tax and preferential tax treatment

Our PRC operating subsidiaries are subject to PRC income tax. On January 1, 2008, the New EIT Law became effective. Pursuant to the New EIT Law and Implementation Regulation, a uniform income tax rate of 25% was imposed for both domestic and foreign-invested enterprises. Under the New EIT Law, enterprises that enjoyed a preferential tax rate prior to the New EIT Law's promulgation could gradually migrate to the new tax rate over five years from the effective date of the New EIT Law. Enterprises that were entitled to a fixed period of tax exemptions or reductions prior to the New EIT Law's promulgation could continue to enjoy such treatment until such fixed term expires. In addition, the New EIT Law provides that qualified dividend income between two "resident enterprises" that have a direct investment relationship is exempted from income tax. Otherwise, such dividends will be subject to a 5% or 10% withholding tax under the relevant domestic law or tax treaty. Prior to January 1, 2008, the statutory income tax rate for PRC domestic enterprises was 33%.

Currently, several of our PRC operating subsidiaries are enjoying preferential income tax rate of 20%, which has been grandfathered under the New EIT Law, compared to the uniform national rate of 25%. The preferential rate for most of these stores will expire in 2012, which may negatively impact our profits and results of operations. See "Risk Factors — Risks Relating to the People's Republic of China — Current tax policies providing us with preferential tax treatment may change."

The actual income tax rates applicable to the subsidiaries established in the PRC are as follows:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	%	%	%	%	%
Zhongshan PCD Stores (Xiamen) (i)	15	15	18	18	20
PCD Real Estate (Xiamen) (i)	15	15	18	18	20
PCD World Trade (Xiamen) (i)	15	15	18	18	20
PCD Continental (i)	15	15	18	18	20
PCD Songbai (i)	15	15	18	18	20
PCD Stores Information Consulting (Xiamen) (i)	N/A	15	18	18	20
Laiya Department Management (Xiamen) (i)(iii)	Exempted	Exempted	18	18	20
PCD Stores (Jilin) (ii)	33	Exempted	25	25	25
PCD Stores (Guangxi) (v)	33	Exempted	25	25	25
Beijing Scitech Department Stores (iv)	N/A	Exempted	25	25	25
PCD Stores (Taiyuan)	33	33	25	25	25
Zhongshan PCD Stores (Qingdao)	33	33	25	25	25
Xian Century Changan Property Investment	N/A	33	25	25	25
Jiahe Chun Tian	N/A	N/A	25	N/A	25
Qingdao Chuntian	N/A	N/A	N/A	N/A	25
Beijing Yuanyongxin	N/A	N/A	N/A	N/A	25

Notes:

(i) According to the Approval for Matters Related to Income Tax on Domestic Enterprises in Xiamen Special Economic Zone (Caishuizi [88] No. 039) (財稅字[88]第39號《關於廈門經濟特區內資企業徵收所得稅有關問題的批覆》) issued by the Ministry of Finance of the People's Republic of China and Article 7(1) of the Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises, these subsidiaries are entitled to enjoy a 50% reduction in state income tax and 100% tax relief for local income tax. Thus the charge of PRC enterprise income tax of these subsidiaries during each of the two years ended December 31, 2006 and 2007 has been provided for at a rate of 15%. Pursuant to Notice of the State Council Concerning Implementation of Transitional Rules for Enterprise Income Tax Incentives (Guofa [2007] No. 39), the preferential tax rates of the enterprises established in Xiamen Special Economic Zone will be gradually phased out and increased to the new statutory tax rate of 25% over the five-year period beginning January 1, 2008. The enterprise income tax rates for year 2008, 2009, 2010, 2011 and 2012 are 18%, 20%, 22%, 24% and 25% respectively.

(ii) According to the approval from the Changchun Municipal Office (Chao Yang District) of the State Administration of Taxation (Chang Chao Guo Jian [2007] No. 111) in accordance with the Circular on Certain Preferential Policies of Corporate Income Tax (Caishuizi [94] No. 001) (財稅字[94] 001號《關於企業所得稅若干優惠政策的通知》) issued by the Ministry of Finance and the State Administration of Taxation, PCD Stores (Jilin) was exempted from income tax for the period from January 1, 2007 to December 31, 2007.

(iii) According to the approval from the Xiamen Municipal Office (Siming District) of the State Administration of Taxation (Xia Guo Shui Si Suo Mian Zi [2007] No. 096) in accordance with the Circular on Certain Preferential Policies of Corporate Income Tax (Caishuizi [94] No. 001) (財稅字[94] 001號《關於企業所得稅若干優惠政策的通知》) issued by the Ministry of Finance and the State Administration of Taxation, Laiya Department Management (Xiamen) was exempted from income tax for the period from January 1, 2006 to December 31, 2007.

(iv) According to the approval from the Beijing Municipal Office (Chao Yang District) of the State Administration of Taxation (Chao Guo Shui Pi Fu [2007] No. 300871) in accordance with the Circular on Certain Preferential policies of Corporate Income Tax (Caishuizi [94] No. 001) (財稅字[94] 001號《關於企業所得稅若干優惠政策的通知》) issued by the Ministry of Finance and the State Administration of Taxation, Beijing Scitech Department Stores was exempted from income tax for the period from April 26, 2007, date of establishment, to December 31, 2007.

(v) According to the approval from Nanning Municipal Office of the State Administration of Taxation (Nan Qing Guo Shui Han [2007] No. 952) in accordance with the Circular On Certain Preferential policies of Corporate Income Tax (Caishuizi [94] No. 001) (財稅字[94] 001號《關於企業所得稅若干優惠政策的通知》) issued by the Ministry of Finance and the State Administration of Taxation, PCD Stores (Guangxi) was exempted from income tax for the period from January 1, 2007 to December 31, 2010. PCD Stores (Guangxi) has incurred a loss during the period from January 1, 2007 to June 30, 2009. No income taxes were payable and therefore no EIT exemption approval is needed. If there is a need for the approval in the future, PCD Stores (Guangxi) will apply for it.

Our PRC legal advisers have confirmed that the preferential tax treatments we currently receive are consistent with relevant PRC laws and all relevant approvals for such preferential tax treatments were obtained from the appropriate competent tax authorities.

We have made all the required tax filings and have paid all outstanding tax liabilities with the relevant tax authorities during the Track Record Period, and we are not subject to any dispute or potential dispute with the tax authorities.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our financial statements. Our principal accounting policies, which are important for an understanding of our financial condition and results of operations, are set out in detail in note 3 of the Accountants' Report set out in Appendix I to this document. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. We believe the following are our critical accounting policies that involve the most significant estimates and judgments used in preparation of our financial statements.

Fixed assets and depreciation

Our management determines the estimated useful lives and the related depreciation charge for our property, plant and equipment, which comprise primarily real estate properties. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. We will increase the depreciation charge where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. We state property, plant and equipment other than construction-in-progress at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items. We include subsequent costs in the asset's carrying amount or recognize them as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to us and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

We calculate depreciation using the straight-line method to allocate their cost to their residual values over their estimated useful life, as follows:

Buildings	27-37 years
Leasehold improvements	2–5 years
Motor vehicles	5–10 years
Office equipment.	5 years
Others	2–5 years

We review and adjust, if appropriate, the assets' residual values and useful lives at each reporting date.

Inventory

Inventories comprise merchandise purchased for resale and are stated at the lower of cost and net realizable value. Net realizable value represents the estimated selling price less all the estimated costs to completion and costs to be incurred in marketing, selling and distribution.

We have implemented operational procedures to monitor our inventory. With respect to aged inventory, management reviews the inventory ageing list periodically. This involves a comparison of the carrying value of the aged inventory items with the respective net realizable value. The purpose is to ascertain whether allowance is required to be made in the financial statements for any obsolete and slow-moving items. We base 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 competitor actions in response to severe industry cycles. Our management reassesses the estimates on each reporting date.

In addition, a physical count of all inventories is carried out periodically to determine whether a provision needs to be made in respect of any obsolete or defective inventory identified. As at December 31, 2006, 2007 and 2008, and June 30, 2009, our inventory of store merchandise amounted to RMB12.6 million, RMB23.7 million, RMB34.0 million and RMB32.9 million, respectively. The contractual terms with our suppliers of cosmetics products stipulate that we may return inventory for credit only in the event that merchandise is defective. However, in practice, our suppliers of cosmetics products allow us to exchange unsold merchandise for new merchandise. During the Track Record Period, we did not make any provisions for inventories and did not experience any inventory write-offs.

Prepayments, trade and other receivables

Prepayments, trade and other receivables, consisting primarily of prepaid rentals, are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognized in profit and loss when there is objective evidence that the asset is impaired.

In making the judgment, management considers detailed procedures in place to monitor this risk. In determining whether this allowance for bad and doubtful debts is required, we take into consideration the ageing status and the likelihood of collection. Following the identification of doubtful debts, the responsible sales personnel discuss with the relevant customers and report on the recoverability. Specific allowance is only made for the receivables that are unlikely to be collected. During the Track Record Period, we did not make any allowances for bad debt and made a bad debt write-off of RMB1.2 million in the year ended December 31, 2008.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires us to estimate the future cash flows expected to arise from the cash-generating unit in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at June 30, 2009, the carrying amount of our goodwill was RMB2.0 million.

SUMMARY OF RESULTS OF OPERATIONS

The table below sets out selected financial information for the periods indicated:

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

The table below sets out our revenue from each of our self-owned stores for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
			(RMB in millions)		
PCD Zhongshan Lu					
concessionaire sales	32.8	42.9	44.1	22.5	22.6
direct sales	3.7	4.4	4.9	2.1	2.4
rental income	3.9	2.5	1.8	1.3	0.6
Total	40.4	49.8	50.8	25.9	25.6
PCD World Trade					
concessionaire sales	13.0	12.4	12.1	5.5	6.3
direct sales	—	—	—	—	—
rental income	1.2	1.1	0.6	0.5	—
Total	14.2	13.5	12.7	6.0	6.3

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	(RMB in millions)				
PCD Taiyuan					
concessionaire sales	15.9	20.3	20.1	11.2	8.7
direct sales	—	—	—	—	—
rental income	1.7	1.5	1.1	0.5	0.6
Total	17.6	21.8	21.2	11.7	9.3
PCD Jiahe					
concessionaire sales	20.5	21.5	19.8	10.3	10.7
direct sales	28.0	36.2	42.8	20.9	22.2
rental income	0.2	0.2	0.3	0.1	0.1
Total	48.7	57.9	62.9	31.3	33.0
PCD Continental					
concessionaire sales	14.3	21.9	25.1	11.6	13.4
direct sales	1.9	3.0	3.4	1.5	2.0
rental income	1.0	0.5	0.4	0.2	0.1
Total	17.2	25.4	28.9	13.3	15.5
PCD Qingdao					
concessionaire sales	14.1	63.3	58.2	33.5	20.0
direct sales	3.7	16.1	14.7	8.9	1.7
rental income	0.7	3.1	2.4	1.3	0.4
Total	18.5	82.5	75.3	43.7	22.1
PCD Changchun					
concessionaire sales	3.3	35.3	32.3	17.3	15.7
direct sales	0.5	4.0	5.1	2.8	3.3
rental income	0.6	2.7	1.8	1.3	1.7
Total	4.4	42.0	39.2	21.4	20.7
Scitech Plaza					
concessionaire sales	—	145.0	280.5	137.9	131.0
direct sales	—	41.7	93.6	40.0	51.1
rental income	—	4.0	8.2	4.3	3.3
Total	—	190.7	382.3	182.2	185.4
PCD Nanning					
concessionaire sales	—	1.7	8.5	3.7	4.2
direct sales	—	—	—	—	—
rental income	—	0.1	0.7	0.3	0.8
Total	—	1.8	9.2	4.0	5.0
Total Income from Self-owned Stores					
concessionaire sales	113.9	364.3	500.7	253.5	232.6
direct sales	37.8	105.4	164.5	76.2	82.7
rental income	9.3	15.7	17.3	9.8	7.6
Total	161.0	485.4	682.5	339.5	322.9

The table below sets out our revenue from each of our managed stores and our total store revenues, including total income from self-owned stores and total management income, for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
			(RMB in millions)		
				(unaudited)	
Xiamen Shengming Laiya[1]	3.4	4.2	4.3	2.2	0.8
Jicheng Laiya[2]	1.9	2.2	2.4	1.2	0.4
New Age Laiya[3]	2.9	4.2	3.3	2.0	—
Chengdu Shengming Laiya[4]	1.9	1.9	1.9	0.8	0.3
Jicheng Laiya (Qingyang Branch)[5]	—	—	2.9	2.0	0.3
PCD Ruijing	—	—	3.4	2.3	1.4
PCD Xian	—	—	—	—	15.4
Zunyi Guomao	—	—	3.4	—	1.4
Guiyang Guomao	—	—	—	—	5.9
Guiyang Nanguo Huajin	—	—	—	—	1.7
Guomao Liupanshui	—	—	—	—	0.1
Guizhou Guochen	—	—	2.7	—	1.2
Beijing Scitech Premium Outlet Mall	—	—	—	—	—
Total income from management consultancy services	10.1	12.5	24.3	10.5	28.9
Total store revenues	171.1	497.9[6]	706.8[7]	350.0	351.8[8]

Notes:

(1) Management contract was terminated by our Group in March 2009.

(2) Management contract was terminated by our Group in March 2009.

(3) Management contract was terminated by our Group in March 2009.

(4) Management contract was terminated by our Group in March 2009.

(5) Management contract was terminated by our Group in March 2009.

(6) In financial year 2007 our consolidated financials reflected revenue of RMB500.9 million, while the sum of store revenues in financial year 2007 was RMB497.9 million, reflecting a difference of RMB3.0 million. This difference was attributable to rental income received by Xian Century Changan Property Investment, which is not counted as a self-owned store, from Mei Mei in 2007.

(7) In financial year 2008 our consolidated financials reflected revenue of RMB717.8 million, while the sum of store revenues in financial year 2008 was RMB706.8 million, reflecting a difference of RMB11.0 million. This difference consists of RMB0.6 million rental income received by PCD Real Estate (Xiamen) and RMB10.4 million rental income received by Xian Century Changan Property Investment from Mei Mei in 2008.

(8) In the first half of financial year 2009 our consolidated financials reflected revenue of RMB358.9 million, while the sum of store revenues in the first half of financial year 2009 was RMB351.8 million, reflecting a difference of RMB7.1 million. This difference consists of RMB0.6 million rental income received by PCD Real Estate (Xiamen) and RMB6.5 million rental income received by Xian Century Changan Property Investment from Mei Mei.

DESCRIPTION OF SELECTED LINE ITEMS IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Revenue. We derive revenue from the commissions from concessionaire sales, direct sales of goods, rental income and management fees. All of our revenue is derived from sales in the PRC. For commissions from concessionaire sales, we permit concessionaires to establish a sales counter in our department stores and we generally charge them a percentage of their gross sales proceeds as commission. For direct sales, we purchase merchandise from suppliers and resell the merchandise in our stores. In return for our management consultancy services, we are entitled to receive monthly management fees amounting to (i) a fixed management fee, (ii) a percentage of the store's gross sales proceeds or gross profit, and/or (iii) a licensing fee for the use of our trademarks by these managed stores. See "Our Business — Intellectual Property — Trademark and trade names — PRC." We derive rental income from renting designated areas of certain of our owned and leased premises to operators of businesses that we believe offer products or services that complement our stores such as restaurants and banks. See "Our Business — Our Store Network — Managed Stores" and "Our Business — Our Merchandise — Sales" for more information on concessionaire sales, direct sales, management consultancy services and rental of store space. The following table sets out the breakdown of our revenue as a percentage of revenue for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2006		2007		2008		2008		2009	
	(RMB in millions)	*(%)*	*(RMB in millions)*	*(%)*	*(RMB in millions)*	*(%)*	*(RMB in millions) (unaudited)*	*(%)*	*(RMB in millions)*	*(%)*
Commissions from concessionaire sales .	113.9	66.6	364.3	72.7	500.7	69.8	253.5	71.6	232.6	64.8
Sales of goods — direct sales	37.8	22.1	105.4	21.0	164.5	22.9	76.2	21.5	82.7	23.0
Management consultancy services income	10.1	5.9	12.5	2.5	24.3	3.4	10.5	3.0	28.8	8.1
Rental income.	9.3	5.4	18.7	3.8	28.3	3.9	13.7	3.9	14.8	4.1
Total	171.1	100	500.9	100	717.8	100	353.9	100.0	358.9	100.0

Purchases of and changes in inventories. Our purchases of and changes in inventories consist costs incurred for purchases of cosmetics from suppliers and changes in such inventory. Purchases of and changes in inventories for the three years ended December 31, 2008 and the six months ended June 30, 2009 amounted to RMB30.0 million, RMB82.4 million, RMB127.2 million and RMB63.6 million, respectively.

Other income. Other income primarily consists of additional income received from tenants in our department store, including property management income from concessionaires in our self-owned stores, advertisement and promotion administration income, display space leasing income, interest income from a related party, net foreign exchange gains, bank interest income and credit card handling income. Credit card handling income comprises an additional fee charged to concessionaires in connection with our credit card handling services. The following table sets out the breakdown of our other income for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
			(RMB in millions)		
				(unaudited)	
Property management income	3.9	14.8	15.8	8.1	7.7
Advertisement and promotion administration income	3.0	16.0	26.6	11.1	17.3
Display space leasing income	2.5	7.1	8.6	5.2	2.8
Interest income from a related party	—	5.7	—	—	2.5
Net foreign exchange gains	3.8	—	0.6	0.8	—
Bank interest income	2.5	1.5	2.3	1.4	0.5
Credit card handling income	0.3	6.1	13.0	6.6	6.1
Others(1)	6.1	12.8	13.8	7.0	6.3
Total	22.1	64.0	80.7	40.2	43.2

Note:

(1) Other income — Others consists of fees relating to materials usage, clothes repairing, warehousing, decorating, one time fees charged to new concessionaires, training, fees charged to concessionaires to have their names appear in areas such as the in-store directory and promotional materials, air conditioning, cleaning and other miscellaneous fees received from tenants.

Change in fair value of investment property. According to the accounting policies of our Group, investment properties are required to be stated at their fair value and are revalued at each reporting date. A qualified independent property valuer was engaged to conduct market valuations of Xian Changan Metropolis Center as at the two years ended December 31, 2008 and the six months ended June 30, 2009. Xian Changan Metropolis Center was valued by capitalizing the net rental income derived from existing tenancies agreements with allowance for reversionary income potential of the property and by reference to comparable sales evidence as available in the relevant market. Increases or decreases in the fair market value of investment properties are reflected as an income or expense item, as the case may be, in profit or loss. The annual revaluation of the investment properties may result in significant fluctuations in our results of operations. As at June 30, 2009, the fair value of Xian Changan Metropolis Center was RMB510 million, representing an increase of RMB50.8 million since our acquisition of Xian Century Changan Property Investment.

Employee benefits expense. Employee benefits expense comprises salaries, bonuses and allowances, as well as contributions to statutory retirement benefit schemes. For the three years ended December 31, 2008 and the six months ended June 30, 2009, our employee benefits expense were RMB23.5 million, RMB87.0 million, RMB115.9 million and RMB47.5 million, respectively.

Depreciation and amortization. Depreciation is charged to write off the cost of property, plant and equipment, over their estimated useful lives, using the straight-line method. Amortization is charged to write off the cost of land use rights on a straight-line basis over the lease terms. For the three years ended December 31, 2008 and the six months ended June 30, 2009, depreciation and amortization amounted to RMB14.9 million, RMB22.1 million, RMB30.5 million and RMB16.1 million, respectively.

Operating lease rental expenses. Operating lease rental expenses comprise lease payments made for the properties in respect of which we enter into leases and/or store cooperation agreements. For the three years ended December 31, 2008 and the six months ended June 30, 2009, our operating lease rental expenses were RMB25.1 million, RMB71.9 million, RMB96.2 million and RMB47.7 million, respectively.

Other operating expenses. Other operating expenses consist primarily of auditors' remuneration, promotion, advertising and relate expenses, water, electricity and heating expenses, other taxes, bank charges and bad debt loss. For the three years ended December 31, 2008 and the six months ended June 30, 2009, our other operating expenses were RMB42.6 million, RMB139.4 million, RMB141.1 million and RMB61.1 million, respectively.

Finance costs. Finance costs primarily consist of interest expense on bank borrowings and loans from related parties. For the three years ended December 31, 2008 and the six months ended June 30, 2009, finance costs were RMB3.0 million, RMB26.4 million, RMB49.3 million and RMB23.7 million, respectively.

Income tax charge. Income tax charge primarily consists of income tax accrued and deferred tax charge. We are incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of the Cayman Islands and are exempt from payment of Cayman Islands income tax. Our subsidiaries that are incorporated in China are generally subject to PRC enterprise income tax at the rate of 25% (33% prior to January 1, 2008). Pursuant to the New EIT Law, subsidiaries established in the PRC are required to calculate and pay enterprise income tax at a flat tax rate of 25% with effect from January 1, 2008. See "— General Factors Affecting our Results of Operations — Level of income tax and preferential tax treatment" and Note 10 to "Appendix I — Accountant's Report".

Our effective tax rate for each of the three years ended December 31, 2008 and the six months ended June 30, 2009 was 14.8%, 13.4%, 29.9% and 23.6%, respectively. The decrease of our effective tax rate from 29.9% for the year ended December 31, 2008 to 23.6% for the six months ended June 30, 2009 was due primarily to the fact that tax loss on which deferred tax assets were not recognised in the first half of financial year 2009 is less than that in the same period in 2008, therefore deferred tax charge decreased accordingly.

Profits attributable to minority interests. Minority interests primarily represent interests in the results and net assets of our subsidiaries attributable to third party equity holders of a 5% equity stake in PCD Songbai, of which we owned the remaining 95%.

REVIEW OF HISTORICAL OPERATING RESULTS

Overview of Store Performance

Our improved performance over the Track Record Period is primarily attributable both to our addition of new stores as well as to improved performance of some of our existing self-owned stores. In financial year 2006, our improved results were mainly attributable to the addition of PCD Jiahe, PCD Qingdao and PCD Changchun and the effect of the full-year financial results of PCD Taiyuan, at which we commenced operations towards the end of financial year 2005. In addition, our results in financial year 2006 were also influenced by improved performance at PCD

Zhongshan Lu and PCD World Trade, due to continued growth of the PRC economy and the increased promotion and advertising at these stores. We experienced continued improved performance in financial year 2007, primarily as a result of the commencement of operations at Scitech Plaza on July 1, 2007 and improved results of PCD Zhongshan Lu and PCD Jiahe, largely due to increased marketing and promotion and the introduction of VIP programs at these stores, as well as to the introduction of more high-end and luxury brands. The significant improvement in financial year 2008 was primarily due to the effect of full-year financial results of Scitech Plaza. For the six months ended June 30, 2009, our revenue and net profit grew compared to the same period in 2008 as a result of higher management consultancy services income and direct sales, partially offset by lower commissions from concessionaire sales.

Six months ended June 30, 2009 compared to six months ended June 30, 2008

Revenue. In the six months ended June 30, 2009, our revenue was RMB358.9 million, representing an increase of RMB5.0 million or 1.4%, from RMB353.9 million in the six months ended June 30, 2008. This increase was primarily attributable to higher management consultancy services income and direct sales, partially offset by lower commissions from concessionaire sales.

Commissions from concessionaire sales. In the six months ended June 30, 2009, our revenue from commissions from concessionaire sales was RMB232.6 million, representing a decrease of RMB20.9 million, or 8.2%, from RMB253.5 million in the six months ended June 30, 2008. This decrease was primarily attributable to lower gross sales proceeds at Scitech Plaza due to the economic slowdown and at PCD Qingdao due to the economic slowdown and increased competition, partially offset by improved performance at a number of our self-owned stores. Revenue from commissions from concessionaire sales as a percentage of revenue decreased from 71.6% in the six months ended June 30, 2008 to 64.8% in the six months ended June 30, 2009. This decrease was primarily attributable to both a decrease in commissions from concessionaire sales and an increase in direct sales and management consultancy services income. Average concession rate was 20.8% in the six months ended June 30, 2009, unchanged from the six months ended June 30, 2008.

Sales of goods-direct sales. In the six months ended June 30, 2009, our revenue from sales of goods-direct sales was RMB82.7 million, representing an increase of RMB6.5 million, or 8.5%, from RMB76.2 million in the six months ended June 30, 2008. This increase was primarily attributable to improvements in cosmetics sales at Scitech Plaza, partially offset by a decline of cosmetics sales at PCD Qingdao. Revenue from sales of goods-direct sales as a percentage of revenue increased from 21.5% in the six months ended June 30, 2008 to 23.0% in the six months ended June 30, 2009. This increase was primarily attributable to both an increase in direct sales and a decrease in commission from concessionaire sales. The average gross margin of our direct sales decreased slightly to 23.0% in the six months ended June 30, 2009 from 23.3% in the six months ended June 30, 2008, due primarily to the decrease in gross margin of direct sales at PCD Qingdao resulting from our replacing cosmetic products with other products, mostly jewelry, at PCD Qingdao and thus clearing the cosmetic inventory on hand at discount.

Rental income. In the six months ended June 30, 2009, our revenue from rental income was RMB14.7 million, representing an increase of RMB1.0 million, or 8.0%, from RMB13.7 million in the six months ended June 30, 2008. This increase was primarily attributable to rental income from Xian Changan Metropolis Center in the six months ended June 30, 2009. Accordingly, revenue from rental income as a percentage of revenue increased from 3.9% in the six months ended June 30, 2008 to 4.1% in the six months ended June 30, 2009.

Management consultancy services income. In the six months ended June 30, 2009, our revenue from management consultancy services income was RMB28.9 million, representing an increase of RMB18.4 million, or 173.7%, from RMB10.5 million in the six months ended June 30, 2008. This increase was primarily attributable to increased management consultancy services income from our managed stores in Xian and Guizhou, partially offset by a decrease in management consultancy services income following the termination of the Laiya management contracts. Our management consultancy services income is charged based on both a fixed rate and variable rate. The variable part is proportionally linked to the gross sales proceeds of the managed stores. Revenue from management consultancy services income as a percentage of revenue increased from 3.0% in the six months ended June 30, 2008 to 8.1% in the six months ended June 30, 2009. This increase was primarily attributable to management and consultancy income growing at a faster rate than other revenue streams.

Purchases of and changes in inventories. In the six months ended June 30, 2009, our purchases of and changes in inventories was RMB63.6 million, representing an increase of RMB5.1 million, or 8.7%, from RMB58.5 million in the six months ended June 30, 2008. This increase was primarily due to increased cosmetics sales at Scitech Plaza.

Other income. In the six months ended June 30, 2009, our other income was RMB43.2 million, representing an increase of RMB3.0 million, or 7.5%, from RMB40.2 million in the six months ended June 30, 2008. This increase was primarily attributable to increases in various categories such as advertisement and promotion administration income and interest income from a related party.

Change in the value of investment property. In the six months ended June 30, 2009, we booked an increase in fair value of investment property of RMB20 million. This was due primarily to fluctuation in the value of Xian Changan Metropolis Center, which we account for as an investment property.

Employee benefit expenses. In the six months ended June 30, 2009, employee benefit expenses amounted to RMB47.5 million, representing a decrease of RMB14.3 million, or 23.1%, from RMB61.8 million in the six months ended June 30, 2008. This decrease was primarily attributable to changes in the compensation structure and reduced headcount at Scitech Plaza. As part of our efforts to continuously streamline its operations, we reduced the headcount at Scitech Plaza. The headcount of Scitech Plaza was 702, 566, and 499 as of December 31, 2007 and 2008 and June 30, 2009, respectively. We also introduced a new performance-based employee benefit structure after we commenced operations at Scitech Plaza in July 2007, which is consistent with the practice at our other self-owned stores. As a result, employee benefit expenses at Scitech

Plaza decreased from RMB34.7 million in the six months ended June 30, 2008 to RMB20.7 million in the six months ended June 30, 2009, representing a decrease of RMB14.0 million, or 40.2%.

Depreciation and amortization. In the six months ended June 30, 2009, expenses relating to depreciation and amortization were RMB16.1 million, representing an increase of RMB1.9 million, or 13.4%, from RMB14.2 million in the six months ended June 30, 2008. This increase was primarily attributable to depreciation of leasehold improvement in relation to the property on which PCD Changchun is located.

Operating lease rental expenses. In the six months ended June 30, 2009, operating lease rental expenses amounted to RMB47.7 million, largely unchanged from RMB47.9 million in the six months ended June 30, 2008.

Other operating expenses. In the six months ended June 30, 2009, other operating expenses amounted to RMB61.1 million, representing a decrease of RMB6.6 million, or 9.7%, from RMB67.7 million in the six months ended June 30, 2008. This decrease was primarily attributable to a decrease in professional service fees and store related expenses such as promotion and advertising, partially offset by a higher other tax payment of RMB1.5 million.

Finance costs. In the six months ended June 30, 2009, our finance costs were RMB23.7 million, representing a decrease of RMB0.6 million, or 2.5% from RMB24.3 million in the six months ended June 30, 2008. This decrease was mainly attributable to lower interest payment amount on long-term bank borrowings, partially offset by higher interest payment amount on short-term bank borrowings.

Profit before taxation. As a result of the factors described above, our profit before taxation was RMB162.4 million in the six months ended June 30, 2009, representing an increase of RMB22.7 million, or 16.2%, from RMB139.7 million in the six months ended June 30, 2008.

Income tax charge. In the six months ended June 30, 2009, income tax charge was RMB38.3 million, representing a decrease of RMB5.5 million, or 12.8%, from RMB43.8 million in the six months ended June 30, 2008. This decrease was primarily attributable to the decrease of effective tax rate during the first half of financial year 2009 due to non-tax deductible listing expenses incurred in the first half of 2008. Our effective tax rate was 23.6% in the six months ended June 30, 2009, compared to 31.4% in the six months ended June 30, 2008.

Minority interests. Minority interests increased RMB0.2 million, from RMB0.1 million in the six months ended June 30, 2008 to RMB0.3 million in the six months ended June 30, 2009. This increase was primarily attributable to operation improvement at a store not wholly owned by us.

Profit for the period. As a result of the factors described above, our profit was RMB124.1 million in the six months ended June 30, 2009, representing an increase of RMB28.2 million, or 29.4%, from RMB95.9 million in the six months ended June 30, 2008. Profit attributable to owners of our Company increased RMB28.0 million, or 29.2%, from RMB95.8 million in the six months ended June 30, 2008 to RMB123.8 million in the six months ended June 30, 2009.

Net profit margin. Our net profit margin was 34.6% for the six months ended June 30, 2009, representing an increase of 7.5% from 27.1% for the six months ended June 30, 2008. The increase was mainly due to a reduction in employee benefits' expenses and other operating expenses, along with increase in revenue and other income.

Financial Year ended December 31, 2008 compared to Financial Year ended December 31, 2007

Revenue. In financial year 2008, our revenue was RMB717.8 million, representing an increase of RMB216.9 million or 43.3%, from RMB500.9 million in financial year 2007. This increase was primarily attributable to increased commissions from concessionaire sales and direct sales associated with the first full-year operation at Scitech Plaza in financial year 2008.

Commissions from concessionaire sales. In financial year 2008, our revenue from commissions from concessionaire sales was RMB500.7 million, representing an increase of RMB136.4 million, or 37.4%, from RMB364.3 million in financial year 2007. This increase was primarily attributable to increased commissions from concessionaire sales associated primarily with improved sales at PCD Continental and the first full-year of operation at Scitech Plaza and PCD Nanning in financial year 2008, partially offset by lower concessionaire sales at PCD Qingdao. Revenue from commissions from concessionaire sales as a percentage of total revenue decreased slightly from 72.7% in financial year 2007 to 69.8% in financial year 2008, primarily due to an increase in direct sales associated with the first full-year operation at Scitech Plaza and increased management consultancy services income. Our average concession rate from concessionaires rose from 20.0% in financial year 2007 to 20.5% in financial year 2008, due primarily to higher concession rates charged to concessionaires at Scitech Plaza.

Sales of goods-direct sales. In financial year 2008, our revenue from sales of goods-direct sales was RMB164.5 million, representing an increase of RMB59.1 million, or 56.1%, from RMB105.4 million in financial year 2007. This increase was primarily attributable to the first full-year operation of Scitech Plaza and improved direct sales at PCD Jiahe, partially offset by lower direct sales at PCD Qingdao. Accordingly, revenue from sales of goods-direct sales as a percentage of revenue increased slightly from 21.0% in financial year 2007 to 22.9% in financial year 2008. Our average gross margin from direct sales rose from 21.8% in financial year 2007 to 22.7% in financial year 2008, due primarily to the first full-year of direct sales at Scitech Plaza, where the margin on cosmetics was higher than at other stores.

Rental income. In financial year 2008, our revenue from rental income was RMB28.3 million, representing an increase of RMB9.6 million, or 51.3%, from RMB18.7 million in financial year 2007. This increase was primarily attributable to the first full-year of operation at Scitech Plaza where we have rental agreements with suppliers of high-end grocery and first year of rental income received in relation to Xian Changan Metropolis Center. These increases were partially offset by decreases in rental income at PCD Zhongshan Lu, PCD Qingdao, PCD Changchun and PCD Continental as some spaces were switched from leasing arrangement to concessionaire arrangement. Revenue from rental income as a percentage of revenue increased slightly from 3.8% in financial year 2007 to 3.9% in financial year 2008.

Management consultancy services income. In financial year 2008, management consultancy services income was RMB24.3 million, representing an increase of RMB11.8 million, or 94.4%, from RMB12.5 million in financial year 2007. This increase was primarily attributable to management consultancy services income from the four additional managed stores in financial year 2008. management consultancy services income as a percentage of revenue increased from 2.5% in financial year 2007 to 3.4% in financial year 2008 for the same reason.

Purchases of and changes in inventory. In financial year 2008, our purchases of and changes in inventory was RMB127.2 million, representing an increase of RMB44.8 million, or 54.4%, from RMB82.4 million in financial year 2007. This increase was primarily associated with increases in direct sales due to the first full-year of operation of Scitech Plaza and improved direct sales at PCD Jiahe.

Other income. In financial year 2008, our other income was RMB80.7 million, representing an increase of RMB16.7 million, or 26.1%, from RMB64.0 million in financial year 2007. This increase was primarily attributable to increases in advertisement and promotion administration income in financial year 2008 primarily due to better sales performance at Scitech Plaza, as well as to a significant increase in credit card handling income associated with the first full-year operation at Scitech Plaza. In addition, increases in display space leasing income at PCD Changchun also contributed to the increase in other income.

Employee benefits expense. In financial year 2008, employee benefits expense amounted to RMB115.9 million, representing an increase of RMB28.9 million, or 33.2%, from RMB87.0 million in financial year 2007. This increase was attributable to the integration of the operations at Scitech Plaza and the increased headcount of employees at PCD Zhongshan Lu, PCD Continental and PCD Qingdao. Employee benefits expense as a percentage of revenue decreased from 17.4% in financial year 2007 to 16.1% in financial year 2008, primarily as a result of our revenue increasing at a faster rate than that of our employees' salaries.

Depreciation and amortization. In financial year 2008, our depreciation and amortization was RMB30.5 million, representing an increase of RMB8.4 million, or 38.0%, from RMB22.1 million in financial year 2007. This increase was primarily attributable to depreciation expenses in relation to the facade renovation at PCD Changchun. Depreciation and amortization as a percentage of revenue slightly decreased from 4.4% in financial year 2007 to 4.2% in financial year 2008.

Operating lease rental expenses. In financial year 2008, our operating lease rental expenses amounted to RMB96.2 million, representing an increase of RMB24.3 million, or 33.8%, from RMB71.9 million in financial year 2007. This increase was primarily attributable to the first full-year operation in financial year 2008 at Scitech Plaza, whose premises we lease from Scitech Group. Operating lease rental expenses as a percentage of revenue decreased from 14.4% in financial year 2007 to 13.4% in financial year 2008, primarily because Scitech Plaza has a relatively lower percentage of operating lease rental expenses to revenue.

Other operating expenses. In financial year 2008, our other operating expenses was RMB141.1 million, decrease of RMB1.7 million, or 1.2%, from RMB139.4 million in financial year 2007. The other operating expenses remained largely unchanged from 2007 as a net result of an increase in advertising expenses and other taxes offset by a decrease in professional fees and other miscellaneous operating expenses during the year. Other operating expenses as a percentage of revenue decreased from 27.8% to 19.7% from financial year 2007 to 2008, primarily because our revenue grew at a higher rate than operating expenses in financial year 2008.

Finance costs. In financial year 2008, our finance costs were RMB49.3 million, representing an increase of RMB22.9 million, from RMB26.4 million in financial year 2007. This increase was mainly attributable to an increase in interest expenses resulting from our increased bank borrowings which were primarily used for the acquisition of the property on which PCD Qingdao is located.

Profit before taxation. In financial year 2008, our profit before taxation was RMB248.3 million, representing an increase of RMB91.8 million, or 58.7%, from RMB156.5 million in financial year 2007 due to the factors described above.

Income tax charge. In financial year 2008, income tax charge was RMB74.2 million, representing an increase of RMB53.2 million, or 253.3%, from RMB21.0 million in financial year 2007. This increase was primarily attributable to an increase in profit before taxation and the increase in our effective tax rate from 13.4% in financial year 2007 to 29.9% in financial year 2008. This increase in effective tax rate was primarily attributable to gradual increase of the statutory tax rate of a number of PRC operating subsidiaries or the termination of the tax exemption in four of our PRC operating subsidiaries after the promulgation of the New EIT Law and deferred tax charged in relation to investment property revaluation.

Minority interests. Profit attributable to minority interests decreased RMB0.1 million, or 33.3%, from RMB0.4 million in financial year 2007 to RMB0.3 million in financial year 2008.

Profit for the year. In financial year 2008, our profit for the year was RMB174.1 million, representing an increase of RMB38.6 million, or 28.5%, from RMB135.5 million in financial year 2007 due to the factors described above. Profit attributable to owners of our Company increased RMB38.7 million, or 28.6%, from RMB135.1 million in financial year 2007 to RMB173.8 million in financial year 2008.

Net profit margin. Our net profit margin was 24.3% in the year ended December 31, 2008, representing a decrease of 2.8% from 27.1% in the year ended December 31, 2007. The decrease was mainly due to a lower gain in the fair value of investment property and a higher effective tax rate in 2008.

Financial Year ended December 31, 2007 compared to Financial Year ended December 31, 2006

Revenue. In financial year 2007, our revenue was RMB500.9 million, representing an increase of RMB329.8 million, or 192.8%, from RMB171.1 million in financial year 2006. This increase was primarily attributable to increased commissions from concessionaire sales and/or direct sales associated with the commencement of our operations at Scitech Plaza and the first full-year operations at PCD Jiahe, PCD Qingdao and PCD Changchun in financial year 2007. In addition, improved concessionaire and/or direct sales at PCD Zhongshan Lu, PCD Taiyuan and PCD Continental associated with the introduction of VIP schemes, increased marketing and promotion, as well as the introduction of more high-end and luxury brands at these stores also contributed to increased revenue in financial year 2007 compared to financial year 2006.

Commissions from concessionaire sales. In financial year 2007, our revenue from commissions from concessionaire sales was RMB364.3 million, representing an increase of RMB250.4 million, or 219.8%, from RMB113.9 million in financial year 2006. This increase was primarily attributable to increased commissions from concessionaire sales associated with the commencement of our operations at Scitech Plaza and the first full-year operations at PCD Jiahe, PCD Qingdao and PCD Changchun, in addition to improved sales at PCD Zhongshan Lu, PCD Taiyuan and PCD Continental associated with a general improvement in economic conditions in the PRC. Revenue from commissions from concessionaire sales as a percentage of total revenue increased from 66.6% in financial year 2006 to 72.7% in financial year 2007, primarily due to an increase in concessionaire sales associated with the commencement of our operations at Scitech Plaza and the first full-year operations at PCD Qingdao and PCD Changchun. Our average concession rate from concessionaires rose from 19.0% in financial year 2006 to 20.0% in financial year 2007, due primarily to higher concession rates we negotiated with new concessionaires and with existing brands upon expiration of their contracts. This trend was experienced across our store network.

Sales of goods-direct sales. In financial year 2007, our revenue from sales of goods-direct sales was RMB105.4 million, representing an increase of RMB67.6 million, or 178.8%, from RMB37.8 million in financial year 2006. This increase was primarily attributable to the commencement of our operations at Scitech Plaza and the first full-year operations at PCD Qingdao and PCD Changchun. Revenue from sales of goods-direct sales as a percentage of revenue decreased from 22.1% in financial year 2006 to 21.0% in financial year 2007 because overall revenues grew at a faster pace than the sales of goods-direct sales during this period. Our average gross margin from direct sales rose from 20.6% in financial year 2006 to 21.8% in financial year 2007, due primarily to the significant contribution to direct sales from Scitech Plaza because of its upscale decor and more established cosmetics business.

Rental income. In financial year 2007, our revenue from rental income was RMB18.7 million, representing an increase of RMB9.4 million, or 101.1%, from RMB9.3 million in financial year 2006. This increase was primarily attributable to rental income received in relation to the commencement of our operation at Scitech Plaza and full-year operations at PCD Qingdao and PCD Changchun in financial year 2007. These increases were partially offset by decreases in rental income at PCD Zhongshan Lu, PCD Taiyuan, PCD World Trade and PCD Continental, as some spaces were switched from leasing arrangement to concessionaire arrangement. Revenue from rental income as a percentage of revenue decreased from 5.4% in financial year 2006 to 3.8% in financial year 2007, as our revenue from direct sales and commissions from concessionaires both increased substantially as mentioned above.

Management consultancy services income. In financial year 2007, management consultancy services income was RMB12.5 million, representing an increase of RMB2.4 million, or 23.8%, from RMB10.1 million in financial year 2006. This increase was primarily attributable to performance improvements at four managed stores in financial year 2007. management consultancy services income as a percentage of revenue decreased from 5.9% in financial year 2006 to 2.5% in financial year 2007, as our revenue from direct sales and commissions from concessionaires both increased substantially as discussed above.

Purchases of and changes in inventory. In financial year 2007, our purchases of and changes in inventory was RMB82.4 million, representing an increase of RMB52.4 million, or 174.7%, from RMB30.0 million in financial year 2006. This increase was primarily associated with increases in direct sales due to the commencement of our operations at Scitech Plaza and the first full-year operations at PCD Qingdao and PCD Changchun, in addition to improved direct sales at PCD Zhongshan Lu and PCD Jiahe associated with the introduction of VIP schemes and increased marketing and promotion, as well as the introduction of more luxury brands at these stores than in 2006.

Other income. In financial year 2007, our other income was RMB64.0 million, representing an increase of RMB41.9 million, or 189.6%, from RMB22.1 million in financial year 2006. This increase was primarily attributable to a significant increase in property management income as well as advertisement and promotion administration income in financial year 2007 associated with the commencement of our operations at Scitech Plaza and the first full-year operations at PCD Qingdao and PCD Changchun.

Employee benefits expense. In financial year 2007, employee benefits expense amounted to RMB87.0 million, representing an increase of RMB63.5 million, or 270.2%, from RMB23.5 million in financial year 2006. This increase was attributable to our new store, Scitech Plaza, which commenced operation in the middle of financial year 2007 and the full-year effects of the operation of our stores in Qingdao and Changchun, both of which commenced operations in the middle of financial year 2006. Employee benefits expense as a percentage of revenue increased from 13.7% in financial year 2006 to 17.4% in financial year 2007, primarily as a result of employee benefits expense incurred for Scitech Plaza being higher than other stores because average employee salary was higher in Beijing than in other cities where we had stores.

Depreciation and amortization. In financial year 2007, our depreciation and amortization was RMB22.1 million, representing an increase of RMB7.2 million, or 48.3%, from RMB14.9 million in financial year 2006. This increase was primarily attributable to depreciation expenses in relation to the property on which PCD Qingdao is located. We acquired the property in 2006. Depreciation and amortization as a percentage of revenue decreased from 8.7% in financial year 2006 to 4.4% in financial year 2007, primarily because the revenue growth of 192.8% in financial year 2007 was much higher than the growth rate of depreciation and amortization in 2007, which was only 48.3%.

Operating lease rental expenses. In financial year 2007, our operating lease rental expenses amounted to RMB71.9 million, representing an increase of RMB46.8 million, or 186.4%, from RMB25.1 million in financial year 2006. This increase was primarily attributable to the full-year effects of operating lease expenses in relation to our entering into a lease and store cooperation agreement for the property on which PCD Changchun is located, as well as the commencement of operations at Scitech Plaza, in financial year 2007. The increase was also due to switching from the turnover rental rate for PCD Continental in the financial year 2006 to a fixed rental expense in the financial year 2007. Operating lease rental expenses as a percentage of revenue decreased from 14.7% in financial year 2006 to 14.4% in financial year 2007, primarily because we owned the premises on which we established our PCD Qingdao store in financial year 2007.

Other operating expenses. In financial year 2007, our other operating expenses was RMB139.4 million, representing an increase of RMB96.8 million, or 227.2%, from RMB42.6 million in financial year 2006. This increase was primarily attributable to significant increases in promotion and advertising expenses, utilities and sales taxes as a result of the commencement of our operations at Scitech Plaza and the first full-year operations at PCD Qingdao and PCD Changchun during the year. Other operating expenses as a percentage of revenue increased from 24.9% in financial year 2006 to 27.8% in financial year 2007.

Finance costs. In financial year 2007, our finance costs were RMB26.4 million, representing an increase of RMB23.4 million, from RMB3.0 million in financial year 2006. This increase was mainly attributable to an increase in interest expenses resulting from our increased bank borrowings which were primarily used for the acquisition of the property on which PCD Qingdao is located.

Profit before taxation. In financial year 2007, our profit before taxation was RMB156.5 million, representing an increase of RMB102.4 million, or 189.3%, from RMB54.1 million in financial year 2006 due to the factors described above.

Income tax charge. In financial year 2007, income tax charge was RMB21.0 million, representing an increase of RMB13.0 million, or 162.5%, from RMB8.0 million in financial year 2006. This increase was primarily attributable to an increase in profit before taxation, which was partially offset by a reduction in our effective tax rate from 14.8% in financial year 2006 to 13.4% in financial year 2007. This decrease was primarily attributable to tax exemption granted by the relevant tax authority to Scitech Plaza for its first year of operation.

Minority interests. Profit attributable to minority interests decreased RMB0.2 million, or 33.3%, from RMB0.6 million in financial year 2006 to RMB0.4 million in financial year 2007.

Profit for the year. In financial year 2007, our profit for the year was RMB135.5 million, representing an increase of RMB89.4 million, or 193.9%, from RMB46.1 million in financial year 2006 due to the factors described above. Profit attributable to owners of our Company increased RMB89.6 million, or 196.9%, from RMB45.5 million in financial year 2006 to RMB135.1 million in financial year 2007.

Net profit margin. Our net profit margin was 27.1% in the year ended December 31, 2007, representing a slight increase of 0.2% from 26.9% in the year ended December 31, 2006, primarily due to the gain on the fair value of investment property, partially off-set by an increase in finance costs in 2007.

LIQUIDITY AND CAPITAL RESOURCES

We have historically met our liquidity requirements principally through a combination of cash flow from operations, internal resources, bank borrowings and increases in our paid-in capital. Our principle uses of cash have been, and are expected to continue to be, operational costs, capital investments and acquisitions of properties on which our department stores are located.

CERTAIN ITEMS IN THE STATEMENT OF FINANCIAL POSITION

Net current liabilities

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

As at October 31, 2009, we had a net current liabilities position of RMB514.2 million. The following table sets forth our liabilities position, as well as our current assets and current liabilities, as at October 31, 2009:

	At October 31, 2009
	RMB'000
CURRENT ASSETS	
Inventories	32,316
Prepayments, trade and other receivables	68,303
Land use rights	2,013
Amounts due from related parties	4,588
Restricted bank balances	11,500
Bank balances and cash	200,807
	319,527
CURRENT LIABILITIES	
Trade and other payables	459,549
Dividend payable	1,250
Tax payable	6,307
Bank borrowings — due within one year	338,728
Amounts due to related parties	27,931
	833,765
NET CURRENT LIABILITIES	514,238

The net current liabilities position as at December 31, 2006, 2007 and 2008 and June 30, 2009 was primarily attributable to (i) the conversion of our current assets (such as cash) into long-term assets (such as real estate properties); and (ii) our taking advantage of the suppliers' credit period to partly finance our operation and utilizing short-term borrowings for expanding our business through establishment of new stores. This strategy has allowed us to expand our department store network and helped us create strategic value and improve profitability for the long run. One of the advantages of using short-term borrowings is lower interest cost because the interest rates for short-term borrowings are generally lower than that for long-term borrowings in the PRC. The nature of our business of operating department stores is such that the majority of our liabilities are short term, consisting mainly of trade and other payables, amounts due to related parties and short term bank borrowings, giving rise to our net current liability position. We carry little inventory as a majority of our department stores generate revenue by concessionaires. We also have limited receivables as we first collect the cash and credit card payments from shoppers for most concessionaire and direct sales or for our concessionaires. The general practice in the department store industry in China is for department stores to pay for goods only after they are sold. We normally pay our concessionaires 30 days to 60 days after sales of goods from the beginning of the month of the relevant sale after we sell their goods. We return goods that are not sold to our direct sales suppliers after three to four months after the date on which we receive the merchandise.

We historically have been able to service our short term bank loans primarily due to our strong operating cash inflows during the three years ended December 31, 2008 and our good credit history. We have not breached the repayment terms of any of our bank borrowings. We currently service our debts primarily through cash generated from operations and renewal of short-term bank borrowings. As of October 31, 2009, we have received the full repayment of approximately RMB625 million for non-trade unsecured loans we granted to related parties. We intend to reduce our net current liability by discharging certain of the short-term bank loans using a portion of these proceeds. We have not experienced any difficulty in raising funds by rolling over the short-term loans borrowed from various commercial banks in China during the Track Record Period up to the Latest Practicable Date. We have historically been able to discharge our short term liabilities as they become due. However, there is no guarantee that we will be able to continue to do so. See "Risk Factors — Risks Relating to Our Business — Our current liabilities exceeded our current assets and if we are unable to meet our liabilities as they become due, our business and financial condition will be materially and adversely affected."

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

Cash flow

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
			(RMB in millions)		
				(unaudited)	
Net cash generated from/(used in) operating activities	133.9	436.0	393.8	55.3	(61.8)
Net cash used in investing activities	(342.5)	(278.8)	(415.0)	(86.5)	(425.9)
Net cash generated from/(used in) financing activities	191.2	61.6	(135.8)	(40.7)	471.4
Net (decrease)/increase in cash and cash equivalents	(17.4)	218.8	(157.0)	(71.9)	(16.3)
Effect of foreign exchange rate changes	(0.9)	(1.2)	(1.0)	(1.3)	—
Cash and cash equivalents at beginning of year/period	69.0	50.7	268.3	268.3	110.3
Cash and cash equivalents at end of year/period	50.7	268.3	110.3	195.1	94.0

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

Cash flow from operating activities

Net cash used in operating activities in the six months ended June 30, 2009 was RMB61.8 million, as compared to net cash generated from operating activities of RMB55.3 million in the six months ended June 30, 2008. Net cash used in operating activities for the six months ended June 30, 2009 resulted from cash used in operations of RMB18.7 million and income tax paid of RMB43.2 million. Cash generated from operations before working capital changes was RMB179.1 million. In the six months ended June 30, 2009, changes in working capital amounted to RMB197.8 million, primarily attributable to (i) a decrease in the amount due to related parties including decrease in trade balances of RMB31.7 million with Century Ports Apparel (Xiamen) Ltd. and rental payable of RMB33.3 million to Scitech Group; and (ii) a decrease in trade and other payables because we used RMB147.0 million to settle the balance of trade payables to third parties for this period. The relatively high cash outflow of trade payables and trade-related amounts due to related parties in the six month ended June 30, 2009, compared to the cash outflow of such items in the six months ended June 30, 2008, is primarily due to stronger sales near each year end and better utilization of credit terms with respect to such payables accrued in particular in the second half of financial year 2008. As such, we settled a substantial amount of trade payables and trade-related amounts due to PDL Group, which were incurred in 2008, in the six months ended June 30, 2009. Historically, we experience stronger sales in the second half of a calendar year compared to the first half. This is especially prevalent in the period from October to December as a result of National Day holiday in October, promotional periods around the anniversaries of our sales and pre-Christmas sales in December. This has typically resulted in an increase in trade payable at year end. Upon payment of such trade payables after year end and in first half of the following year, our trade and other payables usually decrease in the first six months of a year as a result.

Net cash generated from operating activities in financial year 2008 was RMB393.8 million, as compared to net cash generated from operating activities of RMB436.0 million in financial year 2007. Net cash generated from operating activities in financial year 2008 resulted from cash generated from operations of RMB448.1 million after deducting income taxes paid of RMB54.3 million. Operating cash flow before movements in working capital amounted to RMB316.2 million. In financial year 2008, changes in working capital amounted to RMB131.9 million, primarily as a result of an increase in trade and other payables of RMB107.8 million associated with seasonality and better utilization of credit term, representing an increase in amount due to related parties of RMB78.8 million, primarily due to an increase in trade receivable from PDL and rental payable for Scitech plaza. The increase was partially offset by an increase in prepayments, deposits and other receivables of RMB52.0 million. The increase in prepayments, deposits and other receivables was associated primarily with receivables released to management consultancy service fees and from issuers of prepaid gift cards.

Net cash generated from operating activities in financial year 2007 was RMB436.0 million, as compared to RMB133.9 million in 2006. Net cash generated from operating activities in financial year 2007 resulted from cash generated from operations of RMB450.0 million after deducting income tax paid of RMB14.0 million. Cash generated from operations before working capital changes was RMB177.3 million. In financial year 2007, changes in working capital amounted to RMB272.7 million, primarily as a result of an increase in trade and other payables of RMB354.6 million, which was partially offset by an increase in prepayments, trade and other receivables of RMB68.4 million. The increases in trade and other payables and prepayment, trade and other receivables were primarily associated with the commencement of our operations at Scitech Plaza.

Net cash generated from operating activities in financial year 2006 was RMB133.9 million, resulting from cash generated from operations of RMB138.6 million after deducting income tax paid of RMB4.7 million. Cash generated from operations before working capital changes was RMB69.7 million. In financial year 2006, changes in working capital amounted to RMB68.9 million, primarily as a result of an increase in trade and other payables of RMB37.0 million primarily associated with the commencement of our operations at PCD Jiahe, PCD Qingdao and PCD Changchun, which was partially offset by an increase in inventories of RMB6.9 million due to the increase in direct sales when we commenced operations at PCD Qingdao and PCD Changchun and a decrease in prepayments, trade and other receivables of RMB36.0 million primarily associated with the commencement of our operations at PCD Qingdao and PCD Changchun.

Cash flow from investing activities

Net cash used in investing activities in the six months ended June 30, 2009 was RMB425.9 million, primarily due to RMB422.2 million in advances to related parties including PCD Stores (Xiamen) and Beijing Scitech Outlet Commence.

Net cash used in investing activities in financial year 2008 was RMB415.0 million, primarily due to RMB96.3 million in purchases of property, plant and equipment primarily relating to the purchase of the remaining portion of property on which PCD Jiahe is located, payment of RMB62 million related to acquisition of Xian Century Changan Property Investment, RMB49.8 million in payment of land use right, which related to Xian Changan Metropolis Center and RMB197.7 million in advances to related parties.

Net cash used in investing activities in financial year 2007 was RMB278.8 million, primarily due to RMB44.0 million in purchases of property, plant and equipment primarily relating to the refurbishment of Scitech Plaza and PCD Changchun in financial year 2007, RMB75.0 million in our acquisition of a subsidiary, Xian Century Property Investment and net advance of RMB164.4 million to related parties.

Net cash used in investing activities in financial year 2006 was RMB342.5 million, primarily due to RMB285.5 million in purchases of property, plant and equipment primarily relating to the purchase of Qingdao property and net advance of RMB50.0 million to related parties.

Cash flow from financing activities

Net cash from financing activities in the six months ended June 30, 2009 was RMB471.4 million, primarily due to the increase of RMB500.0 million in new bank borrowings.

Net cash used in financing activities in financial year 2008 was RMB135.8 million, primarily as a result of RMB278.0 million in proceeds from new bank borrowings for the purpose of acquiring of a subsidiary, Xian Century Changan Property Investment and purchasing a land use right for Xian Changan Metropolis Center . Another part of the bank borrowings were used to finance the acquisition of PCD Jiahe's remaining property, plant and equipment. This increase was partially offset by our repayment of bank borrowings in the amount of RMB135.5 million, interest paid for bank borrowings of RMB49.8 million, payment of a dividend of RMB78.3 million and payment of reorganization consideration of RMB150 million.

Net cash generated from financing activities in financial year 2007 was RMB61.6 million, primarily as a result of RMB256.9 million in additional bank borrowings for the purpose of expanding our operations. This increase was partially offset by our repayment of bank borrowings in the amount of RMB143.2 million and interest paid for bank borrowings.

Net cash generated from financing activities in financial year 2006 was RMB191.2 million, primarily as a result of RMB429.5 million in new bank borrowing raised offset by bank borrowing repayment of RMB255.5 million.

INDEBTEDNESS

As at October 31, 2009, our Group had outstanding bank borrowings of approximately RMB604.1 million (all of which was secured by certain of our Group's assets, including properties, land use rights and short-term bank deposits, certain buildings owned by a third party, and guaranteed by a related party. It is expected that the guarantees by the related party will be released.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, our Group did not have outstanding at the Latest Practicable date any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

Borrowings

Our borrowings consist of short-term and long-term bank borrowings secured by buildings, land use rights and bank balances owned by us and certain buildings owned by a third party, and guaranteed by certain subsidiaries of our Group and third parties. These third party security interest and guarantees were due to our acquisition of the entire equity interest in Xian Century Changan Property Investment. HKD-denominated loans amounted to nil, RMB28,092,000, RMB35,276,000 and RMB24,241,000 as at December 31, 2006, 2007, 2008 and June 30, 2009, respectively. The remaining borrowings are RMB-denominated loans.

Our gearing ratio, defined as total debt divided by total equity, was 0.6, (28.7), 4.5 and 4.3, respectively, as of December 31, 2006, 2007, 2008 and June 30, 2009. We recorded net liabilities of approximately RMB19.3 million in 2007 due to a reduction of equity attributable to shareholders of the Company of RMB385 million which resulted from the Group's Reorganization. Our gearing ratio improved as we generated net profit in 2008. As of June 30, 2009, our gearing ratio was 4.3, which was slightly lower compared to 4.5 as of December 31, 2008, as a result of continued increase in our total equity, partially offset by increase in total bank borrowings. We have significantly reduced the total debt level since June 30, 2009 and our gearing ratio was 1.8 as of October 31, 2009.

The following table sets forth details of our short-term bank loans as at October 31, 2009:

Borrowing Company	Lending Bank	Interest Rate	Principal Amount	Principal Amount Outstanding	Effective Date	Maturity Date
			(RMB)	*(RMB)*		
Zhongshan PCD Stores (Xiamen)	China CITIC Bank, Songbai Branch	4.779%	45,000,000	40,000,000	July 24, 2009	July 23, 2010
Zhongshan PCD Stores (Xiamen)	China Merchant's Bank, Xiamen Branch	4.779%	40,000,000	40,000,000	June 29, 2009	June 29, 2010
Zhongshan PCD Stores (Xiamen)	HSBC Bank (China) Company Limited, Xiamen Branch	5.103%	30,000,000	30,000,000	October 21, 2009	January 21, 2010
Zhongshan PCD Stores (Xiamen)	China Construction Bank, Jimei Branch	4.374%	80,000,000	80,000,000	August 28, 2009	November 27, 2009(1)
PCD Songbai Department Stores	China Merchant's Bank, Xiamen Branch	4.779%	30,000,000	30,000,000	June 29, 2009	June 29, 2010
PCD Stores (Group) Limited	HSBC Bank Company Limited, Hong Kong Branch	1.580%	HKD30,000,000	HKD17,500,000	September 9, 2009	May 9, 2010
PCD Stores (Group) Limited	HSBC Bank (China) Company Limited, Xiamen Branch	1.790%	HKD20,000,000	HKD20,000,000	September 25, 2009	December 24, 2009
PCD Stores (Group) Limited	HSBC Bank (China) Company Limited, Xiamen Branch	1.790%	HKD50,000,000	HKD50,000,000	September 30, 2009	December 30, 2009

(1) The loan was revolved at an interest rate of 4.374% with February 23, 2010 as the maturity date.

The table below sets forth our bank borrowings as at the dates indicated.

	As at December 31,			At June 30,	As at October 31,
	2006	2007	2008	2009	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Secured(1)	178,000	554,707	695,439	1,190,521	604,114
	178,000	554,707	695,439	1,190,521	604,114
Carrying amount repayable:					
Within one year	73,000	124,316	394,780	519,395	338,728
Between one to two years. . .	60,000	128,183	40,462	142,820	43,429
Between two to five years. . .	45,000	127,820	135,883	431,878	142,306
Over five years	—	174,388	124,314	96,428	79,651
	178,000	554,707	695,439	1,190,521	604,114
Less: Amounts due within one year shown under current liabilities	(73,000)	(124,316)	(394,780)	(519,395)	(338,728)
	105,000	430,391	300,659	671,126	265,386

In connection with our acquisition of Xian Century Changan Property Investment in August 2007, we agreed to assume RMB280 million in bank loans, of which the outstanding amount is RMB223.1 million as at June 30, 2009. These bank loans consist of:

(i) A bank loan of outstanding amount RMB139.0 million, which loan was drawn down on May 25, 2006. Repayment commenced from June 25, 2006 and will end on May 25, 2016. The weighted effective interest rate on the bank loan is 6.7122% per annum for the six months ended June 30, 2009;

(ii) A bank loan of outstanding amount of RMB84.1 million, which loan was separately drawn down on December 26, 2006, June 27, 2007 and July 23, 2007. Repayment commenced from January 26, 2007, July 27, 2007 and August 23, 2007 respectively and will all end on December 26, 2016. The weighted effective interest rate on the bank loan is 6.7122% per annum for the six months ended June 30, 2009.

According to the bank loan agreements, the above bank loans are secured, *inter alia*, by the followings:

(i) mortgage over Xian Century Changan Property Investment's investment properties with carrying amount of RMB510.0 million at June 30, 2009;

(ii) personal guarantees by the Xian Vendors and Mr. Jiang Shi Hao, an Independent Third Party;

(iii) Corporate guarantees by Shaanxi Alin Catering Management Limited (陝西阿林餐飲管理有限公司) and Shaanxi Changan Construction Investment Limited (陝西長安建築投資有限責任公司), both Independent Third Parties. These third party guarantees are expected to be released by May 31, 2010; and

(iv) restricted cash in the form of bank deposit in the minimum amount of RMB12 million.

The effective interest rate per annum at the respective reporting dates are as follows:

	Year ended December 31,			As at June 30,
	2006	2007	2008	2009
	%	%	%	%
Short-term loans	5.103–5.670	5.200–8.848	2.950–8.217	2.320–5.103
Long-term loans	5.670	5.670–8.848	6.712–8.136	5.184–6.712

The RMB-denominated loans carried interest at rates ranging from 90% to 113% of the market rates set by the People's Bank of China, whereas HKD-denominated loans carried interest at a rate ranging from 1% to 1.15% over the Hong Kong Interbank Offer Rate.

The Directors confirm that there has been no material change in our Group's indebtedness since October 31, 2009 as detailed above.

Operating lease commitments

We lease certain of our stores and office premises under non-cancellable operating lease and/or store cooperation agreements. Our future aggregate minimum payments under these leases and store cooperation agreements as at the reporting dates indicated are set out below.

	As at December 31,			As at June 30,
	2006	2007	2008	2009
	(RMB in millions)			
Not later than 1 year	13.0	72.4	71.8	73.8
Later than 1 year and not later than 5 years	48.1	279.4	275.5	272.4
Later than 5 years	31.8	334.8	267.8	239.9
	92.9	686.6	615.1	586.1

Financial commitments

We did not have significant financial commitments as at December 31, 2006, 2007 and 2008 and June 30, 2009.

CAPITAL EXPENDITURES

Our capital expenditure requirements primarily relate to our purchase of property, plant and equipment and land use rights. We have funded our historical capital expenditures through internally generated cash and bank and other borrowings.

Our capital expenditures for the year ended December 31, 2006 were RMB287.3 million, consisting primarily of payment for the property on which PCD Qingdao is located, acquisition of certain units of the property on which PCD Zhongshan Lu is located.

Our capital expenditures for the year ended December 31, 2007 were RMB44.0 million and were primarily attributable to payments made for the refurbishment of PCD Changchun and purchase of certain units of PCD Jiahe.

Our capital expenditures for the year ended December 31, 2008 were RMB146.1 million, mainly for acquisition of the remaining units of PCD Jiahe and land use right for Xian Changan Metropolis Center.

We currently expect our capital expenditures for the year ending December 31, 2009 to be approximately RMB193.2 million and for the year ending December 31, 2010 to be approximately RMB368.7 million for the purpose of renovating our existing stores and construction for Xian Phase II. Our investment plans for 2009 and 2010 are preliminary and subject to change based upon the execution of our expansion plans, market conditions and our outlook on future conditions in the PRC retail industry. As at June 30, 2009, we had already incurred RMB4.3 million in capital expenditures for financial year 2009.

INVENTORY ANALYSIS

Our inventory is comprised primarily of cosmetics merchandise purchased from suppliers. As at December 31, 2006, 2007 and 2008, and June 30, 2009, our inventory of store merchandise amounted to RMB12.6 million, RMB23.7 million, RMB34.0 million and RMB32.9 million, which accounted for 1.9%, 1.6%, 2.0% and 1.6% of our total assets as at such dates, respectively.

We enter into direct sales agreements with direct sales suppliers (which relate primarily to cosmetic products) under which we are contractually required to make upfront payments. However, in line with common practice in the PRC 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 inventory relates to cosmetic products under direct sales, 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. We have implemented operational procedures to monitor inventories. With respect to aged inventories, our 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 is to ascertain whether allowance is required to be made in the financial statements for any obsolete and slow-moving items. We base 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 competitor actions in response to severe industry cycles. We reassess the estimates on each year-end date. During the Track Record Period, we did not make any provisions for inventories and did not experience any inventory write-offs.

The following table sets out a summary of our average inventory turnover for the periods indicated.

	Year ended December 31,			Six months ended June 30,
	2006	2007	2008	2009
Turnover of inventory (days)(1)	83	80	83	95

Note:

(1) Turnover of inventory (days) is calculated as the average balance of inventory over the year/period, divided by the sum of purchases of and changes in inventories for the year/period, and multiplied by the 360 days for 2006, 2007 and 2008 and 180 days for the six months ended June 30, 2009.

Turnover days of inventory increased from 83 days in financial year 2008 to 95 days in the six months ended June 30, 2009 primarily due to a gradual change in the merchandise sold at PCD Qingdao, which led to a decrease in direct sale products compared to concessionaire products, resulting in a higher turnover days. Turnover days of inventory were relatively stable from financial year 2006 to financial year 2008. As at October 31, 2009, 73% of our inventory as of June 30, 2009 had been sold since then. See "— Critical accounting policies and estimates — Inventory."

PREPAYMENTS, TRADE AND OTHER RECEIVABLES

Prepayments, trade and other receivables principally comprise rental prepayments for department store premises. Our Directors consider that the carrying amounts of prepayments, deposits and other receivables at their respective reporting dates approximate their fair values. We have a policy of allowing an average credit period of 60 days to the operators of our managed stores and 30 days to issuers of shopping cards. We have trade receivable provisioning policies that trade receivables are assessed for indicators of impairment at the end of each year. Trade receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after its initial recognition, the estimated future cash flows have been impacted. Objective evidence of impairment could include: (i) significant financial difficulty of the issuer or counterparty; or (ii) default or delinquency in interest or principal payments; or (iii) it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Our management estimated the present value of the estimated future cash flows of the trade receivables discounted at the original effective interest rate based on prior experience and the current economic environment. The difference between the respective carrying amounts of trade receivables and discounted present values is recognised as trade receivables provision.

When a trade receivable is considered impaired, the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. No provision has been made for trade receivables during the Track Record Period, except for RMB1.2 million of management fee receivables, which was written off due to the New Age Laiya department store entering bankruptcy and failing to fulfil its obligation to pay management fee to us.

The turnover days for trade receivables were 21, 48, 76 and 68, respectively, in the three years ended December 31, 2008 and six months ended June 30, 2009. Turnover days of trade receivable are calculated as the average balance of trade receivable over the year/period, divided by the sum of gross sales proceeds with credit terms and management consultancy services income, and multiplied by 360 days for 2006, 2007 and 2008 and 180 days for the six months ended June 30, 2009. The total gross sales proceeds with credit terms were nil, RMB38.9 million, RMB142.9 million for the three years ended December 31, 2006, 2007 and 2008, respectively, and RMB91.6 million for the six-month period ended June 30, 2009.

In 2006, we only granted credit term to management consultancy services customers, which generally repaid earlier than credit sales customers in practice. Since 2007, we have adopted a policy that granted credit terms to independent third party issuers of prepaid shopping cards, the turnover days of which is normally longer than those management consultancy services receivables. Consequently, the debtors' turnover days increased from 21 in 2006 to 48 in 2007. In 2008, more credit sales occurred near the end of the year, whose balances aged within 60 days as at December 31, 2008. The increase of average balance of trade receivables resulted in the longer turnover days from the calculation, from 48 in 2007 to 76 in 2008. During the six months ended June 30, 2009, the debtors' turnover days remained above 60 days partially because the balances with our management consultancy services customers of RMB22.9 million was outstanding as at June 30, 2009, which was fully settled subsequently. The subsequent settlement of our trade receivable as at June 30, 2009 was RMB28.9 million since June 30 to October 30, 2009.

The following is an analysis of trade and other receivables at the respective reporting dates:

	As at December 31,			As at June 30,
	2006	2007	2008	2009
	(RMB in millions)			
Trade receivables due within 60 days	0.6	13.1	57.7	29.5
Prepaid rental	17.6	66.7	61.3	57.3
Advances to suppliers	2.2	2.6	1.0	0.5
Prepaid value added tax	3.4	2.6	7.9	23.1
Others[(1)]	4.0	12.0	20.0	19.6
	27.8	97.0	147.9	130.0
Less: Long-term prepaid rentals	(14.6)	(63.7)	(43.4)	(39.1)
Total	**13.2**	**33.3**	**104.5**	**90.9**

Note:

(1) Other receivables — others consists of petty cash, personal loans, deposits, temporary advances to third party managed stores for working capital purposes before they begin operations, other tax receivable, other third party, prepayment-rental insurance and employees pension. These values generally increased during the Track Record Period primarily due to the addition of new stores.

TRADE PAYABLES

Our trade payables consist primarily of payments due to our concessionaires and, to a lesser extent, our direct sales suppliers. Our standard concessionaire agreements require us to make payment to a concessionaire within 60 days of the beginning of the month in which a sale is made, provided that the concessionaire has supplied us with a value-added tax invoice for the goods purchased. The turnover days for trade payables were 48, 42, 56 and 61, respectively, in the three years ended December 31, 2008 and six months ended June 30, 2009. Turnover days of trade payables are calculated as the average balance of trade payable over the year/period, divided by the sum of gross revenue from concessionaires sales less commissions from concessionaire sales and purchase of and changes in inventories, and multiplied by 360 days for 2006, 2007 and 2008 and 180 days for the six months ended June 30, 2009.

The following table sets forth an aging analysis of trade payables at the reporting dates.

	As at December 31,			As at June 30,
	2006	2007	2008	2009
	(RMB in millions)			
Within 60 days	91.3	258.3	352.0	234.6
61–120 days	2.7	4.0	17.0	14.7
121–360 days	0.8	1.6	15.1	7.6
Over 1 year	0.1	0.6	1.1	1.4
Total	**94.9**	**264.5**	**385.2**	**258.3**

Substantially all of our trade payables are due within 60 days and represent gross receipts owed to concessionaires after subtracting our commission and corresponding value-added tax.

OTHER PAYABLES

	At December 31,			At June 30,
	2006	2007	2008	2009
	(RMB in millions)			
Payable for purchase of property, plant and equipment	3.3	75.5	3.5	1.8
Accruals	6.3	10.1	5.2	7.3
Accrued staff costs	4.4	25.5	21.5	11.5
Deposits from concessionaire suppliers	5.6	20.3	21.5	23.3
Customer prepaid gift cards	25.9	128.4	147.6	152.4
Payable for acquisition of a subsidiary	—	62.0	—	—
Other PRC tax payable	6.1	29.4	22.4	6.9
Others[(1)]	15.9	41.4	23.6	20.3
	67.5	392.6	245.3	223.5

Note:

(1) Other payables — others consists of social insurance payable, rental payable, deposits, temporary receipts from lessee and others. These values generally increased during the Track Record Period primarily due to the addition of new stores.

Other payables primarily consist of payables for purchases of property plant and equipment, accruals, accrued staff costs, advances from customers and miscellaneous payables. Advances from customers mainly consist of customer prepaid gift cards, which are issued by the department stores to customers for an unfront payment for their purchase of goods at a later date. The value of the payment is recorded on the card following which the cardholder may, upon presentation of the card, purchase goods of an equal or lesser value (in which case the balance may be stored on the card). Profit is only recorded on the profit and loss account upon actual delivery of the goods. Customer prepaid gift cards increased significantly as of December 31, 2007, 2008 and June 30, 2009 due to the commencement of our operations of Scitech Plaza. The following table sets out the outstanding balance of pre-paid gift cards issued by each of our self-owned stores as of the dates indicated.

	As of December 31,			As of June 30,
	2006	2007	2008	2009
	(RMB in millions)			
PCD Continental	2.8	3.9	4.4	2.7
PCD Changchun	0.2	1.3	1.3	0.9
PCD Taiyuan	—	0.1	0.5	0.4
PCD Jiahe	10.5	17.1	17.6	10.8
PCD Nanning	—	0.3	0.6	0.7
PCD Qingdao	4.9	26.8	32.4	30.3
PCD World Trade	2.7	3.3	3.2	2.9
PCD Zhongshan Lu	4.8	7.7	8.5	7.8
Scitech Plaza	—	67.9	79.1	95.9
Total	**25.9**	**128.4**	**147.6**	**152.4**

Payable for purchase of property, plant and equipment as of December 31, 2007 represented the outstanding balance for the acquisition of the premises on which PCD Jiahe is located. Payable for acquisition for a subsidiary as of December 31, 2007 is related to the acquisition of Xian Century Changan Property Investment.

FINANCIAL INSTRUMENTS

We have not entered into any financial instruments for hedging purposes.

OFF BALANCE SHEET TRANSACTIONS

Except for the commitments set forth above, we have not entered into any material off-balance sheet transactions or arrangements.

RELATED PARTY TRANSACTIONS

With respect to the related party transactions, as set out in Note 30 of the Accountants' Report attached as Appendix I to this document, our Directors confirm that these transactions were conducted on normal commercial terms and/or on terms that are not less favourable than terms available from independent third parties which are considered fair and reasonable and in the interest of our Shareholders as a whole. These transactions comprised primarily the following activities:

- *Purchase of Goods:* We purchased goods from PCD Stores (Xiamen) pursuant to numerous lump sum payment contracts at market rates, amounting to RMB8.9 million in financial year 2007.

- *Purchase of Equipment:* We purchased equipment from Scitech Group for a lump sum of RMB6.8 million in financial year 2007.

- *Commission Income:* Etac Fashion (Xiamen) Co. Ltd., Ports International Marketing (Xiamen) Ltd. ("PIM"), Ports Fashion (Xiamen) Ltd., Century Ports Apparel (Xiamen) Ltd. and Vivienne Tam Fashion (Xiamen) Ltd. are subsidiaries of PDL. We receive commission income from concessionaire arrangements with Ports, BMW Lifestyle and Vivienne Tam which operate in our department stores. Our commissions under these agreements ranged from 15–20%, amounting to a total of RMB40.6 million for the three years ended December 31, 2008 and six months ended June 30, 2009.

- *Management Consultancy Services Income:* We received fees for management consultancy services we provide to stores at Guiyang Guomao and Guiyang Nanguo Huajin amounting to a total of RMB7.6 million for the six months ended June 30, 2009.

- *Rental Expense:* Scitech Group is the related party and the owner of the premises where Scitech Plaza is located. With effect from July 1, 2007, we paid monthly rental expense of RMB4.0 million for leasing space at Scitech Plaza and relevant offices, amounting to a total of RMB96.8 million for the three years ended December 31, 2008 and six months ended June 30, 2009.

- *Interest expense and income:* We received interest income from PCD Stores Limited and PCD Stores (Xiamen) at a rate of 6.0–6.3% per annum as a result of the inter-company loan transactions entered into with PCD Stores Limited. The interest income amounted to a total of RMB8.1 million for the three years ended December 31, 2008 and six months ended June 30, 2009. We incurred interest expense in relation to inter-company loan to PCD Stores. See "— Indebtedness — Borrowings."

MARKET RISKS

In the normal course of business, we are exposed to various types of market risks, including the following:

Credit risk

Our credit risk is primarily attributable to our trade and other receivables, amounts due from related parties and bank deposits and cash. In order to minimize the credit risk, our management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. The amounts presented in the consolidated statements of financial position are net of allowances for doubtful receivables, estimated by our management based on prior experience and the current economic environment. We review the recoverable amount of each individual debt at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our Directors consider that our credit risk is significantly reduced.

The credit risk on liquid funds is limited because the majority of the counterparties are state-owned banks.

By October 31, 2009, we received the full repayment of approximately RMB625 million for non-trade unsecured loans we granted to related parties. We no longer have any significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Interest rate risk

We are exposed to cash flow interest rate risk due to fluctuations in the prevailing market interest rates on bank deposits and bank borrowings which carry interest at market interest rates.

Our fair value interest rate risk relates primarily to fixed-rate bank borrowings during the Track Record Period. We currently do not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

The interest rate sensitivity analysis below is based on the exposure to changes in interest rates for bank borrowings with variable interest rates. Bank balances are excluded from the sensitivity analysis since they are not sensitive to fluctuation in interest rate. The analysis is prepared assuming the variable interest rate bank borrowings outstanding at the respective reporting dates were outstanding for the whole year. A 50 basis-point increase or decrease is used, as it represents our assessment of the reasonably possible change in interest rates.

At the respective reporting dates, if interest rates had been increased/decreased by 50 basis points and all other variables were held constant, our net profit would decrease/increase by RMB0.4 million, RMB1.2 million, RMB1.7 million, and RMB3.8 million for each of the years ended December 31, 2006, 2007 and 2008, and the six months ended June 30, 2009 respectively.

Foreign currency risk

We undertake certain transactions denominated in foreign currencies, hence, exposures to exchange rate fluctuations arises. We currently do not have a foreign currency hedging policy. We manage our foreign currency risk by closely monitoring the movement of the foreign currency rate. We believe our foreign currency risk is not significant.

The carrying amount of our foreign currency denominated monetary assets and monetary liabilities at the respective reporting dates are as follows:

	At December 31,			At June 30,
	2006	2007	2008	2009
	(RMB in millions)			
Assets				
US Dollars	2.1	0.4	0.8	0.6
HK Dollars	1.2	29.8	4.4	25.6
Liabilities				
US Dollars	(24.6)	—	—	—
HK Dollars	—	(28.1)	(35.3)	(24.2)

The following table details our foreign currency sensitivity to a 5% change in the RMB against the US Dollars and HK Dollars respectively. These represent management's assessment of the possible change in foreign exchange rates.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items at each reporting date and adjusts their translation at the end of the relevant period for a change in foreign currency rates. A positive number below indicates an increase in profit and a negative number indicates a decrease in profit when the RMB strengthens against the relevant currency. When the RMB weakens against the relevant currency, there would be an equal and opposite impact on profit.

	At December 31,			Six months ended June 30,
	2006	2007	2008	2009
	(RMB in millions)			
5% Change in RMB exchange rate against US Dollars Increase (decrease) in profit for the year/period	1.1	(0.0)	(0.0)	(0.0)
5% Change in RMB exchange rate against HK Dollars Increase (decrease) in profit for the year/ period	(0.1)	(0.1)	1.5	(0.1)

DIVIDEND AND DIVIDEND POLICY

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

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

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

Dividends payable to us by our wholly-owned operating subsidiaries may be subject to PRC withholding taxes, or we may be subject to PRC taxation on our worldwide income. Dividends distributed to our investors may be subject to PRC withholding taxes under the new PRC tax law."

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

DISTRIBUTABLE RESERVES

As at June 30, 2009, we had no reserve available for distribution to our shareholders.

PROPERTY VALUATION

DTZ Debenham Tie Leung Limited, an independent property valuer, has valued our property interests including land use rights as at September 30, 2009 at RMB1,288.6 million. The texts of its letter, summary of valuation and the valuation certificates are set out in Appendix IV to this document.

Disclosure of the reconciliation of the valuation of our property interests and such property interests in our consolidated statement of financial position as of June 30, 2009:

	RMB in millions
Net book value as of June 30, 2009	
Property, plant and equipment[(1)(2)]	433.8
Investment property	510.0
Land use rights	67.4
	1,011.2
Movement for the period from July 1, 2009 to September 30, 2009	
Addition	—
Disposal	—
Depreciation/amortisation	(3.8)
Net book value as of September 30, 2009	1,007.4
Valuation surplus	281.2
Valuation as of September 30, 2009	1,288.6

Notes:

(1) Among the property, plant and equipment amounting to an aggregate of approximately RMB576.2 million as of June 30, 2009, property, plant and equipment (other than buildings) amounting to approximately RMB51.7 million are excluded from the valuation in Appendix IV to this document and are therefore also excluded from this reconciliation.

(2) Among the buildings amounting to an aggregate of approximately RMB524.5 million as of June 30, 2009, buildings amounting to approximately RMB90.7 million, in respect of which the building ownership certificates had not yet been obtained as of June 30, 2009, have not been assigned any capital value in the valuation in Appendix IV to this document and are therefore also excluded from this reconciliation.

PROFIT FORECAST FOR THE FINANCIAL YEAR ENDING DECEMBER 31, 2009

[●]

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in our financial position since June 30, 2009 (being the date as at which our latest audited consolidated financial statements were prepared as set out in "Appendix I — Accountants' Report" to this document).