

Web Proof Information Pack of



PCD Stores (Group) Limited

中國春天百貨集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

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SUMMARY

OVERVIEW

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

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

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

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

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

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

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

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OUR COMPETITIVE STRENGTHS

We believe the following are our key competitive strengths:

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

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

- ***China retail experience.*** The Chan Family acquired the PORTS brand of luxury apparel and accessories in 1989 and introduced PORTS Products into China in 1993. Experience gained in developing PORTS Products provides us with expertise in the retail market for internationally recognized luxury products. The management has built up a strong track record of successfully operating in the Chinese retail market, and has placed us in a competitive position to sell luxury goods in the Chinese market. We have well-established relationships with various participants in the PRC retail industry and possess in-depth knowledge of operating retail business in various Chinese cities.
- ***Well-established relationships with well-known brands.*** With the experience in and knowledge of China’s retail industry, we have developed solid relationships with various well-known international and domestic brands. We believe the highly experienced management team and PCD’s brand and reputation make us an attractive business partner for a wide variety of high-end and luxury brands, which enable us to offer a broad range of appealing merchandise in our stores.
- ***Track record for establishing, integrating, and operating department stores.*** We have demonstrated a track record of successfully establishing and integrating new stores into our Group. Our extensive knowledge of, and experience in, the Chinese retail market, obtained by the Chan Family through the PORTS business, have allowed us to effectively identify and integrate stores into our self-owned store network. For example, Scitech Plaza was added into our store network in July 2007 and underwent major revamp of its store layout, tenant mix and operation management. It has become a successful upscale department store in Beijing and our major revenue contributor. In addition, our understanding of Chinese consumer preferences for high-end and luxury brands and the variations of those preferences in different local markets have allowed us to adapt our business model to an evolving business environment and successfully expand into various regions of China. This also helps us to identify and effectively integrate additional stores to further drive our growth.

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

We have established a strong brand in the high-end retail market in several major cities in China. We believe our PCD brand and its positioning attract sustainable demand from customers with strong and growing spending power in various economic climates. We believe that the use of

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our distinctive “Fleur de Lys” logo as well as the “Fleur de Lys” logo which has the Chinese characters “巴黎春天” embedded in it will assist customers in differentiating our stores from other unaffiliated stores that also use the “巴黎春天” trade name. We engage in extensive brand-building activities, including launch parties and store visits by high-profile celebrities. We also offer exclusive VIP benefits and privileges, such as VIP lounges and bar areas and on-site personal shoppers and style consultants. Through our operations in the department store business, we are able to analyze a particular market and optimize the positioning of our department store in that market to further expand our market share in existing markets and target new markets and areas of the Chinese retail industry.

Prime store locations with long-term market growth potential

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

Excellent customer service and loyal customer base

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

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

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

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

OUR STRATEGIES

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

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

Continuing expansion through developing new flagship stores in prime locations

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

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

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

Driving operational improvements to achieve full potential at existing sites

We will continue to improve the operational efficiency of the stores we add to our network to achieve full potential of these stores. We believe we can leverage both our senior management’s experience in the Chinese department store market as well as our retail experience gained through PDL to manage the stores better than previous owners. For example, we believe

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that our broad knowledge of the Chinese market, particularly due to the Chan Family’s experience with PORTS Products, helps us to negotiate favourable terms with our concessionaires. Additionally, we intend to make improvements by strengthening brand negotiation power to boost margins, maximizing net selling space in stores, optimizing the brand mix and developing other income streams such as credit cards.

Expanding flagship stores

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

Entering into outlet mall business

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

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PROPERTIES

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

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

Notes:

- (1) SCA denotes store cooperation agreement.
- (2) We also lease office space of gross floor area of 1,753 sq.m. on level 6 of the premises on which PCD Qingdao is located from two Independent Third Parties.
- (3) All the GFA numbers reflected in the table above are limited to the areas which relate to the operation as a department store.
- (4) We also lease office space of gross floor area of approximately 1,500 sq.m. on level 7 of the premises on which PCD Continental is located from an Independent Third Party.
- (5) We also lease office space of gross floor area of 1,056 sq.m. on level M of the premises on which Scitech Plaza is located from Scitech Group.

RISK FACTORS

Risks relating to our business

- If we encounter difficulties in executing our expansion strategy, our growth prospects may be limited.
- Operating in the high-end and luxury market is inherently risky because it is a lower volume business and is subject to fluctuation in consumer tastes, spending power, general economic conditions and consumer sentiment.

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- If we fail to make any of our recently established department stores profitable or manage our growth, our results of operations could be adversely affected.
- If we cannot find stores in suitable locations and on commercially acceptable terms, our growth prospects may be adversely affected.
- If we do not identify and offer attractive, high-end and luxury merchandise or do not foresee or adjust to frequently changing fashion trends and consumer demands and preferences, our operating results may be adversely affected.
- We are reliant on Scitech Plaza for a significant portion of our revenue and profit.
- If we do not integrate certain of our managed stores after the management contract period expires, our pace of expansion will be affected and our growth prospects will be limited.
- We may be exposed to certain litigation or reputational risks associated with providing management consultancy services and licensing our brand name or trademark to certain stores or outlet malls.
- We are exposed to funding risks, third party liability risks and other risks and liabilities associated with the development and construction of Xian Phase II and may be unable to complete the project on time.
- The expansion of our operations to the outlet mall business involves risks and our failure to manage such risks may delay or adversely affect our ability to generate anticipated revenues and may impede our overall growth strategy.
- As we derive substantially all of our revenue from the PRC, any downturn in the broader PRC economy may harm our business.
- Any failure to obtain relevant governmental approvals in relation to the Beijing Scitech Premium Outlet Mall may affect our management income and the value of the Outlet Mall Option.
- Any fundamental upgrade or repositioning of existing stores or stores that we take over carry inherent risks of losing the existing level of business.
- As we integrate additional stores into our Group, our financial performance and results of operation may be affected and we cannot be certain of the future profitability of the new stores.
- We rely on concessionaires for the substantial portion of our revenue.
- We rely on key direct sales suppliers for a substantial amount of our purchases.
- We rely on our VIP customers for a substantial portion of our sales. Any decrease in VIP sales may materially and adversely affect our business and results of operations.

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

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

Risks relating to the industry

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

Risks relating to the People’s Republic of China

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

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

SUMMARY HISTORICAL FINANCIAL INFORMATION

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

Consolidated Statements of Comprehensive Income

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

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Notes:

(1) Revenue breakdown

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

(2) Other income breakdown

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

SUMMARY

Consolidated Statements of Financial Position

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

Note:

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

SUMMARY

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

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

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

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

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

SUMMARY

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

DIVIDEND AND DIVIDEND POLICY

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

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

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

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

SUMMARY

PROFIT FORECAST FOR THE FINANCIAL YEAR ENDING DECEMBER 31, 2009

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SUMMARY

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DEFINITIONS

In this document, the following expressions shall have the meanings set out below unless the context otherwise requires.

“3i Investors”	3i Group plc, 3i Asia Pacific Technology L.P. and 3i Asia Pacific 2004–06 L.P., shareholders of our Company as at the Latest Practicable Date as a result of their investments in the Private Equity Convertible Bonds
“Articles of Association” or “Articles”	the articles of association of our Company, adopted on November 5, 2009 and as amended from time to time
“Beijing Chun Tian Real Estate”	北京春天房地產開發有限公司 (Beijing Chun Tian Real Estate Co., Ltd.) (for identification purposes only), a company incorporated in the PRC on August 29, 2007 and controlled by the Chan Family and a connected person of our Company
“Beijing Scitech Department Stores”	北京賽特百貨有限公司 (Beijing Scitech Department Stores Co., Ltd.) (for identification purposes only) (formerly known as 北京中山春天百貨有限公司), a company incorporated in the PRC on April 26, 2007 and our indirect wholly-owned subsidiary
“Beijing Scitech Outlet Commerce”	北京賽特奧特萊斯商貿有限公司 (Beijing Scitech Outlet Commerce & Trading Co., Ltd.) (for identification purposes only), a company incorporated in the PRC on February 13, 2009 and indirectly wholly-owned by the Chan Family
“Beijing Scitech Premium Outlet Mall”	an outlet mall located at No. 28 Xiang Jiang North Road Chaoyang District, Beijing, the PRC, in respect of which our Group provides management consultancy services
“Beijing Yuanyongxin Info Consulting”	北京源永信信息諮詢有限公司 (Beijing Yuanyongxin Info Consulting Co., Ltd.) (for identification purposes only), a company incorporated in the PRC on March 25, 2009 and our indirectly wholly-owned subsidiary
“Bluestone”	Bluestone Global Holdings Limited, a company incorporated in the British Virgin Islands on July 24, 2007 and a direct wholly-owned subsidiary of PIEL, our Controlling Shareholder
“Board of Directors” or “Board”	the board of directors of our Company
“Business Day”	a day that is not a Saturday, Sunday or public holiday in Hong Kong

DEFINITIONS

“BVI”	British Virgin Islands
“CAGR”	compound annual growth rate
“Cayman Companies Law”	the Companies Law (2007 Revision) of the Cayman Islands, as amended from time to time
“CFS”	CFS International Inc., a company incorporated in Canada and controlled by PIEL, our Controlling Shareholder
“Chan Family”	Alfred Chan and his brother Edward Tan, our Controlling Shareholders
“China” or “PRC”	the People’s Republic of China excluding, for the purpose of this document, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended from time to time
“Controlling Shareholders”	Alfred Chan, Edward Tan, Bluestone and PIEL
“CRC”	China Retail Concepts Limited, a company incorporated in the British Virgin Islands on February 14, 2007 and owned as to 50% by each of Alfred Chan and Edward Tan and therefore, a connected person of our Company. It is also the issuer of the Pre-IPO Convertible Bond Instruments
“CSRC”	中國證券監督管理委員會 (China Securities Regulatory Commission), a regulatory body responsible for the supervision and regulation of the Chinese national securities markets of the PRC
“CVC Investors”	Citigroup Venture Capital International Co-Investment, L.P. and Citigroup Venture Capital International Growth Partnership, L.P., each an Independent Third Party
“Deutsche Bank”	Deutsche Bank AG, Singapore Branch
“Directors”	the members of the board of directors of the Company
“Dragon Talent”	Dragon Talent Development Limited, a company incorporated in Hong Kong on May 11, 2007 and our indirect wholly-owned subsidiary

DEFINITIONS

“Even Time”	Even Time Investments Limited, a company incorporated in the British Virgin Islands on July 6, 2009 and held by Jenny Tan (daughter of Edward Tan) on trust for and on behalf of LDP Management Limited, a company held as to 50% each by Alfred Chan and Edward Tan, our Controlling Shareholders
“Evolution Watterson”	Evolution Watterson Securities Limited, licensed for type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
“Excluded Business”	businesses and companies which are controlled by our Controlling Shareholders and outside of our Group
“flagship stores”	department stores that serve as the standard against which our other stores are measured in terms of quality of brand names offered, quality of store layout and decoration and size
“GDP”	gross domestic product
“Group” or “we” or “us” or “our”	our Company and its subsidiaries and, in respect of the period before our Company became the holding company of such subsidiaries, the entities which carried on the business of the present Group at the relevant time
“GSP” or “gross sales proceeds”	means the gross revenue from concessionaire sales and sales of goods
“Guangchang”	Guiyang Guomao Guangchang Commercial Trading Co. Ltd. (貴陽國貿廣場商貿有限公司) (for identification purposes only), a company incorporated in the PRC on December 14, 2001 and indirectly held as to 51% by Jacqueline Tan (daughter of Edward Tan) on trust for and on behalf of LDP Management Limited, a company held as to 50% each by Alfred Chan and Edward Tan, our Controlling Shareholders
“Guangchang Group”	Guangchang and its subsidiaries
“Guiyang Guomao”	a department store located on Zhonghua Road North, Guiyang, the PRC, to which Xian Century Changan Property Investment provides management consultancy services
“Guiyang Guomao PCD”	a Sino-foreign joint venture to be established by Zhongshan PCD Stores (Xiamen) and Guangchang

DEFINITIONS

“Guiyang Nanguo Huajin”	a department store located on Zhongshan Road Central, Guiyang, the PRC, to which Xian Century Changan Property Investment provides management consultancy services
“Guizhou Guochen”	a department store located on Zhonghua Road West, Guiyang, the PRC, to which Xian Century Changan Property Investment provides management consultancy services
“Guomao Liupanshui”	a department store located in the Zhongshang Development Area, Liupanshui, the PRC, to which Xian Century Changan Property Investment provides management consultancy services
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	a person(s) or company(ies) who/which is or are independent of and not connected with our Company and our connected persons
“IFRS”	International Financial Reporting Standards
“Investment Agreement”	an investment agreement entered into between PCD Stores (Holdings), PIEL, PCD Stores, and the 3i Investors, on October 20, 2005
“Jiahe Chun Tian”	嘉禾春天商貿(廈門)有限公司 (Jiahe Chun Tian Commerce & Trading (Xiamen) Co., Ltd.) (for identification purposes only), a company incorporated in the PRC on July 9, 2008 and our indirect wholly-owned subsidiary
“KTB/UCI”	KTB/UCI China Ventures II Limited, an Independent Third Party
“Laiya Department Management (Xiamen)”	廈門來雅百貨管理有限公司 (Laiya Department Management (Xiamen) Co. Ltd.) (for identification purposes only), a company incorporated in the PRC on January 4, 2006 and our indirect wholly-owned subsidiary
“Latest Practicable Date”	November 27, 2009, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information contained in this document

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Memorandum of Association”	the memorandum of association of our Company
“Merger Arrangements”	the Amended and Restated Investment and Investor Rights and Shareholders’ Agreement dated August 15, 2007 entered into by and among PCD Stores, PIEL, PCD Stores (Holdings), our Company, Bluestone, the 3i Investors and CVCi Investors and other related arrangements, including the reinstatement deeds and the 3i side deed, in connection with such agreement, the major terms of which are set out in the section headed “Corporate Investors” of this document
“MOFCOM”	Ministry of Commerce of the PRC
“MOFTEC”	Ministry of Foreign Trade and Economic Cooperation of the PRC
“Morgan Stanley”	Morgan Stanley & Co International plc., an Independent Third Party
“New EIT Law”	the New Enterprise Income Tax Law (中華人民共和國企業所得稅法), implemented on January 1, 2008
“OIL”	Offshore Incorporations (Cayman) Limited
“our Company”	PCD Stores (Group) Limited, a company incorporated in the Cayman Islands on January 8, 2007 as an exempted company with limited liability, formerly known as Tiger Power Investments Limited
“PBOC Rate”	the exchange rate for foreign exchange transactions set daily by the People’s Bank of China based on the China inter-bank foreign exchange market rate of the previous day and with reference to current exchange rates on the world financial markets
“PCD Changchun”	a department store operated by PCD Stores (Jilin) located at 1055, Gongnong Road, Chaoyang District, Changchun, Jilin, the PRC
“PCD China Real Estate”	PCD China Real Estate Limited (formerly known as Printemps China Real Estate Limited) a company incorporated in the British Virgin Islands on September 14, 2005 with limited liability and our direct wholly-owned subsidiary

DEFINITIONS

“PCD China Ventures”	PCD China Ventures Limited, a company incorporated in the British Virgin Islands on May 13, 2008 with limited liability and directly wholly-owned by Double Eight Enterprises Limited, which is indirectly wholly-owned by the Chan Family
“PCD Continental”	a department store operated by PCD Continental Department Stores located at Levels 1–7, 193–215 Zhongshan Road, Siming District, Xiamen, the PRC
“PCD Continental Department Stores”	廈門大陸春天百貨有限公司 (PCD Continental Department Stores (Xiamen) Co. Ltd.) (for identification purposes only), formerly known as 廈門大陸來雅百貨有限公司 (Dalu Laiya Department Stores (Xiamen) Co. Ltd.), a company incorporated in the PRC on August 23, 2005 and our indirect wholly-owned subsidiary
“PCD Jiahe”	a department store operated by Xiamen Lotus located at parts of Levels 1–4, Wuhan Building, 261–265 Jiahe Road, Siming District, Xiamen, the PRC
“PCD Nanning”	a department store operated by PCD Stores (Guangxi) located at Levels 1–5, Hangyang International Commercial Centre, 131 Minzu Da Road, Nanning, Guangxi, the PRC
“PCD Qingdao”	a department store operated by Zhongshan PCD Stores (Qingdao) located at Levels 1–5, Shenye Centre, 9 Shandong Road, Shinan District, Qingdao, Shandong, the PRC
“PCD Real Estate (Xiamen)”	巴黎春天房地產（廈門）有限公司 (PCD Real Estate (Xiamen) Ltd.) (for identification purposes only) (formerly known as 巴黎春天房地產開發（廈門）有限公司), a company incorporated in the PRC on April 28, 2002 and our indirect wholly-owned subsidiary
“PCD Retail Management”	PCD Retail Management Inc (formerly known as Printemp Retail Management, Inc.), a company incorporated in the British Virgin Islands on August 24, 1998 with limited liability and our indirect 99.2% owned subsidiary
“PCD Retail Operations”	PCD Retail Operations Limited, a company incorporated in the British Virgin Islands on May 18, 2007 with limited liability and our direct wholly-owned subsidiary

DEFINITIONS

“PCD Ruijing”	a department store located on Ruijing Commercial Complex Square, Xiamen, the PRC, to which Xian Century Changan Property Investment provides management consultancy services
“PCD Songbai Department Stores”	廈門松柏春天貿易有限公司 (PCD Songbai Department Stores Co., Ltd.) (for identification purposes only), formerly known as 廈門松柏春天百貨有限公司 and 廈門來雅百貨有限公司, (Laiya Department Stores Co. Ltd.), a company incorporated in the PRC on May 29, 1998 and owned as to 95% by us and as to 5% by Wuhan Huaxing
“PCD Stores”	PCD Stores Limited, a company incorporated in the British Virgin Islands on October 18, 2005 under the name of “Printemps China Department Stores Limited”, which changed its name to its current name on July 27, 2006, and an indirect wholly-owned subsidiary of PIEL. It held, among other things, the entire business of our Group prior to the Reorganization and is the issuer of the Private Equity Convertible Bond Instrument
“PCD Stores Consulting”	廈門巴黎春天百貨信息諮詢有限公司 (PCD Stores Consulting Limited) (for identification purposes only), a company incorporated in the PRC on August 27, 2007 and our indirect wholly-owned subsidiary
“PCD Stores Group”	PCD Stores and its subsidiaries (prior to the Reorganization)
“PCD Stores (Guangxi)”	廣西巴黎春天百貨有限公司 (PCD Department Stores (Guangxi) Co. Ltd.) (for identification purposes only), a company incorporated in the PRC on September 26, 2006 and our indirect wholly-owned subsidiary
“PCD Stores (Holdings)”	PCD China Department Stores (Holdings) Limited (formerly known as Printemps China Department Stores (Holdings) Limited), a company incorporated in the British Virgin Islands on August 31, 2005 and an indirect wholly owned subsidiary of PIEL, our Controlling Shareholder
“PCD Stores (Jilin)”	吉林省巴黎春天百貨有限公司 (PCD Department Stores (Jilin) Co. Ltd.) (for identification purposes only), a company incorporated in the PRC on November 28, 2006 and our indirect wholly-owned subsidiary

DEFINITIONS

“PCD Stores (Taiyuan)”	太原巴黎春天百貨有限公司 (PCD Department Stores (Taiyuan) Co. Ltd.) (for identification purposes only), a company incorporated in the PRC on March 9, 2005 and our indirect wholly-owned subsidiary
“PCD Stores (Xiamen)”	廈門巴黎春天百貨有限公司 (PCD Department Stores (Xiamen) Limited) (for identification purposes only), a company incorporated in the PRC on December 9, 1998, of which Ge Weiying is the 76% registered equity holder and Alfred Chan is the 24% registered equity holder
“PCD Taiyuan”	a department store operated by PCD Stores (Taiyuan) located at Levels 1–6, No. 42 Kai Hua Si Street (formerly No. 53, Dong Mishi Street), Yingze District, Taiyuan, Shanxi, the PRC
“PCD World Trade”	a department store operated by PCD World Trade (Xiamen) located at Levels 1–4, 888, Xiahe Road, Siming District, Xiamen, the PRC
“PCD World Trade (Xiamen)”	廈門世貿巴黎春天百貨有限公司 (PCD World Trade (Xiamen) Co. Ltd.) (for identification purposes only), formerly known as 廈門假日巴黎春天百貨有限公司 (PCD Holiday (Xiamen)), a company incorporated in the PRC on August 29, 2001 and our indirect wholly-owned subsidiary
“PCD Xian”	a department store located on Nanguanzheng Street, Xian, PRC to which PCD Retail Operations provides management consultancy services
“PCD Zhongshan Lu”	a department store operated by Zhongshan PCD Stores (Xiamen) and located at Levels 1-6, 76-132 Zhongshan Road, Xiamen, the PRC
“PDL”	Ports Design Limited, an exempted company incorporated under the laws of Bermuda with limited liability on June 28, 2002, the shares of which are listed on the Main Board of the Stock Exchange, which is controlled by our Controlling Shareholders
“PDL Group”	PDL and all of its subsidiaries

DEFINITIONS

“PIEL”	Ports International Enterprises Limited, our intermediate holding company with limited liability, which was incorporated in the British Virgin Islands on September 8, 1993 and is owned 50% by Alfred Chan and 50% by Edward Tan
“PIEL Group”	PIEL and its subsidiaries
“PIEL Group Employees”	employees of PIEL Group or companies controlled by them
“Portico Global Limited”	a company incorporated in the British Virgin Islands on December 1, 2006 and ultimately controlled by the Chan Family
“PORTS Products”	ladies’ and men’s fashion garments and accessories and other merchandise or products of PDL
“PRC GAAP”	the PRC Accounting Standards and Accounting Regulations for Business Enterprises
“PRC legal advisers”	China Commercial Law Firm, our PRC legal advisers
“Pre-IPO CB Bondholders”	each of Portico Global Limited, Morgan Stanley, KTB/UCI, UCI and Credit Suisse, being independent of each other, with the exception of KTB/UCI and UCI, which are connected to each other
“Pre-IPO Convertible Bonds”	the bonds issued by CRC and held by Portico Global Limited, Morgan Stanley, KTB/UCI, UCI and Credit Suisse pursuant to the Pre-IPO Convertible Bond Instruments
“Pre-IPO Convertible Bond Instruments”	the respective convertible bond instruments entered into in March to May, 2007 by CRC and the Pre-IPO CB Bondholders (as amended and restated on April 1, 2009) and settlement deeds entered into by CRC and Baring Asset Management (Asia) Limited on July 27, 2009 and by CRC and Deutsche Bank on February 26, 2009
“Private Equity Convertible Bonds”	the bonds issued by PCD Stores to each of the 3i Investors and the CVCI Investors pursuant to the Private Equity Convertible Bond Instrument
“Private Equity Convertible Bond Instrument”	the convertible bond instrument dated October 26, 2005 entered into by PCD Stores and described in the section headed “Corporate Investors”

DEFINITIONS

“Qingdao Century Chuntian Info Consulting”	青島世紀春天信息諮詢有限公司 (Qingdao Century Chuntian Info Consulting Co., Ltd.) (for identification purposes only), a company incorporated in the PRC on March 18, 2009 and our indirectly wholly-owned subsidiary
“RCC”	Roosevelt China Capital Inc., a company incorporated in the State of Delaware, the United States of America and is held as to 10% by PCD China Ventures
“RCI”	Roosevelt China Investments Corporation, a company incorporated in the BVI and a subsidiary of RCC
“Reorganization”	our reorganization, as more fully described in the section headed “The Reorganization” in Appendix VII to this document
“Roosevelt PCD”	Roosevelt PCD China Ventures Limited, formerly known as PCD Roosevelt China Ventures Limited, a company incorporated in the BVI and held as to 51% by PCD China Ventures
“RSR”	Roosevelt Sino Retailers LLC, a company incorporated in the State of Delaware, the United States of America, which is an indirect subsidiary of RCC
“RSR WFOE”	the foreign owned enterprise to be established and wholly-owned by RSR
“Scitech Complex”	an office, hotel, restaurant and retail complex located at 22 Jianguomenwai Road, Chaoyang District, Beijing, the PRC, in which Scitech Plaza is located
“Scitech Group”	賽特集團有限公司 (Scitech Group Company Limited) (for identification purposes only), a company incorporated in Beijing, the PRC on November 15, 1980 and held indirectly as to 85% by Alfred Chan, Edward Tan and their respective immediate family members
“Scitech Plaza”	a department store operated by Beijing Scitech Department Stores located within the Scitech Complex, at 22 Jianguomenwai Road, Chaoyang District, Beijing, the PRC
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time

DEFINITIONS

“Share(s)”	ordinary share(s) with nominal value of US\$1.00 each (prior to the Reorganisation) or US\$0.005 each (after the Reorganisation) in the share capital of our Company
“sq.m.”	square meters
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Track Record Period”	the three financial years ended December 31, 2008 and the six months ended June 30, 2009
“UCI”	United Capital Investment Group Limited, an Independent Third Party
“United States” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“Well Power”	Well Power Enterprise Limited, a company incorporated in Hong Kong on June 1, 2007 and our indirect wholly-owned subsidiary
“Wuhan Huaxing”	武漢華興電子有限公司 (Wuhan Huaxing Electronics Co. Ltd.) (for identification purposes only), a company incorporated in the PRC on November 17, 1990, an Independent Third Party, which owns a 5% equity interest in PCD Songbai Department Stores
“Xiamen Lotus Department Stores”	廈門蓮花百貨有限公司 (Xiamen Lotus Department Stores Co. Ltd.) (for identification purposes only), a company incorporated in the PRC on September 4, 2009 and our indirect wholly-owned subsidiary
“Xiamen Ruijing Chun Tian”	廈門瑞景春天百貨有限公司 (Xiamen Ruijing Chun Tian Department Stores Co., Ltd.) (for identification purposes only), a company incorporated in the PRC on July 18, 2007 and a wholly-owned subsidiary of PCD Stores (Xiamen), a connected person of the Company
“Xian Century Changan Property Investment”	西安世紀長安物業投資管理有限公司 (Xian Century Changan Property Investment Co. Ltd) (for identification purposes only), a company incorporated in the PRC on September 12, 1995 and our indirect wholly-owned subsidiary
“Xian Changan Metropolis Center”	the property on which PCD Xian is located on Nanguanzheng Street, Xian, the PRC

DEFINITIONS

“Xian Vendors”	the vendors of the shares in Xian Century Changan Property Investment to our Group, comprising (i) Yang Hu, who resides at Block 64, Cuizhu Yuan, Dongmen Road North, Shenzhen, Guangdong, PRC, (ii) Feng Ying, who resides at 113 Yuqing Road, Xujia Wan, Weiyang District, Xian, PRC, and (iii) Wang Ke, who resides at 7 Daqing Road, Lianhu District, Xian, the PRC, all of which are Independent Third Parties
“Zhongshan PCD Stores (Qingdao)”	青島中山巴黎春天百貨有限公司 (Zhongshan PCD Stores (Qingdao) Limited) (for identification purposes only), formerly known as 青島海信巴黎春天百貨有限公司 (Haixin PCD Stores (Qingdao)), a company incorporated in the PRC on October 9, 2006 and our indirect wholly-owned subsidiary
“Zhongshan PCD Stores (Xiamen)”	中山巴黎春天（廈門）百貨有限公司 (Zhongshan PCD (Xiamen) Department Stores Co., Ltd.) (for identification purposes only), a company incorporated in the PRC on October 28, 2005 and our indirect wholly-owned subsidiary
“Zunyi Guomao”	a department store located on Zhongshan Road, Dingzikou District, Zunyi, the PRC, to which Xian Century Changan Property Investment provides management consultancy services

In this document:

- the terms “associate,” “connected person,” “connected transaction,” “controlling shareholder,” “subsidiary” and “substantial shareholder” have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements, including, without limitation, words and expressions such as “expect”, “believe”, “plan”, “intend”, “estimate”, “project”, “anticipate”, “may”, “will”, “would” and “could” or similar words or statements, in particular, in the sections headed “Our Business” and “Financial Information” in this document in relation to future events, our future financial, business or other performance and development, the future development of our industry and the future development of the general economy of our key markets and globally.

These statements are based on numerous assumptions regarding our present and future business strategy and the environment in which we will operate in the future. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in the section headed “Risk Factors” in this document, and the following:

- the regulatory environment as well as the outlook on the regions and industries in which we operate;
- our business strategy and plan of operation;
- future developments in the retail industry in China and internationally;
- the amount and nature of, and potential for, future development of our business;
- our business co-operations and relationship with our investors and contracting parties;
- our estimated financial information regarding our business;
- our dividend policy; and
- changes in economic conditions and competition in the cities in which we operate.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this document are qualified by reference to the cautionary statements set out in this section.

In this document, statements of or references to the intentions of our company or any of our Directors are made as at the date of this document. Any such intentions may potentially change in light of future developments.

RISK FACTORS

RISKS RELATING TO OUR BUSINESS

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

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

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

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

RISK FACTORS

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

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

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

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

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

RISK FACTORS

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

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

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

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

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

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

Fashion trends and consumer demands and preferences in the PRC are unpredictable, rapidly changing and depend upon various factors, including, among other things, global fashion and lifestyle trends, influence of celebrities, disposable income, consumer confidence in the economy and other factors beyond our control. As our stores seek to cater primarily to the trendy demographics in China, our success depends on our ability to identify fashion trends and anticipate and respond in a timely manner to constantly changing consumer demands and preferences. We cannot assure you that our choice of merchandise, or the choices of our

RISK FACTORS

concessionaires will accurately reflect the prevailing fashion trends or customer preferences at any given time. Consequently, we and our concessionaires must identify emerging fashion trends and consumer demands and anticipate trends and fashions which appeal to our customer base. Any failure on our or their part to identify, anticipate and respond effectively and in a timely manner to changing consumer demands and fashion trends could adversely affect our business.

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

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

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

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

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

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

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

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

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

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

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

Under our contract with the relevant government agency which granted the land use rights for Xian Phase II to us, we are required to complete the development and construction of the site before December 13, 2010, a period which is extendable for up to one year if agreed to by the grantor (the “Completion Date”). Whether we can successfully complete the development and construction on time, however, depends on a number of factors, such as our ability and the third

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party developer’s ability to fund the project and the ability to obtain the requisite permits or approvals, some of which are beyond our control. Our PRC legal advisers have advised us that if we fail to complete the development of the project on time we may be subject to a penalty of 0.1% of the Land Premium per day starting from the day after the Completion Date.

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

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

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

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

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

RISK FACTORS

(i) *Beijing Scitech Premium Outlet Mall*

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

(ii) *Shandong Outlet Mall*

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

(iii) *Shenyang Outlet Mall*

Our Controlling Shareholders are currently in preliminary discussions with an Independent Third Party in relation to the operation of an outlet mall in Shenyang. If the project materialises, our Controlling Shareholders will first offer the opportunity to operate the outlet mall to us. Our decision whether to operate the outlet mall will be subject to approval by our independent non-executive Directors and compliance with the Listing Rules. If we decide not to accept the offer and our Controlling Shareholders or a company controlled by them proceed to accept the engagement as operator, our Controlling Shareholders have undertaken that they will grant us an option to, at any time, acquire all the shares of the operator of the outlet mall or its holding company for a consideration that equals the lower of (i) the cost of investment incurred by our Controlling Shareholders in the operator of the outlet mall and (ii) the prevailing fair market value of the operator of the outlet mall as determined by an independent firm of international valuers. Our Company will exercise this outlet mall option as soon as practicable upon verification that the operator of the Shenyang Outlet Mall has achieved a net profit for two consecutive financial years as shown in its audited financial statements, which exercise will be subject to the approval by our independent non-executive Directors and our compliance with the

RISK FACTORS

provisions of Chapter 14A of the Listing Rules. We will also be entitled to exercise this option at any time during the term of the option even if the above profit requirement has not been satisfied through our right to waive such profit requirement. In addition, our Controlling Shareholders have also undertaken to engage us to provide management and consultancy services to the outlet mall for the entire term of the option for a percentage of the GSP to be agreed. See “Relationship with our ultimate Controlling Shareholders and Connected Transactions — Recent Development of Our Controlling Shareholders — Shenyang Outlet Mall.” However, since our Controlling Shareholders are still in preliminary discussions in respect of the Shenyang outlet mall project, there is no guarantee that the project will materialize, and, as a result, we may be unable to exercise our option at all.

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

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

The challenges and risks involved in expanding our business to the outlet mall business may delay or adversely affect our ability to generate anticipated revenues and may impede our overall growth strategy.

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

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

Recent global market and economic conditions have been unprecedented and challenging with tight credit conditions and recession in most major economies continuing into 2009. The negative economic outlook has affected business and consumer confidence. The Chinese economy also faces challenges in the short to medium term. The stimulus plans and other measures

RISK FACTORS

implemented by the Chinese government may not work effectively or quickly enough to avert a severe downturn in economic activity. Any decline in consumer spending or change in consumer habits as a result of the economic downturn may negatively affect our results of operation. For example, in the six months ended June 30, 2009, our revenue from commissions from concessionaire sales was RMB232.6 million, representing a decrease of RMB20.9 million, or 8.2%, from RMB253.5 million in the six months ended June 30, 2008, which was primarily attributable to lower gross sales proceeds at Scitech Plaza and PCD Qingdao as a result of the economic slowdown. Continued turbulence in the international markets and prolonged declines in consumer spending, as well as any slowdown of economic growth in China, may adversely affect our liquidity and financial condition, including our ability to access the capital markets to meet liquidity needs.

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

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

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

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

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

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

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

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

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

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

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

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

RISK FACTORS

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

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

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

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

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

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

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

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

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

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

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

If any leases or store cooperation agreements for our existing department stores are terminated, or if we are unable to renew any of our leases or store cooperation agreements when they expire, our operating results may be adversely affected.

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

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find suitable premises on commercially reasonable terms, or at all. If any of our leases and store cooperation agreements are terminated and we are not able to find suitable premises on commercially acceptable terms, it could have a material adverse effect on our business.

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

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

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

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

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

We have expanded the size of our store network rapidly, beginning with two stores as of January 1, 2004, to sixteen stores and one outlet mall to which we operate or provide management consultancy services as of the Latest Practicable Date. As such, we have only a limited history of operations. Due to our recent rapid expansion, the number of stores in our network varied during the three years ended December 31, 2006, 2007 and 2008 and the six

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months ended June 30, 2009. For example, Scitech Plaza, our primary revenue generator, commenced operations on July 1, 2007. Primarily because of the addition of Scitech Plaza, our revenue increased to RMB500.9 million in 2007 and RMB717.8 million in 2008 from RMB171.1 million in 2006, representing a CAGR of 104.8%. We may not be able to achieve the same rate of growth in the future. As a consequence, our historical financials may be of limited value in assessing our performance or in giving an indication of our financial performance going forward.

Our current liabilities exceeded our current assets and if we are unable to meet our liabilities as they become due, our business and financial condition will be materially and adversely affected.

As at December 31, 2006, 2007 and 2008 and June 30, 2009, we had net current liabilities of approximately RMB132.4 million, RMB689.7 million, RMB670.4 million and RMB171.8 million respectively. We also had net liabilities as at December 31, 2007 due to a reduction of equity attributable to owners of our Company which resulted from the Reorganization. The net current liabilities position as at December 31, 2006, 2007 and 2008, and June 30, 2009 was primarily attributable to our taking advantage of longer suppliers’ credit terms to partly finance our operation and utilizing short-term borrowings to expand our business through establishment or integration of new stores. One of the advantages for using short-term borrowings is lower interest cost because the interest rates for short-term borrowings are generally lower than that for long-term borrowings in the PRC.

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

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

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

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

Our business relies on the proper performance of our information systems and any malfunction of the systems for an extended period could adversely affect our ability to operate.

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

If we fail to obtain or renew the regulatory licenses, approvals and permits we are required to have for our operations, our existing operations may be interrupted and our expansion plans may be adversely affected.

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

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

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

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

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

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

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

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

If the Emergency Notice is enforced, with regards to our self-owned stores in Beijing, Taiyuan, Changchun, Qingdao and Nanning, the People’s Bank of China may order us to stop issuing prepaid gift cards. We may also need to repurchase all outstanding prepaid gift cards and return to customers the unused amount. The outstanding balance of prepaid gift cards issued by

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

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

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

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

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

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Our right to use the “巴黎春天” (Ba Li Chun Tian) trade name is not exclusive or protected under PRC law outside the administrative areas where we had registered such trade name.

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

We distinguish our brand from other stores in China that use the “巴黎春天” trade name by the registration of the trade name “巴黎春天” in connection with our operations of our eight self-owned stores, namely PCD Zhongshan Lu, PCD World Trade, PCD Continental and PCD Jiahe in the city of Xiamen, PCD Taiyuan in the city of Taiyuan, PCD Qingdao in the city of Qingdao, PCD Changchun in the province of Jilin, and PCD Nanning in the city of Nanning to prevent any other department stores from using “巴黎春天” in the same location carrying on the same business. In addition, our Company believes that the use of our distinctive “Fleur de Lys” logo as well as the “Fleur de Lys” logo which has the Chinese characters “巴黎春天” embedded in it will also assist our customers in differentiating our stores from other unaffiliated stores.

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

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

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

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

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

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

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

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

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

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

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

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

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

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Our Controlling Shareholders’ interest in us may be significantly reduced.

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

RISKS RELATING TO THE INDUSTRY

We operate in a highly competitive market.

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

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

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

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

- the degree of brand recognition and store image;

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

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

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

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

We may be subject to product liability claims relating to defective merchandise provided by concessionaires and, as a result, our reputation and operating results may be adversely affected.

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

RISK FACTORS

Seasonality and weather conditions affect our sales.

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

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

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

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

RISK FACTORS

RISKS RELATING TO THE PEOPLE’S REPUBLIC OF CHINA

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

Political and economic policies of the Chinese government may affect our business and operational results and may result in our inability to sustain our growth and expansion strategies.

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

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

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

While the PRC government continues to own a significant portion of the productive assets in China, economic reform policies since the late 1970’s have encouraged the development of autonomous and privately owned businesses, the utilization of market forces, and the establishment of good corporate governance measures in China. Although we believe these reforms will benefit us in our long-term development, we cannot predict whether the PRC government will continue this economic reform. Any changes in PRC government policy or the PRC’s political, economic and social conditions, or in relevant laws and regulations, may adversely affect our current or future business, results of operation or financial condition. These changes in government policy may be implemented through various means, including changes in laws and regulations, implementation of anti-inflationary measures, changes in the tax rate or taxation system and the imposition of additional restrictions on currency conversion and imports. Furthermore, given the PRC’s largely export-driven economy, any changes in the economies of the PRC’s principal trading partners and other export-oriented nations may adversely affect our operations and financial results. Our ability to successfully expand our business operations in China depends on a number of factors, including macroeconomic and other market conditions,

RISK FACTORS

and credit availability from lending institutions. The PRC government has from time to time articulated the need to control economic growth and tighten the increase in lending. Stricter lending policies in China may affect our ability to obtain financing, thus reducing our ability to implement our expansion strategies. We cannot assure you that future governmental measures to tighten the increase in lending will not be implemented, or that, if implemented, it will not adversely affect our future results of operations or profitability. Furthermore, we cannot assure you that our historical economic and market conditions will continue, or that we will be able to sustain our growth.

Future fluctuations in foreign exchange rates and government control in currency conversion may adversely affect our financial condition and operational results, and our ability to remit dividends.

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

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

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

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

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

RISK FACTORS

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

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

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

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

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

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

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

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

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

PRC regulations relating to acquisitions of PRC companies by foreign entities may limit our ability to acquire PRC companies and adversely affect the implementation of our strategy as well as our business and prospects.

The Provisions on the Acquisition of Domestic Enterprises by Foreign Investors (2006 Revision) (關於外國投資者併購境內企業的規定) (the “M&A Provisions”), effective from September 8, 2006, provide the rules with which foreign investors must comply should they seek to purchase by agreement the equities of the shareholders of a domestic non-foreign-funded enterprise or subscribe to the increased capital of a domestic company, and thus change the

RISK FACTORS

domestic company into a foreign-funded enterprise. It stipulates that the business scope upon acquisition of domestic enterprises must conform to the Foreign Investment Industrial Guidance Catalogue (外商投資產業指導目錄), and restricts the scope of market access. It also provides the procedures for the share right takeover of domestic companies.

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

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

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

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

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

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

RISK FACTORS

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

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

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

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

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

DIRECTORS

DIRECTORS

Name	Address	Nationality
Executive Directors		
Chan, Kai Tai Alfred	Rm 102, Sunbeam Center 27 Shing Yip Street Hong Kong	Canadian
Tan, Han Kiat Edward	Flat B25, 12/F Block B, Po Shan Mansions 10 Po Shan Road Hong Kong	Canadian
Lau, Kim Yip Tony	Flat F, 3/F Tower 4, Lido Garden Castle Peak Road New Territories Hong Kong	Canadian
Independent non-executive Directors		
Yu, Randolph	Apartment 17A Bowen Place No. 11A Bowen Road Mid Levels Hong Kong	American
Tai, Ainsley	4 Del Pilar St Ayala Heights Quezon City Philippines	Filipino
Li, Chang Qing	Room 401, No. 9 Dianshangxi Road Qianpu Xiamen Fujian PRC	Chinese

CORPORATE INFORMATION

Registered office	Appleby Trust (Cayman) Limited Clifton House 75 Fort Street P.O. Box 1350 Grand Cayman KY1-1108 Cayman Islands
Headquarters	No. 76-132 Zhongshan Road Siming District, Xiamen China 360001
Principal Place of business in Hong Kong	Room 3310-11, Tower One Times Square Causeway Bay Hong Kong
Company secretary	Su, Shaohua Charlotte (<i>HKICPA, CICPA, MPACC</i>)
Authorized representatives	Chan, Kai Tai Alfred Rm 102, Sunbeam Center 27 Shing Yip Street Kowloon Hong Kong Su, Shaohua Charlotte Unit 3A, 363-365 King's Road North Point Hong Kong
Audit committee	Li, Chang Qing (<i>Chair</i>) Tai, Ainsley Yu, Randolph
Remuneration committee	Tai, Ainsley (<i>Chair</i>) Li, Chang Qing Chan, Kai Tai Alfred
Principal share registrar and transfer office	Appleby Trust (Cayman) Limited Clifton House 75 Fort Street P.O. Box 1350 Grand Cayman KY1-1108 Cayman Islands

CORPORATE INFORMATION

Hong Kong share registrar

Computershare Hong Kong Investor
Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen’s Road East
Wanchai
Hong Kong

Principal bankers

China Construction Bank
Bank of China

Compliance adviser

Evolution Watterson Securities Limited
5th Floor, 8 Queen’s Road Central
Hong Kong

INDUSTRY OVERVIEW AND REGULATION

THE PRC ECONOMY

Population growth and urbanization

At approximately 1.3 billion in 2008, the PRC has the largest population of any country. It also has one of the world’s fastest growing economies. China’s GDP has grown from approximately RMB8,440 billion in 1998 to RMB30,067 billion in 2008, representing a CAGR of approximately 13.5%. During the same period, GDP per capita in the PRC increased from approximately RMB6,796 in 1998 to approximately RMB22,098 in 2008, representing a CAGR of approximately 12.8%.

The rapid growth of the PRC economy has led to improved living standards and increased purchasing power, particularly in urban households. An increase in disposable income affects the level of retail sales. The per capita annual disposable income of urban households in the PRC increased from approximately RMB5,425 in 1998 to approximately RMB15,781 in 2008, representing a CAGR of 11.3%. Urbanization has also increased as part of the rapid growth and development of the PRC economy. During the 10-year period ended 2008, the urbanization rate increased from approximately 33.4% in 1998 to approximately 45.7% in 2008.

The following table sets out China’s (i) population, (ii) urbanization rate, (iii) GDP, (iv) per capita GDP and (v) per capita annual disposable income of urban households for the periods indicated.

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Compound annual growth rate (1998–2008)
Population (million) . . .	1,248	1,258	1,267	1,276	1,285	1,292	1,300	1,308	1,314	1,321	1,328	0.6%
Urbanization rate (%) . .	33.4	34.8	36.2	37.7	39.1	40.5	41.8	43.0	43.9	44.9	45.7	3.2%
GDP (RMB in billions)	8,440	8,968	9,921	10,966	12,033	13,582	15,988	18,387	20,941	25,731	30,067	13.5%
Per capita GDP (RMB)	6,796	7,159	7,858	8,622	9,398	10,542	12,336	13,958	15,973	19,524	22,698	12.8%
Per capita annual disposable income of urban households (RMB)	5,425	5,854	6,280	6,860	7,703	8,472	9,422	10,493	11,760	13,786	15,781	11.3%

Source: China Statistical Abstract 2009

INDUSTRY OVERVIEW AND REGULATION

Growth in disposable income of urban households

The average per capita disposable income of urban households for all economic classes has increased in the nine years ended 2008. The following table sets out the average per capita disposable income of the different economic classes and the respective CAGR for the periods indicated.

	<u>Low</u>	<u>Lower Middle</u>	<u>Middle</u>	<u>Upper Middle</u>	<u>High</u>
	<i>(in RMB, other than %)</i>				
Percentage of PRC population	20%	20%	20%	20%	20%
2000	3,143	4,624	5,898	7,487	11,373
2001	3,330	4,947	6,366	8,164	12,745
2002	3,032	4,932	6,657	8,870	15,460
2003	3,295	5,377	7,279	9,763	17,472
2004	3,642	6,024	8,167	11,051	20,102
2005	4,017	6,711	9,190	12,603	22,902
2006	4,567	7,554	10,270	14,049	25,411
2007	5,364	8,901	12,042	16,386	29,479
2008	6,075	10,196	13,984	19,254	34,668
CAGR (2000 to 2008)	8.6%	10.4%	11.4%	12.5%	15.0%

Source: China Statistical Abstract 2009

THE RETAIL INDUSTRY IN THE PRC

Strong retail sales growth

The significant size of the PRC population represents a large consumer market for the retail industry. Over the last decade, during which the PRC has undergone rapid economic growth, the PRC government has instituted reforms in the retail industry to promote domestic consumption, including gradually opening up the domestic retail industry to foreign investments. Today, a wide range of retail formats for consumer goods, manufactured locally or imported from overseas markets, are available to PRC consumers. The retail formats in China generally include department stores, hypermarkets, supermarkets, convenience stores, specialty stores, shopping malls, small scale retail shops, and other retail outlets. As a result of the increased disposable income of consumers and the choices available to them, consumers increasingly are aware of the services and merchandise available to them at the various retail outlets.

As a result of China’s strong economic growth in the last decade, the retail industry also has been experiencing significant growth. Retail sales of consumer goods in China increased from approximately RMB3,338 billion in 1998 to approximately RMB10,849 billion in 2008, representing a CAGR of 12.5%. The following table sets out total retail sales of consumer goods in the PRC in nominal terms.

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Retail sales (RMB in billions)	3,338	3,565	3,911	4,306	4,814	5,252	5,950	6,718	7,641	8,921	10,849

Source: China Statistical Abstract 2009

INDUSTRY OVERVIEW AND REGULATION

Retail sales in urban areas

With increased disposable income, urban households in the PRC have more capability and are more willing to spend in order to improve their living standards. As there are relatively more retail formats in urban areas, the proportion of retail sales in urban areas has increased over the years. According to the National Bureau of Statistics of the PRC, retail sales in urban areas as a percentage to total retail sales has been increasing over the last ten years. The following chart shows the relative retail sales of consumer goods in city areas as compared to county and sub-county areas.

Retail Sales of Consumer Goods at City, County and Sub-County Level

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
	<i>RMB (billions)</i>										
Sub-County Level	886	899	972	1,042	1,119	1,190	1,317	1,460	1,639	1,886	2,254
County.	422	446	483	525	557	601	664	749	848	994	1,221
City.	<u>2,029</u>	<u>2,220</u>	<u>2,456</u>	<u>2,738</u>	<u>3,138</u>	<u>3,461</u>	<u>3,970</u>	<u>4,509</u>	<u>5,154</u>	<u>6,041</u>	<u>7,374</u>
Total	<u>3,337</u>	<u>3,565</u>	<u>3,911</u>	<u>4,306</u>	<u>4,814</u>	<u>5,252</u>	<u>5,950</u>	<u>6,718</u>	<u>7,641</u>	<u>8,921</u>	<u>10,849</u>

Source: China Statistical Abstract 2009

The impact of the WTO on the PRC retail industry

China became a member of the WTO in December 2001, which resulted in China opening some of its previously protected domestic markets to foreign investments. Prior to China’s entry into the WTO, the retail industry in the PRC was heavily regulated and restrictive to foreign investments. Wholly foreign-owned enterprises were prohibited. As a result of the PRC accession to the WTO, however, all foreign retailers, beginning on December 11, 2004, are able to establish wholly-owned businesses in the PRC.

The accession to the WTO also brought about a reduction in import tariffs. This reduction in import tariffs has resulted in the provision of a wider variety of foreign goods, with reduced retail prices, to PRC consumers that were previously out of their price range. We believe the reduction in import tariffs benefits retail formats, such as department stores, shopping centers and supermarkets, that offer numerous brands and diversify the choices available to consumers.

THE DEPARTMENT STORE INDUSTRY IN THE PRC

Department store growth in the PRC

Euromonitor International, an independent provider of market and competitor intelligence, defines a department store as a retail outlet usually with a sales area of over 2,500 sq.m., selling mainly non-grocery merchandise and at least five lines in different departments. They are usually arranged over several floors.

Department stores in the PRC have been growing with the market to secure business opportunities as retail sales have increased. The following chart shows the historical market size of department stores in China for the periods indicated, provided by Euromonitor International.

INDUSTRY OVERVIEW AND REGULATION

Market Size of China Department Stores (retail value excluding sales tax)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
	<i>RMB (billions)</i>							
Market Size	288	319	311	348	397	441	498	558

Source: Euromonitor International

Chain department stores

The chain retail format has been growing rapidly. According to the 2008 Statistical Yearbook of China Retail Corporations in Chain compiled by the National Bureau of Statistics, the Ministry of Commerce of China and the China General Chamber of Commerce Information Department, the number of department store chain outlets in China increased from 5,353 in 2006 to 6,064 in 2007, representing an increase of 13.3% over the previous year. Retail sales of department store chains increased from approximately RMB125 billion in 2006 to approximately RMB151 billion in 2007, an increase of 21.4%.

Trend of the PRC department store industry

As a result of an increase in disposable household income, PRC consumers are now more willing and better able to increase their consumption. According to Euromonitor International, retail sales by department stores in the PRC will continue to grow in the next few years. Euromonitor International estimates that retail value by department stores will reach approximately RMB830 billion by 2013.

Forecast of Market Sizes of China Department Stores (retail value excluding sales tax)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
	<i>RMB (billions)</i>						
Forecast of Market Sizes	498	558	619	681	735	783	830

Source: Euromonitor International

INDUSTRY OVERVIEW AND REGULATION

REGULATION

Retail industry foreign investment laws and regulations in the PRC

Since the 1990’s, the PRC has been gradually relaxing its restrictions on foreign investment into the retail industry.

In July 1992, the State Council issued Response to the Application of Foreign Capital on the Commercial Retail Industry (關於商業零售領域利用外資問題的批覆) (the “Application of Foreign Capital Response”), and agreed to carry out trial operations of one to two Sino-foreign equity joint venture or Sino-foreign cooperative joint venture commercial retail enterprises in each of Beijing, Shanghai, Tianjin, Guangzhou, Dalian, Qingdao and five special economic zones. Under the Application of Foreign Capital Response, foreign investment commercial enterprise projects became subject to the review and approval of the State Council through the reports of local governments. The operating scope of foreign investment commercial enterprises included department retail business and import and export business operations.

SAFE Regulation

Our PRC legal adviser has advised us that Alfred Chan and Edward Tan are not “Domestic Resident Natural Person” pursuant to the Notice of SAFE on Issues relating to Foreign Exchange Control on Fund Raisings by Domestic Residents through Offshore Purpose Vehicles and Round-trip Investments (國家外匯管理局於境內居民通過境內特殊目的融資及返程投資外匯管理有關問題的通知) promulgated on October 21, 2005 (the “Notice on SPV”), and that therefore the requirements of the Notice on SPV are not applicable to our Company or our Controlling Shareholders. This is on the basis that under the Notice on SPV the phrase “Domestic Resident Natural Person” refers to any natural person holding a PRC Resident Identity Card, or any natural person who does not hold a PRC Resident Identity Card but who normally resides in the PRC for economic gains. Alfred Chan and Edward Tan, who do not hold a PRC Resident Identity Card and who do not normally reside in the PRC for economic gains, are therefore not “Domestic Resident Natural Persons”.

In June 1999, with the approval of the State Council, the State Economic and Trade Commission (國家經濟貿易委員會) and Ministry of Foreign Trade & Economic Cooperation (“MOFTEC,” 外經貿部, later restructured into the Ministry of Commerce) issued Measures for Commercial Enterprises with Foreign Investment (外商投資商業企業試點辦法) (the “Commercial Enterprises Measures”) and expanded the permitted geographic coverage of sino-foreign equity and cooperative joint venture commercial retail enterprises to capital cities of the provinces and the autonomous regions, municipalities under the central government, special economic zones and Dalian, Ningbo and Qingdao.

On April 16, 2004, the MOFCOM issued Measures of Administration of Foreign Invested Commercial Enterprises (外商投資商業領域管理辦法) (the “New Commercial Enterprises Measures”), which was implemented on June 1, 2004. These measures abolished the minimum registered capital required for foreign invested commercial enterprises and the previous requirements for minimum asset amount and sales revenue of the foreign investor. Further, before December 11, 2004, foreign-owned commercial enterprises in the retail industry and their stores

INDUSTRY OVERVIEW AND REGULATION

were restricted to capital cities of provinces and the autonomous regions, municipalities under the central government, special economic zones and Dalian, Ningbo and Qingdao. This regional restriction was abolished after December 11, 2004.

PCD Real Estate (Xiamen) has not been considered a foreign-funded retail enterprise since its establishment on April 28, 2002 and is not currently subject to any geographical restrictions. Zhongshan PCD Stores (Xiamen) was a foreign-funded retail enterprise at the time of its establishment on October 28, 2005 and is not subject to any geographical restrictions or the restriction requiring the establishment of sino-foreign equity or cooperative commercial retail enterprises. Based on the opinion of our PRC legal adviser, PCD Real Estate (Xiamen) and Zhongshan PCD Stores (Xiamen) and any domestic enterprises jointly invested by them are in compliance with the above laws and regulations with regards to the restrictions on foreign investment.

WTO’s Impact on the PRC Retail Industry

Prior to the PRC’s entry into WTO, foreign investors were severely restricted from providing retail services in the PRC for both their own proprietary operations and for third parties.

According to the Commercial Enterprises Measures, foreign companies or enterprises and domestic companies or enterprises were able to set up sino-foreign equity joint ventures or sino-foreign co-operative joint ventures (referred to as “Joint Ventures”) in the designated experimental area within the territory of the PRC, but wholly foreign-owned enterprises were not allowed to be established in the industry at that stage. The area for establishment of Joint Ventures was stipulated by the State Council, which was only restricted to the capital cities of provinces and autonomous regions, municipalities under the central government, the special economic zones and Dalian, Ningbo and Qingdao. Moreover, the establishment of Joint Ventures had to comply with commercial development planning rules in the relevant area. To gain access to the PRC market, non-PRC retailers had to apply for permission from the PRC government in accordance with the Commercial Enterprises Measures, which had high market entry thresholds for foreign investment enterprises.

However, to fulfil the PRC’s WTO commitment in respect of the opening up of its distribution services sector, the Ministry of Commerce issued the New Commercial Enterprises Measures on April 16, 2004, which regulate foreign investments in distribution services such as wholesale, retail, commission agency and franchising. The Commercial Enterprises Measures were abolished when the New Commercial Enterprises Measures took effect from June 1, 2004.

There are a number of major changes in the New Commercial Enterprises Measures, including permitting foreign investors to engage in the operation of distribution services on a wholly-owned basis from December 11, 2004. The New Commercial Enterprises Measures will also gradually enlarge the geographical coverage of foreign-invested commercial enterprises and lower the market entry threshold. In terms of requirements for foreign invested commercial enterprises to set up stores, it is stipulated in the New Commercial Enterprises Measures that foreign investors can apply to set up both commercial enterprises and stores at the same time in accordance with simplified procedures and clear guidelines.

INDUSTRY OVERVIEW AND REGULATION

According to the New Commercial Enterprises Measures, a foreign invested commercial enterprise must meet the following conditions:

- its minimum registered capital must comply with the requirements of PRC company law (RMB30,000);
- it must comply with the normal total investment and registered capital requirements for foreign invested enterprises; and
- in general, its term of operation may not exceed 30 years, or 40 years in the western region of the PRC.

Moreover, the foreign invested commercial enterprise must meet the following conditions to open retail stores:

- if applying to open a store at the same time as applying to establish the enterprise, the proposed store must conform to the urban development plan and the commercial development plan of the city where it is located; and
- If applying to open a store after the establishment of the enterprise, then in addition to meeting the above requirement, the enterprise must also (a) have undergone annual inspection on time and passed, and (b) have received all of its registered capital from its investors.

Any application for the establishment of a foreign-funded commercial enterprise (including project description, feasibility study and other relevant documents) shall be submitted to the local department entrusted by MOFCOM (a competent commerce department at the provincial level and the management committee of an economic and technological development zone at the national level) for approval, which is then sent to MOFCOM for recordation after the approval is granted by the authorized local department. In the event that the granting of such approval is beyond the authority of the local department, the application shall be sent to MOFCOM for approval. Additionally, any retail stores to be opened by an established foreign invested commercial enterprise must be approved according to the same process. The approval process together generally does not exceed four months given the satisfactory submission of application documents. The approved foreign invested commercial enterprise shall be registered with the competent Administration for Industry and Commerce within one month after the approval issued by MOFCOM or the local department entrusted by it. After the implementation of the New Commercial Enterprises Measures, we could engage in the retail business in the PRC on a wholly-owned basis and expand into geographical areas which were not opened to foreign investors for retail operations.

Under the New Commercial Enterprises Measures, the percentage of foreign investment in retailers in the PRC with more than 30 stores which are engaged in the sale of certain specific goods including books, newspapers, magazines, automobile (as for automobile, such restriction was cancelled on December 11, 2006), pharmaceutical products, pesticides, fertilizers, refined oil products, grains, vegetable oil, sugar, cotton and with such goods being of different brands and obtained from different suppliers, should not exceed 49%.

INDUSTRY OVERVIEW AND REGULATION

Licenses

Apart from obtaining the necessary business licenses for operating department stores, operating a department retail business in the PRC requires certain other licenses and permits, which, depending on the products sold (and therefore not all of which may be applicable to us), include:

- “Cigarette Sales Permit” (煙草專賣零售許可證), for sales of cigarettes;
- “Medical Device Operation Enterprise Permit” (醫療器械經營企業許可證), for sales of various types of medical apparatus;
- “Audiovisual Products Operation Permit” (音像製品經營許可證), for sales of audiovisual merchandise; and
- “Hygiene Permit” (衛生許可證), for food sales.

A foreign-owned commercial enterprises may not be able to obtain a Cigarette Sales Permit and Audiovisual Products Operation Permit due to industry restrictions.

A department retail enterprise also needs to apply for other business licenses upon the request of the government’s public control departments. For example, it needs to obtain the approval of fire safety review when it opens a sale area for usage.

HISTORY AND DEVELOPMENT

GENERAL

Our Company was incorporated in the Cayman Islands on January 8, 2007 under the name Tiger Power Investments Limited and changed its name to PCD Stores (Group) Limited on August 15, 2007. As a result of the Reorganization it became the holding company of our Group. See the sections headed “Background” and “Reorganization” under “Appendix VII — Statutory and General Information” to this document for more information relating to our corporate structure and the Reorganization.

BACKGROUND

In 1989, Alfred Chan and Edward Tan, our ultimate Controlling Shareholders, acquired PORTS, a high-end fashion label and retail apparel business, which was originally established in the 1960’s in Toronto, Canada. After acquiring the PORTS label and retail apparel business, Alfred Chan and Edward Tan opened the first PORTS boutique in China in 1993 and gradually expanded the PORTS business in China.

Alfred Chan and Edward Tan initially acquired an interest in the PORTS label in 1989 through the purchase of Etac Sales Limited (“ESL”), a company incorporated in Canada which at that time owned the PORTS label. By way of acquisitions in May and November 1994, Alfred Chan and Edward Tan subsequently acquired the PORTS label from, among other parties, ESL’s receiver. Further details of the liquidation of ESL are contained in the “Directors and Senior Management — Executive Directors” section of this document.

Today, the PORTS network in China extends to over 370 stores and outlets across more than 60 cities in the PRC, with a majority of these stores and outlets located in department stores. The PORTS business is now owned and operated by PDL, the shares of which are listed on the Stock Exchange under the stock code (00589) and which was listed by Forbes Asia as one of “Asia’s 200 Best Under A Billion” in 2006, 2007 and 2008.

As a result of building up the PORTS business in China over the last 16 years, Alfred Chan and Edward Tan have well-established relationships within the PRC retail industry, and a well-developed knowledge of Chinese cities. They also have well-established relationships with owners and operators of department stores and shopping malls in certain major cities in China.

Ke Xiude, the mother of Alfred Chan and Edward Tan, funded and established PCD Zhongshan Lu and PCD World Trade in 1998 and 2001, respectively, and these were the first two PCD department stores to be owned and operated by the Chan Family. We commenced operations of PCD Zhongshan Lu on January 1, 2004. PCD Zhongshan Lu was operated by PCD Retail Management from January 1, 2004 to December 31, 2004 and by PCD World Trade (Xiamen) from January 1, 2005 to December 31, 2005. Thereafter, Zhongshan PCD Stores (Xiamen), an entity established in October 2005, assumed operations of PCD Zhongshan Lu. PCD World Trade was previously operated by PCD Stores (Xiamen) under a store cooperation and management agreement with the owner of the premises where PCD World Trade is located. On January 1, 2004, we commenced operations of PCD World Trade after PCD Stores (Xiamen) assigned to PCD World Trade (Xiamen) its rights and obligations under the agreement for a term of 10 years commencing on March 28, 2002 and ending on March 27, 2012. Ke Xiude was involved in the textile and rice trading business throughout the 1960’s and 1970’s, and she brought into her

HISTORY AND DEVELOPMENT

business the experience that she attained during this period. She relied on the management skills and knowledge of her sons Alfred Chan and Edward Tan as well as Stephen Doe, her grandson-in-law, for the management of the two PCD department stores. In addition, experienced staff members have been recruited over the years to assist in the management of the department stores business of our Group.

In March 2005, our Group began operating its first store outside of Xiamen, PCD Taiyuan, in Taiyuan. Later that year, in August 2005, we acquired a 95% equity interest in PCD Songbai Department Stores (formerly known as Laiya Department Stores Co. Ltd) and part of the premises of PCD Jiahe in an auction. PCD Jiahe subsequently commenced operations in January 2006.

In August 2005, we obtained a lease from Xiamen Jiutian Real Estate Development Co. Ltd. to lease the premises of PCD Continental. In August 2005, we established PCD Continental Department Stores to manage PCD Continental, and PCD Continental subsequently commenced operations in September 2005.

During the Track Record Period, we embarked on a rapid expansion plan which resulted in the acquisition of the property on which PCD Qingdao is located in October 2006. We have also opened four new stores including PCD Qingdao, PCD Changchun, Scitech Plaza and PCD Nanning since January 1, 2006. PCD Qingdao commenced operations on October 9, 2006, and PCD Changchun commenced operations on December 1, 2006. Scitech Plaza, a well-known shopping center in Beijing and a primary generator of our revenue and net profit during the Track Record Period, commenced operations on July 1, 2007. PCD Nanning commenced full operations in January 2008.

On August 10, 2007, as part of our strategy of adding new stores in prime locations to our network, we acquired the entire equity interest in Xian Century Changan Property Investment, which holds title to certain parts of the Xian Changan Metropolis Center, a prime department store property located on Nanguanzheng Street in Xian and the premises where PCD Xian is now located. We then granted a lease to Mei Mei on the above premises and entered into a cooperation agreement to provide management consultancy services in relation to PCD Xian. On January 13, 2008, we acquired the land use rights in respect of a parcel of land located adjacent to PCD Xian and subsequently entered into an agreement to arrange for the development and construction of a retail complex with a building area of no less than 45,000 sq.m. located on the acquired parcel of land. For further details, please refer to “Our Business — Our Managed Store Operations — Xian Phase II”.

In addition, we commenced the provision of management consultancy services to five new stores in Guizhou province, namely, Zunyi Guomao and Guizhou Guochen in October 2008, and Guiyang Guomao, Guiyang Nanguo Huajin and Guomao Liupanshui on January 1, 2009. We also expanded into the outlet mall business and began to provide management consultancy services to the Beijing Scitech Premium Outlet Mall on July 1, 2009, an outdoor mall located within the prestigious villa area along Xiangjiang Bei Road in Chaoyang district of Beijing. Currently, we are studying plans to enter into the outlet mall business in other cities in China. As of June 30, 2009, we carried over 1,600 brands in our self-owned department stores.

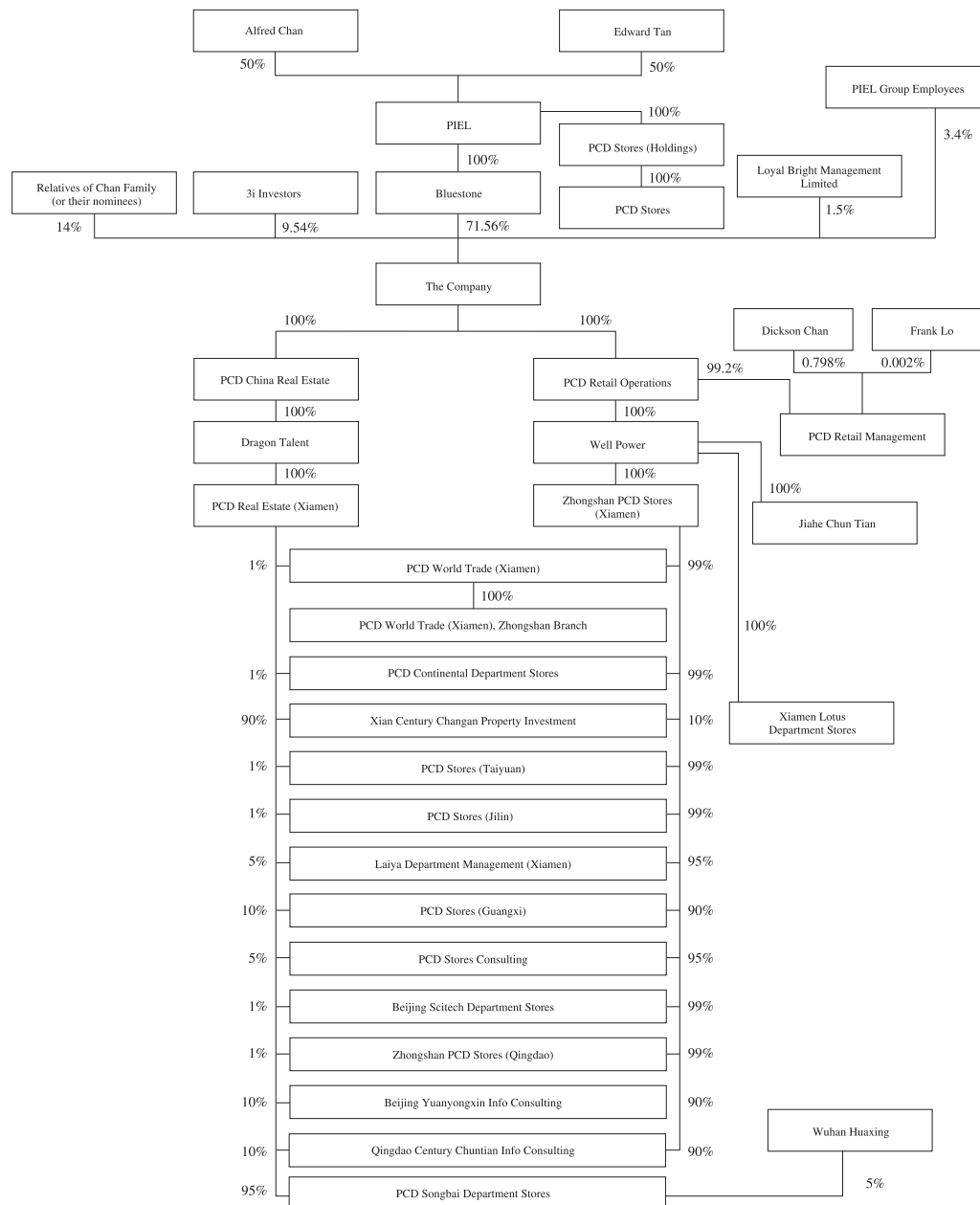
HISTORY AND DEVELOPMENT

As at the Latest Practicable Date, we operate or provide management consultancy services to sixteen stores and one outlet mall in Beijing and seven provinces in China. Among these, nine are our self-owned stores and we provide management consultancy services to the remaining seven department stores and one outlet mall. Our self-owned store operations include eight “PCD” branded department stores and one “Scitech” branded department store. Our managed store operations include one store in Xiamen, one store in Xian, five in the Guizhou province and one outlet mall in Beijing. Our managed stores in Xiamen and Xian are “PCD” branded stores that use the “Fleur de Lys” logo. The Beijing Scitech Premium Outlet Mall also uses the “Fleur de Lys” logo. Guiyang Guomao and Guiyang Nanguo Huajin are in the process of rebranding and we expect these stores to start using the “Fleur de Lys” logo. Our other managed stores do not use the “Fleur de Lys” logo. Four of the seven department stores and one outlet mall to which we provide management consultancy services are operated by connected persons of our Group and the remaining three managed stores are operated by Independent Third Parties.

Full details of the Background and the Reorganization are set out under their respective headings in Appendix VII to this document.

HISTORY AND DEVELOPMENT

The corporate structure of our Group as at the Latest Practicable Date was as follows:



- (1) Loyal Bright Management Limited is a company held as to 100% by Liu Zhi Hui, a former employee of the PIEL Group. Liu Zhi Hui, who resigned in February 2009, has continued to provide consultancy services to the PIEL Group as well as other companies controlled by our Controlling Shareholders. On November 15, 2007 and February 7, 2009, Bluestone transferred Shares that it owned in our Company to Loyal Bright Management Limited for nil consideration in acknowledgement of the former employee's previous contribution to the PIEL Group.

HISTORY AND DEVELOPMENT

- (2) On November 5, 2009, Bluestone transferred Shares that it owned in our Company to Milmore Investments Limited and Sandoval International Limited, companies which are owned by the PIEL Group Employees.
- (3) Save for their shareholding in PCD Retail Management, Dickson Chan and Frank Lo are Independent Third Parties unrelated to our Group, its directors, senior management, shareholders and their respective associates.

OUR BUSINESS

OVERVIEW

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

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

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

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

OUR BUSINESS

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

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

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

OUR COMPETITIVE STRENGTHS

We believe the following are our key competitive strengths:

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

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

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

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

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

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

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

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

Prime store locations with long-term market growth potential

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

OUR BUSINESS

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

Excellent customer service and loyal customer base

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

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

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

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

OUR STRATEGIES

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

OUR BUSINESS

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

Continuing expansion through developing new flagship stores in prime locations

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

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

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

Driving operational improvements to achieve full potential at existing sites

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

Expanding flagship stores

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

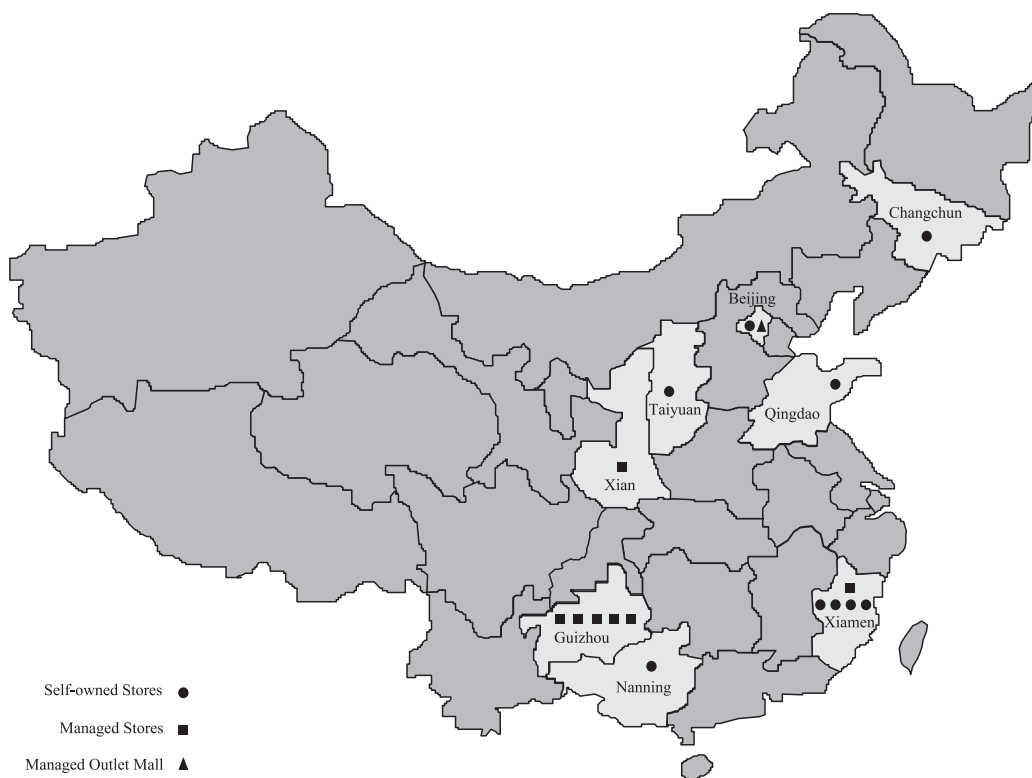
OUR BUSINESS

Entering into outlet mall business

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

OUR STORE NETWORK

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



OUR BUSINESS

Our Self-Owned Store Operations

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

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

Notes:

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

OUR BUSINESS

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

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

OUR BUSINESS

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

Notes:

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

OUR BUSINESS

PCD Zhongshan Lu

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

PCD World Trade

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

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

PCD Taiyuan

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

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

OUR BUSINESS

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

PCD Continental

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

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

PCD Jiahe

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

PCD Qingdao

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

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

PCD Changchun

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

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

Scitech Plaza

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

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

OUR BUSINESS

Since the addition of the store to our network in 2007, we have upgraded Scitech Plaza from a mid-market shopping center with mostly domestic brands into a department store targeting the high-end market. We phased out certain then-existing concessionaires in favour of concessionaires selected by us and renovated the store. Renovations of Scitech Plaza were completed in the first half of 2008 and new international brands such as Burberry and Armani Collezioni commenced operations since then. Scitech Plaza has been granted the  trademark and PCD's VIP programs have been implemented.

PCD Nanning

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

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

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

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

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

OUR BUSINESS

Our Managed Store Operations

In addition to our self-owned store operations, we also provide management consultancy services to seven department stores and one outlet mall. Pursuant to the management contracts, we are entitled to receive management fees calculated based upon a fixed management fee and/or an agreed percentage of the relevant store or outlet mall’s gross sales proceeds. The gross sales proceeds are collected by the relevant operators of the department stores. Based on the relevant management contract terms, we then receive an agreed management fee from the operators of the relevant department stores. As part of our expansion strategy, we seek out stores which would suit our business strategies and integration plan. After a store with growth potential is identified, we would discuss the potential of integration with the store’s operator. In order for us to thoroughly and diligently evaluate the store, we may seek to provide management consultancy services to the store under a management agreement for a certain period of time. If, during or at the end of the term of the management agreement, we believe that the store is suitable for integration into our self-owned store network, we would seek to negotiate with the operator in respect of the terms of integration.

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

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

Store	Term of management contract	City	Fee structure	Signing parties	Owner of the property	Approximate gross floor area (sq.m.)
Xiamen Shengming Laiya ⁽¹⁾ . . .	January 5, 2006–December 31, 2009 (terminated in March 2009)	Xiamen	Fixed fee plus percentage of the managed store’s gross revenue	Xiamen Shengming Laiya Laiya Department Management (Xiamen)	Xiamen SM Commercial Town Co., Ltd. (廈門SM商業城有限公司) ⁽⁷⁾	N/A
New Age Laiya ⁽¹⁾ . . .	April 1, 2006–March 31, 2011 (terminated in March 2009)	Xiamen	Fixed fee plus percentage of the managed store’s gross revenue	Xiamen Jintongcheng Properties Development Co. Ltd. (廈門金同成置業發展有限公司) Laiya Department Management (Xiamen)	Xiamen Jintongcheng Properties Development Co., Ltd. (廈門金同成置業發展有限公司) ⁽⁷⁾	N/A

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

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

Notes:

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

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

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

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

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

PCD Xian

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

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

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

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

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

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

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

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

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

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

Xian Phase II

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

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

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

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

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

Guizhou stores

Guiyang Guomao

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

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

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

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

Guiyang Nanguo Huajin

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

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

Guomao Liupanshui

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

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

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

Guizhou Guochen

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

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

Zunyi Guomao

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

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

PCD Ruijing

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

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

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

Beijing Scitech Premium Outlet Mall

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

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

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We have been granted an option by LDP Management Limited, a company beneficially owned by the Chan Family, to acquire its interests in Even Time for a consideration equal to the lower of (i) the costs of investment incurred by our Controlling Shareholders in Even Time and (ii) the prevailing market value of Even Time as determined by an independent firm of international valuers. See “Relationship with Our Ultimate Controlling Shareholders and Connected Transactions — Beijing Scitech Premium Outlet Mall”. However, there is no guarantee that we will exercise the Outlet Mall Option.

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

RECENT DEVELOPMENT

Shandong Outlet Mall

We are reviewing a site in Shandong province and are conducting a study together with the owner of the land use rights for the site, an Independent Third Party, on the feasibility of establishing an outlet mall on this site. Pursuant to the consultancy services agreement, we have agreed to provide consultancy services to the owner of the site, including assisting in market and feasibility studies, the establishment of the proposed outlet mall, coordination relating to human resources, training, interior design, liaising with brand owners and information technology, in consideration for a consultancy fee of RMB300,000 per year. The consultancy services agreement has a term of five years commencing from October 16, 2009, and it may be terminated by either party on the payment of RMB500,000 by the party terminating the contract to the other party. During the term of the consultancy services agreement, we will have the flexibility of seeking to renegotiate the terms of our involvement in this project. In this regard, we may decide to continue to provide consultancy services to the site owner for the remainder of the term of the current agreement, or seek to renegotiate with the site owner to operate the outlet mall directly or to provide management and consultancy services in respect of the outlet mall based on a different scope of services and/or remuneration structure, or enter into some other arrangement altogether with the site owner. Given the above, there is no guarantee that we or the site owner will reach agreement to establish an outlet mall on the site, or that we will operate or manage such outlet mall or otherwise continue to remain involved with this project on a longer term basis.

OUR BUSINESS

OUR MERCHANDISE IN OUR SELF-OWNED STORES

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

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

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

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

International fashion/luxury brands

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

Local fashion brands

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

Jewelry, watches, leather goods and accessories

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

Sportswear and shoes

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

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

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

OUR BUSINESS

Cosmetics

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

Household goods and others

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

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

Merchandising

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

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

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

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

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

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

Sales

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

Concessionaire sales

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

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

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

Terms which generally apply to concessionaires

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

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

Terms which differ for each concessionaire

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

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

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

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

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

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

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

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

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

Direct sales

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

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

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During the three years ended December 31, 2008 and the six months ended June 30, 2009, purchases from our five largest direct sales suppliers together accounted for approximately 75.8%, 82.7%, 81.8% and 79.9%, respectively, of our total purchases. During the same period, the largest direct sales supplier accounted for approximately 23.2%, 28.4%, 27.8% and 24.4%, respectively, of our total purchases.

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

Concessions and sub-leases to complementary businesses

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

Customers

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

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

STORE MANAGEMENT AND OPERATIONS

Corporate Headquarters

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

Stores

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

OUR BUSINESS

MARKETING AND PROMOTION

Promotions

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

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

Customer Loyalty Program

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

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

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

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

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

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

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

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

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

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

Customer service

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

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

PCD and Scitech Premium Outlet websites

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

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

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

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Prepaid gift cards

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

Co-branded credit cards

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

INFORMATION TECHNOLOGY

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

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

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

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

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

QUALITY ASSURANCE

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

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

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

INVENTORY MANAGEMENT

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

CASH MANAGEMENT

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

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

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

EMPLOYEES

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

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

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

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

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

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

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

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

Training

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

INSURANCE

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

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

OUR BUSINESS

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

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

PROPERTIES

Self-Owned Stores

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

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

Note:

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

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PCD Zhongshan Lu

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

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

PCD World Trade

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

PCD Taiyuan

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

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

PCD Continental

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

PCD Jiahe

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

PCD Qingdao

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

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

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

PCD Changchun

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

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

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

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

Scitech Plaza

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

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

PCD Nanning

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

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

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

Managed Stores

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

Xian Changan Metropolis Center

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

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Titles and Registrations

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

Leased premises without lease registration

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

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

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

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

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Owned properties without building ownership certificates

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

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

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

Leased premises with lease registration which lack building ownership certificates

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

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

Leased premises without lease registration which lack building ownership certificates

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

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

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1. *Changchun Property*

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

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

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

2. *Level 7 of PCD Continental*

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

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

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

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

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

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

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

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

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

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

OUR BUSINESS

Location	Lessor	Lessee	Size (sq.m.)	Building Ownership Certificate	Lease Registration

Leased properties where the lessor does not have building ownership certificate but there should be no legal impediments against the obtaining of such certificates or the legal owner or purchaser of the leased property has granted to lessor to lease out

Level 1 to 5, Hangyang International Commercial Centre, 131 Minzu Da Road, Nanning	Guangxi Oriental Hangyang Investment Group	PCD Stores (Guangxi)	20,108	No	Yes

Leased properties where the lessor has building ownership certificates and has a right to sub-lease

Part of level 4 and level 5, block 2, 1055 Gongnong Dalu, Chaoyang District, Changchun	Jilin Ji Chun Industrial and Trading Co. Ltd. (Legal owner: Changchun City Development (Group) Co., Ltd.)	PCD Stores (Jilin)	5,671	Yes	Lease registration not necessary according to local authority

Leased properties where the lessor has a right to sub-lease but the transfer of the building ownership certificates is not yet completed

Levels 1 to 3 and part of level 4, block 2, 1055 Gongnong Dalu, Chaoyang District, Changchun	Jilin Ji Chun Industrial and Trading Co. Ltd. (Purchaser of property: Jilin Shidai Department Co. Ltd.)	PCD Stores (Jilin)	11,868	Yes	Lease registration not necessary according to local authority
Basements, Block 2, 1055 Gongnong Dalu, Chaoyang District, Changchun	Block 2: Purchaser of property: Jilin Shidai Department Co. Ltd.	PCD Stores (Jilin)	2,705	Yes	Lease registration not necessary according to local authority

Leased properties where the lessor has building ownership certificates but descriptions within are unclear

Basements, Block 1, 1055 Gongnong Dalu, Chaoyang District, Changchun	Block 1: Jilin Ji Chun Industrial and Trading Co. Ltd.	PCD Stores (Jilin)	2,904	Yes	Lease registration not necessary according to local authority

Total:	<u>43,256</u>

Leased properties where the lessor does not have building ownership certificate and there is impediment against obtaining the certificate

Level 7, Dalu Commercial Building, 65–81 Siming South Road, 193–215 Zhongshan Road, Siming District, Xiamen	Xiamen Jiutian Real Estate	PCD Continental Department Stores	1,500 ⁽¹⁾	No	No

Grand total of area of leased properties:

147,245

Grand total of area of owned and leased properties:

219,174

Notes:

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

OUR BUSINESS

INTELLECTUAL PROPERTY

Our use of trade names

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

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

Trademark registration in PRC

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

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

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

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

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

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

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

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

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

Registration of the authorization agreements

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

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

OUR BUSINESS

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

Other intellectual property rights

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

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

Third-party intellectual property rights and infringement claims

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

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

COMPETITION

The retail industry, and particularly, the department store sector, is highly competitive in China. We face competition from national and international operators of department stores, wholesale markets, hypermarkets, convenience stores, specialty retailers, discount stores, small retail shops, and other retail sites and forms of retail business in the areas in which we currently operate or into which we plan to enter. Our key competitors are other local and foreign department stores in the cities in which we operate that offer a similar range of merchandise at similar price points as us. Some of our concessionaires may operate their own flagship stores in the cities where we have self-owned stores or managed stores, and we may face competition from these flagship stores.

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

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

OUR BUSINESS

LEGAL COMPLIANCE AND LITIGATION

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

MOFCOM requirements

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

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

Customer Loyalty Programmes and Pre-paid Gift Cards

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

As advised by our PRC legal advisers, the State Economic and Trade Commission (國家經濟貿易委員會), Office of Correcting Industrial Improper Practice at the State Council (國務院糾正行業不正之風辦公室) and People’s Bank of China jointly promulgated Emergency Notice on Prohibition of Issuing and Using Tokens (or Token Cards) (關於嚴禁發放使用各種代幣券(卡)的

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

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

As of the Latest Practicable Date, all of our self-owned stores issued prepaid gift cards. Our PRC legal advisers are of the view that by offering prepaid gift cards, we may not be in compliance with the requirements under the Emergency Notice. Up to the Latest Practicable Date, our Directors are not aware of any administrative actions having been taken by the relevant authority against us in respect of such non-compliance.

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

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

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

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If the Emergency Notice is enforced with regards to our self-owned stores in Beijing, Taiyuan, Changchun, Qingdao and Nanning, the People’s Bank of China may order us to stop issuing prepaid gift cards, and we may also need to repurchase all outstanding prepaid gift cards and return to customers the unused amount. The outstanding balance of prepaid gift cards issued by our self-owned stores totalled approximately RMB25.9 million, RMB128.4 million, RMB147.6 million and RMB152.4 million, respectively, as of December 31, 2006, 2007, 2008 and June 30, 2009. In such a case, our Directors undertake to ensure that our Group will have sufficient financial resources to repurchase all outstanding prepaid gift cards within the prescribed period of time for repurchase under the requirements of the relevant PRC governmental authorities. If we were required to repurchase any outstanding prepaid gift cards, this may have an adverse effect on our cash flow position. In addition, with regards to prepaid gift cards issued by our self-owned stores in Xiamen prior to their registration and those issued by our self-owned stores in Beijing, Taiyuan, Changchun, Qingdao and Nanning, the People’s Bank of China may order us to cancel all outstanding prepaid gift cards and our PRC legal advisers have advised us that the People’s Bank of China may impose a maximum aggregate fine of up to RMB1,800,000 on the Group on the basis of its fine of RMB200,000 per operating entity.

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

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

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

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In addition, our Controlling Shareholders have undertaken to indemnify us against any costs and penalties that we may suffer due to any breach of the applicable PRC laws and regulations regarding the issuance of the prepaid gift cards.

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

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

Intra-group lending

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

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

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

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

Compliances with other laws and regulations

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

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

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

OUR BUSINESS

Legal proceedings

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

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

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

OUR BUSINESS

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

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

RELATIONSHIP WITH OUR ULTIMATE CONTROLLING SHAREHOLDERS AND CONNECTED TRANSACTIONS

BACKGROUND OF OUR CONTROLLING SHAREHOLDER GROUP

Our Controlling Shareholders engage in a wide range of businesses. Alfred Chan and Edward Tan together have a controlling interest in PDL, which is a vertically integrated international fashion and luxury goods company with its own design, manufacturing, marketing, distribution and retail capabilities. The shares of PDL are listed on the Stock Exchange. Alfred Chan and Edward Tan and their respective immediate family members are the owners of 85% of the equity interest in Scitech Group, which is the owner of Scitech Plaza and Scitech Complex, and is in the business of the operation of hotels, office towers, shopping centre (excluding Scitech Plaza), amusement facilities, clubs and conferences located at the Scitech Complex. Other businesses engaged by our Controlling Shareholder Group include the investment and ownership of properties and property development.

As part of our Controlling Shareholders are interested in business which are involved in property investment and development, pursuant to a pre-emptive right agreement dated November 29, 2009, our Controlling Shareholders have granted us a right of first refusal to lease to us retail properties owned by them or which are intended to be acquired by them (whether through Beijing Chuntian Real Estate) which are available and suitable for the operation of department stores on terms which are at or no less favourable than the prevailing market rate and terms. The exercise or non-exercise of the right of first refusal will be subject to the approval of our independent non-executive Directors and our compliance with the requirements under Chapter 14A of the Listing Rules.

Our Controlling Shareholders will continue to operate four department stores and one outlet mall as described in this section and continue to hold the interests as set out in this section. The reasons for our Controlling Shareholder Group’s operation of the four department stores and the outlet mall and holding of other interests in projects relating to the operation and development of department stores and outlet malls are further described in the section headed “— Our Excluded Stores and Projects”.

OUR EXCLUDED STORES AND PROJECTS

Bund Project

Summary

PCD China Ventures is a company incorporated in the British Virgin Islands on May 13, 2008 and is a wholly-owned subsidiary of Double Eight Enterprises Limited, a company indirectly wholly-owned by the Chan Family. Other than its interest in PCD China Ventures, Double Eight Enterprises Limited does not have any interest in other companies or businesses. PCD China Ventures is an investment holding company. Pursuant to a joint venture agreement on July 5, 2008, PCD China Ventures holds a 51% interest in Roosevelt PCD, a company which is proposed to provide management and consultancy services to RSR WFOE for an agreed management fee in relation to a department store, which is proposed to be situated at No. 27 Zhongshan Dongyi Road, Shanghai and No. 31–91, Beijing East Road, Shanghai (the “Bund Project”). The remaining 49% interest in Roosevelt PCD is held by RCI, an entity controlled by RCC, which is party to the joint venture agreement. PCD China Ventures also holds a 10%

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interest in RCC. RCI is the controlling shareholder of RSR, which in turn is the 100% shareholder of RSR WFOE, the proposed operator of the Bund Project, who will assume the profits and losses of the department store. The remaining 90% interest in RCC is held equally as to 45% by such two Independent Third Parties. PCD China Ventures’ investment in RCC is only passive and PCD China Ventures does not actively participate in the business of RCC. RSR is expected to provide the premises at which the department store will be operated (whether through ownership or leasing). The premises at which the department store will be operated is in the process of extensive renovation in order to convert it into a high-end and luxury department store.

Reasons for exclusion

Although terms relating to the establishment of RSR, Roosevelt PCD and RSR WFOE have been settled, the parties are still involved in negotiations in relation to the terms over the development of the Bund Project, which include but are not limited to the naming rights of the Bund Project, the proposed allocation of costs to between the parties involved, the brands to be used in relation to the Bund Project, and the relevant terms of the lease for the store premises. We commenced such negotiations with various Independent Third Parties around the third quarter of 2008. As the process requires participation from and agreement among a number of Independent Third Parties, the progress of finalizing the definitive agreement has been complex and, in part due to the economic conditions in 2008 and 2009, involved lengthy and protracted discussions between the parties. The definitive agreements will need to be entered into by all stakeholders, which include RCI, RCC, the Chan Family, the state-owned or controlled corporations that own the property where the Bund Project is proposed to be situated. Accordingly, as of the Latest Practicable Date, no agreement has been reached by the parties on these aspects. Accordingly, the interest in PCD China Ventures has not been included in our Group. Finalization of the remaining terms of the Bund Project requires further negotiation and agreement among a number of Independent Third Parties and there is no assurance that such terms can be settled on the Bund Project.

Bund Option

Pursuant to an option agreement dated November 29, 2009, Double Eight Enterprises Limited has granted us an option to acquire all of its shares in PCD China Ventures for a consideration that equals the lower of (i) the cost of investment incurred by our Controlling Shareholders in PCD China Ventures and (ii) the prevailing fair market value of PCD China Ventures as determined by an independent firm of international valuers (the “Bund Option”).

We will exercise the Bund Option as soon as practicable upon the finalisation of all the definitive agreements relating to the Bund Project and, in any event, prior to the commencement of the proposed operation of the department store at the premises of the Bund Project. Upon the finalization of all definitive agreements relating to the Bund Project, Double Eight Enterprises Limited will serve us a notice (the “Bund Notice”). Our exercise will also be subject to the approval by our independent non-executive Directors and our compliance with the provisions of Chapter 14A of the Listing Rules. In order to assist our independent non-executive Directors in making an informed decision, upon receiving the Bund Notice, we will appoint an independent financial adviser to advise our independent non-executive Directors in relation to whether to

RELATIONSHIP WITH OUR ULTIMATE CONTROLLING SHAREHOLDERS AND CONNECTED TRANSACTIONS

exercise the Bund Option. In addition, Double Eight Enterprises Limited has agreed to keep us informed every six months as regards the progress of the finalization of the definitive agreements. We will include such progress in our interim report and annual report in order to keep our shareholders fully and timely informed.

As at the Latest Practicable Date, the Bund Project is at a preliminary stage and operations have not commenced. Our Group is currently in discussion with various Independent Third Parties in relation to the Bund Project and there remains outstanding terms to be agreed by all parties involved. As the parties are still involved in negotiations in relation to the Bund Project, it is therefore difficult to predict the length of time required to complete the negotiations and finalize the terms of the Bund Project, and accordingly, the commencement date of the Bund Project by our Group. As our Group currently does not operate or manage any department stores in Shanghai, our Directors believe that there is currently no direct competition between the Bund Project and the business of our Group and given that we will, subject to the approval of our independent non-executive Directors and our compliance with the requirements of the Listing Rules, exercise the Bund Option prior to the commencement of the department store to be situated at the premises of the Bund Project, our Directors believe that there will be no actual competition arising from the project. In the event that the Bund Option has not been exercised upon the expiry of its term, such non-exercise will constitute a connected transaction of our Company pursuant to Rule 14A.70(3) of the Listing Rules. Accordingly, our Company will comply with the relevant requirements under Chapter 14A of the Listing Rules.

Beijing Scitech Premium Outlet Mall

Summary

Even Time is a company incorporated in the British Virgin Islands on July 6, 2009 and is 100% held by Jenny Tan, daughter of Edward Tan, on trust for and on behalf of LDP Management Limited, a company held as to 50% each by Alfred Chan and Edward Tan, our Controlling Shareholders. All funding in relation to Even Time has been provided by our Controlling Shareholders. Even Time’s only investment is its 100% indirect interest in Beijing Scitech Outlet Commerce through its wholly-owned subsidiary, Prime Wave Limited, a company incorporated in Hong Kong. Beijing Scitech Outlet Commerce, which was incorporated on February 13, 2009 by our Controlling Shareholders, is the operator of the Beijing Scitech Premium Outlet Mall, which has commenced trial operations in relation to part of its premises in July 2009. Even Time is engaged in the investment in the operation of outlet malls in the PRC. Our Controlling Shareholders have undertaken to procure Even Time and each of its subsidiaries not to engage in any business other than the investment in the operation of Beijing Scitech Premium Outlet Mall. Even Time has also engaged us to provide general outlet services for the payment of RMB3 million per month. Please see section entitled “— Continuing Connected Transactions” for further details.

Pursuant to a sub-lease agreement dated November 12, 2009 entered into by Beijing Chuntian Real Estate and Beijing Scitech Outlet Commerce, Beijing Scitech Outlet Commerce sub-leased the relevant property from Beijing Chuntian Real Estate to operate the Beijing Scitech Premium Outlet Mall for a term of ten years commencing from July 25, 2009. Although Beijing

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Scitech Premium Outlet Mall is targeting a different market segment and offers products which are off-season and thus are different from those offered by Scitech Plaza, the customer-base of these two stores may overlap. Accordingly, our Directors believe there is an element of competition between the Beijing Scitech Premium Outlet Mall and Scitech Plaza. Notwithstanding this, our Directors are of the view that any potential future competition issues will be minimized by virtue of the existence of the management agreement and the grant of the Outlet Mall Option to our Company on the terms described below.

In order to allow us to monitor and assess the operation and performance of the Beijing Scitech Premium Outlet Mall and to facilitate future integration in the event we decide to exercise the option as described below, Even Time entered into a management agreement with us on November 29, 2009, pursuant to which we have agreed to provide management consultancy services to the Beijing Scitech Premium Outlet Mall. Please refer to the section headed “—Continuing Connected Transactions — Management Agreement with Even Time” for further details.

Reasons for exclusion

The interest in Even Time has not been included in our Group because the operation of an outlet mall involves a new business initiative. Our principal business is the operation of department stores in the PRC which have an emphasis on high-end and luxury products. We also provide management consultancy services to various managed stores. Generally, the self-owned stores and the managed stores of the Group are located in prime business districts or shopping areas of the relevant cities.

The Beijing Scitech Premium Outlet Mall is located at Xiangjiang Bei Road in Chaoyang district of Beijing, which, although a prestigious residential area, is located in the suburbs of Beijing, approximately 45 minutes to one hour out of the city centre by car. The Beijing Scitech Premium Outlet Mall is an outlet mall which principally offers off-season merchandise at prices which are typically discounted to the normal retail price of current season merchandise. As a result of the above factors and due to the limited trading history of the Beijing Scitech Premium Outlet Mall, our Directors believe that the operation of the Beijing Scitech Premium Outlet Mall involves a higher level of risk in terms of the success of its operation and business and should be excluded.

Our Controlling Shareholders intend to allow our Group to acquire the interest in Even Time or its 100% intermediate holding company through an option once the operation of Beijing Scitech Premium Outlet Mall is well established. Even Time’s only investment is its 100% indirect interest in Beijing Scitech Outlet Commerce. This, we believe, would allow us to be equipped with the relevant experience in the operation and management of an outlet mall and minimise the operating and financial risks that Beijing Scitech Premium Outlet Mall would otherwise have on our Group during the early stage of the operation of Beijing Scitech Premium Outlet Mall. Beijing Scitech Premium Outlet Mall commenced trial operations in relation to part of its premises in July 2009 and is expected to commence full operations on or around February 2010.

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Outlet Mall Option

Pursuant to an option agreement dated November 29, 2009, LDP Management Limited has granted us an option to acquire its interest in Even Time for a consideration equal to the lower of (i) the costs of investment incurred by our Controlling Shareholders in Even Time and (ii) the prevailing market value of Even Time as determined by an independent firm of international valuers (the “Outlet Mall Option”). Our Company will exercise the Outlet Mall Option as soon as practicable upon verification that Even Time has achieved a net profit for two consecutive financial years as shown in its audited financial statements at which time, Even Time will serve us a notice (the “Outlet Mall Notice”). Our exercise will be subject to the approval by our independent non-executive Directors and our compliance with the provisions of Chapter 14A of the Listing Rules. We will also be entitled to exercise the Outlet Mall Option at any time during the term of the option even if the above profit requirement has not been satisfied through our right to waive such profit requirement. We will do so if our Directors believe that it is in our interests, subject to the approval by our independent non-executive Directors and our compliance with the provisions of Chapter 14A of the Listing Rules. In order to assist our independent non-executive Directors in making an informed decision, upon receiving the Outlet Mall Notice, we will appoint an independent financial adviser to advise our independent non-executive Directors in relation to whether to exercise the Outlet Mall Option.

Subject to the success of the Beijing Scitech Premium Outlet Mall and the Shenyang Outlet Mall, it is our intention to become the operator of future outlet mall businesses and our Controlling Shareholders will focus on the real estate development and ownership aspects of outlet mall projects. Please refer to the section “— (ii) General outlet services agreement with LDP Management Limited” for further details relating to the services provided by our Group and the collaboration between our Group and our Controlling Shareholders Group in respect of new outlet mall projects.

Guiyang Guomao, Guomao Liupanshui and Guiyang Nanguo Huajin

Summary

Guangchang is a company incorporated in the PRC on December 14, 2001 and is held as to 51% by Gain Win Limited, and 49% by five individuals, namely Tang Ya, Huang Zheng Wu, Wang Run Sheng, Xie Xiang Chun and Zhang Chong Xin, all of whom are Independent Third Parties. Gain Win Limited is a wholly-owned subsidiary of Goal Gain Investments Limited, which is held as to 100% by Jacqueline Tan, daughter of Edward Tan, on trust for and on behalf of LDP Management Limited, a company held as to 50% each by Alfred Chan and Edward Tan, our Controlling Shareholders. Our Controlling Shareholders acquired its interest in Guangchang in April 2007. As at the Latest Practicable Date, all funding in relation to Goal Gain Investments Limited was provided by our Controlling Shareholders. The Controlling Shareholders also provide funding to Guangchang for establishing, and as working capital for, Guiyang Nanguo Huajin and Guomao Liupanshui, which were acquired in May 2009 and March 2009, respectively. Guiyang Nanguo Huajin and Guomao Liupanshui commenced operations in September 2008 and January 2008 respectively. Gain Win Limited also directly holds 25% interest in each of Guiyang Nanguo Huajin Department Stores Limited, the operator of Guiyang Nanguo Huajin, and Liupanshui

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Guomao Guangchang Chun Tian Department Stores Limited, the operator of Guomao Liupanshui. We commenced the provision of management consultancy services to Guiyang Guomao, Guiyang Nanguo Huajin and Guomao Liupanshui on January 1, 2009.

As at the Latest Practicable Date, Guangchang is the operator of Guiyang Guomao, which commenced operations in 2002 and remained in operation when our Controlling Shareholders acquired its interest in Guangchang in April 2007. Guangchang holds the title to part of the property on which Guiyang Guomao is situated and leases from an Independent Third Party the remaining part of the property. In addition, Guangchang also holds 51% interest in each of Guiyang Nanguo Huajin Department Stores Limited and Liupanshui Guomao Guangchang Chun Tian Department Stores Limited. As our Group has no self-owned store in the Guizhou province, we do not believe such stores compete directly with any of our self-owned stores.

In respect of the two independently managed stores which are situated in Guiyang, namely Guizhou Guochen and Zunyi Guomao, although we believe that these two stores target a different segment of customers compared to the customers of Guiyang Guomao, Guiyang Nanguo Huajin and Guomao Liupanshui, there may exist competition between Guiyang Guomao, Guiyang Nanguo Huajin and Guomao Liupanshui and Guizhou Guochen and Zunyi Guomao.

In order to minimize any potential future competition issues and to protect the interests of our Group, Guangchang entered into a master management agreement with us on November 29, 2009, pursuant to which we have agreed to provide management consultancy services in respect of Guiyang Guomao, Guiyang Nanguo Huajin and Guomao Liupanshui, and granted the Guangchang Option to us on the terms described below. We believe the master management agreement will allow us to monitor and assess the operation and performance of Guiyang Guomao, Guiyang Nanguo Huajin and Guomao Liupanshui, and also facilitate future integration of the operation of such stores into our Group in the event we decide to exercise the Guangchang Option as described below. Please refer to the section headed “— Continuing Connected Transactions — Master Management Agreement with Guangchang” for further details.

Reasons for exclusion

Our Controlling Shareholders’ interest in Guangchang and Gain Win Limited’s interest in Guiyang Nanguo Huajin Department Stores Limited and Liupanshui Guomao Guangchang Chun Tian Department Stores Limited have not been included in our Group because Guangchang, Guiyang Nanguo Huajin Department Stores Limited and Liupanshui Guomao Guangchang Chun Tian Department Stores Limited (collectively, the “Guangchang Group”) carry on other businesses which are not related to those carried on by our Group, including construction and media advertising. As such, our Controlling Shareholders do not believe that inclusion of their interest in Guangchang, Gain Win Limited and Goal Gain Investments Limited in our Group is appropriate.

In that regard, as part of the arrangement with the remaining equity holders of Guangchang in 2007 which are reflected in the sino-foreign joint venture agreement entered into on May 10, 2007 in respect of Guiyang Guomao PCD, it was agreed that a sino-foreign joint venture, to be named “Guiyang Guomao PCD”, would be established by Zhongshan PCD Stores (Xiamen), our Company’s indirect wholly-owned subsidiary, and Guangchang. Pursuant to the joint venture

RELATIONSHIP WITH OUR ULTIMATE CONTROLLING SHAREHOLDERS AND CONNECTED TRANSACTIONS

agreement, Zhongshan PCD Stores (Xiamen) shall contribute 51% of the registered capital of Guiyang Guomao PCD, which amounts to RMB8.16 million, and Guangchang shall contribute the remaining 49% which amounts to RMB7.84 million. The joint venture agreement provides that the term of the joint venture shall be 40 years from the date of the joint venture agreement, the renewal of which shall be reviewed six months prior to the expiry of the term. The joint venture agreement further provides for the powers and responsibilities of the board, the supervisory committee and the operation management team of Guiyang Guomao PCD. According to the joint venture agreement, the board of Guiyang Guomao PCD shall be comprised of 7 directors, 4 of which shall be nominated by Zhongshan PCD Stores (Xiamen) and 3 of which shall be nominated by Guangchang. In addition, the joint venture agreement stipulates that each equity holder shall be granted a right of first refusal to purchase the interest of the other equity holder in Guiyang Guomao PCD in the event a transfer to a third party is contemplated. Each equity holder also has pre-emptive rights over third parties in relation to any future capital injection into Guiyang Guomao PCD.

Upon the incorporation of Guiyang Guomao PCD, Zhongshan PCD Stores (Xiamen) will own 51% interest in Guiyang Guomao PCD and Guangchang will own the remaining 49%. As Gain Win Limited, a connected person of our Company, currently holds 51% equity interest in Guangchang, Guiyang Guomao PCD will be a connected person of our Company. Accordingly, our Company will comply with the relevant requirements under Chapter 14A of the Listing Rules in respect of any transaction between our Company and Guiyang Guomao PCD. We have made an application regarding the establishment of Guiyang Guomao PCD and the relevant PRC regulatory approvals for it to operate the three stores in November 2009 and we are in the process of obtaining such approvals. Please refer to “Our Business — Our Managed Store Operations — Guizhou stores — Guiyang Guomao” for further information.

Upon the establishment of Guiyang Guomao PCD and the obtaining of the necessary PRC regulatory approvals for it to operate department stores in the PRC, including the approval of the provincial level of the Ministry of Commerce (“MOC”) under Measures of Administrations of Foreign Investment in Commercial Sector (外商投資商業領域管理辦法) which took effect from June 1, 2004 (the “New Commercial Enterprise Measures”), it is the intention of our Controlling Shareholders and our Group for Guiyang Guomao PCD to become the operator of Guiyang Guomao, Guiyang Nanguo Huajin and Guomao Liupanshui. This arrangement will allow us to segregate the department store operations of Guiyang Guomao, Guiyang Nanguo Huajin and Guomao Liupanshui from the remaining businesses and assets of Guangchang, Guiyang Nanguo Huajin Department Stores Limited and Liupanshui Guomao Guangchang Chun Tian Department Stores Limited, such as construction and media advertising, which are neither complimentary nor related to the businesses of our Group, and enable the five minority equity holders of Guangchang to retain an indirect interest in Guiyang Guomao PCD. Our Group is unable to operate Guiyang Guomao, Guiyang Nanguo Huajin and Guomao Liupanshui until the approval of the provincial level of the MOC issued under the New Commercial Enterprise Measures is obtained.

The operations of Guiyang Guomao, Guiyang Nanguo Huajin and Guomao Liupanshui have been excluded from the Group pending the establishment of Guiyang Guomao PCD and the obtaining of the relevant PRC regulatory approvals, including the approval of the provincial level of the MOC. Our PRC legal advisers have opined that there exists no legal impediment in the

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obtaining of the above approval of the provincial level of the MOC. Although we do not have control over the regulatory process, our Directors estimate that we should be able to obtain the approval of the provincial level of the MOC by no later than 3 years from the date of this document based on the Company’s past experience. We will use our reasonable endeavours to obtain the approval of the provincial level of the MOC within the 3 year time frame.

Guangchang Option

We intend to operate Guiyang Guomao, Guiyang Nanguo Huajin and Guomao Liupanshui through the establishment of new department store operations by Guiyang Guomao PCD at the premises which are currently occupied by the three stores (the “**Guangchang Premises**”). To facilitate this, we intend to secure the occupation of the Guangchang Premises by entering into leases in respect thereof. We will also recruit suitable employees, including both new staff and existing employees of the Guangchang Group, for the operation of the three stores. We will enter into new concessionaire agreements with concessionaires which are commensurate with the marketing position of the stores. This will also allow us to exclude other businesses of the Guangchang Group, such as construction and media advertising, which are neither complimentary nor related to the businesses of our Group, as such businesses will be retained by the Guangchang Group. We further believe that this will allow Guiyang Guomao PCD to assume the operation of the department stores at the Guangchang Premises in a quick manner.

In that regard, on November 29, 2009, Guangchang has granted us an option (the “**Guangchang Option**”). The Guangchang Option gives us the right to:

- require Guangchang to grant us a lease for a term of 10 years at no more than prevailing market rate in relation to the part of the premises which are occupied by Guiyang Guomao and in relation to the store premises on which Guiyang Nanguo Huajin operates, both of which are owned by Guangchang; and
- require the Guangchang Group to sub-lease or procure the sub-leasing to us for terms no less favourable to the relevant existing head leases or assign their rights under such head leases in respect of the remaining part of the premises which are occupied by Guiyang Guomao and the premises which are occupied by Guomao Liupanshui, both of which the Guangchang Group leases from Independent Third Parties.

The exercise of the Guangchang Option will be at the payment of prevailing fair market value of the leases or sub-leases as determined by an independent firm of international valuers. The Group will be required to pay rent according to the terms of the relevant leases and sub-leases.

In addition, the Guangchang Option also gives us the right to, if we find it appropriate for the operation of the three stores:

- require the Guangchang Group to sell to us fixtures and fittings at the Guangchang Premises at prevailing fair market value;

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- require the Guangchang Group to use reasonable endeavours to assign to us their operating rights and their rights under the concessionaire agreements in relation to the three stores at nil consideration; and
- require the Guangchang Group to sell to us all or part of the inventories owned by the Guangchang Group at prevailing fair market value.

If any of the employees of the Guangchang Group will be employed by us, it is our intention to enter into new employment contracts directly with them. Apart from the above, we do not require the transfer from the Guangchang Group any other assets for our operation of the three stores.

We will exercise the Guangchang Option as soon as practicable upon the establishment of Guiyang Guomao PCD and the obtaining by it the relevant PRC regulatory approvals, including the approval of the provincial MOC, to operate Guiyang Guomao, Guiyang Nanguo Huajin and Guomao Liupanshui at which time, Guangchang will serve us a notice (the “Guangchang Notice”). In addition, Guangchang has agreed to inform us every six months on the progress of the approvals. We will include such progress in our interim report and annual report in order to keep our shareholders fully and timely informed. Our exercise will also be subject to the approval by our independent non-executive Directors and our compliance with the provisions of Chapter 14A of the Listing Rules. In order to assist our independent non-executive Directors in making an informed decision, upon receiving the Guangchang Notice, we will appoint an independent financial adviser to advise our independent non-executive Directors in relation to whether to exercise the Guangchang Option.

Guangchang Second Option

After the exercise of the Guangchang Option, Guiyang Guomao PCD is expected to be the operator of Guiyang Guomao, Guiyang Nanguo Huajin and Guomao Liupanshui. Guiyang Guomao PCD will be held as to 49% by Guangchang, which will in turn be held indirectly and beneficially as to 51% by our Controlling Shareholders. It is the intention of our Controlling Shareholders to cease to retain an indirect interest in Guiyang Guomao PCD.

In that regard, on November 29, 2009, LDP Management Limited has granted us the right, on or after our exercise of the Guangchang Option and the completion of the Guangchang Group Restructuring described below, to acquire all of its interest in Goal Gain Investments Limited, the 51% indirect equity holder of Guangchang for a consideration that equals the lower of (i) the cost of investment incurred by LDP Management Limited in relation to Guiyang Guomao PCD; and (ii) the prevailing fair market value of the interest being transferred as determined by an independent firm of international valuers assuming the Guangchang Group Restructuring mentioned below is completed (the “Guangchang Second Option”). As the Guangchang Group carries on other businesses, the Guangchang Group will transfer to other members of the Controlling Shareholder Group all of its businesses and assets other than its interest in Guiyang Guomao PCD (the “Guangchang Group Restructuring”).

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We will exercise the Guangchang Second Option as soon as practicable upon the completion of the Guangchang Group Restructuring subject to the approval by our independent non-executive Directors and our compliance with the provisions of Chapter 14A of the Listing Rules. Based on our experience, we estimate that the Guangchang Group Restructuring will be completed by no later than three years from the date of this document. Upon completion of the Guangchang Group Restructuring, LDP Management Limited will serve us a notice (the “Guangchang Second Notice”). In addition, LDP Management has agreed to inform us every six months from our exercise of the Guangchang Option on the progress of the Guangchang Group Restructuring. We will include such progress in our interim report and annual report in order to keep our shareholders fully and timely informed.

After the exercise of the Guangchang Second Option, Guiyang Guomao PCD will become 100% controlled by our Group (through our indirect wholly-owned subsidiary, Zhongshan PCD Stores (Xiamen)) and our then 51% equity interest in Guangchang. Our aggregate attributable beneficial interest in Guiyang Guomao PCD, however, will be approximately 76% as the 49% equity interest in Guangchang will be retained by the five individuals shareholders of Guangchang, namely Tang Ya, Huang Zheng Wu, Wang Run Sheng, Xie Xiang Chun and Zhang Chong Xin.

PCD Ruijing

Summary

Xiamen Ruijing Chun Tian is a company incorporated in the PRC on July 18, 2007 and is held as to 100% by PCD Stores (Xiamen), the interest of which it acquired from an Independent Third Party in August 2009. Xiamen Ruijing Chun Tian is the operator of PCD Ruijing, which commenced trial operation in September 2007 under the brand of Laiya. It was converted into a “PCD” branded department store in March 2009. Although PCD Ruijing is located approximately 9.7 to 17.1 kilometres away from our other department stores in Xiamen and its main target clientele are local residents who reside in close vicinity of the district in which PCD Ruijing is located, the customer-base between PCD Ruijing and our Group’s stores in Xiamen may overlap. Accordingly, our Directors believe there maybe an element of competition between PCD Ruijing and our Group’s stores in Xiamen. Notwithstanding this, our Directors are of the view that any potential future competition issues will be minimised by virtue of the existence of the management agreement and the grant of the Ruijing Option to our Company on the terms described below. Please refer to the section headed “Our Business — Our Managed Stores — PCD Ruijing” for further details in relation to the management agreement.

Reasons for exclusion

PCD Stores (Xiamen) only acquired 100% interest in Xiamen Ruijing Chun Tian from an Independent Third Party in August 2009, which transfer is subject to the approval of the provincial level of the MOC, the application of which was submitted to the relevant MOC authorities on November 25, 2009. The transfer of PCD Stores (Xiamen)’s 100% interest in Xiamen Ruijing Chun Tian by PCD Stores (Xiamen) to our Group also requires the approval of the provincial level of the MOC. The operation of PCD Ruijing has been excluded from our Group pending the obtaining of such approvals. The interest in Xiamen Ruijing Chun Tian has

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not been included in our Group because without such approvals the Group will not be able to acquire the interest in Xiamen Ruijing Chun Tian. Our PRC legal advisers have opined that no legal impediment was observed by them in connection with the obtaining of the approvals of the provincial level of the MOC. Although we do not have control over the regulatory process, our Directors estimate that, based on our Company’s past experience, the above approvals of the provincial level of the MOC should be obtained by no later than 3 years from the date of this document. Both PCD Stores (Xiamen) and we will use our respective reasonable endeavours to obtain the approvals of the provincial level of the MOC within the 3 year time frame.

Ruijing Option

Pursuant to an option agreement dated November 29, 2009, PCD Stores (Xiamen) has granted us an option to acquire all of their equity interests in Xiamen Ruijing Chun Tian for a consideration that equals the lower of (i) the cost of investment incurred by our Controlling Shareholders in Xiamen Ruijing Chun Tian and (ii) the prevailing fair market value of Xiamen Ruijing Chun Tian as determined by an independent firm of international valuers.

We will exercise the Ruijing Option as soon as practicable upon the obtaining of the approval of the provincial level of the MOC for the transfer of the equity interests in Xiamen Ruijing Chun Tian to our Group at which time, PCD Stores (Xiamen) will serve us a notice (the “Ruijing Notice”). In addition, PCD Stores (Xiamen) has agreed to inform us every six months on the progress of the approvals. Our exercise will also be subject to the approval by our independent non-executive Directors and our compliance with the provisions of Chapter 14A of the Listing Rules. In order to assist our independent non-executive Directors in making an informed decision, upon receiving the Ruijing Notice, we will appoint an independent financial adviser to advise our independent non-executive Directors in relation to whether to exercise the Ruijing Option. In addition, PCD Stores (Xiamen) has agreed to keep us informed every six months as regards the progress of obtaining the relevant approvals in the PRC. We will include such progress in our interim report and annual report in order to keep our shareholders fully and timely informed.

RECENT DEVELOPMENT OF OUR CONTROLLING SHAREHOLDERS

Shenyang Outlet Mall

Our Controlling Shareholders are currently in preliminary discussions with an Independent Third Party in relation to the operation of an outlet mall in Shenyang. Under the proposal being discussed, the project involves the Independent Third Party appointing our Controlling Shareholders or a company controlled by them to operate an outlet mall to be developed in Shenyang (the “Shenyang Outlet Mall”). The Independent Third Party will be responsible for the development and construction of the outlet mall.

If the project materializes, our Controlling Shareholders will first offer the opportunity to operate the outlet mall to us pursuant to the Non-Competition Deed. Any decision on whether or not to accept the offer will be decided by our independent non-executive Directors and in accordance with the provisions of the Listing Rules. If we decide not to accept the offer and our Controlling Shareholders or a company controlled by them proceed to accept the engagement as

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operator, our Controlling Shareholders have undertaken that they will grant or procure an entity controlled by them to grant us an option to, at any time, acquire all the shares of the operator of the outlet mall or its holding company for a consideration that equals the lower of (i) the cost of investment incurred by our Controlling Shareholders in the operator of the outlet mall and (ii) the prevailing fair market value of the operator of the outlet mall as determined by an independent firm of international valuers. Our Company will exercise this outlet mall option as soon as practicable upon verification that the operator of the Shenyang Outlet Mall has achieved a net profit for two consecutive financial years as shown in its audited financial statements, which exercise will be subject to the approval by our independent non-executive Directors and our compliance with the provisions of Chapter 14A of the Listing Rules. We will also be entitled to exercise this option at any time during the term of the option even if the above profit requirement has not been satisfied through our right to waive such profit requirement.

In addition, to avoid potential competition, our Controlling Shareholders have undertaken to engage us to provide management consultancy services to the outlet mall for the entire term of the option for a percentage of the GSP to be agreed. Any grant of the option and the engagement of us as manager will be subject to our compliance with the provisions of the Listing Rules. For further information relating to the Non-Competition Deed, please refer to “— Non-Competition Undertaking”.

INDEPENDENCE FROM OUR ULTIMATE CONTROLLING SHAREHOLDERS

Having considered the following factors, we are satisfied that we can carry on our business independently of the companies controlled by our ultimate Controlling Shareholders (other than our Group).

Clear delineation of businesses

Following our Reorganization, other than in relation to the interest in PCD China Ventures, Xiamen Ruijing Chun Tian, Even Time, Goal Gain Investments Limited and their respective subsidiaries, we assumed the entire business of operating and managing department stores previously operated by companies controlled by Alfred Chan and Edward Tan.

Alfred Chan and Edward Tan, through PIEL, on the other hand, has exclusive effective ownership of, and continue to participate in, the Excluded Business, the principal business activities of which include manufacture and retail of fashion garments and accessories, investment holding and property holding, and, other than in relation to PCD China Ventures, Xiamen Ruijing Chun Tian, Even Time, Goal Gain Investments Limited and their respective subsidiaries, do not involve operation and management of department stores.

We are therefore of the view that the nature of the business activities carried on by us on the one hand and those carried on by the Excluded Business on the other, other than in relation to PCD China Ventures, Xiamen Ruijing Chun Tian, Even Time, Goal Gain Investments Limited and their respective subsidiaries, are clearly distinct and that there is a clear delineation of our core business from that of the Excluded Business.

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Further, we are of the view that the Excluded Business, other than in relation to the interest in PCD China Ventures, Xiamen Ruijing Chun Tian, Even Time, Goal Gain Investments Limited and Guangchang, do not, and are not reasonably likely to, compete (directly or indirectly) with our business. In addition, in relation to the interest of the Controlling Shareholders in PCD China Ventures, Xiamen Ruijing Chun Tian, Even Time, Goal Gain Investments Limited and Guangchang, we are of the view that the measures in place, such as (i) the management agreements that we have entered into with the relevant parties in relation to the provision of management consultancy services for Beijing Scitech Premium Outlet Mall, Guiyang Guomao, Guiyong Nanguo Huajin, Guomao Liupanshui and PCD Ruijing; and (ii) the options granted to us by our Controlling Shareholders, in the form of the Bund Option, the Outlet Mall Option, the Ruijing Option, the Guangchang Option and the Guangchang Second Option, are sufficient to safeguard our interest against any competition issues or potential competition issues.

Independence of our operations from the Excluded Businesses

We do not have any relationships or arrangements with the Excluded Business in the ordinary course of our business, other than that described in the section headed “— Continuing Connected Transactions”.

In particular, our Company considers that the only relevant connected transaction during the Track Record Period is the concessionaire agreements with the PDL Group, the lease agreement with Scitech Group, the master management agreement with Guangchang, the management agreement with Xiamen Ruijing Chun Tian, the management agreement with Even Time and the general outlet services agreement with LDP Management Limited. Commissions generated pursuant to concessionaire agreements with PDL Group during the Track Record Period generated 2.6%, 2.0%, 2.5% and 2.4% of the total revenue of our Group for the financial years ended December 31, 2006, 2007, 2008, and six month ended June 30, 2009 respectively. Based on our Group’s internal projections for the financial year ending December 31, 2009, and the financial year ending December 31, 2010, the estimated commissions generated pursuant to concessionaire agreements with PDL Group are less than 3.1% and 5.7% respectively of the total revenue of our Group based on the revenue figure of our Group for the financial year ended December 31, 2008. Rentals payable by our Group to Scitech Group pursuant to which the Scitech Plaza and offices are leased by Beijing Scitech Department Stores during the Track Record Period are 4.9%, 6.8% and 6.6% of the total revenue of our Group for the financial years ended December 31, 2007, 2008 and the six months ended June 30, 2009 respectively. Based on our Group’s internal projections for the financial year ending December 31, 2009, and the financial year ending December 31, 2010, the rental payment pursuant to lease with Scitech Group are 6.6% and 6.6% respectively of the total revenue of our Group based on the revenue figure of our Group for the year ended December 31, 2008. Management fees receivable by our Group from Guangchang pursuant to the master management agreement with Guangchang during the Track Record Period are 2.1% of the total revenue of our Group for the six months ended June 30, 2009. Based on our Group’s internal projections for the financial year ending December 31, 2009, and the financial year ending December 31, 2010, the management fees receivable by us are 2.1% and 2.6% respectively of the total revenue of our Group based on the revenue figure of our Group for the year ended December 31, 2008. Management fees receivable by our Group from Xiamen Ruijing Chun Tian pursuant to the master management agreement with Xiamen Ruijing Chun Tian during

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the Track Record Period are 0.5% and 0.4% of the total revenue of our Group for the financial year ended December 31, 2008 and the six months ended June 30, 2009 respectively. Based on Group's internal projections for the financial year ending December 31, 2009, and the financial year ending December 31, 2010, the management fees receivable by us are 0.3% and 0.4%, respectively, of the total revenue of our Group based on the revenue figure of our Group for the year ended December 31, 2008. The aggregate annual management fees receivable by our Group from all connected parties during the Track Record Period and were approximately RMB7.7 million for the six months ended June 30, 2009. As we were not engaged to provide management consultancy services to any connected parties in the two financial years ended December 31, 2007, we did not receive any management fees in that period. Due to the low percentage levels, our Company does not consider the aforementioned connected transactions to be particularly significant or crucial to the business and operations of our Group.

All our bank financing has been arranged, independent of guarantees and security provided by our Controlling Shareholders and without reliance there upon. Accordingly, we are able to obtain financing independent of our Controlling Shareholders.

We therefore consider that we are capable of carrying out our business and obtaining finance independently of our Controlling Shareholders and their associates, and that the above transactions would not affect our ability to do so.

Independent management of our Company

Our Board of Directors comprises three executive Directors and three independent non-executive Directors. Alfred Chan is the Chairman and an executive Director, Edward Tan is an executive Director and Mr. Tony Lau is our President.

Alfred Chan and Edward Tan also hold executive directorships in the Excluded Businesses. They currently spend approximately 50% of their working time on the management of our Company and the remaining 50% of their working time on the management of the Excluded Businesses. Apart from Alfred Chan and Edward Tan, there are teams of senior management within the Excluded Businesses that are mainly responsible for the daily management of the Excluded Businesses.

Alfred Chan and Edward Tan are expected to spend the necessary time and attention required as Chairman and executive Director respectively of our Company to formulate the corporate strategy and oversee the overall development of our Group. Further, all of our senior management, are our full-time employees and do not have senior executive positions in the daily management and operation of any of the companies comprising the Excluded Businesses and all major management decisions will be made by our Board of Directors as a whole, including our independent non-executive Directors, and not at the sole discretion of Alfred Chan and Edward Tan. Our daily operations will be managed by our senior management team, all the members of which are independent from those of the Excluded Businesses. Therefore, notwithstanding the fact that Alfred Chan and Edward Tan will hold dual positions in our Company and in the Excluded Businesses, our Directors are of the view that we will be able to operate independently of the

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Excluded Businesses. Save as disclosed in this section and the section headed “Directors and Senior Management”, Alfred Chan, Edward Tan and our senior management have no other material role in other companies.

The decision-making mechanism of our Board of Directors set out in our Articles of Association also includes provisions to avoid conflicts of interest by providing, among other things, that (i) each Director will be entitled to one vote at our meeting of Board of Directors and decisions of our Board of Directors shall be passed by majority vote and (ii) in the event of a conflict of interest, the relevant Director(s) shall abstain from voting and shall not be present in the relevant Board meeting and be excluded from Board deliberations. Each of Alfred Chan and Edward Tan has confirmed that, if a conflict of interest situation arises in respect of either of them, they will respectively abstain from voting, and refrain from attending the relevant Board meeting and therefore play no part in the decision making process of the Board. Examples of circumstances under which Alfred Chan and Edward Tan would be considered to have a conflict of interest include concessionaire agreements between the PDL Group and our Group. Given the professional knowledge and experience of the remaining Directors and senior management (see the section headed “Directors and Senior Management”), in particular that of Tony Lau in relation to decision making and the operation of the business of our Group, the Directors are of the view that the Board can function effectively in the event that the Chan Family is unable to partake in the decision making process of the Board due to a conflict of interest as described above.

Our Company has adopted the Code of Corporate Governance Practices (the “Code”) in Appendix 14 of the Listing Rules. The Code sets out principles of good corporate governance in relation to, amongst other matters, Directors, the chairman and chief executive officer, Board composition, the appointment, re-election and removal of Directors, their responsibilities and remuneration and communications with shareholders. Our Company will state in its interim and annual report whether it has complied with the Code, and will provide details of, and reasons for, any deviations from it in the Corporate Governance Report which will be included in its annual report. Our Company is also required to comply with the Model Code for Securities Transactions by Directors of Listed Issuers which provides, amongst other matters, prohibitions on Directors’ dealings in securities and protections of minority shareholders’ rights. Our Board of Directors is therefore satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Group and each of its Controlling Shareholders, and to protect minority shareholders’ rights.

Our Board of Directors will be required to comply with provisions under the Listing Rules and certain matters, such as connected transactions, are required to be reviewed by our independent non-executive Directors. Our Directors are of the view that the significant proportion of independent non-executive Directors comprising our Board of Directors should enhance our overall corporate governance standards. None of our Directors is interested in any business that competes with our business other than Alfred Chan and Edward Tan, who have the interests in the Excluded Business.

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In addition to the safeguards mentioned above, an annual review will be performed by the independent non-executive Directors with regards to the information provided by the Controlling Shareholders, and the options (including the Bund Option, Outlet Mall Option, Guangchang Option and Ruijing Option), pre-emptive rights or first rights of refusals provided by the Controlling Shareholders over its existing or future competing businesses (“the Annual Review”). After the Annual Review, the independent non-executive Directors will decide whether to exercise these rights in respect of the compliance and enforcement of the non-competition undertaking. Our Company will disclose all decisions on the matters pertaining to the Annual Review either through the annual report, or by way of announcements to the public. The Controlling Shareholders will provide all information necessary for the Annual Review, after which they will make a declaration on compliance and the manner of compliance with the non-competition undertaking in the annual report of our Company.

Based on the above, our Directors are satisfied that our Board of Directors as a whole together with our management team are able to manage our Company independently.

NON-COMPETITION UNDERTAKING

Alfred Chan, Edward Tan, Bluestone and PIEL (together, the “Covenantors”) have jointly and severally, entered into a deed of non-competition (the “Non-Competition Deed”) dated November 29, 2009 in our favour, pursuant to which each of the Covenantors has undertaken to us that, during the Non-Compete Period (as defined below), he or it will not, other than in relation to the Excluded Business, whether as principal or agent and whether undertaken directly or indirectly (including through any associate (as defined in Chapter 1 of the Listing Rules from time to time), subsidiary, partnership, joint venture or other contractual arrangement of his or its) and whether for profit or otherwise, carry on, engage, invest, participate or otherwise be interested in any business of operating and managing department stores or outlet malls in the PRC (the “Restricted Business”). The geographical scope of the Non-Competition Deed is limited to PRC, as all of our Group’s businesses are located in PRC, and the Directors are of the view that similar business outside PRC will not directly or indirectly compete with our Group’s business, given the nature of department store’s business, which targets primarily local clientele in the PRC. In addition, our Group has no intention to open new stores outside the PRC.

Notwithstanding the foregoing, each of the Covenantors may:

- (a) carry on, engage in, invest in, participate in or otherwise be interested in such Restricted Business where the opportunity to carry on, engage in, invest in, participate in or otherwise be interested in such Restricted Business has first been offered or made available to us, and our Company, after review and approval by our independent non-executive Directors or shareholders as required under relevant laws and regulations, has declined such opportunity to carry on, engage in, invest in, participate in or otherwise be interested in such Restricted Business, provided that the principal terms by which any Covenantor (or his or its relevant associate(s)) subsequently engages in, invests in, participates in or otherwise is interested in such Restricted Business are not more favourable in any material aspect than those disclosed to us;

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- (b) have interests in shares or other securities (whether or not listed on any stock exchange) of a company conducting any Restricted Business, provided that:
 - (i) the Covenantors taken together are not so interested as to be able to exercise or control the exercise of 5% or more of the voting power at general meetings of such company or control the composition of a majority of the board of directors of such company; and
 - (ii) at all times there is another independent shareholder who either alone is, or together with its or its associates taken together are, directly or indirectly interested so as to be able to exercise or control the exercise of a greater amount of voting power at general meetings of such company than the Covenantors are able, or control the composition of a majority of the board of directors of such company.

The Directors consider that the exception stated in (a) above is commercially reasonable and fair. Furthermore, Alfred Chan and Edward Tan confirm that, as at the Latest Practicable Date, they have no intention of being interested in any Restricted Business. In relation to their interest in any Restricted Business acquired pursuant to the exception in (a) above, Alfred Chan and Edward Tan confirm that they:

- will treat their investments in the Restricted Business and us on an equal footing and will not take advantage of their status as a holder of our Shares or take advantage of the information obtained by virtue of such status to make decisions or judgement against us and in favour of the Restricted Business;
- will fulfil their fiduciary duties as our Directors, in particular, will consider the interests of our Group in preference over the Restricted Business at all times; and
- will disregard the interest of the Restricted Business when exercising their voting rights as our shareholders.

The “Non-Compete Period” stated in the Non-Competition Deed refers to the period ending on the earlier of:

- (a) the date on which the relevant Covenantor, individually or collectively, ceases to be a controlling shareholder of our Company within the meaning of the Listing Rules; and
- (b) the date on which the Shares cease to be listed on the Stock Exchange.

Under the Non-Competition Deed, in the event that, during the Non-Compete Period, any of the Covenantors intends to dispose of any Restricted Business or any interest in any Restricted Business, the Covenantors shall first offer to us the right to acquire such business or interest and the Covenantors may only proceed with such disposal to any third party, on terms not more favorable than those offered to us, following the rejection of such offer by us (the “Right of First Refusal”).

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CONTINUING CONNECTED TRANSACTIONS

We have entered into various transactions which will continue from time to time with various of our connected persons. Set out below is further information on such continuing connected transactions.

Category I — Continuing connected transactions exempt from independent shareholders’ approval requirements

	Nature of Transaction	Applicable Listing Rule	Waiver Sought	Annual Cap
(A)	Management agreement with Xiamen Ruijing Chun Tian	14A.34	Waiver from compliance with the announcement requirement under Rule 14A.47	December 31, 2009: RMB2.84 million December 31, 2010: RMB3 million December 31, 2011: RMB3 million

Category II — Non-exempt continuing connected transactions

No.	Nature of Transaction	Applicable Listing Rule	Waiver Sought	Annual Cap
(B)	Master management agreement with Guangchang	14A.35	Waiver from compliance with the announcement and independent shareholders’ approval requirements under Rule 14A.47 to 14A.54	December 31, 2009: RMB15.2 million December 31, 2010: RMB18.7 million December 31, 2011: RMB21.7 million
(C)	Concessionaire arrangement with PDL Group	14A.35	Waiver from compliance with the announcement and independent shareholder’s approval requirements under Rules 14A.47 to 14A.54	December 31, 2009: RMB21.9 million December 31, 2010: RMB40.8 million December 31, 2011: RMB63.0 million
(D)	Properties leased by Scitech Group	14A.35	Waiver from compliance with the announcement and independent shareholders’ approval requirements under Rules 14A.47 to 14A.54	December 31, 2009: RMB48.48 million December 31, 2010: RMB48.48 million December 31, 2011: RMB48.48 million
(E)	Management agreement with Even Time	14A.35	Waiver from compliance with the announcement and independent shareholders’ approval requirements under Rule 14A.47 to 14A.54	December 31, 2009: RMB8 million December 31, 2010: RMB20 million December 31, 2011: RMB24 million
(F)	General outlet services agreement with LDP Management Limited	14A.35	Waiver from compliance with the announcement and independent shareholders’ approval requirements under Rule 14A.47 to 14A.54	December 31, 2009: RMB18 million December 31, 2010: RMB36 million December 31, 2011: RMB36 million

Category I — Continuing connected transactions exempt from independent shareholders’ approval requirements

(A) Management agreement with Xiamen Ruijing Chun Tian

On February 26, 2009, we and Xiamen Ruijing Chun Tian, a company wholly-owned by PCD Stores (Xiamen), which in turn is a company controlled by Alfred Chan and Edward Tan, both our indirect Controlling Shareholders, entered into a management agreement (the “Ruijing Management Agreement”).

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Pursuant to the Ruijing Management Agreement, we agreed to provide management consultancy services to Xiamen Ruijing Chun Tian in return for an annual management fee of 2.5% of the GSP of PCD Ruijing with a minimum management fee at RMB3 million per year (the “Ruijing Minimum Fee”). The amount of the management fee under each management contract is based on the circumstances of the relevant department store, including the size, location, profitability, the level of resources needed from our Group. The management fees under the Ruijing Management Agreement is based on normal commercial terms and are comparable to those under our management agreements with independent third parties. During the Track Record Period, the management fee receivable by us from our other managed stores in respect of which we provide management consultancy services for Independent Third Parties typically ranges from 1.5% to 3.9% of the GSP of the relevant department store. The management fee under the Ruijing Management Agreement is within this range. The amount of the Ruijing Minimum Fee represents approximately 7.7% of the GSP of PCD Ruijing for the year ended December 31, 2008, which is higher than the range of management fees receivable by us under management contracts which we entered into with Independent Third Parties during the Track Record Period. PCD Ruijing was formerly known as Laiya Ruijing and was subject to a management contract with our Group commencing from December 2007 to February 2009. The store was rebranded as PCD Ruijing in March 2009 and a new management contract was entered into from such date. The Ruijing Minimum Fee is higher because the rebranding of PCD Ruijing requires a substantial amount of the Group’s resources to promote and improve its operation. In addition, the Group anticipates that the GSP will grow in the next two years after the rebranding. As such, the Ruijing Minimum Fee is anticipated to represent a smaller percentage of the GSP of PCD Ruijing in the future. Pursuant to the Ruijing Management Agreement, we agreed to advise Xiamen Ruijing Chun Tian and to provide management consultancy services to it in relation to the management and operation of PCD Ruijing, including but not limited to advising on management, marketing and merchandising and the assistance on the implementation of such advice.

The Ruijing Management Agreement shall take effect for a period from March 1, 2009 and end on December 31, 2011. The Ruijing Management Agreement will be automatically renewed every three years subject to compliance with Chapter 14A of the Listing Rules by the Company on substantially the same terms, except that the Ruijing Minimum Fee will not be applicable upon renewal. The Ruijing Minimum Fee will not be renewed in the additional terms because PCD Ruijing will have been under our Group’s management as a “PCD” branded store for three years, and it should be able to generate stable GSP thereafter. In addition, the Ruijing Management Agreement will be terminated upon (i) completion of the acquisition pursuant to the Ruijing Option or (ii) cessation of operation of PCD Ruijing for a period of three months or longer. Please refer to the section titled “Relationship with our ultimate Controlling Shareholders and Connected Transactions — Xiamen Ruijing Chun Tian” for further details on the Ruijing Option.

Historical amounts

Given that we entered into a management agreement on December 1, 2007 to provide management consultancy services to Xiamen Ruijing Chun Tian, the operator of the Laiya Ruijing store which was rebranded as PCD Ruijing in March 2009, the only historical amount for this connected transaction is for the period between December 1, 2007 to June

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30, 2009. The aggregate management fees paid or payable to us by Xiamen Ruijing Chun Tian for the financial year ended December 31, 2008 and the six months ended June 30, 2009 were approximately RMB3.4 million and RMB1.4 million.

Proposed cap and basis of cap

It is expected that the aggregate management fees to be paid by Xiamen Ruijing Chun Tian to us pursuant to the Ruijing Management Agreement for the three financial years ending December 31, 2009, December 31, 2010 and December 31, 2011 will not exceed RMB2.84 million, RMB3 million and RMB3 million, respectively.

The proposed caps are determined by reference to the historical value of this transaction and the projected GSP of PCD Ruijing.

Category II — Non-exempt continuing connected transactions

(B) Master Management Agreement with Guangchang

On November 29, 2009, we and Guangchang, a company owned indirectly as to 51% by Goal Gain Investments Limited, which in turn is held as to 100% by Jacqueline Tan, the daughter of Edward Tan, on trust for and on behalf of LDP Management Limited, a company held as to 50% by each of Alfred Chan and Edward Tan, our Controlling Shareholders, entered into a master management agreement (the “Guangchang Master Management Agreement”). Pursuant to the Guangchang Master Management Agreement, Guangchang agreed to enter into, or procure its subsidiaries from time to time to enter into, various management agreements with us. Under the terms of the management agreements entered into pursuant to the Guangchang Master Management Agreement, we agreed to provide consulting and management consultancy services, including but not limited to advice on logistics infrastructure, management, marketing, merchandising and business plans and assistance on the implementation of such advice, to Guangchang or its subsidiaries in relation to the relevant department stores, such as Guiyang Guomao, Guiyang Nanguo Huajin and Guomao Liupanshui, for an annual management fee of 2.5% of the GSP of the relevant department stores with a minimum management fee at an agreed figure (the “Guangchang Minimum Fee”). The amount of the management fee under each management contract is based on the circumstances of the relevant department store, including the size, location, profitability, the level of resources needed from our Group. The management fees under the various management agreements entered into pursuant to the Guangchang Master Management Agreement are based on normal commercial terms and are comparable to those under our management agreements with independent third parties. During the Track Record Period, the management fee receivable by us from our other managed stores which we manage for Independent Third Parties typically ranges from 1.5% to 3.9% of the GSP of the relevant department store. The management fee under the management contracts entered into pursuant to the Guangchang Master Management Agreement is within this range. The amount of the total Guangchang Minimum Fee is RMB15.24 million per year, which represents approximately 2.8% of the GSP of the department stores operated by the Guangchang Group for the year ended December 31, 2008, which is within the range of management fee receivable by us under management contracts which we entered into with Independent Third Parties during the Track Record Period.

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The Guangchang Master Management Agreement shall take effect from November 29, 2009 for a period of three years and end on December 31, 2011. The Guangchang Master Management Agreement will be automatically renewed every three years subject to compliance with Chapter 14A of the Listing Rules by the Company on substantially the same terms, except that the Guangchang Minimum Fee will not be applicable upon renewal. The Guangchang Minimum Fee will not be renewed in the additional terms because the relevant department stores will have been under our Group’s management for three years, and they should be able to generate stable GSP thereafter. In addition, management agreements entered into pursuant to the Guangchang Master Management Agreement will terminate upon (i) completion of the assumption of business pursuant to the Guangchang Option or (ii) cessation of operation of the relevant department store for a period of three months or longer. Please refer to the section titled “Relationship with Our Ultimate Controlling Shareholders and Connected Transactions — Guiyang Guomao, Guomao Liupanshui and Guiyang Nanguo Huajin” for further details on the Guangchang Option.

Historical amounts

Given that we began providing management consultancy services to Guiyang Guomao, Guiyang Nanguo Huajin and Guomao Liupanshui on January 1, 2009, the only historical amounts for these transactions are for the period between January 1, 2009 to June 30, 2009. The aggregate management fees paid by the Guangchang Group to us for the six months ended June 30, 2009 were approximately RMB7.62 million.

Proposed cap and basis of cap

It is expected that the aggregate management fees to be paid by the Guangchang Group to us pursuant to the Guangchang Master Management Agreement for the three financial years ending December 31, 2009, December 31, 2010 and December 31, 2011 will not exceed RMB15.2 million, RMB18.7 million and RMB21.7 million, respectively.

The proposed caps are determined by reference to the historical value of this connected transaction and the projected GSP of the department stores operated by the Guangchang Group.

(C) Concessionaire Arrangement with PDL Group

On November 29, 2009, we and PDL, a company which PIEL (which is in turn wholly owned by Alfred Chan and Edward Tan, is its controlling shareholder (as defined in the Listing Rules), entered into a master concessionaire agreement (the “Master PDL Agreement”), pursuant to which PDL agreed to procure their subsidiaries, and we agreed to procure our subsidiaries to enter into various concessionaire agreements with PDL Group, which primarily engages in the design, manufacture, distribution and retail of ladies’ and men’s fashion garments and the sale of accessories such as shoes, handbags, scarves and fragrances in China and, more recently, in Hong Kong, under the brand name PORTS. In accordance with the concessionaire agreements, some of which are existing and currently in effect, we agree to provide certain designated counters within our various department stores to PDL Group for sale of their clothing, accessories and apparels.

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The Master PDL Agreement shall take effect for a period from November 29, 2009 and ending on December 31, 2011, subject to compliance with Chapter 14A of the Listing Rules by PDL. Under concessionaire agreements entered into pursuant to the Master PDL Agreement, we will collect the payment from the customers of PDL Group when they purchase PDL Group’s goods in our stores, and we will pay the total to PDL Group after deducting 15–25% of the revenue as our fee for managing the relevant stores as well as 1–2% of the revenue as our fee for promotions and marketing (the “Department Store Fees”). The Department Store Fees is based on normal commercial terms and are comparable to those under our concessionaire agreements with Independent Third Parties. Under our concessionaire agreements with independent third parties, our fee for managing the relevant stores typically ranges from 6% to 33% of the revenue deriving from the sale of the products of the relevant concessionaire, depending on the brand positioning of the concessionaire, the location of the counter within the department store, the location of the department store and the type of product. Under the concessionary agreements entered into pursuant to the Master PDL Agreement, we will be responsible for all operating costs of the relevant department stores, including expenses, advertising costs, store management and maintenance fee, credit card charges, water and electricity costs and training costs for personnel of the department stores.

Historical amounts

The Department Store Fees paid by PDL Group to us for the three financial years ended December 31, 2008 and the six months ended June 30, 2009 were approximately RMB4.5 million, RMB9.8 million, RMB17.7 million and RMB8.6 million, respectively. The increase in commission generated from PDL during these years was due to an increase in the number of stores operating under the Master PDL Agreement.

Proposed cap and basis of cap

It is expected that the Department Stores Fees to be paid by PDL Group to us pursuant to the Master PDL Agreement for the three financial years ending December 31, 2009, December 31, 2010 and December 31, 2011 will not exceed RMB21.9 million, RMB40.8 million and RMB63.0 million, respectively (applying the basis of charge consistently with that applied throughout the Track Record Period (see Historical Amounts, above)).

The proposed caps are determined by reference to the historical value of such transactions after accounting for projected growth and expansion of our Company, and the projected increase in the number of our stores and the growth of the consumer markets in the relevant cities where our stores are located. In particular, we have assumed a 20% growth rate in revenue generated by our concessionaire transactions with PDL Group on a per department store basis, which is consistent with the previous growth rate during the Track Record Period. There is, however, no assurance from us or from the PDL Group that the actual growth rate will be 20%. In 2008, PDL Group operated a total of 26 outlets in all of our self-owned department stores. The PDL Group had been expanding their outlets in department stores during the Track Record Period (such as PCD Jiahe, PCD Qingdao, PCD Changchun and Scitech Plaza) that have higher revenue per outlet. In addition, we expect that in the future the Group will expand its store network by establishing other department

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stores in suitable locations in the PRC based on the previous growth rate of the number of our self-owned stores and that PDL Group intends to operate outlets in these new stores. Furthermore, since the beginning of 2009, PDL Group has expanded its brand portfolio, as a result of which we expect that PDL Group will increase the number of outlets in our stores as the number of brands carried by PDL Group increases in the future.

(D) Properties leased by Scitech Group

(i) *Department store leased by Scitech Group*

On August 17, 2007, Scitech Group, a company owned as to 85% by Alfred Chan, Edward Tan and their respective immediate family, entered into a lease, as subsequently amended by various supplemental agreements, with us (the “Department Store Lease”), pursuant to which Scitech Group agreed to grant us a lease with effect from July 1, 2007 for the Scitech Plaza at the monthly rent of RMB3.9 million (inclusive of building management fees), which is not subject to any periodic review until the end of the term of twelve years. Under the Department Store Lease, Scitech Group further agreed to grant to us the right to use and/or sub-licence the “Scitech” trademark in connection with Scitech Plaza and any outlet malls in the PRC operated or managed by us. Scitech Group is the owner of the Scitech Complex, consisting of an office, hotel, restaurants and retail complex, which includes Scitech Plaza. Scitech Group has not been included as part of our Group as its business is not in line with the business of our Group. Scitech Group’s business is the management and holding of Scitech Complex, and the department store business within Scitech Complex, namely Scitech Plaza, which was included as part of our Group through the Department Store Lease. DTZ Debenham Tie Leung Limited, an independent property valuer, has confirmed that the rental payable by us to Scitech Group of RMB3.9 million per month and the other terms (including the twelve-year lease term) are on normal commercial terms is based on prevailing market rates and conditions.

The Department Store Lease shall be valid for a term of twelve years from July 1, 2007 to June 30, 2019. Under the Department Store Lease, we are authorised to use the premises for the purposes of operating department stores. We are authorised to carry out any renovation or structural work to the premises at our own cost. We have the right to sub-lease part of the premises to third parties and to authorise a third party to manage the store on our behalf and assign our rights to any third party under the Department Store Lease. Scitech Group is responsible for the provision of utilities, insurance of the premises and maintenance of the premises. The Department Store Lease can be terminated by agreement of both parties, by either party upon the occurrence of a force majeure event, or by us, unilaterally, in the event that Scitech Group does not fulfil its obligations to maintain and repair the property or fails to ensure a normal power supply resulting in the suspension of our operations on the premises, in the event that Scitech Group is in breach of any of its obligations pursuant to the Department Store Lease, or in the event that Scitech Group fails to ensure our rights under the Department Store Lease against any valid third party rights in respect thereof. In any of the aforementioned circumstances the Department Store Lease shall be terminated upon receipt by Scitech Group of our written notice thereof. The Department Store Lease also provides that we may give a 30-day advance notice to renew

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the Department Store Lease, failing which the Department Store Lease shall terminate automatically upon expiration of its term. The Department Store Lease does not contain any provisions in relation to rent review.

Our Directors have confirmed that a term of twelve years is necessary in view of the intended use of Scitech Plaza for retail purposes, the nature of the business of our Group, and the expected growth of the business throughout that period. Having considered the financial and operating stabilities of our Group’s operations and based on observation of market practice in the PRC department stores industry, our Directors are of the view that it is normal business practice for contracts of this type to be of such duration. Our Company confirms that it will comply with the applicable requirements under Chapter 14A of the Listing Rules upon the expiry of the three financial years ending December 31, 2011.

(ii) *Office space leased by Scitech Group*

Scitech Group entered into a lease with us (the “Office Lease”), pursuant to which Scitech Group agreed to grant to us a lease with effect from July 5, 2007 for office space within the Scitech Complex with a total area of 1,056 sq.m. for an aggregate yearly rent of approximately RMB1.68 million. DTZ Debenham Tie Leung Limited, an independent property valuer, has confirmed that the rental payable by us to Scitech Group of approximately RMB1.68 million per annum is based on prevailing market rates and the other terms of the Office Lease are on normal commercial terms and conditions.

The Office Lease shall be valid from July 5, 2007 to December 31, 2011. Under the Office Lease, we are authorised to use the premises for office use. We have the rights to sub-lease part of the premises to third parties subject to written approval from Scitech Group. The Scitech Group is responsible for provision of utilities, insurance of the premises and maintenance of the premises.

Historical amounts

(i) Department store leased by Scitech Group

Given that we only commenced leasing the Scitech Plaza on July 1, 2007, the only historical amounts for this connected transaction is for the period between July 1, 2007 to June 30, 2009. The rental fees paid by us to Scitech Group in relation to the lease of Scitech Plaza for the six months ended December 31, 2007, the financial year ended December 31, 2008 and the six months ended June 30, 2009 were approximately RMB23.6 million, RMB46.9 million and RMB23.0 million, respectively. The historical amounts were based on the actual rental fees paid under the Department Store Lease during the Track Record Period.

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(ii) Office space leased by Scitech Group

Given that we only commenced leasing the office space on July 5, 2007, the only historical amounts for this connected transaction is for the period between July 5, 2007 to June 30, 2009. The rental fees paid by us to Scitech Group in relation to the lease of the office space for the six months ended December 31, 2007, the financial year ended December 31, 2008 and the six months ended June 30, 2009 were approximately RMB0.8 million, RMB1.7 million and RMB0.8 million, respectively. The historical amounts were based on the actual rental fees paid under the Office Lease during the Track Record Period.

Proposed cap and basis of cap

It is expected that the aggregate rental fees to be paid by us to Scitech Group under the Department Store Lease and the Office Lease for the three financial years ending December 31, 2009, December 31, 2010 and December 31, 2011 will not exceed RMB48.8 million, RMB48.48 million and RMB48.48 million, respectively.

The proposed caps are determined by reference to the actual rental fees payable by us to Scitech Group under the Department Store Lease and the Office Lease.

(E) Management Agreement with Even Time

On November 29, 2009, we entered into a management agreement (the “Outlet Mall Management Agreement”) with Even Time, which is directly held as to 100% by Jenny Tan, the daughter of Edward Tan, on trust for and on behalf of LDP Management Limited, a company held as to 50% by each of Alfred Chan and Edward Tan, our Controlling Shareholders. Pursuant to the Outlet Mall Management Agreement, we agreed to provide management consultancy services to Even Time or its subsidiary in return for an annual management fee calculated on the basis of 2% of the GSP of Beijing Scitech Premium Outlet Mall in each financial year. The management fee is based on normal commercial terms and are comparable to our other management agreements with Independent Third Parties. The amount of the management fee under each management contract is based on the circumstances of the relevant outlet mall, including the stage of development of the outlet mall, the range of services provided and the strategic intentions of the parties. During the Track Record Period, the management fee received by us from our other managed stores in respect of which we provide management consultancy services for Independent Third Parties typically ranges from 1.5% to 3.9% of the GSP of the relevant store. Pursuant to the Outlet Mall Management Agreement, we agreed to advise Even Time and to provide management consultancy services to it in relation to the management and operation of Beijing Scitech Premium Outlet Mall, including but not limited to the management of logistics infrastructure, marketing, staff, merchandising, business plans and architectural planning.

The Outlet Mall Management Agreement shall take effect for a period from July 1, 2009 and end on December 31, 2011. The Outlet Mall Management Agreement will be automatically renewed every three years on substantially the same terms subject to compliance with Chapter 14A of the Listing Rules by the Company. In addition, the Outlet Mall Management Agreement will terminate upon (i) completion of the acquisition pursuant to the Outlet Mall Option or (ii) cessation of operation of the Beijing Scitech Premium Outlet Mall for a period of three months or

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longer. Please refer to the section titled “Relationship with our ultimate Controlling Shareholders and Connected Transactions — Beijing Scitech Premium Outlet Mall” for further details on the Outlet Mall Option.

Historical amounts

Given that the Outlet Mall Management Agreement had only taken effect from July 1, 2009, there are no historical amounts for this connected transaction.

Proposed cap and basis of cap

It is expected that the aggregate management fees to be paid to us by Even Time pursuant to the Outlet Mall Management Agreement for the three financial years ending December 31, 2009, December 31, 2010 and December 31, 2011 will not exceed RMB8 million, RMB20 million and RMB24 million, respectively.

The proposed caps are determined by reference to the projected gross sales proceeds of Beijing Scitech Premium Outlet Mall. The projected gross sales proceeds are determined by benchmarking against the productivity (gross sales per square meter) of other similar outlet operations in Beijing and Shanghai. The estimation is based on market intelligence gathered from various concessionaires that are currently operating in such other outlet operations as well as informal market studies and research conducted by our Group. Further, as Beijing Scitech Premium Outlet Mall has only commenced trial operation in relation to part of the outlet mall since July 2009 and intends to commence full operation around February 2010, we expect a substantial increase in the management fees to be paid by Even Time to us under the Outlet Mall Management Agreement once it commences full operation.

(F) General Outlet Services Agreement with LDP Management Limited

Outlet malls are generally situated at areas outside central business and shopping districts in suburban or rural areas due to, among other factors, the availability of larger sites at more optimal costs for outlet mall operations. The locations of these sites are typically less accessible by consumers and are not typically existing popular shopping destinations. Our Controlling Shareholders intend to engage in the development and ownership of real estate properties used for the operation of outlet malls. Our Controlling Shareholders believe that a key to the success of any outlet mall real estate project is the sourcing of a suitable site at optimal cost. Factors affecting the selection of a suitable site include the potential for transforming the suburban or rural location to a popular shopping destination, recruiting an experienced operator to operate the mall to be developed and engaging a suitable mix of brands and concessionaires for the location chosen. The process of the development of outlet mall real estate projects mainly involves (i) the identification and sourcing of a site which has all the physical attributes conducive to the establishment of successful outlet mall operations and which is available or potentially available for sale or long term lease; (ii) the research and study which is conducted in relation to assessing the commercial viability of an outlet mall operation at the target property, taking into account, amongst many other factors, local governmental support, location and transportation access, the property size and available retail floor area, spending power and preferences of consumers in adjacent areas and weather and climate conditions. Among other things, potential concessionaires

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which are suitable for the outlet mall will be consulted with regard to their interest in the future participation as a concessionaire in the proposed outlet mall, and feasibility studies and other reports would be prepared to document the analysis; (iii) the preparation of the design and retail layout of the outlet mall, taking into account factors such as local consumer preferences, mall image and available area. Agreements will need to be negotiated with relevant brands to secure their participation in the outlet mall as concessionaires when it opens; and (iv) negotiation with the land owner and local government in order to secure a sale or the long term usage of the target outlet mall property. Based on the above, the potential success of an outlet mall will be reliant on the accumulated judgment, knowledge, skills and experience of the party to whom its establishment is entrusted. Accordingly, LDP Management Limited has engaged us to provide general outlet services in connection with its potential outlet mall real estate projects. Being in the business of real estate development and investment, our Controlling Shareholders believe that, by securing land at suburban or distanced locations at a cost effective price, there will be ample opportunity for gain in the value of the property if it could be turned into a successful outlet mall.

We entered into a general outlet services agreement (the “General Outlet Services Agreement”) with LDP Management Limited, which took effect as of July 1, 2009, pursuant to which we agreed to provide various services to LDP Management Limited in return for a service fee of RMB36 million per year. During the Track Record Period, our Group had been providing the type of services that are envisaged under the General Outlet Services Agreement to our Controlling Shareholders free of charge, as our Controlling Shareholders and the companies controlled by them and our Group belonged to the same group of companies. Pursuant to the General Outlet Services Agreement, we would provide services to LDP Management Limited, which includes, among other things, identifying and advising on no less than two potential opportunities on average per year in relation to acquisition of properties suitable for the operation of outlet malls in the PRC, preparing feasibility reports and coordinating detailed proposals in relation to such opportunities, preparing financial and business projections in relation to the acquisition of such properties, and providing general consultancy services in these respect. Any proposed operation of outlet malls by our Controlling Shareholders will be subject to their compliance with the provisions of the Non-competition Undertaking. The service fee payable by LDP Management Limited are based on normal commercial terms. The fee payable to us under the General Outlet Services Agreement was negotiated on an arm’s length basis by the parties taking into account factors including: (i) the commission rates and fees typically charged by property agents and property investment managers in the PRC in connection with the sourcing of similar properties; (ii) the nature of the services (including sourcing, identifying, evaluating potential properties for outlet mall projects as well as assisting with negotiating with the relevant parties in relation to these potential real estate projects) we will provide which we believe will provide unique value to LDP Management Limited; (iii) the amount of the investment costs which LDP Management Limited would have been required to make in relation to potential outlet mall properties; (iv) the costs to be incurred by us in providing our services; and (v) the potential significant capital gains which LDP Management Limited may achieve as a result of its investment in outlet mall properties sourced and serviced by us pursuant to the General Outlet Services Agreement. It is currently expected, based on LDP Management Limited’s business plan, that approximately 2–3 outlet mall projects will be sourced through us for evaluation each year,

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although there is no guarantee that we would be able to source such properties which are suitable to LDP Management Limited or that LDP Management Limited would acquire any such properties so sourced by us.

In addition, as we are proposing to engage in the business of operating outlet malls in the PRC, if we are able to source suitable sites for outlet mall real estate development for our Controlling Shareholders, we would also, at our election, collaborate with them and seek to become the operator of the relevant outlet malls. Our Controlling Shareholders have granted us a pre-emptive right to lease from them such retail properties. Please refer to the section headed “—Background of our Controlling Shareholders Group”.

The Directors believe that it is in the best interest of the Group to enter into the General Outlet Services Agreement given that, apart from the fee our Group is expected to generate from this transaction (which is attributable to the value creation arising from our services and contribution in establishing outlet malls for LDP Management Limited), the Group will be able to collaborate with our Controlling Shareholders on our operation of future outlet malls in the PRC. As disclosed in the section headed “Our Business”, our Group is studying plans to engage in the operation of outlet malls in the PRC in the future. However, to the knowledge of our Directors, there exists a very limited supply of constructed buildings which are suitable for the operation of outlet malls. Accordingly, any such operation will require the development and construction of new outlet mall buildings. As the development and construction of new outlet mall properties are capital intensive and investment in real estates involves a different degree of risk, it is beneficial to our Group to have the option to, in appropriate circumstances, cooperate with real estate developers and investors to secure the operation rights of outlet malls. Further, given that our Controlling Shareholders have granted a pre-emptive right to our Group to lease properties acquired by them which are suitable for the operations of an outlet mall, we are able to, at our discretion, secure usage of outlet mall buildings which are developed and constructed by our Controlling Shareholders or companies controlled by them. Accordingly, it is also beneficial for our Group to enter into the General Outlet Services Agreement in terms of expanding its outlet mall business to identify suitable properties for our Controlling Shareholders with a view to operating outlet malls on such properties.

The General Outlet Services Agreement shall take effect for a period from July 1, 2009 and end on December 31, 2011. The General Outlet Services Agreement will be automatically renewed upon the expiry of its term for an additional two terms of three years subject to compliance with Chapter 14A of the Listing Rules by the Company on substantially the same terms, except that the service fee shall be amended to RMB1.5 million per month plus 1.5% of the GSP of the outlet malls the property of which are owned by LDP Management Limited or its subsidiaries. The amendment of the service fee for the additional terms is because the Company believes that the Group should be able to participate in the successful operation of the outlet malls which it has assisted LDP Management Limited to establish during the first term of the General Outlet Services Agreement. The General Outlet Services Agreement may be terminated by either party giving one year notice to the other.

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Historical Amounts

Given that the General Outlet Services Agreement had only taken effect from July 1, 2009, there are no historical amounts for this connected transaction.

Proposed cap and basis of cap

It is expected that the aggregate service fees to be paid to us by LDP Management Limited pursuant to the General Outlet Services Agreement for the three financial years ending December 31, 2009, December 31, 2010 and December 31, 2011 will not exceed RMB18 million, RMB36 million and RMB36 million, respectively.

The proposed caps are determined by reference to the actual service fees payable to us by LDP Management Limited under the General Outlet Services Agreement. The service fees were negotiated at arms’ length and are based on the projected increase in value of any property which we may identify for LDP Management Limited pursuant to the General Outlet Services Agreement. Our Directors believe that the General Outlet Services Agreement is on normal commercial terms.

LISTING RULES IMPLICATIONS

Category I — Continuing connected transactions exempt from independent shareholders’ approval requirements

(A) Management Agreement with Xiamen Ruijing Chun Tian

As each of the relevant applicable percentage ratios set out in the Listing Rules for determining the value of connected transactions (that is, excluding the profits ratio and the equity capital ratio which are not applicable) for the continuing connected transaction in paragraph (A) above is expected to be less than 2.5% on an annual basis or, each of the relevant applicable percentage ratios is expected to be higher than 2.5% but less than 25% on an annual basis and the annual consideration of each such transaction is expected to be less than HK\$10,000,000, such transaction is exempt from the independent shareholders’ approval requirements under the Listing Rules but is subject to the reporting and announcement requirements under the Listing Rules.

Category II — Non-exempt continuing connected transactions

(B) Master Management Agreement with Guangchang:

(C) Concessionnaire Agreement with PDL Group;

(D) Properties leased by Scitech Group;

(E) Management Agreement with Even Time; and

(F) General Outlet Services Agreement with LDP Management Limited.

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As one or more of the relevant applicable percentage ratios set out in the Listing Rules for determining the value of connected transactions (excluding the profits ratio and the equity capital ratio which are not applicable) for each of the non-exempt continuing connected transactions in paragraphs (B) to (F) above is expected to be 2.5% or above on an annual basis or, each of the relevant applicable percentage ratios is expected to be equal to or higher than 2.5% but less than 25% on an annual basis and the annual consideration of each such transaction is expected to be HK\$10,000,000 or more, each such transaction is subject to the reporting, announcement and independent shareholders’ approval requirements under the Listing Rules.

Directors’ View on the continuing connected transactions

Our Directors (including our independent non-executive Directors) are of the view that all the continuing connected transactions have been conducted on normal commercial terms or more in favour of our Group, were entered into in the ordinary and usual course of business of our Group, are fair and reasonable and in the interests of our Company and our shareholders as a whole, and that the maximum annual value of each of the relevant continuing connected transactions as disclosed in this section is fair and reasonable to our Group.

Continuing connected transactions — Application for Waivers

We will continue to enter into or carry out the transactions set out in this section and these transactions will constitute continuing connected transactions for us under the Listing Rules. According to the Listing Rules, such transactions may, depending on the nature and value of the transactions, require disclosure and prior approval by our independent shareholders.

Scope of Waiver

Under the Listing Rules, the continuing connected transactions under paragraphs (B) to (F) above are considered to be non-exempt continuing connected transactions under Rule 14A.35 and would require compliance with the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and the prior independent shareholders’ approval requirements set out in Rules 14A.48 to 14A.54 of the Listing Rules.

For the continuing connected transactions under paragraph (A) above, each of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules, where applicable, under the respective agreements are, on an annual basis, expected to be less than 2.5% under Rule 14A.34 of the Listing Rules. This transaction is therefore exempt from the independent shareholders’ approval requirements but is subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.

As the above continuing connected transactions are expected to continue on a recurring basis, our Directors consider that compliance with the announcement and/or the independent shareholders’ approval requirements would be unduly burdensome, impractical and would add additional administrative costs to our Company. Accordingly, our Directors have requested the Stock Exchange to grant a waiver from compliance with the requirements under Rule 14A.42(3) of the Listing Rules. We have requested the Stock Exchange, and the Stock Exchange has agreed, to grant a waiver to our Company from compliance with the announcement and/or the

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independent shareholders’ approval requirements relating to the above continuing connected transactions under the Listing Rules. In addition, we will comply with the applicable provisions under Rules 14A.35(1), 14A.35(2), 14A.36, 14A.37, 14A.38, 14A.39 and 14A.40 of the Listing Rules.

Exempt continuing connected transactions

In addition to the continuing connected transactions described above for which waivers from strict compliance with the requirements under Chapter 14A of the Listing Rules have been granted by the Stock Exchange, we have certain other continuing connected transactions which constitute exempt continuing connected transactions under the Listing Rules: (1) the authorization letters issued by PCD Stores to our Group for the right to use certain trademarks for nil consideration (further details are set out in the section titled “Intellectual Property Rights” in Appendix VII to this document); and (2) the authorization letter issued by Scitech Group to our Group for the use of the “Scitech” trademark for a fee of RMB100,000 annually (further details are set out in the section titled “Intellectual Property Rights” in Appendix VII to this document). In each of these cases, the relevant percentage ratios under the Listing Rules on an annual basis will be less than 0.1% and accordingly such transactions are exempted from compliance with the reporting, announcement and independent shareholders’ approval requirements of the Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our board of Directors is responsible and has general powers for the management and conduct of our business. The table below shows certain information in respect of members of the board of Directors of our Company:

Name	Age	Position
Alfred Chan	62	Chairman and executive Director
Edward Tan	66	Executive Director
Tony Lau	57	Executive Director
Randolph Yu	31	Independent non-executive Director
Ainsley Tai	32	Independent non-executive Director
Li Chang Qing	41	Independent non-executive Director

Executive Directors

Chan, Kai Tai Alfred, 62, is an executive Director and the Chairman of our Company and was appointed on March 28, 2007. Alfred Chan is in charge of corporate strategy and planning and the overall development of our Company. Alfred Chan has over twenty years of experience in the management of department stores and the retailing of fashion brands both in North America and Asia, including the PRC. Alfred Chan graduated from McGill University in Canada with a Bachelor of Science degree in Physics in June 1970 and a Masters degree in Electrical Engineering in Fall, 1972. Alfred Chan is also the Chief Executive Officer and an executive director of PDL, a company listed on the Stock Exchange, and a director of PIEL. Alfred Chan was formerly a director of Etac Sales Limited. In March 1994, Royal Bank of Canada (“RBC”) petitioned for the liquidation of Etac Sales Limited due to its inability to repay loans made to it by RBC. Alfred Chan had ceased to be an executive director of Etac Sales Limited ten months prior to its liquidation.

Tan, Han Kiat Edward, 66, is an executive Director of our Company and was appointed on March 28, 2007 and is responsible for overseeing the general strategic implementation and development of our Company. Edward Tan has more than 30 years of experience in the textile, garment and trading business and has extensive experience in carrying out business in both Canada and the PRC. Edward Tan is a former director of the Canada-China Business Council in Canada. Edward Tan is the brother of Alfred Chan. Edward Tan is also an executive director of PDL. Edward Tan was also formerly a director of Etac Sales Limited. In March 1994, RBC petitioned for the liquidation of Etac Sales Limited due to its inability to repay loans made to it by RBC. Edward Tan had ceased to be an executive director of Etac Sales Limited ten months prior to its liquidation.

Lau, Kim Yip Tony, 57, is an executive Director and the President of our Company and was appointed on November 24, 2009 and is responsible for the overall daily business operations, with particular emphasis on brand recruitment and brand building of the network. He is also involved in the development of new projects. Mr. Lau has also been the President of PCD Stores since July 2006. Mr. Lau attended the Ryerson Polytechnical Institute in Toronto, Canada in 1974. Mr. Lau has over twenty years of experience in the textiles and apparel business. Prior to

DIRECTORS AND SENIOR MANAGEMENT

joining PCD Stores Group, he worked for the Glorious Sun Group from 1989 to 1993 and 2000 to 2003 to support their US business and Quicksilver venture, and he was Assistant General Manager in CFS International Inc. from 1984 to 1989, assisting Alfred Chan’s Canadian trading operations.

Independent Non-Executive Directors

Yu, Randolph, 31, is an independent non-executive Director of our Company and was appointed on November 24, 2009. Mr. Yu is currently Managing Director and Founding Partner of Aegis Capital Ltd., an asset management firm based in Hong Kong. Mr. Yu has extensive experience in corporate finance, mergers and acquisitions, corporate restructuring, and alternative investments from prior positions as a Special Advisor to JANA Partners (Asia) Ltd. (May 2008 to January 2009) and with Citibank N.A. (September 2001 to February 2004), where Mr. Yu worked as an Assistant Manager with the Singapore Branch (August 2001 to September 2002) and as a Senior Assistant Manager with the Taipei Branch (September 2002 to February 2004). Mr. Yu also has extensive experience in corporate strategy, operations, and general management from his prior position as a Consultant with the Monitor Group (September 2006 to January 2008). Mr. Yu graduated from The Wharton School of Business of the University of Pennsylvania with a Master’s of Business Administration on May 15, 2006. Mr. Yu does not hold, and has not within the past three years held, any directorships in other public companies securities of which are listed.

Tai, Ainsley, 32, is an independent non-executive Director of our Company and was appointed on November 24, 2009. Mr. Tai has been Vice President of Finance and Corporate Strategy for Erie Enterprises Corporation since August 8, 2007. Mr. Tai has extensive experience in corporate strategy, operations, and general management through prior positions with Oliver Wyman, Inc. (from March 1999 to June 2004 but took a leave of absence from December 2002 to November 2003) and Salesforce.com (from September 2006 to July 2007). Mr. Tai obtained his Master’s of Business Administration from the Wharton School of Business of the University of Pennsylvania on May 15, 2006. Mr. Tai does not hold, and has not within the past three years held, any directorships in other public companies securities of which are listed.

Li Chang Qing, 41, is an independent non-executive Director of our Company and was appointed on November 24, 2009. Mr. Li is also the Chairman of the audit committee. Mr. Li has been the Vice Director of the Master’s of Business Administration center at Xiamen University since May 31, 2006. Mr. Li has been a professor of accounting at Xiamen University since August 1, 2005 and teaches coursework on financing and managerial accounting as well as classes on analysis of financial reports and financial accounting of managers. Mr. Li has researched and published papers in the field of Corporate Finance. Mr. Li obtained his doctorate degree in management studies from Xiamen University on September 23, 1999. He was also a visiting scholar at Harvard University (from January 15 to 25 2006). He is an accountant in the People’s Republic of China and has been registered with the Chinese Institute of Certified Public Accountants since March 18, 2002. Mr. Li, through his qualification as a registered accountant and the above described academic experience, has extensive experience in relation to the review and analysis of audited financial statements. Mr. Li is currently an independent non-executive director in Fuyao Group Glass Industries Co., Ltd. (福耀玻璃工業集團股份有限公司) and Xiamen C&D Inc. (廈門建發股份有限公司). Within the past three years, he was also an

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independent non-executive director in Fujian Furi Electronics Co., Ltd. (福建福日電子股份有限公司), Zhangzhou Pien Tze Huang Pharmaceutical Co., Ltd. (漳州片仔癀股份有限公司) and Fujian Septwolves Industry co., Ltd. (福建七匹狼實業股份有限公司) until June 2009, August 2008 and July 2007, respectively. With the exception of Fujian Septwolves Industry co., Ltd., which is currently listed on the Shenzhen Stock Exchange, all the above companies are currently listed on the Shanghai Stock Exchange.

SENIOR MANAGEMENT

Laurence Danon, 53, is the Senior Advisor to our Group and was appointed on July 26, 2007. Mme. Danon has been a member of the Executive Board of Groupe LCF Rothschild since September 1, 2007. Mme. Danon was the Chairwoman and Chief Executive Officer of Printemps Department Store Paris in France from 2001 to January 2007 and helped manage the transition of the French department store group into its current luxury fashion focus. Prior to her position at Printemps Department Store Paris, Mme Danon was Chief Executive Officer of Bostik Findley Adhesives, a wholly-owned subsidiary of Total Fina Elf group. She has been the Chairwoman of the New Generations Commission, at Medef, the French employer’s association since August 1, 2007 and is a member of the boards of Diageo Plc., and Experian Plc., both listed on the London Stock Exchange and Plastic Omnium SA, listed on the Paris Stock Exchange. Mme. Danon graduated in Corps de Mines at Ecole Nationale Supérieure des Mines de Paris in July 11, 1984. Mme. Danon does not hold, and has not within the past three years held, any directorships in other public companies securities of which are listed.

Tan, Henry, 33, joined the Group on June 1, 2007 and has been responsible for strategic planning and development, acquisitions, investor relations, and other operations improvement. He was then appointed as Vice President of the Corporate Development on January 1, 2008, and continues to hold the same responsibilities. Prior to joining us in June 1, 2007, he was a Case Team Leader with Bain & Company (Hong Kong), serving major corporations in Asia Pacific, across a wide array of industries, including telecommunications, consumer products and private equity funds. He obtained a Bachelor of Arts degree from Cornell University on May 30, 1999 and a Master’s of Business Administration from the Sloan School of Management of the Massachusetts Institute of Technology on June 4, 2004. Mr. Tan does not hold, and has not within the past three years held, any directorships in other public companies securities of which are listed.

Dong Gang, 35, is the Financial Controller of our Group and was appointed on February 1, 2005. Mr. Dong is responsible for the finance and accounting department of our Group. He graduated in July 1996 from Zhejiang Economic College, specializing in Accounting. Mr. Dong does not hold, and has not within the past three years held, any directorships in other public companies securities of which are listed.

Zhu Jian Ke, 52, is the Vice President of Audit and Financial Control of our Company and was appointed on April 1, 2009, prior to which he held the position of vice manager in our Group’s internal audit department since 1999. He graduated in July 1986 from Guangxi Radio and Television University (廣西廣播電視大學) specializing in operation and management of industrial enterprises. Mr. Zhu is an accountant in the PRC and has been registered with the Chinese Institute of Certified Public Accountants since July 31, 1992. Prior to joining us in 1999, Mr. Zhu

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was internal control manager at PDL Group. From 1993 to 1998, Mr. Zhu had assumed finance related roles at different companies, including Linfen Textile Factory (臨汾紡織廠). Mr. Zhu does not hold, and has not within the past three years held, any directorships in other public companies securities of which are listed.

Li Lee, 37, is the Director of Government Affairs of our Group and was appointed on April 1, 2009. Ms. Li is responsible for handling government matters. Prior to being appointed as Director of Government Affairs of our Group, Ms. Li worked under the legal department of the PDL Group from December 2005 to March 2009. Ms. Li graduated from Xiamen University with a bachelor’s degree in law on July 1, 2002. Ms. Li does not hold, and has not within the past three years held, any directorships in other public companies securities of which are listed.

Liu Qinhu, 46, is the Vice President of Acquisitions of our Group and was appointed on April 1, 2009. Mr. Liu graduated from Lujiang University (潯江大學) in July 1984, specializing in Economics. Mr. Liu is responsible for identifying and evaluating potential targets in the PRC and leading our overall acquisitions program. Prior to his appointment as Vice President of Acquisitions, he was the Director of Government Affairs of our Group from January 1, 2004 to March 31, 2009. He had experience working in the government sector, serving as an official in Xiamen Foreign Investment Enterprise Management Bureau. Mr. Liu does not hold, and has not within the past three years held, any directorships in other public companies securities of which are listed.

Lin Keqin, 38, is the Director of Human Resources of our Group and was appointed on January 1, 2004. Ms. Lin graduated from Hefei Union University (合肥聯合大學) in July 1992, specializing in Economics. Ms. Lin is responsible for coordinating our Group’s recruiting activities, assessing and determining appropriate compensation and incentive systems. Ms. Lin has been with our Group for over ten years. Ms. Lin does not hold, and has not within the past three years held, any directorships in other public companies securities of which are listed.

Stephen Doe, 43, is the General Manager for Operations of our Group and was appointed on January 1, 2004. Mr. Doe graduated from the University of Western Ontario, Canada in June 1989 in Bachelor of Arts. Mr. Doe worked for PIEL from 1992 to 1996 as Vice President of Operations. Mr. Doe is also the nephew-in-law of Alfred Chan and Edward Tan. Mr. Doe does not hold, and has not within the past three years held, any directorships in other public companies securities of which are listed.

Company Secretary

Su, Shaohua Charlotte, 33, was appointed as our Company Secretary on November 24, 2009. She has been a member of the Hong Kong Institute of Certified Public Accountant since March 30, 2009 and a member of the Chinese Institute of Certified Public Accountant since January 2002. Prior to being appointed as our Company Secretary, Ms. Su worked as an audit assistant from September 1999 to August 2005, and as a senior manager from September 2005 to April 2009 respectively in the audit department of Pan-China (Xiamen) Certified Public Accountants. Ms. Su graduated in July 1999 from Xiamen University with a bachelor’s degree of economics in auditing, and further obtained a master’s degree in MPAcc Master of Professional Accounting in September 2007 from Xiamen University. She is the wife of Dong Gang, the Financial Controller of our Group.

DIRECTORS AND SENIOR MANAGEMENT

RELATIONSHIP AMONG DIRECTORS AND SENIOR MANAGEMENT

Save for the relationship among Alfred Chan, Edward Tan and Stephen Doe and the relationship between Dong Gang and Charlotte Su, there are no other relationship among the Directors and senior management of our Group.

BOARD COMMITTEES

Audit Committee

Li Chang Qing (Chair)

Ainsley Tai

Randolph Yu

Our Company established an audit committee on November 24, 2009 with written terms of reference in compliance with the Listing Rules. The primary duties of the audit committee are, among other things, to review and supervise the financial reporting process and internal control systems of our Company.

Remuneration Committee and Policy

Ainsley Tai (Chair)

Li Chang Qing

Alfred Chan

Our Company established a remuneration committee on November 24, 2009. The primary duties of the remuneration committee are to evaluate and make recommendations to our Board regarding the compensation of our Directors. In addition, the remuneration committee conducts reviews of the performance, and determines the compensation structure of our senior management.

Alfred Chan and Edward Tan will not receive any directors emoluments. Instead, as ultimate Controlling Shareholders of our Company, they will solely derive financial gains from future dividend payments of our Company and the appreciation in the value of the Shares.

Tony Lau, as an executive Director of our Company, will be paid a salary at a level which is commensurate with his experience and competitive within the department store industry. He will also receive a bonus based on the performance of our Group, at a rate in sole discretion of the Remuneration Committee.

For the independent non-executive Directors, they will receive approximately US\$1,000 for each half-day meeting and approximately US\$1,500 for each whole-day meeting attended. In addition, they will be paid a special engagement fee for any special projects that they may undertake on the instruction of the Board.

DIRECTORS AND SENIOR MANAGEMENT

Past Remuneration of our Directors

No emolument were paid to the Directors listed in the Directors and Senior Management section during the Track Record Period by our Group for the following reasons:

- Alfred Chan and Edward Tan were the only Directors of our Company during the Track Record Period and they are also the Controlling Shareholders of our Company.
- Tony Lau was only appointed as a Director of our Company after the Track Record Period on November 24, 2009. Further details in relation to the emoluments paid to Tony Lau for his service as an employee of our Group are set out in the paragraph headed “Employee Benefits Expense” in Appendix I to this document.
- The other independent non-executive Directors have also only been appointed shortly before the date of this document, and therefore did not receive any emoluments during the Track Record Period.

Our Company confirms that no amount was paid to any Directors by the private group (including PDL) of the Controlling Shareholders on behalf of our Group during the Track Record Period.

We estimate that we will pay remuneration, including benefits and contributions, of approximately RMB320,000 to our Directors in respect of the year ending December 31, 2009 according to present arrangements.

COMPLIANCE ADVISER

The Company has appointed Evolution Watterson Securities Limited as its compliance adviser. The compliance adviser will advise our Company in the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated; and
- (c) where the Stock Exchange makes an inquiry regarding unusual movements in the price or trading volume of the Shares.

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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

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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.

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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

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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.

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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.”

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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

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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.

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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.

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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.

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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
	<i>(RMB in millions)</i>			<i>(unaudited)</i>	
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	<u>46.1</u>	<u>135.5</u>	<u>174.1</u>	<u>95.9</u>	<u>124.1</u>
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
	<u>46.1</u>	<u>135.5</u>	<u>174.1</u>	<u>95.9</u>	<u>124.1</u>

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
	<i>(RMB in millions)</i>				
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	<u>40.4</u>	<u>49.8</u>	<u>50.8</u>	<u>25.9</u>	<u>25.6</u>
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	<u>14.2</u>	<u>13.5</u>	<u>12.7</u>	<u>6.0</u>	<u>6.3</u>

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	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	<i>(RMB in millions)</i>				
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

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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
	<i>(RMB in millions)</i>			<i>(unaudited)</i>	
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.	<u>10.1</u>	<u>12.5</u>	<u>24.3</u>	<u>10.5</u>	<u>28.9</u>
Total store revenues.	<u>171.1</u>	<u>497.9⁽⁶⁾</u>	<u>706.8⁽⁷⁾</u>	<u>350.0</u>	<u>351.8⁽⁸⁾</u>

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.

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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)	(%)	(RMB in millions)	(%)
							(unaudited)			
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.

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	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	<i>(RMB in millions)</i>			<i>(unaudited)</i>	
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	<u>22.1</u>	<u>64.0</u>	<u>80.7</u>	<u>40.2</u>	<u>43.2</u>

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.

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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

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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.

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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

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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.

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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

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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.

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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

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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.

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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

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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.

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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 <i>RMB'000</i>
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
	<u>319,527</u>
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
	<u>833,765</u>
NET CURRENT LIABILITIES.	<u><u>514,238</u></u>

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

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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.

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Cash flow

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	<i>(RMB in millions)</i>			<i>(unaudited)</i>	
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

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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.

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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.

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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.

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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
			<i>(RMB)</i>	<i>(RMB)</i>		
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
	<u>178,000</u>	<u>554,707</u>	<u>695,439</u>	<u>1,190,521</u>	<u>604,114</u>
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
	<u>178,000</u>	<u>554,707</u>	<u>695,439</u>	<u>1,190,521</u>	<u>604,114</u>
Less: Amounts due within one year shown under current liabilities	<u>(73,000)</u>	<u>(124,316)</u>	<u>(394,780)</u>	<u>(519,395)</u>	<u>(338,728)</u>
	<u>105,000</u>	<u>430,391</u>	<u>300,659</u>	<u>671,126</u>	<u>265,386</u>

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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
	2006	2007	2008	June 30,
	%	%	%	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.

FINANCIAL INFORMATION

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
	2006	2007	2008	June 30,
				2009
	<i>(RMB in millions)</i>			
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
	<u>92.9</u>	<u>686.6</u>	<u>615.1</u>	<u>586.1</u>

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.

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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.”

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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.

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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
	<i>(RMB in millions)</i>			
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
	<i>(RMB in millions)</i>			
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.

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OTHER PAYABLES

	At December 31,			At June 30,
	2006	2007	2008	2009
	<i>(RMB in millions)</i>			
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
	<u>67.5</u>	<u>392.6</u>	<u>245.3</u>	<u>223.5</u>

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 upfront 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
	<i>(RMB in millions)</i>			
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	<u>25.9</u>	<u>128.4</u>	<u>147.6</u>	<u>152.4</u>

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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.

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- *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

FINANCIAL INFORMATION

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
	2006	2007	2008	June 30,
				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

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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
	<i>(RMB in millions)</i>			
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 —

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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.

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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	<u>67.4</u>
	<u><u>1,011.2</u></u>
 Movement for the period from July 1, 2009 to September 30, 2009	
Addition.	—
Disposal.	—
Depreciation/amortisation	<u>(3.8)</u>
 Net book value as of September 30, 2009	1,007.4
Valuation surplus	<u>281.2</u>
 Valuation as of September 30, 2009	<u><u>1,288.6</u></u>

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.

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PROFIT FORECAST FOR THE FINANCIAL YEAR ENDING DECEMBER 31, 2009

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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).

FUTURE PLANS

FUTURE PLANS AND PROSPECTS

We intend to be a dominant player in the Chinese market for high-end and luxury department stores. To accomplish this, we will continue to integrate prime department store properties into our store network in cities throughout China where we can capitalize on the growing affluence of PRC consumers. We will integrate these properties using a mix of purchased properties and long-term leases. After acquiring prime sites, we will draw on our experience in the Chinese high-end and luxury retail market to further improve the operating efficiency of our existing stores and re-shuffle our brand mix to enhance our positioning as a high-end and luxury department store operator.

In addition, in the long-term, we plan to develop an exclusive in-house line of high-end and luxury merchandise to be marketed under our own private label.

We believe that information technology and management systems are indispensable tools of a successful retail business. We plan to continue investing and improving our existing information technology and management systems including upgrading the services and network infrastructure to facilitate increasing scale of operation and customers’ demand.

CORPORATE INVESTORS

OUR CORPORATE INVESTORS

We set out below a brief description of our Corporate Investors:

PRIVATE EQUITY CONVERTIBLE BONDS

3i Investors

3i Group PLC (“3i”) is a company incorporated in Great Britain and registered in England and Wales. 3i is engaged in private equity and venture capital. 3i is an Investment Company as defined by section 833 of the Companies Act 2006. The principal activity of 3i and its subsidiaries (the “3i Group”) is investment. The 3i Group operates through a network of offices in Europe, Asia and the United States. The 3i Group also manages a number of funds established with major institutions and other investors to make equity and equity-related investments predominantly in unquoted businesses in Europe and Asia. The Shares in our company are held by the 3i Investors, being 3i, 3i Asia Pacific 2004–06 LP and 3i Asia Pacific Technology LP.

Investment

As at the Latest Practicable Date, the 3i Investors are holders of 973,000 Shares, representing 9.54% of the issued share capital of our Company. The 3i Investors will not remain as shareholders of our Company. The 3i Investors were originally subscribers of the aggregate sum of US\$31 million Private Equity Convertible Bonds issued by PCD Stores on October 26, 2005 and February 23, 2006. PCD Stores held, among other things, the entire business prior to the Reorganization. Pursuant to the terms of the Private Equity Convertible Bond Instrument, interest was payable to the 3i Investors at a rate of 6% per annum. The proceeds raised from the Private Equity Convertible Bonds were invested as share capital in various companies presently comprising our Group.

Pursuant to the Reorganization, Shares were issued by our Company to PCD Stores in consideration for the transfer by PCD Stores to our Company of the entire issued share capital of PCD China Real Estate and PCD Retail Operations, through which PCD Stores held the entire business prior to the Reorganization.

In connection with the transfer of the business from PCD Stores to our Company and pursuant to the Merger Arrangements dated August 15, 2007, the 3i Investors agreed to cancel all of the US\$31 million Private Equity Convertible Bonds. In consideration for the cancellation, 973,000 Shares, representing 9.54% of the issued share capital of our Company, were transferred by PCD Stores to the 3i Investors.

CORPORATE INVESTORS

Other than the special rights described below, no other relevant and material special rights were granted to the 3i Investors.

CVCI Investors

Citigroup Venture Capital International Growth Partnership, L.P., a Cayman Islands exempted limited partnership, and Citigroup Venture Capital International Co-investment, L.P., a Cayman Islands exempted limited partnership, are advised by Citigroup Venture Capital International Advisers, a division of Citibank, N.A., London Branch, an entity authorized and regulated by the Financial Services Authority and an indirect subsidiary of Citigroup Inc.

The CVCI Investors subscribed for an aggregate principal amount of US\$20 million of Private Equity Convertible Bonds issued by PCD Stores on October 26, 2005 and February 23, 2006. Pursuant to the Merger Arrangements, to which the CVCI Investors were also parties, the CVCI Investors agreed to cancel all of the US\$20 million Private Equity Convertible Bonds in consideration for 3,135 Shares in our Company. As part of the Reorganization, the CVCI Investors became holders of 627,000 Shares, representing 6.15% of the issued share capital of our Company. In the last quarter of 2008, the CVCI Investors initiated proceedings in Hong Kong against our Controlling Shareholders over whether the CVCI Investors were entitled to require PIEL to pay a cash amount to them in consideration for the CVCI Investors transferring their Shares to Bluestone under the Merger Arrangements and the parties subsequently settled the dispute in May 2009 pursuant to a settlement deed (the “CVCI Settlement Deed”) dated May 1, 2009 entered into by and among the CVCI Investors, PCD Stores, PIEL, PCD Stores (Holdings), our Company, Bluestone and Alfred Chan. In accordance with the terms of the CVCI Settlement Deed, the CVCI Investors transferred 627,000 Shares to Bluestone at a consideration of US\$37,967,285, which was agreed after arm’s length commercial discussions. As at the Latest Practicable Date, the CVCI Investors do not hold any Shares in our Company nor do they have any outstanding rights in relation to our Company or in connection with their prior investment in our Company. The dispute between our Controlling Shareholders and the CVCI Investors will not have any effect on our business and shareholding structure.

PRE-IPO CONVERTIBLE BONDS

Pursuant to an agreement entered into between Credit Suisse and CRC (a company wholly owned in equal shares by Alfred Chan and Edward Tan) on March 24, 2007, Credit Suisse agreed to subscribe for, and procure the subscription for, an aggregate principal amount of HK\$ equivalent of RMB500 million of the Pre-IPO Convertible Bonds. Of these Pre-IPO Convertible Bonds, Credit Suisse subscribed for a HK\$ equivalent of RMB150 million as principal (the “First CS Convertible Bond”). Of the balance of a HK\$ equivalent of RMB350 million of the Pre-IPO Convertible Bonds, a HK\$ equivalent of RMB41.5 million was subscribed by United Capital Investment Group Limited, a HK\$ equivalent of RMB38.5 million was subscribed by KTB/UCI China Ventures II Limited and a HK\$ equivalent of RMB270 million was subscribed by Credit Suisse and sold to Deutsche Bank (the “Second CS Convertible Bond”) on April 27, 2007. A further HK\$233.8 million and HK\$31.2 million of the Pre-IPO Convertible Bonds were contemporaneously subscribed by the Baring Asset Managements (Asia) Limited for the benefit of the Baring Hong Kong China Fund and The Greater China Fund, Inc., respectively. In respect of the purchase of the Pre-IPO Convertible Bonds by Deutsche Bank, an introductory fee of 1%

CORPORATE INVESTORS

of the HK\$ equivalent of RMB270 million was paid by Deutsche Bank to Credit Suisse. No introductory or other fee was paid by United Capital Investment Group Limited or KTB/UCI China Ventures II Limited in respect of the Pre-IPO Convertible Bonds subscribed by them.

On May 18, 2007, CRC further issued a HK\$ equivalent of RMB150 million of Pre-IPO Convertible Bonds to Morgan Stanley & Co International plc, which was introduced by Credit Suisse. Credit Suisse received an introductory fee of 2% of the HK\$ equivalent of RMB150 million from Morgan Stanley in respect of such subscription. The proceeds raised from the Pre-IPO Convertible Bonds were used by CRC to acquire the Beijing Scitech office complex, hotel, retail podium and adjacent land and buildings.

No fee was paid to Credit Suisse by CRC itself in connection with the issue of any of the Pre-IPO Convertible Bonds.

On February 26, 2009, a settlement deed was entered into by, among others, CRC and the Baring Hong Kong China Fund (the “First Baring Settlement Deed”). Pursuant to the First Baring Settlement Deed, the Baring Hong Kong China Fund agreed to transfer to Portico Global Limited, a company ultimately controlled by Alfred Chan and Edward Tan, HK\$233.8 million of the Pre-IPO Convertible Bonds that it held, in return for HK\$22,938,868 and 13,233,962 shares in PDL. On the same day, a settlement deed was entered into by, among others, CRC and The Greater China Fund Inc. (the “Second Baring Settlement Deed”), pursuant to which The Greater China Fund Inc. agreed to transfer to Portico Global Limited HK\$31.2 million of the Pre-IPO Convertible Bonds that it held, in return for HK\$3,061,132 and 1,766,038 shares in PDL. As a result of the First Baring Settlement Deed and the Second Baring Settlement Deed, Baring Hong Kong China Fund and The Greater China Fund Inc. no longer hold any Pre-IPO Convertible Bonds and are no longer the Pre-IPO CB Bondholders.

On July 27, 2009, a deed of amendment and restatement was entered into by and among Deutsche Bank, CRC, Bluestone and PIEL (the “Deutsche Deed of Amendment”). Pursuant to the Deutsche Deed of Amendment, the bond instrument of the Second CS Convertible Bond was amended such that the Second CS Convertible Bond is no longer convertible into Shares (the “New Deutsche Bonds”), and the Deutsche Bank Charge was amended such that the Deutsche Bank Charge had become a continuity security for the payment and performance of the obligations of CRC under the New Deutsche Bonds. Under the bond instrument of the New Deutsche Bonds, CRC is required to repay the principal amount of HK\$ equivalent of RMB270 million in various stages to Deutsche Bank. In connection with CRC’s repayment obligations under the New Deutsche Bonds, PIEL has given a specific guarantee in favour of Deutsche Bank on July 27, 2009.

The Pre-IPO CB Bondholders will not have any special rights which are not generally available to other shareholders, specifically, the Pre-IPO CB Bondholders will not be entitled to appoint or nominate any Directors nor be involved in the management of our Group. Details of the respective investments of each of the Pre-IPO CB Bondholders (and a brief description of each of them) are set out below.

In respect of Credit Suisse, it has undertaken to our Company that, other than with the prior written consent of our Company, it will abide by a specified set of restrictions on its ability to dispose of its Shares.

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On April 1, 2009, restructuring deeds were entered into by and among CRC, PIEL, Bluestone and each of the Pre-IPO CB Bondholders respectively in respect of their Pre-IPO Convertible Bonds (the “Restructuring Deeds”). Pursuant to the Restructuring Deeds, the maturity dates under the Pre-IPO Convertible Bonds held by each Pre-IPO CB Bondholder were extended. Further details of each of the Restructuring Deeds are set out below.

Credit Suisse (Hong Kong) Limited and Deutsche Bank AG, Singapore Branch

Credit Suisse is incorporated in Hong Kong and is a licensed corporation under the Hong Kong Securities and Futures Ordinance. Its principal activities are trading and selling securities, arranging of debt and equity financing and sale of financial products.

The immediate parent of Credit Suisse is Credit Suisse (International) Holding AG, which is incorporated in Switzerland, and the ultimate controlling party of Credit Suisse is Credit Suisse Group, which is incorporated in Switzerland.

Deutsche Bank is a branch office of Deutsche Bank Aktiengesellschaft. Deutsche Bank Aktiengesellschaft (“Deutsche Bank”) originated from the reunification of Norddeutsche Bank Aktiengesellschaft, Hamburg, Rheinisch-Westfälische Bank Aktiengesellschaft, Duesseldorf and Süddeutsche Bank Aktiengesellschaft, Munich; pursuant to the Law on the Regional Scope of Credit Institutions, these had been disincorporated in 1952 from Deutsche Bank which was founded in 1870. The merger and the name were entered in the Commercial Register of the District Court Frankfurt am Main on 2 May 1957. Deutsche Bank is a banking institution and a stock corporation incorporated under the laws of Germany under registration number HRB 30,000. The Bank has its registered office in Frankfurt am Main, Germany. It maintains its head office at Theodor-Heuss-Allee 70, 60486 Frankfurt am Main and branch offices in Germany and abroad including in London, New York, Sydney, Tokyo and an Asia-Pacific head office in Singapore which serve as hubs for its operations in the respective regions.

Deutsche Bank is the parent company of a group consisting of banks, capital market companies, fund management companies, a real estate finance company, instalment financing companies, research and consultancy companies and other domestic and foreign companies (the “Deutsche Bank Group”).

Deutsche Bank first established a presence in Singapore in 1972. In 1988, Deutsche Bank established its Asia-Pacific head office in Singapore.

CRC issued:

- (a) a HK\$ equivalent of a RMB150 million convertible bond due April 3, 2009 in favour of Credit Suisse pursuant to a convertible bond instrument entered into by CRC dated April 3, 2007 (the “First CS Convertible Bond”); and
- (b) a HK\$ equivalent of a RMB270 million convertible bond due April 26, 2009 in favour of Credit Suisse pursuant to a convertible bond instrument entered into by CRC dated April 26, 2007 (the “Second CS Convertible Bond” and together with the First CS Convertible Bond the “CS Convertible Bonds” and each a “CS Convertible Bond”) (on April 27, 2007 the Second CS Convertible Bond was acceded to by Deutsche

CORPORATE INVESTORS

Bank, pursuant to which the bond issued thereto was transferred to, and a bond certificate was issued in the name of Deutsche Bank, further details of which are set out below).

The subscription moneys payable to CRC in respect of the First CS Convertible Bond and the Second CS Convertible Bond were paid on April 4, 2007 and April 27, 2007 respectively.

On April 3, 2007 and April 26, 2007 respectively, PIEL entered into

- (a) a deed of charge over shares with Credit Suisse, pursuant to which PIEL charged to Credit Suisse by way of fixed first charge, all of its rights, title, benefits and interest in Shares representing 10.5 per cent of the voting rights of our Company as a continuing security for the payment and performance of the obligations of CRC under the First CS Convertible Bond (the “Credit Suisse Charge”).
- (b) a deed of charge over shares with Credit Suisse, pursuant to which PIEL charged to Credit Suisse by way of fixed first charge, all of its rights, title, benefits and interest in Shares representing 18.9 per cent of the voting rights of our Company as a continuing security for the payment and performance of the obligations of CRC under the Second CS Convertible Bond (the “Original Deed of Charge”). CRC’s obligations under the Original Deed of Charge were subsequently released by Credit Suisse and a new deed of charge was entered into by CRC in favour of Deutsche Bank, further details of which are set out below.

Pursuant to a restructuring deed entered into by, among others, Credit Suisse and CRC dated April 1, 2009 (the “CS Restructuring Deed”), an amended and restated deed of charge was entered into between Bluestone and Credit Suisse on the same date, under which Bluestone acted as the chargor under the Credit Suisse Charge. Pursuant to the CS Restructuring Deed, the maturity date of the First CS Convertible Bond was extended to April 3, 2011.

As of the Latest Practicable Date, the First CS Convertible Bond has been partially repaid by CRC and the outstanding principal to be repaid under the First CS Convertible Bond is RMB135 million.

Further to and in accordance with the terms of the Second CS Convertible Bond, on April 27, 2007, CRC and Deutsche Bank entered into a Deed of Adherence pursuant to which Deutsche Bank acceded to and agreed to be bound by the terms of the bond instrument in relation to the Second CS Convertible Bond, and CRC covenanted and agreed to procure that the security furnished for the benefit of Credit Suisse pursuant to the Deed of Charge be extended to Deutsche Bank to the effect that it be a beneficiary to the Second CS Convertible Bond. On the same date:

- (a) Credit Suisse and Deutsche Bank entered into a form of transfer further to which the Second CS Convertible Bond was transferred to Deutsche Bank;
- (b) Credit Suisse and PIEL entered into a deed of release further to which Credit Suisse released CRC from its obligations under the Original Deed of Charge; and

CORPORATE INVESTORS

- (c) PIEL and Deutsche Bank entered into a deed of charge pursuant to which PIEL charged to Deutsche Bank by way of fixed first charge, all of its rights, title, benefits and interest in Shares representing 18.9 per cent of the voting rights of our Company as a continuing security for the payment and performance of the obligations of CRC under the Second CS Convertible Bond (the “Deutsche Bank Charge”).

On July 27, 2009, a deed of amendment and restatement was entered into by and among Deutsche Bank, CRC, Bluestone and PIEL (the “Deutsche Deed of Amendment”). Pursuant to the Deutsche Deed of Amendment, the bond instrument of the Second CS Convertible Bond was amended such that the Second CS Convertible Bond is no longer convertible into Shares (the “New Deutsche Bonds”), and the Deutsche Bank Charge was amended such that Bluestone has replaced PIEL as the charger and that the Deutsche Bank Charge has become a continuing security for the payment and performance of the obligations of CRC under the New Deutsche Bonds. Under the bond instrument of the New Deutsche Bonds, CRC is required to repay in various stages to Deutsche Bank. In connection with CRC’s repayment obligations under the New Deutsche Bonds, PIEL has given a specific guarantee in favour of Deutsche Bank on July 27, 2009.

As of the Latest Practicable Date, the New Deutsche Bonds have been partially repaid by CRC and the outstanding principal amount to be repaid under the New Deutsche Bonds is RMB54 million to be fully repaid in February 2010. As of the Latest Practicable Date, the Deutsche Bank Charge was partially released and the Deutsche Bank Charge was over 15 per cent of the voting rights of our Company. The Deutsche Bank Charge will be fully released upon full payment of the outstanding principal amount in February 2010.

The Credit Suisse Charge will be released upon repayment or conversion of the First CS Convertible Bond, whichever is earlier.

Under the First CS Convertible Bond, interest is payable by CRC at a rate of 8.4 per cent per annum on the principal amount outstanding calculated using the prevailing rate of exchange quoted by the Bank of China for buying and selling spot units of RMB against HK\$.

The outstanding principal under the First CS Convertible Bond, unless redeemed earlier, shall be exchanged into Shares held by Bluestone on respective dates determined by CRC following its provision of a written notice to Credit Suisse. Such Shares shall then, in accordance with the terms of the First CS Convertible Bond, at the direction of CRC, be transferred by Bluestone to Credit Suisse accordingly. The number of Shares to be transferred by Bluestone on exchange of the First CS Convertible Bond is to be determined by dividing the HK\$ equivalent of the RMB principal amount of the First CS Convertible Bond to be converted (calculated using the prevailing exchange rate described above) by the conversion price in effect on the conversion date.

United Capital Investment Group Limited

UCI focuses on investing in potential or current market leaders in industries experiencing strong growth in China. UCI also operates an incubator facility for start-ups and growth companies in China. Aside from providing capital, UCI also offers management and technical know-how, financial experience, legal and accounting resources, and other value added services to

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support its portfolio companies. Its China-based venture capital/private equity team has invested in numerous projects including Focus Media Holding (Nasdaq: FMCN), China Paradise Electronics (now part of the Gome Electronics retail chain) (HK: 0493), Xinyu Hengdeli Holdings (HK: 3389), Sino-Forest Corporation (Toronto: TRE) and the recently listed China Cord Blood Corporation (NYSE: CO).

CRC issued a HK\$ equivalent of a RMB41.5 million convertible bond due April 26, 2009 in favour of UCI pursuant to a convertible bond instrument entered into by CRC dated April 26, 2007 (the “UCI Convertible Bond”). The subscription moneys payable to CRC in respect of the UCI Convertible Bond were paid on April 27, 2007. In relation to the UCI Convertible Bond, a restructuring deed dated April 1, 2009 was entered into by, among others, UCI and CRC (the “UCI Restructuring Deed”), pursuant to which the maturity date of the UCI Convertible Bond was extended to April 26, 2011.

On April 26, 2007, PIEL also entered into a deed of charge over shares with UCI (the “UCI Charge”), pursuant to which PIEL charged to UCI by way of fixed first charge, all of its rights, title, benefits and interest in Shares representing 2.9 per cent of the voting rights of our Company as a continuing security for the payment and performance of the obligations of CRC under the UCI Convertible Bond. Pursuant to the UCI Restructuring Deed, an amended and restated deed of charge was entered into between Bluestone and UCI on the same date, under which Bluestone acted as the chargor under the UCI Charge. The UCI Charge will be released upon repayment or conversion of the UCI Convertible Bond, whichever is earlier.

Under the UCI Convertible Bond, interest is payable at a rate of 8.4 per cent per annum on the principal amount outstanding under the UCI Convertible Bond by CRC calculated using the prevailing rate of exchange quoted by the Bank of China for buying and selling spot units of RMB against HK\$.

As of the Latest Practicable Date, the UCI Convertible Bond has been partially repaid by CRC and the outstanding principal to be repaid under the UCI Convertible Bond is RMB37.35 million.

Unless redeemed earlier, the outstanding principal under the UCI Convertible Bond shall be exchanged into Shares held by Bluestone on a date determined by CRC following its provision of written notice to UCI. Such Shares shall then, in accordance with the terms of the UCI Convertible Bond, at the direction of CRC, be transferred by Bluestone to UCI. The number of Shares to be transferred by Bluestone on exchange of the UCI Convertible Bond is to be determined by dividing the HK\$ equivalent of the RMB principal amount of the UCI Convertible Bond to be converted (calculated using the prevailing exchange rate described above) by the conversion price in effect on the conversion date.

KTB/UCI China Ventures II Limited

KTB/UCI is a fund managed by UCI. KTB Securities (“KTB”), established in 1981, is an investment firm based in Korea. It manages more than 1 billion dollars in investment funds. It was listed on the Korean Stock Exchange in 1996.

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CRC issued a HK\$ equivalent of a RMB38.5 million convertible bond due April 26, 2009 in favour of KTB/UCI pursuant to a convertible bond instrument entered into by CRC dated April 26, 2007 (the “KTB/UCI Convertible Bond”). The subscription moneys payable to CRC in respect of the KTS/UCI Convertible Bond were paid on April 27, 2007.

On April 26, 2007, PIEL further entered into a deed of charge over shares with KTB/UCI (the “KTB/UCI Charge”), pursuant to which PIEL charged to KTB/UCI by way of fixed first charge, all of its rights, title, benefits and interest in Shares representing 2.7 per cent of the voting rights of our Company as a continuing security for the payment and performance of the obligations of CRC under the KTB/UCI Convertible Bond. Pursuant to a restructuring deed entered into, among others, KTB/UCI and CRC (the “KTB/UCI Restructuring Deed”), an amended and restated deed of charge was entered into between Bluestone and KTB/UCI on the same date, under which Bluestone acted as the chargor under the KTB/UCI Charge. Pursuant to the KTB/UCI Restructuring Deed, the maturity date of the KTB/UCI Convertible Bond was extended to April 26, 2011. The KTB/UCI Charge will be released upon repayment or conversion of the KTB/UCI Convertible Bond, whichever is earlier.

Under the KTB/UCI Convertible Bond, interest is payable at a rate of 8.4 per cent per annum on the principal amount outstanding under the KTB/UCI Convertible Bond by CRC calculated using the prevailing rate of exchange quoted by the Bank of China for buying and selling spot units of RMB against HK\$. Unless converted as described below, CRC shall redeem the KTB/UCI Convertible Bond on April 26, 2009.

As of the Latest Practicable Date, the KTB/UCI Convertible Bond has been partially repaid by CRC and the outstanding principal to be repaid under the KTB/UCI Convertible Bond is RMB34.65 million.

Unless redeemed earlier, the outstanding principal under the KTB/UCI Convertible Bond shall be exchanged into Shares held by Bluestone on a date determined by CRC following its provision of written notice to KTB/UCI. Such Shares shall then, in accordance with the terms of the KTB/UCI Convertible Bond, at the direction of CRC, be transferred by Bluestone to KTB/UCI. The number of Shares to be transferred by Bluestone on exchange of the KTB/UCI Convertible Bond is to be determined by dividing the HK\$ equivalent of the RMB principal amount of the KTB/UCI Convertible Bond to be converted (calculated using the prevailing exchange rate described above) by the conversion price in effect on the conversion date.

Morgan Stanley & Co. International Plc (“MSIP”)

MSIP is a wholly owned subsidiary of Morgan Stanley. Morgan Stanley is a global financial services firm that, through its subsidiaries and affiliates, provides its products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals. It maintains significant market positions in each of its business segments — Institutional Securities, Global Wealth Management Group and Asset Management. The principal activity of MSIP is the provision of a wide range of financial and securities services which includes capital raising; financial advisory services, including advice on mergers and acquisitions, restructurings, real estate and project finance; sales, trading, financing and market-making activities in equity securities and fixed income securities and related products, including foreign exchange, commodities and research.

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CRC issued a HK\$ equivalent of a RMB150 million convertible bond due May 18, 2009 in favour of MSIP pursuant to a convertible bond instrument entered into by CRC dated May 17, 2007 (the “MS Convertible Bond”).

On May 17, 2007, PIEL further entered into a deed of charge over shares with MSIP (the “Morgan Stanley Charge”), pursuant to which PIEL charged to MSIP by way of fixed first charge, all of its rights, title, benefits and interest in Shares representing 10 per cent of the voting rights of our Company as a continuing security for the payment and performance of the obligations of CRC under the MS Convertible Bond. Pursuant to a restructuring deed entered into by, among others, MSIP and CRC (the “MS Restructuring Deed”), an amended and restated deed of charge was entered into between Bluestone and MSIP on the same date, pursuant to which Bluestone acted as the chargor under the Morgan Stanley Charge. Pursuant to the Restructuring Deed, the maturity date of the MS Convertible Bond was extended to May 17, 2011. The Morgan Stanley Charge will be released upon repayment or conversion of the MS Convertible Bond, whichever is earlier.

Under the MS Convertible Bond, interest is payable at a rate of 8.4 per cent per annum on the principal amount outstanding under the MS Convertible Bond by CRC calculated using the prevailing rate of exchange quoted by the Bank of China for buying and selling spot units of RMB against HK\$.

As of the Latest Practicable Date, the MS Convertible Bond has been partially repaid by CRC and the outstanding principal to be repaid under the MS Convertible Bond is RMB112.5 million.

Unless redeemed earlier, the outstanding principal under MS Convertible Bond shall be exchanged into Shares held by Bluestone. Such Shares shall then, in accordance with the terms of the MS Convertible Bond, at the direction of CRC, be transferred by Bluestone to MSIP. The number of Shares to be transferred by Bluestone on exchange of the MS Convertible Bond is to be determined by dividing the HK\$ equivalent of the RMB principal amount of the MS Convertible Bond to be converted (calculated using the prevailing exchange rate described above) by the conversion price in effect on the conversion date.

Portico Global Limited

Portico Global Limited is incorporated in the British Virgin Islands and is a company ultimately controlled by Alfred Chan and Edward Tan.

As described under the heading “— Pre-IPO Convertible Bonds” above, pursuant to the First Baring Settlement Deed and the Second Baring Settlement Deed, Portico Global Limited was transferred a total of HK\$265 million of the Pre-IPO Convertible Bonds from Baring Hong Kong China Fund and The Greater China Fund Inc. (the “Portico Convertible Bond”). The maturity date under the Portico Convertible Bond was extended to June 30, 2010 or such later date as agreed between CRC and Portico Global Limited.

The principal amount of HK\$265 million under the Portico Convertible Bond shall be exchanged into Shares held by Bluestone on a date determined by CRC following its provision of written notice to Portico Global Limited. Such Shares shall then, in accordance with the terms of

CORPORATE INVESTORS

the Portico Convertible Bond, at the direction of CRC, be transferred by Bluestone to Portico. The number of Shares to be transferred by Bluestone on exchange of the Portico Convertible Bond is to be determined by dividing the outstanding principal amount of the Portico Convertible Bond to be converted by the conversion price in effect on the conversion date. As of the Latest Practicable Date, the outstanding principal to be repaid under Portico Convertible Bond is HK\$265 million.

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ACCOUNTANTS’ REPORT

The following is the text of a report, prepared for inclusion in this document, received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.
德勤

德勤·關黃陳方會計師行
香港金鐘道88號
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Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

[December 2,] 2009

The Directors
PCD Stores (Group) Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) relating to PCD Stores (Group) Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended December 31, 2008 and the six months ended June 30, 2009 (the “Track Record Period”).

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2004 Revision) of the Cayman Islands on January 8, 2007 under the name of Tiger Power Investments Limited and subsequently changed its name to PCD Stores (Group) Limited on August 15, 2007. Pursuant to a group reorganisation, as more fully explained in the section headed “The Reorganisation” in Appendix VII to this document (the “Reorganisation”), the Company became the holding company of the companies now comprising the Group on November 14, 2007.

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As at the date of this report, the Company had the following subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid-up share capital/registered capital	Equity interest attributable to the Company as at										Principal activities		
			December 31, 2006		December 31, 2007		December 31, 2008		June 30, 2009		Date of this report				
			Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect			
			%	%	%	%	%	%	%	%	%	%	%		
PCD China Real Estate Limited.	The British Virgin Islands (the “BVI”) September 14, 2005	US\$1	—	100	100	—	100	—	100	—	100	—	100	—	Investment holding
Zhongshan PCD (Xiamen) Department Stores Co., Ltd. (“Zhongshan PCD Stores (Xiamen)”) 中山巴黎春天(廈門)百貨有限公司	The People’s Republic of China (the “PRC”) October 28, 2005	US\$5,000,000	—	100	—	100	—	100	—	100	—	100	—	100	Retailing business
Printemps Real Estate (Xiamen) Limited. (“PCD Real Estate (Xiamen)”) 巴黎春天房地產(廈門)有限公司	The PRC April 28, 2002	US\$19,000,000	—	100	—	100	—	100	—	100	—	100	—	100	Property leasing
PCD World Trade (Xiamen) Co., Ltd. (“PCD World Trade (Xiamen)”) (Note xi) 廈門世貿巴黎春天百貨有限公司	The PRC August 29, 2001	RMB3,000,000	—	100	—	100	—	100	—	100	—	100	—	100	Retailing business
PCD Continental Department Stores (Xiamen) Co., Ltd. (“PCD Continental”) (Note xi) 廈門大陸春天百貨有限公司 (Formerly known as “廈門大陸來雅百貨有限公司”)	The PRC August 23, 2005	RMB1,000,000	—	100	—	100	—	100	—	100	—	100	—	100	Retailing business
PCD Department Stores (Taiyuan) Co., Ltd. (“PCD Stores (Taiyuan)”) (Note xi) 太原巴黎春天百貨有限公司	The PRC March 9, 2005	RMB5,000,000	—	100	—	100	—	100	—	100	—	100	—	100	Retailing business
PCD Department Stores (Jilin) Co., Ltd (“PCD Stores (Jilin)”) (Note xi) 吉林省巴黎春天百貨有限公司	The PRC November 28, 2006	RMB10,000,000	—	100	—	100	—	100	—	100	—	100	—	100	Retailing business
Zhongshan PCD Stores (Qingdao) Limited (“Zhongshan PCD Stores (Qingdao)”) (Note xi) 青島中山巴黎春天百貨有限公司	The PRC October 9, 2006	RMB5,000,000	—	100	—	100	—	100	—	100	—	100	—	100	Retailing business

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Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid-up share capital/registered capital	Equity interest attributable to the Company as at										Principal activities
			December 31, 2006		December 31, 2007		December 31, 2008		June 30, 2009		Date of this report		
			Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect	
Laiya Department Management (Xiamen) Co., Ltd. ("Laiya Department Management (Xiamen)") (Note xi) 廈門來雅百貨管理有限公司 . . .	The PRC January 4, 2006	RMB1,000,000	—	100	—	100	—	100	—	100	—	100	Operation and management of department stores
PCD Department Stores (Guangxi) Co., Ltd. ("PCD Stores (Guangxi)") (Note xi) 廣西巴黎春天百貨有限公司) . . .	The PRC September 26, 2006	RMB5,000,000	—	100	—	100	—	100	—	100	—	100	Retailing business
PCD Songhai Department Stores (Xiamen) Co., Ltd. ("PCD Songhai") (Note xi) 廈門松柏春天百貨有限公司 (Formerly known as "廈門來雅百貨有限公司"), ...	The PRC May 29, 1998	RMB11,000,000	—	95	—	95	—	95	—	95	—	95	Retailing business
PCD Retail Management Inc. ("PCD Retail Management")	The BVI August 24, 1998	— (Note i)	—	99.2	—	99.2	—	99.2	—	99.2	—	99.2	Operation and management of department stores
Beijing Scitech Department Stores Co., Ltd. ("Beijing Scitech Department Stores") (Note xi) 北京賽特百貨有限公司 (Formerly known as "北京中山春天百貨有限公司"), ...	The PRC April 26, 2007	RMB10,000,000	N/A	N/A	—	100	—	100	—	100	—	100	Retailing business
PCD Retail Operations Limited ("PCD Retail Operations")	The BVI May 18, 2007	— (Note ii)	N/A	N/A	100	—	100	—	100	—	100	—	Investment holding
Xian Century Changan Property Investment Limited ("Xian Century Changan Property Investment") (Note xi) 西安世紀長安物業投資管理有限公司	The PRC September 12, 1995	RMB126,000,000	—	—	—	100	—	100	—	100	—	100	Property investment and management of department stores

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Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid-up share capital/registered capital	Equity interest attributable to the Company as at										Principal activities		
			December 31, 2006		December 31, 2007		December 31, 2008		June 30, 2009		Date of this report				
			Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect			
			%	%	%	%	%	%	%	%	%	%	%		
PCD Stores Information Consulting (Xiamen) Limited (“PCD Stores Information Consulting (Xiamen)”) (Note xi) 廈門巴黎春天百貨信息諮詢有限公司	The PRC August 27, 2007	RMB2,000,000	N/A	N/A	—	100	—	100	—	100	—	100	—	100	Information consulting
Dragon Talent Development Limited (“Dragon Talent”)	Hong Kong May 11, 2007	— (Note iii)	N/A	N/A	—	100	—	100	—	100	—	100	—	100	Investment holding
Well Power Enterprise Limited (“Well Power”)	Hong Kong June 1, 2007	— (Note iv)	N/A	N/A	—	100	—	100	—	100	—	100	—	100	Investment holding
PCD Roosevelt China Ventures Limited (“PCD Roosevelt”)	The BVI April 22, 2008	— (Note v)	N/A	N/A	N/A	N/A	—	51	—	51	—	—	—	—	Provision of management consultancy services for department stores (Note xii)
PCD China Ventures Limited (“PCD China Ventures”)	The BVI May 3, 2008	— (Note vi)	N/A	N/A	N/A	N/A	—	100	—	100	—	100	—	—	Investment holding (Note xii)
PCD Jiahe Trading and Commerce (Xiamen) Company Limited (“Jiahe Chun Tian”) 嘉禾春天商貿(廈門)有限公司	The PRC July 9, 2008	HK\$750,000 (Note vii)	N/A	N/A	N/A	N/A	—	100	—	100	—	100	—	100	Retailing business
Qingdao Century Chuntian Information Consulting Co., Ltd. (“Qingdao Chuntian”) (Note xi) 青島世紀春天信息諮詢有限公司	The PRC March 8, 2009	RMB200,000 (Note viii)	N/A	N/A	N/A	N/A	N/A	N/A	—	100	—	100	—	100	Information consulting
Beijing Yuanyongxin Information Consulting Company Limited (“Beijing Yuanyongxin”) (Note xi) 北京源永信信息諮詢有限公司	The PRC March 25, 2009	RMB200,000 (Note ix)	N/A	N/A	N/A	N/A	N/A	N/A	—	100	—	100	—	100	Information consulting
Xiamen Lotus Department Stores Company Limited (“Xiamen Lotus”) 廈門蓮花百貨有限公司	The PRC September 4, 2009	HK\$2,000,000 (Note x)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	—	100	Retailing business

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Note:

- (i) The authorised share capital of PCD Retail Management is US\$50,000. No capital has been contributed by the Group up to the date of this report.
- (ii) The authorised share capital of PCD Retail Operations is US\$1. No capital has been contributed by the Group up to the date of this report.
- (iii) The authorised share capital of Dragon Talent is HK\$10,000. No capital has been contributed by the Group up to the date of this report.
- (iv) The authorised share capital of Well Power is HK\$10,000. No capital has been contributed by the Group up to the date of this report.
- (v) The authorised share capital of PCD Roosevelt is US\$50,000. No capital has been contributed by the Group up to November 11, 2009, the date of disposal. (*Note xii*).
- (vi) The authorised share capital of PCD China Ventures is US\$50,000. No capital has been contributed by the Group up to November 11, 2009, the date of disposal. (*Note xii*).
- (vii) The registered capital of Jiahe Chun Tian is HK\$5,000,000. The capital amounted to HK\$750,000 has been contributed by the Group up to the date of this report.
- (viii) The registered capital of Qingdao Chuntian is RMB1,000,000. The capital amounted to RMB200,000 has been contributed by the Group up to the date of this report.
- (ix) The registered capital of Beijing Yuanyongxin is RMB1,000,000. The capital amounted to RMB200,000 has been contributed by the Group up to the date of this report.
- (x) The registered capital of Xiamen Lotus is HK\$10,000,000. The capital amounted to HK\$2,000,000 has been contributed by the Group up to date of this report.
- (xi) English names for the PRC established entities are for identification purpose only.
- (xii) On November 11, 2009, pursuant to an instrument of transfer and bough and sold notes, PCD Retail Operations transferred its shareholdings in PCD China Ventures to Double Eight Enterprises Limited, a company indirectly wholly-owned by Alfred Chan and his brother, Edward Tan (the “Chan Family”), for nil consideration. Accordingly, the Group’s interests in PCD Roosevelt, the subsidiary of PCD China Ventures, also was transferred to Double Eight Enterprises Limited.

The financial year end date of all the companies now comprising the Group is December 31.

No audited financial statements have been prepared for the Company, PCD China Real Estate Limited, PCD Retail Management, PCD Retail Operations, PCD Roosevelt and PCD China Ventures since their incorporation as there is no statutory audit requirement in their respective places of incorporation. No audited financial statements have been prepared for Dragon Talent and Well Power as no annual general meeting has been held since their incorporation. For the purpose of this report, we have, however, reviewed all the relevant transactions of the Company, PCD China Real Estate Limited, PCD Retail Management, PCD Retail Operations, PCD Roosevelt, PCD China Ventures, Dragon Talent and Well Power since their respective dates of incorporation and carried out such procedures as we considered necessary for inclusion of their financial information. No audited financial statements have been prepared for Qingdao Chuntian

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and Beijing Yuanyongxin for the period from their respective dates of establishment to June 30, 2009, or all other entities of the Group for the six months ended June 30, 2009 as there is no statutory reporting requirement for the relevant periods.

The statutory financial statements of the Company’s subsidiaries established in the PRC were prepared in accordance with the relevant accounting principles and financial regulations in the PRC. They were audited by the following certified public accountants registered in the PRC, as appropriate:

Name of subsidiary	Financial year/period	Name of auditor
Zhongshan PCD Stores (Xiamen)	Financial year ended December 31, 2006	廈門華永聯合會計師事務所 Xiamen Huayong Lianhe Certified Public Accountants Firm (<i>Note i</i>)
	Financial year ended December 31, 2007 and 2008	廈門業華會計師事務所有限公司 Xiamen Yehua Certified Public Accountants Co., Ltd (<i>Note i</i>)
PCD Real Estate (Xiamen)	Financial year ended December 31, 2006 and 2007	廈門集友會計師事務所有限公司 Xiamen Chiyu Certified Public Accountants Co., Ltd
	Financial year ended December 31, 2008	廈門中友會計師事務所有限公司 Xiamen Zhongyou Certified Public Accountant Firm
PCD World Trade (Xiamen)	Financial year ended December 31, 2006	廈門華永聯合會計師事務所 Xiamen Huayong Lianhe Certified Public Accountants Firm (<i>Note i</i>)
	Financial year ended December 31, 2007 and 2008	廈門業華會計師事務所有限公司 Xiamen Yehua Certified Public Accountants Co., Ltd (<i>Note i</i>)
PCD Continental	Financial year ended December 31, 2006 and 2007	廈門利安達普和會計師事務所有限公司 Xiamen Reanda Certified Public Accountants
	Financial year ended December 31, 2008	廈門普和會計師事務所有限公司 Xiamen PuHe Certified Public Accountants Co., Ltd
PCD Stores (Taiyuan) . . .	Financial year ended December 31, 2006 and 2007	山西正裕會計師事務所有限公司 Shanxi Zhengyu Certified Public Accountants
	Financial year ended December 31, 2008	山西華泰會計師事務所有限公司 Shanxi Huatai Certified Public Accountant Development Ltd
PCD Stores (Jilin)	Period from November 28, 2006 to December 31, 2006	吉林新華會計師事務所有限公司 Jilin Xinhua Certified Public Accountants Co., Ltd
	Financial year ended December 31, 2007 and 2008	北京中瑞誠聯合會計師事務所吉林分所 Beijing CRC United Certified Public Accountants
Zhongshan PCD Stores (Qingdao).	Period from October 9, 2006 to December 31, 2006	青島振青會計師事務所有限公司 Qingdao Zhenqing Certified Public Accountants Co., Ltd
	Financial year ended December 31, 2007 and 2008	青島振青會計師事務所有限公司 Qingdao Zhenqing Certified Public Accountants Co., Ltd

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Name of subsidiary	Financial year/period	Name of auditor
Laiya Department Management (Xiamen) . . .	Period from January 4, 2006 to December 31, 2006 Financial year ended December 31, 2007 Financial year ended December 31, 2008	廈門利安達普和會計師事務所有限公司 Xiamen Reanda Certified Public Accountants 廈門利安達普和會計師事務所有限公司 Xiamen Reanda Certified Public Accountants 廈門普和會計師事務所有限公司 Xiamen PuHe Certified Public Accountants Co., Ltd
PCD Stores (Guangxi) . . .	Period from September 26, 2006 to December 31, 2006 Financial year ended December 31, 2007 Financial year ended December 31, 2008	廈門華永聯合會計師事務所 Xiamen Huayong Lianhe Certified Public Accountants Firm (<i>Note i</i>) 廣西興瑞聯合會計師事務所 Guangxi Xingrui United Certified Public Accountants 廣西信天祥會計師事務所有限公司 Guangxi Xintianxiang Certified Public Accountants Firm
PCD Songbai	Financial year ended December 31, 2006 Financial year ended December 31, 2007 Financial year ended December 31, 2008	廈門利安達普和會計師事務所有限公司 Xiamen Reanda Certified Public Accountants 廈門利安達普和會計師事務所有限公司 Xiamen Reanda Certified Public Accountants 廈門普和會計師事務所有限公司 Xiamen PuHe Certified Public Accountants Co., Ltd
Beijing Scitech Department Stores . . .	Period from April 26, 2007 to December 31, 2007 Financial year ended December 31, 2008	中和正信會計師事務所有限公司 Zhonghe Zhengxin Certified Public Accountants 中和正信會計師事務所有限公司 Zhonghe Zhengxin Certified Public Accountants
Xian Century Changan Property Investment . . .	Financial year ended December 31, 2007 Financial year ended December 31, 2008	西安華鑫會計師事務所有限責任公司 Xian Huaxin Certified Public Accountants Co., Ltd 陝西同源會計師事務所有限責任公司 Shanxi Tongyuan Certified Public Accounts Co., Ltd (<i>Note i</i>)
PCD Stores Information Consulting (Xiamen) . .	Period from August 27, 2007 to December 31, 2007 Financial year ended December 31, 2008	廈門利安達普和會計師事務所有限公司 Xiamen Reanda Certified Public Accountants 廈門普和會計師事務所有限公司 Xiamen PuHe Certified Public Accountants Co., Ltd
Jiahe Chun Tian	Period from July 9, 2008 to December 31, 2008	廈門業華會計師事務所有限公司 Xiamen Yehua Certified Public Accountants Co., Ltd (<i>Note i</i>)

Note:

- (i) The English names are for identification purpose only.

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For the purpose of this report, the directors of the Company have prepared the Financial Information of the Group for the Track Record Period (the “Underlying Financial Statements”) in accordance with International Financial Reporting Standards (“IFRSs”). We have carried out an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The financial statements of Xian Century Changan Property Investment prepared in accordance with IFRS for the year ended December 31, 2006 and the period from January 1, 2007 to August 9, 2007 (the “Pre-Acquisition Period”) (the “Pre-Acquisition Underlying Financial Statements”) were audited by Edward Lau & Co., Certified Public Accountants, Hong Kong, in accordance with the Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the Underlying Financial Statements and the Pre-Acquisition Underlying Financial Statements in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The Financial Information of the Group for the Track Record Period as set out in this report has been prepared from the Underlying Financial Statements, on the basis set out in Note 1 to the Financial Information. No adjustments are considered necessary to the Underlying Financial Statements for the preparation of the Financial Information.

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are also responsible for the contents of the document in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in Note 1 to the Financial Information, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as of December 31, 2006, 2007 and 2008 and June 30, 2009 and the Company as of December 31, 2007, 2008 and June 30, 2009 and of the consolidated results and consolidated cash flows of the Group for the Track Record Period.

The comparative consolidated statement of comprehensive income, statement of cash flows and statement of changes in equity of the Group for the six months ended June 30, 2008 together with the notes thereon have been extracted from the Group’s unaudited consolidated financial information for the same period (the “June 30, 2008 Financial Information”) which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the June 30, 2008 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. Our review of the June 30, 2008 Financial Information consists of making enquiries, primarily of persons responsible for the financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion on the June 30, 2008 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the June 30, 2008 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with IFRSs.

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A. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Year ended December 31,			Six months ended June 30,	
		2006	2007	2008	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue	5	171,066	500,930	717,831	353,944	358,876
Other income	6	22,065	63,984	80,735	40,226	43,244
Change in fair value of investment property	16	—	20,771	10,000	20,000	20,000
Purchase of and changes in inventories		(29,925)	(82,368)	(127,215)	(58,503)	(63,637)
Employee benefits expense	7	(23,480)	(86,995)	(115,936)	(61,827)	(47,524)
Depreciation and amortisation . .		(14,895)	(22,105)	(30,457)	(14,203)	(16,140)
Operating lease rental expense. .	29	(25,142)	(71,901)	(96,163)	(47,877)	(47,644)
Other operating expenses	8	(42,590)	(139,422)	(141,152)	(67,663)	(61,133)
Finance costs	9	(2,962)	(26,378)	(49,359)	(24,351)	(23,667)
Profit before taxation		54,137	156,516	248,284	139,746	162,375
Income tax charge	10	(8,024)	(21,018)	(74,188)	(43,891)	(38,256)
Profit and total comprehensive income for the year/period . .		<u>46,113</u>	<u>135,498</u>	<u>174,096</u>	<u>95,855</u>	<u>124,119</u>
Profit and total comprehensive income attributable to:						
Owners of the Company		45,536	135,053	173,815	95,783	123,834
Minority interests		<u>577</u>	<u>445</u>	<u>281</u>	<u>72</u>	<u>285</u>
		<u>46,113</u>	<u>135,498</u>	<u>174,096</u>	<u>95,855</u>	<u>124,119</u>
Earnings per share (in RMB cents)						
Basic	13	<u>1.51</u>	<u>4.38</u>	<u>5.79</u>	<u>3.19</u>	<u>4.13</u>
Diluted	13	<u>1.51</u>	<u>4.38</u>	<u>5.79</u>	<u>3.19</u>	<u>4.13</u>

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B. CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		At December 31,			At June 30,
		2006	2007	2008	2009
Notes		RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	15	498,527	593,171	588,761	576,219
Investment property	16	—	480,000	490,000	510,000
Land use rights	17	20,343	19,583	66,430	65,424
Goodwill	18	2,008	2,008	2,008	2,008
Long-term prepaid rentals	21	14,637	63,675	43,353	39,078
Deferred tax assets	19	—	1,930	1,762	3,598
Restricted bank balances.	27	—	12,000	12,000	12,000
		535,515	1,172,367	1,204,314	1,208,327
CURRENT ASSETS					
Inventories	20	12,568	23,724	34,043	32,913
Prepayments, trade and other receivables	21	13,181	33,349	104,520	90,936
Land use rights	17	760	760	2,013	2,013
Amounts due from related parties	30(c)	58,137	10,165	200,249	628,705
Restricted bank balances.	27	—	—	11,500	11,500
Bank balances and cash	27	50,679	268,291	110,277	93,994
		135,325	336,289	462,602	860,061
CURRENT LIABILITIES					
Trade and other payables	23	162,396	657,080	630,471	481,859
Tax payable		4,422	7,594	19,139	8,043
Dividend payables	26	—	78,348	1,250	1,250
Bank borrowings - due within one year .	24	73,000	124,316	394,780	519,395
Amounts due to related parties	30(c)	27,868	158,682	87,317	21,284
		267,686	1,026,020	1,132,957	1,031,831
NET CURRENT LIABILITIES.		(132,361)	(689,731)	(670,355)	(171,770)
TOTAL ASSETS LESS CURRENT LIABILITIES		403,154	482,636	533,959	1,036,557
NON-CURRENT LIABILITIES					
Bank borrowings — due after one year. .	24	105,000	430,391	300,659	671,126
Deferred tax liabilities	19	—	71,557	79,766	87,778
		105,000	501,948	380,425	758,904
TOTAL ASSETS LESS TOTAL LIABILITIES		298,154	(19,312)	153,534	277,653
CAPITAL AND RESERVES					
Paid-in capital/share capital.	25	42,343	382	382	382
Reserve		254,339	(21,611)	152,204	276,038
Equity attributable to owners of the Company		296,682	(21,229)	152,586	276,420
Minority interests		1,472	1,917	948	1,233
		298,154	(19,312)	153,534	277,653

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C. STATEMENTS OF FINANCIAL POSITION

		At December 31,		At June 30,
	Notes	2007	2008	2009
		RMB'000	RMB'000	RMB'000
NON-CURRENT ASSET				
Investment in subsidiaries	31	372,998	372,998	372,998
CURRENT ASSETS				
Prepayments, trade and other receivables	21	—	37	—
Amounts due from subsidiaries	32	7,000	2	2
Bank balances and cash	27	27,118	2,445	10,229
		34,118	2,484	10,231
CURRENT LIABILITIES				
Trade and other payables	23	282	113	32
Dividend payables		78,348	—	—
Bank borrowings — due within one year	24	28,092	35,276	24,241
Amounts due to subsidiaries	32	149,616	344,029	364,302
Amount due to a fellow subsidiary	32	150,000	—	—
		406,338	379,418	388,575
NET CURRENT LIABILITIES		(372,220)	(376,934)	(378,344)
TOTAL ASSETS LESS CURRENT				
LIABILITIES		778	(3,936)	(5,346)
CAPITAL AND RESERVE				
Share capital	25	382	382	382
Reserve	33	396	(4,318)	(5,728)
		778	(3,936)	(5,346)

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D. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital/ share capital	Capital reserve	Other reserve	Statutory surplus reserve	Retained earnings	Attributable to owners of the Company	Minority interests	Total
	RMB’000 (Note i)	RMB’000 (Note v)	RMB’000	RMB’000 (Note iii)	RMB’000	RMB’000	RMB’000	RMB’000
Balance at January 1, 2006	10,356	185,932	—	2,225	20,646	219,159	512	219,671
Profit and total comprehensive income for the year	—	—	—	—	45,536	45,536	577	46,113
Appropriations	—	—	—	3,624	(3,624)	—	—	—
Contributions from the owners (Note i)	36,287	—	—	—	—	36,287	—	36,287
Distributions to the owners (Note ii)	(4,300)	—	—	—	—	(4,300)	—	(4,300)
Acquisition of a subsidiary	—	—	—	—	—	—	383	383
Balance at December 31, 2006	42,343	185,932	—	5,849	62,558	296,682	1,472	298,154
Profit and total comprehensive income for the year	—	—	—	—	135,053	135,053	445	135,498
Appropriations	—	—	—	16,348	(16,348)	—	—	—
Contributions from the owners (Note i)	10,282	—	—	—	—	10,282	—	10,282
Group reorganisation (Note iv)	(52,243)	(185,932)	(146,723)	—	—	(384,898)	—	(384,898)
Contributions from minority interests	—	—	—	—	—	—	100	100
Dividends declared	—	—	—	—	(78,348)	(78,348)	—	(78,348)
Purchase of additional interest in a subsidiary	—	—	—	—	—	—	(100)	(100)
Balance at December 31, 2007	382	—	(146,723)	22,197	102,915	(21,229)	1,917	(19,312)
Profit and total comprehensive income for the year	—	—	—	—	173,815	173,815	281	174,096
Appropriations	—	—	—	34,899	(34,899)	—	—	—
Dividends declared	—	—	—	—	—	—	(1,250)	(1,250)
Balance at December 31, 2008	382	—	(146,723)	57,096	241,831	152,586	948	153,534
Profit and total comprehensive income for the period	—	—	—	—	123,834	123,834	285	124,119
Appropriations	—	—	—	11,309	(11,309)	—	—	—
Balance at June 30, 2009	382	—	(146,723)	68,405	354,356	276,420	1,233	277,653
(Unaudited)								
Balance at January 1, 2008	382	—	(146,723)	22,197	102,915	(21,229)	1,917	(19,312)
Profit and total comprehensive income for the period	—	—	—	—	95,783	95,783	72	95,855
Appropriations	—	—	—	11,100	(11,100)	—	—	—
Balance at June 30, 2008 (unaudited)	382	—	(146,723)	33,297	187,598	74,554	1,989	76,543

Notes:

- (i) The amounts of paid-in capital/share capital as at January 1, 2006 and December 31, 2006 represent the combined capital of the companies comprising the Group as at the respective reporting dates. Contributions from the owners during each of the two years ended December 31, 2007 represent the aggregate amounts of capital contributed by the owners to the group companies.
- (ii) Distributions to the owners during the year ended December 31, 2006 arose from (i) the transfer of the 30% equity interest in PCD Continental and 20% equity interest in PCD Stores (Taiyuan) from PCD Department Stores (Xiamen) Limited (“PCD Stores (Xiamen)”), a fellow subsidiary of the Company, to Zhongshan PCD Stores (Xiamen) for considerations of RMB300,000 and RMB1,000,000 respectively; and (ii) the transfer of the entire equity interest in PCD World Trade (Xiamen) from Ke Xiude and Ge Weiying to Zhongshan PCD Stores (Xiamen) and PCD Real Estate (Xiamen) for an aggregate consideration of RMB3,000,000.
- (iii) The statutory surplus reserve is non-distributable and the transfer to the reserve is determined by board of directors in accordance with the Articles of Association of the subsidiaries. Statutory surplus reserve can be used to make up for previous years’ losses or converted into additional capital of the Group’s subsidiaries in the PRC.
- (iv) The amounts represent deemed distribution to the owners pursuant to the Reorganisation (please refer to Note 1 for details).
- (v) Capital reserve represents additional capital contributed by owners.

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E. CONSOLIDATED STATEMENTS OF CASH FLOWS

Note	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
OPERATING ACTIVITIES					
Profit before taxation	54,137	156,516	248,284	139,746	162,375
Adjustments for:					
Depreciation of property, plant and equipment	14,135	21,345	28,757	13,510	15,134
Amortisation of land use rights	760	760	1,700	693	1,006
Interest income	(2,494)	(7,229)	(2,348)	(1,416)	(3,013)
Finance costs	2,962	26,378	49,359	24,351	23,667
Write-off of bad debt	—	—	1,164	—	—
Loss on disposal of property, plant and equipment	—	36	2	2	—
Foreign exchange loss (gain).	203	226	(717)	(560)	(41)
Change in fair value of investment property	—	(20,771)	(10,000)	(20,000)	(20,000)
Operating cash flows before movements in working capital	69,703	177,261	316,201	156,326	179,128
(Increase) decrease in inventories. . . .	(6,948)	(11,156)	(10,319)	(3,347)	1,130
Decrease (increase) in prepayments, trade and other receivables	35,979	(68,366)	(52,013)	1,578	17,859
(Increase) decrease in amounts due from related parties	—	(7,615)	7,615	7,585	(3,810)
Increase (decrease) in trade and other payables.	36,987	354,637	107,796	(81,230)	(146,951)
Increase (decrease) in amounts due to related parties	2,918	5,203	78,823	2,314	(66,033)
Cash generated from (used in) operations.	138,639	449,964	448,103	83,226	(18,677)
Income taxes paid	(4,701)	(13,988)	(54,266)	(27,892)	(43,176)
NET CASH FROM (USED IN) OPERATING ACTIVITIES.	133,938	435,976	393,837	55,334	(61,853)
INVESTING ACTIVITIES					
Interest received	2,494	4,613	2,348	1,416	563
Purchases of property, plant and equipment	(285,462)	(44,009)	(96,288)	(7,232)	(4,253)
Advance to related parties.	(99,921)	(220,413)	(197,699)	(931)	(422,197)
Repayment from related parties	49,921	56,000	—	—	—
Purchases of land use rights	(1,815)	—	(49,800)	(39,800)	—
Acquisition of subsidiaries	(7,788)	(75,000)	(62,016)	(39,946)	—
Proceeds from disposal of property, plant and equipment.	—	110	—	—	—
Purchase of additional interest in a subsidiary.	—	(100)	—	—	—
Increase in restricted bank balances . .	—	—	(11,500)	—	—
NET CASH USED IN INVESTING ACTIVITIES	(342,571)	(278,799)	(414,955)	(86,493)	(425,887)

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Note	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				<i>(Unaudited)</i>	
FINANCING ACTIVITIES					
Interest paid	(2,962)	(25,928)	(49,809)	(24,801)	(23,667)
Payment of dividends	—	—	(78,348)	(78,348)	—
Payments of reorganisation consideration	(4,300)	(11,900)	(150,000)	(28,608)	—
Loans from related parties	24,110	—	—	—	—
Repayment to related parties	(35,926)	(24,191)	(188)	—	—
New bank borrowings raised	429,500	256,882	277,966	177,966	770,750
Repayment of bank borrowings	(255,501)	(143,216)	(135,471)	(86,974)	(275,644)
Contributions from the owners	36,287	9,900	—	—	—
Contribution from minority interests.	—	100	—	—	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
NET CASH FROM (USED IN)					
FINANCING ACTIVITIES	<u>191,208</u>	<u>61,647</u>	<u>(135,850)</u>	<u>(40,765)</u>	<u>471,439</u>
NET (DECREASE) INCREASE IN					
CASH AND CASH EQUIVALENTS	<u>(17,425)</u>	<u>218,824</u>	<u>(156,968)</u>	<u>(71,924)</u>	<u>(16,301)</u>
CASH AND CASH EQUIVALENTS					
AT BEGINNING OF YEAR/PERIOD	68,991	50,679	268,291	268,291	110,277
Effect of foreign exchange rate changes	(887)	(1,212)	(1,046)	(1,311)	18
CASH AND CASH EQUIVALENTS					
AT END OF YEAR/PERIOD,					
represented by bank balances and					
cash.	<u>50,679</u>	<u>268,291</u>	<u>110,277</u>	<u>195,056</u>	<u>93,994</u>

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F. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2004 Revision) of the Cayman Islands on January 8, 2007 under the name of Tiger Power Investments Limited and subsequently changed its name to PCD Stores (Group) Limited on August 15, 2007. The registered office of the Company is situated at Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands. The principal place of business of the Company is situated at No. 76–132 Zhongshan Road, Siming District, Xiamen 361000, the PRC. The Company is an investment holding company.

Pursuant to the Reorganisation, the Company became the holding company of the companies now comprising the Group on November 14, 2007. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity. The Group is considered to be under the control of the Chan Family throughout the years ended December 31, 2006 and 2007 prior to and after the Reorganisation. The Reorganisation principally included:

- (i) In 2006, according to two share transfer agreements, PCD Stores (Xiamen), a company controlled by the Chan Family, transferred its 30% equity interest in PCD Continental and 20% equity interest in PCD Stores (Taiyuan) to Zhongshan PCD Stores (Xiamen) for considerations of RMB300,000 and RMB1,000,000 respectively; and Ke Xiude, the mother of Alfred Chan and Edward Tan and Ge Weiyang, an employee of the Group, both of whom are nominee shareholders on behalf of the Chan Family, transferred their entire equity interest in PCD World Trade (Xiamen) to Zhongshan PCD Stores (Xiamen) and PCD Real Estate (Xiamen) for an aggregate consideration of RMB3,000,000.
- (ii) By way of two share transfer agreements both dated March 15, 2007, PCD Stores (Xiamen) and Liu Qinhua, a member of the Group’s senior management, as a nominee shareholder on behalf of the Chan Family, agreed to transfer the entire equity interest in Zhongshan PCD Stores (Qingdao), which had a paid up registered capital of RMB5 million held as to 99% by PCD Stores (Xiamen) and as to 1% by Liu Qinhua respectively, to Zhongshan PCD Stores (Xiamen) and PCD Real Estate (Xiamen) respectively (for respective considerations of RMB4,950,000 and RMB50,000);
- (iii) On May 8, 2007, 49,600 shares in PCD Retail Management held by Ports International Enterprises Limited (“PIEL”), a company controlled by the Chan Family, representing 99.2% of share capital of PCD Retail Management, were transferred to PCD Retail Operations for a nominal consideration;
- (iv) By way of two share transfer agreements both dated July 7, 2007, PCD Stores (Xiamen) and Xiamen Jiazhong Software Development Co., Ltd. (“Xiamen Jiazhong”), a third party, agreed to transfer the entire equity interest in Beijing Scitech Department Stores, which had a paid-up registered capital of RMB10,000,000 held as to 99% by PCD Stores (Xiamen) and as to 1% by Xiamen Jiazhong respectively, to Zhongshan PCD Stores (Xiamen) and PCD Real Estate (Xiamen) respectively (for respective considerations of RMB9,900,000 and RMB100,000);
- (v) By way of share transfer agreements all dated July 20, 2007, the entire equity interest of Laiya Department Management (Xiamen) held by Lin Xiuhua and Lin Keqin, both employees of the Group, as nominee shareholders on behalf of the Chan Family, in equal shares were transferred to Zhongshan PCD Stores (Xiamen) and PCD Real Estate (Xiamen) for a consideration of RMB1,000,000 to be held by them in the proportion of 95% and 5% respectively (for respective considerations of RMB950,000 and RMB50,000). The transfer of equity interest in Laiya Department Management (Xiamen) was registered on August 17, 2007;
- (vi) On October 11, 2007, the entire equity interests in Zhongshan PCD Stores (Xiamen) were transferred from PCD Stores Limited (“PCD Stores”), a company controlled by the Chan Family, to Well Power in return for a consideration of US\$0.01 pursuant to a share transfer agreement dated July 7, 2007 and a supplementary share transfer agreement dated November 30, 2007; and
- (vii) On November 14, 2007, pursuant to a reorganisation agreement entered into between the Company and PCD Stores, the entire issued share capital in PCD China Real Estate Limited and PCD Retail Operations was transferred by PCD Stores to the Company. By way of consideration, the Company (i) assumed a debt of

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RMB222,616,000 owed by PCD Stores to PCD China Real Estate Limited; (ii) agreed to paid RMB150,000,000 in cash to PCD Stores; and (iii) issued 40,000 shares of US\$1.00 each to PCD Stores, credited as fully paid.

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 and 2007 include the results, changes in equity and cash flows of the companies now comprising the Group as if the Company had always been the holding company of the Group and the current group structure had been in existence throughout the years ended December 31, 2006 and 2007, or since their respective dates of incorporation/establishment or acquisition where this is a shorter period. The consolidated statement of financial position of the Group as at December 31, 2006 has been prepared to present the assets and liabilities of the companies now comprising the Group as at the 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.

Acquisitions of subsidiaries other than those of the Reorganisation during Track Record Period are accounted for from their respective dates of acquisitions by the purchase method of accounting. Details of the acquisitions of subsidiaries during Track Record Period are set out in Note 34.

The Financial Information is presented in Renminbi (“RMB”), the currency of the primary economic environment in which the principal subsidiaries of the Group operate (its functional currency).

The immediate holding company of the Company is Bluestone Global Holdings Limited (“Bluestone”, incorporated in the BVI) and its ultimate holding company is PIEL (incorporated in the BVI).

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Track Record Period, the Group has consistently adopted International Accounting Standards (“IASs”), International Financial Reporting Standards (“IFRSs”), amendments and the related Interpretations (“IFRICs”), which are effective for the accounting period beginning on January 1, 2009 except for IAS 39 & IFRS 7 (Amendments) Reclassification of Financial Assets, which are effective from July 1, 2008 but should not be applied before July 1, 2008, throughout the Track Record Period.

At the date of this report, the following new and revised standards, amendments and interpretations have been issued which are not yet effective:

IFRSs (Amendments)	Amendments to IFRS 5 as part of Improvements to IFRSs issued in 2008 ¹
IFRSs (Amendments)	Improvements to IFRSs issued in 2009 ²
IAS 24 (Revised)	Related Party Disclosures ⁶
IAS 27 (Revised)	Consolidated and Separate Financial Statements ¹
IAS 32 (Amendment)	Classification of Right Issues ⁵
IAS 39 (Amendment)	Eligible Hedged Items ¹
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters ⁴
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions ⁴
IFRS 3 (Revised)	Business Combinations ¹
IFRS 9	Financial Instruments ⁷
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement ⁶
IFRIC 17	Distributions of Non-cash Assets to Owners ¹
IFRIC 18	Transfers of Assets from Customers ³
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments ⁸

¹ Effective for annual periods beginning on or after July 1, 2009

² Amendments that are effective for annual periods beginning on or after July 1, 2009 or January 1, 2010, as appropriate.

³ Effective for transfers on or after July 1, 2009

⁴ Effective for annual periods beginning on or after January 1, 2010

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- ⁵ Effective for annual periods beginning on or after February 1, 2010
- ⁶ Effective for annual periods beginning on or after January 1, 2011
- ⁷ Effective for annual periods beginning on or after January 1, 2013
- ⁸ Effective for annual periods beginning on or after July 1, 2010

The Group has not early adopted these new and revised standards, amendments and interpretations in the preparation of the Financial Information. The application of IFRS 3 (Revised) may affect the Group’s accounting for business combination for which the acquisition date is on or after January 1, 2010. IAS 27 (Revised) will affect the accounting treatment for changes in the Group’s ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis except for certain properties, which are measured at fair values, as explained in the accounting policies set out below.

The Financial Information has been prepared in accordance with the following accounting policies which conform with IFRSs. These policies have been consistently applied throughout the Track Record Period. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Companies Ordinance.

Basis of consolidation

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year/period are included in the consolidated statements of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of subsidiaries are identified separately from the Company’s equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority shareholders’ share of changes in equity since the date of the combination. Losses applicable to the minority shareholders in excess of the minority shareholders’ interest in the subsidiary’s equity are allocated against the interests of the Company except to the extent that the minority shareholders has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations under common control

The Financial Information incorporates the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties’ perspective. No amount is recognised in respect of goodwill or excess of acquirers’ interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party’s interest.

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The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the Financial Information are presented as if the entities or businesses had been combined at the previous reporting date or when they first came under common control, whichever is shorter.

Business combinations other than common control combinations

The acquisition of subsidiaries, other than common control combinations, 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 the 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.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority shareholders’ proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group’s interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated statements of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated statements of comprehensive income. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investments in subsidiaries

Investments in subsidiaries are included in the Company’s statement of financial position at cost less any identified impairment loss.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of value added tax, estimated customer returns, rebates and other similar allowances.

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Commission revenue from concessionaire sales is recognised upon the sale of goods by the relevant stores.

Revenue from sales of goods are recognised when goods are delivered and title has passed. Sales of goods that result in award credits for customers under the Group’s customer loyalty programme, are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the goods sold and the award credits granted. The consideration allocated to the award credits is measured by reference to their fair value. Such consideration is not recognised as revenue at the time of the initial sale transaction, but is deferred and recognised as revenue when the award credits are redeemed and the Group’s obligations have been fulfilled.

Rental income and display space leasing income are recognised on a straight-line basis over the terms of the respective leases.

Service income including management consultancy services income, property management income, and credit card handling income is recognised in the accounting period in which the relevant services are rendered.

Advertisement and promotion administration income are recognised according to the underlying contract terms with concessionaires and as the services are provided accordingly.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Contingent rental income is recognised in the period in which they are earned. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Contingent rental expenses are charged as expenses in the periods in which they are incurred. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expenses on a straight-line basis over the lease term.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases except for those that are classified and accounted for as investment properties under the fair value model.

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency, i.e. RMB).

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In preparing the financial statements of individual entities, transactions in currencies other than the entity’s functional currency (foreign currency) are recorded at the rates of exchange prevailing on the dates of the transactions. At the reporting date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the reporting date.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributed to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost eligible for capitalisation.

All other borrowing costs are recognised in profit and loss in the period in which they are incurred.

Retirement benefit costs

Payments to the defined contribution retirement benefits scheme under the state-managed retirement benefit schemes in PRC are charged as an expense when employees have rendered service entitling them to the contribution.

Taxation

Income tax expenses represent the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from net profit as reported in the consolidated statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the Financial Information and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in consolidated statements of comprehensive income, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

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Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes.

Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statements of comprehensive income in the year/period in which the item is derecognised.

Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of comprehensive income in the year/period in which the item is derecognised.

Land use rights

Land use rights are stated at cost and amortised on a straight-line basis over the lease terms. Land use rights which are to be amortised in the next twelve months or less are classified as current assets.

Impairment of tangible assets

At each reporting date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

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Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group’s financial assets represent loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each reporting date subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related parties/subsidiaries, restricted bank balances, and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at each reporting date. Loans and 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:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where 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 or other 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.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including bank borrowings, trade and other payables, dividend payables, and amounts due to related parties/subsidiaries/fellow subsidiaries are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset’s carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

Fair value of investment property

As described in Note 16, the valuation of investment property was arrived at on the basis of capitalization of net rental income derived from the existing tenancy agreements with allowance for the reversionary income potential of the property and by making reference to comparable sales evidence as available in the relevant market.

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Certain assumptions including estimated reversionary income potential and yield were also made in arriving at the valuation. As at December 31, 2006, 2007, 2008 and June 30, 2009, the carrying amount of the Group’s investment property was nil, RMB480,000,000, RMB490,000,000 and RMB510,000,000 respectively.

Impairment of property, plant and equipment

If there is any indication of impairment, determining the extent to which property, plant and equipment are impaired requires an estimation of the value in use of the cash-generating units to which they have been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

At each of reporting date, the directors of the Company were satisfied that there was no indication that property, plant and equipment had suffered an impairment loss. As at December 31, 2006, 2007, 2008 and June 30, 2009, the carrying amounts of property, plant and equipment were RMB498,527,000, RMB593,171,000, RMB588,761,000 and RMB576,219,000 respectively.

5. REVENUE AND SEGMENT INFORMATION

Revenue includes commission income from concessionaire sales, sales of goods, rental income, management consultancy services income, and is analysed as follows:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Commissions from concessionaire sales (Note)	113,875	364,276	500,751	253,470	232,558
Sales of goods	37,794	105,364	164,482	76,260	82,680
Rental income	9,299	18,779	28,342	13,672	14,787
Management consultancy services income	10,098	12,511	24,256	10,542	28,851
	<u>171,066</u>	<u>500,930</u>	<u>717,831</u>	<u>353,944</u>	<u>358,876</u>

Note:

The commissions from concessionaire sales are analysed as follows:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Gross revenue from concessionaire sales	<u>599,365</u>	<u>1,818,587</u>	<u>2,443,740</u>	<u>1,221,314</u>	<u>1,117,722</u>
Commissions from concessionaire sales	<u>113,875</u>	<u>364,276</u>	<u>500,751</u>	<u>253,470</u>	<u>232,558</u>

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance. The information reported to the president of the Company, who is the Group’s chief operating decision

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maker for the purpose of resource allocation and assessment of performance is prepared under IFRSs, based on the overall operation of department stores, which is the only operating segment reported internally. Accordingly, no operating segment is presented.

All external revenues of the Group during the Track Record Period are contributable to customers established in the PRC, the place of domicile of the Group’s operating entities. Meanwhile, the Group’s non-current assets other than deferred tax assets are all located in the PRC.

No revenues from a single external customer amount to 10 percent or more of the Group’s revenue.

6. OTHER INCOME

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Property management income	3,852	14,786	15,854	8,137	7,716
Advertisement and promotion administration income . . .	2,950	15,934	26,563	11,092	17,305
Display space leasing income	2,533	7,098	8,602	5,177	2,842
Interest income from a related party (Note 30(b)) .	—	5,692	—	—	2,450
Net foreign exchange gains . .	3,824	—	598	775	15
Bank interest income	2,494	1,537	2,348	1,416	563
Credit card handling income .	291	6,111	12,958	6,599	6,072
Others	6,121	12,826	13,812	7,030	6,281
	<u>22,065</u>	<u>63,984</u>	<u>80,735</u>	<u>40,226</u>	<u>43,244</u>

7. EMPLOYEE BENEFITS EXPENSE

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Salaries, bonuses and allowances	21,222	72,659	91,267	49,152	36,323
Contributions to retirement benefit schemes	2,258	14,336	24,669	12,675	11,201
	<u>23,480</u>	<u>86,995</u>	<u>115,936</u>	<u>61,827</u>	<u>47,524</u>

The employees of the Group’s PRC subsidiaries are members of the state-managed retirement benefit schemes operated by the local government. The subsidiaries in the PRC are required to contribute a specified percentage of their basic payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions.

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8. OTHER OPERATING EXPENSES

Other operating expenses are analysed as follows:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Auditors’ remuneration.	35	117	131	85	71
Professional service fee	112	23,360	12,584	8,504	2,014
Promotion, advertising and related expenses	9,818	22,688	27,089	11,605	10,236
Water, electricity and heating	13,299	28,737	28,661	13,824	13,933
Other taxes	8,625	23,836	27,517	12,191	13,716
Bank charges	2,931	14,157	17,890	8,998	8,795
Write-off of bad debt	—	—	1,164	—	—
Others	7,770	26,527	26,116	12,456	12,368
	<u>42,590</u>	<u>139,422</u>	<u>141,152</u>	<u>67,663</u>	<u>61,133</u>

9. FINANCE COSTS

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Interest expenses on:					
Bank borrowings, wholly repayable within five years	1,792	12,203	17,264	6,692	11,679
Bank borrowings, not wholly repayable within five years	—	13,472	29,395	14,959	11,988
Loan from a related party (Note 30(b))	1,170	253	—	—	—
Deferred payment for purchase of property, plant and equipment (Note 23(i))	—	450	2,700	2,700	—
	<u>2,962</u>	<u>26,378</u>	<u>49,359</u>	<u>24,351</u>	<u>23,667</u>

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10. INCOME TAX CHARGE

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
The charge comprises:					
PRC income tax	8,024	17,160	65,811	35,740	32,080
Deferred tax (Note 19) . . .	—	3,858	8,377	8,151	6,176
	<u>8,024</u>	<u>21,018</u>	<u>74,188</u>	<u>43,891</u>	<u>38,256</u>

The tax charge for the Track Record Period represents income tax in the PRC which is calculated at the prevailing tax rate on the taxable income of subsidiaries established in the PRC.

Those subsidiaries incorporated in Hong Kong have had no assessable profits since their incorporation.

On March 16, 2007, the National People’s Congress promulgated the Law of the People’s Republic of China on Enterprise Income Tax (the “New EIT Law”) by order No. 63 of the President of the PRC which is effective from January 1, 2008.

On December 6, 2007, the State Council issued Implementation Regulation of the New EIT Law. 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. Prior to the New EIT Law, the subsidiaries in the PRC are subject to statutory income tax rate of 33% before taking into account the entitled concessionary tax rates and exemption. The change in statutory tax rate has no material impact on the deferred tax of the Group since no deferred tax has been recognised before the change.

On December 26, 2007, the New EIT Law’s Detailed Implementation Rules and the details of the transitional arrangement were promulgated, respectively. They contemplate various transition periods and measures for existing preferential tax policies, including a grace period of a maximum of 5 years until 2012 for the enterprises which are currently entitled to a lower income tax rate under the previous tax law and continued implementation of preferential tax treatment with a fixed term until the expiration of such fixed term. 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 tax treaty or the domestic law.

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The 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) (Note i)	15	15	18	18	20
PCD Real Estate (Xiamen)					
(Note i)	15	15	18	18	20
PCD World Trade (Xiamen)					
(Note i)	15	15	18	18	20
PCD Continental (Notes i) . .	15	15	18	18	20
PCD Songbai (Note i)	15	15	18	18	20
PCD Stores Information					
Consulting (Xiamen)					
(Note i)	N/A	15	18	18	20
Laiya Department					
Management (Xiamen)					
(Notes i and iii)	Exempted	Exempted	18	18	20
PCD Stores (Jilin) (Note ii) . .	33	Exempted	25	25	25
PCD Stores (Guangxi)					
(Note v)	33	Exempted	25	25	25
Beijing Scitech Department					
Stores (Note 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 (Caishuizhi [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復》) 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 gradually will be 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.

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- (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 (Caishuizhi [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 (Caishuizhi [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 (Caishuizhi [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 (Caishuizhi [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. Pursuant to the New EIT Law effective from 2008, PCD Stores (Guangxi) was required to obtain the formal approval from the local tax authority to continue to benefit from the EIT exemption. PCD Stores (Guangxi) has been generating losses since its establishment. No income taxes were payable, accordingly the management has not applied for the EIT exemption approval up to the date of this report.

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The tax charge for the Track Record Period can be reconciled to the profit per the consolidated statements of comprehensive income as follows:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Profit before taxation	54,137	156,516	248,284	139,746	162,375
Tax at applicable income tax rate (2006 and 2007: 33%, 2008 and six months ended June 30, 2009: 25%)	17,865	51,650	62,071	34,937	40,594
Tax effect of income that are not taxable (Note i)	(2,215)	(3,669)	(895)	(1,067)	(3,860)
Tax effect of expenses that are not deductible in determining taxable profit (Note ii)	565	11,835	6,235	5,571	760
Tax effect of deductible temporary differences not recognised as deferred tax assets	55	741	—	—	—
Utilisation of deductible temporary differences previously not recognised	—	(40)	(120)	(60)	(60)
Effect of income tax on concessionary tax rate (Note iii)	(5,399)	(4,535)	(2,259)	(1,408)	(728)
Effect of income tax exemption of subsidiaries	(2,847)	(37,484)	—	—	—
Tax effect of tax losses not recognised	—	2,520	4,979	3,617	198
Utilisation of tax losses previously not recognised	—	—	—	—	(894)
Deferred tax on withholding tax arising from undistributed profits of PRC subsidiaries (Note 19)	—	—	4,177	2,301	2,246
Income tax charge	8,024	21,018	74,188	43,891	38,256

Notes:

- (i) The income that are not taxable mainly represent the revenue/income earned by BVI and Cayman Islands incorporated subsidiaries.
- (ii) The expenses that are not deductible mainly represent expenses incurred by BVI and Cayman Islands incorporated subsidiaries and payroll expenses exceeding the limits set by relevant tax laws in the PRC established subsidiaries.
- (iii) Certain subsidiaries of the Group established in the PRC are entitled to concessionary tax rate during the Track Record period, as disclosed above.

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11. DIRECTORS’ EMOLUMENTS

No emoluments were paid to the directors of the Company during the Track Record Period and no directors waived or agreed to waive any emoluments during the Track Record Period.

12. EMOLUMENTS OF THE FIVE HIGHEST PAID INDIVIDUALS

The emoluments of the five individuals with the highest emoluments during the years ended December 31, 2006, 2007 and 2008 and six months ended June 30, 2008 and 2009 respectively are as follows:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Salaries and other benefits . .	1,087	1,501	1,608	768	885
Performance related incentive payments (Note)	62	196	47	43	75
Retirement benefit schemes contributions.	34	66	88	45	50
.....	1,183	1,763	1,743	856	1,010

Note: The performance related incentive payment is determined based on evaluation of each individual annually.

No emoluments were paid by the Group to the directors or the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office.

The emoluments of each of the five highest paid individuals during the Track Record Period were below HK\$1,000,000.

13. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to owners of the Company for the Track Record Period is based on the following data:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Profit for the year/period attributable to owners of the Company	45,536	135,053	173,815	95,783	123,834
	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	’000	’000	’000	’000	’000
				(Unaudited)	
Weighted average number of shares	3,023,823	3,085,799	3,000,000	3,000,000	3,000,000

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share for the Track Record Period has been retrospectively adjusted for the capitalisation issue as disclosed in Note 35, and the assumption that the Reorganisation had been effective on January 1, 2006.

No diluted earnings per share is presented as the Company did not have potential ordinary shares outstanding during the Track Record Period.

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14. DIVIDENDS

On October 31, 2007, the Company declared a dividend of RMB7,834.80 per share, or RMB78,348,000 in total, to its shareholders. The dividends were paid on January 9, 2008 and April 3, 2008 respectively. No other dividends were declared or paid by the Company during the Track Record Period.

The rates of distribution and the number of shares ranking for distribution are not presented as such information is not meaningful for the purpose of this report.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Motor vehicles	Office equipment	Others	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
COST							
At January 1, 2006	292,015	4,123	6	1,329	125	—	297,598
Additions	206,062	13,597	770	1,117	680	1,489	223,715
Acquisition of a subsidiary	—	—	103	448	—	—	551
Transfer	—	1,333	—	—	—	(1,333)	—
At December 31, 2006	498,077	19,053	879	2,894	805	156	521,864
Additions	79,652	6,327	1,195	7,034	2,120	19,807	116,135
Transfer	3,240	1,284	—	—	—	(4,524)	—
Disposals	—	—	—	(76)	(89)	—	(165)
At December 31, 2007	580,969	26,664	2,074	9,852	2,836	15,439	637,834
Additions	2,377	7,364	—	1,229	787	12,592	24,349
Transfer	—	23,717	—	—	428	(24,145)	—
Disposals	—	—	—	(87)	—	—	(87)
At December 31, 2008	583,346	57,745	2,074	10,994	4,051	3,886	662,096
Additions	—	121	128	399	179	1,765	2,592
Transfer	—	3,137	—	15	—	(3,152)	—
At June 30, 2009	583,346	61,003	2,202	11,408	4,230	2,499	664,688
ACCUMULATED DEPRECIATION							
At January 1, 2006	8,441	637	—	118	6	—	9,202
Charge for the year	9,668	3,519	139	575	234	—	14,135
At December 31, 2006	18,109	4,156	139	693	240	—	23,337
Charge for the year	15,370	3,991	245	1,433	306	—	21,345
Eliminated on disposals	—	—	—	(8)	(11)	—	(19)
At December 31, 2007	33,479	8,147	384	2,118	535	—	44,663
Charge for the year	17,170	8,515	327	2,215	530	—	28,757
Eliminated on disposals	—	—	—	(85)	—	—	(85)
At December 31, 2008	50,649	16,662	711	4,248	1,065	—	73,335
Charge for the period	8,161	5,388	183	1,084	318	—	15,134
At June 30, 2009	58,810	22,050	894	5,332	1,383	—	88,469
CARRYING AMOUNT							
At December 31, 2006	479,968	14,897	740	2,201	565	156	498,527
At December 31, 2007	547,490	18,517	1,690	7,734	2,301	15,439	593,171
At December 31, 2008	532,697	41,083	1,363	6,746	2,986	3,886	588,761
At June 30, 2009	524,536	38,953	1,308	6,076	2,847	2,499	576,219

As at December 31, 2006, 2007, 2008 and June 30, 2009, certain of the Group’s buildings with an aggregate carrying amount of RMB250,963,000, RMB320,076,000, RMB387,763,000 and RMB421,438,000 respectively were pledged as security for bank loans of the Group (Note 24). In addition, a building with a carrying amount of RMB74,734,000 as at December 31, 2007 was pledged as security for the bank loan of the former owner of the building. This pledge for the bank loan of the former owner of the building was released in July 2008.

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As at December 31, 2006, 2007 and 2008 and June 30, 2009, the Group is in the process of obtaining the building ownership certificates of a building with a carrying amount of RMB98,577,000, RMB95,423,000, RMB92,269,000 and RMB90,692,000.

Depreciation is charged using straight-line method on the following basis:

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

16. INVESTMENT PROPERTY

	<i>RMB’000</i>
FAIR VALUE	
At 1 January and December 31, 2006	—
Acquired on acquisition of a subsidiary	459,229
Change in fair value	<u>20,771</u>
At December 31, 2007	480,000
Change in fair value	<u>10,000</u>
At December 31, 2008	490,000
Change in fair value	<u>20,000</u>
At June 30, 2009	<u><u>510,000</u></u>

The fair value of the Group’s investment property at Xian, the PRC at December 31, 2007, 2008 and June 30, 2009 has been arrived at on the basis of a valuation carried out at that date by DTZ Debenham Tie Leung Limited, 16th Floor Jardine House, Connaught Place Central, Hong Kong, (“DTZ”), independent qualified professional valuers not connected with the Group. DTZ are members of the Hong Kong Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant location. The valuation was arrived at on the basis of capitalisation of net rental income derived from the existing tenancy agreements with allowance for the reversionary income potential of the property and by making reference to comparable sales evidence as available in the relevant market.

The carrying value of investment property shown above includes corresponding land in the PRC under a medium-term lease. As at December 31, 2007, 2008 and June 30, 2009, the investment property was pledged as security for bank loans of the Group (Note 24).

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17. LAND USE RIGHTS

	<i>RMB’000</i>			
At January 1, 2006				21,863
Amortisation				<u>(760)</u>
At December 31, 2006				21,103
Amortisation				<u>(760)</u>
At December 31, 2007				20,343
Addition				49,800
Amortisation				<u>(1,700)</u>
At December 31, 2008				68,443
Amortisation				<u>(1,006)</u>
At June 30, 2009				<u>67,437</u>
	At December 31,			At June 30,
	2006	2007	2008	2009
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Analysed for reporting purpose as:				
— Current assets	760	760	2,013	2,013
— Non-current assets	<u>20,343</u>	<u>19,583</u>	<u>66,430</u>	<u>65,424</u>
	<u>21,103</u>	<u>20,343</u>	<u>68,443</u>	<u>67,437</u>

The amount represents the prepayment of rentals for land use rights situated in the PRC. The leasehold land has lease terms ranging from 29 to 40 years.

As at December 31, 2006, 2007, 2008 and June 30, 2009, land use rights with carrying amount of RMB1,725,000, RMB10,097,000, RMB11,318,000 and RMB11,098,000, respectively were pledged against certain bank facilities granted to the Group (Note 24).

18. GOODWILL

	<i>RMB’000</i>
COST	
Acquisition of a subsidiary during the year ended December 31, 2006 and balance at December 31, 2006, 2007, 2008 and June 30, 2009	<u>2,008</u>

Impairment testing of goodwill

Goodwill has been allocated to the cash-generating unit of PCD Songbai.

The recoverable amounts have been determined based on the value in use calculation of PCD Songbai.

Key assumptions used in the value in use calculation

The following describe each key assumption on which management has based its cash flow projections when undertaking the impairment testing of goodwill.

Cash flow projections are based on financial budgets approved by management covering a three-year period. No growth has been projected beyond the related period.

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Revenue and other income - the bases used to determine the future earning potential are historical sales and population growth, taking into account economy outlook.

Operating cost - the bases used to determine the values assigned are cost of merchandise purchased for resale, employee benefit expenses, operating lease rental expenses and other operating expenses. Value assigned to the key assumption reflects past experience and management commitment to maintain its cost of sales and operating expenses to an acceptance level.

The discount rate applied to the cash flow projections is approximately 6%, 6%, 8% and 8% at December 31, 2006, 2007, 2008 and June 30, 2009, respectively.

Management believes that any reasonably possible change in any of these assumptions would not cause impairment loss for goodwill.

19. DEFERRED TAXATION

The deferred tax assets/liabilities recognised by the Group, and the movements thereon, during the Track Record Period are as follows:

	Accruals	Undistributed profits	Investment Properties	Total
	RMB’000	RMB’000	RMB’000	RMB’000
At January 1, 2006 and December 31, 2006	—	—	—	—
Acquired on acquisition of a subsidiary (<i>Note 34(b)</i>)	—	—	(65,769)	(65,769)
Credit (charge) to consolidated statement of comprehensive income	<u>1,930</u>	<u>—</u>	<u>(5,788)</u>	<u>(3,858)</u>
At December 31, 2007	1,930	—	(71,557)	(69,627)
Credit to consolidated statement of comprehensive income	<u>(168)</u>	<u>(4,177)</u>	<u>(4,032)</u>	<u>(8,377)</u>
At December 31, 2008	1,762	(4,177)	(75,589)	(78,004)
Charge to consolidated statement of comprehensive income	<u>1,836</u>	<u>(2,246)</u>	<u>(5,766)</u>	<u>(6,176)</u>
At June 30, 2009	<u>3,598</u>	<u>(6,423)</u>	<u>(81,355)</u>	<u>(84,180)</u>

The following is the analysis of the deferred tax balances for financial reporting purposes:

	At December 31,			At June 30,
	2006	2007	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000
Deferred tax assets	—	1,930	1,762	3,598
Deferred tax liabilities	<u>—</u>	<u>(71,557)</u>	<u>(79,766)</u>	<u>(87,778)</u>
	<u>—</u>	<u>(69,627)</u>	<u>(78,004)</u>	<u>(84,180)</u>

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At December 31, 2006, 2007, 2008 and June 30, 2009, the Group had unused tax losses of nil, RMB7,636,000, RMB27,552,000 and RMB24,768,000 respectively. No deferred tax asset has been recognized in respect of these tax losses due to the unpredictability of future profit streams. The unrecognised tax losses will be expired as follows:

	At December 31,			At June 30,
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
2012	—	7,636	7,636	5,384
2013	—	—	19,916	18,592
2014	—	—	—	792
	<u>—</u>	<u>7,636</u>	<u>27,552</u>	<u>24,768</u>

Under the new EIT Law, withholding tax is imposed on dividends declared to foreign investors in respect of profit earned by PRC subsidiaries from January 1, 2008 onward. Deferred taxation has been provided for in the Financial Information in respect of undistributed profits of relevant PRC subsidiaries by applying the expected dividend declaration rate of the relevant PRC subsidiaries estimated by the directors of the Company. Accordingly, deferred tax liabilities on the remaining undistributed profit of the PRC subsidiaries of RMB83,540,000 and RMB128,460,000 was not recognised as at December 31, 2008 and June 30, 2009, respectively.

20. INVENTORIES

	At December 31,			At June 30,
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Merchandise held for resale	11,674	22,323	32,235	31,200
Others	<u>894</u>	<u>1,401</u>	<u>1,808</u>	<u>1,713</u>
	<u>12,568</u>	<u>23,724</u>	<u>34,043</u>	<u>32,913</u>

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21. PREPAYMENTS, TRADE AND OTHER RECEIVABLES

The Group

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

	At December 31,			At June 30,
	2006	2007	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000
Trade receivables				
within 60 days	591	13,112	57,726	29,545
Prepaid rentals	17,637	66,676	61,293	57,258
Advances to suppliers	2,218	2,580	953	504
Prepaid value-added tax	3,338	2,581	7,936	23,090
Others	4,034	12,075	19,965	19,617
	27,818	97,024	147,873	130,014
Less: Long-term prepaid rentals, under non-current assets	(14,637)	(63,675)	(43,353)	(39,078)
	13,181	33,349	104,520	90,936

Retail sales to individual consumers are usually settled in cash or by debit card or credit card. Certain of the Group’s corporate customers also issue debit cards to other consumers (“shopping card”) who use such shopping cards to shop in the Group’s department stores (that is, retail sales on corporate accounts). The Group has a policy of allowing an average credit period 60 days to its customers of management consultancy services and 30 days to issuers of shopping cards and certain retail customers.

Trade receivables at the respective reporting dates principally represent receivables from non-related parties of management consultancy fees, issuers of shopping cards and certain retail customers. Trade receivables are neither past due nor impaired at respective reporting dates.

The Group does not hold any collateral over these trade and other receivables. The trade and other receivables are non-interest bearing and repayable on demand.

Trade receivables are all denominated in RMB as at respective reporting dates, except for RMB15,426,000 as at June 30, 2009, which are denominated in Hong Kong Dollars.

The Company

	At December 31,		At June 30,
	2007	2008	2009
	RMB’000	RMB’000	RMB’000
Prepaid expenses	—	37	—

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22. FINANCIAL INSTRUMENTS

Categories of financial instruments

	At December 31,			At June 30,
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
The Group				
Financial assets:				
Loans and receivables (including cash and cash equivalents)	112,536	312,320	406,825	792,379
Financial liabilities:				
Amortised cost	325,614	1,255,420	1,217,752	1,516,841
The Company				
Loans and receivables (including cash and cash equivalents)	—	34,118	2,447	10,231
Financial liabilities:				
Amortised cost	—	406,056	379,305	388,543

Financial risk management objectives and policies

The Group’s major financial instruments include trade and other receivables, trade and other payables, amounts due from/to related parties, dividend payables, bank borrowings, restricted bank balances and bank balances and cash. The Company’s major financial instruments include amounts due from/to subsidiaries, amount due to a fellow subsidiary, dividend payables, bank borrowings and bank balances and cash. Details of these financial instruments are disclosed in the respective notes.

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Group’s objectives, policies and processes managing the risk and the methods used to measure the risk remains unchanged during the Track Record Period.

Credit risk

The Group and the Company’s maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position at the respective reporting dates.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The amounts presented in the consolidated statements of financial position are net of allowances for doubtful receivables, if any, estimated by the Company’s management based on prior experience and the current economic environment. The Group reviews 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, the directors of the Company consider that the Group’s credit risk is significantly reduced.

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

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The Group has no significant concentration of credit risk for receivables from non-related parties, with exposure spread over a large number of counterparties and customers. The Group have concentration of credit risk on amounts due from PIEL at December 31, 2006 and PCD Stores (Xiamen) at December 31, 2008 and June 30, 2009. The directors of the Company closely monitor the financial positions of PIEL and PCD Stores (Xiamen), and the credit risk being considered to be low.

Interest rate risk

The Group and the Company are exposed to cash flow interest rate risk due to fluctuations in the prevailing market interest rates on bank balances and bank borrowings which carry interest at market interest rates.

The Group’s fair value interest rate risk relates primarily to fixed-rate bank borrowings and amounts due from/to related parties. The Company’s fair value interest rate risk related primarily to fixed-rate bank borrowings. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to market lending interest rates for non-derivative instruments at the respective reporting dates. The sensitivity analyses below have been determined based on the exposure to interest rates for variable interest rate bank borrowings. Bank balances are excluded from the sensitivity analyses 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/period. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management’s 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, the Group’s net profit would decrease/increase by RMB430,000, RMB1,160,000, RMB1,709,000 and RMB3,809,000 for each of the year ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009 respectively.

Liquidity risk

The Group’s net current liabilities position as at December 31, 2006, 2007, 2008 and June 30, 2009 was primarily attributable to (i) the conversion of its current assets (such as cash) into long-term assets (such as real estate properties) as it expanded its store network; and (ii) its taking advantage of the suppliers’ credit period to partly finance its operation and utilizing short-term borrowings for expanding its business through establishment of new stores. The nature of the Group’s business of operating department stores is such that the majority of its liabilities are short-term, consisting mainly of trade and other payables, amounts due to related parties and short-term bank borrowings, giving rise to its net current liabilities position. The Group also carries little inventory as a majority of its department stores generate revenue by concessionaires. The Group also has limited receivables as it first collects the cash and credit card payments from shoppers for most concessionaire and direct sales. The general practice in the department store industry in China is for department stores to pay for goods only after they are sold. The Group returns goods that are not sold to its direct sales suppliers after three to four months after the date on which it receives the merchandise.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group’s short, medium and long-term funding and liquidity management requirements.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group’s operations and mitigate the effects of fluctuations in cash flows. The Group relies on cash generated from operating activities as a significant source of liquidity. For each of the three years ended December 31, 2008 and the six months ended June 30, 2009, the Group have cash generated from (used in) operating activities of approximately RMB133,938,000, RMB435,976,000, RMB393,837,000 and RMB(61,853,000). Other than the cash generated from operating activities, the Group’s management is responsible for obtaining funding from bank loans and the management also monitors the utilisation of bank loans and ensures compliance with loan covenants. As of June 30, 2009, the Group had unutilised short-

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term credit facilities of RMB249,250,000. The directors believe that the Group will have sufficient funds available to meet its financial obligations in the foreseeable future based on management’s working capital forecast to operate as going concern.

The following table details the Group and the Company’s contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The table includes both interest and principal.

	Weighted average interest rates	Within 1 year	1-2 years	2-5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
	%	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
The Group							
As at December 31, 2006							
Non-interest bearing		123,037	—	—	—	123,037	123,037
Fixed interest rate instruments . .	5.541	48,150	—	—	—	48,150	47,577
Variable interest rate instruments	5.670	59,639	62,551	47,417	—	169,607	155,000
		<u>230,826</u>	<u>62,551</u>	<u>47,417</u>	<u>—</u>	<u>340,794</u>	<u>325,614</u>
As at December 31, 2007							
Non-interest bearing		700,713	—	—	—	700,713	700,713
Fixed interest rate instruments . .	5.200	29,017	—	—	—	29,017	28,092
Variable interest rate instruments	7.026	126,944	159,314	186,837	200,892	673,987	526,615
		<u>856,674</u>	<u>159,314</u>	<u>186,837</u>	<u>200,892</u>	<u>1,403,717</u>	<u>1,255,420</u>
As at December 31, 2008							
Non-interest bearing		522,313	—	—	—	522,313	522,313
Fixed interest rate instruments . .	6.291	200,326	—	—	—	200,326	195,276
Variable interest rate instruments	7.025	233,392	63,791	184,776	139,009	620,968	500,163
		<u>956,031</u>	<u>63,791</u>	<u>184,776</u>	<u>139,009</u>	<u>1,343,607</u>	<u>1,217,752</u>
As at June 30, 2009							
Non-interest bearing		326,320	—	—	—	326,320	326,320
Fixed interest rate instruments . .	4.2735	71,711	—	—	—	71,711	69,991
Variable interest rate instruments	5.6015	504,754	177,752	448,794	142,741	1,274,041	1,120,530
		<u>902,785</u>	<u>177,752</u>	<u>448,794</u>	<u>142,741</u>	<u>1,672,072</u>	<u>1,516,841</u>
The Company							
As at December 31, 2007							
Non-interest bearing		377,964	—	—	—	377,964	377,964
Fixed interest rate instruments . .	5.200	29,016	—	—	—	29,016	28,092
		<u>406,980</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>406,980</u>	<u>406,056</u>
As at December 31, 2008							
Non-interest bearing		344,029	—	—	—	344,029	344,029
Fixed interest rate instruments . .	3.561	35,991	—	—	—	35,991	35,276
		<u>380,020</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>380,020</u>	<u>379,305</u>
As at June 30, 2009							
Non-interest bearing		364,302	—	—	—	364,302	364,302
Fixed interest rate instruments . .	3.109	24,388	—	—	—	24,388	24,241
		<u>388,690</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>388,690</u>	<u>388,543</u>

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Foreign currency risk

The Group and the Company undertakes certain transactions denominated in foreign currencies, hence, exposures to exchange rate fluctuations arises. The Group currently does not have a foreign currency hedging policy. The Group manages its foreign currency risk by closely monitoring the movement of foreign currency rates.

The carrying amount of the Group’s and the Company’s 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
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
The Group				
Assets				
US\$.	2,101	440	771	639
HK\$	1,186	29,846	4,428	25,637
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Liabilities				
US\$.	24,577	—	—	—
HK\$	—	28,092	35,276	24,241
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
The Company				
Assets				
US\$.	—	—	334	229
HK\$	—	27,118	2,111	10,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Liabilities				
HK\$	—	28,092	35,276	24,241
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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Foreign currency sensitivity

The following table details the Group and the Company’s sensitivity to a 5% change in the RMB against the US\$ and HK\$ respectively. The rate represent management’s assessment of the reasonably 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 period end for a change in foreign currency rates. A positive number below indicates an increase in profit and a negative number an decrease in profit when the RMB strengthens against the relevant currency. For a weakening of the RMB against the relevant currency, there would be an equal and opposite impact on profit.

	At December 31,			At June 30,
	2006	2007	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000
The Group				
US\$				
Increase (decrease) in profit for the year/period	1,100	(22)	(38)	(32)
HK\$				
Increase (decrease) in profit for the year/period	(59)	(86)	1,529	(68)
The Company				
US\$				
Decrease in profit for the year/period	—	—	(17)	(12)
HK\$				
Increase in profit for the year/period	—	49	1,658	712
Fair value				

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

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23. TRADE AND OTHER PAYABLES

The Group

The average credit period taken for the settlement of concessionaire sales and trade purchases is 30 to 60 days. The following is an aged analysis of trade payables at the respective reporting dates:

	At December 31,			At June 30,
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables				
Within 60 days	91,318	258,298	351,974	234,614
61 days to 120 days	2,739	3,994	16,994	14,741
121 days to 1 year	768	1,626	15,127	7,588
Over 1 year	94	576	1,067	1,407
	<u>94,919</u>	<u>264,494</u>	<u>385,162</u>	<u>258,350</u>
Payable for purchase of property,				
plant and equipment (<i>Note i</i>).	3,275	75,401	3,462	1,801
Accruals.	6,336	10,103	5,185	7,277
Accrued staff costs	4,367	25,455	21,536	11,471
Deposits from concessionaire				
suppliers (<i>Note ii</i>)	5,625	20,336	21,539	23,321
Customer prepaid gift cards (<i>Note iii</i>).	25,853	128,444	147,555	152,449
Payable for acquisition of a subsidiary				
(<i>Note iv</i>)	—	62,016	—	—
Other PRC tax payable.	6,094	29,395	22,449	6,876
Others	<u>15,927</u>	<u>41,436</u>	<u>23,583</u>	<u>20,314</u>
	<u>67,477</u>	<u>392,586</u>	<u>245,309</u>	<u>223,509</u>
	<u>162,396</u>	<u>657,080</u>	<u>630,471</u>	<u>481,859</u>

Notes:

- (i) Pursuant to an agreement and a supplementary agreement both dated April 27, 2007, the Group agreed to acquire certain properties from Xiamen Zhongbo Real Estate Co., Ltd. (“Xiamen Zhongbo”), an independent third party. The agreements provided that, inter alia,
- RMB6,000,000 of the consideration were to be settled in cash;
 - RMB60,000,000 of the consideration was unsecured and to be settled by the Group providing shares in the Company when they were listed on the Stock Exchange. The Company at the time was applying to the Stock Exchange for a share listing; and
 - If the listing was not to be completed by December 1, 2007, the Company would be charged a fee of RMB450,000 per month from December 1, 2007 to June 30, 2008. If the listing was not to be completed by June 30, 2008, the Company would make a one-off payment of RMB73,600,000 to Xiamen Zhongbo by July 7, 2008.

Since the proposed listing had not materialised, the Group finally settled the outstanding balance of RMB73,600,000 in July 2008.

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- (ii) The deposits from concessionaire suppliers are refundable upon satisfaction of the relevant conditions as stipulated in the concessionaire agreements.
- (iii) Customer prepaid gift cards represent the prepayment made by the customers of the department stores for purchase of merchandise in the future.
- (iv) The outstanding balance for the acquisition of a subsidiary (Note 34(b)) was unsecured, interest free and repayable on demand.

The Company

	At December 31,		At June 30,
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Accruals.	282	113	32

24. BANK BORROWINGS

The Group

	At December 31,			At June 30,
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Secured bank borrowings (<i>Note i</i>)	178,000	554,707	695,439	1,190,521
Carrying amount repayable:				
Within one year	73,000	124,316	394,780	519,395
Between one to two years	60,000	128,183	40,462	142,820
Between two to five years	45,000	127,820	135,883	431,878
Over five years	—	174,388	124,314	96,428
	178,000	554,707	695,439	1,190,521
Less: Amounts due within one year shown under current liabilities	(73,000)	(124,316)	(394,780)	(519,395)
	105,000	430,391	300,659	671,126

The bank borrowings comprise:

	At December 31,			At June 30,
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Fixed-rate borrowings	23,000	28,092	195,276	69,991
Variable-rate borrowings	155,000	526,615	500,163	1,120,530

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The effective interest rates, which are also equal to contracted interest rates, per annum at the respective reporting dates are as follows:

	At December 31,			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

For variable-rate borrowings, 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 HK\$-denominated loans carried interest at a rate ranging from 1% to 1.15% over the Hong Kong Interbank Offer Rate. HK\$-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.

Note:

- (i) The loans were secured by certain property, plant and equipment, investment property, land use rights and bank balances owned by the Group as set out in Notes 15, 16, 17 and 27 and certain buildings owned by a third party, and guaranteed by related parties (Note 30(e)), former shareholders of Xian Century Changan Property Investment and third parties. All these third party guarantees and collateral relate to the bank borrowings were assumed by the Group upon acquisition of Xian Century Changan Property Investment (Note 34(b)). The building pledged by the third party’s building was released in July 2008.

The Company

	At December 31,		At June 30,
	2007	2008	2009
	RMB’000	RMB’000	RMB’000
Secured bank borrowings, repayable within one year . . .	28,092	35,276	24,241

At December 31, 2007, 2008 and June 30, 2009, the bank borrowings were HK\$-denominated and carried interest at a rate ranging from 1% to 1.15% over Hong Kong Interbank Offer Rate and were secured by a pledged bank deposit placed by a subsidiary of nil, RMB11,500,000 and RMB11,500,000 respectively.

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25. PAID-IN CAPITAL/SHARE CAPITAL

The Company and the Group

The details of the Company’s share capital are as follows:

	<u>Number of shares</u>	<u>Share capital</u>
		<i>US\$’000</i>
Authorised		
Ordinary shares of US\$1.00 each		
At date of incorporation	50,000	50
Increase on November 13, 2007.	24,950,000	24,950
Increase on subdivision of shares on December 3, 2007	<u>4,975,000,000</u>	<u>—</u>
Ordinary shares of US\$0.005 each		
At December 31, 2007, December 31, 2008 and June 30, 2009	<u>5,000,000,000</u>	<u>25,000</u>
Issued and fully paid		
Ordinary shares of US\$1.00 each		
At date of incorporation	1	—
Issue of new shares on March 28, 2007	9,999	10
Issue of new shares on November 13, 2007.	1,000	1
Issue of new shares on November 14, 2007.	40,000	40
Increase on subdivision of shares on December 3, 2007	<u>10,149,000</u>	<u>—</u>
Ordinary shares of US\$0.005 each		
At December 31, 2007, December 31, 2008 and June 30, 2009	<u>10,200,000</u>	<u>51</u>
		<i>RMB’000</i>
Presented as		<u>382</u>

The Group

The paid-in capital/share capital shown on the consolidated statements of financial position is as follows:

	At December 31,			At June 30,
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Paid-in capital/share capital.	42,343	382	382	382

For the purpose of Financial Information, the paid-in capital/share capital in the consolidated statements of financial position as at December 31, 2006 represents the combined paid-in capital of then group entities.

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On January 8, 2007, the Company was incorporated as an exempted company with limited liability in the Cayman Islands. As at the date of incorporation, the Company’s initial authorised share capital was US\$50,000, divided into 50,000 ordinary shares of par value of US\$1.00 each, of which 1 subscriber share was allotted and issued to Offshore Incorporations (Cayman) Limited as the sole subscriber. On March 28, 2007, one share was transferred from Offshore Incorporations (Cayman) Limited to Alfred Chan. On March 28, 2007, one share and 9,998 shares were allotted and issued to Edward Tan and PIEL, a company controlled by the Chan Family, respectively. On September 17, 2007, Alfred Chan and Edward Tan transferred their respective shareholdings in the Company to PIEL for a nominal consideration. PIEL transferred its entire interest in the Company to Bluestone, a company wholly owned by PIEL on September 19, 2007.

On November 13, 2007, the authorised share capital of the Company was increased from US\$50,000 to US\$25,000,000 by the creation of 24,950,000 new shares pursuant to a resolution in writing of the shareholders passed on November 13, 2007. On November 13, 2007, the Company allotted and issued 1,000 shares of US\$1.00 each to Bluestone at par value.

On November 14, 2007, the Company allotted and issued 40,000 shares of US\$1.00 each to PCD Stores, a company controlled by PIEL, credited as fully paid, and assumed a debt of RMB222,616,000 owed by PCD Stores to PCD China Real Estate Limited in consideration for PCD Stores transferring the entire equity interest in PCD China Real Estate Limited and PCD Retail Operations to the Company. Of these 40,000 shares, 32,000 shares were transferred by PCD stores to Bluestone in November 2007. On January 5, 2008, the Company agreed to pay an additional sum of RMB150,000,000 to PCD Stores within 12 months from November 14, 2007 as part of the consideration for the transfer of the entire issued share capital in PCD China Real Estate Limited and PCD Retail Operations from PCD Stores to the Company.

On December 3, 2007, the par value of the share of US\$1.00 each was subdivided into 200 ordinary shares of US\$0.005 each, resulting in the Company having an issued share capital of 10,200,000 ordinary shares of US\$0.005 each.

26. DIVIDEND PAYABLES

	At December 31,			At June 30,
	2006	2007	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000
Dividend payable to owners of the Company	—	78,348	—	—
Dividend payable to minority shareholder . .	—	—	1,250	1,250
	—	78,348	1,250	1,250

The dividend payables are unsecured, interest free and repayable on demand. The dividend payables was settled in November 2009.

27. BANK BALANCES AND CASH AND RESTRICTED BANK BALANCES

Bank balances and cash

Bank balances and cash comprise cash and short-term deposits with an original maturity of three months or less which are held with financial institutions and carry interest at prevailing market rates ranging from 0.72% to 4.67%, 0.36% to 3.33%, 0.00% to 3.33% and 0.00% to 0.36% per annum as at December 31, 2006, 2007, 2008 and June 30, 2009 respectively.

Bank balances and cash at December 31, 2006, 2007, 2008 and June 30, 2009 were mainly denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

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Bank balances and cash that are denominated in currencies other than the functional currency are set out below:

	At December 31,			At June 30,
	2006	2007	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000
The Group				
HK\$	1,186	29,846	4,428	10,211
US\$.	2,101	440	771	639
	<u>3,287</u>	<u>30,286</u>	<u>5,199</u>	<u>10,850</u>
The Company				
HK\$	—	27,118	2,111	10,000
US\$.	—	—	334	229
	<u>—</u>	<u>27,118</u>	<u>2,445</u>	<u>10,229</u>

Restricted bank balances

The restricted bank balances as at December 31, 2007, 2008 and June 30, 2009 represent deposits pledged for bank borrowings. The restricted bank balances carry interest at prevailing market rates at 0.72%, 0.36% and 0.36% per annum respectively. As at December 31, 2006, 2007 and 2008 and June 30, 2009, restricted bank balances of nil, RMB12,000,000, RMB12,000,000 and RMB12,000,000, were pledged to secure long-term bank borrowings (Note 24) and presented as non-current assets accordingly.

28. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group’s overall strategy remains unchanged during the Track Record Period.

The capital structure of the Group consists of net debt, comprising bank borrowings as disclosed in Note 24, cash and cash equivalents and equity attributable to owners of the Company, comprising issued capital, reserves and retained earnings as disclosed in Note 25 and the consolidated statements of changes in equity.

The Group’s management reviews the capital structure on a regular basis. As part of the review, the management considers the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

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29. OPERATING LEASE COMMITMENTS

The Group as Lessee

Operating leases relate to the stores and office premises leased with lease terms ranging from three to fifteen years.

Lease payment recognised as an expense:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Minimum lease payments	12,492	50,539	74,460	36,528	36,555
Contingent rentals	12,650	21,362	21,703	11,349	11,089
	25,142	71,901	96,163	47,877	47,644

Contingent rentals are calculated based on a certain percentage of gross revenue from concessionaire sales of the Group pursuant to the terms of the relevant rental agreements.

At the respective reporting dates, the Group was committed to making future minimum lease payments in respect of land and buildings rented under non-cancellable operating leases which fall due as follows:

	At December 31,			At June 30,
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	13,020	72,382	71,782	73,833
In the second to fifth year inclusive . .	48,060	279,438	275,528	272,387
Over five years	31,859	334,803	267,797	239,901
	92,939	686,623	615,107	586,121

The Group as Lessor

Operating leases relate to the stores owned or leased by the Group being rented out with lease terms ranging from six months to five years.

Rental income recognised:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Minimum lease payments	3,884	15,760	22,849	12,153	13,168
Contingent rentals	5,415	3,019	5,493	1,519	1,619
	9,299	18,779	28,342	13,672	14,787

Contingent rentals are calculated based on a certain percentage of gross revenue of the tenants pursuant to the terms of the relevant rental agreements.

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At the respective reporting dates, the Group has contracted with tenants for the following future minimum lease payments in respect of properties rented out:

	At December 31,			At June 30,
	2006	2007	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000
Within one year	3,005	20,357	18,711	18,557
In the second to fifth year inclusive . .	3,229	36,741	18,898	12,752
	<u>6,234</u>	<u>57,098</u>	<u>37,609</u>	<u>31,309</u>

30. RELATED PARTY TRANSACTIONS

(a) Names and relationships with related parties are as follows:

Name	Relationship
PIEL	Ultimate holding company
Etac Fashion (Xiamen) Co., Ltd	Company controlled by PIEL
Century Ports Apparel (Xiamen) Ltd.	Company controlled by PIEL
PCD Stores (Xiamen).	Company controlled by the Chan Family
PCD Stores.	Holding company of the entire business of the Group prior to the Reorganisation; Company controlled by PIEL
Scitech Group Company Limited	Company controlled by Alfred Chan and Edward Tan’s immediate family members(the “broader Chan family”)
Beijing Chun Tian Real Estate Development Co., Ltd. (“Beijing Chun Tian Real Estate”) 北京春天房地產開發有限公司	Company controlled by the Chan family
Ports International Marketing (Xiamen) Ltd 廈門寶姿服飾有限公司	Company controlled by the broader Chan family
Ports Fashion (Xiamen) Ltd 黛美服飾(廈門)有限公司	Company controlled by the broader Chan family
Beijing Scitech Outlet Commerce & Trading Co., Ltd. (“Beijing Scitech Outlet Commerce & Trading”) 北京奧特萊斯商貿有限公司	Company controlled by the broader Chan family
Vivienne Tam Fashion (Xiamen) Limited 韋薇服飾(廈門)有限公司	Company controlled by the broader Chan family
Guiyang Guomao Guangchang Commercial Trading Co., Ltd (“Guiyang Guomao”) 貴陽國貿廣場商貿有限公司	Company controlled by the broader Chan family
Guiyang Nanguo Huajin Department Chun Tian Stores Limited (“Guiyang Nanguo Huajin”) 貴陽南國花錦春天百貨有限公司.	Company controlled by the broader Chan family
Liupanshui Guomao Guangchang Chun Tian Department Stores Limited (“Liupanshui Guomao”) 六盤水國貿廣場春天百貨有限公司	Company controlled by the broader Chan family

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- (b) During the Track Record Period, apart from the equity transfers described in the notes to the consolidated statements of changes in equity and Note 1, the Group entered into the following significant transactions with related parties:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Continuing transactions					
<i>(Note i)</i>					
Commission income					
Etac Fashion (Xiamen) Co., Ltd	2,555	2,158	—	—	—
Ports International Marketing (Xiamen) Ltd .	363	—	—	—	—
Ports Fashion (Xiamen) Ltd	—	—	227	—	548
Century Ports Apparel (Xiamen) Ltd.	1,576	7,653	17,490	6,940	7,982
Vivienne Tam Fashion (Xiamen) Limited	—	—	—	—	23
	<u>4,494</u>	<u>9,811</u>	<u>17,717</u>	<u>6,940</u>	<u>8,553</u>
Management consultancy services income					
Guiyang Guomao	—	—	—	—	5,900
Guiyang Nanguo Huajin . . .	—	—	—	—	1,660
Liupanshui Guomao	—	—	—	—	60
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>7,620</u>
Rental expense					
Scitech Group Company Limited <i>(Note ii)</i>	—	24,407	48,605	24,174	23,792

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	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000 (Unaudited)	RMB’000
Discontinued transactions					
<i>(Note i)</i>					
Interest expense (Note iii)					
PCD Stores.	1,170	253	—	—	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Interest income (Note iii)					
PCD Stores.	—	5,692	—	—	—
PCD Stores (Xiamen).	—	—	—	—	2,450
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	—	5,692	—	—	2,450
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Purchase of goods					
PCD Stores (Xiamen).	—	8,883	—	—	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Purchase of equipment					
Scitech Group Company Limited	—	6,837	—	—	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Note:

- (i) In the opinion of the directors, the above continuing transactions will continue, while the discontinued transactions will discontinue.
- (ii) Pursuant to a lease entered into by Scitech Group Company Limited and the Group, Scitech Group Company Limited agreed to grant the Group a lease with effect from July 1, 2007 for the Scitech Plaza, which is not subject to any periodic review until the end of the term of 12 years. Scitech Group Company Limited is the majority property holder of the Scitech Complex, consisting of an office, hotel, restaurants and retail complex, which includes Scitech Plaza.
- Moreover, pursuant to another lease entered into by Scitech Group Company Limited and the Group, Scitech Group Company Limited agreed to grant the Group a lease with effect from July 1, 2007 for office space within the Scitech Complex for a term of three years.
- (iii) The interest expenses during the year ended December 31, 2006 and 2007 and interest income during the year ended December 31, 2007 were calculated at an interest rate of 6% per annum based on the borrowing contracts entered into between the Group and PCD Stores.

The interest income during the six months ended June 30, 2009 was calculated at an interest rate of 6.3% per annum based on the borrowing contract entered into between the Group and PCD stores (Xiamen).

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- (c) At the respective reporting dates, the Group had the following balances with related parties:

	At December 31,			At June 30,
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from related parties				
Trade nature				
Scitech Group Company Limited	—	7,615	—	—
Guiyang Guomao	—	—	—	2,950
Guiyang Nanguo Huajin	—	—	—	830
Liupanshui Guomao	—	—	—	30
	<u>—</u>	<u>7,615</u>	<u>—</u>	<u>3,810</u>
Non-trade nature				
PIEL	52,687	—	—	—
PCD Stores (Xiamen) (Note i)	5,450	—	197,758	618,364
Beijing Scitech Outlet Commerce & Trading	—	550	2,452	6,489
Beijing Chun Tian Real Estate	—	—	39	32
Scitech Group Company Limited	—	2,000	—	—
Etac Fashion (Xiamen) Co., Ltd	—	—	—	10
	<u>58,137</u>	<u>2,550</u>	<u>200,249</u>	<u>624,895</u>
	<u>58,137</u>	<u>10,165</u>	<u>200,249</u>	<u>628,705</u>

Note:

- (i) As at June 30, 2009, the amount include unsecured loans amounting to RMB400,000,000 advanced to PCD Stores (Xiamen) at an interest rate of 6.3% per annum which is denominated in RMB, unsecured and to be settled within one year. The remaining amounts at June 30, 2009 are unsecured, interest free and repayable on demand. The amounts were fully settled up to October 2009.

The average trade credit period granted to related parties is 60 days. All amounts due from related parties that are trade nature are aged within 60 days and neither overdue nor impaired and are considered recoverable.

Except for the amount in Note (i) above, all amounts due from related parties were denominated in RMB, unsecured and interest free. The amounts due from related parties were recovered in full up to October 2009.

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Amounts due to related parties

	At December 31,			At June 30,
	2006	2007	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000
Trade nature				
Etac Fashion (Xiamen) Co., Limited				
<i>(Note i)</i>	2,158	—	—	—
Century Ports Apparel (Xiamen)				
Limited <i>(Note i)</i>	1,133	8,494	46,841	15,125
Ports Fashion (Xiamen) Limited				
<i>(Note i)</i>	—	—	1,984	800
Scitech Group Company Limited	—	—	38,492	5,214
Vivienne Tam Fashion (Xiamen) Ltd.				
<i>(Note i)</i>	—	—	—	145
	<u>3,291</u>	<u>8,494</u>	<u>87,317</u>	<u>21,284</u>
Non-trade nature				
PCD Stores <i>(Note ii)</i>	<u>24,577</u>	<u>150,188</u>	<u>—</u>	<u>—</u>
	<u>27,868</u>	<u>158,682</u>	<u>87,317</u>	<u>21,284</u>

All amounts due to related parties that are trade nature are aged within 60 days at each reporting date.

Except for the amount due to PCD Stores as explained in note (ii) below, all other amounts due to related parties are unsecured, non-interest bearing and to be settled in accordance with agreed credit term or payable on demand.

Notes:

- (i) Etac Fashion (Xiamen) Co., Limited, Century Ports Apparel (Xiamen) Limited, Ports Fashion (Xiamen) Limited and Vivienne Tam Fashion (Xiamen) Ltd. supply the goods for the concessionaire sales through the group entities and the balances that are trade nature at respective reporting dates represent the outstanding balance between cash receipts from ultimate customers and the concessionaire sales income of the group entities.
- (ii) During the year ended December 31, 2006, PCD Stores granted unsecured loans amounting to US\$3,000,000 (equivalent to RMB23,426,000) to the Group at an interest rate of 6% per annum. The loans were fully repaid in 2007.

The Company agreed to pay an additional sum of RMB150,000,000 to PCD Stores repayable within 12 months from November 14, 2007 as part of the consideration for the transfer of the entire issued share capital in PCD China Real Estate Limited and PCD Retail Operations from PCD Stores to the Company in relation to the Reorganization (Note 1). The amount was repayable before November 13, 2008 and settled in 2008.

In the opinion of the directors, the above amounts due from/to related parties of trade nature will continue, while the non-trade amounts due from/to related parties will discontinue.

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(d) Compensation of key management personnel

The emoluments of key management during Track Record Period except for the directors disclosed in Note 11 were as follows:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Short-term employees benefits	1,149	2,166	1,901	938	1,077
Post-employment benefits	34	76	109	55	60
	<u>1,183</u>	<u>2,241</u>	<u>2,010</u>	<u>993</u>	<u>1,137</u>

(e) Other related party transactions

At December 31, 2006, 2007, 2008 and June 30, 2009, the Group’s bank borrowings of nil, RMB28,092,000, RMB65,276,000 and RMB54,241,000 respectively were guaranteed by PIEL. The directors of the Company confirmed that the guarantee will be released.

At June 30, 2009, the Group’s bank borrowings of RMB500,000,000 was guaranteed by Scitech Group Company Limited. The guarantee was subsequently released in October 2009.

31. INVESTMENT IN SUBSIDIARIES

	At December 31,		At June 30,
	2007	2008	2009
	RMB’000	RMB’000	RMB’000
Unlisted equity investment, at cost	<u>372,998</u>	<u>372,998</u>	<u>372,998</u>

32. AMOUNTS DUE FROM/TO SUBSIDIARIES AND AMOUNT DUE TO A FELLOW SUBSIDIARY

The amounts due from/to subsidiaries and amount due to a fellow subsidiary are unsecured, non-interest bearing and repayable on demand.

33. RESERVE

The Company

	Retained earnings/ (Accumulated losses) RMB’000
At date of incorporation	—
Profit for the period	78,744
Dividend declared	<u>(78,348)</u>
At December 31, 2007	396
Loss for the year	<u>(4,714)</u>
At December 31, 2008	(4,318)
Loss for the period	<u>(1,410)</u>
At June 30, 2009	<u>(5,728)</u>

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34. ACQUISITIONS OF SUBSIDIARIES

(a) Acquisition of PCD Songbai

On January 16, 2006, the date on which the Group obtained the power to govern the financial and operating policies of PCD Songbai, the Group acquired a 95% interest in PCD Songbai for a consideration of approximately RMB9,279,000 from an independent third party. The amount of goodwill arising as a result of acquisition of approximately RMB2,008,000 has been recognised in the consolidated statement of financial position. PCD Songbai is mainly engaged in retail business.

Details of the net assets acquired and the goodwill arising on acquisition are set out as below:

	Acquiree's carrying amount before combination	Fair value adjustments	Fair value
	RMB'000	RMB'000	RMB'000
Net assets acquired:			
Property, plant and equipment	749	(198)	551
Prepayments, trade and other receivables . .	28,551	—	28,551
Inventories	4,437	97	4,534
Bank balances and cash	1,491	—	1,491
Trade and other payables	(26,214)	—	(26,214)
Tax payable	(1,259)	—	(1,259)
	<u>7,755</u>	<u>(101)</u>	<u>7,654</u>
Minority interests			(383)
Goodwill arising on acquisition			<u>2,008</u>
Total consideration, satisfied by cash			<u><u>9,279</u></u>
Net cash outflow arising on acquisition:			
Cash consideration paid			(9,279)
Cash and cash equivalents acquired			<u>1,491</u>
			<u><u>(7,788)</u></u>

PCD Songbai contributed approximately RMB10,972,000 to the Group's profit for the period between the date of acquisition and December 31, 2006.

If the acquisition had been completed on January 1, 2006, the Group's revenue for the year ended December 31, 2006 would have been approximately RMB173,765,000 and profit for the year ended December 31, 2006 would have been approximately RMB46,494,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2006, nor is it intended to be a projection of future results.

(b) Acquisition of Xian Century Changan Property Investment

On August 10, 2007, the Group acquired a 100% interest in and obtained the power to govern the financial and operating policies of Xian Century Changan Property Investment from a third party. The consideration includes cash payments of RMB137,016,000 and the assuming amounts due from outgoing equity holders of RMB156,941,000. Xian Century Changan Property Investment is mainly engaged in property investment and management of department stores.

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The acquisition has been accounted for acquisition of assets and liabilities. Details of the net assets acquired and liabilities assumed are set out as follows:

	<i>RMB’000</i>
Assets acquired and liabilities assumed:	
Investment property	459,229
Amounts due from outgoing equity holders	156,941
Prepayments, trade and other receivables	840
Restricted bank balances	12,000
Trade and other payables	(5,455)
Bank borrowings — due within one year	(20,541)
Bank borrowings — due after one year	(243,288)
Deferred tax liabilities	<u>(65,769)</u>
	293,957
Less: Assumption of amounts due from outgoing equity holders by the Group	<u>(156,941)</u>
	<u>137,016</u>
Total consideration, satisfied by:	
Cash	75,000
Payment deferred (<i>Note</i>)	<u>62,016</u>
	<u>137,016</u>
Net cash outflow arising on acquisition:	
Cash consideration paid	(75,000)
Cash and cash equivalents acquired	<u>—</u>
	<u>(75,000)</u>

Note: The remaining consideration of RMB62,016,000 was repayable on demand and settled in 2008.

The financial information of Xian Century Changan Property Investment for the Pre-Acquisition Periods is set out in section G of this report.

35. SUBSEQUENT EVENTS

Subsequent to June 30, 2009, the Group had the following subsequent events,

- i. On November 11, 2009, pursuant to an instrument of transfer and bought and sold notes, PCD Retail Operations transferred its shareholdings in PCD China Ventures to Double Eight Enterprises Limited, a company indirectly wholly-owned by the Chan Family, for nil consideration.

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G. PRE-ACQUISITION FINANCIAL INFORMATION OF XIAN CENTURY CHANGAN PROPERTY INVESTMENT

Xian Century Changan Property Investment was established in the PRC on September 12, 1995 as a limited liability company. The principal activity of Xian Century Changan Property Investment is properties investment.

The pre-acquisition financial information of Xian Century Changan Property Investment for the Pre-Acquisition Period has been prepared in accordance with the accounting policies set out in Note 3 to the Financial Information of the Group set out in Section F of this report. The financial information includes applicable disclosure required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance.

Basis of preparation

The Pre-Acquisition Underlying Financial Statements of Xian Century Changan Property Investment are prepared in accordance with IFRS. The pre-acquisition financial information of Xian Century Changan Property Investment includes statements of comprehensive income, statements of cash flows and statements of changes in equity of Xian Century Changan Property Investment for the Pre-Acquisition Period and the statements of financial position of Xian Century Changan Property Investment as at December 31, 2006 and August 9, 2007, together with the notes thereto. The pre-acquisition financial information of Xian Century Changan Property Investment has been prepared from the Pre-Acquisition Underlying Financial Statements after making such adjustments as are appropriate for incorporation into this report.

(a) *Statements of Comprehensive Income*

		For the year ended December 31, 2006	Period from January 1, 2007 to August 9, 2007
	Notes	RMB’000	RMB’000
Revenue	1	181	1,697
Changes in fair value of investment property	7	387,618	(3,761)
Other operating income	1	114	308
Direct costs		(31)	(311)
Distribution costs		(185)	(248)
General and administrative expenses		(1,546)	(2,811)
Loss on disposal of investment property		—	(129,265)
Other expense		(2)	(1)
Finance costs	2	(7,816)	(10,087)
Profit (loss) before taxation	3	378,333	(144,479)
Income tax (charge) credit	5	(129,295)	63,526
Profit (loss) and total comprehensive income for the year/ period		249,038	(80,953)

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(b) *Statements of Financial Position*

	Notes	As at December 31, 2006 RMB’000	As at August 9, 2007 RMB’000
NON-CURRENT ASSETS			
Property, plant and equipment	6	1,549	—
Investment property	7	610,000	459,229
Restricted bank balances	8	7,000	12,000
		<u>618,549</u>	<u>471,229</u>
CURRENT ASSETS			
Trade receivables		181	840
Other receivables		311,169	—
Amounts due from shareholders		—	156,941
Bank balances and cash		4,422	—
		<u>315,772</u>	<u>157,781</u>
CURRENT LIABILITIES			
Other payables		252,763	—
Accrued expenses		389	1,184
Rental deposits		85	—
Amount due to a director/shareholder	13	4,903	—
Provision for deed tax		4,271	4,271
Bank borrowings — due within one year	11	15,216	20,541
		<u>277,627</u>	<u>25,996</u>
NET CURRENT ASSETS		<u>38,145</u>	<u>131,785</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>656,694</u>	<u>603,014</u>
NON-CURRENT LIABILITIES			
Bank borrowings — due after one year	11	192,489	243,288
Deferred tax liabilities	5	129,295	65,769
		<u>321,784</u>	<u>309,057</u>
TOTAL ASSETS LESS TOTAL LIABILITIES		<u>334,910</u>	<u>293,957</u>
Capital and reserve			
Paid-in capital	10	86,000	126,000
Retained earnings		248,910	167,957
		<u>334,910</u>	<u>293,957</u>

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(c) *Statements of Changes in Equity*

	Paid-in capital	Retained earnings/ (accumulated losses)	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Balance at January 1, 2006.	46,000	(128)	45,872
Capital contribution	40,000	—	40,000
Profit for the year	—	249,038	249,038
	<u> </u>	<u> </u>	<u> </u>
Balance at December 31, 2006.	86,000	248,910	334,910
Capital contribution	40,000	—	40,000
Loss for the period	—	(80,953)	(80,953)
	<u> </u>	<u> </u>	<u> </u>
Balance at August 9, 2007	<u>126,000</u>	<u>167,957</u>	<u>293,957</u>

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(d) *Statements of Cash Flows*

	For the year ended December 31, 2006 <i>RMB’000</i>	Period from January 1, 2007 to August 9, 2007 <i>RMB’000</i>
Operating activities		
Profit (loss) before taxation.	378,333	(144,479)
Adjustments for:		
Finance costs	7,816	10,087
Depreciation of property, plant and equipment.	41	238
Gain on disposal of property, plant and equipment.	—	(272)
Loss on disposal of investment property	—	129,265
Changes in fair value of investment property.	(387,618)	3,761
Operating cash flows before movement in working capital	(1,428)	(1,400)
Increase in trade receivables	(181)	(659)
Increase in accrued expenses.	364	795
Increase in rental deposits.	85	(85)
Increase in provision for deed tax	4,271	—
Cash generated from (used in) operations and net cash generated from (used in) operating activities	3,111	(1,349)
Investing activities		
Purchase of investment properties	(222,382)	—
Purchase of property, plant and equipment	(1,590)	(26)
Proceeds from disposal of property, plant and equipment	—	1,609
Proceeds from disposal of investment properties	—	17,745
Increase in restricted bank balances	(7,000)	(5,000)
Increase in other receivables	(154,381)	(98,428)
Net cash used in investing activities.	(385,353)	(84,100)
Financing activities		
Proceeds from capital contribution	40,000	40,000
New bank borrowings raised	215,000	65,000
Repayment of bank borrowings	(7,295)	(8,876)
Increase (decrease) in other payables	148,494	(5,010)
Interest paid	(7,816)	(10,087)
Decrease in due to a director/shareholder	(1,746)	—
Net cash generated from financing activities	386,637	81,027
Net increase in cash and cash equivalents	4,395	(4,422)
Cash and cash equivalents at beginning of the year/period	27	4,422
Cash and cash equivalent at end of the year/period	4,422	—

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Notes:

1. REVENUE AND OTHER OPERATING INCOME

Revenue, which is also Xian Century Changan Property Investment’s turnover, represents rental income from property leasing.

An analysis of Xian Century Changan Property Investment’s revenue and other operating income is as follows:

	For the year ended December 31, 2006 <i>RMB’000</i>	Period from January 1, 2007 to August 9, 2007 <i>RMB’000</i>
Revenue		
Rental income	181	1,697
Other operating income		
Bank interest	114	36
Gain on disposal of property, plant and equipment	—	272
	114	308

Xian Century Changan Property Investment is a property investment company engaged in a single business of leasing an investment property located in Xian, the PRC, its place of domicile. Its non-current assets are all located in the PRC. The information reported to chief operating decision maker for the purpose of resource allocation and assessment of performance is based on the overall operation reported under PRC GAAP, which does not include the fair value change of investment property and resulting tax impact.

2. FINANCE COSTS

	For the year ended December 31, 2006 <i>RMB’000</i>	Period from January 1, 2007 to August 9, 2007 <i>RMB’000</i>
Interest expenses on bank borrowings not wholly repayable within five years	7,816	10,087

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3. PROFIT (LOSS) BEFORE TAXATION

Profit (loss) before taxation has been arrived at after charging:

	For the year ended December 31, 2006 <i>RMB’000</i>	Period from January 1, 2007 to August 9, 2007 <i>RMB’000</i>
Auditors’ remuneration.	48	124
Depreciation of property, plant and equipment.	41	238
Staff costs, excluding director’s remuneration (<i>Note 4</i>)	1,264	625
	<u> </u>	<u> </u>

4. DIRECTOR’S REMUNERATION

No director received any fees or emoluments in respect of his services to Xian Century Changan Property Investment during the Pre-Acquisition Period.

5. TAXATION

	For the year ended December 31, 2006 <i>RMB’000</i>	Period from January 1, 2007 to August 9, 2007 <i>RMB’000</i>
Current tax	—	—
Deferred tax		
Current year	129,295	(42,480)
Attributable to a change in tax rate	—	(21,046)
	<u> </u>	<u> </u>
	129,295	(63,526)
	<u> </u>	<u> </u>

No provision for PRC Income Tax has been made as Xian Century Changan Property Investment has sustained a tax loss for the year/period.

The tax charge for the year/period can be reconciled to the profit (loss) before taxation per the statements of comprehensive income as follows:

	For the year ended December 31, 2006 <i>RMB’000</i>	Period from January 1, 2007 to August 9, 2007 <i>RMB’000</i>
Profit (loss) before taxation.	378,333	(144,479)
	<u> </u>	<u> </u>
Tax at PRC Enterprise Income Tax (“EIT”) rate of 33%.	124,850	(47,678)
Effect of change in the EIT rate	—	(21,046)
Tax effect of tax losses not recognized.	4,445	5,198
	<u> </u>	<u> </u>
	129,295	(63,526)
	<u> </u>	<u> </u>

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Deferred tax balances

Deferred tax liabilities arise from the following:

	Revaluation of investment properties
	<i>RMB’000</i>
At January 1, 2006	—
Charge to statement of comprehensive income	<u>129,295</u>
At December 31, 2006	129,295
Credit to statement of comprehensive income	(42,480)
Effect of change in the EIT rate	<u>(21,046)</u>
At August 9, 2007	<u><u>65,769</u></u>

At August 9, 2007, Xian Century Changan Property Investment had unused tax losses of RMB29,349,000 (December 31, 2006: RMB13,597,000) available for offset against future profits that may be carried forward for five years until 2012. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

6. PROPERTY, PLANT AND EQUIPMENT

	Computers & office equipment	Motor vehicle	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Cost			
As at January 1, 2006	—	—	—
Additions	<u>42</u>	<u>1,548</u>	<u>1,590</u>
As at December 31, 2006	42	1,548	1,590
Additions	26	—	26
Disposal	<u>(68)</u>	<u>(1,548)</u>	<u>(1,616)</u>
As at August 9, 2007	<u>—</u>	<u>—</u>	<u>—</u>
Accumulated depreciation and impairment			
As at January 1, 2006	—	—	—
Charge for the year	<u>2</u>	<u>39</u>	<u>41</u>
As at December 31, 2006	2	39	41
Charge for the period	6	232	238
Eliminated on disposal	<u>(8)</u>	<u>(271)</u>	<u>(279)</u>
As at August 9, 2007	<u>—</u>	<u>—</u>	<u>—</u>
Carrying amount			
As at December 31, 2006	<u><u>40</u></u>	<u><u>1,509</u></u>	<u><u>1,549</u></u>
As at August 9, 2007	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>

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As at August 9, 2007, the Company disposed all the property, plant and equipment at a total consideration of RMB1,609,000.

7. INVESTMENT PROPERTY

	<i>RMB’000</i>
As at January 1, 2006	—
Additions	222,382
Increase in fair value	<u>387,618</u>
As at December 31, 2006	610,000
Disposal	(147,010)
Decrease in fair value	<u>(3,761)</u>
As at August 9, 2007	<u><u>459,229</u></u>

Notes:

- (i) The fair values of the investment properties as at December 31, 2006 have been arrived at on the basis of a valuation carried out at that date by Debenham Tie Leung Limited, 16th Floor Jardine House, 1 Connaught Place Central, Hong Kong, independent professionally qualified valuers, on the basis of capitalisation of net rental income derived from the 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. The investment properties are leased to a third party under operating leases, further summary details of which are included in note 12. The fair value of the investment properties as at August 9, 2007 was determined based on the sales contract to acquire Xian Century Changan Property Investment by the Group.
- (ii) On June 28, 2007, Xian Century Changan Property Investment has returned part of its properties (6,824.96 m²) to the developer for a consideration of RMB17,745,000. According to the valuation report on June 27, 2007, the market value of the disposed properties was approximately RMB147,010,000.
- (iii) The investment properties have been mortgaged to a bank as security for bank loans granted to Xian Century Changan Property Investment (Note 11).
- (iv) The land on which this investment property is situated is held on a medium-term lease in the PRC.

8. BANK BALANCES AND CASH AND RESTRICTED BANK BALANCES

The bank balances and cash and restricted bank balances are denominated in Renminbi.

The restricted bank balances represents the amount pledged to a bank to secure long-term banking facilities granted to Xian Century Changan Property Investment.

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9. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at December 31, 2006 <i>RMB’000</i>	As at August 9, 2007 <i>RMB’000</i>
Financial assets:		
Loans and receivables (including cash and cash equivalents)	322,772	169,781
Financial liabilities:		
Amortised cost	465,456	263,829

Financial risk management objectives and policies

Xian Century Changan Property Investment’s major financial instruments include trade and other receivables, other payables, rental deposits, amounts due from shareholders, amount due to a director/ shareholder, bank borrowings, restricted bank balances and bank balances and cash.

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. Xian Century Changan Property Investment’s objectives, policies and processes managing the risk and the methods used to measure the risk remains unchanged during the Pre-Acquisition Period.

Credit risk

Xian Century Changan Property Investment’s maximum exposure to credit risk which will cause a financial loss to Xian Century Changan Property Investment due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the statements of financial position at the respective reporting dates.

Xian Century Changan Property Investment reviews 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, the directors of Xian Century Changan Property Investment consider that Xian Century Changan Property Investment’s credit risk is significantly reduced.

The credit risk on liquid funds is limited because the main counterparty is bank with high credit-ratings assigned by international credit-rating agencies.

Xian Century Changan Property Investment has no significant concentration of credit risk for receivables from customers as the balances of trade receivables are insignificant. Xian Century Changan Property Investment has concentration of credit risk on amounts due from Shaanxi Changan Construction Investment Limited, and Shaanxi PCD Stores Co., Limited(formerly known as Shaanxi Mei Mei Changan Department Store Co., Ltd.) at December 31, 2006 and shareholders at August 9, 2007. The directors of Xian Century Changan Property Investment closely monitor their financial positions, and the credit risk being considered to be low.

Interest rate risk

Xian Century Changan Property Investment is exposed to cash flow interest rate risk due to fluctuations in the prevailing market interest rates on bank balances and bank borrowings which carry interest at market interest rates.

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Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to market lending interest rates for non-derivative instruments at the respective reporting dates. The sensitivity analyses below have been determined based on the exposure to interest rates for variable interest rate bank borrowings. Bank balances are excluded from the sensitivity analyses 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/period. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management’s 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, Xian Century Changan Property Investment’s net profit would decrease/increase by RMB1,039,000 and RMB769,000 for the year ended December 31, 2006 and the period from January 1, 2007 to August 9, 2007, respectively.

Liquidity risk

In the management of the liquidity risk, Xian Century Changan Property Investment monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance its operations and mitigate the effects of fluctuations in cash flows. Xian Century Changan Property Investment relies on bank borrowings as a significant source of liquidity. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details Xian Century Changan Property Investment’s contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Xian Century Changan Property Investment can be required to pay. The table includes both interest and principal.

	Weighted average interest rates	Within 1 year	1–2 years	2–5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
	%	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
As at 31 December 2006							
Non-interest bearing		257,751	—	—	—	257,751	257,751
Variable interest rate instruments	7.73	30,910	30,910	92,729	139,455	294,004	207,705
		<u>288,661</u>	<u>30,910</u>	<u>92,729</u>	<u>139,455</u>	<u>551,755</u>	<u>465,456</u>
As at August 9, 2007							
Variable interest rate instruments	8.18	41,374	41,374	124,123	167,382	374,253	263,829
		<u>41,374</u>	<u>41,374</u>	<u>124,123</u>	<u>167,382</u>	<u>374,253</u>	<u>263,829</u>

Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

The directors of Xian Century Changan Property Investment consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost approximate their fair values.

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10. PAID-IN CAPITAL

	As at December 31, 2006	As at August 9, 2007
	RMB’000	RMB’000
Paid-in capital.	46,000	86,000
Capital contribution during the year/period	40,000	40,000
	<u>86,000</u>	<u>126,000</u>

11. BANK BORROWINGS

	As at December 31, 2006	As at August 9, 2007
	RMB’000	RMB’000
Carrying amount repayable:		
Within one year	15,216	20,541
More than one year, but not more than five years	74,208	101,252
More than five years	<u>118,281</u>	<u>142,036</u>
Secured bank borrowings	207,705	263,829
Less: Amounts due within one year shown under current liabilities. . .	<u>(15,216)</u>	<u>(20,541)</u>
	<u>192,489</u>	<u>243,288</u>

At August 9, 2007, Xian Century Changan Property Investment has two principal bank loans:

- (i) Bank borrowings of outstanding amount RMB165,298,000 (December 31, 2006: RMB172,705,000) was drawn down on May 25, 2006. Repayment commenced from June 25, 2006 and will end on May 25, 2016. The effective interest rate on the bank loan is 8.14% per annum at August 9, 2007 (December 31, 2006: 7.73%);
- (ii) Bank borrowings of outstanding amount RMB98,531,000 (December 31, 2006: RMB35,000,000) was drawn down on December 26, 2006. Repayment commenced from January 26, 2007 and will end on December 26, 2016. The effective interest rate on the bank loan is 8.24% per annum at August 9, 2007 (December 31, 2006: 7.73%).

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

- (i) Mortgage over Xian Century Changan Property Investment’s investment properties with carrying amount of RMB459,229,000 at August 9, 2007 (December 31, 2006: RMB610,000,000);
- (ii) Personal guarantees by the shareholders and Mr. Jiang Shi Hao, a 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 third parties; and
- (iv) A minimum bank balance of RMB12,000,000 (December 31, 2006: RMB7,000,000).

APPENDIX I

ACCOUNTANTS’ REPORT

12. COMMITMENTS

Commitments under operating leases as lessor

At the respective reporting dates, Xian Century Changan Property Investment had contracted with tenants for the following future minimum lease payments in respect of properties rented out:

	As at December 31, 2006 <i>RMB’000</i>	As at August 9, 2007 <i>RMB’000</i>
Not later than one year.	1,038	7,810
Later than one year and not later than five years	—	18,873
	<u>1,038</u>	<u>26,683</u>

The investment property is leased to a third party under non-cancellable operating leases. Leases typically run for an initial period of three years.

13. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in this section, Xian Century Changan Property Investment had the following related party balances:

	As at December 31, 2006 <i>RMB’000</i>	As at August 9, 2007 <i>RMB’000</i>
Key management personnel of Xian Century Changan Property Investment		
Mr. Yang Hu 楊虎先生 Due to a director/shareholder	<u>4,903</u>	<u>—</u>
Shareholder of Xian Century Changan Property Investment		
Yang Hu, Feng Ying and Wang Ke . . . Due from shareholders	<u>—</u>	<u>156,941</u>

The amount due to a director/shareholder was unsecured, interest free and repayable on demand.

The amounts due from shareholders were unsecured, interest free and receivable on demand.

14. CONTINGENT LIABILITIES

On May 20, 2007, Shaanxi Litian Economic and Trade Co Ltd (“Shaanxi Litian”) (陝西利天經濟貿易有限公司) launched a claim against Xian Century Changan Property Investment seeking compensation for economic loss of RMB1,815,000 and costs of litigation.

On May 15, 2006, Shaanxi Litian entered into a lease agreement with Xian Century Changan Property Investment for the leasing of restaurant premises within Xian Changan Metropolis Center for a period of 5 years from May 30, 2006 to April 29, 2011. Shaanxi Litian claimed that Xian Century Changan Property Investment was in breach of the lease by failing to promptly allow Shaanxi Litian to start renovation works thus causing a delay in the commencement of Shaanxi Litian’s restaurant business.

APPENDIX I

ACCOUNTANTS’ REPORT

The parties have been actively engaged in settlement discussions. No provision has been made against this claim. The original shareholders — Mr. Yang Hu, Ms. Feng Ying and Mr. Wang Ke have agreed to indemnify the new shareholder — PCD Real Estate (Xiamen) against any and all losses arising from this claim.

H. DIRECTORS’ REMUNERATION

As disclosed in this report, no remuneration has been paid or is payable in respect of the Track Record Period by the Company or any of its subsidiaries to the Company’s directors during the Track Record Period.

Under the arrangement presently in force, the aggregate amount of the directors’ fees and emoluments for the year ending December 31, 2009 paid or payable by the Company or any of its subsidiaries to the Company’s proposed directors, is estimated to be approximately RMB320,000.

I. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by any companies comprising the Group in respect of any period subsequent to June 30, 2009.

Yours faithfully,

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

APPENDIX IV

PROPERTY VALUATION

The following is the text of a letter and valuation certificates prepared for the purpose of incorporation in this document received from DTZ Debenham Tie Leung Limited, an independent property valuer, in connection with its opinion of value of the property interests in the PRC as at September 30, 2009.



16th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

PCD Stores (Group) Limited
Suite 3310–11, Tower One, Times Square
1 Matheson Street
Causeway Bay
Hong Kong

[●], 2009

Dear Sirs,

INSTRUCTIONS, PURPOSE AND DATE OF VALUATION

In accordance with your instructions for us to value the properties in the People’s Republic of China (the “PRC”) (as more particularly described in the attached valuation certificates) in which PCD Stores (Group) Limited (referred to as the “Company”) and its subsidiaries (together referred to as the “Group”) have interests, we confirm that we have inspected the properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the values of such properties as at September 30, 2009.

DEFINITION OF MARKET VALUE

Our valuation of each of the properties represents its Market Value which in accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors is defined as “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

VALUATION BASIS AND ASSUMPTION

Our valuations exclude an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

APPENDIX IV

PROPERTY VALUATION

In the course of our valuation of the properties in the PRC, we have assumed that the transferable land use rights of the properties for their respective specific terms at nominal annual land use fees have been granted and that any land grant premium payable has already been fully paid. We have relied on the information regarding the title to each of the properties and the interests of the Group in the properties. In valuing the properties, we have assumed that the Group has an enforceable title to each of the properties and has free and uninterrupted right to use, occupy or assign the properties for the whole of the respective unexpired terms as granted.

In respect of the properties situated in the PRC, the status of titles and grant of major certificates, approvals and licences, in accordance with the information provided by the Group are set out in the notes of the respective valuation certificates.

METHOD OF VALUATION

In respect of the properties in Group I which are held and occupied by the Group in the PRC, we have valued these properties by direct comparison method assuming sale of each of these properties in its existing state with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant market.

In valuing the property in Group II which is held by the Group in the PRC for investment purpose, we have valued it by capitalisation of the net rental income derived from the existing tenancy agreements and made allowance for reversionary income potential of the property. We have also cross-checked our valuation by making reference to comparable sales evidence as available in the relevant market.

In valuing the property interest in Group III which is held for future development by the Group in the PRC, we have valued it by direct comparison approach by making reference to site comparable sales evidence as available in the relevant market.

Properties in Group IV which are rented by the Group have no commercial value mainly due to the prohibitions against assignment and subletting or otherwise to the lack of substantial profit rents.

SOURCE OF INFORMATION

We have been provided by the Group with extracts of documents in relation to the titles to the properties. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us.

In the course of our valuation, we have relied to a considerable extent on the information given by the Group in respect of the properties in the PRC and have accepted advice given by its PRC Legal advisor, China Commercial Law Firm, on such matters as planning approvals or statutory notices, easements, tenure, identification of land and buildings, completion date of buildings, number of car parking spaces, particulars of occupancy, development schemes, construction costs, site and floor areas, interest attributable to the Group and all other relevant matters.

APPENDIX IV

PROPERTY VALUATION

Dimensions, measurements and areas included in the valuation certificates are based on the information provided to us and are therefore only approximations. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuations. We were also advised by the Group that no material facts have been omitted from the information provided.

SITE INSPECTION

We have inspected the exterior and, wherever possible, the interior of each of the properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out to any of the services. Unless otherwise stated, we have not been able to carry out detailed on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the documents handed to us are correct.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

CURRENCY

Unless otherwise stated, all sums stated in our valuations are in Renminbi, the official currency of the PRC.

We enclose herewith a summary of valuations and our valuation certificate.

Yours faithfully,
For and on behalf of
DTZ Debenham Tie Leung Limited
Andrew K. F. Chan
China Real Estate Appraiser
R.P.S.(GP), MSc., M.H.K.I.S., M.R.I.C.S.
Director

Note: Mr. Andrew Chan is a Registered Professional Surveyor who has over 22 years of experience in the valuation of properties in the PRC and Hong Kong.

APPENDIX IV

PROPERTY VALUATION

SUMMARY OF VALUATIONS

Property	Capital value in existing state as at September 30, 2009 (RMB)	Interest attributable to the Group (%)	Capital value in existing state attributable to the Group as at September 30, 2009 (RMB)
Group I — Properties held and occupied by the Group in the PRC			
1. Levels 1 to 2 and Levels 4 to 6, PCD Zhongshan Lu, Nos. 76–132 Zhongshan Road, Siming District, Xiamen, the PRC	240,000,000	100	240,000,000
2.1 Units S12, S13 and S14 on Level 1, Units 2S1 and 2S2 on Level 2, Unit 3S1 and 3S2 on Level 3 and Unit 4S1 on Level 4, Wuhan Building, Nos. 261–265 Jiahe Road, Siming District, Xiamen, the PRC	232,000,000	100	232,000,000
2.2 Units 5A, 5B, 5C, 5D, 5E and 5F on Level 5, Wuhan Building, Nos. 261–265 Jiahe Road, Siming District, Xiamen, the PRC	6,600,000	100	6,600,000
3. Levels 1 to 5, Shenye Centre, No. 9 Shandong Road, Shinan District, Qingdao, Shandong Province, the PRC	246,000,000	100	246,000,000
Sub-total:	724,600,000		724,600,000

APPENDIX IV

PROPERTY VALUATION

SUMMARY OF VALUATIONS

<u>Property</u>	<u>Capital value in existing state as at September 30, 2009</u> (RMB)	<u>Interest attributable to the Group</u> (%)	<u>Capital value in existing state attributable to the Group as at September 30, 2009</u> (RMB)
Group II — Property held for investment by the Group in the PRC			
4. Basement, Level 1 and part of Level 2, Xian Chang'an Metropolis Center, No. 88 Nanguanzheng Street, Xian, the PRC	510,000,000	100	510,000,000
Sub-total:	510,000,000		510,000,000
Group III — Property held for future development by the Group in the PRC			
5. Lot No. BL9-2-13-1, No. 66 Nanguanzheng Street, BeiLin District Xian The PRC	54,000,000	100	54,000,000
Sub-total:	54,000,000		54,000,000

APPENDIX IV

PROPERTY VALUATION

SUMMARY OF VALUATIONS

Property	Capital value in existing state attributable to the Group as at September 30, 2009 (RMB)
Group IV — Properties rented by the Group in the PRC	
6. Part of Levels 1 to 4, PCD World Trade, 888 Xiahe Road, Siming District, Xiamen, the PRC	No Commercial Value
7. Basements 1 and 2, Levels 1 to 3 and Levels 5 to 6, Continental Commercial Building, Nos. 65–81 Siming South Road, Nos. 193–215 Zhongshan Road, Siming District, Xiamen, the PRC	No Commercial Value
8. Levels 1 to 6 of PCD Taiyuan, No. 42 Kai Hua Si Street (formerly No. 53 Dong Mi Shi Street) Yingze District, Taiyuan, Shanxi Province, the PRC	No Commercial Value
9. Basement 1, Levels 1 to 7 of Block 1 and Basement 1, Levels 1 to 5 of Block 2, PCD Changchun, No. 1055 Gongnong Road, Chaoyang District, Changchun, Jilin province, the PRC	No Commercial Value
10. South portion of Basement 1 to Level 5, North portion of Basement 2 to Level 6, Scitech Shopping Centre, No. 22 Jianguomenwai Street, Chaoyang District, Beijing, the PRC	No Commercial Value

APPENDIX IV

PROPERTY VALUATION

Property	Capital value in existing state attributable to the Group as at September 30, 2009 (RMB)
11. Levels 1 to 5, Hangyang International Commercial Centre, No. 131 Minzu Da Road, Nanning, Guangxi, the PRC	No Commercial Value
12. Part of Level 6, Shenye Centre, No. 9 Shandong Road, Shinan District, Qingdao, Shandong Province, the PRC	No Commercial Value
13. Room 1101, No. 2 of 410 Siming South Road, Siming District, Xiamen, the PRC	No Commercial Value
14. Block D on Level 1, Nos. 29–31 Bishan Road, Siming District, Xiamen, the PRC	No Commercial Value
15. Portion of Level M, Scitech Plaza, No. 22 Jianguomenwai Street, Chaoyang District, Beijing, the PRC	No Commercial Value
16. Room No. 218, Scitech Plaza, No. 22 Jianguomenwai Street, Chaoyang District, Beijing, the PRC	No Commercial Value

APPENDIX IV

PROPERTY VALUATION

Property	Capital value in existing state attributable to the Group as at September 30, 2009 (RMB)
17. Level 4, Continental Commercial Building, Nos. 65–81 Siming South Road, Nos. 193–215 Zhongshan Road, Siming District, Xiamen, the PRC	No Commercial Value
Sub Total:	No Commercial Value
Grand Total:	1,288,600,000

APPENDIX IV

PROPERTY VALUATION

VALUATION CERTIFICATE

Group I — Properties held and occupied by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at September 30, 2009
1. Levels 1 to 2 and Levels 4 to 6, PCD Zhongshan Lu, Nos. 76–132 Zhongshan Road, Siming District, Xiamen, the PRC	The subject department store comprises part of the basement, and Levels 1 to 6 with a total gross floor area of approximately 19,332.08 sq.m. in a commercial building completed in 1997. The total site area of the department store is approximately 4,272.97 sq.m. The property comprises Levels 1 to 2 and Levels 4 to 6 of the subject department store, with a total gross floor area of approximately 11,787.14 sq.m. (refer to Notes 3 (iv) and 4 below). The property is held with land use rights for a term of 40 years expiring on October 4, 2035 for commercial use.	The property, together with part of the basement and Level 3, is occupied by the Group as a department store.	RMB240,000,000

Notes:

- According to 115 Land Use Rights and Building Ownership Certificates, the ownership of the property having a total site area of approximately 4,272.97 sq.m. and a total gross area of approximately 11,787.14 sq.m., have been vested in PCD Real Estate (Xiamen) Ltd. (巴黎春天房地產(廈門)有限公司) for a term expiring on October 4, 2032 for commercial use. The details are summarised as follows:

Unit	Certificate No.	Gross Floor Area (sq.m.)
103	00464619	85
104	00464621	85
105	00464620	85
106	00464622	85
107	00464623	95.7
108	00498413	73.27
109	00498951	73.27
110	00498950	72.24
111	00498949	76.2
112	00498948	71.98
113	00498943	41.5
114	00499031	50.85
115	00498938	92.57
116	00498939	93.77
117	00498940	63.67
118	00498624	48.24
119	00498825	48.24
120	00498826	42.03

APPENDIX IV

PROPERTY VALUATION

Unit	Certificate No.	Gross Floor Area (sq.m.)
121	00498827	137.81
122	00498593	52.97
123	00498594	78.74
201A	00498595	102.53
201B	00498596	166.1
202A	00498597	60.56
202B	00498598	60.56
203A	00498828	60.56
226	00498620	87.39
241	00498941	53.78
242	00498944	36.67
243	00498945	36.67
244	00498946	38.88
245	00498611	38.88
459	00498626	78.97
460	00498627	78.97
461	00498628	105.28
230	00498833	102.53
236	00498942	37.85
246	00498947	50.81
247	00498612	50.81
248	00498613	47.64
203B	00498829	60.99
204	00498830	89.42
209A	00498842	78.95
209B	00498841	78.95
210A	00498840	76.33
212	00498839	41.98
213	00498838	41.98
214	00498590	40.87
215	00498589	49.71
216	00498588	73.18
217	00498587	38.88
218	00498586	38.88
231	00498834	84.06
232	00498835	59.67
233	00498836	78.95
220	00498622	30.97
221	00498625	36.67
222	00498831	36.67
206A	00498843	57.98
206B	00498844	54.38
206C	00498621	89.93
415	00498614	41.79
416	00498623	41.79
417	00498615	89.58
418	00498616	36.43
419	00498617	39.06
420	00498629	43.26
421	00498630	49.44
422	00498631	43.26
423	00498824	50.32
424	00498823	50.32
425	00498822	50.54
426	00499482	50.32
427	00498600	50.32

APPENDIX IV

PROPERTY VALUATION

Unit	Certificate No.	Gross Floor Area (sq.m.)
428	00498599	50.54
429	00498592	50.32
430	00498591	61.5
431	00498952	47.59
432	00498957	47.59
227	00498619	61.01
228	00498618	60.56
229	00498832	166
235	00498837	49.15
450	00498956	34.62
451	00498955	88.53
452	00498954	88.53
453	00498953	34.52
205A	00462099	81.31
224	00462097	41.23
234	00462100	79.01
237	00462101	51.03
238	00462098	82.39
239	00464207	54.38
240	00464208	57.98
401	00421353	86.02
402	00421434	50.61
403	00421254	50.61
404	00421435	74.39
405	00421436	58.38
406	00421437	110.12
407	00421407	41.52
408	00421406	42.23
409	00421405	46.9
410	00421403	42.23
411	00421404	42.23
412	00421354	46.7
413	00421355	42.46
414	00421356	41.79
454	00421253	34.62
455	00421257	37.61
456	00421256	49.15
457	00421255	78.57
458	00421433	78.97
S1 on L5	00464206	2,487.87
S1 on L6	00464209	2,231.95
Total:		11,787.14

- Pursuant to the agreement entered into between PCD Real Estate (Xiamen) Ltd. (巴黎春天房地產(廈門)有限公司) (“Party A”) and Zhongshan PCD (Xiamen) Department Stores Co., Ltd. (中山巴黎春天(廈門)百貨有限公司) (“Party B”), Party A agreed to lease Basement to Level 6 of Nos. 76 to 132 Zhongshan Road, Siming District to Party B for a term of 12 months from January 1, 2009 to December 31, 2009 at a monthly rent of RMB1,192,806.10.

APPENDIX IV

PROPERTY VALUATION

3. We have been provided with a legal opinion on the property prepared by the Group’s legal adviser, which contains, *inter alia*, the following information:
 - (i) PCD Real Estate (Xiamen) Ltd. (巴黎春天房地產(廈門)有限公司) is the solely legal user of the property and has obtained the relevant land use rights certificates and entity approval from the government;
 - (ii) 108 units out of 115 units are subject to a mortgage in favour of China Construction Bank. PCD Real Estate (Xiamen) Ltd. (巴黎春天房地產(廈門)有限公司) but can lease the mortgaged units without obtaining a consent from the mortgagee. However, PCD Real Estate (Xiamen) Ltd. (巴黎春天房地產(廈門)有限公司) can only transfer the building ownership rights of the mortgaged units with a prior consent obtained from the mortgagee;
 - (iii) Except for the mortgaged part of the property, PCD Real Estate (Xiamen) Ltd. (巴黎春天房地產(廈門)有限公司) has the right to freely occupy, use, lease, transfer and mortgage the building ownership rights of the remaining part of the property; and
 - (iv) The property forms part of the premises that PCD Real Estate (Xiamen) Ltd. (巴黎春天房地產(廈門)有限公司) acquired through a public auction from Xiamen Zhong Zheng Auctioneer Co., Ltd. (廈門中正拍賣行有限公司) on November 16, 2004. All the land premium stated in the Auction Confirmation Letter and the legislation had been duly paid and settled. Apart from the property, there are 111 units with a gross floor area of approximately 7,544.94 sq.m. occupied by the Group, of which the transfer of legal titles have not been completed.
4. In the course of our valuation, we have ascribed no capital value for the abovementioned 7,544.94 sq.m. of the premises of which the transfer of legal titles have not been completed yet.
5. The status of title and grant of major approvals and licences in accordance with the PRC legal opinion and information provided by the Group are as follows:

Certificate for Land Use Rights and Building Ownership	Yes
Business Licence	Yes

APPENDIX IV

PROPERTY VALUATION

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at September 30, 2009
2.1 Units S12, S13 and S14 on Level 1, Units 2S1 and 2S2 on Level 2, Unit 3S1 and 3S2 on Level 3 and Unit 4S1 on Level 4, Wuhan Building, Nos. 261–265 Jiahe Road, Siming District, Xiamen, the PRC	The property comprises eight shop units on Levels 1 to 4 of a 30-storey commercial building completed in 1997. The total site area of the property is approximately 5,475.01 sq.m. The total gross floor area of the property is approximately 11,449.49 sq.m. The property has been granted for a land use term of 40 years from February 13, 1994 to February 12, 2034 for commercial use.	The property is occupied by the Group as a department store.	RMB232,000,000

Notes:

- According to 7 Land Use Rights and Building Ownership Certificates, the ownership of the property having a site area of approximately 5,475.01 sq.m. and a total gross floor area of approximately 11,449.49 sq.m., has been vested in PCD Real Estate (Xiamen) Ltd. (巴黎春天房地產(廈門)有限公司). The details of the 7 certificates are shown as follows:

Certificate No.	Portion	GFA (sq.m.)	Terms	Usage
00431636	S12 of Level 1	393.36	40 years (February 13, 1994 to February 12, 2034)	Commercial use
00438381	S14 of Level 1	894.14		
00627354	S13 of Level 1	1,066.99		
00431635	2S1 of Level 2	1,522.86		
00431637	2S2 of Level 2	1,522.86		
00431634	3S1 of Level 3	1,507.30		
00626834	3S2 of Level 3	1,507.31		
00626833	4S1 of Level 4	3,034.67		
Total		11,449.49		

- Pursuant to the agreement entered into between PCD Real Estate (Xiamen) Ltd. (巴黎春天房地產(廈門)有限公司) (“Party A”) and PCD Songbai Department Stores Co., Ltd. (廈門松柏春天百貨有限公司) (“Party B”), Party A agreed to lease the property together with Units 5A to 5F on Level 5 of the same building to Party B for a term of one year from July 1, 2009 to December 31, 2009 at a monthly rent of RMB500,000.
- We have been provided with a legal opinion on the property prepared by the Group’s legal adviser, which contains, *inter alia*, the following information:
 - PCD Real Estate (Xiamen) Ltd. (巴黎春天房地產(廈門)有限公司) is the sole legal land user of the property and has obtained the relevant land use rights certificates and entity approval from the government;

APPENDIX IV

PROPERTY VALUATION

- (ii)

Units S12, 2S1, 2S2 and 3S1 are subject to a mortgage in favour of China Merchants Bank, Units S13 and 3S2 are subject to another mortgage in favour of China Merchants Bank and Unit S14 is subject to a mortgage in favour of Bank of China. PCD Real Estate (Xiamen) Ltd. (巴黎春天房地產(廈門)有限公司) but can lease the property without obtaining a consent from the mortgagee. However, PCD Real Estate (Xiamen) Ltd. (巴黎春天房地產(廈門)有限公司) can only transfer the building ownership rights of the property with a prior consent obtained from the mortgagee; and

(iii)

All the land premium stated in the Auction Confirmation Letter and any legislation had been duly paid and settled.
4.

The status of title and grant of major approvals and licences in accordance with the PRC legal opinion and information provided by the Group are as follows:
- Certificate for Land Use Rights and Building Ownership

Yes

Business Licence

Yes

APPENDIX IV

PROPERTY VALUATION

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at September 30, 2009
2.2 Units 5A, 5B, 5C, 5D, 5E and 5F on Level 5, Wuhan Building, Nos. 261–265 Jiahe Road, Siming District, Xiamen, the PRC	The property comprises five shop units on Level 5 of a 30-storey commercial building completed in 1997. The total site area of the building is approximately 5,475.01 sq.m. The total gross floor area of the property is approximately 750.20 sq.m. The property has been granted for a land use term of 50 years from February 13, 1994 to February 12, 2044 for office use.	The property is occupied by the Group as office use.	RMB6,600,000

Notes:

- According to 6 Land Use Rights and Building Ownership Certificates, the ownership of the property having a site area of approximately 5,475.01 sq.m. and a total gross floor area of approximately 750.20 sq.m., has been vested in PCD Real Estate (Xiamen) Ltd. (巴黎春天房地產(廈門)有限公司). The details of the 6 certificates are shown as follows:

Certificate No.	Portion	GFA (sq.m.)	Terms	Usage
00556904	5A of Level 5	144.51	50years (February 13, 1994 to February 12, 2044)	Office use
00557285	5B of Level 5	144.50		
00557315	5C of Level 5	87.68		
00557327	5D of Level 5	96.09		
00557326	5E of Level 5	138.71		
00556902	5F of Level 5	138.71		
Total		750.20		

- Pursuant to the agreement entered into between PCD Real Estate (Xiamen) Ltd. (巴黎春天房地產(廈門)有限公司) (“Party A”) and PCD Songbai Department Stores Co., Ltd. (廈門松柏春天百貨有限公司) (“Party B”), Party A agreed to lease the property together with Units S12, S13 and S14 on Level 1, Units 2S1 and 2S2 on Level 2, Unit 3S1 and 3S2 on Level 3 and Unit 4S1 on Level 4 of the same building to Party B for a term of one year from July 1, 2009 to December 31, 2009 at a monthly rent of RMB500,000.
- We have been provided with a legal opinion on the property prepared by the Group’s legal adviser, which contains, *inter alia*, the following information:
 - PCD Real Estate (Xiamen) Ltd. (巴黎春天房地產(廈門)有限公司) is the solely legal user of the property and has obtained the relevant land use rights certificates and entity approval from the government; and
 - All the land premium had been duly paid and settled.

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4. The status of title and grant of major approvals and licences in accordance with the PRC legal opinion and information provided by the Group are as follows:

Certificate for Land Use Rights and Building Ownership	Yes
Business Licence	Yes

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Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at September 30, 2009
3. Levels 1 to 5, Shenye Centre, No. 9 Shandong Road, Shinan District, Qingdao, Shandong Province, the PRC	The entire development, known as Shenye Centre, comprises two 33-storey office blocks and a residential block erected over a 6-storey commercial podium completed in 1997. The property comprises Levels 1 to 5 of the commercial podium of Shenye Centre, which was renovated in 2006. The total gross floor area of the property is approximately 19,086.74 sq.m. The property has been granted for a land use term of 50 years from November 11, 1993 to November 11, 2043 for commercial use.	The property is occupied by the Group as a department store.	RMB246,000,000

Notes:

- According to five Land and Building Ownership Certificates Nos. 313189, 313190, 313191, 313193 and 313195 dated October 13, 2006, the ownership of the property, having a site area of approximately 9,733.50 sq.m. and total gross floor area of approximately 19,086.74 sq.m., have been vested in PCD Real Estate (Xiamen) Ltd. (巴黎春天房地產(廈門)有限公司) for commercial use.
- Pursuant to the agreement entered into between PCD Real Estate (Xiamen) Ltd. (巴黎春天房地產(廈門)有限公司) (“Party A”) and Zhongshan PCD Stores (Qingdao) Limited (青島中山巴黎春天百貨有限公司) (“Party B”), Party A agreed to lease the property to Party B for a term from July 1, 2009 to June 30, 2010 at a monthly rent of RMB1,300,000.
- We have been provided with a legal opinion on the property prepared by the Group’s legal adviser, which contains, *inter alia*, the following information:
 - PCD Real Estate (Xiamen) Ltd. (巴黎春天房地產(廈門)有限公司) is the sole legal user of the property and has obtained the relevant land use rights certificates and entity approval from the government;
 - The property is subject to a mortgage in favour of China Citic Bank. PCD Real Estate (Xiamen) Ltd. (巴黎春天房地產(廈門)有限公司) but can lease the property without obtaining a consent from the mortgagee. However, PCD Real Estate (Xiamen) Ltd. (巴黎春天房地產(廈門)有限公司) can only transfer the building ownership rights of the property with a prior consent obtained from the mortgagee; and
 - The property was acquired by PCD Real Estate (Xiamen) Ltd. (巴黎春天房地產(廈門)有限公司) on September 18, 2006 at a consideration of RMB200,000,000. All the land premium had been duly paid and settled.
- The status of title and grant of major approvals and licences in accordance with the PRC legal opinion and information provided by the Group are as follows:

Certificate for Land Use Rights and Building Ownership	Yes
Business Licence	Yes

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VALUATION CERTIFICATE

Group II — Property held for investment by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at September 30, 2009
4. Basement, Level 1 and part of Level 2, Xian Chang'an Metropolis Center, No. 88 Nanguanzheng Street, Xian, the PRC	The property comprises the basement, level 1 and part of level 2 of a 4-storey commercial podium on which a composite development was erected. The property was completed in 2006. The total gross floor area of the property is approximately 21,310.12 sq.m. The land use rights of the property have been granted to the Group for a term of 40 years from November 20, 1997 to November 20, 2037 for commercial use.	The property is leased and occupied by Shaanxi PCD Stores Co., Ltd.	RMB510,000,000

Notes:

- According to two Building Ownership Certificates both dated May 25, 2006, the ownership of the property, having a site area of approximately 5,658.4 sq.m. and a total gross floor area of approximately 28,135.08 sq.m. for mix uses, has been vested in Xian Century Changan Property Investment Co., Ltd. (西安世紀長安物業投資管理有限公司), which PCD Stores (Group) Limited had acquired the entire interest pursuant to the sale and purchase agreement dated July 22, 2007. The details are summarised as follows:

Unit	Certificate No.	Gross Floor Area (sq.m.)
Basement and Level 1	1100106020I-30-1-10101-1	19,035.75
Level 2 and Level 3	1100106020I-30-1-10201-1	9,099.33

- According to Sale and Purchase Agreement No. SJBL (2007) 001 entered into between Wang Ke, Yang Hu, Feng Ying (“Party A”), PCD Real Estate (Xiamen) (“Party B”) and Shaanxi Changan Construction Investment Development Co., Ltd. (“Party C”) on July 22, 2007, Party B acquired the entire equity interest in Xian Century Changan Property Investment Co., Ltd. (西安世紀長安物業投資管理有限公司). Under the agreement, Party B does not have the legal interest of part of the gross floor area stated in Building Ownership Certificate No. 1100106020I-30-1-10201-1 of approximately 6,824.96 sq.m..
- According to a tenancy agreement entered into between Xian Century Changan Property Investment Co., Ltd. (西安世紀長安物業投資管理有限公司) (“Party A”) and Shaanxi PCD Stores Co., Ltd. (formerly known as Shaanxi Mei Mei Changan Department Store Co., Ltd. (陝西美美長安百貨有限公司)) (“Party B”) on June 25, 2007, Party A agreed to lease Basement, Level 1 and Level 2 of Blocks A and D, having a total gross floor area of approximately 21,310.12 sq.m., to Party B for a term commencing from July 1, 2007 to December 31, 2010 at a quarterly rent of RMB2,000,000 with one month rent-free period.
- According to a supplementary tenancy agreement entered into between Xian Century Changan Property Investment Co., Ltd. (西安世紀長安物業投資管理有限公司) (“Party A”) and Shaanxi PCD Stores Co., Ltd. (陝西巴黎春天百貨有限公司) (“Party B”), Party A agreed to Lease the Basement, Level 1, Level 2 of

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Blocks A and D, having a total gross floor area of approximately 21,310.12 sq.m., to Party B for a term commencing from July 1, 2008 to December 31, 2010 at a quarterly rent of RMB3,250,000, all other terms remained unchanged.

According to a further supplementary tenancy agreement entered into between Party A and Party B on September 27, 2009, the expiry date of the lease was changed to December 31, 2011, with other terms remained the same.

5. According to the Confirmation Letter supplementary to the Tenancy Agreement entered into between Xian Century Changan Property Investment Co., Ltd. (西安世紀長安物業投資管理有限公司) and Shaanxi Mei Mei Changan Department Store Co., Ltd. (陝西美美長安百貨有限公司) on June 25, 2007, both party of the Tenancy Agreement agreed that the area of the property is 21,310.12 sq.m..
6. We have been provided with a legal opinion on the property prepared by the Group’s legal adviser, which contains, *inter alia*, the following information:
 - (i) Xian Century Changan Property Investment Co., Ltd. (西安世紀長安物業投資管理有限公司) is the sole legal user of the property and has obtained the relevant land use rights certificates and entity approval from the government;
 - (ii) The property is subject to a mortgage in favour of Bank of East Asia. Xian Century Changan Property Investment Co., Ltd. (西安世紀長安物業投資管理有限公司) but can lease the property without obtaining consent from the mortgagee. However, Xian Century Changan Property Investment Co., Ltd. (西安世紀長安物業投資管理有限公司) can only transfer the building ownership rights of the property with a prior consent obtained from the mortgagee;
 - (iii) Xian Century Changan Property Investment Co., Ltd. (西安世紀長安物業投資管理有限公司) owns the Basement and Levels 1 to 3 with a total gross floor area of approximately 28,135.08 sq.m. (of which a total gross floor area of approximately 6,824.96 sq.m. on Levels 2 and 3 will be delivered to Shaanxi Changan Construction Investment Development Co., Ltd.. Xian Century Changan Property Investment (西安世紀長安物業投資管理有限公司) has the legal interests of the remaining 21,310.12 sq.m.;
 - (iv) There are discrepancies among the areas stated on the building ownership certificates, the sale and purchase agreement, the tenancy agreement and that measured by the Xian Real Estate Measurement Bureau. However, these discrepancies do not affect the honour of the tenancy agreement. Any adjustments in areas according to the actual situation of the leased property should have no legal impediment;
 - (v) The tenancy agreement is valid, binding and enforceable under the PRC law. Xian Century Changan Property Investment Co., Ltd. (西安世紀長安物業投資管理有限公司) is the legal owner of the property and is entitled to lease the property; and
 - (vi) The tenancy agreement has been registered in the relevant authority and the relevant Tenancy Registration Certificate has been obtained.
7. The status of title and grant of major approvals and license in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

Land and Building Ownership Certificates	Yes
Business License	Yes

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Group III — Property held for future development by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at September 30, 2009
5. Lot No. BL9-2-13-1, No. 66 Nanguanzheng Street, Beilin District Xi'an The PRC	The property comprises a vacant site with a site area of approximately 5,565.6 sq.m. The property is proposed to be developed as Phase II of PCD Xian Store (Property No. 4 in this valuation report). According to the development conditions mentioned in the land grant contract of the property, the developable gross floor area of the land should not be exceeding 38,403 sq.m. The land use rights of the property have been granted to the Group for a term due to expire on January 12, 2048 for commercial/finance uses.	The property is a vacant site for future development.	RMB54,000,000 (see Note 3 below)

Notes:

- (1) According to Grant Contract of Land Use Rights entered into between Xi'an Land Resource Bureau (西安市国土资源局) (Part A) and Xi'an Century Changan Property Investment (西安世紀長安物業投資管理有限公司) (Part B) dated January 13, 2008, the land use rights of the property have been granted to Party B with the particulars as follows:
 - (i) Site Area : 6,063.3
 - (ii) Land Usage : Commercial & Finance
 - (iii) Land Use Term : January 12, 2048
 - (iv) Plot Ratio : 6.9
 - (v) Land Grant Premium : 49,800,000
- (2) According to Certificate of State-owned Land Use Rights No. (2008) 182, the land use rights of the property, with a site area of approximately 5,565.6 sq.m., have been granted to Xian Century Changan Property Investment Co., Ltd. (西安世紀長安物業投資管理有限公司) for a term due to expire on January 12, 2048 for commercial/finance uses.
- (3) As advised by the Group, Xian Century Changan Property Investment Co., Ltd. (西安世紀長安物業投資管理有限公司) will takeover the rights and obligations from PCD Stores (Xiamen) for the development project of the property.

As at the date of valuation, we have disregarded the existing building being erected on the property and included the valuation of the land only in our valuation.

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- (4) We have been provided with a legal opinion on the property prepared by the Group’s legal adviser, which contains, *inter alia*, the following information:

(i) Xian Century Changan Property Investment Co., Ltd. (西安世紀長安物業投資管理有限公司) is the sole legal land user of the property and has obtained the relevant land use rights certificates and entity approval from the government; and

(ii) all land premium and other costs of ancillary utilities services have been fully settled.

- (5) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group is as follows:

Grant Contract of Land Use Rights	Yes
Certificate of State-owned Land Use Rights	Yes
Business Licences	Yes

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VALUATION CERTIFICATE

Group IV — Properties rented by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at September 30, 2009
6. Part of Levels 1 to 4, PCD World Trade, 888 Xiahe Road, Siming District, Xiamen, the PRC	The property comprises portion of Levels 1 to 4 of a 5-storey commercial podium completed in 1997. The total gross floor area of the property is approximately 10,806.55 sq.m.	The property is rented by the Group as a department store.	No Commercial Value

Notes:

- Pursuant to the store co-operation agreement dated March 28, 2002 and its supplementary agreements entered into between PCD Stores (Xiamen) Limited (廈門巴黎春天百貨有限公司) (“Party A”) and Xiamen Gui Feng Real Estate Development Co., Ltd. (廈門貴豐房地產開發有限公司) (“Party B”), Party A has rented the property for a term of 10 years commencing from March 28, 2002 to March 27, 2012 at a profit sharing basis based on the actual sales income.
- Pursuant to the Rights and Obligations Transfer Letter dated January 1, 2004 entered into between PCD Stores (Xiamen) Limited (廈門巴黎春天百貨有限公司) (“Party A”) and PCD World Trade (Xiamen) Co., Ltd. (廈門世貿巴黎春天百貨有限公司) (“Party B”), Party A subsequently assigns its rights and obligations under the store co-operation agreement to Party B.
- We have been provided with a legal opinion on the property prepared by the Group’s legal adviser, which contains, *inter alia*, the following information:
 - Xiamen Gui Feng Real Estate Development Co., Ltd. (廈門貴豐房地產開發有限公司) has acquired the land use rights and building ownership of the property;
 - The store co-operation management tenancy agreement is valid, binding and enforceable under PRC law. Xiamen Gui Feng Real Estate Development Co., Ltd. (廈門貴豐房地產開發有限公司) is the legal owner of the property and is entitled to lease the property;
 - The store co-operation agreement has been registered in the relevant authority and the relevant Tenancy Registration Certificate has been obtained;
 - According to Certificate for Land Use Rights and Building Ownership, the property is prescribed as commodity housing; and
 - There is no legal impediment for the Group to use and occupy the property.

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Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at September 30, 2009
7. Basements 1 and 2, Levels 1 to 3 and Levels 5 to 6, Continental Commercial Building, Nos. 65–81 Siming South Road, No. 193–215 Zhongshan Road, Siming District, Xiamen, the PRC	The property comprises of a 6-storey plus basements commercial development completed in 1995. The total gross floor area is approximately 17,399.70 sq.m.	The property is rented by the Group as a department store.	No Commercial Value

Notes:

- Pursuant to the tenancy agreements dated June 15, 2005 and its supplementary agreements entered into between Xiamen Jiu Tian Real Estate Development Co., Ltd. (廈門九天房地產開發有限公司) (“Party A”), PCD Stores (Xiamen) Co., Ltd. (廈門巴黎春天百貨有限公司) (“Party B”), Xiamen Jiu Tian Group Ltd. (“Party C”) and PCD Real Estate Development (Xiamen) (“Party D”), Party A has agreed to lease the property to Party B. Pursuant to the supplementary agreement entered into between all the relevant parties and PCD Continental Department Stores (Xiamen) Co., Ltd. (廈門大陸春天百貨有限公司) (“Party E”), Party B assigned its rights and obligations under tenancy agreements to Party E and the property is leased for a term commencing from August 1, 2005 to October 31, 2013 at an annual rent of RMB1,000,000 commencing from January 1, 2007.
- We have been provided with a legal opinion on the property prepared by the Group’s legal adviser, which contains, *inter alia*, the following information:
 - Level 7 is also occupied by the Group under a supplementary tenancy agreement with Xiamen Jiu Tian Real Estate Development Co., Ltd.. However, Xiamen Jiu Tian Real Estate Development Co., Ltd. does not own the legal title of Level 7. The floor was built in addition to the permitted development as an illegal structure. As such, there is a risk that the Group may need to vacate Level 7. The Group occupies level 7 as a temporary office at present;
 - Xiamen Jiu Tian Real Estate Development Co., Ltd. 廈門九天房地產開發有限公司 has acquired the land use rights and building ownership of the property;
 - The tenancy agreement is valid, binding and enforceable under PRC law; Xiamen Jiu Tian Real Estate Development Co., Ltd. 廈門九天房地產開發有限公司 is the legal owner of the property and is entitled to lease the property;
 - The tenancy agreement has been registered in the relevant authority and the relevant Tenancy Registration Certificate has been obtained; and
 - There is no legal impediment for the Group to use and occupy the property.

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	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at September 30, 2009</u>																		
8.	Levels 1 to 6 of PCD Taiyuan, No. 42 Kai Hua Si Street (formerly No. 53 Dong Mi Shi Street), Yingze District, Taiyuan, Shanxi Province, the PRC	The Property comprises Levels 1 to 6 of a 17-storey building completed in 2000. The total gross floor area of the property is approximately 16,335.90 sq.m. The gross floor areas of the property are as follows: <table><tr><th><u>Level</u></th><th><u>Gross Floor Area</u></th></tr><tr><td></td><td><i>(sq.m.)</i></td></tr><tr><td>L1</td><td>2,367.21</td></tr><tr><td>L2</td><td>2,365.28</td></tr><tr><td>L3</td><td>2,829.19</td></tr><tr><td>L4</td><td>2,829.19</td></tr><tr><td>L5</td><td>2,829.19</td></tr><tr><td>L6</td><td>3,115.84</td></tr><tr><td>Total</td><td>16,335.90</td></tr></table>	<u>Level</u>	<u>Gross Floor Area</u>		<i>(sq.m.)</i>	L1	2,367.21	L2	2,365.28	L3	2,829.19	L4	2,829.19	L5	2,829.19	L6	3,115.84	Total	16,335.90	The property is rented by the Group as a department store.	No Commercial Value
<u>Level</u>	<u>Gross Floor Area</u>																					
	<i>(sq.m.)</i>																					
L1	2,367.21																					
L2	2,365.28																					
L3	2,829.19																					
L4	2,829.19																					
L5	2,829.19																					
L6	3,115.84																					
Total	16,335.90																					

Notes:

- Pursuant to the store co-operation agreement entered into between PCD Department Stores (Taiyuan) Co., Ltd. (太原巴黎春天百貨有限公司) (“Party A”), Shanxi Yuhayuan Time Square Co., Ltd. (山西御花園時代廣場有限公司) (“Party B”) and Shanxi Zhonglian Industry Co., Ltd. (山西中聯實業股份有限公司) (“Party C”) on September 16, 2005, Party B and Party C leased the property to Party A for retail operation with a term of 10 years due to expire on February 28, 2015.

According to the co-operation agreement, Party A should pay to Party B a basic annual rent of RMB5,739,300, plus a turnover rent at 6.15% on sales. For the subletting portion, Party A should pay to Party B 3.9% of the turnover rent receivable from third parties. For the outdoor advertising spaces, Party A should pay to Party B 3.9% of the income arises from letting of such outdoor advertising spaces.

- According to Amendment Agreement entered into between PCD Department Stores (Taiyuan) Co., Ltd. (太原巴黎春天百貨有限公司) (“Party A”), Shanxi Yuhayuan Time Square Co., Ltd. (山西御花園時代廣場有限公司) (“Party B”) and Shanxi Zhonglian Group Co., Ltd. (山西中聯集團股份有限公司) (formerly named Shanxi Zhonglian Industry Co., Ltd) (“Party C”), the monthly rent that Party A payable to Party B and Party C reduces by RMB82,297.61 for a term of three year and 1 month starting from July 1, 2006.
- According to Certificate for the Use of State-owned land No. (2004) 00140, the land use rights of Yuhayuan Time Square, comprising a total site area of 3,561.10 sq.m., have been granted to Shanxi Yuhayuan Time Square Co., Ltd. (山西御花園時代廣場有限公司) by the People’s Government of Taiyuan for a term due to expire in December 2040 for commercial use. We also noted from the supplementary attachment of the certificate that the use rights of the land are shared by Shanxi Yuhayuan Time Square Co., Ltd. and Shanxi Zhonglian Industry Co., Ltd. (which is now named as Shanxi Zhonglian Group Co., Ltd. (山西中聯集團股份有限公司)).

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4. According to six Building Ownership Certificates, Basement 1 and levels 1 to 2 belongs to Shanxi Yuhuayuan Time Square Co., Ltd. whilst levels 3 to 6 belongs to Shanxi Zhonglian Industry Co., Ltd. The details are listed as follows:

Certificate No.	Property	Owner	Gross Floor Area (sq.m.)	Usage
00135238	Basement 1 to level 1, No. 53 Dong Mi Shi Subdistrict	Shanxi Yuhuayuan Time Square Co., Ltd.	4,734.42	Commercial
00129084	Level 2, No. 53 Dong Mi Shi Subdistrict	(山西御花園時代廣 場有限公司)	2,365.28	Commercial
00112134	Level 3, No. 53 Dong Mi Shi Subdistrict		2,829.19	Commercial
00112135	Level 4, No. 53 Dong Mi Shi Subdistrict	Shanxi Zhonglian Industry Co., Ltd.	2,829.19	Commercial
00112136	Level 5, No. 53 Dong Mi Shi Subdistrict	(山西中聯實業股份 有限公司)	2,829.19	Commercial
00112137	Level 6, No. 53 Dong Mi Shi Subdistrict		3,115.84	Commercial
Total:			18,703.11	

5. According to Certificate for Registration of Property Leasing (房屋租賃備案證) No. 2008100506, the property, comprising a total gross floor area of 16,335.90 sq.m., is leased to Taiyuan PCD Stores Co., Ltd. (太原巴黎春天百貨有限公司).
6. According to Business License No. 113555 dated June 26, 2006, Taiyuan PCD Stores Co., Ltd. was established with a registered capital of RMB5,000,000 for a term from June 26, 2006 to June 26, 2010.
7. We have been provided with a legal opinion on the property prepared by the Group’s legal adviser, which contains, *inter alia*, the following information:
- (i) Shanxi Yuhuayuan Time Square Co., Ltd. (山西御花園時代廣場有限公司) and Shanxi Zhonglian Industry Co., Ltd. (山西中聯實業股份有限公司) have acquired the land use rights and building ownership of the property;
 - (ii) The store co-operation management tenancy agreement is valid, binding and enforceable under PRC law. Shanxi Yuhuayuan Time Square Co., Ltd. (山西御花園時代廣場有限公司) and Shanxi Zhonglian Industry Co., Ltd. (山西中聯實業股份有限公司) are the legal owners of the property and are entitled to lease the property;
 - (iii) The store co-operation agreement has been registered in the relevant authority and the relevant Tenancy Registration Certificate has been obtained;
 - (iv) Part of the property with a floor area of 225.74 sq.m. is subject to a mortgage in favour of China Agricultural Bank;
 - (v) According to Building Ownership Certificate, the property is prescribed for commercial use; and
 - (vi) There is no legal impediment for the Group to use and occupy the property.

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Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at September 30, 2009
9. Basement 1, Levels 1 to 7 of Block 1 and Basement 1, Levels 1 to 5 of Block 2, PCD Changchun, No. 1055, Gongnong Road, Chaoyang District, Changchun, Jilin province, the PRC	The property comprises a department store located at Basement 1, Levels 1 to 7 of Block 1 and Basement 1, Levels 1 to 5 of Block 2 of a 25-storey commercial complex completed in 2000. According to the store co-operation agreement, the total lettable area of the property is approximately 47,737.21 sq.m. where approximately 5,608.3 sq.m. is underground area.	The property is rented by the Group as a department store.	No commercial value

Notes:

- Pursuant to the tenancy agreement and the supplementary agreements entered into between Jilin Ji Chun Industrial and Trade Co., Ltd. (吉林省吉春工貿有限責任公司) (“Party A”) and Zhongshan PCD (Xiamen) Department Stores Co., Ltd. (中山巴黎春天百貨(廈門)有限公司) (“Party B”), Party A has agreed to lease the property to Party B for a term from December 1, 2006 to November 30, 2021, for department store use.
- Pursuant to the store co-operation agreement and its supplementary agreement entered into between Jilin Ji Chun Industrial and Trade Co., Ltd. (吉林省吉春工貿有限責任公司) (“Party A”) and Zhongshan PCD (Xiamen) Department Stores Co., Ltd. (中山巴黎春天百貨(廈門)有限公司) (“Party B”) on November 28, 2006, the property with a lettable area of approximately 50,000 sq.m. was leased by Party A to Party B for retail operation use on a profit sharing basis based on the actual sales income.

Pursuant to the Supplementary Agreement 4 to the abovementioned store co-operation agreement, the area of the property should be revised as followings:

The gross floor area of Levels 1–7 of Block 1 is 24,590.43 sq.m.

The gross floor area of Levels 1–5 of Block 2 is 17,538.48 sq.m.

The gross floor areas of Basement 1 of Blocks 1 and 2 are subject to the on-site measurement

- We have been provided with a legal opinion on the property prepared by the Group’s legal adviser which contains, *inter alia*, the following information:
 - Levels 1 to 7 of Block 1 of the property are owned by Jilin Ji Chun Industrial and Trading Co., Ltd. (吉林省吉春工貿有限責任公司), the sole legal user of this part of the property and has obtained the relevant rights certificates and entity approval from the government;
 - Jilin Ji Chun Industrial and Trading Co., Ltd. (吉林省吉春工貿有限責任公司) is the legal owner of Levels 1 to 7 of Block 1 of the property and is entitled to lease this part of the property. The leasing of this part of property is valid, binding and enforceable under the PRC law;
 - The Building Ownership Certificate of Basement 1 of Block 1 of the property has not been obtained yet. However, it is believed that Jilin Ji Chun Industrial and Trading Co., Ltd. (吉林省吉春工貿有限責任公司) is the legal owner and is entitled to lease this part of the property. The leasing of this part of property is valid, binding and enforceable under the PRC law;

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- (iv) Jilin Shidai Department Store Co., Ltd. (吉林時代百貨有限公司) is the legal owner of Basement 1, Levels 1 to 3 and part of Level 4 of Block 2, while Changchun City Development (Group) Co., Ltd. (長春城市開發(集團)有限公司) owns the remaining part of Level 4 and the whole of Levels 5 to 7 of Block 2;
- (v) Jilin Ji Chun Industrial and Trading Co., Ltd. (吉林省吉春工貿有限責任公司) is entitled to sub-lease Basement 1 and Levels 1 to 5 of Block 2 of the property. The leasing of this part of property is valid, binding and enforceable under the PRC law;
- (vi) It is not necessary to register the tenancy agreement of the property;
- (vii) According to Building Ownership Certificate, the property is prescribed for commercial use; and
- (viii) There is no legal impediment for the Group to use and occupy the property.

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PROPERTY VALUATION

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at September 30, 2009																														
10. South portion of Basement 1 to Level 5, North portion of Basement 2 to Level 6, Scitech Shopping Centre, No. 22 Jianguomenwai Street, Chaoyang District, Beijing, the PRC	Scitech Shopping Centre comprises the south and north portions completed in 1992. South portion comprises basement 1 to level 5 and north portion comprises basement 2 to level 6. The total gross floor area of the property is approximately 27,669.50 sq.m.. The gross floor area breakdown is as follows: South Portion <table><thead><tr><th>Level</th><th>Gross Floor Area (sq.m.)</th></tr></thead><tbody><tr><td>Detached building</td><td>140.90</td></tr><tr><td>L1-L5</td><td>5,626.00</td></tr><tr><td>Basement</td><td>2,017.20</td></tr><tr><td>Ancillary</td><td>41.40</td></tr><tr><td>Building 1</td><td></td></tr><tr><td>Ancillary</td><td>41.40</td></tr><tr><td>Building 2</td><td></td></tr><tr><td>Total</td><td>7,866.90</td></tr></tbody></table> North Portion <table><thead><tr><th>Level</th><th>Gross Floor Area (sq.m.)</th></tr></thead><tbody><tr><td>Detached building</td><td>37.30</td></tr><tr><td>L1-L6</td><td>11,940.30</td></tr><tr><td>Basement</td><td>5,488.10</td></tr><tr><td>Mezzanine floor</td><td>2,336.90</td></tr><tr><td>Total</td><td>19,802.60</td></tr></tbody></table>	Level	Gross Floor Area (sq.m.)	Detached building	140.90	L1-L5	5,626.00	Basement	2,017.20	Ancillary	41.40	Building 1		Ancillary	41.40	Building 2		Total	7,866.90	Level	Gross Floor Area (sq.m.)	Detached building	37.30	L1-L6	11,940.30	Basement	5,488.10	Mezzanine floor	2,336.90	Total	19,802.60	The property is rented by the Group as a department store.	No Commercial Value
Level	Gross Floor Area (sq.m.)																																
Detached building	140.90																																
L1-L5	5,626.00																																
Basement	2,017.20																																
Ancillary	41.40																																
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Level	Gross Floor Area (sq.m.)																																
Detached building	37.30																																
L1-L6	11,940.30																																
Basement	5,488.10																																
Mezzanine floor	2,336.90																																
Total	19,802.60																																

Notes:

- According to Certificate for the Use of State-owned land No. (2006) 10430, the land use rights of the South Portion of Scitech Shopping Centre, comprising a total site area of 3,142.10 sq.m., have been granted to Scitech Group Co., Ltd. (賽特集團有限公司) by the People's Government of Beijing Municipal for a term due to expire on June 22, 2046 for commercial use.

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PROPERTY VALUATION

2. According to Certificate for the Use of State-owned land No. (2006) 10435, the land use rights of North Portion of Scitech Shopping Centre, comprising a total site area of 5,962.7 sq.m., have been granted to Scitech Group Co., Ltd. by the People’s Government of Beijing Municipal for a term due to expire on June 22, 2046 for commercial use.
3. According to Building Ownership Certificate No. 00138 issued by Beijing Housing and Land Administration Bureau, the South Portion of Scitech Shopping Centre, comprising a total gross floor area of 7,866.90 sq.m. has been vested to Scitech Group Co., Ltd..
4. According to Building Ownership Certificate No. 00133, issued by Beijing Housing and Land Administration Bureau, the North Portion of Scitech Shopping Centre, comprising a total gross floor area of 19,802.60 sq.m. has been vested to Scitech Group Co., Ltd..
5. According to the tenancy agreement and supplementary agreement entered into between Scitech Group Co., Ltd. (“Party A”) and Beijing Scitech Department Stores Co., Ltd. (北京賽特百貨有限公司) (“Party B”), Party A agreed to lease the property to Party B for a term of 12 years from July 1, 2007 to June 30, 2019 at a unit rent of RMB10 per day per sq.m. on usable gross floor area, exclusive of management fee. The leasable gross floor area is 13,000 sq.m. as agreed by both parties.
6. We have been provided with a legal opinion issued by the Group’s legal adviser, which contains, *inter alia*, the following information:
 - (i) Scitech Group Co., Ltd. (賽特集團有限公司) has obtained State-owned Land Use Right Certificate and Building Ownership Certificate of the property;
 - (ii) The tenancy agreement is valid, binding and enforceable under PRC law. Scitech Group Co., Ltd. (賽特集團有限公司) is the legal owner of the property and is entitled to lease the property;
 - (iii) The tenancy agreement has been registered in the relevant authority and the relevant Tenancy Registration Certificate has been obtained;
 - (iv) According to Building Ownership Certificate, the property is prescribed for commercial use; and
 - (v) There is no legal impediment for the Group to use and occupy the property.

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PROPERTY VALUATION

VALUATION CERTIFICATE

<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at September 30, 2009</u>
11. Levels 1 to 5, Hangyang International Commercial Centre, No. 131 Minzu Da Road, Nanning, Guangxi, the PRC	The property comprises Levels 1 to 5 of a composite development completed in 2005. The total gross floor area of the property is approximately 20,107.8 sq.m.	The property is rented by the Group as a department store.	No Commercial Value

Notes:

- Pursuant to the store co-operation agreement dated March 10, 2006 and its supplementary agreements entered into between Guangxi Oriental Investment Co., Ltd. (廣西東方實業有限公司) (“Party A”) and PCD Department Stores (Xiamen) Limited (廈門巴黎春天百貨有限公司) (“Party B”), the property, with a gross floor area of approximately 20,107.8 sq.m., has been leased from Party A to Party B for commercial use, for a term of 15 years on a profit sharing basis based on the actual sales income. Party B subsequently assigned to PCD Department Stores (Guangxi) Co., Ltd. (廣西巴黎春天百貨有限公司) (“Party C”) all its rights and obligations under the store co-operation agreement.
- We have been provided with a legal opinion on the property prepared by the Group’s legal adviser, which contains, *inter alia*, the following information:
 - Guangxi Oriental Investment Co., Ltd. (廣西東方實業有限公司) has acquired the land use rights of the property. However, the building ownership of the property has not been obtained yet and there is a risk that the Group may need to vacate the property;
 - The land portion of the property is subject to a mortgage in favour of The Bank of China;
 - The store co-operation agreements are valid, binding and enforceable under PRC law. Guangxi Oriental Investment Co., Ltd. (廣西東方實業有限公司) is the legal owner of the property and is entitled to lease the property;
 - The tenancy agreements have been registered in the relevant authority and the relevant Tenancy Registration Certificates have been obtained; and
 - According to Certificate for the Land Use Rights of State-owned Land, the land of the property is prescribed for commercial use.

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PROPERTY VALUATION

VALUATION CERTIFICATE

<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at September 30, 2009</u>
12. Part of Level 6, Shenye Centre, No. 9 Shandong Road, Shinan District, Qingdao, Shandong Province, the PRC	Shenye Centre comprises two 33-storey office blocks and a residential block erected over a 6-storey commercial podium completed in 1997. The property comprises 6 units on Level 6 of the commercial podium of Shenye Centre, which was renovated in 2006. The total gross floor area of the property is approximately 1,753.16 sq.m.	The property is rented by the Group for office and ancillary uses.	No Commercial Value

Notes:

- Pursuant to the tenancy agreement entered into between Peng Wen and Liu Xun (彭文、劉勛) (“Party A”) and Zhongshan PCD Stores (Qingdao) Limited (青島中山巴黎春天百貨有限公司) (“Party B”) dated December 3, 2008, Party A has agreed to lease portion of the property to Party B with the terms as follows:

<u>Property</u>	<u>Area</u> (sq.m.)	<u>Terms</u>	<u>Rent</u>
Room 6L and 6J on Level 6	513.57	October 1, 2008 to September 30, 2013	RMB1.88/day/sq.m.
Room B-6A, B-6E, B-6F and B-6I on Level 6 of Tower B	1,239.59	February 6, 2009 to September 30, 2013	
Total	<u>1,753.16</u>		

- We have been provided with a legal opinion on the property prepared by the Group’s legal adviser, which contains, *inter alia*, the following information:
 - Peng Wen and Liu Xun (彭文及劉勛) have acquired the land use rights and building ownership of the property;
 - The tenancy agreements are valid, binding and enforceable under PRC law. Peng Wen and Liu Xun (彭文及劉勛) are the legal owners of the property and are entitled to lease the property;
 - The tenancy agreements have been registered in the relevant authority and the relevant Tenancy Registration Certificates have been obtained; and
 - There is no legal impediment for the Group to use and occupy the property.

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PROPERTY VALUATION

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at September 30, 2009
13. Room 1101, No. 2 of 410 Siming South Road, Siming District, Xiamen, the PRC	The property comprises an office unit on Level 11 of a 9-storey composite building erected on a 2-storey podium. The building was completed in about 2000. The total floor area of the property is approximately 80 sq.m.	The property rented by the Group as office.	No Commercial Value

Notes:

- Pursuant to the tenancy agreement entered into between Xiamen Siming District Xiangong Office, the People’s Government (廈門市思明區人民政府廈港街道辦事處) (“Party A”) and Laiya Department Stores Management (Xiamen) Co., Ltd. (廈門來雅百貨管理有限公司) (“Party B”), Party A agreed to lease the property to Party B for a term of three years commencing from July 1, 2009 to June 30, 2012 at a monthly rent of RMB200 for commercial use.
- We have been provided with a legal opinion on the property prepared by the Group’s legal adviser, which contains, *inter alia*, the following information:
 - Xiamen Siming District Xiangong Office, the People’s Government (廈門市思明區人民政府廈港街道辦事處) owns the land use rights and building ownership of the property;
 - The tenancy agreement is valid, binding and enforceable under PRC law; Xiamen Siming District Xiangong Office, the People’s Government (廈門市思明區人民政府廈港街道辦事處) is the legal owner of the property and is entitled to lease the property;
 - The tenancy agreements have been registered in the relevant authority and the relevant Tenancy Registration Certificates have been obtained;
 - According to Certificate for Land and Building Ownership, the property is prescribed for residential/commercial uses; and
 - There is no legal impediment for the Group to use and occupy the property.

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PROPERTY VALUATION

VALUATION CERTIFICATE

<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at September 30, 2009</u>
14. Block D on Level 1, Nos. 29–31 Bishan Road, Siming District, Xiamen, the PRC	The property comprises a commercial unit on Level 1 of a 7-storey commercial building completed in 1998. The total floor area of the property is approximately 150 sq.m.	The property is rented by the Group as sales office.	No Commercial Value

Notes:

- Pursuant to the tenancy agreement entered into between Xiamen Siming District Xiagong Office, the People’s Government (廈門市思明區人民政府廈港街道辦事處) (“Party A”) and Jiahe Chun Tian Commerce & Trading (Xiamen) Co., Ltd. (嘉禾春天商貿(廈門)有限公司) (“Party B”), Party A agreed to lease the property to Party B for a term of three years from June 20, 2008 to June 19, 2011 at a monthly rent of RMB1,000 for commercial and office use.
- We have been provided with a legal opinion on the property prepared by the Group’s legal adviser, which contains, *inter alia*, the following information:
 - Xiamen Siming District Xiagong Office, the People’s Government (廈門市思明區人民政府廈港街道辦事處) owns the land use rights and building ownership of the property;
 - The tenancy agreement is valid, binding and enforceable under PRC law; Xiamen Siming District Xiagong Office, the People’s Government (廈門市思明區人民政府廈港街道辦事處) is the legal owner of the property and is entitled to lease the property;
 - The tenancy agreement has been registered in the relevant authority and the relevant Tenancy Registration Certificate has been obtained;
 - According to Certificate for Land and Building Ownership, the property is prescribed for commercial/ services uses; and
 - There is no legal impediment for the Group to use and occupy the property.

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PROPERTY VALUATION

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at September 30, 2009
15. Portion of Level M, Scitech Plaza , No. 22 Jianguomenwai Street, Chaoyang District, Beijing, the PRC	The property comprises various office units on level M of a 12-storey office building completed in 1995. The total gross floor area of the property is approximately 1,056.15 sq.m.	The property is rented by the Group as office.	No Commercial Value

Notes:

- According to Certificate for the Use of State-owned land No. (2006) 10436, the land use rights of Scitech Plaza, comprising a total site area of 5,675.50 sq.m., have been granted to Scitech Group Co., Ltd. (賽特集團有限公司) by the People’s Government of Beijing Municipal for a term due to expire on June 22, 2056 for composite and underground car park uses.
- According to Building Ownership Certificate No. 00135 issued by Beijing Housing and Land Administration Bureau, the title of Scitech Plaza comprising a total gross floor area of 33,991.90 sq.m., has been vested to Scitech Group Co., Ltd. (賽特集團有限公司).
- According to the tenancy agreement and supplementary agreement entered into between Scitech Group Co., Ltd. (賽特集團有限公司) (“Party A”) and the Beijing Scitech Department Stores Co., Ltd. (北京賽特百貨有限公司) (“Party B”), Party A agreed to lease the property to Party B for a term of three years from July 5, 2007 to July 5, 2010 at a monthly rent of RMB1,678,308, inclusive of management fees.
- We have been provided with a legal opinion issued by the Group’s legal adviser, which contains, *inter alia*, the following information:
 - Scitech Group Co., Ltd. (賽特集團有限公司) has obtained State-owned Land Use Right Certificate and Building Ownership Certificate of the property;
 - The tenancy agreement is valid, binding and enforceable under PRC law. Scitech Group Co., Ltd. (賽特集團有限公司) is the legal owner of the property and is entitled to lease the property;
 - The tenancy agreement has not been registered in the relevant authority;
 - According to Building Ownership Certificate, the property is prescribed for composite and basement car park uses; and
 - There is no legal impediment for the Group to use and occupy the property.

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PROPERTY VALUATION

VALUATION CERTIFICATE

<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at September 30, 2009</u>
16. Room No. 218, Scitech Plaza, No. 22 Jianguomenwai Street, Chaoyang District, Beijing, the PRC	The property comprises an office unit on the 2nd floor of a 12-storey office building completed in 1995. The gross floor area of the property is approximately 46 sq.m.	The property is rented by the Group as office.	No Commercial Value

Notes:

- According to Certificate for the Use of State-owned land No. (2006)10436, the land use rights of Scitech Plaza, comprising a total site area of 5,675.50 sq.m., have been granted to Scitech Group Co., Ltd. (賽特集團有限公司) by the People’s Government of Beijing Municipal for a term due to expire on June 22, 2056 for composite and underground carpark uses.
- According to Building Ownership Certificate No. 00135 issued by Beijing Housing and Land Administration Bureau, the title to Scitech Plaza, comprising a total gross floor area of 33,991.90 sq.m. has been vested to Scitech Group Co., Ltd..
- According to the tenancy agreement dated October 10, 2009, Scitech Group Co., Ltd. (賽特集團有限公司) agreed to lease Beijing Yungyongxin Info Consultation Co., Ltd. (北京源永信資訊諮詢有限公司) the property for a term commencing from March 25, 2009 to March 24, 2013 at a rent of RMB500 per month, exclusive of management fee.
- We have been provided with a legal opinion issued by the Group’s legal adviser, which contains, *inter alia*, the following information:
 - Scitech Group Co., Ltd. has obtained State-owned Land Use Rights Certificate and Building Ownership Certificate of the property;
 - The tenancy agreement is valid, binding and enforceable under PRC law. Scitech Group Co., Ltd. is the legal owner of the property and is entitled to lease the property;
 - The tenancy agreement has not been registered in the relevant authority;
 - According to Building Ownership Certificate, the property is prescribed for composite and basement car park uses; and
 - There is no legal impediment for the Group to use and occupy the property.

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PROPERTY VALUATION

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at September 30, 2009
17. Level 4, Continental Commercial Building, Nos. 65–81 Siming South Road, Nos. 193–215 Zhongshan Road, Siming District, Xiamen, the PRC	The property comprises of a 6-storey plus basements commercial development completed in 1995. The total gross floor area is approximately 2,601.20 sq.m.	The property is rent by the Group as a department store.	No Commercial Value

Notes:

- Pursuant to the tenancy agreements dated April 30, 2009 entered into between Xiamen Tiandi Kaiming Movie City (廈門市天地開明電影城) (“Party A”) and PCD Continental Department Stores (Xiamen) Co., Ltd. (廈門大陸春天百貨有限公司) (“Party B”), Party A agreed to lease the property to Party B from January 1, 2009 to October 31, 2013 with the monthly rent states as below,

Period	Unit Rent	Total Monthly Rent (sq.m.)
January 1, 2009–December 31, 2009	RMB34/sq.m./month	RMB88,440.80
January 1, 2010–December 31, 2010	RMB36/sq.m./month	RMB93,643.20
January 1, 2011–December 31, 2011	RMB38/sq.m./month	RMB98,845.60
January 1, 2012–October 31, 2013	RMB42/sq.m./month	RMB109,250.40

- According to the Land and Building Ownership Certificate No. 00698228 issued by Xiamen Land and Real Estate Management Bureau (廈門市土地房產管理局), the title of the property comprising a total gross floor area of 2,601.20 sq.m. has been vested to Xiamen Tiandi Development and Construction Company (廈門天地開發建設公司).

According to Real Estate Exchange Agreement date November 25, 2008 entered into between Xiamen Land and Real Estate Management Bureau (廈門市土地房產管理局) (“Party A”) and Xiamen Tiandi Development and Construction Company (廈門天地開發建設公司) (“Party B”), Party A has agreed to use the right on the property to exchange for Party B’s property right on Units 105, 110–115, 202, 302 and 402 of No. 71 Jiangtou North Road with gross floor area of approximately 3,052.32 sq.m..

- According to the Proof Letter dated December 3, 2008 issued by Xiamen Tiandi Development and Construction Company (廈門天地開發建設公司), Xiamen Tiandi Kaiming Movie City (廈門市天地開明電影城) has been authorized by Xiamen Tiandi Development and Construction Company (廈門天地開發建設公司) to act as the trustee for the matter of lease, operation, rental collection, repair and maintenance of the property.
- We have been provided with a legal opinion on the property prepared by the Group’s legal adviser, which contains, *inter alia*, the following information:
 - Xiamen Tiandi Development and Construction Company (廈門天地開發建設公司) has obtained Land and Building Ownership Certificate of the property;
 - Xiamen Tiandi Kaiming Movie City (廈門市天地開明電影城) has the capacity to act as a trustee to enter into a tenancy agreement with the Group;

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- (iii) The tenancy agreement is valid, binding and enforceable under PRC law; Xiamen Tiandi Development and Construction Company (廈門天地開發建設公司) is the legal owner of the property and is entitled to lease the property;
- (iv) The tenancy agreement has been registered in the relevant authority and the relevant Tenancy Registration Certificates have been obtained;
- (v) The property is not subject to mortgage;
- (vi) According to Building Ownership Certificate, the property is prescribed for office use; and
- (vii) There is no legal impediment for the Group to use and occupy the property.

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 8 January 2007 under the Cayman Companies Law. The Company’s constitutional documents consist of its Amended and Restated Memorandum of Association (the “Memorandum”) and the Amended and Restated Articles of Association (the “Articles”).

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and since the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on November 5, 2009. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) Classes of shares

The share capital of the Company consists of ordinary shares.

(ii) Share certificates

Every person whose name is entered as a member in the register of members shall be entitled without payment to receive a certificate for his shares. The Cayman Companies Law prohibits the issue of bearer shares to any person other than an authorised or recognised custodian defined in the Cayman Companies Law. The requirement on all service providers to implement appropriate due diligence procedures on the identity of a client in order to “know your client” as a result of proceeds of crime legislation mandates that special procedures should be followed when issuing bearer shares.

APPENDIX V

SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

Every certificate for shares, warrants or debentures or representing any other form of securities of the Company shall be issued under the seal of the Company, and shall be signed autographically by one Director and the Secretary, or by 2 Directors, or by some other person(s) appointed by the Board for the purpose. As regards any certificates for shares or debentures or other securities of the Company, the Board may by resolution determine that such signatures or either of them shall be dispensed with or affixed by some method or system of mechanical signature other than autographic as specified in such resolution or that such certificates need not be signed by any person. Every share certificate issued shall specify the number and class of shares in respect of which it is issued and the amount paid thereon and may otherwise be in such form as the Board may from time to time prescribe. A share certificate shall relate to only one class of shares, and where the capital of the Company includes shares with different voting rights, the designation of each class of shares, other than those which carry the general right to vote at general meetings, must include the words “restricted voting” or “limited voting” or “non-voting” or some other appropriate designation which is commensurate with the rights attaching to the relevant class of shares. The Company shall not be bound to register more than 4 persons as joint holders of any share.

(b) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that upon the happening of a specified event or upon a given date and either at the option of the Company or the holder thereof, they are liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate thereof shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate thereof has been destroyed and the Company has received an indemnity in such form as the Board shall think fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(iii) *Compensation or payments for loss of office*

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors and their associates which are equivalent to provisions of Hong Kong law prevailing at the time of adoption of the Articles.

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective associates, or if any one or more of the Directors hold (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

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(v) *Disclosure of interest in contracts with the Company or with any of its subsidiaries*

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and, upon such terms as the Board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, either as vendor, purchaser or otherwise, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any Share by reason that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to the Company.

A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or other proposal in which he or his associate(s) is/are materially interested, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters namely:

- (aa) the giving of any security or indemnity to the Director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

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- (bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
 - (cc) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
 - (dd) any proposal concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a member or in which the Director or his associate(s) is/are beneficially interested in shares of that company, provided that the Director and any of his associates are not in aggregate beneficially interested in 5% or more of the issued shares of any class of such company (or of any third company through which his interest or that of his associate(s) is derived) or of the voting rights;
 - (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to Directors, his associate(s) and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not generally accorded to the employees to which such scheme or fund relates; or
 - (ff) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.
- (vi) *Remuneration*

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree or failing agreement, equally, except that in such event any Director holding office for only a portion of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he has held office. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors.

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Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with other companies (being subsidiaries of the Company or with which the Company is associated in business), or may make contributions out of the Company’s monies to, such schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

In addition, the Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Appointment, retirement and removal

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election. There is no shareholding qualification for Directors.

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At each annual general meeting, one third of the Directors for the time being will retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors who shall retire in each year will be those who have been longest in the office since their last re-election or appointment but as between persons who become or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office. The period for lodgment of such notices will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting and the minimum length of the period during which such notices to the Company may be given must be at least 7 days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to the Board or retirement therefrom.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two.

In addition to the foregoing, the office of a Director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office or head office of the Company for the time being or tendered at a meeting of the Board;
- (bb) if he dies or becomes of unsound mind as determined pursuant to an order made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Board resolves that his office be vacated;
- (cc) if, without special leave, he is absent from meetings of the Board for six (6) consecutive months, and the Board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (ee) if he is prohibited from being a director by law;

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- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles;
- (gg) if he has been validly required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director and the relevant time period for application for review of or appeal against such requirement has lapsed and no application for review or appeal has been filed or is underway against such requirement; or
- (hh) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) then in office.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director or Directors and other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(viii) *Borrowing powers*

Pursuant to the Articles, the Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The provisions summarized above, in common with the Articles of Association in general, may be varied with the sanction of a special resolution of the Company.

(ix) *Register of Directors and officers*

Pursuant to the Cayman Companies Law, the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers.

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(x) *Proceedings of the Board*

Subject to the Articles, the Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

(c) **Alterations to the constitutional documents**

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed by the Company by special resolution.

(d) **Variation of rights of existing shares or classes of shares**

Subject to the Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings shall *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or in the case of a shareholder being a corporation, by its duly authorized representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) **Alteration of capital**

The Company may, by an ordinary resolution of its members, (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; and (e) cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment

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and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorized and subject to any conditions prescribed by law.

Reduction of share capital — subject to the Companies Law and to confirmation by the court, a company limited by shares may, if so authorised by its Articles of Association, by special resolution, reduce its share capital in any way.

(f) Special resolution — majority required

In accordance with the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days’ notice, specifying the intention to propose the resolution as a special resolution, has been duly given. However, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days’ notice has been given.

Under Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An “ordinary resolution”, by contrast, is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than fourteen clear days’ notice has been given and held in accordance with the Articles. A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

(g) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote, and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purpose as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a

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Clearing House (as defined in the Articles) (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded or otherwise required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles). A poll may be demanded by:

- (i) the chairman of the meeting; or
- (ii) at least two members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s), be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s), as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

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(h) Annual general meetings

The Company must hold an annual general meeting each year. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

(i) Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Law necessary to give a true and fair view of the state of the Company’s affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account or book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors’ report and a copy of the auditors’ report not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarized financial statements to shareholders who has, in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles), consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles), and must be sent to the shareholders not less than twenty-one days before the general meeting to those shareholders that have consented and elected to receive the summarized financial statements.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors’ remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

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The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

(j) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution must be called by at least 21 days’ notice in writing, and any other extraordinary general meeting shall be called by at least 14 days’ notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting, and particulars of the resolution(s) to be considered at that meeting, and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member either personally or by sending it through the post in a prepaid envelope or wrapper addressed to such member at his registered address as appearing in the Company’s register of members or by leaving it at such registered address as aforesaid or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which for the purpose of service of notice shall be deemed to be his registered address. Where the registered address of the member is outside Hong Kong, notice, if given through the post, shall be sent by prepaid airmail letter where available.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the issued shares giving that right.

All business transacted at an extraordinary general meeting shall be deemed special business and all business shall also be deemed special business where it is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of Directors in place of those retiring;

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- (dd) the appointment of auditors;
- (ee) the fixing of the remuneration of the Directors and of the auditors;
- (ff) the granting of any mandate or authority to the Board to offer, allot, grant options over, or otherwise dispose of the unissued shares of the Company representing not more than 20% in nominal value of its existing issued share capital (or such other percentage as may from time to time be specified in the rules of the Stock Exchange) and the number of any securities repurchased by the Company since the granting of such mandate; and
- (gg) the granting of any mandate or authority to the Board to repurchase securities in the Company.

(k) Transfer of shares

Subject to the Cayman Companies Law, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve provided always that it shall be in such form prescribed by the Stock Exchange and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers in any case in which it in its discretion thinks fit to do so, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share option scheme upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

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The Board may decline to recognize any instrument of transfer unless a fee of such maximum sum as the Stock Exchange may determine to be payable or such lesser sum as the Board may from time to time require is paid to the Company in respect thereof, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a newspaper circulating generally in Hong Kong or, where applicable, any other newspapers in accordance with the requirements of the Stock Exchange, at such times and for such periods as the Board may determine. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

Fully paid shares shall be free from any restriction with respect to the right of the holder thereof to transfer such shares (except when permitted by the Stock Exchange) and shall also be free from all liens.

(l) Power of the Company to purchase its own shares

The Company is empowered by the Cayman Companies Law and the Articles to purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price, and if purchases are by tender, tenders shall be available to all members alike.

(m) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

(n) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

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Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share; and
- (ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared on the share capital of the Company, the Board may resolve:

- (aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, but in the case of joint holders, shall be addressed to the holder whose name stands first in the register of members of the Company in respect of the shares at his address as appearing in the register, or addressed to such person and at such address as the holder or joint holders may in writing so direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

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The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the moneys so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

(o) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that any form issued to a member for use by him for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the

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SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(p) Calls on shares and forfeiture of shares

The Board may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Board may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and it shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all moneys which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20 per cent per annum as the Board may prescribe.

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(q) Inspection of corporate records

Members of the Company have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. However, the members of the Company will have such rights as may be set forth in the Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or outside the Cayman Islands, as its directors may, from time to time, think fit.

(r) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(s) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

(t) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

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Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, on the shares held by them respectively.

In the event that the Company is wound up (whether the liquidation is voluntary or compelled by the court) the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator shall think fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

(u) Untraceable members

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

In accordance with the Articles, the Company is entitled to sell any of the shares of a member who is untraceable if:

- (i) all cheques or warrants, being not less than three in total number, for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years;
- (ii) upon the expiry of the 12 years and 3 months period (being the 3 months notice period referred to in sub-paragraph (iii)), the Company has not during that time received any indication of the existence of the member; and

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- (iii) the Company has caused an advertisement to be published in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the stock exchange of the Relevant Territory (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(v) Subscription rights reserve

Pursuant to the Articles, provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on 8 January 2007 subject to the Cayman Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Company operations

As an exempted company, the Company must conduct its operations mainly outside the Cayman Islands. Moreover, the Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) Share capital

In accordance with the Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Companies Law provides that the share premium account may be applied by the company

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subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (i) paying distributions or dividends to members;
- (ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (iii) in the redemption and repurchase of shares (in accordance with the detailed provisions of section 37 of the Cayman Companies Law);
- (iv) writing-off the preliminary expenses of the company;
- (v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (vi) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

Notwithstanding the foregoing, the Cayman Companies Law provides that no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

It is further provided by the Cayman Companies Law that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorized to do so by its articles of association, by special resolution reduce its share capital in any way.

The Articles include certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company when proposing to grant such financial assistance discharge their duties of care and acting in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

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(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. Nonetheless, if the articles of association do not authorize the manner of purchase, a company cannot purchase any of its own shares without the manner of purchase first being authorized by an ordinary resolution of the company. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company’s memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Cayman Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company’s memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see sub-paragraph 2(n) of this Appendix for further details).

(f) Protection of minorities and shareholders’ suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions thereto) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge:

- (i) an act which is *ultra vires* the company or illegal;

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- (ii) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company; and
- (iii) an irregularity in the passing of a resolution the passage of which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members thereof holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report thereon.

Moreover, any member of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company’s memorandum and articles of association.

(g) Disposal of assets

There are no specific restrictions in the Cayman Companies Law on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interest of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

Section 59 of the Cayman Companies Law provides that a company shall cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters with respect to which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Section 59 of the Cayman Companies Law further states that proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company’s affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

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(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council:

- (i) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (ii) in addition, that no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (aa) on or in respect of the shares, debentures or other obligations of the Company; or
 - (bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (1999 Revision).

The undertaking for the Company is for a period of twenty years from 28 August 2007.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments. The Cayman Islands are not a party to any double tax treaties.

(k) Stamp duty on transfers

There is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(l) Loans to directors

The Cayman Companies Law contains no express provision prohibiting the making of loans by a company to any of its directors. However, the Articles provide for the prohibition of such loans under specific circumstances.

(m) Inspection of corporate records

The members of the company have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

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(n) Register of members

A Cayman Islands exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or outside the Cayman Islands, as the directors may, from time to time, think fit. The Cayman Companies Law contains no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(o) Winding up

A Cayman Islands company may be wound up either by (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company occurs where the members so resolve in general meeting by special resolution, or, by ordinary resolutions when the company is unable to pay its debt as they fall due; or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or where the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Unless designated in the memorandum or article of the company, the directors shall convene a general meeting to appoint one or more liquidators. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

Upon appointment, the liquidator’s duties include collecting the assets of the company (including the amount (if any) due from the contributories), settling the list of creditors and discharge the company’s liability to them, ratably if insufficient assets exist to discharge the liabilities in full, and settling the list of contributories (“members”) and dividing the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

When the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed off, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that (i) the company is or is likely to become insolvent; or (b) the supervision of the court will facilitate

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AND CAYMAN ISLANDS COMPANY LAW**

a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order shall take effect for all purposes as if it was a winding-up order and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, there may be appointed one or more persons to be called an official liquidator or official liquidators; and the court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one persons are appointed to such office, the court shall declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

(p) Reconstructions

Reconstructions and amalgamations are governed by specific statutory provisions under the Cayman Companies Law whereby such arrangements may be approved by a majority in number representing 75% in value of members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member would have the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, nonetheless the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

(q) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

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(r) Indemnification

Cayman Islands law does not limit the extent to which a company’s articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4. GENERAL

Appleby, the Company’s legal adviser on Cayman Islands law, have sent to the Company a letter of advice which summarises certain aspects of the Cayman Islands company law. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

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TAXATION

CAYMAN ISLANDS TAXATION

Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, our Company has obtained an undertaking from the Governor in Cabinet:

- that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- in addition, that no tax to be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - on or in respect of the shares, debentures or other obligations of the Company; or
 - by way of withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concession Law (1999 Revision).

The undertaking for our Company is for a period of twenty years from November 21, 2006.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

PRC TAXATION

Enterprise Income Tax

Currently, in compliance with the New EIT Law effective on January 1, 2008 and the Circular on the Implementation of Preferential Policies concerning the Enterprise Income Tax Transition issued on December 26, 2007, all PRC resident enterprises, including foreign-invested enterprises, may generally be subject to the 25% corporate income tax since January 1, 2008. However, there will be a transitional period for enterprises that currently receive preferential tax treatments granted by relevant tax authorities. Enterprises that were subject to an enterprise income tax rate lower than 25% may continue to enjoy the lower rate and gradually transition to the new tax rate within five years after implementation of the New EIT Law.

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TAXATION

Business Tax

Under the Provisional Regulations of the PRC on Business Tax of 1994, which was amended by the State Council and took effect on January 1, 2009 and the implementation rules, a business tax is levied on all units and individuals engaged in taxable services, the transfer of intangible assets or the sale of immovable properties within the territory of the PRC. The tax rates range from 3% to 20% depending on the type of services provided.

Value-added Tax

In accordance with the Provisional Regulations of the People’s Republic of China on Value-added Tax of 1994, which was amended by the State Council and took effect on January 1, 2009 and the implementation rules, all units and individuals engaged in the sales of goods, provision of processing, repairs and replacement services, and the importation of goods within the territory of the PRC are taxpayers of Value-Added Tax, and shall pay value-added tax in accordance with these Regulations. Our sales are subject to value-added tax and the applicable tax rate is 13% or 17%.

Dividends from our China operations

Our wholly owned subsidiaries Dragon Talent and Well Power are Hong Kong incorporated companies and each holds 100% interest, respectively, in PCD Real Estate (Xiamen) and Zhongshan PCD Stores (Xiamen), which in turn hold the equity interests in our PRC subsidiaries. According to the Mainland and Hong Kong Special Administrative Region Arrangement on Avoiding Double Taxation or Evasion of Taxation on Income agreed between China and Hong Kong in August 2006, dividends paid by a foreign-invested enterprise in China to its direct holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the foreign investor owns directly at least 25% of the shares of the foreign invested enterprise).

Dividends paid by the Company to its overseas investors

The Company is not incorporated in the PRC. Under the New EIT Law, dividends payable by the Company to its overseas investors will be subject to a 10% withholding tax (unless the jurisdiction of incorporation of the overseas investor has a tax treaty with the PRC that provides for a reduced rate of withholding tax). However, if you are a PRC mainland citizen, you shall be subject to the PRC individual income tax at a rate of 20% as you are liable for PRC tax for your global income under the current PRC law.

Transfer or disposition of our Shares

Under the New EIT Law, any gains on transfers or disposition of our Shares by an overseas investor will be subject to a 10% withholding tax (unless the jurisdiction of incorporation of the overseas investor has a tax treaty with the PRC that provides for a reduced rate of withholding tax).

APPENDIX VI

TAXATION

HONG KONG TAXATION

Dividends

Under the current practice of the Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by us.

Capital Gains and Profit Tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of the shares. Trading gains from the sale of shares by persons carrying on a trade, profession or business in Hong Kong, where such gains are arising in or derived from Hong Kong, will be chargeable to Hong Kong profits tax. Currently, profits tax is imposed on corporations at the rate of 17.5% and on individuals at a maximum rate of 16.0%. Gains from sales of the shares effected on the Stock Exchange will be considered to be sourced in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of shares effected on the Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of shares registered on the Hong Kong branch register. The duty is charged at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the shares transferred on each of the seller and purchaser. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of shares. In addition, any instrument of transfer (if required) will be subject to a flat rate of stamp duty of HK\$5.00. Where a sale or purchase of shares registered on the Hong Kong branch register is effected by a person who is not resident in Hong Kong and any stamp duty payable on the contract note is not paid, the relevant instrument of transfer (if any) shall be chargeable with such duty, together with the duty otherwise chargeable thereon and the transferee shall be liable to pay such duty.

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong, pursuant to which estate duty ceased to be chargeable in Hong Kong in respect of the estates of persons dying on or after that date. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of Shares whose death occur on or after February 11, 2006.

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A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation

We were incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Law on January 8, 2007. We have established a place of business in Hong Kong at Room 3310–11, Tower One, Times Square, Causeway Bay, Hong Kong and have been registered as an overseas company under Part XI of the Companies Ordinance under the same address. Alfred Chan has been appointed as our agent for the acceptance of service of process and notices in Hong Kong. The address for the service of process on the Company in Hong Kong is Room 102, Sunbeam Centre, 27 Shing Yip Street, Kowloon, Hong Kong. As we are incorporated in the Cayman Islands, our corporate structure, our Memorandum of Association and Articles of Association, are subject to the relevant laws of the Cayman Islands. A summary of the relevant provisions of our Memorandum of Association and Articles of Association and certain relevant aspects of Cayman Islands company law are set out in “Appendix V — Summary of the Constitution of the Company and Cayman Islands Companies Law” to this document.

2. Subsidiaries

Our principal subsidiaries are listed in “Appendix I — Accountants’ Report” to this document.

3. Changes in share capital

On January 8, 2007, the Company was incorporated as an exempted company with limited liability in the Cayman Islands. As at the date of incorporation, the Company’s initial authorised share capital was US\$50,000, divided into 50,000 ordinary shares of par value of US\$1.00 each (Shares), of which 1 subscriber Share was allotted and issued to OIL as the sole subscriber. On March 28, 2007, one Share was transferred from OIL to Alfred Chan. On March 28, 2007, one Share and 9,998 Shares were allotted and issued to Edward Tan and PIEL, respectively. On September 19, 2007, Alfred Chan and Edward Tan transferred their respective shareholdings in the Company to PIEL for a nominal consideration.

On November 13, 2007, the authorised share capital of the Company was increased from US\$50,000 to US\$25,000,000 by the creation of 24,950,000 new Shares pursuant to a resolution in writing of the shareholders passed on November 13, 2007. On November 14, 2007, the Company allotted and issued 1,000 Shares to Bluestone at par value.

On November 14, 2007, we allotted and issued 40,000 Shares to PCD Stores, credited as fully paid and in consideration for PCD Stores transferring the entire equity interest in PCD China Real Estate and PCD Retail Operation to us.

On December 3, 2007, the par value of the Share of US\$1.00 each was subdivided into 200 ordinary shares of US\$0.005 each, resulting in the Company having an issued share capital of 10,200,000 ordinary shares of US\$0.005 each.

Save as disclosed in this Appendix, there has been no alteration in our share capital since our incorporation.

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The following sets out the changes to the share or registered share capital of the relevant subsidiaries of our Company within the two years immediately preceding the date of this document:

(a) *PCD China Real Estate*

On November 14, 2007, one share of US\$1.00 each in PCD China Real Estate, representing the entire issued share capital of PCD China Real Estate, was acquired by the Company from PCD Stores.

(b) *PCD Retail Operations*

On November 14, 2007, one share of US\$1.00 each in PCD Retail Operations, representing the entire issued share capital of PCD Retail Operations, was acquired by the Company from PCD Stores.

(c) *Dragon Talent*

On July 3, 2007, one share of HK\$1.00 each in Dragon Talent, representing the entire issued share capital of Dragon Talent, was acquired by PCD China Real Estate from GNL07 Limited.

(d) *Well Power*

On July 3, 2007, one share of HK\$1.00 each in Well Power, representing the entire issued share capital of Well Power, was acquired by PCD Retail Operations from GNL07 Limited.

(e) *PCD Retail Management*

PCD Retail Management was incorporated on August 24, 1998 with PIEL as the 80% subscriber and Chan Hoi Lung, Dickson and Lo Kit Loon, Frank as the other subscribers. On May 8, 2007, an additional 48,000 shares of US\$1.00 each in PCD Retail Management was issued to PIEL. On the same day, PIEL transferred all its 49,600 shares in PCD Retail Management to PCD Retail Operations.

(f) *PCD Real Estate (Xiamen)*

On December 6, 2005, the entire registered capital of PCD Real Estate (Xiamen), in the sum of US\$3,000,000, was acquired by PCD China Real Estate from Alfred Chan and Edward Tan, each holding 50% of the registered capital at the time. On December 6, 2005, the registered capital of PCD Real Estate (Xiamen) was increased from US\$3,000,000 to US\$14,000,000. On February 1, 2007, the registered capital of PCD Real Estate (Xiamen) was increased from US\$14,000,000 to US\$19,000,000. On August 16, 2007, 100% of the registered capital of PCD Real Estate (Xiamen) was acquired by Dragon Talent from PCD China Real Estate.

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(g) *Zhongshan PCD Stores (Xiamen)*

Zhongshan PCD Stores (Xiamen) was incorporated on October 28, 2005. On May 26, 2006, the entire registered capital of Zhongshan PCD Stores (Xiamen), in the sum of US\$5,000,000, was acquired by PCD Stores from PDL. On October 11, 2007, 100% of the registered capital of Zhongshan PCD Stores (Xiamen) was acquired by Well Power from PCD Stores.

(h) *PCD World Trade (Xiamen)*

On September 29, 2006, 94% of the registered capital of PCD World Trade (Xiamen), in the sum of RMB2,820,000, was acquired by Zhongshan PCD Stores (Xiamen) from Ke Xiude; 5% of the registered capital of PCD World Trade (Xiamen), in the sum of RMB150,000 was acquired by Zhongshan PCD Stores (Xiamen) from Ge Weiyang; 1% of the registered capital of PCD World Trade (Xiamen), in the sum of RMB30,000 was acquired by PCD Real Estate (Xiamen) from Ke Xiude.

(i) *PCD Continental Department Stores*

On December 18, 2006, 69% of the registered capital of PCD Continental Department Stores, in the sum of RMB690,000, was acquired by Zhongshan PCD Stores (Xiamen) from PCD World Trade (Xiamen). 30% of the registered capital of PCD Continental Department Stores, in the sum of RMB300,000, was acquired by Zhongshan PCD Stores (Xiamen) from PCD Stores (Xiamen). 1% of the registered capital of PCD Continental Department Stores, in the sum of RMB10,000, was acquired by PCD Real Estate (Xiamen) from PCD World Trade (Xiamen). On February 19, 2009, it changed its name from Dalu Laiya Continental Department Stores (Xiamen) to its current name, PCD Continental Department Stores.

(j) *PCD Stores (Taiyuan)*

On June 26, 2006, 79% of the registered capital of PCD Stores (Taiyuan), in the sum of RMB3,950,000, was acquired by Zhongshan PCD Stores (Xiamen) from PCD Real Estate (Xiamen). On June 26, 2006, 20% of the registered capital of PCD Stores (Taiyuan), in the sum of RMB1,000,000, was acquired by Zhongshan PCD Stores (Xiamen) from PCD Stores (Xiamen).

(k) *PCD Stores (Jilin)*

On November 28, 2006, PCD Stores (Jilin) was established in the PRC with a registered capital of RMB10,000,000 and held as to 99% by Zhongshan PCD Stores (Xiamen) and as to 1% by PCD Real Estate (Xiamen).

(l) *Zhongshan PCD Stores (Qingdao)*

On December 8, 2006, 1% of the registered share capital of Zhongshan PCD Stores (Qingdao), in the sum of RMB10,000 (being 20% paid-up), was acquired by Liu Qinhua from Qingdao Haixin Shi Ye Holding Co. Ltd. (青島海信實業股份有限公司), an Independent Third Party. On March 15, 2007, 1% of the registered share capital of

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Zhongshan PCD Stores (Qingdao), for a consideration of RMB50,000, was acquired by PCD Real Estate (Xiamen) from Liu Qinhua. On the same day, 99% of the registered share capital of Zhongshan PCD Stores (Qingdao), for a consideration of RMB4,950,000, was acquired by Zhongshan PCD Stores (Xiamen) from PCD Stores (Xiamen).

(m) *Laiya Department Management (Xiamen)*

On August 17, 2007, 95% of the registered capital of Laiya Department Management (Xiamen), in the sum of RMB950,000, was acquired by Zhongshan PCD Stores (Xiamen) from Lin Keqin and Lin Xiuhua. On August 17, 2007, 5% of the registered capital of Laiya Department Management (Xiamen), in the sum of RMB50,000, was acquired by PCD Real Estate (Xiamen) from Lin Xiuhua.

(n) *PCD Stores (Guangxi)*

On September 26, 2006, PCD Stores (Guangxi) was established in the PRC with a registered capital of RMB5,000,000 held as to 90% by Zhongshan PCD Stores (Xiamen) and 10% by PCD Real Estate (Xiamen).

(o) *Beijing Scitech Department Stores*

Pursuant to a share transfer agreement dated July 7, 2007, 99% of the registered capital of Beijing Scitech Department Stores, for a consideration of RMB9,900,000, was acquired by Zhongshan PCD Stores (Xiamen) from PCD Stores (Xiamen). Pursuant to a share transfer agreement dated July 7, 2007, 1% of the registered capital of Beijing Scitech Department Stores, for a consideration of RMB100,000, was acquired by PCD Real Estate (Xiamen) from Xiamen Jiazhong.

(p) *Xian Century Changan Property Investment*

On August 10, 2007 the entire equity interest in Xian Century Changan Property Investment was acquired as to 90% by PCD Real Estate (Xiamen) and as to 10% by Zhongshan PCD Stores (Xiamen).

(q) *PCD Stores Consulting*

On August 27, 2007, PCD Stores Consulting was established in the PRC with a registered capital of RMB2,000,000 held as to 95% by Zhongshan PCD Stores (Xiamen) and 5% by PCD Real Estate (Xiamen).

(r) *Beijing Yuanyongxin Info Consulting*

On March 25, 2009, Beijing Yuanyongxin Info Consulting was established in the PRC with a registered capital of RMB1,000,000 and held as to 90% by Zhongshan PCD Stores (Xiamen) and as to 10% by PCD Real Estate (Xiamen).

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(s) *Qingdao Century Chuntian Info Consulting*

On March 18, 2009, Qingdao Century Chuntian Info Consulting was established in the PRC with a registered capital of RMB1,000,000 and held as to 90% by Zhongshan PCD Stores (Xiamen) and as to 10% by PCD Real Estate (Xiamen).

(t) *Jiahe Chun Tian*

On July 9, 2008, Jiahe Chun Tian was established in the PRC with a registered capital of HK\$5,000,000 and is wholly-owned by Well Power.

(u) *Xiamen Lotus*

On September 4, 2009, Xiamen Lotus was established in the PRC with a registered capital of RMB10,000,000 and is wholly-owned by Well Power.

4. Shareholders’ meeting of the Company

Resolutions were passed by our shareholders in a shareholders’ meeting held on November 5, 2009 pursuant to which, among other matters, our Company approved and adopted its new Articles, the terms of which are summarised in Appendix V to this document.

5. Background

(1) *PCD Retail Management*

PCD Retail Management was incorporated in the British Virgin Islands on August 24, 1998 with PIEL, Chan Hoi Lung, Dickson and Lo Kit Loon, Frank as holders of 80%, 19.95% and 0.05% of its issued share capital, respectively. Following its incorporation and prior to its management of PCD Zhongshan Lu (see below), PCD Retail Management was a dormant company without any business operations or activities.

(2) *PCD World Trade (Xiamen)*

Pursuant to the control arrangement described below, in December 2003. The Chan Family began operating PCD World Trade in Xiamen. As of January 1, 2004, PCD World Trade is run by PCD World Trade (Xiamen) (formerly known as PCD Holiday (Xiamen)), an entity incorporated in the PRC on August 29, 2001 for the purposes of managing PCD World Trade, with Ke Xiude and Ge Weiying, an employee of the Group, holding 95% and 5% of its equity interest, respectively.

Ke Xiude, the mother of Alfred Chan and Edward Tan, provided funding to, and entered into a nominee arrangement with, Ge Weiying in respect of Ge Weiying’s 5% equity interests in PCD World Trade (Xiamen) and Ge Weiying’s 76% equity interests in PCD Stores (Xiamen). Ge Weiying was appointed as a nominee shareholder to hold the 76% of PCD Stores (Xiamen) on behalf of Ke Xiude as of the incorporation date of PCD Stores (Xiamen) because she was a trusted full-time employee of the Chan Family, who was stationed on site at the department store business. Accordingly, the Chan Family considered that it would be more convenient to have Ge Weiying appointed as the nominee shareholder

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since she would be readily available to sign documents on site, whenever the need arose. In August 2001, when Ke Xiude established PCD World Trade (Xiamen), it had become evident that the signature of shareholders of the company was actually seldom required in the day to day operations of the business. Accordingly, the savings in convenience were minimal and Ke Xiude decided to hold 95% of the equity interest in PCD World Trade (Xiamen) directly in her name. Ge Weiying was appointed as a nominee to hold the 5% equity interest as of the incorporation date of PCD World Trade (Xiamen) because there is a requirement under PRC laws of that time for domestic PRC companies to have at least two shareholders. On December 25, 2003, Ge Weiying and Ke Xiude orally granted to Alfred Chan and Edward Tan all of each of their respective rights, title and interest in PCD Stores (Xiamen) and PCD World Trade (Xiamen), along with the right to receive all dividends, interest and income therefrom, to control the voting power attributable to such interests, to control the composition of the board of directors and the financial and operating policies of such companies (to the extent that such control is attributable to such interests granted), and to receive the benefit of the entire economic interest attributable thereto. The terms of these oral arrangements, which have been in effect since December 25, 2003, were documented in a control agreement entered into between Alfred Chan, Edward Tan, Ke Xiude and Ge Weiying, on August 7, 2007. Utilising her experience in the textile and rice trading business, Ke Xiude, along with Alfred Chan, Edward Tan, Stephen Doe, Ge Weiying, Liu Qinhua and Lin Keqin, was involved in the management of PCD Word Trade (Xiamen) and PCD Stores (Xiamen) during her ownership of these two companies prior to the oral control arrangements on December 25, 2003. Our PRC legal advisers have advised us that the control arrangement and the nominee arrangements were at all times legal, valid and enforceable and not in breach of any laws or regulations in the PRC. In particular, the oral arrangements were not in breach of the relevant foreign investment restrictions in relation to department stores business. As from December 25, 2003, Alfred Chan and Edward Tan have effectively taken over the ownership and management of these companies pursuant to the oral control arrangements. As at the Latest Practicable Date other than its interest in Xiamen Ruijing Chun Tian, PCD Stores (Xiamen) does not own an equity interest in any companies related to the business of the Group and for this reason did not form part of the Group following the Reorganization (details of which are provided below).

Pursuant to three share transfer agreements all dated February 1, 2006, Ge Weiying and Ke Xiude transferred their respective equity interests in PCD World Trade (Xiamen) to Zhongshan PCD Stores (Xiamen) and PCD Real Estate (Xiamen). As a result of these share transfer agreements, Zhongshan PCD Stores (Xiamen) and PCD Real Estate (Xiamen) each hold 99% and 1%, respectively, of the equity interest in PCD World Trade (Xiamen). MOFCOM approval was obtained for such transfer on September 1, 2006.

As described above, the rights and interest in the 76% of the equity interest in PCD Stores (Xiamen) owned by Ge Weiying were orally granted to Alfred Chan and Edward Tan on December 25, 2003.

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(3) *PCD Zhongshan Lu*

From January 1, 2004 to December 31, 2004, PCD Zhongshan Lu was managed by PCD Retail Management. The premises on which PCD Zhongshan Lu is operated was purchased by PCD Real Estate (Xiamen) pursuant to an auction agreement dated November 16, 2004 entered into with Xiamen Zhong Zheng Auctioneer Co. Ltd. (廈門中正拍賣行有限公司) for a consideration of RMB257,672,871. From January 1, 2005 to December 31, 2005, PCD Zhongshan Lu was managed by PCD World Trade (Xiamen), following which it has since been managed by Zhongshan PCD Stores (Xiamen), which was established in October 2005 by PDL in order to manage PCD Zhongshan Lu.

(4) *PCD Taiyuan*

In 2005, we began operating our first store outside of Xiamen, PCD Taiyuan, in Taiyuan. In February 2005, we obtained a lease from Shaanxi Yu Hua Yuan Time Square Co. Ltd. to the premises of PCD Taiyuan, and in September of the same year, entered into a store cooperation agreement with Shanxi Yu Hua Yuan Times Square Co. Ltd. (山西御花園時代廣場有限公司) and Shanxi Zhonglian Shiye Stock Co. Ltd. (山西中聯實業股份有限公司). On March 9, 2005, we established PCD Stores (Taiyuan) to manage PCD Taiyuan, and in the same month, PCD Taiyuan commenced operations. PCD Stores (Taiyuan) was owned as to 80% and 20% of its equity interest by PCD Real Estate (Xiamen) and PCD Stores (Xiamen), respectively on its incorporation date. On June 26, 2006, 79% and 20% of the respective equity interests held by PCD Real Estate and PCD Stores (Xiamen) in PCD Stores (Taiyuan) were transferred to Zhongshan PCD Stores (Xiamen) pursuant to a number of share transfer agreements entered into on February 1, 2006. As a result, Zhongshan PCD Stores (Xiamen) and PCD Real Estate (Xiamen) each hold 99% and 1% of the equity interest of PCD Stores (Taiyuan) respectively.

(5) *PCD Jiahe and PCD Songbai Department Stores*

In August 2005, PCD Real Estate (Xiamen) acquired 95% equity interest in PCD Songbai Department Stores (formerly Laiya Department Stores), which manages PCD Jiahe, and purchased 5 units in the premises of PCD Jiahe from an Independent Third Party in an auction arising out of court proceedings representing approximately 51% of the premises. The remaining 5% equity interest in PCD Songbai Department Stores is owned by Wuhan Huaxing, an Independent Third Party. PCD Songbai Department Stores commenced operations of PCD Jiahe in January 2006. Subsequently, PCD Real Estate (Xiamen) purchased the remaining 3 units of the store premises from Xiamen Zhong Bo Real Estate Co. Ltd. (廈門市中博地產有限公司) pursuant to a sale and purchase agreement dated April 27, 2007, and 6 units on level 5 of the store premises for office use from Wang Hua, an Independent Third Party, pursuant to sale and purchase agreements dated August 21, 2007. PCD Songbai Department Stores operated PCD Jiahe pursuant to a lease agreement dated July 1, 2009 entered into with PCD Real Estate (Xiamen), which was terminated on August 31, 2009. Pursuant to a lease entered into by PCD Real Estate (Xiamen) and Xiamen Lotus Department Stores on October 20, 2009 effective from September 1, 2009, Xiamen Lotus

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Department Stores became the operator of PCD Jiahe. All concessionaire agreements in relation to PCD Jiahe were assigned by PCD Songbai Department Stores to Xiamen Lotus Department Stores on November 1, 2009.

(6) *PCD Continental and PCD Continental Department Stores*

As of June 15, 2005, we began leasing from Xiamen Jiutian Real Estate Development Co. Ltd. (廈門九天房地產開發有限公司) the two basement floors and levels 1, 2, 3, 5 and 6 of the premises of Laiya Continental. In August 2005, we established Dalu PCD Department Stores (Xiamen) Co., Ltd. (with 30% and 70% of its equity interest held by PCD Stores (Xiamen) and PCD World Trade (Xiamen), respectively) to manage Laiya Continental, and Laiya Continental commenced operations in September 2005. The term of the leases, as amended by a supplemental agreement, is from August 1, 2005 to October 31, 2013. Pursuant to three share transfer agreements all dated February 1, 2006, PCD Stores (Xiamen) and PCD World Trade (Xiamen) transferred their respective equity interest in Dalu PCD Department Stores (Xiamen) to Zhongshan PCD Stores (Xiamen) and PCD Real Estate (Xiamen), as a result of which, Zhongshan PCD Stores (Xiamen) and PCD Real Estate (Xiamen) hold 99% and 1%, respectively, of equity interest in Dalu PCD Department Stores (Xiamen). On December 18, 2006, Dalu PCD Department Stores (Xiamen) changed its name to Dalu Laiya Department Stores (Xiamen), and on February 19, 2009, to its current name of PCD Continental Department Stores. On March 1, 2009, Laiya Continental changed its name to the current name of PCD Continental as well.

(7) *PCD Real Estate (Xiamen) and PCD China Real Estate*

In December 2005, Alfred Chan and Edward Tan transferred their equity interests in PCD Real Estate (Xiamen) to PCD China Real Estate for an aggregate consideration of US\$3 million, pursuant to a share transfer agreement entered into on October 18, 2005. PCD China Real Estate was incorporated in the British Virgin Islands on September 14, 2005 with PCD Stores Limited as its sole subscriber.

(8) *Laiya Department Management (Xiamen)*

Laiya Department Management (Xiamen) was incorporated on January 4, 2006 with Lin Xiuhua and Lin Keqin the holders of its entire equity interest in equal shares. Ke Xiude, the mother of Alfred Chan and Edward Tan, provided funding for Laiya Department Management as from its incorporation date and entered into a nominee arrangement as of the incorporation date of Laiya Department Management (Xiamen) with Lin Xiuhua, an employee of the Group and otherwise unrelated to the Group and Lin Keqin, an employee of the Group and otherwise unrelated to the Group in respect of each of their 50% equity interest in Laiya Department Management on its incorporation date. Pursuant to these nominee arrangements and at the direction of Ke Xiude, as a gift, on January 4, 2006, Lin Xiuhua and Lin Keqin orally granted to Alfred Chan and Edward Tan all of their respective rights, title and interest in Laiya Department Management (Xiamen), along with the right to receive all dividends, interest and income therefrom, to control the voting power attributable to such interests, to control the composition of the board of directors and the financial and operating policies of such companies (to the extent that such control is attributable to such interests granted), and to receive the benefit of the entire economic interest attributable

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thereto. The terms of this oral arrangement was documented in a control agreement entered into between Alfred Chan, Edward Tan, Lin Xiuhua and Lin Keqin, respectively on August 7, 2007. Our PRC legal advisers have advised us that the control arrangement and the nominee arrangement were at all times legal, valid and enforceable and not in breach of any laws or regulations in the PRC. In particular, the oral arrangements and the nominee arrangement were not in breach of the relevant foreign investment restrictions in relation to department stores business. Between 2006 and 2007, Laiya Department Management (Xiamen) entered into management agreements with third party store owners and started to manage Xiamen Shenming Laiya, New Age Laiya, Jicheng Laiya, Jicheng Laiya (Qingyang Branch) and Chengdu Shengming Laiya stores. The management agreements with New Age Laiya, Xiamen Shenming Laiya, Jicheng Laiya, Jicheng Laiya (Qingyang Branch) and Chengdu Shenming Laiya were all terminated in March 2009.

(9) *PCD Qingdao*

Pursuant to a sale and purchase agreement entered into on September 18, 2006, we acquired from Qingdao Haixin Shi Ye Holding Co. Ltd. (青島海信實業股份有限公司), an Independent Third Party, the premises to our store in Qingdao, PCD Qingdao. In October 2006, Zhongshan PCD Stores (Qingdao) was established to manage PCD Qingdao and we commenced operations of PCD Qingdao in the same month. As at the date of incorporation, PCD Stores (Xiamen) and Qingdao Haixin Shi Ye Holding Co. Ltd. held 99% and 1% of the equity interests in Zhongshan PCD Stores (Qingdao), respectively. Pursuant to an agreement entered into on December 6, 2006, Liu Qinhua subsequently acquired 1% equity interest in Haixin PCD Stores (Qingdao) from Qingdao Haixin Shi Ye Holding Co. Ltd on and effective on December 8, 2006. Liu Qinhua was appointed as the nominee shareholder of 1% equity interest in Haixin PCD Stores (Qingdao) for and on behalf of Ke Xiude because there is a requirement under PRC laws of that time for domestic PRC companies to have least two shareholders. On December 8, 2006 Liu Qinhua, a member of the Group’s senior management, otherwise unrelated to the Group, orally granted to Alfred Chan and Edward Tan all of his respective rights, title and interest in Haixin PCD Stores (Qingdao), along with the right to receive all dividends, interests and income therefrom, to control the voting power attributable to such interests, to control the composition of the board of directors and the financial and operating policies of such companies (the extent that such control is attributable to such interests granted), and to receive the benefit of the entire economic interest attributable thereto. Our PRC legal advisers have advised us that the control arrangement and the nominee arrangements were at all times legal, valid and enforceable and not in breach of any laws or regulations in the PRC. In particular, the oral arrangements and the nominee arrangement were not in breach of the relevant foreign investment restrictions in relation to department stores business. The terms of this control arrangement was documented in a control agreement entered into between Alfred Chan, Edward Tan and Liu Qinhua on August 8, 2007. In February 2007, Haixin PCD Stores (Qingdao) changed its name to the current name of Zhongshan PCD Stores (Qingdao). Pursuant to a share transfer agreement dated March 15, 2007, Liu Qinhua transferred his 1% equity interest in Zhongshan PCD Stores (Qingdao) to PCD Real Estate (Xiamen). Similarly, pursuant to a share transfer agreement dated March 15, 2007, PCD Stores (Xiamen) transferred its 99% equity interest in Zhongshan PCD Stores (Qingdao) to Zhongshan PCD Stores (Xiamen).

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(10) *PCD Nanning*

On March 10, 2006, PCD Stores (Xiamen) entered into a store cooperation agreement with Guangxi Oriental Hangyang Investment Group (廣西東方航洋實業集團有限公司) (formerly known as Guangxi Dongfang Shi Ye Co. Ltd. (廣西東方實業有限公司)) in relation to PCD Nanning. On September 26, 2006, PCD Stores (Guangxi) (with 90% and 10% of its equity interest held by Zhongshan PCD Stores (Xiamen) and PCD Real Estate (Xiamen), respectively) was established to manage PCD Nanning. Under the store cooperation agreement, PCD Stores (Xiamen) (or an associate) was required to set up a company, subsequent to which, PCD Stores (Xiamen) shall transfer its rights and responsibilities under the store cooperation agreement to that company. Such rights and responsibilities were transferred to PCD Stores (Guangxi) pursuant to a variation agreement entered into between PCD Stores (Xiamen), PCD Stores (Guangxi) and Guangxi Oriental Hangyang Investment Group on July 20, 2007. Pursuant to the store cooperation agreement, the premises of the PCD Nanning was leased to PCD Stores (Guangxi) with a term effective from March 10, 2006 until March 10, 2021.

(11) *PCD Changchun*

In October 2006, we obtained from Jilin Ji Chun Industrial and Trading Co. Ltd. (吉林省吉春工貿有限責任公司) a lease to the premises of PCD Changchun. In November 2006, PCD Stores (Jilin) was established (with 99% and 1% of its equity interest held by Zhongshan PCD Stores (Xiamen) and PCD Real Estate (Xiamen), respectively) and entered into a store cooperation agreement with Jilin Ji Chun Industrial and Trading Co. Ltd. on November 28, 2006 to manage PCD Changchun and PCD Changchun commenced operations in December of the same year.

(12) *Beijing Scitech Department Stores*

On August 17, 2007, Beijing Scitech Department Stores entered into a lease with Scitech Group pursuant to which Scitech Group granted a 12-year lease over the premises intended for a new Scitech department store catering to the luxury and high-end retail market in Beijing, such lease to take effect from July 1, 2007. Scitech Group currently owns the premises. Beijing Scitech Department Stores has converted and upgraded the Scitech Plaza to a new international high-end Scitech department store by the first half of 2008. In connection with that, on August 17, 2007, Beijing Scitech Department Stores entered into a one-year store transition agreement with Scitech Group pursuant to which it was agreed that Beijing Scitech Department Stores would manage the Scitech Plaza from July 1, 2007, retrospectively, until the earlier of the date on which the new Scitech department store opens for business under the  logo or June 30, 2008. Pursuant to the store transition agreement, which took effect as of July 1, 2007, we also have full rights to manage all aspects of Scitech Plaza with full discretion and flexibility to open an international high-end department store on the premises. In addition, we are entitled to all the revenues earned from Scitech Plaza and are required to pay all of the store expenses during the term of the agreement. We upgraded Scitech Plaza from a mid-market shopping center with mostly domestic brands into a luxury department store. Renovations of Scitech Plaza have been

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completed in the first half of 2008 and new international brands such as Burberry and Armani Collezioni have commenced operations in the meantime. Scitech Plaza has been rebranded with the  trademark and PCD’s VIP programs are implemented.

(13) *PCD Xian*

On August 10, 2007, we acquired from the Vendors the entire equity interest in Xian Century Changan Property Investment for a total consideration of RMB294.0 million. Pursuant to the sale and purchase agreement, we are obliged to pay the Xian Vendors the consideration for the acquisition of RMB126 million and a further RMB12 million for a bank deposit of the same amount held by Xian Century Changan Property Investment, less certain payables of approximately RMB1 million assumed by Xian Century Changan Property Investment before the completion of the transfer of the equity interest. In addition, we also assumed two 10-year mortgage loans between Xian Century Changan Property Investment and the Bank of East Asia Xian branch with an aggregate principal amount of RMB280 million (the outstanding balance was approximately RMB218 million as at September 30, 2009). Xian Century Changan Property Investment holds title to the lower floors (21,310.12 sq.m.) of the Xian Changan Metropolis Center, which is a prime department store property located at 88 Nanguanzheng Street in Xian and pursuant to a lease agreement effective from July 1, 2007, the properties were leased to Mei Mei.

(14) *Beijing Scitech Premium Outlet Mall*

Beijing Scitech Premium Outlet Mall is an outdoor mall located within the prestigious areas of Beijing and is operated by Beijing Scitech Outlet Commerce. On November 29, 2009, PCD Retail Operations entered into a management agreement with Even Time pursuant to which PCD Retail Operations agreed to provide management consultancy services to Even Time in connection with the Beijing Scitech Premium Outlet Mall from July 1, 2009 to December 31, 2011.

(15) *Convertible Bonds*

Pursuant to the Investment Agreement dated October 20, 2005, and the Private Equity Convertible Bond Instrument dated October 26, 2005, the 3i Investors subscribed for bonds due October 20, 2014 in an aggregate amount of US\$51,000,000. Further to the Investment Agreement, the parties to the Investment Agreement and the CVCI Investors entered into an accession agreement dated December 30, 2005, pursuant to which the 3i Investors syndicated an aggregate principal amount of US\$20,000,000 in respect of the Private Equity Convertible Bonds and a further stage subscription as provided for in the Investment Agreement. On September 26, 2006, completion of the further stage subscription under the Investment Agreement took place, and as a result of which, the 3i Investors and the CVCI Investors held the Private Equity Convertible Bonds in aggregate principal amounts of US\$31,000,000 and US\$20,000,000, respectively.

On November 14, 2007, as part of the Reorganization, 4,865 Shares and 3,135 Shares were transferred by PCD Stores to the 3i Investors and the CVCI Investors pursuant to which the Private Equity Convertible Bonds were terminated. However, pursuant to a settlement deed entered into on May 1, 2009, the CVCI Investors transferred all the Shares

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that it owned in the Company to Bluestone, amounting to 6.15% of the issued share capital of the Company at that time. As a result, the CVCi Investors no longer hold any Shares or other outstanding rights in the Company at the Latest Practicable Date.

Pursuant to the Pre-IPO Convertible Bond Instruments issued from March to May 2007, CRC (a company wholly owned in equal shares by Alfred Chan and Edward Tan) issued the Pre-IPO Convertible Bonds to the Pre-IPO CB Bondholders.

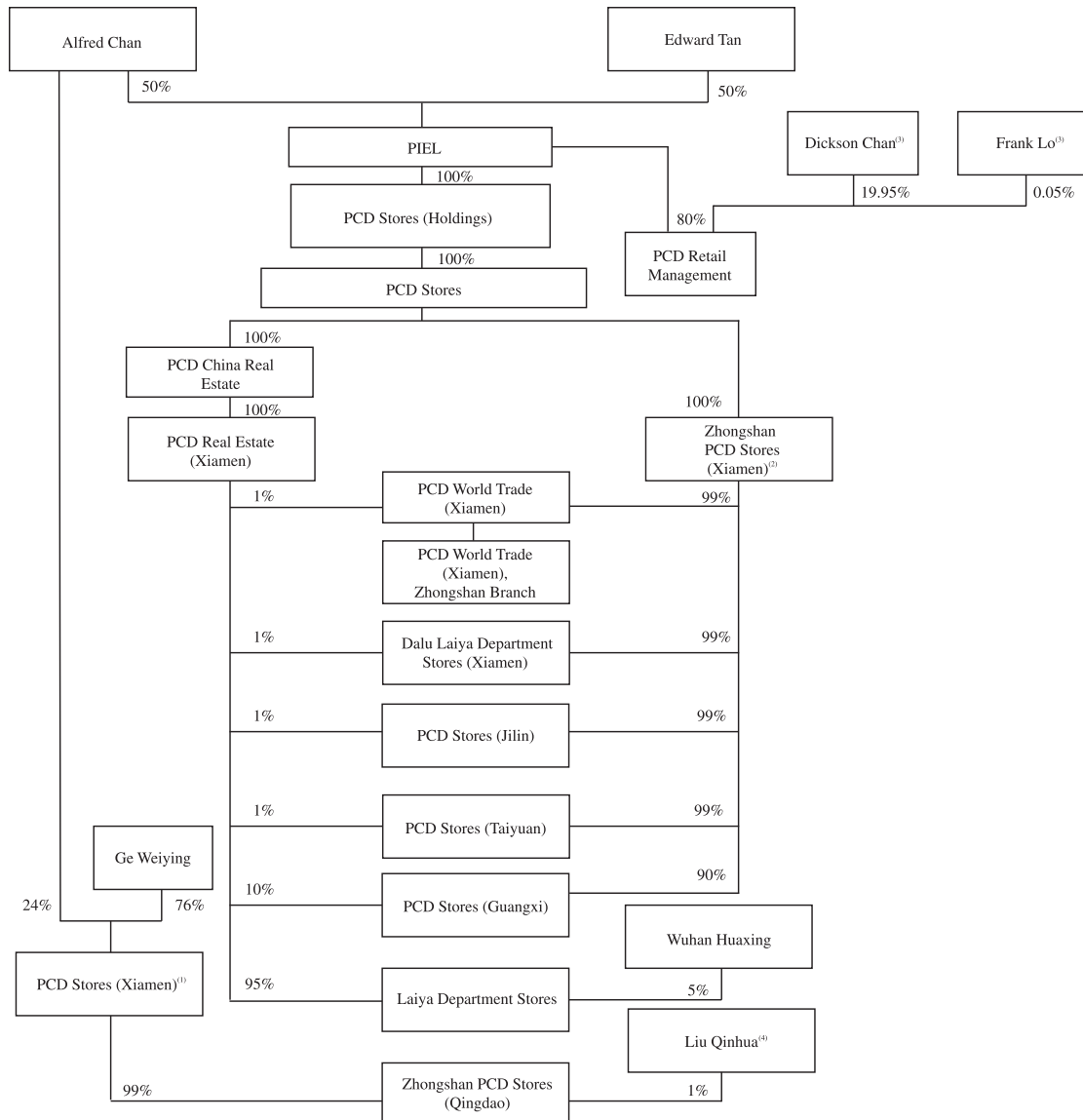
Further details of the Private Equity Convertible Bonds and the Pre-IPO Convertible Bonds is provided in the section headed “Corporate Investors”.

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6. The Reorganization

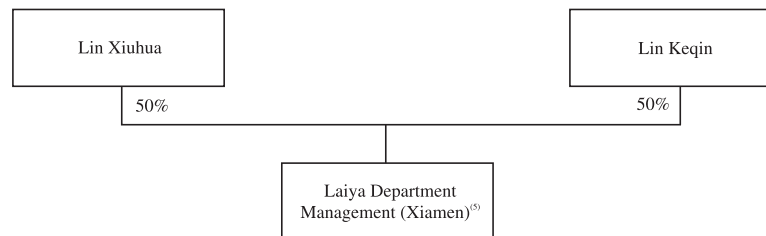
The structure of the Group immediately prior to the Reorganization was as follows:



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- (1) As described above, pursuant to an oral control arrangement among Alfred Chan, Edward Tan, Ke Xiude and Ge Weiying (a member of the Group’s senior management, otherwise unrelated to the Group, its directors, senior management, shareholders and their respective associates) on December 25, 2003, with effect from on December 25, 2003, Ge Weiying granted to Alfred Chan and Edward Tan all of the dividend, voting, financial and economic rights to her 76% equity interest in PCD Stores (Xiamen).
- (2) The entire equity interest in Zhongshan PCD Stores (Xiamen) held by PDL on behalf of PIEL was transferred to PCD Stores pursuant to a share transfer agreement entered into on February 1, 2006 and a supplemental share transfer agreement entered into on February 2, 2006 for a consideration of US\$5 million.
- (3) Save for their shareholding PCD Retail Management, Dickson Chan and Frank Lo are Independent Third Parties unrelated to our Group, its directors, senior management, shareholders and their respective associates.
- (4) As described above, pursuant to an oral control arrangement entered into between Mr. Alfred Chan, Edward Tan and Liu Qinhua (a member of the Group’s senior management, otherwise unrelated to the Group, its directors, senior management, shareholders and their respective associates on December 8, 2006), with effect from December 8, 2006, Liu Qinhua granted to Alfred Chan and Edward Tan all of the dividend, voting, financial and economic rights to his 1% equity interest in Zhongshan PCD Stores (Qingdao).



- (5) As described above, pursuant to an oral control arrangement entered into among Alfred Chan, Edward Tan, Lin Xiuhua (an employee of the Group, otherwise unrelated to the Group, its directors, senior management, shareholders and their respective associates on January 4, 2006) and Lin Keqin (an employee of the Group, otherwise unrelated to the Group, its directors, senior management, shareholders and their respective associates on January 4, 2006) on 4 January 2006, with effect from January 4, 2006, Lin Xiuhua and Lin Keqin granted all of the dividend, voting, financial and economic rights to their respective 50% equity interest in Laiya Department Management (Xiamen) to Alfred Chan and Edward Tan.

We underwent the Reorganization. The Reorganization included the following steps:

- (1) Incorporation of Beijing Scitech Department Stores

Beijing Scitech Department Stores was incorporated in the PRC on April 26, 2007, for the purposes of managing Scitech Plaza. As at the date of incorporation, Beijing Scitech Department Stores was 99% owned by PCD Stores (Xiamen) and 1% owned by Xiamen Jiazhong Software Development Co. Ltd.

- (2) Transfer of the entire equity interests in Beijing Scitech Department Stores, Zhongshan PCD Stores (Qingdao) and Laiya Department Management (Xiamen) to Zhongshan PCD Stores (Xiamen) and PCD Real Estate (Xiamen).

By way of share transfer agreements all dated July 20, 2007, the shareholdings of Laiya Department Management (Xiamen) held by Lin Xiuhua and Lin Keqin in equal shares were transferred to Zhongshan PCD Stores (Xiamen) and PCD Real

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Estate (Xiamen) for a consideration of RMB1 million to be held by them in the proportion of 95% and 5% respectively (for respective considerations of RMB950,000 and RMB50,000).

On July 7, 2007, the equity interest in Beijing Scitech Department Stores, which had a paid-up registered capital of RMB10 million held as to 99% by PCD Stores (Xiamen) and as to 1% by Xiamen Jiazhong Software Development Co. Ltd., respectively, was sold to Zhongshan PCD Stores (Xiamen) and PCD Real Estate (Xiamen) respectively (for respective considerations of RMB9.9 million and RMB100,000) pursuant to two share transfer agreements entered into on the same date.

On March 15, 2007, the equity interest in Zhongshan PCD Stores (Qingdao), which had a paid up registered capital of RMB1 million held as to 99% by PCD Stores (Xiamen) and as to 1% by Liu Qinhua respectively, was sold to Zhongshan PCD Stores (Xiamen) and PCD Real Estate (Xiamen) respectively (for respective considerations of RMB4,950,000 and RMB50,000) pursuant to two share transfer agreements entered into on the same date.

The transfers of equity interest in Beijing Scitech Department Stores and Zhongshan PCD Stores (Qingdao) were approved on June 16, 2009 and May 8, 2009 respectively by MOFCOM. The transfer of the equity interest in Laiya Department Management (Xiamen) was registered on August 17, 2007.

- (3) Incorporation of Dragon Talent and transfer of the entire equity interests in PCD Real Estate (Xiamen) to Dragon Talent

On May 11, 2007, Dragon Talent was incorporated in Hong Kong with GNL07 Limited as its sole subscriber. On July 3, 2007, its entire issued share capital was transferred by GNL07 Limited for a nominal consideration to PCD China Real Estate pursuant to an instrument of transfer of the same date. On August 16, 2007, the entire equity interests in PCD Real Estate (Xiamen) were transferred by PCD China Real Estate to Dragon Talent for a consideration of US\$19 million pursuant to a share transfer agreement dated July 7, 2007. Such transfer was approved by the Xiamen Foreign Investment Bureau on July 26, 2007.

- (4) Incorporation of Well Power and transfer of the entire equity interests in Zhongshan PCD Stores (Xiamen) to Well Power

On June 1, 2007, Well Power was incorporated in Hong Kong with GNL07 Limited as the sole subscriber. On July 3, 2007, the entire issued share capital of Well Power was transferred from GNL07 Limited to PCD Retail Operations pursuant to an instrument of transfer for a nominal consideration. On October 11, 2007, the entire equity interests in Zhongshan PCD Stores (Xiamen) were transferred by PCD Stores to Well Power in return for a consideration of US\$0.01 pursuant to a share transfer agreement dated July 7, 2007 (as amended and supplemented by a supplemented agreement dated November 20, 2007).

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- (5) On August 10, 2007, the entire equity interest in Xian Century Changan Property Investment was acquired as to 90% by PCD Real Estate (Xiamen) and as to 10% by Zhongshan PCD Stores (Xiamen).
- (6) On August 27, 2007, PCD Stores Consulting was incorporated in the PRC with Zhongshan PCD Stores (Xiamen) and PCD Real Estate (Xiamen) the holders of 95% and 5% of its equity interest respectively.
- (7) Incorporation of PCD Retail Operations

On May 18, 2007, PCD Retail Operations was incorporated in the British Virgin Islands with PCD Stores as the sole subscriber.

- (8) Transfer of shares in PCD Retail Management

PCD Retail Management was incorporated on August 24, 1998 with PIEL as the 80% subscriber and Chan Hoi Lung, Dickson and Lo Kit Loon, Frank as the other subscribers. On May 8, 2007, a further 48,000 shares in PCD Retail Management were issued to PIEL, as a result of which, its interest in the issued share capital of PCD Retail Management increased to 99.2%. On May 8, 2007, 49,600 shares in PCD Retail Management held by PIEL, representing 99.2% of the share capital of PCD Retail Management, were transferred to PCD Retail Operations for a nominal consideration.

- (9) Establishment of the Company

On January 8, 2007, the Company was incorporated as an exempted company with limited liability in the Cayman Islands. As at the date of incorporation, the Company’s initial authorised share capital was US\$50,000, divided into 50,000 ordinary shares of par value of US\$1 each (Shares), of which 1 subscriber Share was allotted and issued to OIL as the sole subscriber.

On March 28, 2007, one Share was transferred from OIL to Alfred Chan for a nominal consideration. On March 28, 2007, one Share and 9,998 Shares were allotted and issued to Edward Tan and PIEL at par value, respectively. On September 19, 2007, Alfred Chan and Edward Tan transferred their respective shareholdings in the Company to PIEL for a nominal consideration, resulting in PIEL holding all of the shares of the Company.

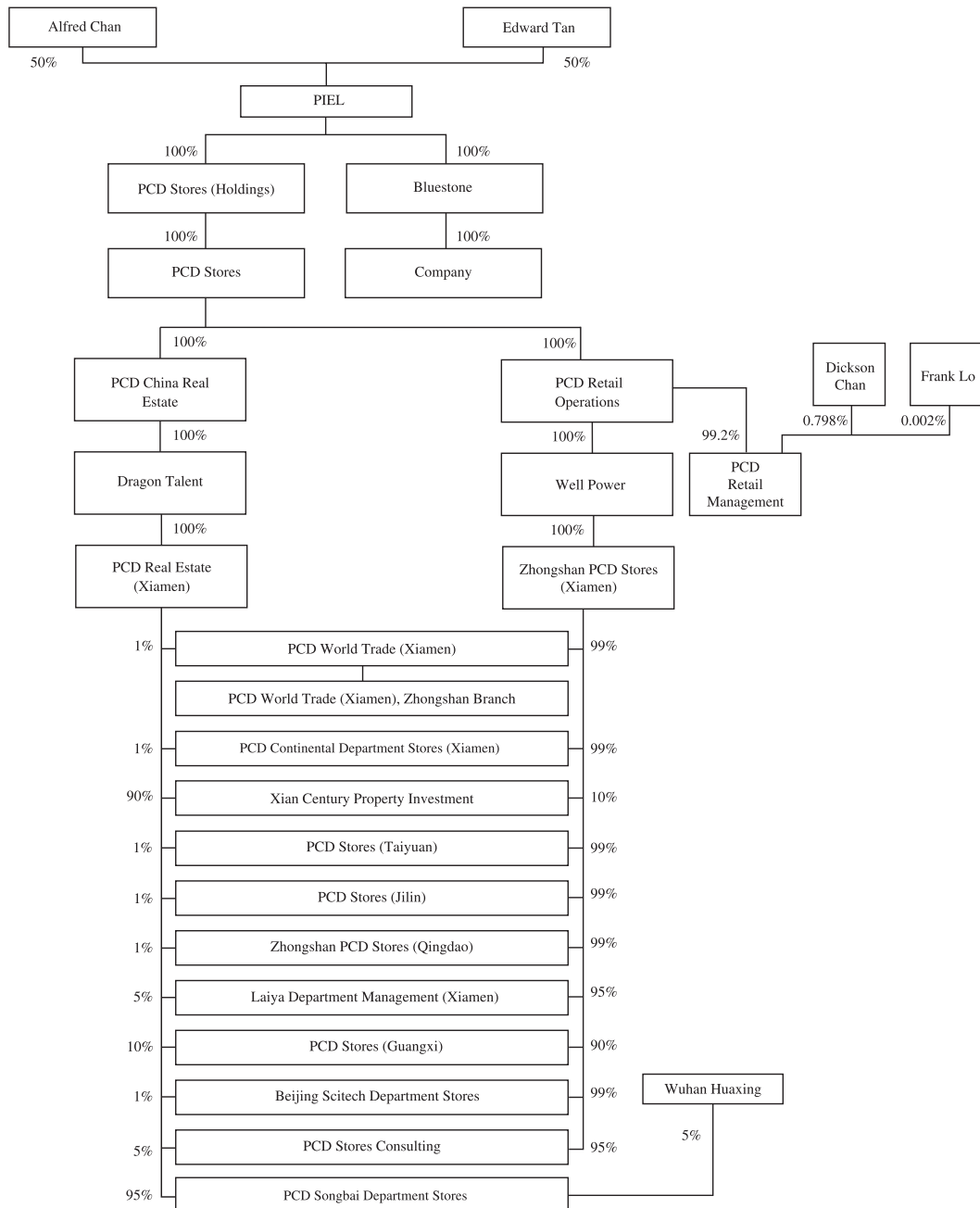
- (10) Incorporation of Bluestone

On July 24, 2007 Bluestone was incorporated in the British Virgin Islands and 100 shares in Bluestone were issued to PIEL as its sole subscriber. On September 19, 2007 the entire issued share capital in the Company, comprising 10,000 Shares was transferred by PIEL to Bluestone and as consideration Bluestone allotted and issued 100 shares to PIEL. On November 14, 2007, 1,000 Shares were issued to Bluestone at par.

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The structure immediately after incorporation of Bluestone in connection with the Reorganization and prior to the transfer of PCD China Real Estate and PCD Retail Operations and termination of the Private Equity Convertible Bonds (as described below) was as follows:



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- (11) Transfer of the shareholdings in PCD China Real Estate and PCD Retail Operations to the Company

On November 14, 2007, pursuant to a reorganization agreement (as amended) entered into between the Company and PCD Stores, the entire issued share capital in PCD China Real Estate and PCD Retail Operations was transferred by PCD Stores to the Company. By way of consideration, the Company assumed a debt of RMB222,615,837 owed by PCD Stores to PCD China Real Estate, and by way of further consideration on November 14, 2007 the Company issued 40,000 Shares (the “Consideration Shares”), representing approximately 78% of the enlarged share capital of the Company, to PCD Stores, credited as fully paid. In addition, the Company agreed to pay RMB150 million to PCD Stores as further consideration.

- (12) Distribution of 32,000 of the Consideration Shares to PIEL and injection of such shares by PIEL to Bluestone

In respect of 32,000 of the Consideration Shares issued to PCD Stores, (i) PCD Stores distributed such Shares to its sole shareholder, PCD Stores (Holdings), (ii) PCD Stores (Holdings) in turn distributed such Shares to PIEL and (iii) PIEL injected such Shares into Bluestone by way of a capital contribution (pursuant to which shares in Bluestone were issued to PIEL).

- (13) Share Transfer of 8,000 Consideration Shares held by PCD Stores in the Company to the 3i Investors and the CVCi Investors

On November 14, 2007, PCD Stores transferred 8,000 Consideration Shares to the Investors (as to 4,865 Shares to the 3i Investors, representing approximately 9.54% of the issued share capital of the Company, and 3,135 Shares to the CVCi Investors, representing approximately 6.15% of the issued share capital of the Company) in return for the termination of the Private Equity Convertible Bonds held by the 3i Investors and the CVCi Investors, pursuant to the Merger Arrangements and in contemplation of the restructuring of the Group.

- (14) On November 15, 2007, Bluestone transferred 612 Shares representing approximately 1.2% of the share capital of the Company to Loyal Bright Management Limited (a company wholly-owned by Liu Zhi Hui, a former PIEL Group employee) and 593 Shares representing 1.16% of the issued capital of the Company at that time to four other PIEL Group Employees for nil consideration in acknowledgement of their previous contribution to the PIEL Group and as incentive for continuing contribution to the PIEL Group. In addition, Bluestone transferred 3,044 Shares representing approximately 5.97% of the issued share capital of the Company at that time for nil consideration to Shining Hill Group Limited, Vega Universal Holdings Limited (both being companies wholly owned by Anthony Chan, a relative of the Chan Family) and Rise Jade Holdings Limited (being a company jointly owned by Jenny Tan and Jacqueline Tan, both of whom are relatives of the Chan Family).

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- (15) On July 2, 2008, one share of PCD China Ventures was allotted and issued to PCD Retail Operations. This was transferred by PCD Retail Operations to Double Eight Enterprises Limited pursuant to a share transfer agreement entered into on November 11, 2009.
- (16) On January 23, 2009, the four PIEL Group employees transferred an aggregate of 118,600 Shares, representing 1.16% of the issued share capital of the Company at that time to Bluestone.
- (17) On February 7, 2009, Bluestone transferred 30,600 Shares to Loyal Bright Management Limited, and an aggregate of 819,200 Shares to Shining Hill Group Limited, Vega Universal Holdings Limited, Rise Jade Holdings Limited, Victoria Chan and Alan Tan (both of whom are relatives of the Chan Family), together representing 8.33% of the issued share capital of the Company at that time.
- (18) On May 1, 2009, the CVCi Investors transferred 627,000 Shares to Bluestone, representing 6.15% of the issued share capital of the Company at that time.
- (19) On September 4, 2009, Xiamen Lotus Department Stores was incorporated, and one share of Xiamen Lotus Department Stores was allotted and issued to Well Power.
- (20) On November 5, 2009, Bluestone transferred 346,800 Shares to the PIEL Group Employees, representing 3.4% of the issued share capital of the Company at that time.

The diagram illustrates the ownership structure of PCD China Real Estate Co., Ltd. and its subsidiaries. The ownership is as follows:

- Alfred Chan** (50%) and **Edward Tan** (50%) own **PIEL**.
- PIEL** (100%) owns **Bluestone**.
- Bluestone** (71.56%) owns **The Company**.
- Relatives of Chan Family (or their nominees)** (14%) and **3i Investors** (9.54%) own **The Company**.
- PIEL** (100%) owns **PCD Stores (Holdings)**.
- PCD Stores (Holdings)** (100%) owns **PCD Stores**.
- PIEL Group Employees** (3.4%) and **Loyal Bright Management Limited** (1.5%) own **The Company**.
- The Company** (100%) owns **PCD China Real Estate** and **PCD Retail Operations**.
- PCD China Real Estate** (100%) owns **Dragon Talent**.
- Dragon Talent** (100%) owns **PCD Real Estate (Xiamen)**.
- PCD Retail Operations** (100%) owns **Well Power**.
- Well Power** (100%) owns **Zhongshan PCD Stores (Xiamen)**.
- PCD Retail Operations** (99.2%) and **Dickson Chan** (0.798%) own **PCD Retail Management**.
- Frank Lo** (0.002%) owns **PCD Retail Management**.
- PCD Retail Management** (100%) owns **Jiahe Chun Tian**.
- PCD Retail Management** (100%) owns **Xiamen Lotus Department Stores**.
- PCD China Real Estate** (1%) owns **PCD World Trade (Xiamen)**.
- PCD World Trade (Xiamen)** (99%) owns **PCD World Trade (Xiamen), Zhongshan Branch**.
- PCD China Real Estate** (1%) owns **PCD Continental Department Stores**.
- PCD China Real Estate** (90%) owns **Xian Century Changan Property Investment**.
- PCD China Real Estate** (1%) owns **PCD Stores (Taiyuan)**.
- PCD China Real Estate** (1%) owns **PCD Stores (Jilin)**.
- PCD China Real Estate** (5%) owns **Laiya Department Management (Xiamen)**.
- PCD China Real Estate** (10%) owns **PCD Stores (Guangxi)**.
- PCD China Real Estate** (5%) owns **PCD Stores Consulting**.
- PCD China Real Estate** (1%) owns **Beijing Scitech Department Stores**.
- PCD China Real Estate** (1%) owns **Zhongshan PCD Stores (Qingdao)**.
- PCD China Real Estate** (10%) owns **Beijing Yuanyongxin Info Consulting**.
- PCD China Real Estate** (10%) owns **Qingdao Century Chuntian Info Consulting**.
- PCD China Real Estate** (95%) owns **PCD Songbai Department Stores**.
- Wuhan Huaxing** (5%) owns **PCD Songbai Department Stores**.

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B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this document that are or may be material:

- (a) an option agreement dated November 29, 2009, entered into between our Company, Bluestone and PCD Stores (Xiamen), pursuant to which PCD Stores (Xiamen) agreed to grant to our Company an option to acquire the interest of PCD Stores (Xiamen) in Xiamen Ruijing Chun Tian;
- (b) a cooperation agreement dated August 15, 2007, together with supplemental agreements, entered into among PCD Retail Operations, Mei Mei, Total Luck Enterprises Limited (Mei Mei’s parent company) and Liu Po (Total Luck Enterprises Limited’s controlling shareholder) regarding the cooperation and management of the shopping complex in Xian Changan Metropolis Center for a term from Jul 1, 2008 to Dec 31, 2011. Mei Mei has paid PCD Retail Operations a fixed fee of HKD8.75 million per quarter since January 1, 2009, and will pay PCD Retail Operations HK\$10.0 million per quarter in 2010 and 2011;
- (c) a lease agreement entered into on June 25, 2007, as amended, pursuant to which Xian Century Changan Property Investment leased to Mei Mei the premises in Xian Changan Metropolis Center for the quarterly rent of RMB2 million, and starting from July 1, 2008 and ending on December 31, 2011, RMB3.25 million;
- (d) a reorganization agreement dated November 14, 2007, amended and restated on December 7, 2007 and the supplemented agreement dated January 5, 2008, entered into between PCD Stores and the Company, details of which are set out under the heading “Reorganization” in the “Statutory and General Information” section;
- (e) a deed of non-competition undertaking dated November 29, 2009 given by Alfred Chan, Edward Tan and PIEL in favour of the Company;
- (f) a deed of indemnity dated November 29, 2009 given by Bluestone and PIEL in favour of our Company containing indemnities in respect of estate duty, taxation and losses arising out of legal compliance, properties and intellectual properties, in particular, in respect of our Group’s liabilities on prepaid gift cards and intra-group lending;
- (g) a general outlet services agreement dated November 29, 2009, entered into between LDP Management Limited and PCD Retail Operations, pursuant to which PCD Retail Operations agreed to provide to LDP Management Limited services as described under the general outlet services agreement, details of which are set out in the section headed “Relationship with Our Ultimate Controlling Shareholder and Connected Transactions — Continuing Connected Transactions”;

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- (h) an option agreement dated November 29, 2009, entered into between our Company, Bluestone, Jenny Tan and LDP Management Limited, pursuant to which LDP Management Limited agreed to grant to our Company an option to acquire the interest of LDP Management Limited in Even Time;
- (i) an option agreement dated November 29, 2009, entered into between our Company, Bluestone and Double Eight Enterprises Limited, pursuant to which Double Eight Enterprises Limited agreed to grant to our Company an option to acquire the interest of Double Eight Enterprises Limited in PCD China Ventures;
- (j) an option agreement dated November 29, 2009, entered into between our Company, Bluestone and Guangchang, pursuant to which Guangchang agreed to grant to our Company an option to acquire the interest of Guangchang in respect of the businesses and operations of Guiyang Guomao, Guiyang Nanguo Huajin and Guomao Liupanshui;
- (k) an option agreement dated November 29, 2009, entered into between our Company, Bluestone and LDP Management Limited, pursuant to which LDP Management Limited agreed to grant to our Company an option to acquire the interest of LDP Management Limited in Guangchang or its 100% holding company;
- (l) an undertaking dated November 29, 2009, given by our Controlling Shareholders in favour of our Company, pursuant to which our Controlling Shareholders agreed to grant to our Company an option to acquire their interest in the operator of the Shenyang Outlet Mall or its holding company;
- (m) a pre-emptive right agreement dated November 29, 2009, entered into between our Company and our Controlling Shareholders, pursuant to which our Controlling Shareholders agreed to grant to us a right of first refusal to lease to us retail properties owned by them or which are intended to be acquired by them which are available and suitable for the operation of department stores;
- (n) an agreement dated January 13, 2008, entered into between Xian Century Changan Property Investment and Xian Municipal National Land Resources Bureau, pursuant to which Xian Century Changan Property Investment acquired the land use rights in respect of a parcel of land for a consideration of RMB49.8 million, further details of which are set out under the heading “Our Business — Our Managed Store Operations — Xian Phase II”;
- (o) a cooperation dated September 18, 2009, entered into, amongst others, by Shaanxi Changan Construction Investment and Development Co., Ltd., Xian Century Changan Property Investment and PCD Stores (Xiamen), pursuant to which Shaanxi Changan Construction Investment and Development Co., Ltd., Xian Century Changan Property Investment and PCD Stores (Xiamen) agreed to cooperate in the development of Xian Phase II, further details of which are set out under the heading “Our Business — Our Managed Store Operations — Xian Phase II”;

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- (p) a settlement deed entered into by and among the CVCi Investors, PCD Stores, PIEL, PCD Stores (Holdings), Bluestone, Alfred Chan and the Company on May 1, 2009, pursuant to which the CVCi Investors transferred all the Shares it owned to Bluestone for an agreed consideration, the details of which are set out in the section headed “Corporate Investors”; and
- (q) a deed of release entered into between Deutsche Bank and the Company on July 27, 2009, pursuant to which Deutsche Bank and the Company both agreed to release each other from all claims arising out of the Second CS Convertible Bond and the Deutsche Bank Charge.

2. Intellectual property rights

- (a) *Registered Trademarks owned by PCD Stores*

PCD Stores owns the following trademarks:

	<u>Trademark</u>	<u>Place of registration</u>	<u>Class</u>	<u>Registration Number</u>	<u>Commencement date</u>	<u>Expiry date</u>
1.		China	35	1575920	May 21, 2001	May 20, 2011
2.		China	35	1739507	March 28, 2002	March 27, 2012

Pursuant to separate authorization letters issued by PCD Stores, the Company and certain of its subsidiaries have been granted the rights to use the above trademarks in the PRC until May 20, 2011 in relation to the trademark no. 1575920 and until March 27, 2012 in relation to the trademark no. 1739507, and other subsidiaries have been granted the rights to use the above trademarks in the PRC for a period of ten years.

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(b) *Applications for registration of Trademarks by PCD Stores*

As of the Latest Practicable Date, PCD Stores had applied for registration of the following trademarks:

Trademark	Name of Applicant	Country of Application	Class	Application Number	Application Date (DD/MM/YR)
巴黎春天百货	PCD Stores	China	1	5880235	31/01/07
巴黎春天百货	PCD Stores	China	2	5880236	31/01/07
巴黎春天百货	PCD Stores	China	3	5880237	31/01/07
 巴黎春天百货	PCD Stores	China	4	5880238	31/01/07
巴黎春天百货	PCD Stores	China	5	5880239	31/01/07
巴黎春天百货	PCD Stores	China	6	5880240	31/01/07
巴黎春天百货	PCD Stores	China	7	5880241	31/01/07
巴黎春天百货	PCD Stores	China	8	5880242	31/01/07
巴黎春天百货	PCD Stores	China	9	5880243	31/01/07
 巴黎春天百货	PCD Stores	China	10	5880244	31/01/07
巴黎春天百货	PCD Stores	China	11	5880225	31/01/07
巴黎春天百货	PCD Stores	China	12	5880226	31/01/07
 巴黎春天百货	PCD Stores	China	13	5880227	31/01/07
巴黎春天百货	PCD Stores	China	14	5880228	31/01/07
	PCD Stores	China	15	5880229	31/01/07
巴黎春天百货	PCD Stores	China	16	5880230	31/01/07
 巴黎春天百货	PCD Stores	China	17	5880231	31/01/07
	PCD Stores	China	18	5880232	31/01/07
巴黎春天百货	PCD Stores	China	19	5880233	31/01/07
巴黎春天百货	PCD Stores	China	20	5880234	31/01/07
 巴黎春天百货	PCD Stores	China	21	5880215	31/01/07
 巴黎春天百货	PCD Stores	China	22	5880216	31/01/07
 巴黎春天百货	PCD Stores	China	23	5880217	31/01/07

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Trademark	Name of Applicant	Country of Application	Class	Application Number	Application Date (DD/MM/YR)
巴黎春天百货	PCD Stores	China	24	5880218	31/01/07
巴黎春天百货	PCD Stores	China	25	5880219	31/01/07
巴黎春天百货	PCD Stores	China	26	5880220	31/01/07
 巴黎春天百货	PCD Stores	China	27	5880221	31/01/07
巴黎春天百货	PCD Stores	China	28	5880222	31/01/07
 巴黎春天百货	PCD Stores	China	29	5880223	31/01/07
巴黎春天百货	PCD Stores	China	30	5880224	31/01/07
巴黎春天百货	PCD Stores	China	31	5880205	31/01/07
 巴黎春天百货	PCD Stores	China	32	5880206	31/01/07
巴黎春天百货	PCD Stores	China	33	5880207	31/01/07
 巴黎春天百货	PCD Stores	China	34	5880208	31/01/07
巴黎春天百货	PCD Stores	China	35	5880209	31/01/07
 巴黎春天百货	PCD Stores	China	36	5880210	31/01/07
 巴黎春天百货	PCD Stores	China	37	5880211	31/01/07
 巴黎春天百货	PCD Stores	China	38	5880212	31/01/07
 巴黎春天百货	PCD Stores	China	39	5880213	31/01/07
 巴黎春天百货	PCD Stores	China	40	5880214	31/01/07
 巴黎春天百货	PCD Stores	China	41	5880195	31/01/07
巴黎春天百货	PCD Stores	China	42	5880196	31/01/07
 巴黎春天百货	PCD Stores	China	43	5880197	31/01/07
 巴黎春天百货	PCD Stores	China	44	5880198	31/01/07
 巴黎春天百货	PCD Stores	China	45	5880199	31/01/07

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Following their registration, it is intended that the Group will enter into authorisation letters with PCD Stores, pursuant to which the Group will be granted the right to use the above trademarks.

(c) *The Scitech Trademark*

Scitech Group (賽特集團有限公司) owns the following trademark:

	Trademark	Place of registration	Class	Registration Number	Commencement date	Expiry date
1.	賽 特	China	35	3003163	April 7, 2003	April 6, 2013

Beijing Scitech Department Stores is authorised to use this trademark for an annual fee of RMB100,000 for the period from August 1, 2007 to April 6, 2013, pursuant to an authorization letter issued by Scitech Group to Beijing Scitech Department Stores dated November 15, 2007.

Save as aforesaid, there are no other trade or service marks, patents, other intellectual or industrial property rights which are or may be material in relation to Group’s business.

(d) *Domain Names*

As at the Latest Practicable Date, members of the Group have registered the following material domain name:

Domain Name	Registrant	Date of Registration
www.pcds.com.cn	Zhongshan PCD Stores (Xiamen)	June 20, 2006
www.scitechoutlet.com.	Zhongshan PCD Stores (Xiamen)	July 18, 2009

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C. SUBSTANTIAL SHAREHOLDERS

The following persons are directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of shareholder	Nature of interest	Number and class of securities ⁽¹⁾	Approximate percentage of interest in us
Bluestone	legal and beneficial holder	[●]	[●]%
PIEL	Interest of a controlled corporation ⁽¹⁾	[●]	[●]%
Alfred Chan	Interest of a controlled corporation ⁽²⁾	[●]	[●]%
Edward Tan	Interest of a controlled corporation ⁽²⁾	[●]	[●]%

(1) PIEL is interested in 100% of the registered capital of Bluestone and therefore PIEL is deemed or taken to be interested in all the Shares which are beneficially owned by Bluestone for the purposes of the SFO.

(2) Alfred Chan and Edward Tan are each interested in 50% of the registered capital of PIEL and are therefore both deemed or taken to be interested in 100% of the Shares which PIEL is deemed or taken to be interested in for the purposes of the SFO.

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D. FURTHER INFORMATION ABOUT OUR DIRECTORS, MANAGEMENT, STAFF AND EXPERTS

1. Particulars of service contracts

We have entered into letters of appointment with each of our Directors, pursuant to which each Director is appointed for terms of three years with effect from November 24, 2009 (with the exception of Alfred Chan and Edward Tan who were appointed on March 28, 2007), subject to re-election in accordance with our Articles of Association at our general meetings, or by termination by either us or such Director by giving to the other party sixty days’ notice in writing.

None of our Directors has entered into a service contract with us which does not expire or which is not terminable by us within one year without the payment of compensation (other than the statutory compensation).

2. Directors’ remuneration

Save as disclosed in this document, none of our Directors received any fees, salaries, housing allowances, other allowances, benefits in kind (including our contribution to the pension scheme on behalf of our Directors) or any bonuses from us during each of the three years ended December 31, 2008 and the six months ended June 30, 2009. Tony Lau, appointed as Director of the Company on November 24, 2009, did not receive any emolument from the Company during the Track Record Period.

It is estimated that remuneration and benefits in kind equivalent to approximately RMB320,000 in aggregate will be paid and granted to our Directors by us in respect of the financial year ending December 31, 2009 under arrangements in force at the date of this document.

The Company has adopted a remuneration policy and the Board has appointed a remuneration committee (details of which are provided in the Directors and Senior Management section of this document) to determine and review the policy for remuneration of executive Directors, assess the performance of executive Directors and approve the terms of their service contracts on a periodic basis. The Company will disclose in the corporate governance report to be included in its annual report, details of its remuneration policy, the composition of the remuneration committee and the summary of the work performed by it.

3. Fees or commissions received

Save as disclosed in this document, none of the Directors or any of the persons whose names are listed in the paragraph headed “Consents” in this Appendix had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue of sale of any capital of any member of our Group from our Group within the two years preceding the date of this document.

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4. Related party transactions

During the two years preceding the date of this document, we were engaged in related party transactions as described under the section headed “Relationship with our Ultimate Controlling Shareholder and Connected Transactions” and note 30 of the Accountants’ Report set out in Appendix I to this document.

E. DISCLAIMERS

Save as disclosed in this document:

- (a) none of our Directors nor any of the parties listed in the paragraph headed “Consents” in the paragraph headed “Other Information” of this Appendix is interested in our promotion, or in any assets which have, within the two years immediately preceding the issue of this document, been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (b) none of our Directors nor any of the parties listed in the paragraph headed “Consents” in the paragraph headed “Other Information” of this Appendix is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to our business;
- (c) within the two years preceding the date of this document, we have not issued nor agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash;
- (d) no share or loan capital of our Company is under option or is agreed conditionally or unconditionally to be put under option;
- (e) we have not issued nor agreed to issue any founder shares, management shares or deferred shares;
- (f) we have no outstanding convertible debt securities.

F. OTHER INFORMATION

1. Tax and other indemnities

Bluestone and PIEL, our Controlling Shareholders (together, the “Indemnifiers”), have entered into a deed of indemnity in favour of the Group (being a material contract referred to in the paragraph headed “Summary of material contracts” of this Appendix) to provide the following indemnities in favour of the Group. Our Directors have been advised that no material liability for estate duty is likely to fall on us or any of our subsidiaries.

Under the deed of indemnity, amongst others, the Indemnifiers will jointly and severally indemnify each of the members of the Group against (a) taxation falling on any member of the Group resulting from or by reference to any income, profits or gains accrued or received (or

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deemed to be so earned, accrued or received); (b) any costs, expenses and operating and business losses arising from the relocation of the business or assets from any property owned, leased, rented, occupied in the event any member of the Group is not being permitted to use or occupy or being evicted from such property due to non-compliance with PRC laws and regulations; (c) any costs, expenses and operating and business losses arising from any business disruption attributable to, or failure of compliance with relevant PRC laws and regulations by any member of our Group which has not obtained the necessary approvals for its operations; and (iv) any costs, expenses and operating and business losses arising from third-party infringement of our intellectual property rights. The Indemnifiers further jointly and severally undertake to indemnify each of the members of the Group on demand against any of the foregoing losses, damages, costs or expenses.

The Indemnifiers will, however, not be liable under the deed of indemnity for taxation where, among others, (a) provision has been made for such taxation in the audited accounts of the Group; and (b) the taxation arises or is incurred as a result of a retrospective change in law or regulation or the interpretation thereof or practice by the relevant tax authority to the extent that the taxation arises or is increased by an increase in rates of taxation as a result of a change in law or regulation or interpretation thereof or practice by the relevant tax authority with retrospective effect.

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries in the Cayman Islands, the BVI or the PRC.

2. Preliminary expenses

Our estimated preliminary expenses are approximately HK\$[●] and are payable by us.

3. Qualifications of experts

The qualifications of the experts (as defined under the Listing Rules and the Companies Ordinance) who have given their opinions or advice in this document are as follows:

Name	Qualifications
Deloitte Touche Tohmatsu	Certified public accountants
DTZ Debenham Tie Leung Limited	Property valuers
China Commercial Law Firm	PRC legal advisers
Appleby	Cayman Islands attorneys-at-Law

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4. Consents

Each of Deloitte Touche Tohmatsu as our independent reporting accountants, DTZ Debenham Tie Leung Limited as our property valuers, Appleby as our Cayman Islands legal advisers and China Commercial Law Firm as our PRC legal advisers, has given and has not withdrawn its respective written consents to the issue of this document with the inclusion of their reports and/or letters and/or valuation certificates and/or the references to their names included herein in the form and context in which they are respectively included.

None of the experts named above has any shareholding interests in any of our members or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any of our members.

5. Compliance Adviser

We will appoint Evolution Watterson Securities Limited as our compliance adviser.