Management Discussion and Analysis

FINANCIAL REVIEW

The Group's business achieved significant growth in 2006. For the year ended 31 December 2006, the revenue of the Group amounted to approximately RMB676,000,000, representing an increase of approximately 41.5% as compared with the previous year. Profit attributable to the shareholders increased by approximately 140.1% to approximately RMB206,400,000. Basic earnings per share was approximately RMB0.15.

Total sales proceeds and revenue

	Year ended 31 December			
	2006 (RMB in millions)	**(%)**	2005 (RMB in millions)	(%)
Sales of goods — direct sales	**196.9**	**29.1**	169.9	35.5
Commission from concessionaire sales	**472.6**	**69.9**	302.9	63.4
Rental income	**6.8**	**1.0**	5.2	1.1
Total	**676.3**	**100.0**	478.0	100.0

Total sales proceeds of the Group (that is, aggregate proceeds from direct sales and gross revenue from concessionaire sales) in 2006 was approximately RMB2.751 billion, representing an increase of approximately 54% from approximately RMB1.786 billion in 2005. This increase was primarily attributable to the full period effect of the opening of the two Ningbo stores and growth in sales in the Hangzhou Wulin Store. In respect of total sales proceeds contributed by all stores of the Group, Hangzhou Wulin Store accounted for approximately 62.1% of total sales proceeds, or approximately RMB1.708 billion. Ningbo Store No. 1 and Ningbo Store No. 2 contributed approximately 18.6% and 19.3% of total sales proceeds of the Group, respectively.

The Group derives revenue from commissions from concessionaire sales, direct sales of goods and rental income. For concessionaire sales, the Group allows the concessionaires to establish a sales counter in its department store and charges them a percentage of their gross sales proceeds. For direct sales, the Group purchases merchandise from the direct sales suppliers and resells the merchandise in its stores.

In 2006, commissions from concessionaire sales and revenue from direct sales accounted for approximately 70% and 29% of the Group's revenue, respectively (2005: 63% and 36%). The decrease in percentage of revenue from direct sales to the Group's revenue was primarily attributable to the discontinuation of the sale of major household appliances in September 2005.

Commissions from concessionaire sales as a percentage of gross revenue from concessionaire sales was approximately 18.5% in 2006, as compared with approximately 18.7% in 2005. The Group will conduct regular reviews on the performance of the Group's suppliers and concessionaires, with the aim to enhance and strengthen product portfolios and provide better shopping choices to its customers.

The Group's rental income in 2006 was approximately RMB6,785,000, representing an increase of approximately 32.5% compared with approximately RMB5,120,000 in 2005. The increase was primarily attributable to rental of space in two stores in Ningbo that opened in April and November of 2005, respectively.

Other operating income

Other operating income was RMB31,276,000 in 2006, representing an increase of approximately 2% from RMB30,676,000 in 2005. The increase was primarily attributable to an increase in dividend income and advertisement and promotion administration income, which was partially offset by a decrease in interest income.

Purchases of and changes in inventories

The Group's purchases of and changes in inventories increased to approximately RMB149,868,000 in 2006 from approximately RMB138,255,000 in 2005, representing an increase of approximately 8.4%. The increase was mainly attributable to increased demand for inventories driven by sales of goods. Purchases of and changes in inventories as a percentage of revenue from sales of goods-direct sales decreased from approximately 81.4% in 2005 to approximately 76.1% in 2006. This decrease was primarily attributable to the discontinuation of sales of major household appliances in September 2005 because the margin for this merchandise is lower relative to the Group's other direct sales merchandise.

Staff costs

Staff costs increased from approximately RMB34,689,000 in 2005 to approximately RMB56,958,000 in 2006, representing an increase of approximately 64.2%, which was primarily attributable to increased employee numbers due to the opening of new store in April and November 2005. Staff costs as a percentage of revenue increased from approximately 7.3% in 2005 to approximately 8.4% in 2006. This increase was primarily attributable to an increase in new employees due to the opening of new stores in Ningbo in April and November 2005 and in preparation for the opening of additional stores, and an increase in wages.

Depreciation and amortization

Depreciation and amortization increased to RMB20,578,000 in 2006 from RMB18,821,000 in 2005, representing an increase of approximately 9.3%. The increase was primarily attributable to depreciation related to renovations of the two new stores in Ningbo.

Other operating expenses

Other operating expenses of the Group in 2006 was approximately RMB172,213,000, representing an increase of approximately108.2% from approximately RMB82,713,000 in 2005. This increase was primarily attributable to increased store rental expenses, professional service charges, utilities and advertising. The increase in store rental expenses, utilities and advertising primarily related to the opening of the two stores in Ningbo. The increase in professional service charges primarily related to costs incurred in connection with the Reorganization. Other operating expenses as a percentage of revenue increased from approximately 17.3% in 2005 to approximately 25.5% in 2006. This increase was primarily attributable to the rise in store rental expenses and the professional service charges.

Gain on receipt of shares in a listed company

Gain on receipt of tradable shares in an A-share listed company from its substantial shareholders increased from nil in 2005 to approximately RMB24,514,000 in 2006. The increase was primarily attributable to the receipt of shares due to the share reform program relating to the shares of Wushang.

Other gains/(losses)-net

Other gains/(losses)-net recorded a turnaround from a loss of approximately RMB933,000 in 2005 to a gain of approximately RMB1,642,000 in 2006. Such turnaround was mainly due to gains from the disposal of available-for-sale financial assets.

Operating Profit

Operating profit increased to approximately RMB334,157,000 in 2006 from approximately RMB233,229,000 in 2005, representing an increase of approximately 43.3%. The increase was mainly due to the higher growth rate of revenue than that of operating expenses and gain on receipt of shares in a listed company.

Finance costs

Finance costs increased from approximately RMB31,090,000 in 2005 to approximately RMB33,534,000 in 2006, representing an increase of 7.9%. The increase was mainly attributable to an increase in interest expenses, which was partially offset by a foreign exchange gain.

Income tax expense

Income tax expenses increased from approximately RMB65,983,000 in 2005 to approximately RMB81,114,000 in 2006. The increase was mainly due to increased revenue. Effective tax rate of the Group decreased from approximately 32.6% for 2005 to approximately 27.0% for 2006, which was primarily attributable to the effect of the receipt of dividends from available-for-sale financial assets, which is not subject to income tax, and a decrease in employee costs that were not tax deductible.

Profit for the year

The Group's profit for the year increased from approximately RMB136,156,000 in 2005 to approximately RMB219,509,000 in 2006, representing an increase of approximately 61.2%.

Minority interests

The minority interests of the Group in 2006 was approximately RMB13,103,000, representing a decrease of approximately 73.9% from approximately RMB50,186,000 in 2005. The decrease was primarily attributable to acquisitions of minority interests pursuant to the Reorganization in 2006, which reduced the Group's overall minority interests.

Pledge of assets

As at 31 December 2006, certain buildings, investment properties and land use rights with carrying amount of approximately RMB178,040,000 had been pledged to the Industrial and Commercial Bank of China to obtain bank loans of RMB150,000,000 by the Company.

Staff and remuneration policy

As at 31 December 2006, the Group had about 710 employees. The remuneration of the Group's employees is paid in accordance with relevant policies in the PRC, and relevant market practices will be taken into consideration when determining the remuneration of the Group's staff. Appropriate salaries and bonuses paid were in compliance with normal practices of the Group. Other relevant benefits include pensions, unemployment insurance and housing allowances. The Company has also adopted a share option scheme (the "Share Option Scheme") pursuant to which options may be granted to eligible participants where appropriate. Details of the Share Option Scheme are set out on pages 39 to 50.

The remuneration of the Company's Directors and senior management are determined by the Remuneration Committee of the Board (see the Corporate Governance Report set out below), which will consider factors such as salaries paid by comparable companies, time commitment and responsibility required in deciding such remuneration packages.

Property valuation

In relation to the initial public offering of the Company, the following property was valued by Savills Valuation and Professional Services Limited on 7 March 2007, and such valuation was disclosed in the prospectus of the Company as follows.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 December 2006
Levels 1 to 9, No. 530 Yan'an Road, Hangzhou, Zhejiang Province, PRC	The property comprises the whole of Levels 1 to 9 of a 30-storey commercial building completed in about 2001. The property has a total gross floor area of approximately 41,939.1 sq.m. (451,432 sq.ft.). The land use rights of the property have been granted for a term expiring on 12 November 2038 for commercial uses.	Except for approximately 2,345 sq.m. which are subject to various tenancies with the latest one expiring in April 2011 at a total annual rent of approximately RMB4,082,000, the property is occupied by the Group as a department store.	RMB1,500,000,000

The above property was not stated at such valuation in the financial statements of the Group. Additional depreciation of approximately RMB50,594,000 would be charged against the profit and loss statement of the Group for the financial year ended 31 December 2006 had it been stated at such valuation.

MARKET RISKS

The Group is exposed to various market risks, which mainly include the following:

Interest rate risk

Interest rate risk exposure of the Group is mainly related to the impacts of interest rate fluctuations on interest-bearing assets such as existing (interest-bearing) loans, future borrowing needs and bank deposits. As at 31 December 2006, the total outstanding interest-bearing bank loans of the Company was RMB649,000,000. The Group currently has not used any derivatives to hedge the interest rate risk.

Foreign exchange risk

Substantially all the revenue and expenses of the Group are settled in Renminbi. Except that the proceeds from listing were denominated in Hong Kong dollars, most of the assets and liabilities of the Group are denominated in Renminbi. The fluctuation of Renminbi will expose the Group's Renminbi assets, liabilities, revenue, gains and losses to foreign exchange risk. The Group has not used any derivatives to hedge the potential foreign exchange risk.

The risk of change in preferential tax policies

The Company was incorporated in accordance with Cayman Islands laws. Based on the current PRC laws, as an overseas legal person, the Company's dividends arising from the operations in the PRC can be exempt from income tax. Whereas the subsidiaries of the Company incorporated in the PRC (other than the Shanghai Intime head office and Ningbo Guoruan) shall pay the enterprise income tax at the rate of 33%. Ningbo Guoruan enjoys an income tax exemption for the years ended 31 December 2005, 2006 and 2007 and a 50% reduction of income tax for the years ended 31 December 2008, 2009 and 2010. Shanghai Intime was incorporated in Pudong New Area of Shanghai and is currently enjoying a preferential income tax rate of 15%.

On 16 March 2007, the Enterprise Income Tax Law of the People's Republic of China (the "New EIT Law") was passed at the Fifth Session of the Tenth National People's Congress of the PRC. The New EIT Law will be effective commencing 1 January 2008. The execution of this New EIT Law may have different effect on the applicable tax rates of the Company and its subsidiaries. Besides, the Company may also face the risk of the increase of composite rate of tax.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December, 2006, total borrowings was RMB649 million, which represented an increase of approximately 25.0%, or RMB130 million, over the previous year. All of the borrowings were denominated in Renminbi.

The following table sets forth the borrowings of the Group as at 31 December, 2005 and 2006.

	As at 31 December,	
	2006	2005
	RMB'000	RMB'000
Current		
Short-term bank borrowings	**649,000**	319,000
Long-term other borrowing — current portion (a)	**—**	200,000
	649,000	519,000
Representing:		
— unsecured bank borrowings	**70,000**	50,000
— guaranteed bank borrowings (b)	**429,000**	269,000
— secured bank borrowings (c)	**150,000**	—
— guaranteed long-term other borrowing (a)	**—**	200,000
Total borrowings	**649,000**	519,000

(a) Unsecured long-term other borrowing was guaranteed by China Yintai Holdings Co., Ltd. ("China Yintai"), and Hengyang Xihuanlu Construction and Development Co., Ltd. (衡陽西環路建設開發有限公司). The amount was repaid on 23 January, 2006.

(b) As at 31 December, 2005 and 2006, the Group's guaranteed bank borrowings were guaranteed by China Yintai.

(c) Secured bank borrowings as at 31 December, 2006 were secured by certain of the Group's buildings, investment properties and land use rights, the total carrying amount of which as at that date was RMB178,040,000.

The following table sets forth the maturity of the borrowings.

	As at 31 December,	
	2006	2005
	RMB'000	RMB'000
Within 6 months	**314,000**	369,000
Between 6 to 12 months	**335,000**	150,000
	649,000	519,000

The following table sets forth the effective interest rates per annum for the borrowings at the respective balance sheet dates.

	As at 31 December,	
	2006	2005
Short-term bank borrowings	**5.02% to 6.73%**	5.22% to 6.14%
Long-term other borrowing	**—**	8.77%

The following table sets forth the exposure of the borrowings to interest rate changes and the contractual repricing dates.

	6 months or less	**6–12 months**	**Total**
	RMB'000	RMB'000	RMB'000
At 31 December, 2005			
Total borrowings	389,000	130,000	519,000
At 31 December, 2006			
Total borrowings	**169,000**	**480,000**	**649,000**

The Group has the following undrawn banking facilities:

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Floating rate:		
Expiring within 1 year	**10,000**	75,000
Expiring within 3 years	**1,475,050**	—
	1,485,050	75,000

The Group did not use financial instruments for hedging purposes for the year ended 31 December, 2006.

The Group's cash and cash equivalents were denominated in United States dollars and Renminbi. The following table sets out the Group's cash and cash equivalents for the periods indicated.

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
RMB	**269,801**	181,151
USD	**48,060**	17,154
	317,861	198,305

Gearing ratio

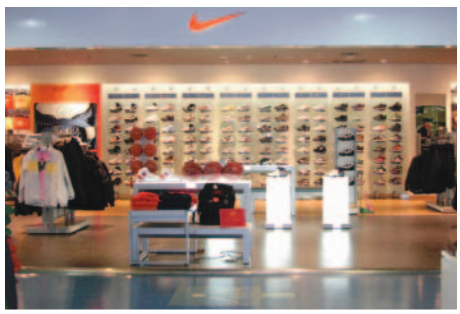
The gearing ratio is defined as net debt (represented by borrowings net of cash and cash equivalents) divided by equity. As at 31 December 2006, total equity of the Group amounted to approximately RMB908,408,000 (2005: RMB477,682,000); borrowings were approximately RMB649,000,000 (2005: RMB519,000,000); cash and cash equivalents were approximately RMB317,861,000 (2005: RMB198,305,000). The gearing ratio decreases from approximately 67.1% as at 31 December 2005 to approximately 36.5% as at 31 December 2006.

COMMITMENTS

(a) Capital commitment

The Group has a capital commitment of RMB14,000,000 (2005: Nil) with respect to the purchase of a property and its decorations and improvements in Wuhan as at 31 December 2006.

On 31 October 2006, Zhejiang Intime and Lotte entered into a joint venture agreement to establish a joint venture in the PRC with a registered capital of USD20,000,000 which will operate a department store in the PRC. Each joint venture partner agrees to contribute USD10,000,000 to the joint venture and owns 50% of its equity interest. The term of the joint venture is for a period of 30 years. In addition, to secure an operating premise for the joint venture, Zhejiang Intime and Lotte entered into a lease contract with Beijing Jixiang Real Estate Co., Ltd. which is a 60.5% owned associate of China Yintai, for the rental of a building for 10 years tentatively starting from 25 March 2008 with annual minimum lease payment of RMB95,100,000. Upon the establishment of the joint venture, all rights and obligations under the lease contract will be transferred to the joint venture. This lease commitment has been included in note (b) below.



(b) Operating lease commitments as a lessee

The Group leases certain of its stores and office premises under non-cancellable operating lease agreements.

The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Not later than 1 year	**43,920**	44,272
Later than 1 year and not later than 5 years	**466,258**	173,732
Later than 5 years	**1,110,220**	512,341
	1,620,398	730,345

(c) Operating lease commitments as a lessor

The Group's future aggregate minimum lease receivables under non-cancellable operating leases are as follows:

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Not later than 1 year	**6,186**	5,748
Later than 1 year and not later than 3 years	**6,582**	10,702
Later than 3 years	**4,335**	6,952
	17,103	23,402

The amounts above include future minimum sublease payments expected to be received under non-cancellable sublease amounting to RMB10,297,000 (2005: RMB12,999,000) as at 31 December 2006.

CONTINGENT LIABILITIES

The following table sets out contingent liabilities not provided for in the combined financial statements as at the balance sheet dates indicated.

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Guarantees given to related parties	**20,000**	80,000

Except as otherwise disclosed in the above table, as at 31 December, 2006, the Group did not have any material contingent liability or guarantees. The guarantee set out in the table above was provided by Zhejiang Intime in respect of a loan granted by a bank to Wenzhou Yintai Department Store Co., Ltd. ("Wenzhou Yintai"). The loan and interest was repaid by Wenzhou Yintai on 25 February 2007. The Group was released from the guarantee outstanding as at 31 December, 2006 given to Wenzhou Yintai on 25 February, 2007.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

The Group currently holds minority stakes in companies with department store operations listed in the PRC, which is one of the Group's means of implementing one of its growth strategies, namely that of selectively acquiring attractive department store assets.

Management Discussion and Analysis

The following table sets out the Group's interests as of 31 December 2006 in, and relevant summary information relating to Baida, Wushang and CITIC Development — Shenyang Commercial Building Co., Ltd., ("Shenyang Commercial Building").

Overview

Investment	The Group's shareholding	Department store assets	Geographical location
Baida	29.88%	Owns and operates a department store called "Hangzhou Bai Huo Da Lou" (Baida Department Store)	Hangzhou, capital of Zhejiang province
Wushang	22.62%	Operates five department stores and owns three of the properties at which its stores are located	Wuhan, capital of Hubei province
Shenyang Commercial Building	1.87%	Owns and operates a department store	Shenyang, capital of Liaoning province

As at 31 December 2006 the Group had invested an aggregate of approximately RMB898 million in Baida, Wushang and Shenyang Commercial Building. The Group has financed its investments primarily through cash generated from operations and equity contributions from shareholders.

Since the Group's initial investment, the share prices of Baida, Wushang and Shenyang Commercial Building have increased significantly, with the value of the Group's investment in these companies on the Group's books increasing accordingly. The following table shows the Group's initial investment dates and the historical share prices of each of Baida, Wushang and Shenyang Commercial Building as of the dates stated below.

Company	Initial investment date	30 September, 2005	31 December, 2005	31 March, 2006	30 June, 2006	30 September, 2006	**31 December, 2006**
		Closing price per share(1) (RMB)					
Baida(2)	20 October, 2005	4.29	5.66	6.74	9.31	9.26	**10.30**
Wushang(3)	12 July, 2005	3.44	3.57	3.74	6.38	5.66	**5.74**
Shenyang Commercial Building(3)	6 February, 2006	6.20	6.46	6.89	13.79	9.30	**10.02**

Notes:

(1) Closing price as of the dates stated or, if the relevant shares were not traded on that day, as of the last preceding trading day.

(2) Listed on the Shanghai Stock Exchange.

(3) Listed on the Shenzhen Stock Exchange.

Current status of and outlook for the Group's existing investments

Baida

The Group believes that the level of its current holding in Baida should in time allow it to exert the necessary influence over and forge business cooperation with Baida through various means, including seeking board representation and/or engaging in communications with management and other significant shareholders of Baida to explore opportunities for business cooperation.

Management Discussion and Analysis

Wushang

Given Wushang's size and leading position in Wuhan and Hubei province, a market which the Group believes has significant potential for the department store industry and where it does not have any operations or experience, the Group believes that cooperation between the Group and Wushang could bring significant operating synergies as well as provide the Group with an opportunity to enter into a new market through a partner whose local experience and leading position the Group could leverage off.

The Group believes that the level of its current holding in Wushang should in time allow it to exert the necessary influence over and forge business cooperation with Wushang through various means, including seeking board representation and/or engaging in communications with management and other significant shareholders of Wushang to explore opportunities for business cooperation. On the basis of current market conditions as well as Wushang's and the Group's operating conditions, the Directors believe that there is no reason why the objectives for the investment in Wushang by the Group cannot be achieved through discussions with relevant parties.

Shenyang Commercial Building

The Group believes that its cooperation with Shenyang Commercial Building could bring significant operating synergies as well as provide the Group with an opportunity to enter into a new market through a partner whose local experience the Group could leverage off.

The Group currently does not have any concrete plans to increase its interest in Baida, Wushang or Shenyang Commercial Building. The Group will, however, make any decision to further invest in Baida or Wushang with prudence and will only decide to make an investment after having taken into account the likely financial impact on the Group in order to maintain a conservative capital structure, including but not limited to, the impact on its cash flow, capital structuring, financing costs, and the consequential impact on the Group's ability to carry on its existing operations and execute expansion plans.

The Group did not make any material acquisitions or disposals during the year ended 31 December, 2006, other than in connection with the Reorganization.

FUTURE PROSPECTS

The Board believes that the achievements of the Group and the future growth potential of the Company rely on the combination of various strengths of the Company, including:

- Strong brand recognition;
- Prime store locations;
- Highly experienced and capable management team;
- Strong market positioning capabilities;
- Sound business model;
- Economies of scale from the Group's regional leadership position;
- Advanced management information systems; and
- Excellent customer service and loyal customer base.

The demand in the department store retailing market in the PRC is significant and is growing rapidly, but this gives rise to a more intense competition. Since regionalization occurs in the department store industry and supply channels in the PRC, the Company will continually consolidate its leading position in Zhejiang province and selectively enter new markets and strive to become the leader of the markets to gradually establish a nation-wide chain through regional predominance. The Company will take following proactive business strategies to enhance shareholder value.

Continue increasing sales per square meter, revenue and profit from the Group's existing stores

The Group plans to continue focusing on increasing sales per square meter, revenue and profit from its existing stores by consolidating its position in the cities where it is a leader, by continuing to focus on identifying fashion trends and constantly monitoring and adjusting its mix of concessionaires and direct sales suppliers. In addition, the Group intends to further enhance its management of its concessionaires and direct sales suppliers by strengthening its established relationships with them. The Group believes that through its partnership with its concessionaires and direct sales suppliers, the Group will continue to receive their support, which will benefit customers of the Group through improved mix and availability of new merchandise. In addition, the Group plans to continue to increasingly negotiate directly with brand owners as opposed to distributors as the Group believes that this strategy will bring it more favorable terms.

Management Discussion and Analysis

The two department stores of the Group in Ningbo opened in April and November 2005, the Jinhua Fuhua store opened in January 2007 and the Wenzhou Shimao store opened in February 2007. The Group plans to continue focusing on these stores to raise their performance to the level of the flagship Hangzhou Wulin store.

In terms of attracting new and retaining existing customers, the Group intends to continue to hold promotional activities to draw existing and new customers into its stores, expand its loyal customer base by promoting the customer loyalty program to new customers and by improving the customer loyalty program to retain existing customers, and further increase brand recognition through its marketing efforts.

Further consolidating the Group's leading position in Zhejiang province

The Group aims to further consolidate its position in Zhejiang province by capitalizing on its experience and understanding of the market to systematically expand its presence in Zhejiang. In Zhejiang province, the Group has established stores in the strategic cities of Hangzhou, Ningbo, Wenzhou and Jinhua, and plans to consolidate its positions in these core cities by opening additional stores if and when suitable prospects arise. In addition, the Group believes that it will be able, and it plans to, leverage off of its existing position in these regional centers, its experiences in its existing markets and its brand name to open stores in additional cities in Zhejiang province. The Group plans to open new stores only if it is able to secure prime locations, as the Group believes that location is critical to the success of a store. In addition to location, when determining potential sites for new stores, the Group will take into account other factors, including available store space, local population, per capita disposable income, competition and the development plan of the city. The Group plans to establish a leading position in all of its markets.

Selectively opening new department stores outside Zhejiang province

The Group plans to actively expand the geographical coverage of its department store network by opportunistically leveraging off its position and experience in Zhejiang province to open new stores in selective cities outside Zhejiang province where it believes it can become a market leader. When entering into a new province, the Group will be even more stringent in its determination of suitable locations and markets to open new stores. For example, the Group decided to open its planned store in Beijing due to its location in Wangfujing, one of the leading shopping areas in Beijing. Beijing is also one of the most attractive retail markets in China.

Selectively acquiring attractive department store assets

As part of the Group's strategy to actively expand the geographical coverage of its department store network, the Group plans to make selective acquisitions. The Group believes that expansion through selective acquisitions allows it to leverage off the experience and established operations of the target in its local market, thereby enabling the Group to establish a presence more effectively. The Group intends to acquire targets that maintain a leading position in their existing markets. The Group believes that adhering to its market-entry strategy will help it achieve the aim in establishing the Group as a leader in every market where it establishes a presence. When the Group makes an acquisition, it will use the existing stores as a base to develop the region in which they are located by opening new stores and consolidating their existing leadership positions. The Group believes that this strategy will enable it to build a national brand name more rapidly. The Group may also purchase premises to operate department stores, whether as part of an acquisition of a department store operator, in independent transactions, or the purchase of premises on which existing stores are located if suitable opportunities are available. Further, as one of the means of implementing this expansion strategy, the Group may acquire minority interests in attractive department store companies or assets which may provide opportunities for business cooperation, resulting in operational synergies, and potential future further integration with such companies.

Forming strategic alliances with leading international department store operators to further enhance the Group's management capabilities

The Group plans to further enhance its management capabilities by cooperating or forming joint ventures and strategic alliances with leading international department stores that have strong management experience and capabilities. The Group has entered into a joint venture agreement with Lotte, a leading department store operator in Korea, to jointly operate a department store in Wangfujing, Beijing, which it expects to commence operations in 2008. In addition, the Group intends to enter into strategic alliances with leading international department store operators that can enhance its management capabilities in areas such as merchandizing, customer relations and human resources. The Group believes that by developing superior management capabilities and international best practices, coupled with its knowledge and experience in operating in the PRC, the Group will have a strong advantage over its competitors.

The Group will fund its future development and expansion strategies as set out in the above paragraphs through a variety of means, including but not limited to, cash at hand, including the proceeds from its initial public offering of shares in 2007, cash from operations and loans.