

Business Review

BUSINESS NETWORK

In FY2007, the Group had a total of 28 department stores in operation throughout six geographic regions: Northeastern China, Northern China, Shanghai Municipality, Eastern China, Central China and Southwestern China.

With an aggregate GFA of about 817,000 sq. m. and an operating area of about 562,500 sq. m., they constituted an extensive retail network, which effectively covered 16 key cities and administrative regions in the PRC, including Wuhan, Shenyang, Wuxi, Harbin, Tianjin, Ningbo, Beijing, Hong Kong, Shanghai, Dalian, Kunming, Lanzhou, Xiamen, Changsha, Chongqing and Chengdu. Among them 16 stores are self-owned while 12 are managed stores.

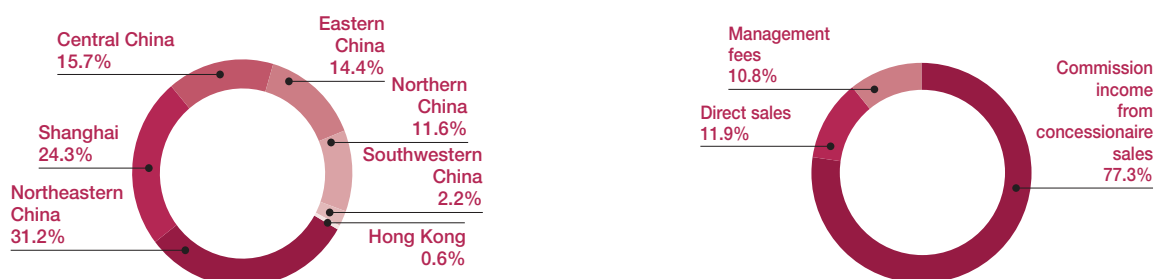
REVENUE CONTRIBUTION

By region

During the year, the Northeastern China region contributed most to the Group's revenue, accounting for 31.2% of total revenue, followed by Shanghai Municipality at 24.3% and Central China region at 15.7%.

By segment

Among the three revenue segments, commission income from concessionaire sales contributed the most during the year, which amounted to 77.3%, while 11.9% was from direct sales and the remaining 10.8% from management fees.



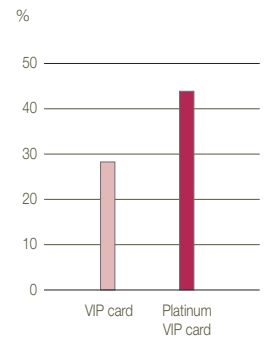
STORES EXPANSION

During the year under review, seven stores were opened in Beijing, Shanghai, Wuhan, Chongqing, Chengdu, Chengsha and Xiamen. The new stores raised the Company's GFA by 31% to 817,000 sq. m. (FY 2006:565,100 sq. m.) Of these, two were self-owned, including Xiamen Store and Wuhan Qiaokou Branch Store. The other five were managed, including Changsha Trendy Plaza, Chongqing Store, Shanghai Wujiaochang Branch Store, Chengdu Store and Beijing Trendy Store.



GROWTH IN NATIONWIDE VIP MEMBERSHIP

In the period under review, there was steady rise in the number of both VIP card issued and platinum VIP card issued, with percentage increases over the previous year of 28.3% and 43.9%, respectively. The number of our VIP members now exceeds 1.13 million. Apart from the existing VIP card program, we have also collaborated with Bank of Communications to issue a co-brand credit card to strengthen our mid-to-high end customer base.



Business Review — Northeastern China



Northeastern China Region



Contributing most to the Group's revenue during the year under review, accounting for 31.2% of total revenue.



Northeastern China: Formidable strength and unlimited potential

In the period under review, the regional economy in northeastern China further prospered following the formulation of a revival plan for the region by the Central Government. Major provinces and cities underwent rapid development in various fields: trade and commerce, finance, technology, information and culture. There was also apparent growth in the service industry and the department store and retailing industry.

With the rise in personal income, the demand for quality pre-sales and post-sales services grew significantly. A new emphasis on personalised mode of

consumption took hold. As a result, the importance of good enterprise management, product safety and image branding received increasing attention.

Retail prices for consumer goods were rising in the region. Merchants, white-collar workers, professionals and housewives constituted the major consumer groups.

With its unique credentials in terms of natural environment and distinct seasons, the region promised huge potential for tourism. Innovative forms of touring, such as “drive-touring”, self-help touring, and brief vocational touring, all contributed to the increase in the number of tourists in the region.

Northeastern China Region	Population	Local Gross Domestic Product (RMB)	Gross Domestic Product Per Capita (RMB)	Per Capita Disposable Income (RMB)	Total Retail Sales of Consumer Goods (RMB)
Harbin	9.75 million	209.4 billion	21,374	11,230	89.5 billion
Shenyang	7.40 million	273.3 billion	24,545	11,651	103.4 billion
Dalian	5.72 million	257.0 billion	42,579	13,350	83.9 billion

Northeastern China Region	No of Mainland Tourists	No of Foreign Tourists	Consumption Expenditure by Mainland Tourists (RMB)
Harbin	21.67 million	240,000	16.1 billion
Shenyang	35.13 million	200,000	21.2 billion
Dalian	21.50 million	700,000	22.3 billion

Source

- Public Website of Government Administrative Affairs of Harbin City (哈爾濱市政府政務公開網站)
- Portal Website of Government of Shenyang City of China (中國瀋陽政府門戶網站)
- gov.allnet.cn
- www.taxchina.com
- www.cntrbbs.com
- www.dl.gov.cn (Dalian China)

Business Review — Northeastern China



• Shenyang Taiyuan Street Branch Store



• Harbin Store

Total Retail Sales of
Consumer Goods (RMB)

276.8 billion

Responding to changes in climate and customer demands

In the period reported, the Group had four self-owned stores in northeastern China, namely Harbin New World Department Store ("Harbin Store"), Shenyang New World Department Store — Nanjing Street Branch Store ("Shenyang Nanjing Street Branch Store"), Shenyang New World Department Store — Taiyuan Street Branch Store ("Shenyang Taiyuan Street Branch Store") and Shenyang New World Department Store — Zhonghua Road Branch Store ("Shenyang Zhonghua Road Branch Store"). In addition, we also managed one store: Dalian New World Department Store ("Dalian Store").

All five stores are located, respectively, in important areas of the provincial capitals of Harbin, Heilongjiang and Shenyang, Liaoning as well as the Dalian City in

Liaoning. All enjoyed heavy pedestrian traffic and convenient transport.

As city economies fast developed in the region, market demands for high-end consumer products increased rapidly. Our stores took into account competition in the market when they carried out timely re-orientation to rationalise the product structure for their business strategies and to stay close to consumer demands.

“Our stores took into account competition in the market when they carried out timely re-orientation to rationalise the product structure for their business strategies and to stay close to consumer demands.”



Considering the extreme climatic changes peculiar to the region, our stores made the most of their planning abilities and current brand resources. In response to market and customer demands, we had re-aligned our market positioning by broadening to the middle-to-high end, from the previous middle-to-high end with a high-end bias. We tried to extend to different customer groups in different fields, and to develop different merchandise mixes.

Harbin Store concentrated on adjusting international brands and apparel for men and women. Dalian Store built up its merchandise portfolio principally from first-tier local brands, supplemented by second-tier local brands.

Compared with the previous year, Shenyang Nanjing Street Branch Store made considerable alterations to concessionaires in optimising merchandise mix to feature international brands, in an attempt to achieve an overall upgrade in brand profile.

Shenyang Taiyuan Street Branch Store sought to introduce renowned brands on an exclusive basis to further reduce the rate of brand overlap. Shenyang Zhonghua Road Branch Store was also in the midst of business re-orientation and revamping its merchandise mix.

Tying in with festivities to stimulate sales

In the period reported, the northeastern China region was totally committed to marketing and promotions. Our stores launched a host of VIP membership events to reinforce loyalty. With a membership referral scheme, we tried to enlarge the VIP customer base to achieve a rise in both membership number and sales revenue.

In the period under review, the number of issued VIP card and platinum VIP card in the region increased by 4.8% and 52.5%, respectively, over that in the previous year. For platinum VIP members, we had set up a one-on-one service team with dedicated responsibilities for platinum VIP-related tasks, including the planning of an annual benefit scheme in return for members patronage.

To enhance revisit by members and stimulate their desire for consumption, we organised member-only activities on a continual basis. These included extra discounts and special offers from suppliers teaming up with us in joint promotions.

Since our target customer groups mostly shop during festive periods and holidays, and their consumption

Business Review — Northeastern China



“both Shenyang Nanjing Street Branch Store and Harbin Store were awarded the Grand Prize in “2005-2006 Huayun Annual Award of Most Trendsetting Fashion Commercial Enterprises in China” presented by the organising committee of China (Dalian) International Garment and Textile Fair. ”

cycle follows a regular pattern, our stores emphasise planning for festive and holiday activities. Through these activities we can enhance sales results.

Based on individual credentials and developmental needs, our stores might choose to organise public relations activities on a local, regional or even national scale. By sponsoring charities and pitching in on special festivities, we promote visibility and project a good image for our stores.

For instance, around Labour Day, during 28 April–7 May 2007, Shenyang Taiyuan Street Branch Store launched a million-dollar promotion targeting young, fashionable white-collar females with great consumption powers. The promotion offered Spring/Summer fashion at half prices or above, gifts for VIP members upon their arrival at the store, limited-time sale of renowned brands, bargain sale of branded products, exclusive gifts from new concessionaires and, in joint offers with China Merchants Bank and

Bank of China, gifts for purchases made on credit cards. The promotion was effective in stimulating sales of Spring/Summer seasonal merchandise as lady customers enjoyed their shopping spree.

During 5–17 February 2007, Harbin Store launched a Chinese New Year promotion to encourage consumption through accumulation of shopping points. It was well received among high-income customers and white-collar workers.

Winning recognition for excellence

Our stores within the region had been honoured, repeatedly sometimes, at various occasions. In September 2006, both Shenyang Nanjing Street Branch Store and Harbin Store were awarded the Grand Prize in “2005–2006 Huayun Annual Award of Most Trendsetting Fashion Commercial Enterprises in China (華潤2005–2006中國最具時尚引導力服裝商業企業年度大獎) presented by the organising



• Dalian Store

committee of China (Dalian) International Garment and Textile Fair. The first such fair opened on 9 September 2006, with 150 department store businesses short-listed for awards. The judging panel consisted of representatives from businesses operating celebrated brands, representatives of consumers, representatives of media and industry professionals. Criteria for award included outstanding business results, high concentration of fashionable brands, comfortable shopping environment, high management standard and popularity with consumers.

In March 2007, Harbin Municipal Bureau of Commerce convened an assembly in honour of advanced units engaged in commercial affairs in 2006. Harbin Store was commended as one of the “2006 Best 10 Retail Enterprises in Harbin” (哈爾濱市2006年度十大零售企業) .

In addition, in March 2007, Harbin Store received commendation as an “Enterprise with Grade-A Credibility in Taxation” (納稅信用A級企業) from Harbin Municipal Office, State Administration of Taxation and Harbin Local Taxation Bureau. Harbin Store was the only commercial retailing enterprise in Nangang District to be so honoured.

Bazaar, a leading international fashion magazine, celebrated its 140th anniversary in 2007. In a photo road show in 10 cities across the PRC, Shenyang Zhonghua Road Branch Store won an award from the publication as the “Best Fashionable Shopping Centre” (最佳時尚商場獎). The magazine covered the award in its August 2007 edition.

Northeastern China District	Date of Commencement of Operation	Approx Gross Floor Area (sq. m.)	Approx Operating Floor Area (sq. m.)
Shenyang Nanjing Street Branch Store (self-owned)	November 1995	13,500	10,800
Harbin Store (self-owned)	November 1996	32,000	19,000
Shenyang Taiyuan Street Branch Store (self-owned)	August 2000	10,800	7,200
Dalian Store (managed)	November 2002	32,000	24,400
Shenyang Zhonghua Road Branch Store (self-owned)	December 2005	44,000	31,100

Business Review — Northern China



Northern China Region



Renovating premises, diversifying and re-orienting businesses ahead of Beijing Olympics.



Business opportunities abound in anticipation of 2008 Beijing Olympics

The northern China region houses the political, cultural and commercial hubs of the PRC. There is high concentration of population, and fast growth in major cities. In the period under review, the living environment and quality of living further improved. There was steady growth both in the scale of the consumer market and in the variety of consumer products. The up-and-rising consumer market was bursting with energy and vitality.

More and more consumers were so influenced by sales promotions that they changed their consumption mode and habit. With reference to market demands for high-end consumer goods, and novel and discounted products, major retailers were trying hard to market their products by way of advertising and promotions.

Coinciding with the imminent hosting of the 2008 Beijing Olympics, the infrastructure, transport network and tourist facilities in Beijing and peripheral regions are being perfected swiftly. The game hosting had also attracted many large-scale investment projects.

Northern China Region	Population	Local Gross Domestic Product (RMB)	Gross Domestic Product Per Capita (RMB)	Per Capita Disposable Income (RMB)	Total Retail Sales of Consumer Goods (RMB)
Beijing	15.81 million	772.03 billion	49,505	19,978	330 billion
Tianjin	10.75 million	433.77 billion	40,961	14,283	135.7 billion
Lanzhou	3.27 million	32.73 billion	10,000	5,071	15.88 billion

Northern China Region	No of Mainland Tourists	No of Foreign Tourists	Consumption Expenditure by Mainland Tourists (RMB)
Beijing	132 million	3.903 million	148.27 billion
Tianjin	—	811,700	2.03 billion
Lanzhou	15.74 million	300,000	802,000

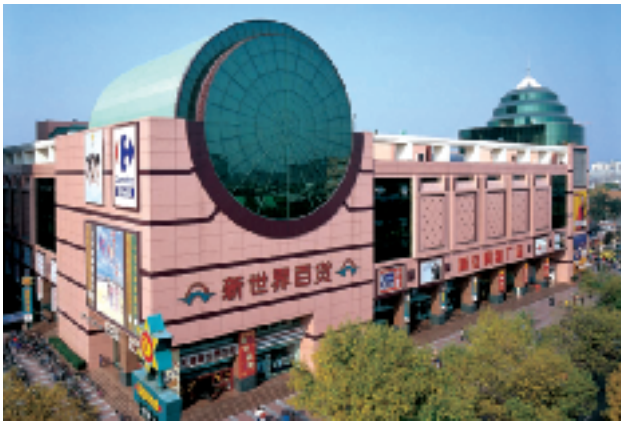
Source

- 2006 Statistical Yearbook of Tianjin (published in August 2007)
- 2006 Government Working Report of Lanzhou City (2006年蘭州市政府工作報告)
- 2007 Government Working Report of Lanzhou City (2007年蘭州市政府工作報告)
- Bureau of Tourism of Lanzhou City (蘭州市旅遊局)
- 2006 Statistical Bulletin of Domestic Economy and Society Development of Beijing (北京市2006年國民經濟和發展統計公報)

481.6 billion

Total Retail Sales of Consumer Goods (RMB)

Business Review — Northern China



• Tianjin Store



“the stores successfully re-aligned and further fine-tuned their market positioning. Many familiar and well-trusted brands from locally and abroad were introduced. Their introduction boosted the competitiveness of our merchandise mix”

Renovated for trendsetting missions

Opened in March 2007, Beijing New World Trendy Department Store (“Beijing Trendy Store”) is located at Wanda Plaza, in the commercial heartland neighbouring on Dong Chang An Jie. In close proximity to the metro and interchange stop for long haul vehicles, the area is well served by convenient transport and is one of the most prosperous commercial centres in Beijing.

With a GFA of about 39,400 sq. m., the store houses over 300 branded concessionaires, operating in an ambience of fashionable elegance and cozy convenience, and supported by a wealth of facilities. In floor planning and selection of merchandise, the store has considered the consumption habits of its

customer groups and, based on numerous internationally and nationally renowned brands, developed an optimised merchandise mix from multiple angles.

Raising merchandise profile and improving shopping environment

In the period under review, the Group operated one self-owned store called Tianjin New World Department Store (“Tianjin Store”) and three managed stores, namely Beijing New World Shopping Mall (“Beijing Shopping Mall”), Beijing Trendy Store and Lanzhou New World Department Store (“Lanzhou Store”). Our stores’ competitive edge lied in being able to benefit from excellent locations and the well-developed transport network.



• Beijing Trendy Store

In the period reported, the stores successfully re-aligned and further fine-tuned their market positioning. Many familiar and well-trusted brands from locally and abroad were introduced. Their introduction boosted the competitiveness of our merchandise mix, leading in turn to a substantial increase in operating results.

Beijing Shopping Mall carried out a series of renovations, including ceiling and flooring works, to perfect mall designs. As the shopping environment became more comfortable, overall ambience also improved.

Tianjin Store introduced about 300 new brands, significantly enriching product categories and lifting merchandise profile. It also enlarged the sales areas for sportswear, non-apparel and non-accessories merchandise. By reinforcing sales results from products in which it had a competitive edge, and allowing those results to lead growth in total sales revenue, Tianjin Store successfully diversified into a multi-faceted, integrated mall for fashionable living.

Lanzhou Store also carried out business re-orientation, effectively, introducing new brands popular with

consumers in the city, and highlighting its areas for footwear and menswear.

Running selective, demand-focused promotions

In the period under review, the Group successfully implemented a promotional strategy that was highly selective with reference to consumption modes within the northern China region.

Recognising the critical role that the high consumption power of VIP members had been playing in the growth in our total sales, all stores within the region focused their efforts on issuance of new VIP cards, resulting in a steady rise in new card issuance. The number of issued VIP cards and platinum VIP cards increased by 21.6% and 93.8%, respectively, over that of the previous year.

For instance, Beijing Shopping Mall held two exclusive sales for VIP members, offering merchandise at half prices.

During 19 April–7 May 2007, Beijing Trendy Store launched special offers whereby our VIP members, credit-card holders of Bank of Communications, and Industrial and Commercial Bank of China as well as customers holding invitations to our Spring Sale could



Business Review — Northern China



• Lanzhou Store

exchange a single sales receipt for same-day purchases above a specified amount for gifts at attractive prices. These groups of people were also eligible for admittance to the super sale on leading brands specially planned for them and taking place between 20 April and 22 April 2007.

Tianjin Store planned a series of exclusive activities for VIP members, including free talks and celebration parties during major festive periods around Labour Day, National Day, Chinese New Year and Spring Festival.

Our stores in northern China also ran a variety of themed promotions. An example was the “Cosmetics Gala” hosted by Tianjin Store in late April 2007. It highlighted newly introduced cosmetics brands by offering VIP members multiple gift points for accumulation, revisit gifts, and other benefits that, together, led to a marked increase in total sales, and sales of cosmetics in particular.

Upon its own opening, Beijing Trendy Store held a joint promotion with Bank of Communications, Industrial and Commercial Bank of China, as well as China CITIC Bank during 30 March–1 April 2007. Themed on new products for Spring/Summer, key elements of the promotion included super sale session, group birthday celebration, VIP gift for payment by credit card and unique cosmetics gift pack.

Winning acclaims as an industry role model

Our stores in northern China won many acclaims during the period reported. Beijing Shopping Mall was rated as a “Grade-A Enterprise in Taxation Credibility” (納稅信用A級企業) for the third time around by Beijing Municipal Office, State Administration of Taxation and Beijing Local Taxation Bureau in January 2007. The store was among the “30 Powerful Enterprises in Chongwen District” (崇文區三十強企業), also for the third time, according to Beijing Municipal Government, in addition to being the No. 1 enterprise in the district with the highest growth rate. The Organising Committee of the Olympic Games commended the store as a “window show case on civilised services in the capital” (首都文明服務示範窗戶). The leadership group of “female achievers” (「巾幗建功」領導小組) in the Chongwen District of Beijing honoured the store as a “post of dedication by females in Chongwen District” (崇文區巾幗奉獻崗).

Tianjin Store won recognition as one among the “100 most influential brands in Tianjin” (天津市最具市場影響力品牌100) in FY2007. The honour was conferred during an activity co-organised by Tianjin Jin Wan Media Group and Tianjin Federation of Industry and Commerce, with participation from local residents in award making.



• Beijing Shopping Mall

Northern China Region	Date of Commencement of Operation	Approx Gross Floor Area (sq. m.)	Approx Operating Floor Area (sq. m.)
Tianjin Store (self-owned)	October 1997	56,000	31,600
Beijing Shopping Mall (managed)	July 1998	93,000	53,300
Lanzhou Store (managed)	September 2005	27,200	22,000
Beijing Trendy Store (managed)	March 2007	39,400	19,000