Department Store Sector

A consolidation play

Key points:

- Healthy industry buoyed by local economic growth.
- Fragmented market with plenty consolidation opportunities.
- M&A - effective way to grow.
- Parkson - top pick.
- Golden Eagle – possible surprise.

China Consumer

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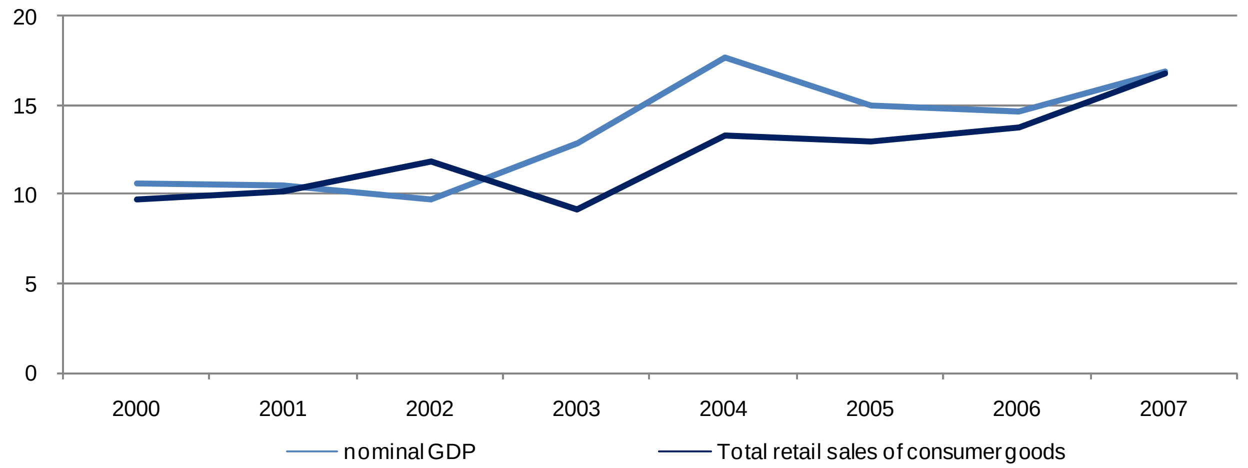
Industry Picture

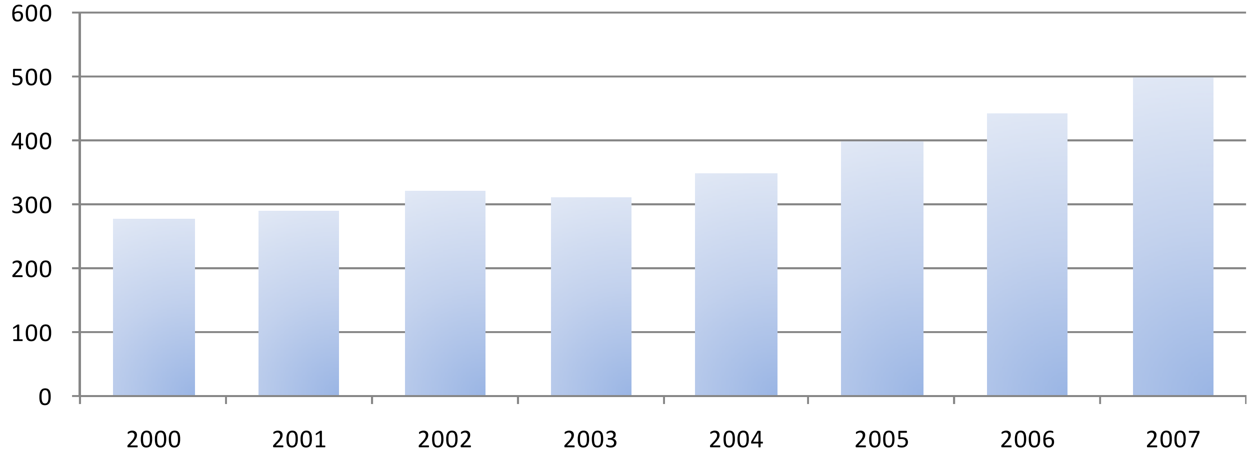
Healthy industry. China's department store sector is mature and driven mainly by domestic consumption growth. Sales of consumer goods in China grew at a CAGR of 12.5% in 2000-2007, while turnover of department stores rose 12.3% in the period. Despite competition from other distribution networks, department stores remain an important retail channel particularly for fashion products. Sales from department store sales are expected to reach RMB785bn by 2011, implying a CAGR of 12.0% for the next four years, according to Euromonitor.

Chart 1: China's GDP and consumer goods sales growth (%)



Source: National Bureau of Statistics

Chart 2: Department store sales in China (RMBbn)



Source: Euromonitor

Consolidation. We believe the industry is attractive because of its fragmentation, which provides ample consolidation opportunities. In 2006, China's top ten department store chains had only 10.5% of the market. The consolidation trend has already started with the total number of outlets owned by department store chains up from 1,550 in 2002 to 5,149 in 2006 and sales up from RMB48.5bn (15.2% of the total) to RMB151.9bn (34.5% of the total).

Expansion via M&A. Department store chains expand mainly via management agreements, opening new stores and M&As, influenced by location, human resources available and localization:

- Location - decisive factor underpinning a store's success.
- Human resources - experienced management team and skilful workforce.
- Localization - localized staff and product mix, well accepted store / brand image in the local market.

Based on these three factors, M&As, in our view, are a preferable expansion method allowing to obtain prime locations, necessary human resources and local knowledge. Management agreements could be used conjunctly to reduce M&A uncertainties.

Table 1: Summary of expansion methods

	Description	Advantages	Disadvantages
Management agreement	Management consulting services in exchange for a management fee, usually a percentage (1.0 - 2.0%) of GSP.	Immediate profit contribution No capital requirement	Potential conflict of interest between the manager and owner
Opening new store	Building a complete new store, with two years normally needed to break even and five years to pay back initial investment.	Fully control of the store No consolidation problem	Prime location might have been occupied Large capex and initial loss Localization problem
M&A	Acquiring existing stores	Access to store, human resources and relationships with local suppliers	High acquisition cost Consolidation problem

Source: SBI E2-Capital

Investment summary. A department store chain needs adequate financial, managerial and human resources to expand. We prefer a market leader with strong track record in operations and M&A, such as our top pick Parkson (3368 HK, HK$71.60, NR). However, trading at 37.3 multiples of FY12/08F consensus EPS, we reckon the current share price has largely factored its fundamentals, capping upside potential. Golden Eagle (3308 HK, HK$7.88, NR), with its prudent expansion strategy in second and third-tier cities may deliver some surprises in spite of its lack of M&A expertise. Operating figures from existing stores reveal the company's strong department store management. It guides for +30.0% growth in top and bottom line in FY12/08F, which we think is feasible.

Table 2: Peers comparison

	NWDS	MOI	Intime	GERG	Parkson
Ticker	825 HK	848 HK	1833 HK	3308 HK	3368 HK
Market cap. (US$m)	1,916.5	2,072.7	1,367.0	1,837.1	5,119.7
Year of being listed	2007	2008	2007	2006	2005
Operating figures (calendar 2007)					
Number of stores	31	14	7	10	41
Self-owned	18	12	7	10	29
Managed	13	2	0	0	12
Cities covered	18	7	4	8	26
GFA of self-owned stores (sqm '000)	463.9	347.4	218.0	288.8	610.0*
- Owned	75.6	122.5	41.9	237.6	Few
- Leased	388.3	224.8	176.0	51.2	Most
GSP (RMBm) **	4,025.1	3,797.6	3,459.9	4,841.4	8,499.3
Per sqm sales (RMB) ***	14,847.4	13,940.5	29,302.3	28,070.0	15,389.9
Same store sales growth (%)	27.0 *****	n.a.	17.2	25.8	18.4
Financial figures (calendar 2007)					
ROE (%)	17.5	75.7	16.5	33.8	27.0
Net gearing (%)	cash	1.8	cash	cash	4.1
Net cash (RMBm)	3932.117****	(1,005.5)	1,406.4	687.7	(107.6)
Total debt (RMBm)	-	1,397.1	940.0	1,060.2	3,749.3
Expenses as % of revenue					
- Other income	13.1	22.7	24.9	17.0	12.2
- Purchases of and changes in Inventories	(10.0)	(46.5)	(19.7)	(21.9)	(31.7)
- Employee benefit expenses	(14.8)	(6.0)	(9.6)	(10.2)	(9.8)
- Depreciation and amortization	(8.8)	(8.2)	(4.6)	(5.0)	(4.2)
- Operating lease rental expense	(24.9)	(8.2)	(8.8)	(1.5)	(11.9)
Operating margin (%)	39.9	41.0	62.3	62.6	37.3
Effective tax rate (%)	(17.0)	(18.9)	(26.9)	(35.5)	(22.8)
Net margin (%)	33.6	26.6	42.8	34.8	24.8
Valuation					
Fiscal year	06/2007	12/2007	12/2007	12/2007	12/2007
P/E - historical (x)	35.7	16.7	24.1	33.3	52.6
P/E - current (x)	35.6	n.a.	20.2	28.0	37.3
P/E - current (x)	26.0	n.a.	15.4	21.0	28.1

Source: Company data, SBI E2-Captial

*Note: * retailing area size*

*** including gross sales from concessionaires, direct sales and rental income*

**** estimated based on operating area size*

***** in million HK dollar*

****** for 2H 2007*

Table 3: Valuation comparison

Company	Ticker	Market Cap. (US$m)	Fiscal year end	P/E (x) Historical	1-Year	2-Year
New World Department Store	825 HK	1,916.5	06/2007	35.7	35.6	26.0
Maoye International	848 HK	2,072.7	12/2007	16.7	n.a.	n.a.
Intime	1833 HK	1,367.0	12/2007	24.1	20.2	15.4
Golden Eagle	3308 HK	1,837.1	12/2007	33.3	28.0	21.0
Parkson	3368 HK	5,119.7	12/2007	52.6	37.3	28.1
Hefei Department Store	000417 CH	532.9	12/2007	37.3	32.1	24.1
Beijing Hualian	000882 CH	368.0	12/2007	100.7	n.a.	n.a.
Guangzhou Friend	000987 CH	1,199.7	12/2007	44.0	34.2	29.2
Shanghai Bailian	600631 CH	2,605.7	12/2007	51.4	39.9	30.2
Dashang Group	600694 CH	1,930.2	12/2007	44.5	32.0	25.4
Yinzuo Bohai	600858 CH	883.3	12/2007	46.4	42.9	34.6
Wangfujing	600859 CH	2,650.9	12/2007	69.7	49.2	35.5
Sincere	244 HK	30.6	02/2007	5.8	n.a.	n.a.
Wing On	289 HK	544.1	12/2007	2.7	n.a.	n.a.
Aeon	984 HK	517.7	12/2007	14.4	15.3	12.5
Lifestyle	1212 HK	3,642.7	12/2007	27.7	25.1	22.8

Source: Bloomberg

Risks. Apart from operating risks, inflation is a short-term concern as it may dent domestic consumption. In the long term, department stores might be replaced by other retail formats such as shopping malls.

NWDS China (825 HK, HK$8.86, NR)

Business summary. New World Department Store (NWDS), established in 1993, is a retailing subsidiary of New World Development (17 HK. HK$20.9, NR). By end-2007, NWDS had 18 self-owned stores and 13 managed stores in 18 cities in China. The company has two brands: Ba Li Chun Tian (for seven stores in Shanghai) and New World (for remaining stores outside Shanghai).

Development plan. NWDS focuses on several major cities. Among its total 31 stores, seven are located in Shanghai, four in Wuhan and three in Shenyang. In 2007, its total gross floor area (GFA) was 932,200sqm, comprising 463,900sqm of self-owned stores and 468,300sqm of managed stores. The company plans to add up to three self-owned stores (60,000 – 90,000sqm) and up to two managed stores each year in the future. For M&As, it will consider projects with IRR of more than 15.0%.

Strength:

- Strong presence in selected cities.
- Management experienced in M&As.
- Support from parent.

Weakness:

- Geographical dual-brand strategy weakens brand building.
- Conservative expansion plan compared to peers.

Financial performance. GSP increased 26.3% to HK$2,262.2m in 1H FY06/08A, with same store sales growing 27.0%. The concessionaire rate dropped from 20.7% to 20.4% due to sales promotion activities. With substantial increases in direct sales (mainly cosmetics and Olympics-related goods) and management fees (more managed stores), revenue surged 36.9% to HK$663.3m. The operating margin improved 7.3pcp to 41.2% thanks to enhanced operating leverage. Net profit rose 62.3% to HK$227.8m.

Table 4: P&L

Year to Jun (HK$m)	05A	06A	07A	1H 07A	1H 08A
GSP	**2,226.8**	**2,962.2**	**3,693.5**	**1,822.1**	**2,303.3**
Direct sales	85.8	86.7	116.6	50.6	88.6
Commission from concessionaire sales	474.3	618.7	759.1	360.7	443.5
Management fees and rental income	34.0	44.4	106.4	73.3	131.1
Total operating revenues	**594.2**	**749.9**	**982.2**	**484.6**	**663.3**
Other income	69.6	81.8	97.1	18.8	73.7
Purchases of and changes in inventories	(68.2)	(65.0)	(85.3)	(37.0)	(67.6)
Employee benefit expenses	(102.3)	(128.8)	(147.4)	(71.9)	(96.1)
Depreciation and amortization	(66.4)	(81.4)	(97.5)	(48.4)	(53.0)
Operating lease rental expense	(156.6)	(234.7)	(267.7)	(128.9)	(150.1)
Other operating expenses	(141.8)	(149.8)	(185.5)	(84.8)	(97.1)
Gain on disposal of subsidiaries	-	-	58.0	31.9	-
Operating profit	128.4	171.9	353.9	164.3	273.0
Finance income, net	(0.3)	10.7	2.2	5.3	10.8
Profit before income tax	128.1	182.6	356.1	169.6	283.8
Income tax expense	(27.3)	(24.7)	(53.3)	(29.2)	(55.9)
Profit for the period	100.8	157.9	302.8	140.4	227.8
Attributable to:					
Equity holders of the company	100.8	157.9	302.8	140.4	227.8
Minority interests					
EPS - basic (HK$)	n.a.	0.03	0.05	0.13	0.14
EPS - diluted (HK$)	n.a.	n.a.	n.a.	n.a.	0.14
Dividend	-.	-.	-.	-.	-.

Source: Company data

Maoye International (848 HK, HK$3.16, NR)

Business summary. Maoye International (MOI) opened its first store in 1997. In 2005, the company acquired 69.23% stake in Chengshang Group (600828 CH), a department store chain in Sichuan province. By end-2007, MOI owned total 14 stores, comprising 12 self-run and two managed, in eight cities under two brands (seven Maoye and seven Chengshang). Via Chengshang Group, the company is also engaged in automobile sales, hotel operations and advertising.

Table 5: MOI's stores

	Ownership	Launch	Property owned / leased	GFA (sqm)
Maoye Shenzhen Dongmen	Self-owned	Mar 1997	Owned/leased	43,726 / 3,710
Maoye Shenzhen Heping	Self-owned	Oct 1999	Leased	25,048
Maoye Shenzhen Shennan	Self-owned	Jun 2003	Leased	10,507
Maoye Shenzhen Huaqiangbei	Self-owned	Oct 2003 and Sep 2005	Leased	63,388
Maoye Zhuhai	Self-owned	Nov 2001	Leased	25,293
Maoye Chongqing Jiangbei	Self-owned	Oct 2004	Leased	52,215
Maoye Chongqing Jiefangbei	Managed	Nov 2004	Leased	42,000
Maoye Wuxi	Managed	Oct 2007	Leased	70,350
Chengshang Chengdu Yanshikou	Self-owned	Jun 1953	Owned	53,873
Chengshang Chengdu Beizhan	Self-owned	May 1987	Owned	7,204
Chengshang Chengdu Wuhou	Self-owned	Oct 1996	Leased	16,000
Chengshang Nanchong	Self-owned	Nov 2001	Owned	25,994
Chengshang Luzhou	Self-owned	Sep 2003	Leased	12,000
Chengshang Chengdu Wenjiang	Self-owned	Jan 2005	Leased	8,422
Chengshang Mianyang	Self-owned	Jan 2008	Owned	21,731

Source: Company data

Development plan. The company will use its net proceeds of around HK$2.7bn from its May 2008 global offering to acquire department stores and premises (35 – 40% of the total) and set up new stores (30 – 35%). By end-2007, MOI had total GFA of 459,7000sqm (347,400sqm self-owned and 112,300sqm managed).

Strength:

- Market leader in Guangdong and Sichuan province.
- Management experience in M&As.

Weakness:

- Operations concentrated in Shenzhen and Chengdu.

Financial performance. GSP grew at a CAGR of 33.8% from RMB2,169.4m in FY12/05A to RMB3,883.7m in FY12/07A. The concessionaire rate was 20.8% in FY12/05A, 20.4% in FY12/06A and 20.5% in FY12/07A. Operating revenue increased from RMB918.1m in FY12/05A to RMB1,567.3m in FY12/07A. The operating margin improved in FY12/07A from 17.2% to 41.0% mainly due to a drop in employee expenses and a RMB65.0 one-off asset disposal gain, leveraging net profit to RMB417.0m. The company expects net profit of no less than RMB290.4m in 1H FY12/08F.

Table 6: P&L

Year to Dec (RMBm)	05A	06A	07A
Gross sales	**2,169.4**	**3,247.4**	**3,883.7**
Direct sales	317.2	436.1	479.5
Commission from concessionaire sales	373.5	557.9	680.5
Management fees and rental income	56.2	77.5	87.2
Others	171.3	281.2	320.1
Total operating revenues	**918.1**	**1,352.6**	**1,567.3**
Other income	186.9	299.1	355.6
Purchases of and changes in inventories	(457.1)	(669.9)	(728.1)
Employee expenses	(110.0)	(196.8)	(93.4)
Depreciation and amortization	(91.7)	(133.4)	(128.9)
Operating lease rental expense	(94.4)	(135.6)	(128.5)
Other operating expenses	(200.7)	(264.5)	(284.8)
Other gains, net	4.1	(18.5)	83.9
Operating profit	155.2	233.1	643.2
Finance costs	(31.9)	(53.0)	(99.1)
Share of profit and losses of associates	3.3	3.8	3.6
Profit before income tax	126.6	183.9	547.7
Income tax expense	(9.5)	(6.0)	(103.6)
Profit for the period	117.1	177.9	444.1
Attributable to:			
Equity holders of the company	136.8	217.1	417.0
Minority interests	(19.7)	(39.1)	27.1
EPS - basic (RMB)	0.03	0.05	0.10
EPS - diluted (RMB)	n.a.	n.a.	n.a.
Dividend	-	-	1,064.0

Source: Company data

Intime (1833 HK, HK$5.92, NR)

Business summary. The first Intime-branded department store was set up in 1998 in Hangzhou. In 2005, the company opened its second and third stores in Ningbo. By end-2007, it owned total seven stores, all located in Zhejiang province.

Table 7: Intime's stores

	Ownership	Launch	Property owned / leased	GFA (sqm)	% interest
Hangzhou Wulin	Self-owned	Nov 1998	Owned	41,939	100
Ningbo Tianyi	Self-owned	Apr 2005	Leased	23,448	100
Ninbo Dongmen	Self-owned	Nov 2005	Leased	46,286	100
Jinhua Fuhua	Self-owned	Jan 2007	Leased	34,312	100
Wenzhou Shimao	Self-owned	Feb 2007	Leased	33,000	100
Ningbo Wanda	Self-owned	Sep 2007	Leased	27,000	100
Hangzhou Linping	Self-owned	Sep 2007	Leased	12,000	70
Wuhan Shiji	Self-owned	Jan 2008	Leased	28,560	100
Hangzhou Baida	Managed	Mar 2008	n.a.	35,000	100

Source: Company data

Development plan. The company has a series projects, including the acquisition of Wuhan Shiji completed in Jan 2008 and a management agreement with Hangzhou Baida, signed in Mar 2008. Based on these projects, Intime's total GFA will increase from 218,000sqm in FY12/07A to 608,200sqm in FY12/08F and 855,400sqm in FY12/09F. To assist its expansion, the company invested in three department store groups and a sportswear company in China. Its flagship Wulin store, which contributed 51.2% of GSP in FY12/07A, will undergo renovation this year, which might depress net profit in FY12/08F.

Strength:

- Market leader in Zhejiang province.
- Seeable projects in pipeline reduce expansion uncertainty.

Weakness:

- Aggressive expansion to test management, financial and human resources.
- Lack of track record in cross-region expansion.

Table 8: Intime's projects in pipeline

	Time to commence operation	Property owned / leased	GFA (sqm)	Est. Investment (RMBm)
Beijing Intime Lotte	Jun 2008	Leased	75,500	100 for 50%
Hangzhou Westlake	May 2008	Owned	80,000	100 for 51%
Jinhua Futailong	Sep 2008	Leased	28,000	20
Jiaxing Meiwan'	Sep 2008	Owned	60,000	240 for 60%
Shanghai South Station	Sep 2008	Leased	60,000	125 for 51%
Xi'an Zhonghuan	Apr 2008	Leased	38,147	18 for 60%
E'zhou	May 2008	Owned	20,000	50 for 92%
Jinhua Intime World	Jan 2009	Owned	73,598	435 for 60%
Yiwu	Jan 2009	Leased	25,000	40 for 52%
Hangzhou East	Feb 2009	Leased	49,100	80
Ningbo #4	Apr 2009	Leased	25,500	35
Hangzhou Xinhubin	Apr 2009	Owned	60,000	750 for 35%
Hangzhou Wulin Phase 2	Oct 2009	Owned	14,000	212
Hangzhou West	2H 2010	Owned	120,000	625 for 70%
Hankou Plaza	2H 2010	Owned	60,000	247
Zhengzhou Zijingshan	2H 2010	Owned	100,000	154 for 70%

Source: Company data

Table 9: Intime's major investment

	Principal business	Location	Intime's interst (%)
Baida	Operates one department store	Hangzhou	27.48
Wushang	Operates five department stores	Wuhan	22.62
Shenyang Commercial Building	Operates one department store	Shenyang	4.93
China Dongxiang	Design and wholesales of branded sportswear	Nationwide	1.44

Source: Company data

Financial performance. GSP increased 25.8% to RMB3,459.9m with same-store sales growth of 17.2%. The concessionaire rate improved 1.4pcp to 19.9% with general commission rate rises in each store. Boosted by RMB99.9m in interest income and a RMB80.6m fair value gain on disposal of available-for-sale investments, the operating margin widened 12.8pcp to 62.3%. Net profit surged 83.3% to RMB378.4m.

Table 10: P&L

Year to Dec (RMBm)	05A	06A	07A
Gross sales	**1,786.0**	**2,751.0**	**3,459.9**
Direct sales	169.9	196.9	225.6
Commission from concessionaire sales	302.9	472.6	643.4
Management fees and rental income	5.1	6.8	15.0
Total operating revenues	**478.0**	**676.3**	**884.1**
Other income and gains	29.7	32.9	219.8
Purchases of and changes in inventories	(138.3)	(149.9)	(173.9)
Employee expense	(34.7)	(57.0)	(85.0)
Depreciation and amortisation	(18.8)	(20.6)	(40.7)
Other expenses	(82.7)	(172.2)	(253.2)
Gain on receipt of shares in a listed company	-	24.5	-
Operating profit	233.2	335.2	551.1
Finance costs	(31.1)	(33.5)	(47.7)
Share of profit and losses of associates	-	-	9.1
Profit before income tax	202.1	301.6	512.5
Income tax expense	(66.0)	(81.1)	(137.6)
Profit for the period	136.2	220.5	374.9
Attributable to:			
Equity holders of the company	86.0	207.4	378.4
Minority interests	50.2	13.1	(3.5)
EPS - basic (RMB)	0.06	0.15	0.22
EPS - diluted (RMB)	n.a.	n.a.	0.22
Dividend	111.3	-	115.2

Source: Company data

Golden Eagle Retail (3308 HK, HK$7.88, NR)

Business summary. With the first department store opened in Nanjing in 1996, Golden Eagle Retail Group (GERG) had 10 self-owned stores by end-2007, with a total operating area of 161,000sqm and a managed store in Shanghai.

Table 11: GERG's stores

	Years into Operation	FY12/07A sales (RMBm)	YoY sales growth (%)	Property owned / leased	GFA (sqm)
Nanjing Xinjiekou	11.5	2,282.6	26.9	Owned	33,447
Nantong	7.0	250.4	3.7	Owned	8,795
Yangzhou	6.0	784.6	29.4	Owned / leased	37,562 / 3,450
Suzhou	5.0	191.8	10.9	Leased	51,266
Xuzhou	4.0	802.7	38.2	Owned	14,960
Xi'an Guomao	2.0	91.4	-9.3	Leased	10,029
Xi'an Gaoxin	1.5	208.8	n.a.	Owned	25,476
Taizhou	1.0	201.2	n.a.	Owned	47,327
Kunming	Opened in Aug 07	40.5	n.a.	Owned	33,702
Nanjing Zhujiang	Opened in Dec 07	1.9	n.a.	Leased	22,780
Huai An	To open in 2H 08	n.a.	n.a.	Owned	48,000
Yancheng	To open in 2H 08	n.a.	n.a.	Owned	50,000

Source: Company data

Development plan. The company positions itself as a mid-to-high-end department store operator in second and third-tier cities, focusing on owning its premises rather than leasing. We view GERG as a prudent player with promising mid-term prospects backed by the high economic potential of lesser-developed regions. The company will launch two new stores, Huai An and Yancheng, in 2H 2008. Its managed store in Shanghai will close for renovation from May and re-open by year-end. The company also plans to acquire assets, including Oriental Department Store, from Shanghai-listed Nanjing Xinjiekou Department Stores (600682 CH).

Table 12: GERG's strategy

Strategy	Advantage	Disadvantage
Focus on second and third-tier cities	First-mover advantage (e.g. prime location, brand recognition, etc) in less developed regions	Lesser contribution to brand image, which reduces the company's attractiveness when seeking international concessionaires
Cross-regional development	Ample growth room	Higher time cost to build up local connections and reputation
Self-owned property	Property appreciation	More capex required, which may slow down expansion

Source: SBI E2-Capital

Strength:

- Market leader in Jiangsu province.
- Self-owned property reduces operating expenses.

Weakness:

- Lack of track record in cross region expansion.

Financial performance. GSP increased 35.8% to RMB4,858.1m, with same-store sales growth at 25.8%. The concessionaire rate dropped 1.3pcp to 20.6% due to new store launches, merchandise upgrades and increased sales of gold / jewelry / timepieces. Operating revenue rose 23.1% to RMB1,107.5m. Other income topped RMB188.0m (RMB76.5m last year), comprising RMB48.9m in government grants and RMB41.4m in foreign exchange gains, boosting net profit to RMB385.7m, up 66.3% YoY.

Table 13: P&L

Year to Dec (RMBm)	05A*	06A	07A
Gross sales	**2,858.7**	**3,577.0**	**4,858.1**
Direct sales	250.1	282.1	303.1
Commission from concessionaire sales	483.3	604.0	788.6
Rental income	6.4	13.7	15.8
Total operating revenues	**739.8**	**899.8**	**1,107.5**
Cost of sales	(207.0)	(229.1)	(242.4)
Gross profit	532.7	670.7	865.1
Other income	30.3	76.5	188.0
Selling expenses	(115.1)	(174.1)	(228.2)
Administrative expenses	(82.9)	(146.0)	(131.4)
Finance costs	(35.4)	(40.3)	(80.5)
Changes in fair value of derivative financial instruments	-	(24.8)	(14.9)
Profit before income tax	329.6	361.9	598.1
Income tax expense	(102.1)	(132.3)	(212.4)
Profit for the year	227.5	229.6	385.7
Attributable to:			
Equity holders of the company	226.0	232.0	385.7
Minority interests	1.6	(2.4)	
EPS - basic (RMB)	0.13	0.13	0.21
EPS - diluted (RMB)	n.a.	n.a.	0.21
Dividend	-	113.4	78.1

Source: Company data

*Note: * results from continuing operation only.*

Parkson Retail (3368 HK, HK$71.60, NR)

Business summary. Established in 1994, Parkson is a China retail arm of Malaysia-based Lion Group. By end-2007, it operated 39 Parkson-branded department stores (29 self-owned and 10 managed) and two Xtra branded supercentre stores (both managed) in 26 cities.

Development plan. The company aims to increase its floor space by at least 15.0% each year. In 2007, it had around 906,000sqm, comprising 610,000sqm of self-owned stores and the remainder were managed stores. It will open at least five new stores with a retail area of 105,000sqm in 2008. It also plans to acquire one to two managed stores from its parent and another one or two from third parties.

Strength:

- Renowned brand.
- Nationwide network.
- Management track record.

Weakness:

- Acquisitions with parent reduce corporate transparency.

Financial performance. GSP increased 46.0% to RMB9,003.4m in FY12/07A, with same store sales growth at 18.4%. The concessionaire rate was 20.3% (within management's expectations), down from 20.5%, due to store mix changes. Revenue increased 40.1% to RMB3,059.7m. The operating margin widened 0.8pcp to 33.2% thanks to improved operating efficiency. Net profit rose 46.7% to RMB676.0m.

Table 14: P&L

Year to Dec (RMBm)	05A	06A	07A
Gross sales	**3,242.5**	**6,053.5**	**8,864.6**
Sales of goods - direct sales	441.2	758.0	1,044.1
Commission from concessionaire sales	577.5	1,027.1	1,511.5
Rental income	65.5	115.2	138.8
Consultancy and management service fees	47.7	41.7	32.6
Other operating revenues	82.7	242.0	332.7
Total operating revenues	**1,214.6**	**2,184.0**	**3,059.7**
Purchases of goods and changes in inventories	(363.5)	(632.3)	(865.7)
Staff costs	(120.3)	(196.6)	(268.2)
Depreciation and amortization	(64.1)	(88.7)	(113.8)
Rental expenses	(103.9)	(227.1)	(324.8)
Other operating expenses	(165.8)	(331.4)	(470.7)
Profit from operations	397.1	707.9	1,016.5
Finance income / (cost), net	8.4	23.5	(73.8)
Share of profit from an associate	0.5	0.5	0.5
Profit from operations before income tax	406.1	732.0	943.3
Income tax	(131.8)	(218.8)	(215.5)
Net profit for the year	274.2	513.2	727.8
Attributable to:			
Equity holders of the parent	248.0	460.8	676.0
Minority interests	26.2	52.4	51.8
EPS - basic (RMB)	0.55	0.83	1.22
EPS - diluted (RMB)	n.a.	n.a.	1.22
Dividend	143.5	231.8	332.6

Source: Company data