新世界百貨中國有限公司

New World Department Store China Limited

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 825)

enriching lives

Annual Report 2008

Corporate Profile

New World Department Store: quality merchandise for quality living

New World Department Store China Limited is a Hong Kong-listed company approximately 72%-owned by New World Development Company Limited. We were one of the first investors in the retail sector of the PRC. Today, we are widely esteemed as a supplier of quality merchandise and a symbol of quality living.

Secured strategic foothold: our network

To become a dominant department store operator in the PRC, we have been growing our store network across the country. As of 30 June 2008, we have secured strategic footholds in 18 major cities, including Beijing, Shanghai, Shenyang and Wuhan, etc. Occupying an aggregate gross floor area of approximately 962,570 square metres, our retail chain comprises 19 self-owned stores and 13 managed stores in Hong Kong and the PRC. We operate under two brands — "New World" in 25 stores around China and "巴黎春天" (Ba Li Chun Tian) in seven stores in Shanghai.

Tapping into China's growing affluence: our target market

We target the mid-high to high-end of the PRC retail market and offers premium merchandise across the full spectrum of consumer products including fashion, accessories, jewellery and cosmetics. In line with the consumer trend for "one-stop shopping", we have also integrated a supermarket into four of our stores in Beijing, Wuhan, Lanzhou and Hong Kong. We derive revenue mainly from four sources: commission income from concessionaire sales, direct sales and rental income in our self-owned stores, and management fees from our managed stores.

Organized for Top Efficiency: our set-up

Organizationally, we adopt an efficient three-tier structure which consists of central management, regional management and local management. Operation-wise, we group into different geographic regions that draw on a central pool of administrative support in human resources, finance and corporate communications.

Professionalism from top to bottom: our people

In the Current Year, we employ 3,893 people, with the majority being local recruits. Well trained and motivated, the whole staff is united under the leadership of a management team with experience of over one decade in pursuit of our vision and mission.

enriching lives

Contents

Mission Statement

To become a dominant department store operator in the PRC.

Abiding by principles of sound corporate governance, we are inspired by a vision of operational efficiency and driven by a mission for market dominance.

The key to success in our vision and mission ultimately lies with developing the proper mindset and fostering a congenial corporate culture.

We have identified the core values for such mindset and culture. We encourage our colleagues to reflect on them often, and try to act on them always, in everyday operation, in whatever role we play, as senior management or frontline staff.

Core Values

Befriend our customers:
service comes first.

Better ourselves:
work to precise standards.

Trust our colleagues:
respect and treat them fairly.

Treasure our assets:
invest in human resources.

Milestones

2007

July
Listed on the Main board of The Stock Exchange of Hong Kong Limited. (Stock code: 825)

August
Shanghai Hongkou Branch Store enlarged to about 19,600 square metres.

September
Shanghai Pujian Branch Store commenced operation, enlarging the Group's foothold in Shanghai to seven stores.

October
Further expanded the presence in Liaoning Province by opening a 7-storey, self-owned store in Anshan.

November
New 5-storey self-owned Nanjing Store marked the Group's first landing in Nanjing, Jiangsu.

2008

January
Opened Wuhan Xudong Branch Store, a managed store of about 30,000 square metres GFA.

February
Acquisition of the Group's first managed store in China: Wuhan Store converted from managed to self-owned.

March
Announced the 1st interim results with remarkable performance.

April
As the title sponsor for MSF Day 2008.

June
Acquired the property of Shenyang Nanjing Street Branch Store.

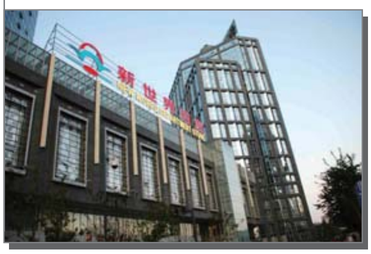
July
15th anniversary and 1st anniversary of listing.

Announced its 6th store in Wuhan, Wuhan Hanyang Store, with GFA of about 53,000 sq.m. is expected to commence operation before the end of 2008.

Announced the acquisition of properties in Zhengzhou and Shenyang City to develop as self-owned department stores, with GFA of about 34,530 and 32,500 sq.m. respectively. Both are expected to commence operation in 2010.

August
Announced the expansion of Harbin Store from about 32,000 sq.m. to about 50,000 sq.m. The expanded area is expected to be in phased operation by the end of 2008.

September
Soft opening of Beijing Liying Store.



Retail Network

32 Strategic footholds in 18 Major Cities

Harbin	1
Shenyang	3
Dalian	1
Anshan	1
Beijing	2
Tianjin	1
Lanzhou	1
Shanghai	7
Wuxi	1
Ningbo	2
Nanjing	1
Wuhan	5
Changsha	1
Xiamen	1
Chengdu	1
Chongqing	1
Kunming	1
Hong Kong	1


Harbin
Shenyang
Beijing
Anshan
Tianjin
Dalian
Lanzhou
Wuxi
Nanjing
Shanghai
Chengdu
Chongqing
Wuhan
Ningbo
Changsha
Kunming
Xiamen
Hong Kong

Financial Highlights

57%

increase in profit for the year to

HK$476,575 thousand

	2008 HK$'000	2007 HK$'000
Operating Result		
Revenue	**1,489,345**	1,046,885
Representing:		
Commission income from concessionaire sales	**1,017,231**	759,124
Sales of goods — direct sales	**224,498**	116,591
Management fees	**165,518**	106,446
Rental income	**82,098**	64,724
	1,489,345	1,046,885
Operating profit	**589,394**	350,797
Profit for the year	**476,575**	302,765

	As at 30 June 2008 HK$'000	As at 30 June 2007 HK$'000
Financial Position		
Fixed deposits	**790,909**	7,143
Cash and cash equivalents	**2,336,718**	960,391
Total assets	**5,760,430**	2,057,978
Total liabilities	**1,653,684**	1,200,749
Total equity	**4,106,746**	857,229

Revenue

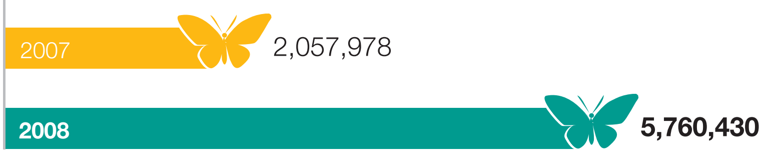
(HK$'000)

Operating profit

(HK$'000)

Total assets

(HK$'000)



	2008	2007
Financial Ratios		
Revenue growth	**42.3%**	29.8%
Operating profit margin	**39.6%**	33.5%
Net profit margin	**32.0%**	28.9%
	As at 30 June 2008	As at 30 June 2007
Current ratio (times)	**2.78**	1.22

Chairman's Statement

"The Group will continue to grow our business network and, keeping abreast with the times, provide quality products and quality services. Concurrently, we will actively pursue promising acquisition opportunities and implement diversified expansion strategies to increase operational efficacy and value for shareholders. With further enhancement to the Group's competitive position in the department store industry, we will erect more and more New World Department Store logos in the China's skyline."

Year 2008 held special significance as it marked the Group's 15th anniversary since founding and the 1st anniversary since listing. Looking back to the single store that we operated yesteryear, tracing our growth over 15 years into more than 30 stores in 18 Chinese cities today with a network covering Northeastern China, Northern China, Eastern China, Central China and Southwestern China, we found evidences of foresight and strength in our pioneering of the Chinese retail market. The successful listing last July on the Main Board of the Stock Exchange of Hong Kong was not only a vote of confidence in the Group by investors but also a milestone in our development as we entered a new era of growth.

For the year ended 30 June 2008, total revenue of the Group amounted to HK$1,489.3 million, increasing by 42.3% over the Previous Year. Operating profit was HK$589.4 million. Profit attributable to shareholders increased by 57.4% to HK$476.6 million. Earnings per share was about HK$0.29. The Board of Directors resolved to distribute a final dividend of HK$0.09 per share.

Chairman's Statement

The sub-prime crisis broke out in the United States while oil and commodity prices persistently stood high around the world, causing a slide in the growth of the global economy. Affected by surges in the costs of raw materials and energy, China faced challenges of steady inflation. Along with macroeconomic adjustments and a series of natural disasters such as snowstorms and earthquakes, the pace of growth slackened in the Chinese economy.

Yet, gross domestic product for the first half of 2008 increased 10.4% year-on-year according to National Bureau of Statistics. Per capita disposable income increased by 14.4% while total retail sales of consumer goods grew by 21.4%, indicating that the Chinese economy managed to maintain its momentum of growth at a fast and steady pace. GDP per capita on the whole led the rise in consumption, heralding good prospect of growth for the department store industry in China.

Despite the slowdown in the overall Chinese economy, the Group remained cautiously optimistic about the prospect of the Chinese retail industry, and was well prepared to take on all kinds of challenges. We will continue to explore investment projects with good potential and to establish new retail footholds. We will strive to increase market share to maintain our competitive edge in the industry.

In the year reported, the Group added two self-owned stores and two managed stores, besides expanding the Shanghai Hongkou Branch Store. Beijing Liying Store commenced operation in September 2008. In late 2008, we will open a new store in Hangyang Wuhan while expansion completed at Harbin Store will gradually enter service. Altogether, they will bring the number of department stores that we operate and manage in Mainland China to 33. Moreover, the properties that we have acquired in Zhengzhou and Shenyang within the year will be developed as self-owned department stores. Both are scheduled to open in 2010.

The Group is committed to further expanding our retail network in China, capitalizing on our firm foundation in the Chinese retail market. Apart from developing new retail footholds in major cities by consistently pursuing the growth strategy of "multiple presences in a single city" and "radiation cities" in order to leverage our competitive advantage, we are also exploring promising cities and regions, such as Xian Shaanxi and Taiyuan Shanxi to gradually enlarge our market share in the region. The Group is ready to seize opportunities for acquisition of quality department-store projects. The overall objective is to synchronise our growth with that of the Chinese retail market, a market of boundless potential.

In management, maintaining high standards of corporate governance forms the bedrock of the Group's business philosophy. Through the Board of Directors, the Group monitors and appraises current practices of corporate governance. By releasing information on a timely basis and actively communicating with investors we seek to achieve excellence in corporate governance, assuring sustained business growth and fair investment returns for our investors.

Fulfilling our responsibilities as a corporate citizen, the Group took part in many charities, such as *MSF Day* (無國界醫生日) and *Bright Future Action* (光彩明天行動). Such participation strengthened our contribution to the community and provided support to those in need. Ceaselessly we are committed to achieving the objective of common success for the company, shareholders, business partners, employees and the community at large.

For 15 years New World Department Store has been cultivating with perseverance a sound corporate profile. Our Group reputation rests on years of efforts in introducing a diversity of brands renowned locally and internationally, and on offering quality product and reliable service. By affording new experiences of shopping and leisure we aspire for trendsetting leadership in retail chain operation.

Looking ahead, the Group will continue to grow our business network and, keeping abreast with the times, provide quality products and quality services. Concurrently, we will actively pursue promising acquisition opportunities and implement diversified expansion strategies to increase operational efficacy and value for shareholders. With further enhancement to the Group's competitive position in the department store industry, we will erect more and more New World Department Store logos in the China's skyline.

The Group owed its achievements to concerted efforts by our staff, support from shareholders and business partners, as well as patronage from customers. Community trust and support constituted our cornerstone of success and momentum of progress. On behalf of the Board I would like to thank our staff and management and to extend heartfelt appreciation to our shareholders, business partners and customers.

Carrying on a legacy of success, the Group will pool our resources to scale new heights of achievement.

Dr. Cheng Kar-shun, Henry
Chairman

Hong Kong, 9 October 2008


拉
PULL


enriching
lives
A trendy hub
with leading brands worldwide

Business Review

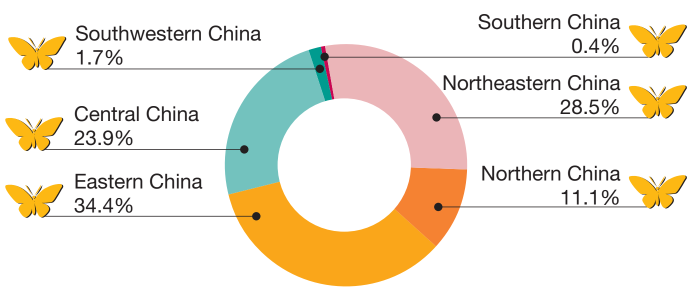
BUSINESS NETWORK

In the year ended 30 June 2008 (or "the Current Year"), the Group operated 32 department stores, with a total gross floor area (or "GFA") of about 962,570 square metres and a total operating floor area (or "OFA") of about 703,100 square metres. Located in six operational regions, namely Northeastern China, Northern China, Eastern China, Central China, Southwestern China and Southern China, the stores covered 18 major cities and administrative regions in the PRC. These included Wuhan, Shenyang, Wuxi, Harbin, Tianjin, Ningbo, Beijing, Hong Kong, Shanghai, Dalian, Kunming, Lanzhou, Xiamen, Changsha, Chongqing, Chengdu, Anshan and Nanjing. Our business network comprised 19 self-owned stores and 13 managed stores.

REVENUE CONTRIBUTION

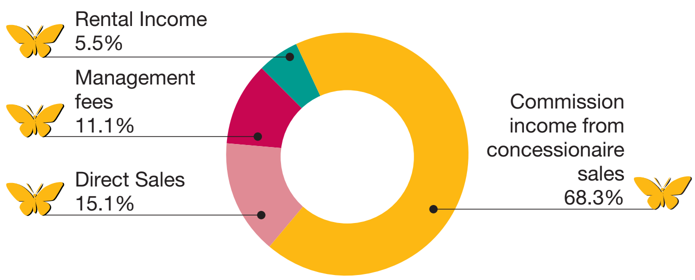
By region

The Eastern China Region contributed the most to the Group's revenue during the year under review, accounting for 34.4% of total revenue, followed by the Northeastern China Region and the Central China Region, accounting for 28.5% and 23.9%, respectively.



By segment

Commission income from concessionaire sales contributed the most during the year under review, accounting for 68.3% of total revenue. Direct sales and management fees accounted for 15.1% and 11.1%, respectively. Rental income accounted for 5.5%.

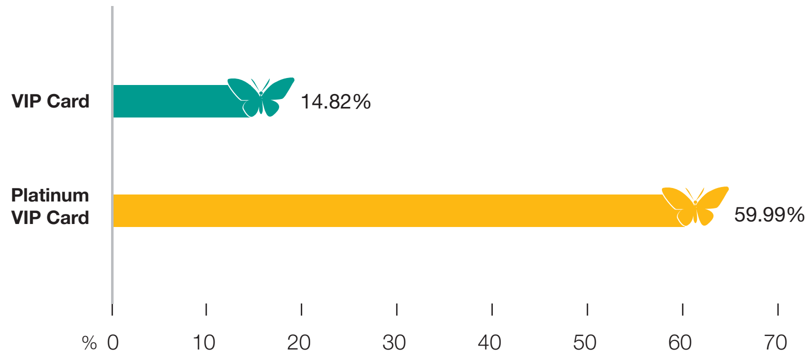


NEW STORE AND STORE EXPANSION

In the year under review, the Group opened four new stores in Anshan, Shanghai, Nanjing and Wuhan. They included the two self-owned stores of Anshan New World Department Store ("Anshan Store") and Nanjing New World Department Store ("Nanjing Store"), as well as the two managed stores of Shanghai-Hong Kong New World Department Store — Pujian Branch Store ("Shanghai Pujian Branch Store") and Wuhan New World Department Store — Xudong Branch Store ("Wuhan Xudong Branch Store"). Besides, the Group expanded the Shanghai-Hong Kong New World Department Store — Hongkou Branch Store ("Shanghai Hongkou Branch Store"), bringing its total GFA from about 15,500 square metres to about 19,600 square metres. The new stores and the expanded store together brought our total GFA to approximately 962,570 square metres, up 17.8% from the Previous Year.

GROWTH IN NATIONWIDE VIP MEMBERSHIP

In the year under review, there was a continuous rise in the number of both VIP card and platinum VIP card issued, with percentage increase over the Previous Year of 14.82% and 59.99%. The number of our VIP members now exceeds 1.35 million.



Northeastern China Region

The Group consistently pursued a growth strategy of “radiation cities”. After securing the foothold in Shenyang Liaoning, we radiated into Anshan, where pedestrian traffic was heavy, to set up a new store.

Business Review – Northeastern China

Opportunities grow in fast-growing Northeastern China consumer market

In the year under review, along with the gradual implementation of the “Revival Plan for Northeastern China”, the pace of growth picked up apparently for the regional economy. In 2007, the local GDP of Heilongjiang and Liaoning provinces increased by 14.5% and 12.1%, respectively, over 2006. With the regional economy developing fast, per capita disposable income rising and fueling the growth of the consumer market, the region stood a good chance of becoming the 4th largest economic region after the Pearl Delta, Changjiang Delta and Beijing-Tianjin-Hebei zone.

Total retail sales of consumer goods in Heilongjiang and Liaoning exceeded RMB200 billion and RMB400 billion, respectively, in 2007, the year of fastest growth since the country undertook economic reform. The most popular commodities among consumers were branded fashion highlighting personality and trend, as well as consumer electronics and entertainment products lifting the quality of living. The market for high-end, branded products was ever expanding as well.

Faced with ever rising demands for quality product and quality service, retailing enterprises resorted to a variety of ingenuous tactics trying to stake out and secure a share in the market.

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	9.87 million	243.68 billion	24,768	12,772.0	103.60 billion
Shenyang	7.10 million	307.39 billion	43,499	14,606.5	123.19 billion
Dalian	6.08 million	313.10 billion	51,624	15,109.0	98.33 billion
Anshan	3.47 million	135.04 billion	22,583	12,856.0	29.88 billion

Northeastern China Region	No. of Mainland Tourists	No. of Foreign Tourists	Consumption Spending by Mainland Tourists (RMB)
Harbin	24.91 million	270,000	19.28 billion
Shenyang	50.11 million	456,000	30.50 billion
Dalian	24.80 million	840,000	28.15 billion
Anshan	12.22 million	105,700	8.11 billion

Sources

- National Statistics Bureau of China (中國國家統計局)
- Statistical Information Network of China (中國統計信息網)
- Shenyang Government Report/Bureau of Tourism (瀋陽市政府報告/旅遊局)
- Dalian Government Website (大連市人民政府網站)
- Statistical Data Network of Anshan (鞍山市統計資訊網)
- Statistical Information Network of Anshan (鞍山市統計信息網)
- Statistical Information Network of Liaoning (遼寧統計信息網)
- Statistical Yearbook of Chinese Cities (中國城市年鑒)
- Statistical Yearbook of Liaoning (遼寧年鑒)

Business Review — Northeastern China

• *Shenyang Zhonghua Road Branch Store*

• *Dalian Store*

"To enhance service quality and overall transaction rate, the store also held well-planned staff training on delivering quality service."

Extending network coverage to radiation cities

The Group consistently pursued a growth strategy of "radiation cities". After securing the foothold in Shenyang Liaoning, we radiated into Anshan, where pedestrian traffic was heavy, to set up a new store.

Opened in October 2007, Anshan Store has a GFA of about 35,000 square metres over seven levels. Gathered under one roof were cosmetics, jewellery, footwear, menswear, ladies' wear, household products, sporting goods, leisure goods, children's wear and children's goods. Integrating a full array of shopping, dining and leisure facilities, and coupled with meticulous, earnest customer service, the store projected a new image of one-stop shopping in Anshan.

355billion

Total Retail Sales of Consumer Goods (RMB)

Optimizing merchandise mix to reinforce market leadership

In the year reported, the Group operated five 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"), Shenyang New World Department Store — Zhonghua Road Branch Store ("Shenyang Zhonghua Road Branch Store") and Anshan Store. In addition, we also operated one managed store: Dalian New World Department Store ("Dalian Store").

Competition in the retail market grew increasingly intense in cities where we had our stores. Each store had carried out timely strategic business re-orientation and portfolio optimization, taking into account peculiar conditions in the market, customer source and regional climate.

• *Shenyang Nanjing Street Branch Store*

The Group introduced more competitive, renowned brands into the region and broadened market penetration by re-aligning our market positioning at the middle-to-high end, from the previous middle-to-high end with high-end bias. We optimized merchandise mix to make it even more targeted and responsive to consumer demands, thereby significantly extending reach to consumer groups in different fields. Concurrently, we promoted growth in regional store businesses by tapping into the potential for spending among local customers and groups.

In the Current Year, in accordance with market and store conditions, Harbin Store optimized part of its product mix and developed a competitive edge with its predominant products. Vast areas of store expansion completed will gradually enter service in the upcoming financial year, when the store will enrich its product categories by introducing more brands renowned at home and abroad.

platinum VIP Card membership 36.1% rise

Business Review — Northeastern China

• *Anshan Store*

Shenyang Zhonghua Road Branch Store underwent two major business re-orientations within the year. The product portfolio was re-drawn and renewed, with only the strongest concessionaire labels surviving elimination. In the basement, a general "service" ambience had already evolved from the combined presence of dining outlet, laundry and bookstore. The enlarged bargain area attracted huge shopper traffic. In addition, the layout plan for concessionaires was re-designed to stress an outstanding image. The household goods section added new product categories of handsets, digital products and massage equipment. Following such major adjustments, the store grew in market influence.

To cope with fierce competition in Shenyang, our three local stores undertook business re-orientation to build a distinctive character in store operation and clarity in market positioning. Shenyang Nanjing Street Branch Store pressed on with high-end bias and a differentiated strategy. Within the year it introduced many exclusive fashion brands with domestic and international fame, for both men and women.

Total GFA (approx.)

167,690 sq.m.

Shenyang Taiyuan Street Branch Store devoted itself to upgrading store profile and optimizing merchandise mix. It introduced brands commanding higher per ticket sales and many personality-strong fashion and footwear labels as well as expanded the sales area for ladies' wear. The store also carried out a unified project to renovate and reform sanitation and ventilation in the washroom. The shopping environment further improved with the setting up of a new resting area. To enhance service quality and overall transaction rate, the store also held well-planned staff training on delivering quality service.

• *Shenyang Taiyuan Street Branch Store*

Well known domestic and foreign brands had been settling down at Anshan Store since its opening. Its positioning, middle-end with high-end bias, grew increasingly clear. In future, it will introduce dining and gymnastic facilities, and adopt a variety of operational modes including joint sales, consignment, direct sales and leasing so that it can provide fully functional, one-stop services in addition to shopping.

Dalian Store carried out portfolio upgrade focusing on the store's predominant product categories of menswear, ladies' wear, and footwear for men and women. It improved operational efficacy by enlarging leased area and adjusting ways of promotion.

"Issued temporary VIP cards offering trial experiences in membership benefit and convenience to recruit new VIP members."

Northeastern China Region	Date of Commencement of Operation	Approx. Gross Floor Area (sq. m.)	Approx. Operating Floor Area (sq. m.)
Self-owned Store			
Shenyang Nanjing Street Branch Store	November 1995	13,890	10,800
Harbin Store	November 1996	32,000	19,000
Shenyang Taiyuan Street Branch Store	August 2000	10,800	7,500
Shenyang Zhonghua Road Branch Store	December 2005	44,000	34,200
Anshan Store	October 2007	35,000	34,300
Managed Store			
Dalian Store	November 2002	32,000	24,800
Total		167,690	130,600

Business Review — Northeastern China

Innovating promotions to form unique store character

In the year under review, the Northeastern China Region strove to innovate marketing and promotion to reinforce the Group's leadership in the regional retail market. Stores in the region further stepped up VIP activities and increased the rate of usage of VIP cards.

Apart from organizing usual exclusive activities, they also offered better benefit terms and introduced "New World Department Store Shopping Coupon" in collaboration with the credit-card centre of local banks, allowing customers to redeem cash coupons with bonus points accumulated on their credit cards. That stimulated store revisits and in-store spending by VIP members, thus enhancing membership loyalty.

Some stores even issued temporary VIP cards offering trial experiences in membership benefit and convenience to recruit new VIP members.

In the Current Year, the number of issued VIP card and platinum VIP card in the Northeastern China Region increased by 9.58% and 36.1%, respectively, over that in the Previous Year.

Competition was fierce in the year reported. To enhance shopper traffic and sales results, our stores held many types of promotion. Targeting conventional peak sales periods, such promotions could be categorized into those for festive holidays, store anniversaries or seasonal shifts.

Harbin Store, for instance, held well-received large-scale promotions including *New World 6-shop 4-city Joint Celebration for Northeastern Family, Year-end Thanksgiving Fashion Gala* and *Festive Spring in Prosperous Year of the Rat.*

The newly opened Anshan Store established a distinct store profile by communicating, through different media, to local consumers the Group's background, its own portfolio planning and market positioning. Besides, heavy promotions also effectively increased visibility and developed potential customer groups.

Market standing rising with wide acclaims

Our store businesses were well established and widely acclaimed in the region. In 2007, Harbin Municipal Bureau of Commerce held an election on “Honesty and Integrity in Business” (誠信興商) among medium-sized and large enterprises in Harbin, honouring ten enterprises with AAA grading. Harbin Store was one of the ten so honoured, receiving a trophy at a ceremony on 30 December 2007 from Harbin vice-mayor Zhang Xiaoliang.

In 2008, in the “Consumer-trusted Enterprise & Consumer-trusted Merchandise” activity held by Harbin Federation of Consumers, Harbin Store won the designation of “2008 Double Trust Enterprise” (2008年雙信企業). The store gained much in visibility following wide coverage of the result announcement by major city media and the Harbin Consumer Rights Protection Network.

In December 2007, *Liaoning Evening Post* held an election for “Anshan 2007 Star Shopping Malls”. On account of its advanced management and elegant shopping environment, the newly opened Anshan Store was awarded “Most Brand-worthy Shopping Mall” (最具品牌價值商場). With the award, the store established a sound corporate image in the city.

Eastern China Region

Contributing the most to the Group's revenue during the year under review, accounting for 34.4% of total revenue. To optimize resource deployment in the Eastern China Region, the Group subsumed Shanghai Municipality into the Eastern China Region.

Business Review – Eastern China

Opportunities abound as Changjiang Delta integrates

Naturally gifted with geographic and humanistic advantages, the Changjiang Delta plays a crucial role in the national economy, accounting for 22% of gross domestic product. In the year reported, economic indices for the delta region registered double-digit growth.

In key commentaries and policies on the development of the region, the Central Government had repeatedly stressed the promotion of an integrated Changjiang Delta. Cities in Jiangsu and Zhejiang had reached consensus on coming to terms with Shanghai. Collaborations among the cities had expanded into fields ranging from port, travel, information, technology, market, logistics and city transport.

Adjustments to the industry structure accelerated, with regional positioning shifting from yesterday's "manufacturing centre of the world" to service sector dominated growth today. The shift benefited the development of the retail industry, lending greater vigor to the department store business in Eastern China in future.

Eastern 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)
Shanghai	13.79 million	1,200.12 billion	68,049	23,623	384.78 billion
Wuxi	4.62 million	385.80 billion	65,203	20,898	113.48 billion
Ningbo	5.65 million	343.31 billion	61,032	22,307	103.55 billion
Nanjing	6.17 million	327.50 billion	44,852	20,317	138.05 billion

Eastern China Region	No. of Mainland Tourists	No. of Foreign Tourists	Consumption Spending by Mainland Tourists (RMB)
Shanghai	102.10 million	6,655,900	161.13 billion
Wuxi	33.51 million	761,500	42.10 billion
Ningbo	30.74 million	689,000	34.82 billion
Nanjing	44.89 million	1,161,000	55.97 billion

Sources

- National Statistics Bureau of China (中國國家統計局)
- Statistical Information Network of China (中國統計信息網)
- 2008 Statistical Yearbook of Shanghai (2008上海統計年鑑)
- Wuxi Statistical Report (無錫市統計公報)
- Statistical Data Network of Ningbo (寧波統計資訊網)
- 2007 Nanjing Bureau of Statistics for Economic Development (2007南京經濟發展統計局)
- Eastern Network (東方網)

Business Review — Eastern China

Operational efficiency rises with resource integration

To optimize resource deployment in the Eastern China Region, starting 1 February 2008, the Group subsumed Shanghai Municipality into the Eastern China Region. The enhancement in human resources was beneficial to merchandising and management, fully exploiting the advantage that the Group enjoyed in the region.

In the Current Year, the Eastern China Region opened one self-owned store, namely Nanjing Store, as well as one managed store, namely Shanghai Pujian Branch Store. Besides, the Group expanded the Shanghai Hongkou Branch Store, bringing total store GFA to about 19,600 square metres.

Opened in September 2007, Shanghai Pujian Branch Store had a GFA of about 46,000 square metres over six levels. As the Group's first exquisite department store in New Pudong District, Shanghai, it housed spacious flagship concessionaires and carried an apparel emphasis. It offered a rich choice of renowned brands featuring the latest designs from local and abroad. Coupled with complementary facilities including dining outlets, customer rest area and VIP lounge, the store provided a diversified shopping venue for New Pudong residents.

"Housed spacious flagship concessionaires and carried an apparel emphasis. It offered a rich choice of renowned brands featuring the latest designs from local and abroad."

• *Shanghai Pujian Branch Store*

• *Shanghai Changning Branch Store*

• *Shanghai Wujiaochang Branch Store*

739.9 billion

Total Retail Sales of Consumer Goods (RMB)

In August 2007, Shanghai Hongkou Branch Store expanded its GFA by 4,100 square metres for use by the menswear and leisure wear operations, besides enlarging the sales areas for young ladies' fashion and ladies' wear. With the introduction of more popular brands, the store maintained leadership in the retail market in the Hongkou commercial zone.

Becoming focal shopping attractions in key business zones

In the year reported, the Group operated 11 stores in the Eastern China Region, of which eight were self-owned and three, managed.

Five of the eight self-owned stores operated under the "Ba Li Chun Tian" (巴黎春天) branding. They were Shanghai-Hong Kong New World Department Store — Huaihai Branch Store ("Shanghai Huaihai Branch Store"), Shanghai-Hong Kong New World Department Store — Xinning Branch Store ("Shanghai Xinning Branch Store"), Shanghai Hongkou Branch Store, Shanghai-Hong Kong New World Department Store

Located inside New World Centre in Nanjing Jiangsu, Nanjing Store opened in November 2007 with a total GFA of about 30,000 square metres over five levels. It marked the Group's latest move to enter the Jiangsu market again, targeting a customer group of young, fashion-conscious locals. Its major products were menswear, ladies' wear, cosmetics, jewellery, sporting goods and leisure goods. Integrating shopping, dining and leisure facilities such as dining outlets, beauty parlours and hairdressing salons, it was a diversified department store for one-stop shopping.

• *Shanghai Xinning Branch Store*

Business Review — Eastern China

— Changning Branch Store ("Shanghai Changning Branch Store") and Shanghai-Hong Kong New World Department Store — Qibao Branch Store ("Shanghai Qibao Branch Store").

The three self-owned stores operating under the "New World" branding were Wuxi New World Department Store ("Wuxi Store"), Ningbo New World Department Store ("Ningbo Store") and Nanjing Store.

The three managed stores were Shanghai-Hong Kong New World Department Store — Wujiaochang Branch Store ("Shanghai Wujiaochang Branch Store"), Shanghai Pujian Branch Store and Ningbo New World Trendy Department Store ("Ningbo Trendy Store").

In the Current Year, stores in the Eastern China Region undertook a series of comparative analyses on merchandise mix, eliminating and replacing brands according to respective sales situations and regional consumer demands. Besides, the stores actively sourced merchandise in categories in which they had an edge on competition. To further sharpen their edge, they also enlarged sales areas and raised operational efficiency.

In the year under review, our stores in Shanghai, which were located in major commercial circles, projected a brand new image following a series of business re-adjustments. The new image gave a big boost to growth in regional sales.

Shanghai Huaihai Branch Store concentrated on high-end, exquisite products. Converting its section for sporting and leisure goods into a section for mature ladies' wear, and raising its proportion of ladies' fashion, the store aspired to be the benchmark of fashion in the Huaihai commercial zone.

Given the strong consumption power of the younger generation in Shanghai, many branch stores introduced brands targeting the young and the trendy and expanded the sales areas for the products concerned. They also increased shopper congregation with bargain areas.

Situated inside the Zhongshan Park commercial zone, Shanghai Xinning Branch Store was positioned for the youthful and trendy segments of the market. In conjunction with Shanghai Changning Branch Store, which offered year-round discount on branded goods, it pursued differentiated marketing, regularly replacing its brands. Both stores had become the destination for shopping and leisure among youngsters.

Shanghai Qibao Branch Store also targeted the youngster market. It introduced more labels in young fashion and increased footwear brands, becoming the first choice for shopping among residents in the Qibao commercial zone.

• Ningbo Trendy Store

"Our stores in Shanghai, which were located in major commercial circles, projected a brand new image following a series of business re-adjustments. The new image gave a big boost to growth in regional sales."

• Wuxi Store

Business Review – Eastern China

Total GFA (approx.) **265,530** sq.m.

Shanghai Wujiaochang Branch Store expanded the sales area for the footwear section and sporting goods to highlight its competitive advantage, bringing more pedestrian traffic to the Wujiaochang commercial zone.

The opening of Shanghai Pujian Branch Store coincided with that of the Tangqiao station of Route 4 of the Shanghai metro. The store benefited in terms of more convenient transport for shoppers, rising pedestrian traffic and faster growth in the Tangqiao commercial zone.

Wuxi Store expanded sales area by adjusting office and back-office facilities. It also added more brands in menswear and ladies' wear.

To extend to wider consumer strata and strengthened market leadership, Ningbo Store enriched its product category by introducing imported food, tobacco, wines and health supplements.

Ningbo Trendy Store re-positioned itself in the Current Year for the group of fashionable young ladies, adding more brands in ladies' wear, ladies' footwear, jewellery and accessories. All efforts at business re-adjustment resulted in steady rise in operational efficacy and unanimous approval from local customers.

• *Nanjing Store*

• *Shanghai Hongkou Branch Store*

Eastern China Region	Date of Commencement of Operation	Approx. Gross Floor Area (sq. m.)	Approx. Operating Floor Area (sq. m.)
Self-owned Store			
Wuxi Store	January 1996	18,600	11,900
Ningbo Store	April 1998	10,000	9,100
Shanghai Huaihai Branch Store	December 2001	22,500	17,600
Shanghai Xinning Branch Store	January 2002	21,000	16,400
Shanghai Hongkou Branch Store	October 2003	19,600	11,800
Shanghai Changning Branch Store	September 2004	6,680	6,200
Shanghai Qibao Branch Store	December 2005	36,550	26,000
Nanjing Store	November 2007	30,000	24,900
Managed Store			
Ningbo Trendy Store	November 2004	10,600	9,100
Shanghai Wujiaochang Branch Store	December 2006	44,000	40,200
Shanghai Pujian Branch Store	September 2007	46,000	33,700
Total		265,530	206,900

Business Review — Eastern China

• *Shanghai Qibao Branch Store*

"Stores in the Eastern China Region launched many novel, creative promotions that not only effectively increased sales but also, in certain cases, became the talk of the town."

Innovative marketing affords new shopping experience

In the year reported, stores in the Eastern China Region launched many novel, creative promotions that not only effectively increased sales but also, in certain cases, became the talk of the town. These promotions achieved the objectives of attracting shopper traffic, developing potential customers and projecting unique, innovative store profiles.

• *Ningbo Store*

The seven stores in Shanghai jointly held *Selection of Spokespersons for Ba Li Chun Tian* from 26 March to 3 May 2008. The 39-day contest for “Spring beauties” attracted over 600 enrolments. With its event website registering an extremely high hit rate of 1.9 million clicks, and over 4,000 messages posted onto the Baidu website, the selection became a hot topic among Shanghai residents in no time.

From 21 December 2007 to 1 January 2008, Shanghai Qibao Branch Store held the first *Christmas Passion New Year Fun*, extending business hours to midnight on Christmas Eve and New Year Eve. Customers spent memorable holidays at the store enjoying festive decorations and reward-laden activities.

Other branch stores also held promotions targeting specific customer groups. For instance, Shanghai Hongkou Branch Store organized in March 2008 *Gala for Pink Necks* which, appealing to the group of fashionable city girls, created a unique ambience for consumption that proved very popular with young female customers.

In March 2008, Wuxi Store held a yacht club activity, proposing a vogue topic on “March 9 Men’s Day” that attracted immediate coverage by local media. Offering trial yacht driving to customers whose spending hit preset marks, the promotion successfully initiated a new trend.

In the year reported, stores in the region placed heavy emphasis on VIP recruitment and retention. Gradually they strengthened the functions of the VIP Room and added the platinum VIP Room. With heartwarming services and comfortable facilities, they greatly enhanced the sense of prestige for customers.

The region offered a wealth of activities exclusive to VIP members including discounts on new launches, sale bazaars, gift redemption with bonus points, premiums for shop visitors, gifts for one-month old babies, birthday presents, beauty talks and cultural events.

Ningbo Store invited platinum VIP card members to a dinner party at a five-star hotel in celebration of its 10th anniversary, successfully engaging a trendy group with great spending power.

Business Review — Eastern China

Wuxi Store's salon show on *Fashionable Rose* and the joint sale on cosmetics offered by all Shanghai branch stores and headed by Shanghai Xinning Branch Store generated sound publicity for many concessionaires.

Within the year, VIP card membership increased by 6.45% while platinum VIP card membership grew 113.26% in the Eastern China Region.

Honours grow with ceaseless efforts

With their ceaseless efforts, sound management and honest reputation, our stores in the region had won broad approval from consumers and citizens and had received a variety of honours.

In the year reported, Shanghai Huaihai Branch Store won designation of "Selling Genuine Products Protecting Intellectual Property Rights" (銷售真牌產品、保護知識產權) from Union for Protection of Intellectual Property Rights of Commerce Street Central Huaihai Road. The store also retained titles of "Environmentally Aware Mall" (綠色環保商場) and "Honesty Unit in Luwan District" (盧灣區誠信單位).

"Sound management and honest reputation, our stores in the region had won broad approval from consumers and citizens and had received a variety of honours."

113.26% rise

platinum VIP card membership

In September 2007 Shanghai Wujiaochang Branch Store won an award for "No Fakes at Stores Nationwide" (全國百城萬店無假貨), establishing a corporate image for quality and reliability.

In September 2007, Ningbo Store achieved accreditation, for the first time, under the scheme of "ISO9000 quality control system accreditation" (ISO9000品質管制體系認證) by Zhongcheng Accreditation Service Centre. In March 2008, the store won for the third consecutive year the title of "Top Ten Enterprises in Department Store and Retailing in Ningbo" (寧波市百貨零售十強企業) from the Steering Committee on Development of Logistic Services for Commerce and Trade in Ningbo.

In February 2008, Wuxi Store was honoured with "Enterprise of Triple-A Credit Rating" (企業信用評價 AAA 級信用企業) by Association of Chinese Businesses. In March 2008, the store was designated "Honesty Unit" (誠信單位) by Wuxi Consumer Council. In the same month, it was elected "2007 Advanced Enterprise in Wuxi Chongan District Service Industry" (無錫市崇安區2007年度服務業發展先進企業).

Central China Region

Capitalizing on "multiple presences in a single city", the Central China Region realized resource advantage for business alliance.

Business Review – Central China

Capturing business opportunities arising in Central China

During the year under review, the regional economy sustained steady growth in the wake of the announcement of the Government strategy for the rise of Central China. Commerce prospered and infrastructure improved day by day. Per capita disposable income of cities in the region gradually increased, leading directly to greater consumption power for the people. As lifestyle and taste changed, quality living and quality enjoyment became common pursuits among consumers.

Among cities in Central China, Wuhan is located at the centre of the Chinese Mainland, in the most vibrant Hubei region with the highest concentration of businesses. In late 2007, the State approved Wuhan City Zone for piloting nationwide packaged reforms in social infrastructure. That created new opportunities in the development of Wuhan and helped stimulate overall expansion of the market in Central China.

Central 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)
Wuhan	8.28 million	314.15 billion	37,904	14,357	151.83 billion
Changsha	6.53 million	219.03 billion	33,711	16,153	103.70 billion
Xiamen	2.43 million	137.53 billion	56,595	21,503	36.21 billion

Central China Region	No. of Mainland Tourists	No. of Foreign Tourists	Consumption Spending by Mainland Tourists (RMB)
Wuhan	38.89 million	529,800	29.70 billion
Changsha	28.61 million	501,000	23.00 billion
Xiamen	19.45 million	931,600	23.96 billion

Sources

- Statistical Information Network of Wuhan（武漢市統計信息網）
- Statistical Yearbook of Wuhan（武漢統計年鑒）
- Statistical Information Network of Changsha（長沙統計信息網）
- 2007 Statistical Bulletin of Domestic Economy and Society Development of Changsha（長沙市2007年國民經濟和社會發展統計公報）
- Xiamen Bureau of Statistics（廈門市統計局）
- Xiamen Bureau of Tourism（廈門市旅遊局）

Business Review — Central China

• *Wuhan Qiaokou Branch Store*

291.7 billion

Total Retail Sales of Consumer Goods (RMB)

Building trendy foothold in promising business zone

During the year under review, the Group succeeded in acquiring the rights of operation and property of our first managed store in China — Wuhan New World Department Store ("Wuhan Store"). Starting February 2008, the store formally changed from a managed store to a self-owned store.

In January 2008, the Group also began operating and managing our fifth branch store in Wuhan at Wuhan Xudong Branch Store. The new store is located at the city's Hongshan District which, falling within one of the key commercial sub-zones under municipal government planning, promises immense consumption potential.

Wuhan Xudong Branch Store positions itself at the middle-high segment of the market, targeting new generations of locals aged between 24 and 40. It has debut in the Xudong business zone as a fashionable, trendsetting one-stop shopping centre.

The three-storey store has a total gross floor area of about 30,000 square metres, gathering about 300 well-known domestic and foreign labels. Product categories include branded watches, jewellery, cosmetics and skincare products, fashion and accessories, business wear, footwear, sportswear and sporting equipment, children's wear, toys, household goods and small electrical appliances. The store also houses restaurants as well as beauty and hairdressing salon to provide truly one-stop shopping service.

• *Changsha Trendy Plaza*

Delivering advantages of "multiple presences in a single city"

In the year under review, we operated five self-owned stores in the region. They were Wuhan Store, Wuhan New World Trendy Plaza ("Wuhan Trendy Plaza"), Wuhan New World Department Store — Wuchang Branch Store ("Wuhan Wuchang Branch Store"), Wuhan New World Department Store — Qiaokou Branch Store ("Wuhan Qiaokou Branch Store") and Xiamen New World Department Store ("Xiamen Store"). We also operated two managed stores, including Changsha New World Trendy Plaza ("Changsha Trendy Plaza") and Wuhan Xudong Branch Store.

"Exclusive labels and international brands assured competitive leadership for Wuhan Store"

• *Wuhan Wuchang Branch Store*

Capitalizing on "multiple presences in a single city", the Central China Region realized resource advantage for business alliance. That broadened the room for cooperation with suppliers and enabled retention of market shares for our stores. Since stores in the region covered different commercial circles over an extensive area, they developed a distinct operational

Business Review — Central China

• *Wuhan Trendy Plaza*

advantage while meeting suppliers' need for growth. Specializing mainly in apparel goods, and striving to strengthen apparel-related and non-apparel operations, all shops enjoyed good sales.

Exclusive labels and international brands assured competitive leadership for Wuhan Store. In the autumn of 2007, Wuhan Trendy Plaza revamped its merchandise mix for ladies' wear, optimized and raised the profile of its concessionaire operation to reinforce its youthful, trendy and popular market positioning.

Wuhan Wuchang Branch Store also adjusted its ladies' wear section. After reassessing the consumption traits of female customers in Wuchang District, the store introduced certain influential brands accordingly. Besides, the lingerie section was relocated to a more stand-alone corner. Through repackaging with lighting and decoration, the new lingerie section better conformed to customer taste.

In addition, the store also set up in the jewellery section and premium section more concessionaire counters for renowned brands, and introduced such new product categories as imported wines and health supplements to increase overall sales.

In the merchandise mix of Wuhan Qiaokou Branch Store, mature ladies' wear and business wear held relative dominance. During the year under review, the store introduced a number of promising labels in ladies' wear and cosmetics.

Within the year, Changsha Trendy Plaza expanded its sections for leisure goods and premium items. It also introduced many well-known brands as it stepped up merchandising for its direct-sales portfolio.

Xiamen Store expanded its sales area for cosmetics, besides adding an authorized Olympics concessionaire, sales sections for children's wear and bedding, as well as small electrical appliances.

67.05% rise

platinum VIP Card membership

• *Xiamen Store*

• *Wuhan Xudong Branch Store*

Total GFA (approx.) 214,650 sq.m.

Central China Region	Date of Commencement of Operation	Approx. Gross Floor Area (sq. m.)	Approx. Operating Floor Area (sq. m.)
Self-owned Store			
Wuhan Store	November 1994	42,000	24,800
Wuhan Trendy Plaza	December 2001	23,000	17,300
Wuhan Wuchang Branch Store	October 2005	22,650	16,500
Wuhan Qiaokou Branch Store	September 2006	42,000	30,600
Xiamen Store	September 2006	20,000	14,900
Managed Store			
Changsha Trendy Plaza	September 2006	35,000	22,500
Wuhan Xudong Branch Store	January 2008	30,000	23,000
Total		214,650	149,600

Business Review — Central China

Ceaselessly innovating promotions

In marketing strategy, the Central China Region has always stressed the importance of maintaining good relations with VIP members. During the year under review, stores in the region held innovative, exclusive VIP events that coordinated well with media and SMS advertising. With our special offers we stimulated monthly store visit and spending by VIP members and, in so doing, helped cultivate membership loyalty.

For instance, at the VIP reception for *A New Dress for a New Flat at New World* jointly held by Changsha Trendy Plaza and New World China Land, the fashion show featuring 2008 summer arrivals, the show flat and the meal blended into a feast of senses that directly stimulated spending. Through media advertising and coverage, such exclusive activities not only induced spending by attending VIP members, but also promoted store visit, in-store spending and membership enrolment by non-VIP customers.

Apart from exclusive VIP events, the region also launched within the year many themed promotions to enhance corporate profile. More important than offering discounts to customers, such promotions afforded a chance for store visitors to participate in what was new and interesting, thereby inducing in them an urge to spend.

Within the year, membership of VIP card and platinum VIP card in the Central China Region grew by 19.67% and 67.05%, respectively, over the Previous Year.

In December 2007, together with Poco, the largest photography website well known in China, as well as *Changjiang Commercial Daily* and *New Life Weekly*, two main print media in Wuhan, Wuhan Qiaokou Branch Store jointly held *Icy Magic in Christmas*, a themed photo contest. Aimed at throwing media spotlight on the post-reconstruction outlook and Christmas sights on the walking zone in Wuhan, the month-long event thrived on Web media promotion and enrolled over 1,000 contestants. Mass outdoor

"The Central China Region has always stressed the importance of maintaining good relations with VIP members. With our special offers we stimulated monthly store visit and spending by VIP members and, in so doing, helped cultivate membership loyalty."

shootings by photography lovers drew hordes of passersby, boosting visitor traffic for the store. Extensive coverage by various media in the city also raised store visibility.

Through creative advertising, our stores succeeded in producing surges in sales volume for specific merchandise. *Costume Fun with Angel Child*, a promotion of children's wear held by Wuhan Qiaokou Branch Store, met with huge enthusiasm. Event advertising hit right on the nail the needs of target

Business Review — Central China

customers, resulting in product sold-out every day on a limited-supply basis. The promotion boosted sales both in the children section and throughout the store.

To increase visitor traffic and cultivate potential customers, stores in the region also staged ad-hoc promotions targeting specific groups. In March 2008, Wuhan Store organized *National White-collared Trade Week*, offering attractive terms of purchase to white-collared workers of Wuhan New World Trade Tower to cultivate store-visiting and in-store spending habits in the target group and to stimulate sales.

Staying way ahead in quality service

Our stores in the Central China Region are committed to maintaining professional, quality customer service. In the year reported, they won acclaims from Government and consumers on many occasions. In January 2008, Wuhan Wuchang Branch Store won the designation of "Customer Satisfaction Unit" (消費者滿意單位) from Wuhan Hongshan Federation of

Consumers. In April 2008, the store was designated "Hubei Labour Security Honesty Unit" (湖北省勞動保障誠信單位) by Office of Labour and Social Security, Hubei.

In the year reported, Wuhan Store was honoured with "2007 Safety in Production Red Flag Unit" (2007年度安全生產紅旗單位) by the district authority of Jiangan, Wuhan, and with "Hubei Most Law-abiding Credible Hardworking Unit" (湖北省最佳守法誠信用工單位) by Labour and Social Security Bureau of Wuhan. Besides, in the year under review, Wuhan Store was awarded "2007 Advanced Tax-paying Unit" (2007年納稅先進單位) by the local authority of Jiangan District. Wuhan Qiaokou Branch Store also won the designation of "2007 Qiaokou District Heavy Taxpayer" (橋口區2007年度納稅大戶).

In July 2007, outstanding sales staff at Xiamen Store selected to take part in the shopping guardian election in Xiamen won the designation of "Ten-star Shopping Guardian Angel" (十佳導購天使).

Northern China Region

Exploiting festive occasions and the advent of the Olympics, stores in the region launched themed promotions to boost store traffic and revisit rate.

Business Review – Northern China

Beijing Olympics promotes regional prosperity

As Northern China houses the country's political, economic and cultural centre, economic developments and government policies issuing from the region could wield tremendous impact on the rest of China. In the year under review, the infrastructure, transport network and tourist facilities in the national capital and peripheral regions further improved as the authority prepared for the Beijing Olympics. Large-scale infrastructural projects in many fields brought impetus to commerce and trade, propelling a new wave of economic development. The region was alive with boundless opportunities.

In 2007, local GDPs of regional cities maintained stable growth. Consumption sentiments heightened on the whole while trendy products gained huge popularity with citizens. The high-end consumer market kept on growing due to rising consumer demands for quality and trend. Retailers scurried for novel and vogue merchandise to please consumer taste.

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	16.33 million	900.62 billion	56,044	21,989	380.02 billion
Tianjin	11.15 million	501.83 billion	20,443	16,357	160.37 billion
Lanzhou	3.29 million	73.28 billion	15,051	10,271	33.70 billion

Northern China Region	No. of Mainland Tourists	No. of Foreign Tourists	Consumption Spending by Mainland Tourists (RMB)
Beijing	143.00 million	4.36 million	175.40 billion
Tianjin	60.17 million	1.03 million	68.59 billion
Lanzhou	4.35 million	4.42 million	2.50 billion

Sources

- National Statistics Bureau of China (中國國家統計局)
- Statistical Information Network of China (中國統計信息網)
- People's Network (人民網)
- Lanzhou News Network (蘭州新聞網)

Business Review — Northern China

574.1 billion

Total Retail Sales of Consumer Goods (RMB)

• *Tianjin Store*

> **"To upgrade its upbeat positioning and enhance its presence in the business zone, the store repositioned some of its concessionaire counters in a continual effort to enhance the shopping ambience and to project a more high-profile image for the sales area."**

Refreshing public profile by re-orientating business

In the year reported, the Group operated in the Northern China Region with 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 New World Trendy Department Store ("Beijing Trendy Store") and Lanzhou New World Department Store ("Lanzhou Store").

In the Current Year, rising to challenges posed by intense competition in the regional retail industry, our stores undertook major adjustments in store outlook and business, optimizing merchandise mix in accordance with market demands.

Beijing Shopping Mall carried out reconstruction of ceiling and flooring to provide a fresh and more comfortable environment for shopping. Adjustments to the merchandise mix continued. More representative and bestselling brands were introduced to upgrade the profile of the product portfolio.

Beijing Trendy Store targeted as its main customer group the white-collared city workers who were fashion-conscious and with a passion for refined living. To upgrade its upbeat positioning and enhance its presence in the business zone, the store repositioned some of its concessionaire counters in a continual effort to enhance the shopping ambience and to project a more high-profile image for the sales area.

• *Beijing Trendy Store*

The store also optimized the portfolios of leisure and denim labels, enlarged the sales areas for sporting goods and integrated the section on ladies' footwear. Departmentalizing fashion footwear, leisure footwear and footwear carrying a higher price tag resulted in a marked rise in sales of such products.

• *Beijing Shopping Mall*

Catering to the lifestyle of the target customer group, Beijing Trendy Store set up a coffee outlet and a food court. The provision of cozy, leisurely dining facilities benefited store traffic and sales growth.

In the sixth business re-adjustment since opening, catering to consumer preferences, Tianjin Store added more brands in the section for ladies' footwear and expanded the operating areas for the sections on clocks and watches, ladies' casual wear and lingerie. Meanwhile, it introduced fun and vogue products as well as dining facilities to enhance store profile and overall competitiveness.

Lanzhou Store undertook a third round of business re-adjustment, optimizing merchandise mix to reflect a primary emphasis on best-selling brands in the region and a secondary emphasis on exclusive labels in its bid to become an exquisite department store.

Business Review — Northern China

> "Introduced fun and vogue products as well as dining facilities to enhance store profile and overall competitiveness."

Northern China Region	Date of Commencement of Operation	Approx. Gross Floor Area (sq. m.)	Approx. Operating Floor Area (sq. m.)
Self-owned Store			
Tianjin Store	October 1997	56,000	35,600
Managed Store			
Beijing Shopping Mall	July 1998	93,000	64,000
Lanzhou Store	September 2005	27,200	23,600
Beijing Trendy Store	March 2007	39,400	22,300
Total		215,600	145,500

215,600 sq.m.

Total GFA (approx.)

• *Lanzhou Store*

Maintaining market share by flexibility and change

In the Current Year, faced with new market players and challenges posed by current competition, the Northern China Region exercised great flexibility in leveraging VIP resources to grow our business and maintain the market share for respective stores.

In July 2007, in celebration of the 100-day anniversary of Beijing Trendy Store, we held *Pleasant Surprises for Hundred-day Anniversary* and the first *Karaoke Contest for 100*. The contest attracted over 100 enrolments and, with enthusiastic attendance and interaction from shoppers, boosted store traffic and the revisit rate.

Exploiting festive occasions and the advent of the Olympics, stores in the region launched themed promotions accordingly. These included *Mobilizing for the Olympic Year, Olympic Cheerleaders Show* and *Photo-taking with Fuwa.*

“To enhance a sense of prestige and increase the rates of store revisit and in-store spending, our stores also held diversified activities exclusively for current VIP members.”

Business Review — Northern China

In the year under review, the membership of VIP card and platinum VIP card in the Northern China Region increased by 19.93% and 56.34%, respectively, over that in the Previous Year.

Winning recognition for excellence in management

Stores in the region received many honours in the year under review. Beijing Shopping Mall won the title of "2007 Beijing Role Model Post of Civility" (2007年首都文明示範崗) in December 2007. It was awarded "Excellent Enterprise in 2007 Honesty in Promotion Cup" (2007年誠信促銷文明杯競賽優勝企業) by Beijing Business Union in February 2008.

In December 2007, Beijing Trendy Store was commended as "Role-model Mall of Peace and Security in Beijing" (首都平安示範商場) by Beijing Office of General Administration, Bureau of Public Security, Bureau of Industry and Commerce and Committee on National Assets. In June 2008, the

With the first ever breakdown in 2008 of the Labour Day holiday week into three mini holidays of Ching Ming Festival, Labour Day and Dragon Boat Festival, the stores scheduled earlier activity hours in line with consumption traits of each mini holiday to accommodate holiday traffic.

Considering the critical role that VIP spending played in sales growth, our stores focused on increasing card issuance. They held joint promotions with various banks, affording VIP hospitality to holders of credit cards issued by collaborating banks, thus extending the channels of recruitment for VIP members.

To enhance a sense of prestige and increase the rates of store revisit and in-store spending, our stores also held diversified activities exclusively for current VIP members. They included VIP-only festive discounts, VIP-only salons, exclusive VIP sale sessions at prestigious hotels, VIP lifestyle talks and birthday presents for platinum VIP cardholders.

store was designated "Star Olympics Volunteer in Beijing Business Service Sector" (北京市商業服務業奧運志願服務標兵) by Bureau of Commerce and Business Union of Chaoyang District.

In July 2007, Tianjin Store won six awards for group 2nd runner-up, individual champion, individual 2nd runner-up, individual 6th runner-up, group distinction and organization distinction in the "4th Tianjin Banker Union Cup on Cashier Skills" (天津市第四屆銀聯杯收銀員職業技能大賽) co-organized by Tianjin Committee of Commerce, Bureau of Labour and Social Security, Tianjin Workers' Union, Tianjin Committee of Young Communist Cadres, Tianjin Women's Union and Office of Tianjin Joint Committee on Development of Applications for Bank Credit Cards. In late 2007, the store was elected "Most Popular Store with Tianjin Consumers" (天津市最受消費者喜愛的商場) by Tianjin Daily News Group.

56.34% rise

platinum VIP Card membership

Southwestern China Region

Distinctive market positioning and product mix optimization promises continuous market share expansion.

Business Review – Southwestern China

Land of rich resources and growth potential

In the year under review, Chongqing and Chengdu were among the regions planned for "centrally coordinated pilot reform in general infrastructure in cities and villages nationwide". Government-championed economic reform in Southwestern China brought significant improvements to regional transport and infrastructure. The regional economy grew fast and living standard further improved.

Tourism prospered in particular on account of the rich natural resources in Sichuan and Yunnan. Tourist traffic surged in regional cities in the Current Year. With its own abundant resources, and strong government support driving economic development, Southwestern China promises immense prospect of growth in the long run.

In May 2008, rare massive earthquakes shook Sichuan, bringing serious destruction to the province. The two stores that the Group operated in the province emerged relatively unscathed, being located at city centres farther away from worst-hit districts. As both were managed stores, the effect on regional business at large was also relatively mild. Observing government directives, Chengdu New World Department Store ("Chengdu Store") and Chongqing New World Department Store ("Chongqing Store") shut down for three days and one day, respectively, after the disaster struck.

Southwestern 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)
Chongqing	28.16 million	411.18 billion	14,622	13,715	166.12 billion
Chengdu	12.58 million	332.44 billion	26,527	14,849	135.72 billion
Kunming	6.19 million	139.37 billion	22,578	12,083	56.94 billion

Southwestern China Region	No. of Mainland Tourists	No. of Foreign Tourists	Consumption Spending by Mainland Tourists (RMB)
Chongqing	80.09 million	761,700	41.37 billion
Chengdu	42.54 million	786,000	39.54 billion
Kunming	24.37 million	713,400	15.33 billion

Sources

- Statistical Information Network of China (中國統計信息網)
- 2007 Statistical Report released by Chengdu Bureau of Statistics (成都統計局)
- 2007 Statistical Report released by Chongqing Bureau of Statistics (重慶統計局)
- 2007 Statistical Report released by Kunming Bureau of Statistics (昆明統計局)

Business Review — Southwestern China

• *Chongqing Store*

358.8 billion

Total Retail Sales of Consumer Goods (RMB)

> **"To encourage greater customer participation and stimulate spending, the stores made good use of big festivals for theme promotions and to kick off joint region-wide activities."**

• *Kunming Store*

Optimizing product portfolio to expand market share

In the Current Year, the Group operated three managed stores in the Southwestern China Region. They were Chongqing Store, Chengdu Store and Kunming New World Department Store ("Kunming Store").

Each store adopted a distinct market positioning and optimized its merchandise mix. Through a variety of promotions, they all achieved rises in store traffic and sales. After such efforts at optimization, sales stabilized in the Southwestern China Region, laying a good foundation for the introduction of new brands in future.

In the year reported, Chongqing Store focused on integration and adjustment of brands in jewellery, ladies' wear, menswear, sportswear and sporting goods. Having sublet an extra area of about 3,000 square metres, the store gradually staked out its share in the market in the Jiangbei commercial zone.

platinum VIP Card membership 63.64% rise

Chengdu Store affirmed positioning as a fashionable department store. In the Current Year, it completed two rounds of integration in sales areas and merchandise, focusing on adjustment of ladies' footwear, ladies' wear and cosmetics and introduction of a wealth of popular brands. Shopper traffic doubled while sales and market share registered substantial increases. There was apparent growth in the level of customer satisfaction, market awareness and brand recognition.

Kunming Store concentrated on the elimination and replacement of branded ladies' footwear, ladies' wear and jewellery. In the Current Year, the emphasis was on establishing and increasing key customer groups. By optimizing merchandise mix and developing a distinctive operating profile, the store achieved substantial rise in shopper traffic.

VIP membership rises steadily as promotions stimulate consumption

In the year reported, stores in the Southwestern China Region actively developed key customer groups and increased issuance of VIP cards. VIP membership increased by 25.83% over the Previous Year while platinum VIP membership, by 63.64%.

Chengdu Store sought to enhance the prestige of VIP members through a variety of marketing activities. It adjusted its gifts for VIPs, launched a value-added VIP service plan, increased collaboration with other businesses and held regular VIP salons.

Business Review — Southwestern China

Southwestern China Region	Date of Commencement of Operation	Approx. Gross Floor Area (sq. m.)	Approx. Operating Floor Area (sq. m.)
Managed Store			
Kunming Store	June 2004	12,600	8,700
Chongqing Store	September 2006	42,000	32,400
Chengdu Store	December 2006	29,500	18,900
Total		84,100	60,000

Chongqing Store promoted VIP membership by collaborating with partners in various businesses, encouraging in-store spending and card application.

In the Current Year, stores in the Southwestern China Region established clear, distinctive market positioning and formulated detailed, comprehensive marketing plans. Through a diversity of themed promotions, they increased interaction with young customers and catered to the needs of target customer groups.

The stores extended the promotional period of popular goods from weekends only to weekdays, affording a bigger chance for customers to enjoy shopping on special terms and stimulating consumption sentiments. Highlighting key products and exclusive brands, the stores ran promotions from time to time to stabilize spending by major customers. To encourage greater customer participation and stimulate spending, the stores made good use of big festivals to theme promotions and to kick off joint region-wide activities.

Chongqing Store centered its promotions around important festivals, highlighting its advantage in general, trendy retailing with a diversity of products and operative modes that catered to multiple customer tastes. Apart from offering discounts and free shopping coupons, the store organized themed singing and dancing events and fashion shows to pull crowds and increase store traffic. The store also leveraged its rich tenancy resources regularly holding joint functions with its tenants. Such activities provided opportunities for interaction with customers, enhanced their shopping fun and projected a lively, diversified image for the store, fully underscoring the benefit of customer sharing.

84,100 sq.m.

Total GFA (approx.)

Chengdu Store seized the Olympics opportunity to develop a series of themed activities in anticipation of the event. On holidays like Mother's Day, Father's Day and Dragon Boat Festival, the store launched festive promotions to boost holiday sales. The store stressed coordination between promotions and media relations and actively sought to establish good relationships with mainstream media in Chengdu to maximize visibility. Press coverage of shop activities carried instant advertising effectiveness, attracted store visit and in-store spending by target customers and helped shape a sound brand image.

Kunming Store launched large-scale monthly marketing programs integrating sales and PR functions, and weekly promotions according to conditions in the market, merchandise and season. Through promotions such as sale parties and anniversary celebrations, the store substantially enhanced customer loyalty, with new customers increasing by the day.

Projecting a sound corporate image with honest service

In March 2008, Chongqing Store won the title of "Honesty-based Enterprise" (誠信經營企業) in honour of its service quality, product quality, production conditions and management system from Chongqing Jiangbei District Committee for Protection of Consumer Rights. In the same month, the store became a role model enterprise following the conferment of the title of "2007 Distinguished Enterprise in Commerce and Trade in Jiangbei District" (2007年度江北區商貿優秀企業) by the authority in Jiangbei District, Chongqing.

In March 2008, Chengdu Store won designation of "Top 100 Honesty Brands" (誠信100品牌) from Chengdu Consumer Federation for its sound product quality, business credit, customer trust and market reputation.

In April 2008, Kunming store was designated "2008 Excellent Business Authorized for Handling Foreign Bank Cards" (2008年授理境外銀行卡優秀商戶) by Bank of China.


enriching lives
One-stop service for
a unique shopping experience

Management Discussion & Analysis

FINANCIAL REVIEW

Revenue

Revenue of the Group surged to HK$1,489.3 million in FY2008 representing an increase of 42.3% from HK$1,046.9 million in FY2007. The growth primarily resulted from satisfactory performance of all sources of revenue including commission income from concessionaire sales, sales of goods for direct sales, management fees and rental income, which increased by 34.0%, 92.5%, 55.5% and 26.9% respectively from the Previous Year.

Gross sales revenue, comprising gross revenue from concessionaire sales and sales of goods for direct sales, increased by 36.9% to HK$5,057.7 million in FY2008 from HK$3,693.5 million for the Previous Year. The performance of gross sales revenue was primarily due to firstly, strong same store sales growth of approximately 25.3% for stores having operations for more than two years; secondly, the gross sales revenue contribution of recognising a full year's operations of certain stores opened in FY2007 and thirdly, the gross sales revenue contribution of Anshan Store and Nanjing Store opened in the Current Year. The Wuhan Store, which we acquired from Solar Leader Limited, a fellow subsidiary of the Company and became our self-owned store during the Current Year, also contributed to the increase in gross sales revenue. Commission income rate was 21.0% in FY2008, slightly below the rate of 21.2% for the Previous Year, mainly due to the increase in promotion of sales activities during the Current Year. In FY2008, ladieswear and accessories made up approximately 55.8% of gross sales revenue. Menswear and accessories made up approximately 29.0% and kidswear, sportswear, watches, gifts and stationery largely made up the rest of gross sales revenue. Direct sales mainly covered cosmetic products, Beijing Olympics-themed products, accessories and handbags, groceries and perishables and others by approximately 41.0%, 39.8%, 6.2%, 6.5% and 6.5%.

Management fees increased by 55.5% to HK$165.5 million in FY2008, primarily as a result of recognising a full year's management fees from certain managed stores which became our new managed stores in the Previous Year. The opening of Shanghai Pujian Branch Store and Wuhan Xudong Branch Store in FY2008 also contributed to the growth of management fees in the Current Year. However, the management fee from Wuhan Store was recognised for only the first 7 months in the Current Year, prior to our acquisition of it, as compared with the management fee for full period in the Previous Year.

Rental income increased by 26.9% to HK$82.1 million in FY2008 mainly due to leasing area in newly opened self-owned stores.

Other income and gain on fair value of financial assets at fair value through profit or loss

Other income of the Group was HK$119.3 million in FY2008 primarily comprised interest income of HK$94.1 million on bank deposits. Gain on fair value of investment in Renhe Commercial Holdings Company Limited amounted to HK$3.2 million.

Purchases of and changes in inventories

The purchases of and changes in inventories represent the cost of sales for direct sales of goods. The purchases of and changes in inventories increased by 107.0% to HK$176.6 million in FY2008 from HK$85.3 million for the Previous Year. As a percentage to direct sales of goods, gross profit margin in FY2008 was 21.3% which was 5.5% lower than 26.8% for the Previous Year, primarily due to the lower margins of precious Olympic metals sold and promotion of other merchandises.

Employee benefit expense

Employee benefit expense increased from HK$147.4 million in FY2007 to HK$214.9 million in FY2008. This increase was primarily due to the inclusion of employee share option expenses for the share options granted and vested during the Current Year, an increase in wages and salaries and other employment benefits as a result of recognising a full year's operations of self-owned stores opened in the Previous Year, and increase in manpower from newly opened Anshan and Nanjing Stores and also from the Wuhan Store which was acquired in the Current Year.

Depreciation and amortisation

Depreciation and amortisation expense increased by 28.8% from HK$97.5 million in FY2007 to HK$125.6 million in FY2008. This increase was primarily due to increase in depreciation and amortisation as a result of recognising a full year's operations of certain stores opened in the Previous Year, self-owned Anshan and Nanjing stores opened in the Current Year and the acquisition of Wuhan Store property having a gross floor area of approximately 42,000 sq.m. Depreciation and amortisation expense as a percentage to revenue slightly decreased by 0.9% in FY2008.

Operating lease rental expense

Operating lease rental expense increased by 15.8% from HK$267.7 million in FY2007 to HK$310.1 million in FY2008, primarily due to the effect of recognising a full year's operations of certain stores opened in the Previous Year and Anshan and Nanjing Stores newly opened in the Current Year. Operating lease rental expense as a percentage to revenue decreased by 4.8% in FY2008 mainly as a result of operating leverage of the expense.

Other operating expenses

Other operating expenses increased by HK$6.6 million or 3.5% from HK$188.6 million in FY2007 to HK$195.2 million in FY2008. This increase was primarily due to a HK$3.2 million increase in promotion, advertising and related expenses and a HK$15.3 million increase in water and electricity expenses relating primarily to the newly opened stores, the acquisition of Wuhan Store and the effect of recognising a full year's operations of certain stores in the Current Year. Other operating expenses as a percentage to revenue decreased by 4.9% in FY2008.

Management Discussion & Analysis

Operating profit

Operating profit increased by 68.0% to HK$589.4 million in FY2008 from HK$350.8 million in FY2007. Operating profit as a percentage to revenue increased by 6.1% to 39.6% in FY2008, primarily as a result of satisfactory same store sales growth, commission income rate, direct sales, management fee income and management of various operating expenses, all on the back of market condition and management strategies and performance.

Finance income

Finance income increased by HK$5.5 million primarily due to the inclusion of HK$10.8 million interest income from deposits relating to share subscription under the listing of the Company's shares (the "Listing") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 July 2007.

Income tax expense

Income tax expense increased by 131.9% from HK$53.3 million in FY2007 to HK$123.6 million in FY2008, primarily as a result of increase in profit before income tax.

Profit for the year

As a result of the reasons mentioned above, profit for the year increased by 57.4% to HK$476.6 million in FY2008 from HK$302.8 million in FY2007. Net profit margin increased to 32.0% in FY2008 from 28.9% for the Previous Year, primarily as a result of expansion strategies of the Group, organic growth of revenue and costs control.

Liquidity and financial resources

Cash and fixed deposits of the Group increased by HK$2,160.1 million to HK$3,127.6 million as at 30 June 2008 (30 June 2007: HK$967.5 million). This increase primarily comprised the cash received during the Listing on the Main Board of the Stock Exchange on 12 July 2007 and net cash generated from operating activities in the Current Year.

The Group had no borrowings as at 30 June 2008.

The capital commitments of the Group as at 30 June 2008 were HK$69.0 million, of which HK$62.9 million were contracted but not provided for in the balance sheet.

Pledge of assets

Assets of the Group were not pledged as at 30 June 2008.

Treasury policies

The Group mainly operates in Mainland China with most of the transactions denominated in Renminbi. The Group is exposed to foreign exchange translation risk, arising from the exposure of Hong Kong dollars against Renminbi. The Group has not used any forward contracts or currency borrowings to hedge its foreign exchange risk.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 June 2008.

Acquisition of a subsidiary, a building and land use rights

During the year ended 30 June 2008, the Group has acquired 100% of the equity interest in Uphill Group Limited from Solar Leader Limited, a fellow subsidiary of the Company, at a consideration of about HK$885.4 million; a building and land use rights in Shenyang from New World Development (China) Limited, a fellow subsidiary of the Company, at a consideration of HK$270.0 million.

Use of net proceeds from Main Board Listing

The shares of the Company were successfully listed on the Main Board of the Stock Exchange on 12 July 2007, with a total number of the shares of 467,245,000 ordinary shares issued under the Global Offering as defined and set out in the prospectus of the Company dated 28 June 2007 (including shares issued as a result of the exercise of the over-allotment option), and the net proceeds from the shares listing aggregated to approximately HK$2,558 million. On 5 May 2008, the Company announced the revision of use of proceeds. Up to 30 June 2008, the utilised net proceeds from the above shares listing were all in line with the items disclosed in the revised use of proceeds.

Management Discussion & Analysis

OUTLOOK

The sub-prime crisis that broke out in the United States affected economies around the world. Overshadowed by the slowdown in the global economy, China's economic growth slackened in 2008. Natural disasters such as snowstorms and earthquakes that struck the mainland also dampened consumption sentiments, slowing down the pace of growth in the retail market.

Figures from National Bureau of Statistics showed that gross domestic product (GDP) increased 10.4% in the first half of 2008, with the growth rate dropping 1.8 percentage points year-on-year. This reflected the overall economy remained strong in China, despite a slowdown in its growth pace.

Slow economic growth reflected a cool off in investments and exports. Yet, per capita disposable income and total retail sales of consumer goods recorded year-on-year rises of 14.4% and 21.4%, respectively, indicating that consumer demand had maintained a tendency for steady climb.

As growth in internal demand sustains, personal income keeps on rising, and government's inflation controls prove effective, the Group believes that both the economy and the retail sector remain in good health in Mainland China. Becoming a dominant department store operator in the PRC remains the corporate mission of New World Department Store. In future, we will maintain a cautiously optimistic outlook, despite challenges ahead in the slide in peripheral economies as well as the macro austerity adjustment and inflation in China. We believe that by further consolidating our current footholds in regional core growth cities and proactively developing new markets, we can continue to maintain our strong growth momentum in the Chinese retail market, which still promises boundless opportunities.

STRATEGIES FOR FUTURE DEVELOPMENT

For the past 15 years, the Group had been developing the department store business in China as we carried out our corporate mission of becoming the dominant department store operator in the PRC. With reference to the consumption patterns and market trends in the retail sector in China, we have formulated a series of comprehensive, long-term development principles and strategies.

OPERATIONAL STRATEGY

Adopting three-tier management structure and expanding retail network

The Group has adopted a three-tier management structure comprising Central Management, Regional Management and Local Management, achieving efficiency in teamwork through division of labour. In the year under review, answering to new requirements in business growth, we integrated our six operational regions, subsuming Shanghai Municipality within Eastern China Region to better our network in the Changjiang Delta. After integration, the six regions would be better poised for future growth and expansion.

Optimizing profit structure and upgrading corporate profile

The Group's stores operate as exquisite department stores offering one-stop shopping for customers, with market positioning of middle-high end, middle-high end with high-end bias and high-end.

In our four sources of income namely commission income from concessionaire sales, direct sales of goods, management fees and rental income, we will continue to adopt a series of operating modes and strategies that, with their high efficiency and transparency, can promote growth in the face of a highly challenging operating environment.

Apart from adjustment in merchandise mix necessitated by market demands and seasonal changes, we also upgrade store profile by introducing more brands that are internationally renowned and more goods that with higher per ticket sales.

Concurrently, we strive to acquire the direct operation rights for branded concessionaires, optimize the profit structure and gradually raise the proportion of direct sales of goods.

To maximize overall sales profit, we will continue to grow our portfolio of direct-sales products, adding more cosmetics brands. We will also raise the proportion of sales of products with higher profit margins such as accessories and leather goods.

Identifying new customer groups and maintaining customer loyalty

The group will strive to identify customers with good spending potential for respective stores in our operational regions. This will be conducted on several levels, by organizing promotions in different formats and large-scale bargains on different themes to attract different customer groups in various business zones; by planning staff training to deliver "quality service"; and by undertaking timely, strategic business adjustments to meet consumer demands and enhance the transaction rate.

Meanwhile, through a variety of channels we will promote our VIP membership scheme. By devising different activities and making exclusive offers we will reinforce customer loyalty in the long run. We will also keep on launching co-branded cards with Bank of Communications to further widen customer sources.

Reinforcing long-term partnership with concessionaries and suppliers to save alliance building time

As one of the foreign enterprises pioneering the Chinese retail market, we have established stable, long-term partnership with suppliers of international and domestic brands. Such partnership helps save considerable time in alliance building. To reinforce and maintain sound partnership with our supplier team, we will keep on implementing "Strategic Partnership Scheme" and "Maintenance Scheme for Major Brands". With our communication platform, the "New World Net", we will maintain long-term, mutually beneficial collaboration with suppliers to realize a win-win scenario.

Nurturing a bright and united management team for network expansion

The Group has a management team of seasoned, well-versed retail professionals. Our senior managers possess a diversity of specialist skills and rich retail experiences in China. Some of them once held management positions with large Japanese and Taiwanese department stores. Contributing their experience in operating and managing foreign retail businesses, they sharpen Group competitiveness in daily operation and strategic planning.

Management Discussion & Analysis

Most of the Group's middle management personnel are groomed and promoted from frontline staff. Having accumulated years of experience in operating and managing a department store, they constitute the core of human resources supporting our future growth.

The Group has placed great efforts in training new management talents. In future, we will continue to groom supervisors for middle management through specialized courses run by our New World Department Store Management Academy in conjunction with Shanghai Jiao Tong University, injecting new blood into our management team and providing reliable backup for our expansion in China.

Committed to HR development and realizing staff potential

Since our staff members are important assets of the Group, we have always been committed to human resources development. In the Current Year, the Group provided training for over 100 management trainees recruited from various universities to take up supervisory duties on frontline levels. In future, guided by our belief in training more talents to deliver better service, we will continue to upgrade the service quality offered by our staff through tailor-making specialized training courses by renowned overseas and local consultancies and arranging for overseas training. Such training will cover topics on occupational ethics and corporate culture so that, while familiarizing our staff with the skills for daily operations, it also fosters all-round improvement in personality and heightens the awareness for service.

We firmly believe that by enhancing professional skills and knowledge among our staff and establishing platforms for experience sharing, the Group will be assured of a sufficient pool of superior human resources that we can deploy to effectively enhance our competitiveness.

Strengthening management of information systems

The Group has implemented integrated management of information systems in support of our stores in their operations, sales and promotions, VIP and supplier management, as well as financial and administrative control. In future, we will keep on enhancing management of electronic information, aiming at faster provision of precise sales data to management to enable more accurate grasp of the operational status at the stores. Such enhancement will effectively help management planning and supervision, enable greater flexibility in making adjustments in response to customer and market demands, increase overall operational efficiency and productivity, as well as reinforcing our competitive advantage.

EXPANSION STRATEGY

Opening self-owned stores and entering new cities

The Group will continue to rent suitable properties to increase our footholds of self-owned stores, striving to include, in the terms of lease, provisions for the right to extend the lease agreement and the right of first refusal to acquire. The Group will actively seek opportunities of growth in cities with a booming economy, including existing markets in Shanghai, Beijing, Zhejiang, Jiangsu and Sichuan. We will strive to open new stores in cities where we have no foothold, such as Xi`an in Shaanxi and Taiyuan in Shanxi, to increase our market share. At opportune moments, we will expand or renovate well-established stores to enlarge their sales area.

Clarifying guideline for store-opening and confirming target of growth

We have mapped out our development plan and followed up tightly on store-opening criteria. Capitalizing on the veteran experience and firm reputation of New World Development Company Limited, our parent company, the Group enjoys considerable advantage in securing prime locations with growth potential to locate new stores. We opt to open new stores mainly in first- and second-tier cities as well as cities with huge growth potential. Project development divisions have been set up in our six operational regions, with specialists tasked with advancing the new projects. For the next financial year, the Group has set forth the objective of adding a total GFA of 60,000 to 90,000 square metres of self-owned store (estimate to open 2 to 3 self-owned stores) in pursuit of our mission of becoming a dominant department store operator in the PRC.

Deploying "multiple presences in a single city" strategy to deliver synergy

The Group has designated, respectively, Shenyang, Shanghai, Wuhan and Beijing as the core growth city for the Northeastern China Region, Eastern China Region, Central China Region and Northern China Region. By deploying expansion strategies of "multiple presences in a single city", we will initially set up a number of operations in each core growth city, practise differentiated marketing and seek to deliver synergy, so as to increase market share and enjoy cost efficacy. For instance, in the Current Year, capitalizing on "multiple presences in a single city", the Central China Region realized resource advantage for business alliance. That broadened the room for collaboration with suppliers and enabled retention of market shares for our stores. Since stores in the region covered different commercial circles over an extensive area, they had developed a distinct operational advantage in Central China.

Growing in core growth cities and radiating to peripheral regions

The Group will further expand around the designated core cities by adopting the "radiation strategy". By expanding into radiation cities in neighbouring cities and provinces, we can minimize risks associated with entering new markets. For instance, following the establishment of a firm foothold in Shenyang in the Northeastern China Region, we radiated into Anshan, where pedestrian traffic was heavy, to set up a new store in consistent execution of the radiation strategy.

Adding managed stores and developing greenfield projects

While actively seeking to open new self-owned stores, we will also consider adding managed stores to provide stable income from management fees when opportunities arise. Concurrently, we will explore promising greenfield projects to enhance the prospect for growth. We will also develop new projects with our fellow subsidiary New World China Land Limited and other developers, achieving more effective cost control by participating in store construction at its planning stage.

Looking out for promising acquisition opportunities

We will consider acquiring stores currently under our management, and other outstanding department-store properties and businesses. We will also consider taking ownership of currently leased properties and stores in prime locations. In addition we will negotiate, with the government or real estate developers, for the buying of land for construction of department stores, or the acquisition of commercial properties with large retail space on street level.

Corporate Citizenship

The Group actively cares for the community, living up to a tradition of contributing to the community from which we generate our profit, in fulfillment of our responsibility as a corporate citizen.

1) COMMUNITY AND CHARITABLE ACTIVITIES

Rendering full support for Sichuan earthquake relief

Massive earthquakes struck Sichuan on 12 May 2008. Pitching in on disaster relief, the Group mobilized over 30 stores in 17 cities for a host of joint relief efforts. We held charity sales, donated sales proceeds and set up blood donation stations and donation boxes at all our stores. In addition, we transported relief supplies to devastated areas and co-organized subsidized education. Our shop staff initiated internal fundraising, and some RMB860,000 collected was subsequently donated to Chengdu Red Cross. Besides, Chengdu Store held an earthquake victims consolation gathering to raise funds for staff affected and their families.

MSF Day 2008

The Group contributed to medical and humanitarian relief by Médecins Sans Frontières (or "MSF") by becoming a principal sponsor of *MSF Day 2007*. This year, we continued principal sponsorship for *MSF Day 2008*, raising HK$300,000 from over 3,800 staff members. Through this sponsorship we will continue to collaborate with MSF on its frontline medical relief around the world.

Bright Future Action — A New World for children with amblyopia

Amblyopia, a common ailment around the world, afflicted over 10 million children in China. The Group jointly organized *Bright Future Action — A New World for children with amblyopia* with China Children and Teenagers' Fund (中國兒童少年基金會). The year-long charity programme kicked off on 16 November 2007 at Beijing's Great Hall of the People. All stores in our network served as activity platforms for the promotion and dissemination of knowledge on amblyopia. In-store donation boxes helped collect funds for needy children.

Share the love in severe winter

On 24 December 2007, Harbin Store jointly held *Cotton Warmth Against Wintry Cold* with SAFRON (萊美公司), donating cotton jackets worth about RMB100,000 to HLJ Women and Children's Foundation (黑龍江省婦女兒童基金會). The charity enabled children living in poverty in Northeastern China to feel the warmth and care from society on freezing days.

"Hand-crafted with Love" charity bazaar

During Christmas 2007, Tianjin Store joined with mainstream media and city communities to launch *Hand-crafted with Love*, a handicraft bazaar to raise funds for Tianjin Charity Association (天津慈善協會), people with osteo sarcoma and underprivileged communities. On 24 December, the store held *Silent Night Charity Auction*, inviting the public to bid for donated items in fundraising and blessing for people in need.

"Education for 100 Schoolchildren"

To help poverty children realize their education dream, Beijing Trendy Store kicked off *Education for 100 Schoolchildren* upon its first anniversary. For the next 20 years, it had committed to make annual donations of RMB100,000 to help 100 poor students complete their education at Beijing Normal University (北京師範大學). The programme won community approval and an award, "Special Contribution to Education Development" (教育發展特殊貢獻獎), from the university.

Reverence and love for elders

On the Chung Yeung Festival in 2007, staff from Wuxi Store visited the elderly at a rehabilitation centre and distributed winter clothing, woolen clothing and reading glasses. During Mid-Autumn Festival in 2007, staff from Ningbo Store visited elders living alone in the community and shared festive snacks and mooncakes.

Corporate Citizenship

2) GROUP HONOURS

Winning international awards for Annual Report

In the 21st Mercury Awards, an international competition of annual reports, the Group's annual report for FY2007 won two awards under two categories, namely Bronze Award in "Annual Report: Cover Design" and Silver Award in "Annual Report: Interior Design".

Winning approval and acclaim from government and society

In the year reported, the Group won many awards from Government and social institutions.

Region	Store	Award
Eastern China Region	Shanghai Huaihai Branch Store	"Council Member Unit of 4th Council of Management Association of Shanghai Commercial Enterprises"
		"Honoured Business in Selling Genuine Products—Protecting Intellectual Property Rights"
		"Environmentally Aware Mall"
		"Honesty Unit in Luwan District"
	Shanghai Xinning Branch Store	"Distinguished Group in 2007 Management of Fire Safety in Changning District"
	Shanghai Hongkou Branch Store	"2007 Dragon Card Best Business"
		"2007 Tax Contribution Award"
	Shanghai Wujiaochang Branch Store	"No Fakes at Stores Nationwide"
		The store received a certificate of honour for its fundraising efforts for Yangpu Red Cross and Shanghai Red Cross.
	Wuxi Store	"Enterprise of Triple-A Credit Rating"
		"Honesty Unit"
		"2007 Advanced Enterprise in Wuxi Chongan District Service Industry"
	Ningbo Store	"ISO9000 Quality Control System Accreditation"
		"Top-10 Enterprise in Department Store and Retailing in Ningbo"
		"2007 Best-10 Taxpayer in Jiangdong"
		"2008 Ningbo Jiangdong Pillar Enterprise"
	Ningbo Trendy Store	"Best Organization in Haishu Shopping Festival"
		"Consumer-trusted Unit in 3rd Ningbo Haishu Consumer Trust Award"
Northeastern China Region	Harbin Store	"Triple-A Honesty in Business"
		"Double Trust Enterprise"
	Anshan Store	"Most Brand-worthy Shopping Mall"

Region	Store	Award
Central China Region	Wuhan Store	"2007 Advanced Tax-paying Unit"
		"2007 Safety in Production Red Flag Unit"
		"Most Law-abiding and Honest Hiring Unit in Hubei"
	Wuhan Wuchang Branch Store	"Customer Satisfaction Unit"
		"Honest Labour Security Unit in Hubei"
	Wuhan Qiaokou Branch Store	"Qiaokou District Heavy Taxpayer"
	Xiamen Store	"Distinguished Business"
Northern China Region	Beijing Shopping Mall	"Supportive Unit for the Welfare of the Physically-challenged"
		"Beijing Olympics 2008 Role Model Post of Service with a Smile"
		"Beijing Olympics 2008 Ambassador of Service with a Smile"
		"Beijing Advanced Unit in Patriotic Hygiene"
		"Beijing Role Model Post of Civility"
		"Excellent Enterprise" in the "Honesty in Promotion Cup"
		Third Prize in the "Knowledge Quiz on Production Safety for Peaceful and Safe Olympics"
Southwestern China Region	Chongqing Store	"Honesty-based Enterprise"
		"Distinguished Enterprise in Commerce and Trade in Jiangbei District"
	Chengdu Store	"Top-100 Honesty Brand"

Corporate Citizenship

3) CARE FOR STAFF

Promoting all round development for staff

The Group's steady growth owed much to the loyalty and dedication of our staff. So we valued them, cared about them, and facilitated for them a healthy and dynamic working environment. In the year under review, we devised various programmes and activities that catered to their needs for health, education and a balance between working and living. For instance, Beijing Trendy Store ran monthly birthday parties for staff, stores in Shanghai held joint staff athletics and Chengdu Store organized skills tournaments.

Realizing staff potential

From time to time, the Group devised activities to upgrade the service skills and realize the potential of our staff. Starting 2008, the Group commenced *Quality & Friendship Project* which, based on core values of "living a quality life" and "befriending our customers", afforded ample room for our staff to enhance their service awareness and to deliver quality service through various competitions.

Internships for current-year university graduates

To ensure supply of human resources in keeping with our rapid growth, the Group has been recruiting graduates annually from universities around China to join our internship programme since 2005. Under the programme, the interns were posted to different stores and departments. In the Current Year, the Group provided training for about 100 interns, injecting fresh impetus for our future growth.

New World Department Store Management Academy

To facilitate upgrade in management skills and abilities in our management team, the Group established New World Department Store Management Academy in 2005. Starting March 2006, the academy jointly offered a series of courses in retail operations and management with Shanghai Jiao Tong University. The Group was the first department store operator in the PRC to join hands with tertiary institutions in running management-training courses on department store and retail businesses. In the Current Year, about 70 staff members in management enrolled for various courses.

4) SOCIAL ACTIVITIES

Promoting environmental awareness

In the year under review, our stores held a variety of activities for environmental conservation. They included *Walkathon for Environmental Conservation* (環保志願行) by Changsha Store, *Environment-friendly Shopping Bag Promotion* jointly initiated by Beijing Trendy Store, Tianjin Store and Wuhan Xudong Branch Store, as well as *Tree-planting for Environmental Conservation* by Lanzhou Store.

Pitching in on Olympics Games

In anticipation of the Beijing Olympics 2008, the Group pitched in and rendered full support by organizing during April–July 2008 a series of activities under the umbrella theme of “We Are Ready”. They included gymnastic competition, badminton tournament, karaoke contest and Standard English quiz.

In addition, as a representative of Olympics volunteers, Beijing Trendy Store participated in the swear-in ceremony of “Olympics Volunteering by Beijing Business Services” (首都商業服務奧運志願行動) organized by Beijing Bureau of Commerce (北京市商務局) on 26 June 2008, pledging municipal service for the Olympic Games along with other volunteers.

Welcoming Special Olympics athletes

Shanghai Hongkou Branch Store held a reception on 4 October 2007 for about 400 Special Olympics athletes, coaches and team leaders, in addition to hundreds of volunteers. They came for the Special Olympics World Games from 14 countries. All athletes and their entourages left with fond memories.

Directors' Profile

Non-executive Directors

Dr. Cheng Kar-shun, Henry GBS

aged 61,

has been Chairman and non-executive Director since June 2007. Dr. Cheng is also a director of a number of the subsidiaries of the Company. He is responsible for the overall planning, strategic development and major policy making of the Group. He holds offices in various listed public companies, including being managing director of New World Development Company Limited, chairman and managing director of New World China Land Limited, chairman of NWS Holdings Limited, Taifook Securities Group Limited and International Entertainment Corporation, and non-executive director of Lifestyle International Holdings Limited and independent non-executive director of HKR International Limited. He is also the managing director of New World Hotels (Holdings) Limited, director of Cheng Yu Tung Family (Holdings) Limited, Centennial Success Limited and Chow Tai Fook Enterprises Limited. Dr. Cheng was a director of New World Mobile Holdings Limited and New World TMT Limited. He acts as chairman of the Advisory Council for The Better Hong Kong Foundation and a Standing Committee Member of the Eleventh Chinese People's Political Consultative Conference of the People's Republic of China. In 2001, Dr. Cheng was awarded the Gold Bauhinia Star by the Government of the Hong Kong Special Administrative Region. Dr. Cheng is the father of Mr. Cheng Chi-kong, Adrian, an executive Director.

Mr. Au Tak-cheong

aged 56,

has been non-executive Director since June 2007 and is responsible for overseeing compliance of policy and procedures in relation to accounting matters of the Group. Mr. Au is also the deputy chief financial officer of New World Development Company Limited. He possesses over 30 years of experience in the area of finance and accounting.

Executive Directors

Mr. Cheng Chi-kong, Adrian

aged 28,

has been executive Director since June 2007. He is also a member of the Remuneration Committee. Mr. Cheng joined the Group in 2007 and is responsible for overseeing the corporate affairs of the Group. He is an executive director of each of New World Development Company Limited, New World China Land Limited and International Entertainment Corporation. Mr. Cheng is also a director of Centennial Success Limited and Chow Tai Fook Enterprises Limited. He has experience in financial management and worked in a major international bank prior to joining New World Development Company Limited. Mr. Cheng holds a bachelor of arts degree (*Cum Laude*) on East Asian Studies from Harvard University. Mr. Cheng is the son of Dr. Cheng Kar-shun, Henry, Chairman.

Mr. Cheung Fai-yet, Philip

aged 53,

has been Managing Director and executive Director since June 2007. He is also a member of the Remuneration Committee and a director of a number of the subsidiaries of the Company. He joined the Group in 1993 and has been responsible for the overall management of the Group. Mr. Cheung had over 30 years of experience in retail industry and possesses extensive experience in managing retailing stores in the PRC, Hong Kong and Taiwan. Prior to joining the Group, Mr. Cheung has held various senior management positions in large retail groups in Hong Kong and Taiwan including worked as a general manager in a large Japanese department store and as a general manager in the retail division of a UK based conglomerate in Hong Kong and as a general manager in a large pharmaceutical retail company in Taiwan.

Mr. Lin Tsai-tan, David

aged 57,

has been executive Director of the Group since June 2007. He is also the chief operating officer and a director of a number of the subsidiaries of the Company. He joined the Group in 2001 and has been responsible for the operation and management of the stores. Mr. Lin had over 25 years of experience in the retail industry and possesses substantial experience in the operation and business development of retail chains. Prior to joining the Group, Mr. Lin established and operated a major retail chain in Taiwan. Mr. Lin holds a bachelor of business administration degree from Soochow University.

Directors' Profile

Mr. Wong Kwok-kan, Kenneth

aged 44,

has been Director since January 2007 and designated as executive Director since June 2007. He is also the company secretary of the Company and a director of a number of the subsidiaries of the Company. Mr. Wong joined the Group in 1995 and has been the chief financial officer of the Group. He is responsible for the financial management and corporate finance matters of the Group. Mr. Wong has over 15 years experience in the retail industry in the PRC. Prior to joining the Group, Mr. Wong held a senior position in a large retail group in Hong Kong. He holds a bachelor of business administration degree from The Chinese University of Hong Kong, a bachelor of law degree from Tsinghua University and a master of business administration degree from University of Strathclyde. Mr. Wong is a fellow member of The Association of Chartered Certified Accountants of the United Kingdom and an associate member of The Hong Kong Institute of Certified Public Accountants.

Ms. Ngan Man-ying, Lynda

aged 42,

has been Director since January 2007 and designated as executive Director since June 2007. Ms. Ngan joined the Group in 2007 and is responsible for the financial planning and corporate governance of the Group. She is also an executive director, financial controller and company secretary of New World China Land Limited. She has over 20 years of experience in auditing, accounting, business advisory and tax consultancy. Ms. Ngan has previously worked for an international accounting firm in Hong Kong and a tax consulting company in Australia. Ms. Ngan possesses a Bachelor degree in Business from University of Southern Queensland and is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants of the United Kingdom.

Independent Non-executive Directors

Mr. Cheong Ying-chew, Henry

aged 60,

has been independent non-executive Director since June 2007. He is also a member of the Audit Committee and the Remuneration Committee. Mr. Cheong has over 30 years' experience in securities industry. He has been a director of the Worldsec Group of companies which he founded in 1991 together with the Mitsubishi Bank in Japan. Mr. Cheong currently serves as a director and deputy chairman of Worldsec Limited, a company listed on the London Stock Exchange. Prior to setting up the Worldsec Group in 1991, he was a director of James Capel (Far East) Limited for 5 years with overall responsibility of Far East sales. His earlier professional experience includes 11 years with Vickers da Costa Limited in Hong Kong, latterly as managing director. Mr. Cheong holds a Bachelor of Science (Mathematics) degree from Chelsea College, University of London and a Master of Science (Operational Research and Management) degree from Imperial College, University of London.

Mr. Cheong is an independent non-executive director of each of Cheung Kong (Holdings) Limited, Cheung Kong Infrastructure Holdings Limited, Excel Technology International Holdings Limited, SPG Land (Holdings) Limited, TOM Group Limited and FPP Golden Asia Fund Inc. (formerly known as "Jade Asia Pacific Fund Inc."), a company listed in Ireland. He was an independent non-executive director of Forefront International Holdings Limited (now known as Forefront Group Limited) and Hutchison Global Communications Holdings Limited (which has been privatized and withdrawn from listing in The Stock Exchange of Hong Kong Limited in July 2005). He is also a member of the Corporate Advisory Council of the Hong Kong Securities Institute and a member of Disciplinary Panel A of Hong Kong Institute of Certified Public Accountants.

Directors' Profile

Mr. Chan Yiu-tong, Ivan

aged 54,

has been independent non-executive Director since June 2007. He is also the chairman of the Audit Committee and a member of the Remuneration Committee. He has more than 18 years of audit and consulting experience with multinational and PRC corporations. He was the audit engagement partner for many of the B-share and H-share listings in the early 90s. In addition, Mr. Chan had been with a leading British merchant bank and an international accounting firm, specializing in mergers and acquisitions in the PRC. Mr. Chan graduated from the London School of Economics with a Bachelor of Science degree in Economics.

Mr. Tong Hang-chan, Peter

aged 63,

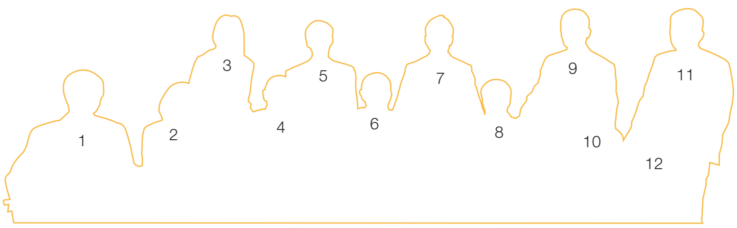
has been independent non-executive Director since June 2007. He is also the chairman of the Remuneration Committee and a member of the Audit Committee. He is currently the managing director of Global Corporate Services Limited. Mr. Tong has more than 40 years of management experience with leading international retail chains and high-tech companies in Hong Kong and South East Asia, specializing in high-fashion and accessories brand management as well as in establishing sales and distribution networks through joint ventures and franchises. He was the chief operating officer of New World CyberBase Limited (now known as Mongolia Energy Corporation Limited), an executive director of Sa Sa International Holdings Limited, a vice president of Tiger Enterprises Limited and the president of Giordano Japan Limited (both subsidiaries of Giordano International Limited), managing director of Longchamp Company Limited, executive director of Dickson Development Company Limited, and managing director of Christabel Trading Company Limited and Verwin Company Limited (both affiliates of The Swank Shop). Mr. Tong has been appointed as the Chairman of Staff Panel, a member of Scout Supply Services Committee and a member of executive committee of Scout Association of Hong Kong.

Mr. Yu Chun-fai, Henry

aged 46,

has been independent non-executive Director since June 2007. He is also a member of the Audit Committee and the Remuneration Committee. Mr. Yu has over 20 years of experience in the financial services industry and he is currently the director and the chief executive officer of Oriental City Group plc., a company listed on PLUS market in London, United Kingdom. Prior to joining Oriental City Group plc., Mr. Yu was a Vice President in the Private Wealth Management Division of Morgan Stanley (Asia) Ltd., a Vice President of AIG Asset Management (Asia) Ltd. and the Head of Marketing of Allianz Dresdner Asset Management. He holds a Bachelor of Business Administration degree from University of North Texas, USA and a candidate of Master of Business Administration degree of Golden Gate University, USA.

Senior Management



1. Mr. Lin Tsai-tan, David
2. Ms. Lau Lai-ying, Johanna
3. Ms. Woo Yuk-kwan, Rebecca
4. Mr. Wong Kwok-kan, Kenneth
5. Mr. Ma Wing-keung, Ringo
6. Mr. Cheung Fai-yet, Philip
7. Mr. Yam Tin-chi, Addy
8. Mr. Lai On, Eddie
9. Mr. Niu Wei, David
10. Mr. Lee Ting-chung, Charles
11. Mr. Hung Tik
12. Mr. Lai Hung-sing, Kenny

Mr. Cheung Fai-yet, Philip, *aged 53,*
has been managing Director and executive Director since June 2007. He is also a member of the remuneration committee of the Company and a director of a number of the subsidiaries of the Company. He joined the Group in 1993 and has been responsible for the overall management of the Group. Mr. Cheung had over 30 years of experience in retail industry and possesses extensive experience in managing retailing stores in the PRC, Hong Kong and Taiwan. Prior to joining the Group, Mr. Cheung has held various senior management positions in large retail groups in Hong Kong and Taiwan including worked as a general manager in a large Japanese department store and as a general manager in the retail division of a UK based conglomerate in Hong Kong and as a general manager in a large pharmaceutical retail company in Taiwan.

Mr. Lin Tsai-tan, David, *aged 57,*
has been executive Director and chief operating officer of the Group since June 2007. He is also a director of a number of the subsidiaries of the Company. He joined the Group in 2001 and has been responsible for the operation and management of the stores. Mr. Lin had over 25 years of experience in the retail industry and possesses substantial experience in the operation and business development of retail chains. Prior to joining the Group, Mr. Lin established and operated a major retail chain in Taiwan. Mr. Lin holds a bachelor of business administration degree from Soochow University.

Mr. Wong Kwok-kan, Kenneth, *aged 44,*
has been Director since January 2007 and designated as executive Director since June 2007. He is also the company secretary of the Company and a director of a number of the subsidiaries of the Company. He joined the Group in 1995 and has been the chief financial officer of the Group. He is responsible for the financial management and corporate finance matters of the Group. Mr. Wong has over 10 years experience in the retail industry in the PRC. Prior to joining the Group, Mr. Wong held a senior position in a large retail group in Hong Kong. He holds a bachelor of business administration degree from the Chinese University of Hong Kong, a bachelor of law degree from Tsinghua University and a master of business administration degree from University of Strathclyde. Mr. Wong is a fellow member of The Association of Chartered Certified Accountants of the United Kingdom and an associate member of The Hong Kong Institute of Certified Public Accountants.

Ms. Lau Lai-ying, Johanna, *aged 49,*
has been the director — commercial since 1996. She joined the Group in 1993 and has been responsible for product and supplier sourcing, concessionaire management and tendering for new projects. Ms. Lau has more than 20 years of experience in emporium retailing, particularly in all aspects of pre-opening preparation, supplier sourcing, product planning and point-of-sales operations. Prior to joining the Group, Ms. Lau had served in a number of well-known retail stores and retail groups in Hong Kong. Ms. Lau holds a MBA degree from Murdoch University of Australia.

Mr. Ma Wing-keung, Ringo, *aged 52,*
has been the director — human resources and administration since 1997. He joined the Group in 1996 and has been responsible for overall human resources management and development of the Group. Mr. Ma has more than 20 years of experience in human resources, training and administration. Mr. Ma graduated from City University of Hong Kong with a Bachelor of Arts degree and is a member of Hong Kong Institute of Human Resources Management, Institute of Training Professionals of Hong Kong and Hong Kong Institute of Company Secretaries. Prior to joining the Group, Mr. Ma worked for a number of well-known companies in various industry sectors, specializing in human resources management.

Senior Management

Ms. Woo Yuk-kwan, Rebecca, *aged 42,*
is the director — corporate affairs. She joined the Group in 1993 and is now responsible for corporate promotion, investor relations, legal affairs, contract administration and planning of the Group. Ms. Woo has over 10 years of experience in project administration and business development. Ms. Woo holds an associate degree in arts from Ohio University and a Bachelor of Business Administration degree from University of Technology, Sydney, Australia. Prior to joining the Group, Ms. Woo held marketing and administrative responsibilities in various international financial institutions.

Mr. Lai Hung-sing, Kenny, *aged 42,*
is the director — project development and is in charge of all matters in project planning and management. He joined the Group in 1996. Mr. Lai has more than 10 years of experience in project planning and project management. Prior to joining the Group, Mr. Lai had served in a number of large property developers and construction companies in Hong Kong. Mr. Lai graduated from the Department of Building and Construction of City University of Hong Kong.

Mr. Lee Ting-chung, Charles, *aged 52,*
is the regional general manager — Northern China. He joined the Group in 1999 where he was the general manager of Beijing New World Shopping Mall. Mr. Lee has more than 10 years of experience in retail industry. Mr. Lee graduated from Fu-Jen University, Taiwan with a bachelor's degree in mass communications. Prior to joining the Group, Mr. Lee worked for various retailing business operators and gained substantial operational experience in the retail industry.

Mr. Hung Tik, *aged 47,*
is the regional general manager — Eastern China. He joined the Group in 1996 and has served as finance and administration manager and assistant general manager in different stores. Mr. Hung has more than 10 years of experience in the retail industry. He also worked in various companies funded by Japanese, American and Hong Kong capital in China and Hong Kong prior to joining the Group. He graduated from the Faculty of Business of Lingnan College, Hong Kong.

Mr. Lai On, Eddie, *aged 56,*
is the regional general manger — Central China. He joined the Group in 1998. Mr. Lai has about 30 years of experience in the retail industry. He holds a Master of Business Administration degree from Shanghai Jiao Tong University (上海交通大學). Prior to joining the Group, Mr. Lai had served in various key emporia in Hong Kong.

Mr. Yam Tin-chi, Addy, *aged 50,*
is the regional general manager — Northeastern China. He joined the Group in 1996 and has served in various senior positions in our stores such as operation manager, assistant general manager and general manager. Mr. Yam has over 13 years of experience in the retail industry in the PRC.

Mr. Niu Wei, David, *aged 46,*
is the regional general manager — Southwestern China. He joined the group in 1996 and has served in various senior positions in our stores such as administration manager, operation manager and general manager. Mr. Niu has more than 11 years of experience in retail operations management. He graduated from the Department of Law of Nanjing University. Prior to joining the Group, Mr. Niu worked for various companies gaining rich experience in management.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The board of directors (the "Directors" or "Board") of New World Department Store China Limited (the "Company"), together with its subsidiaries (the "Group") recognises the importance of corporate governance practices to a listed company. The Company is committed to ensuring high standards of corporate governance in the interest of the shareholders.

The Company has complied with all the applicable code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). In addition to the mandatory Code, the Board will also continuously enhance the corporate governance standard of the Company by reference to certain recommended best practices contained in Appendix 14 to the Listing Rules whenever suitable and appropriate. The Company has applied the principles and complied with all the applicable code provisions set out in the Code since the Company was listed on 12 July 2007 ("the Listing Date") to 30 June 2008.

The Board will continually review and improve the corporate governance practices and standards of the Company to ensure that business and decision making processes are regulated in a proper and prudent manner.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding securities transactions by the Directors. Upon the Company's specific enquiry of each Director, all Directors confirmed that they had complied with the required standard set out in the Model Code and the code of conduct regarding Directors' securities transactions adopted by the Company since the Listing Date to 30 June 2008.

EMPLOYEES' SECURITIES TRANSACTIONS

The Code provision A.5.4 provides that there should be written guidelines on no less exacting terms than the Model Code for the relevant employees in respect of their dealing in the securities of the Company.

The Company has established guidelines for employees as required under the Code provision.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises two non-executive Directors, five executive Directors and four independent non-executive Directors. Their names, biographical details and respective relationships with other Directors and senior management of the Group are set out on pages 78 to 83 and whose respective interests in the Company are set out on pages 104 to 108 of this annual report.

The Board sets directions and formulates overall strategies of the Group, monitors its overall performance and maintains effective supervision over the management running the Group through relevant committees of the Board in a sound and efficient manner. The management are delegated the authority and responsibilities by the Board for the day-to-day management and operation of the Company.

The Board will have at least four meetings a year at approximately quarterly intervals and will meet at other times as and when required to review business strategies and financial and operating performance.

The independent non-executive Directors have been appointed for a specific term of service. They are also subject to retirement by rotation in accordance with the articles of association of the Company (the “Articles”).

The Company has received annual confirmation of independence from each of the independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Board is of the view that all the independent non-executive Directors are independent in accordance with the Listing Rules.

The Roles of the Chairman and Managing Director

Dr. Cheng Kar-shun, Henry, chairman of the Company (the “Chairman”), is responsible for the leadership and effective running of the Board, ensuring that all material issues are decided by the Board in a constructive manner. While Mr. Cheung Fai-yet, Philip, managing director of the Company (the “Managing Director”), is responsible for running the Group’s business and the timely implementation of the approved strategies of the Group.

Non-executive Directors

Non-executive Directors (including the independent non-executive Directors) serve the relevant function of bringing independent judgement on the development, performance and risk management of the Group. The non-executive Directors have been appointed for a specific term of services and are subject to retirement by rotation in accordance with the Articles.

Corporate Governance Report

Audit Committee

The audit committee (the "Audit Committee") has been established with written terms of reference setting out duties, responsibilities and authorities delegated to them by the Board. The Audit Committee comprises four independent non-executive Directors, namely Mr. Cheong Ying-chew, Henry, Mr. Chan Yiu-tong, Ivan, Mr. Tong Hang-chan, Peter and Mr. Yu Chun-fai, Henry. Mr. Chan Yiu-tong, Ivan is the chairman of the Audit Committee and possesses financial management expertise. The Audit Committee meeting will be held at least twice a year.

The major duties and responsibilities of the Audit Committee include review of the effectiveness of the Group's financial reporting processes and internal control system. The duties of the Audit Committee also include review of the scope and nature of the audit carried out by the Company's auditors. The Audit Committee will meet with external auditors at least once a year to discuss any issues from the audit and any other matters the external auditors may wish to raise.

During the year, the Audit Committee reviewed with auditors the audited financial statements for the year ended 30 June 2007 and the unaudited interim financial statements for the six months ended 31 December 2007 as well as internal control system of the Company with recommendations to the Board for approval. The Audit Committee also reviewed the financial statements for the year ended 30 June 2008 and internal audit report with recommendation to the Board for approval.

Remuneration Committee

The remuneration committee (the "Remuneration Committee") has been established with written terms of reference setting out duties, responsibilities and authorities delegated to them by the Board. The Remuneration Committee comprises Mr. Cheong Ying-chew, Henry, Mr. Chan Yiu-tong, Ivan, Mr. Tong Hang-chan, Peter, Mr. Yu Chun-fai, Henry, Mr. Cheng Chi-kong, Adrian and Mr. Cheung Fai-yet, Philip. Mr. Tong Hang-chan, Peter is the chairman of the Remuneration Committee. The Remuneration Committee meeting will be held at least once a year.

The primary duties of the Remuneration Committee include review of and recommendations to the Board on the remuneration structure for all directors and senior management of the Group. The Remuneration Committee met twice during the year ended 30 June 2008 to review the remuneration policy for Directors and senior management of the Company, and to approve the principal terms for the grant of share options to Directors and employees of the Company pursuant to the Company's share option scheme adopted on 12 June 2007 (the "Scheme").

Details of the amount of emoluments of Directors for the year ended 30 June 2008 are set out in note 9 to the consolidated financial statements.

Attendance at Meetings of the Board, the Audit Committee and the Remuneration Committee

	Number of Meetings Attended/Eligible to attend for the year ended 30 June 2008		
Name of Directors	**Board**	**Audit Committee**	**Remuneration Committee**
Non-executive Directors			
Dr. Cheng Kar-shun, Henry (Chairman)	1/4		
Mr. Au Tak-cheong	4/4		
Executive Directors			
Mr. Cheng Chi-kong, Adrian	4/4		
Mr. Cheung Fai-yet, Philip (Managing Director)	4/4	2/2	2/2
Mr. Lin Tsai-tan, David	4/4		
Mr. Wong Kwok-kan, Kenneth	4/4	2/2	
Ms. Ngan Man-ying, Lynda	4/4		
Independent Non-executive Directors			
Mr. Cheong Ying-chew, Henry	4/4	2/2	2/2
Mr. Chan Yiu-tong, Ivan	4/4	2/2	2/2
Mr. Tong Hang-chan, Peter	4/4	2/2	2/2
Mr. Yu Chun-fai, Henry	4/4	2/2	2/2

Remuneration of Directors

To provide an opportunity for the Directors to participate in the equity of the Company as well as to motivate them to optimize their performance, all Directors have been granted share options to subscribe for shares of the Company under the Scheme. In addition, all Directors are covered by appropriate insurance on directors' liabilities from their risk exposure arising from the management of the Group.

Nomination of Directors

The executive Directors are charged with the responsibility to consider and to assess candidates for directorships on the Board based on their characters, qualifications and experience appropriate for the businesses of the Group. The recommendations of the executive Directors are then put forward for consideration and adoption by the Board as a whole, including non-executive Directors and independent non-executive Directors. A candidate to be appointed as independent non-executive Director must also meet the independence requirement set out in Rule 3.13 of the Listing Rules. During the year under review, the Company had not established a nomination committee.

Corporate Governance Report

INTERNAL CONTROL SYSTEM

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The Board will conduct regular reviews regarding internal control system of the Group. In the year under review, the Audit Committee and the Board had also reviewed the Group's internal control system to ensure that effective measures were in place.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors acknowledge their responsibilities for keeping proper accounting records and preparing financial statements of each financial period, giving a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 30 June 2008, the Directors had:

1. approved the adoption of all applicable Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards issued by the Hong Kong Institute of Certified Public Accountants;

2. selected and applied consistently appropriate accounting policies;

3. made judgements and estimates that were reasonable; and

4. prepared the financial statements on a going concern basis.

The statement about the Directors' reporting responsibilities is set out in the Independent Auditor's Report on pages 114 to 115 of this annual report.

COMMUNICATION WITH SHAREHOLDERS

The Company has established and maintained various channels of communication with the Company's shareholders and the public to ensure that they are kept abreast of the Company's latest development. Information relating to the Company's financial results, corporate details and major events will be disseminated through the publication of announcements, circulars and press releases. These publications can also be downloaded from the Company's website.

In addition, the Chairman, members of the Board and external auditors will attend the annual general meeting of the Company at which the Directors will answer questions raised by the shareholders on the performance of the Group. To ensure the general meetings are conducted in a fair and transparent manner, the chairman of meeting has demanded voting by poll on each of the resolutions considered at the general meetings held in the past year and appointed the branch share registrar and transfer office of the Company in Hong Kong as the scrutineers to count the votes and explain to the shareholders at the meetings the procedures for voting by poll. The poll results were subsequently posted on the Company's website. The Company will also hold press and analysts conferences following the release of annual results at which the executive Directors will be available to answer questions regarding the performance of the Group. The Group has participated in a number of roadshows and meetings with investors and organised a number of site visits during the year under review.

AUDITORS' REMUNERATION

Fees for auditing services and non-auditing services amounted to HK$3,454,000 (2007: HK$4,252,000) and HK$864,000 (2007: HK$36,600) respectively were provided in the Group's consolidated income statement for the year ended 30 June 2008.

Contents

FINANCIAL SECTION

Report of the Directors

The Board is pleased to present the annual report of the Company together with the audited consolidated financial statements of the Group for the year ended 30 June 2008.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of the Group are engaged in department store operation in the People's Republic of China (the "PRC"). The activities of its principal subsidiaries are set out in note 32 to the consolidated financial statements of the Group.

RESULTS

The results of the Group for the year ended 30 June 2008 are set out in the consolidated income statement on page 116 of this annual report.

DIVIDENDS

The Directors have resolved to recommend a final dividend of HK$0.09 per share (2007: Nil) for the year ended 30 June 2008 to shareholders whose names appear on the register of members of the Company on 1 December 2008. The proposed final dividend will be paid on or about 23 December 2008 subject to approval at the forthcoming annual general meeting of the Company.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment during the year are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital during the year are set out in note 23 to the consolidated financial statements.

RESERVES

Details of the movements in reserves during the year are set out in note 24 to the consolidated financial statements.

FIVE-YEAR FINANCIAL SUMMARY

Financial summary for the years of 2004 to 2008 are set out on page 174.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to approximately HK$170,000 (2007: HK$171,000).

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the laws of the Cayman Islands.

DIRECTORS

The Directors during the year and up to the date of this report are:

Non-executive Directors

Dr. Cheng Kar-shun, Henry *(Chairman)*
Mr. Au Tak-cheong

Executive Directors

Mr. Cheng Chi-kong, Adrian
Mr. Cheung Fai-yet, Philip *(Managing Director)*
Mr. Lin Tsai-tan, David
Mr. Wong Kwok-kan, Kenneth
Ms. Ngan Man-ying, Lynda

Independent Non-executive Directors

Mr. Cheong Ying-chew, Henry
Mr. Chan Yiu-tong, Ivan
Mr. Tong Hang-chan, Peter
Mr. Yu Chun-fai, Henry

In accordance with articles 87(1) and 87(2) of the Articles, Ms. Ngan Man-ying, Lynda, Mr. Cheong Ying-chew, Henry, Mr. Tong Hang-chan, Peter and Mr. Yu Chun-fai, Henry will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. The remaining current Directors continue in office.

Report of the Directors

AUDIT COMMITTEE

Audit Committee was established in accordance with requirements of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee consists of the four independent non-executive Directors. The Audit Committee has reviewed the system of internal control and the financial statements for the year ended 30 June 2008 and discussed the financial related matters with management.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than as disclosed under the "Connected Transactions" section below, no contracts of significance to which the Company, its holding company, subsidiaries or fellow subsidiaries was a party and in which any Director had a material interest, whether directly or indirectly, subsisted as at 30 June 2008 or at any time during the year ended 30 June 2008.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 30 June 2008, the following Directors had interests in the following businesses which were considered to compete or were likely to compete, either directly or indirectly, with the businesses of the Group other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group pursuant to the Listing Rules:

Businesses which were considered to compete or likely to compete with the business of the Group

Name	Name of entity	Description of business	Nature of interest of the Director in the entity
Dr. Cheng Kar-shun, Henry	New World Development Company Limited ("NWD")	Department store operations	Director and Shareholder
	Lifestyle International Holdings Ltd. group of companies	Department store operations	Director
Mr. Cheng Chi-kong, Adrian	NWD	Department store operations	Director

DEED OF NON-COMPETITION

Under the deed of non-competition dated 22 June 2007 given by NWD in favour of the Company (the "Deed"), details of which were stated in the prospectus of the Company dated 28 June 2007 (the "Prospectus"), NWD has undertaken, among other things, to use its best endeavour to transfer Beijing New World Shopping Mall (the "Beijing Shopping Mall"), Kunming New World Department Store (the "Kunming Store"), Ningbo New World Trendy Department Store (the "Ningbo Trendy Store"), Hong Kong New World Department Store (the "Hong Kong Store") and Wuhan New Eagle Development Co., Ltd. Wuhan New World Department Store (the "Wuhan Store") (collectively the "Excluded Stores") (save and except the Hong Kong Store) to the Company as soon as practicable and in any event no later than three years from the Listing Date and to keep the Company informed every six months from the Listing Date as regards the progress on the resolution of the difficulties in transferring the Excluded Stores to the Company.

As regards the Wuhan Store, the Board announced that on 17 December 2007, New Bright Resources Limited ("New Bright"), an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Solar Leader Limited ("Solar Leader"), an indirect wholly-owned subsidiary of NWD, whereby New Bright agreed to acquire from Solar Leader the entire issued share capital of Uphill Group Limited ("Uphill Group") and the outstanding shareholder's loan of Uphill Group owed to Solar Leader in the total amount of HK$586,355,928.25 as of 30 November 2007 for an aggregate consideration of HK$885,417,000. Uphill Group is an investment holding company which owns 100% legal and beneficial interests in Wuhan New Eagle Development Co., Ltd. ("Wuhan New Eagle"), which owns 100% legal and beneficial interests in the Wuhan Store and its property.

As regards the Kunming Store, NWD is procuring the obtaining by the lessor of the Kunming Store of the relevant land use right certificate and building ownership certificate for the property on which the Kunming Store is situated, which is one of the pre-conditions for the PRC government to grant its approval for the Company to acquire the store operating company of the Kunming Store. As regards the Ningbo Trendy Store and the Beijing Shopping Mall, NWD currently holds the entire beneficial ownership of the companies which hold these stores. NWD is still procuring the legal title holders, who are independent third parties, to transfer the legal title of these companies. NWD has undertaken to use its best endeavors to continue procuring resolutions of these issues as soon as practicable. In light of the above, the independent non-executive Directors have decided not to exercise the relevant rights granted to the Company under the Deed to acquire Beijing Shopping Mall, Kunming Store and Ningbo Trendy Store during the year ended 30 June 2008.

Pursuant to the Deed, NWD has confirmed that it has not breached the terms of the Deed and has provided all information necessary for annual review by the independent non-executive Directors. An annual review has also been conducted by the independent non-executive Directors as to the compliance of the Deed.

Report of the Directors

CONNECTED TRANSACTIONS

The Company has entered into the following connected transactions during the year and up to the date of this report:

i. Master Management Agreement

As NWD (together with its subsidiaries, the "NWD Group") is a connected person of the Company under the Listing Rules, transactions between the Company and members of the NWD Group constitute connected transactions of the Company under the Listing Rules.

On 22 June 2007, the Company and NWD entered into the master management agreement (the "Master Management Agreement") pursuant to which the Company agreed to provide management services to the NWD Group in accordance with the respective terms of the relevant agreements (the "Operational Agreement(s)") entered into between members of the NWD Group and members of the Group. The terms of the Operational Agreement(s) for Wuhan Store and Beijing Shopping Mall are 45 years and 10.5 years, respectively, whilst those for each of Kunming Store, Ningbo Trendy Store and Hong Kong Store are three years and extendable for another three years at the option of the Company. Services provided under the Master Management Agreement include consultancy and financial advice, marketing, human resources management and licences to use the computer software and trademarks of the Group for the Excluded Stores. The Directors therefore believe it is in our best interest to provide the above mentioned services to NWD Group and to enter into the Master Management Agreement so that the Group may regulate the existing and future Operation Agreement(s) under a common framework agreement.

The total amount received from the NWD Group under the Master Management Agreement was approximately HK$77,082,000 (2007: approximately HK$69,526,000) for the year ended 30 June 2008.

ii. Master Leasing Agreement

On 22 June 2007, the Company and NWD entered into the master leasing agreement (the "Master Leasing Agreement") pursuant to which the Company agreed to continue to lease from the NWD Group certain premises, and may from time to time lease new premises from the NWD Group, in accordance with the respective terms of the relevant leasing agreement (the "Lease Agreement") entered into between members of the Group and members of the NWD Group. As at 30 June 2008, the Group has entered into eight Lease Agreements with members of the NWD Group in respect of the leasing of certain properties owned by members of the NWD Group to our Group.

CONNECTED TRANSACTIONS (continued)

ii. Master Leasing Agreement (continued)

As the corresponding projected aggregate amount of the transactions contemplated under the Master Leasing Agreement for the year ended 30 June 2008 and the year ending 30 June 2009 are expected to exceed the respective original leasing annual cap as set out in the Prospectus as a result of (i) the fast appreciation of RMB; (ii) the expansion in the number of stores; and (iii) the expansion in the turnover of stores as a turnover rent might be charged by the NWD Group in some of the leases. The Company entered into the supplemental agreement with NWD on 19 March 2008 to revise the annual caps for the transactions contemplated under the Master Leasing Agreement for the year ended 30 June 2008 and the year ending 30 June 2009 to RMB135,700,000 (equivalent to approximately HK$147,100,000) and RMB212,000,000 (equivalent to approximately HK$229,800,000), respectively. The Directors believe that it is in the interests of the Company to enter into a Master Leasing Agreement so that the Group may regulate the existing and future Lease Agreements under a common framework agreement.

The total amount paid to the NWD Group under the Master Leasing Agreement was approximately HK$132,898,000 (2007: approximately HK$111,797,000) for the year ended 30 June 2008.

iii. Concessionaire Counter Arrangements

Chow Tai Fook Enterprises Limited ("CTF") is a substantial shareholder of NWD and the controlling shareholder of the Company. Chow Tai Fook Jewellery Company Limited ("CTF Jewellery"), or any of its subsidiaries, is an associate of CTF and therefore a connected person of the Company under the Listing Rules. Accordingly, the transactions between the Group and CTF Jewellery or any of its subsidiaries constitute connected transactions of the Company.

Members of the Group entered into certain concessionaire counter agreements with CTF Jewellery or its subsidiaries or agent pursuant to which members of the Group provide floor space to CTF Jewellery or its subsidiaries or agent to exhibit and sell jewellery (the "Concessionaire Counter Arrangements"). Pursuant to the Concessionaire Counter Arrangements, commissions and basic usage costs are payable by CTF Jewellery or its subsidiaries or agent to members of our Group for the use of the concessionaire counters. Such commissions are calculated by a pre-determined percentage of sales made for each type of the products sold at the concessionaire counter and the gross sales figures of the concessionaire counter, while the basic usage costs comprise the general promotional contributions and other fixed charges.

CONNECTED TRANSACTIONS (continued)

iii. Concessionaire Counter Arrangements (continued)

As the corresponding projected aggregate amount of the transactions contemplated under the Concessionaire Counter Arrangements for the year ended 30 June 2008 and the year ending 30 June 2009 are expected to exceed the respective original concessionaire annual cap as set out in the Prospectus as a result of the fast appreciation of RMB and expansion in the number of stores and turnover of concessionaire counters. Both the directors of NWD and the Company agreed to revise the annual caps for the Concessionaire Counter Arrangements for the financial year ended 30 June 2008 and the year ending 30 June 2009 to RMB24,600,000 (equivalent to approximately HK$26,670,000) and RMB53,100,000 (equivalent to approximately HK$57,570,000) respectively. The Directors therefore believe it is in our best interest to provide the above mentioned services to CTF Jewellery or any of its subsidiaries and to enter into the Concessionaire Counter Arrangements so that the Group may regulate the existing and future concessionaire counter agreement(s) under a common framework agreement.

The total amount received from CTF Jewellery or any of its subsidiaries under the Concessionaire Counter Arrangements was approximately HK$17,905,000 (2007: approximately HK$12,375,000) for the year ended 30 June 2008.

iv. Master Services Agreement

On 11 October 2007, the Company and NWS Holdings Limited ("NWSH", and together with its subsidiaries, the "NWSH Group") entered into the master services agreement (the "Master Services Agreement") regarding the provision of the services including (a) the maintenance services, including routine maintenance check, non-routine maintenance, ad hoc maintenance support; (b) electrical and mechanical services repair including those works of new department stores; (c) electrical and mechanical renovation services including supply and installation of air-conditioning, heating and ventilation systems, fire services systems, plumbing, drainage systems and low voltage system; (d) renovation maintenance including lift repair and maintenance services; (e) electrical and mechanical services design including electrical systems and system design and consultancy; and (f) new department stores electrical and mechanical works including computer aided drafting services, and such other types of services as may be agreed upon from time to time in writing by the Company and NWSH (collectively the "Services") for the department stores operated by the Group from time to time (the "Stores") for an initial term of two years. The entering into of the Master Services Agreement would enable the Group to regulate the provision of the Services by the NWSH Group under a common framework agreement.

The maximum annual aggregate service fees in respect of the Services to be provided by the NWSH Group to the Group for each of the two financial years ending 30 June 2009 will not exceed RMB90,000,000 (equivalent to approximately HK$92,700,000) and RMB125,000,000 (equivalent to approximately HK$132,612,500), respectively, as set out in the Master Services Agreement.

CONNECTED TRANSACTIONS (continued)

iv. Master Services Agreement (continued)

By virtue of the interest of NWD in NWSH as at the date of the Master Services Agreement, NWSH is a connected person of the Company under the Listing Rules. Accordingly, the transaction contemplated under the Master Services Agreement constitute connected transaction of the Company.

The total amount paid to the NWSH Group under the Master Services Agreement was approximately HK$79,139,000 (2007: approximately HK$22,144,000) for the year ended 30 June 2008.

v. Acquisition of interests

(1) Uphill Group Limited

On 17 December 2007, New Bright, an indirect wholly-owned subsidiary of the Company, entered into the agreement with Solar Leader whereby New Bright agreed to acquire from Solar Leader the one ordinary share of US$1 each in the share capital of Uphill Group, a limited liability company incorporated in the British Virgin Islands ("BVI") which is wholly-owned by Solar Leader, beneficially owned by Solar Leader representing the entire issued share capital of Uphill Group and the outstanding shareholder's loan of Uphill Group owed to Solar Leader in the total amount of HK$586,355,928.25 as of 30 November 2007 for an aggregate consideration of HK$885,417,000 (the "Acquisition"). As Solar Leader is an indirect wholly-owned subsidiary of NWD. Accordingly, the Acquisition constitutes a connected transaction of the Company.

The principal asset of Uphill Group is Wuhan New Eagle, a wholly-foreign-owned enterprise incorporated in the PRC and a wholly-owned subsidiary of Uphill Group, which is the operator of Wuhan Store and the sole legal and beneficial owner of Basement 1 and Levels 1 to 6 of Wuhan New World Trade Tower I and Basement 1 and Levels 1 to 5 of Wuhan New World Trade Tower II, Nos. 566 and 568 Jianshe Avenue, Hankou, Wuhan Municipality, Hubei Province, the PRC. The Directors believe that the Acquisition will further enhance the Group's strategy of expanding its department stores network in the PRC.

Report of the Directors

CONNECTED TRANSACTIONS (continued)

v. Acquisition of interests (continued)

(2) Billion Glory Group Limited

On 5 May 2008, Viewtop International Limited ("Viewtop"), a limited liability company incorporated in the BVI and a wholly-owned subsidiary of the Company entered into the agreement with New World Development (China) Limited ("NWDC"), a limited liability company incorporated in Hong Kong, and Billion Glory Group Limited ("Billion Glory"), a limited liability company incorporated in the BVI in August 2007, which is wholly-owned by NWDC whereby Viewtop agreed to acquire from NWDC the one ordinary share of US$1 each in the share capital of Billion Glory beneficially owned by NWDC, representing the entire issued share capital of Billion Glory and the outstanding shareholder's loan of Billion Glory owed to NWDC in the total amount of HK$174,501,516 as of 31 December 2007 for an aggregate consideration of HK$270,000,000 (the "Acquisition"). As NWDC is a wholly-owned subsidiary of New World China Land Limited ("NWCL") which is a subsidiary of NWD. NWDC was then an indirect subsidiary of NWD and therefore a connect person of the Company under the Listing Rules. Accordingly, the Acquisition constitutes a connected transaction of the Company.

The principal asset of Billion Glory is Shenyang Trendy Property Company Limited (瀋陽時尚物業有限公司), a wholly-foreign-owned enterprise incorporated in the PRC and a wholly-owned subsidiary of Billion Glory, which is the owner of the property located on the 1st to 4th Floor at 2 Nanjingnan Street, Heping District, Shenyang, Liaoning Province, the PRC (the "Property") and at which Shenyang New World Department Store — Nanjing Street Branch Store (瀋陽新世界百貨 — 南京街店) is located. The Directors believe that the Acquisition will further enhance the Group's strategy of expanding its department stores network in the PRC.

vi. Annual review of the continuing connected transactions

The independent non-executive Directors had reviewed the continuing connected transactions arising from (i) Master Management Agreement (paragraph i above); (ii) Master Leasing Agreement (paragraph ii above); (iii) Concessionaire Counter Arrangements (paragraph iii above); and (iv) Master Services Agreement (paragraph iv above) for the year ended 30 June 2008 and confirmed that the transactions were:

(a) in the ordinary and usual course of business of the Company;

(b) on normal commercial terms; and

(c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

CONNECTED TRANSACTIONS (continued)

vi. Annual review of the continuing connected transactions (continued)

In accordance with Rule 14A.38 of the Listing Rules, the Board engaged the auditors of the Company to perform certain agreed-upon procedures on the continuing connected transactions mentioned above in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have reported to the Board that the transactions:

(a) had received the approval of the Board;

(b) were entered into in accordance with the relevant agreements governing the transactions; and

(c) had not exceeded the caps disclosed in the previous announcements relating to the aforesaid transactions.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section headed "Directors' interests in securities" below, at no time during the year was the Company, its subsidiaries, its fellow subsidiaries or its holding company, a party to any arrangement to enable the Directors or chief executives or any of their spouse or children under the age of 18 to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2008, the interests and short positions of the Directors and the chief executives of the Company in the shares and debentures of the Company or the shares and debentures of any associated corporation of the Company (within the meaning of Part XV of the SFO) which were required pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; (b) Section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

(a) Long positions in shares

	Number of Shares				Approximate
	Personal Interests	Family Interests	Corporate Interests	Total	percentage of shareholding
The Company					
Mr. Cheng Chi-kong, Adrian	—	—	1,107,000[(1)]	1,107,000	0.07
Mr. Cheung Fai-yet, Philip	660,000	—	—	660,000	0.04
Mega Choice Holdings Limited					
Dr. Cheng Kar-shun, Henry	—	—	3,710[(2)]	3,710	34.61
New World China Land Limited					
Dr. Cheng Kar-shun, Henry	12,500,000	1,950,000	52,271,200[(3)]	66,721,200	1.74
Mr. Cheng Chi-kong, Adrian	220,800	—	760,000[(1)]	980,800	0.03
Ms. Ngan Man-ying, Lynda	100,000	—	—	100,000	negligible
New World Development Company Limited					
Dr. Cheng Kar-shun, Henry	—	300,000	—	300,000	0.01
NWS Holdings Limited					
Dr. Cheng Kar-shun, Henry	9,179,199	—	8,000,000[(3)]	17,179,199	0.83

Notes:

(1) These shares are beneficially-owned by a company wholly-owned by Mr. Cheng Chi-kong, Adrian.

(2) These shares are beneficially-owned by certain companies wholly-owned by Dr. Cheng Kar-shun, Henry.

(3) These shares are beneficially-owned by a company wholly-owned by Dr. Cheng Kar-shun, Henry.

DIRECTORS' INTERESTS IN SECURITIES (continued)

(b) Long positions in underlying shares

i. The Company

			Number of share options					Exercise
Name	Date of grant	Exercisable period (Note)	Balance as at 1 July 2007	Granted during the year	Exercised during the year	Lapsed during the year	Balance as at 30 June 2008	price per share HK$
Dr. Cheng Kar-shun, Henry	27 November 2007	(1)	–	1,000,000	–	–	1,000,000	8.660
Mr. Au Tak-cheong	27 November 2007	(1)	–	250,000	–	–	250,000	8.660
Mr. Cheng Chi-kong, Adrian	27 November 2007	(1)	–	500,000	–	–	500,000	8.660
Mr. Cheung Fai-yet, Philip	27 November 2007	(1)	–	1,500,000	–	–	1,500,000	8.660
	25 March 2008	(2)	–	500,000	–	–	500,000	8.440
Mr. Lin Tsai-tan, David	27 November 2007	(1)	–	459,000	–	–	459,000	8.660
	25 March 2008	(2)	–	230,000	–	–	230,000	8.440
Mr. Wong Kwok-kan, Kenneth	27 November 2007	(1)	–	501,000	–	–	501,000	8.660
	25 March 2008	(2)	–	250,000	–	–	250,000	8.440
Ms. Ngan Man-ying, Lynda	27 November 2007	(1)	–	500,000	–	–	500,000	8.660
Mr. Cheong Ying-chew, Henry	27 November 2007	(1)	–	250,000	–	–	250,000	8.660
Mr. Chan Yiu-tong, Ivan	27 November 2007	(1)	–	250,000	–	–	250,000	8.660
Mr. Tong Hang-chan, Peter	27 November 2007	(1)	–	250,000	–	–	250,000	8.660
Mr. Yu Chun-fai, Henry	27 November 2007	(1)	–	250,000	–	–	250,000	8.660
			–	6,690,000	–	–	6,690,000	

Notes:

(1) From 27 November 2008 to 26 November 2013. Divided into 5 tranches exercisable from 27 November 2008, 27 November 2009, 27 November 2010, 27 November 2011 and 27 November 2012, respectively, to 26 November 2013, provided that the maximum number of share options that can be exercised during each anniversary year is 20% of the total number of share options granted together with any unexercised share options carried forward from the previous anniversary years.

(2) From 25 March 2009 to 24 March 2014. Divided into 5 tranches exercisable from 25 March 2009, 25 March 2010, 25 March 2011, 25 March 2012 and 25 March 2013, respectively, to 24 March 2014, provided that the maximum number of share options that can be exercised during each anniversary year is 20% of the total number of share options granted together with any unexercised share options carried forward from the previous anniversary years.

(3) The closing price per share immediately before 27 November 2007 and 25 March 2008, the dates of grant, was HK$8.69 and HK$8.46 respectively.

(4) The cash consideration paid by each Director for each grant of the share options is HK$1.00.

Report of the Directors

DIRECTORS' INTERESTS IN SECURITIES (continued)

(b) Long positions in underlying shares (continued)

ii. *New World China Land Limited*

Under the share option scheme of a fellow subsidiary, NWCL, adopted on 26 November 2002, share options were granted to the undermentioned Directors which entitle them to subscribe for shares of NWCL and accordingly they are regarded as interested in the underlying shares of NWCL respectively. Certain details of the share options granted to them are as follows:

			Number of share options					Exercise
Name	Date of grant	Exercisable period (Note)	Balance as at 1 July 2007	Granted during the year	Exercised during the year	Lapsed during the year	Balance as at 30 June 2008	price per share HK$
Dr. Cheng Kar-shun, Henry	7 January 2008	(1)	–	2,000,000	–	–	2,000,000	6.972
Mr. Cheng Chi-kong, Adrian	25 July 2006	(2)	552,400	–	(220,800)[3]	–	331,600	2.865
	7 January 2008	(1)	–	1,500,000	–	–	1,500,000	6.972
Ms. Ngan Man-ying, Lynda	7 January 2008	(1)	–	1,000,000	–	–	1,000,000	6.972
			552,400	4,500,000	(220,800)	–	4,831,600	

Notes:

(1) From 8 February 2008 to 7 February 2011. Divided into 3 tranches, exercisable from 8 February 2008, 8 February 2009 and 8 February 2010, respectively, to 7 February 2011.

(2) From 26 August 2006 to 25 August 2011. Divided into 5 tranches, exercisable from 26 August 2006, 26 August 2007, 26 August 2008, 26 August 2009 and 26 August 2010, respectively, to 25 August 2011.

(3) The exercise dates were 23 August 2007 and 12 June 2008 for options representing 110,400 shares on each date. The weighted average closing price of the shares immediately before the dates on which share options were exercised was HK$5.885.

(4) The closing price per share immediately before 7 January 2008, the date of grant, was HK$6.73.

(5) The cash consideration paid by each Director for the grant of the share options is HK$10.00.

DIRECTORS' INTERESTS IN SECURITIES (continued)

(b) Long positions in underlying shares (continued)

iii. New World Development Company Limited

Under the share option scheme of the holding company, NWD, adopted on 24 November 2006, share options were granted to the undermentioned Directors which entitle them to subscribe for shares of NWD and accordingly they are regarded as interested in the underlying shares of NWD respectively. Certain details of the share options granted to them are as follows:

			Number of share options					Exercise
Name	Date of grant	Exercisable period (Note)	Balance as at 1 July 2007	Granted during the year	Exercised during the year	Lapsed during the year	Balance as at 30 June 2008	price per share HK$
Dr. Cheng Kar-shun, Henry	19 March 2007	(1)	36,500,000	–	–	–	36,500,000	17.756
Mr. Cheng Chi-kong, Adrian	19 March 2007	(2)	500,000	–	–	–	500,000	17.756
Mr. Au Tak-cheong	19 March 2007	(2)	1,200,000	–	–	–	1,200,000	17.756
			38,200,000	–	–	–	38,200,000	

Notes:

(1) Exercisable from 19 March 2007 to 18 March 2012.

(2) Divided into 5 tranches exercisable from 19 March 2007, 19 March 2008, 19 March 2009, 19 March 2010 and 19 March 2011, respectively, to 18 March 2012.

(3) The cash consideration paid by each Director for grant of the share options is HK$10.00.

Report of the Directors

DIRECTORS' INTERESTS IN SECURITIES (continued)

(b) Long positions in underlying shares (continued)

iv. NWS Holdings Limited

Under the share option scheme of a fellow subsidiary, NWS Holdings Limited ("NWSH"), the following Director has personal interests in share options to subscribe for shares in NWSH and is accordingly regarded as interested in the underlying shares of NWSH. Certain details of the share options of NWSH granted to him are as follows:

Name	Date of grant	Exercisable period (Note)	Number of share options: Balance as at 1 July 2007	Granted during the year	Adjusted during the year	Lapsed during the year	Balance as at 30 June 2008	Exercise price per share HK$
Dr. Cheng Kar-shun, Henry	21 August 2007	(1)	–	3,000,000	1,277[2]	–	3,001,277	16.193[2]
			–	3,000,000	1,277	–	3,001,277	

Notes:

(1) 40% of the share options are exercisable from 21 August 2008 to 20 August 2012 while the remaining 60% of the share options are divided into 3 tranches exercisable from 21 August 2009, 21 August 2010 and 21 August 2011, respectively, to 20 August 2012.

(2) Pursuant to the share option scheme of NWSH, the number of unexercised share options and exercise price may subject to adjustment in case of alteration in the capital structure of NWSH. NWSH declared the interim dividend for the year ended 30 June 2008 in scrip form (with cash option) on 17 March 2008 which gave rise to an adjustment to the number of unexercised share options and the exercise price in accordance with the said scheme. The number of share options was adjusted from 3,000,000 to 3,001,277 and the exercise price per share was adjusted from HK$16.200 to HK$16.193 both with effect from 18 June 2008.

(3) The closing price per share immediately before 21 August 2007, the date of grant, was HK$15.70.

(4) The cash consideration paid by the Director for grant of the share options is HK$10.00.

Save as disclosed above, as at 30 June 2008, none of the Directors and chief executives of the Company or any of their associate had or deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30 June 2008, the following persons (not being Directors) have an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who (other than a member of the Group) was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

	Number of Shares held			Approximate percentage of shareholding
Name	**Beneficial interests**	**Corporate interest**	**Total**	**(direct or indirect)**
Cheng Yu Tung Family (Holdings) Limited ("CYTFH")[1]	—	1,218,900,000	1,218,900,000	72.29
Centennial Success Limited ("Centennial")[2]	—	1,218,900,000	1,218,900,000	72.29
CTF[3]	—	1,218,900,000	1,218,900,000	72.29
NWD	1,218,900,000	—	1,218,900,000	72.29

Notes:

(1) CYTFH holds 51% direct interest in Centennial and is accordingly deemed to have an interest in the shares of the Company deemed to be interested by Centennial.

(2) Centennial holds 100% direct interest in CTF and is accordingly deemed to have an interest in the shares of the Company interested by or deemed to be interested by CTF.

(3) CTF together with its subsidiaries hold an aggregate of approximately 37.02% interest in NWD and is accordingly deemed to have an interest in the shares of the Company interested by NWD.

Save as disclosed herein, the Directors are not aware of any person (who are not Directors) who, as at 30 June 2008, have an interest or a short position in shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who (other than a member of the Group) was, directly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

Report of the Directors

SHARE OPTION SCHEME SUMMARY

Under the Scheme, the Directors may at their discretion grant options to any eligible participant (as explained hereinafter) to subscribe for the shares of the Company. The Scheme was approved at the annual general meeting of NWD held on 27 November 2007.

Summary of the Scheme disclosed in accordance with the Listing Rules is as follows:

Purpose of the Scheme	The purpose of the Scheme is to attract and retain the best available personnel and to provide additional incentives to employees, directors, consultants, business associates and advisers of the Company to promote the success of the Group.
Participants of the Scheme	The Directors may offer any employee (whether full-time or part-time), director, consultant, business associate or adviser of the Company and its subsidiaries options to subscribe for shares of the Company at a price calculated in accordance with the terms of the Scheme.
Total number of shares of the Company available for issue under the Scheme and percentage of issued share capital of the Company as at the date of this annual report	The Company had granted share options representing the rights to subscribe for 24,128,000 shares of the Company under the Scheme up to the date of this report. The Company may further grant share options to subscribe for 138,392,500 shares of the Company, representing approximately 8.21% of the Company's issued share capital as at the date of this report.
Maximum entitlement of each participant under the Scheme	Unless approved by shareholders of the Company in the manner as set out in the Scheme, the total number of shares of the Company issued and to be issued upon exercise of the options granted to each eligible person (including both exercised, cancelled and outstanding options) in any 12-month period must not exceed 1.0% of the relevant class of securities of the Company in issue.
The period within which the shares of the Company must be taken up under an option	A period to commence not less than 1 year and not to exceed 10 years from the date of grant of options.
The minimum period for which an option must be held before it can be exercised	Not less than one year upon the grant of options by the Directors.

SHARE OPTION SCHEME SUMMARY (continued)

The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be paid	The amount payable for the acceptance of an option shall be the sum of HK$1.00 which shall be paid upon acceptance of the offer of such option. An offer of an option must be made by the Company in writing on a business day and accepted in writing by the participant in such manner as the Board may prescribe within 21 calendar days (from and including the date of the offer by the Company) of the same being made and if not so accepted such offer shall lapse.
The basis of determining the exercise price	The exercise price shall be determined by the Directors, being the higher of: (a) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of grant of option; (b) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of option; or (c) the nominal value of a share of the Company.
The remaining life of the Scheme	The Scheme shall be valid and effective for a period not to exceed 10 years from the date of adoption, i.e. 12 June 2007.

SHARE OPTION MOVEMENTS FOR EMPLOYEES

		Number of share options					Exercise
Date of grant	Exercisable period (Note)	Balance as at 1 July 2007	Granted during the year	Exercised during the year	Lapsed during the year	Balance as at 30 June 2008	price per share HK$
27 November 2007	(1)	–	14,285,000	–	(70,000)	14,215,000	8.660
25 March 2008	(2)	–	3,153,000	–	–	3,153,000	8.440
		–	17,438,000	–	(70,000)	17,368,000	

Notes:

(1) From 27 November 2008 to 26 November 2013. Divided into 5 tranches exercisable from 27 November 2008, 27 November 2009, 27 November 2010, 27 November 2011 and 27 November 2012, respectively, to 26 November 2013, provided that the maximum number of share options that can be exercised during each anniversary year is 20% of the total number of share options granted together with any unexercised share options carried forward from the previous anniversary years.

SHARE OPTION MOVEMENTS FOR EMPLOYEES (continued)

Notes: (continued)

(2) From 25 March 2009 to 24 March 2014. Divided into 5 tranches exercisable from 25 March 2009, 25 March 2010, 25 March 2011, 25 March 2012 and 25 March 2013, respectively, to 24 March 2014, provided that the maximum number of share options that can be exercised during each anniversary year is 20% of the total number of share options granted together with any unexercised share options carried forward from the previous anniversary years.

(3) The cash consideration paid by employee of the Company for each grant of the share options is HK$1.00.

(4) The closing price per share immediately before 27 November 2007 and 25 March 2008, the dates of grant, was HK$8.69 and HK$8.46 respectively.

(5) The fair values of the share options granted during the year with exercise prices per share of HK$8.660 and HK$8.440 are estimated at HK$3.002 and HK$2.775 respectively by using the Binomial pricing model. Values are estimated based on Hong Kong government bonds which will mature in November 2013 and February 2014 and the market yield as of date of grant ranging from 2.065% to 2.920%, a six years period historical volatility ranging from 39% to 40% based on the price volatility of the shares of the Comparable Companies with additional criterion that they must have public trading history of at least 6 years counted backward from the date of grant, assuming dividend yield at 1.5% per annum based on the market indication from the companies comparable with the Company and an expected option life of 6 years. The Binomial pricing model requires input of subjective assumptions such as the expected stock price volatility. Change in the subjective input may materially affect the fair value estimates.

EMPLOYEES, REMUNERATION POLICY AND PENSION SCHEME

As at 30 June 2008, total number of employees for the Group was 3,893 (2007: 3,198). The Group ensures that all levels of employees are paid competitively within the standard in the market and employees are rewarded on performance related basis within the framework of the Group's salary and incentives.

The Group has made contributions to the staff related plans or funds in accordance with the regulations like pension plans, medical, unemployment, work related injury, maternity insurance and so on. Such arrangements are in compliance with relevant laws and regulations.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company had not redeemed any of its listed securities. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities during the year.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained the prescribed public float as required under the Listing Rules since the shares of the Company are listed on the Stock Exchange.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, less than 30.0% of the Group's revenue were attributed by the Group's five largest customers and 28.7% of the Group's total purchases were attributed by the Group's five largest direct sales suppliers and 10.7% of the Group's total purchases were attributed by the Group's largest supplier. To the knowledge of the Directors, none of the Directors or shareholders who owned 5.0% or more of the issued share capital of the Company as at 30 June 2008 or any of their respective associates held any interest in any of the five largest suppliers of the Group.

POST BALANCE SHEET EVENTS

Details of the post balance sheet events are set out in note 33 to the consolidated financial statements.

AUDITORS

The financial statements of the Company have been audited by Messrs. PricewaterhouseCoopers, who retire and, being eligible, offer themselves for re-appointment as auditors of the Company.

On behalf of the Board

Cheng Kar-shun, Henry
Chairman and Non-executive Director

Hong Kong, 9 October 2008

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888
www.pwchk.com

TO THE SHAREHOLDERS OF NEW WORLD DEPARTMENT STORE CHINA LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of New World Department Store China Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 116 to 173, which comprise the consolidated and Company balance sheets as at 30 June 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 9 October 2008

Consolidated Income Statement

For the year ended 30 June 2008

	Note	2008 HK$'000	2007 HK$'000
Revenue	5	**1,489,345**	1,046,885
Other income	6	**119,250**	32,327
Gain on fair value of financial assets at fair value through profit or loss		**3,156**	—
Purchases of and changes in inventories		**(176,575)**	(85,272)
Employee benefit expense	9	**(214,920)**	(147,393)
Depreciation and amortisation		**(125,620)**	(97,456)
Operating lease rental expense		**(310,079)**	(267,675)
Other operating expenses	7	**(195,163)**	(188,603)
Gain on disposal of subsidiaries	29(b)	**—**	57,984
Operating profit		**589,394**	350,797
Finance income	8	**10,789**	5,300
Profit before income tax		**600,183**	356,097
Income tax expense	10	**(123,608)**	(53,332)
Profit for the year		**476,575**	302,765
Attributable to equity holders of the Company		**476,575**	302,765
Dividend	12	**151,753**	—
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in HK$ per share)			
— Basic	13	**0.29**	0.25
— Diluted	13	**0.29**	N/A

The notes on pages 123 to 173 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 30 June 2008

	Note	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	14	**1,147,114**	563,723
Land use rights	15	**787,371**	168,449
Goodwill	16	**172,435**	—
Long-term prepaid rent and rental deposits	17	**37,136**	43,989
Financial assets at fair value through profit or loss	18	**60,154**	—
Deferred income tax assets	25	**27,133**	24,658
		2,231,343	800,819
Current assets			
Inventories		**57,472**	29,705
Debtors	19	**25,656**	19,192
Prepayments, deposits and other receivables	17	**257,363**	143,978
Amounts due from fellow subsidiaries	20	**60,969**	96,750
Fixed deposits	21	**790,909**	7,143
Cash and cash equivalents	22	**2,336,718**	960,391
		3,529,087	1,257,159
Total assets		**5,760,430**	2,057,978
Equity			
Share capital	23	**168,615**	6,095
Reserves	24	**3,786,378**	851,134
Proposed final dividend	12	**151,753**	—
		4,106,746	857,229
Liabilities			
Non-current liabilities			
Accruals	26	**237,981**	163,229
Deferred income tax liabilities	25	**147,334**	10,577
		385,315	173,806

The notes on pages 123 to 173 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 30 June 2008

	Note	2008 HK$'000	2007 HK$'000
Current liabilities			
Creditors and accruals	26	**1,208,562**	949,564
Amounts due to fellow subsidiaries	20	**8,669**	38,368
Tax payable		**51,138**	39,011
		1,268,369	1,026,943
Total liabilities		**1,653,684**	1,200,749
Total equity and liabilities		**5,760,430**	2,057,978
Net current assets		**2,260,718**	230,216
Total assets less current liabilities		**4,492,061**	1,031,035

Dr. Cheng Kar-shun, Henry
Director

Mr. Cheung Fai-yet, Philip
Director

The notes on pages 123 to 173 are an integral part of these consolidated financial statements.

Company Balance Sheet

As at 30 June 2008

	Note	2008 HK$'000	2007 HK$'000
Non-current assets			
Subsidiaries	27	**1,063,062**	880,500
Current assets			
Prepayments and deposits	17	**332**	—
Amounts due from subsidiaries	27	**2,635,669**	—
Cash and cash equivalents	22	**9,728**	—
		2,645,729	—
Total assets		**3,708,791**	880,500
Equity			
Share capital	23	**168,615**	6,095
Reserves	24	**3,311,288**	820,385
Proposed final dividend	12	**151,753**	—
Total equity		**3,631,656**	826,480
Current liabilities			
Accruals and other payables	26	**4,788**	40,726
Amounts due to subsidiaries	27	**72,347**	13,294
		77,135	54,020
Total liabilities		**77,135**	54,020
Total equity and liabilities		**3,708,791**	880,500
Net current assets/(liabilities)		**2,568,594**	(54,020)
Total assets less current liabilities		**3,631,656**	826,480

Dr. Cheng Kar-shun, Henry
Director

Mr. Cheung Fai-yet, Philip
Director

The notes on pages 123 to 173 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2008

	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Statutory reserve HK$'000	Share-based compensation reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 July 2006	6,095	–	(6,095)	–	–	(4,672)	193,121	188,449
Translation differences	–	–	–	–	–	22,352	–	22,352
Net income recognised directly in equity	–	–	–	–	–	22,352	–	22,352
Profit for the year	–	–	–	–	–	–	302,765	302,765
Total recognised income and expense for the year	–	–	–	–	–	22,352	302,765	325,117
Capitalisation of shareholder's loan (Note 24)	–	–	397,683	–	–	–	–	397,683
Share issuance costs	–	–	(54,020)	–	–	–	–	(54,020)
Transfer to statutory reserve	–	–	–	11,360	–	–	(11,360)	–
At 30 June 2007	**6,095**	**–**	**337,568**	**11,360**	**–**	**17,680**	**484,526**	**857,229**
Translation differences	**–**	**–**	**–**	**–**	**–**	**140,683**	**–**	**140,683**
Net income recognised directly in equity	**–**	**–**	**–**	**–**	**–**	**140,683**	**–**	**140,683**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**476,575**	**476,575**
Total recognised income and expense for the year	**–**	**–**	**–**	**–**	**–**	**140,683**	**476,575**	**617,258**
Issue of shares in connection with the Listing (Note 23)	**46,725**	**2,663,296**	**–**	**–**	**–**	**–**	**–**	**2,710,021**
Capitalisation of share premium account (Note 23)	**115,795**	**(115,795)**	**–**	**–**	**–**	**–**	**–**	**–**
Share issuance costs	**–**	**(149,251)**	**54,020**	**–**	**–**	**–**	**–**	**(95,231)**
Share-based payments	**–**	**–**	**–**	**–**	**17,469**	**–**	**–**	**17,469**
Lapse of share options	**–**	**–**	**–**	**–**	**(21)**	**–**	**21**	**–**
Transfer to statutory reserve	**–**	**–**	**–**	**24,316**	**–**	**–**	**(24,316)**	**–**
At 30 June 2008	**168,615**	**2,398,250**	**391,588**	**35,676**	**17,448**	**158,363**	**936,806**	**4,106,746**

The notes on pages 123 to 173 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 30 June 2008

	Note	2008 HK$'000	2007 HK$'000
Cash flows from operating activities			
Profit before income tax		**600,183**	356,097
Adjustments for:			
— Interest income		**(104,909)**	(11,851)
— Amortisation of land use rights		**9,190**	4,574
— Depreciation of property, plant and equipment		**116,430**	92,882
— Gain on fair value of financial assets at fair value through profit or loss		**(3,156)**	—
— Gain on disposal of subsidiaries		**—**	(57,984)
— Loss on disposal of property, plant and equipment		**1,089**	113
— Share-based payments		**17,469**	—
Operating profit before working capital changes		**636,296**	383,831
Changes in:			
Inventories		**(16,680)**	(15,630)
Debtors		**(3,267)**	(12,572)
Prepayments, deposits and other receivables		**(63,116)**	100,576
Creditors and accruals		**180,098**	244,102
Amounts due from/(to) fellow subsidiaries		**(11,218)**	8,936
Amount due to a related company		**—**	(23,769)
Cash generated from operations		**722,113**	685,474
Overseas tax paid		**(146,130)**	(48,557)
Net cash generated from operating activities		**575,983**	636,917
Cash flows from investing activities			
Net cash outflow from business combination	30	**(616,982)**	—
Net cash outflow from acquisition of assets	29(a)	**(262,006)**	—
Net cash outflow from disposal of subsidiaries	29(b)	**—**	(53,451)
Purchase of property, plant and equipment		**(244,490)**	(99,832)
Purchase of financial assets at fair value through profit or loss		**(53,004)**	—
Proceeds from sale of property, plant and equipment	29(c)	**449**	148
Fixed deposits		**(783,766)**	(7,143)
Interest received		**104,909**	11,851
Net cash used in investing activities		**(1,854,890)**	(148,427)

Consolidated Cash Flow Statement

For the year ended 30 June 2008

	Note	2008 HK$'000	2007 HK$'000
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**2,710,021**	—
Payment of share issuance costs		**(95,231)**	(13,294)
Net cash generated from/(used in) financing activities		**2,614,790**	(13,294)
Effect of foreign exchange rate changes		**40,444**	(3,535)
Net increase in cash and cash equivalents		**1,376,327**	471,661
Cash and cash equivalents at beginning of the year		**960,391**	488,730
Cash and cash equivalents at end of the year		**2,336,718**	960,391

The notes on pages 123 to 173 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

1 GENERAL INFORMATION

New World Department Store China Limited (the "Company") was incorporated in the Cayman Islands on 25 January 2007 as an exempted company with limited liability under the Companies Law, (Cap. 22) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company and its subsidiaries (together, the "Group") are engaged in department store operations in Mainland China.

On 7 June 2007, the Company acquired the entire issued share capital of New World Department Store (Investment) Limited (formerly known as New World Department Stores (Holdings) Limited) ("NWDSI") through a share swap (the "Reorganisation") in preparation for the listing of the Company's shares (the "Listing") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company's shares were listed on the Stock Exchange on 12 July 2007.

These consolidated financial statements are presented in thousands of units of Hong Kong dollars ("HK$'000"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 9 October 2008.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

These consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

Notes to the Financial Statements

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) New standards, amendments and interpretations have been published and are effective for the year ended 30 June 2008:

HKAS 1 Amendment	Presentation of financial statements — capital disclosures
HKFRS 7	Financial instruments: disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of embedded derivatives
HK(IFRIC)-Int 10	Interim financial reporting and impairment
HK(IFRIC)-Int 11	HKFRS 2 — Group and treasury share transactions

The adoption of HKFRS 7 and the complementary amendment to HKAS 1 has resulted in new disclosures relating to financial instruments and how the Group manages its capital resources, but has no impact on the results or net assets for the year. HK(IFRIC)-Int 9, HK(IFRIC)-Int 10 and HK(IFRIC)-Int 11 have no effect on the financial statements for the year. HK(IFRIC)-Int 8 are not relevant to the Group's operations.

(b) The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 July 2008 or later periods, but the Group has not early adopted them:

HKAS 1 (Revised)	Presentation of financial statements
HKAS 23 (Revised)	Borrowing costs
HKAS 27 (Revised)	Consolidated and separate financial statements
HKFRS 2 Amendments	Share-based payment vesting conditions and cancellations
HKFRS 3 (Revised)	Business combinations
HKFRS 8	Operating segments
HK(IFRIC)-Int 13	Customer loyalty programmes

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(c) The following amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 July 2008 or later periods but are not relevant to the Group's operations:

HKAS 32 and HKAS 1 Amendments	Puttable financial instruments and obligations arising on liquidation
HK(IFRIC)-Int 12	Service concession arrangements
HK(IFRIC)-Int 14	HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction
HK (IFRIC)-Int 15	Agreements for the construction of real estate
HK (IFRIC)-Int 16	Hedges of a net investment in a foreign operation

The Group has already commenced an assessment of the impact of these new standards, amendments and interpretation but is not yet in a position to state whether they would have a significant impact on its result of operations and financial position.

2.2 Consolidation

The consolidated financial statements of the Company and all its subsidiaries made up to 30 June.

Subsidiaries

Subsidiaries are all entities over which the Group has power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

Notes to the Financial Statements

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

Subsidiaries (continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.4 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	20 to 40 years
Plant and machinery	5 years
Motor vehicles	5 years
Leasehold improvements	2 to 10 years
Furniture and fixtures	3 to 5 years
Office equipment	2 to 5 years
Computer	2 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Assets under construction represents buildings or leasehold improvements on which construction work has not been completed and plant, machinery and equipment pending installation. It is carried at cost which includes construction expenditures and other direct costs less any impairment losses. On completion, assets under construction is transferred to the appropriate categories of property, plant and equipment at cost less accumulated impairment losses. No depreciation is provided for assets under construction until they are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.5 Land use rights

The upfront prepayments made for the land use rights are expensed in the income statement on a straight-line basis over the period of the rights or when there is impairment, the impairment is expensed in the income statement.

2.6 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

2.7 Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("CGUs"). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Investments

The Group classifies its investments in the category of financial assets at fair value through profit or loss. Management determines the classification of its investments at initial recognition depending on the purpose for which the investments are acquired and re-evaluates this designation at every balance sheet date.

Financial assets at fair value through profit or loss are financial assets held for trading and those designated as at fair value through profit or loss at inception under certain circumstances. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are classified as held for trading unless they are designated as hedges.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.8 Investments (continued)

Regular purchases and sales of investments are recognised on trade-date, which is the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction cost are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial assets at fair value through profit or loss are subsequently carried at fair value.

Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the income statement in the financial period in which they arise. The translation differences on monetary financial assets are recognised in the income statement.

For unlisted financial assets, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

2.9 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered as indicators that the receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within operating expenses. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement.

Notes to the Financial Statements

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.10 Inventories

Inventories comprise finished goods and are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the periods of the lease.

2.12 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.13 Cash and cash equivalents

Cash and bank balances are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts. Bank overdrafts are shown within borrowings under current liabilities in the balance sheet.

2.14 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.15 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Notes to the Financial Statements

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.16 Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leaves are recognised when they accrue to employees. Provisions are made for the estimated liability for annual leaves as a result of services rendered by employees up to the balance sheet date.

(ii) Pension obligations

The Group makes contributions to defined contribution retirement schemes under the Mandatory Provident Fund Schemes ("MPF") Ordinance and the Occupational Retirement Scheme Ordinance ("ORSO") in Hong Kong, the assets of which are generally held in separate trustee administered funds. The pension plans are generally funded by payments from employees and by the Group. The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

The Group also contributes to employee retirement schemes established by municipal governments in Mainland China. The municipal governments undertake to assume the retirement benefit obligations of all existing and future retired employees of the Group. Contributions to these schemes are charged to the income statement as incurred.

(iii) Bonus plans

Provisions for bonus plan due wholly within twelve months after the balance sheet date are recognised where contractually obliged or where there is a past practice that has created a constructive obligation.

(iv) Share-based compensation

The fair value of the employee services received in exchange for the grant of share options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted at the date of grant, excluding the impact of any non-market vesting conditions. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.17 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts after elimination of sales within the Group.

Commission income from concessionaire sales is recognised upon sales of goods by the relevant stores.

Revenue from direct sales of goods is recognised when a Group entity sells a product to the customer. Retail sales are usually in cash or by credit card. The recorded revenue is the gross amount of sale, including credit card fees payable for the transaction. Such fees are included in other operating expenses.

Revenue from management fees is recognised when management services are rendered.

Rental income is recognised on a straight-line accrual basis over the terms of lease agreements.

Interest income is recognised on a time proportion basis using effective interest method.

Other commission income and entry fee are recognised on an accrual basis.

2.18 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entities operate (the "functional currency"). The functional currency of the Company is Renminbi (or "RMB"). The consolidated financial statements are presented in Hong Kong dollars, the Company's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss.

Notes to the Financial Statements

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.18 Foreign currency translation (continued)

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(c) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.19 Government grants

Government grants are recognised at their fair values where there is a reasonable assurance that grant will be received and all attaching conditions will be complied with. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.21 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks, including foreign exchange risk, credit risk, liquidity risk and interest rate risk.

(a) Foreign exchange risk

The Group is mainly exposed to foreign exchange risk arising from Hong Kong dollars against Renminbi. This foreign exchange risk arises from future commercial transactions or recognised assets and liabilities denominated in a currency that is not the entity's functional currency of Renminbi. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and it has not hedged its foreign exchange risk.

At 30 June 2008, if Renminbi had strengthened/weakened by 3% against the Hong Kong dollars with all other variables held constant, profit for the year would have been approximately HK$5,494,000 higher/lower (2007: approximately HK$5,217,000 lower/higher) and equity holders' equity would have been approximately HK$35,885,000 lower/higher (2007: approximately HK$12,737,000 lower/higher) mainly as a result of foreign exchange losses/gains on translation of Hong Kong dollars-denominated bank balances and intercompany balances of certain Group's entities of which functional currency is Renminbi.

In addition, the conversion of Renminbi into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by Mainland China Government.

Notes to the Financial Statements

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) *Credit risk*

The credit risk of the Group mainly arises from cash and cash equivalents, debtors, deposits and other receivables and amounts due from fellow subsidiaries. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets. As at 30 June 2008, all the bank deposits are deposited in high quality financial institutions without significant credit risk.

Retail sales are usually paid in cash or by major credit/debit cards. At the reporting date, management considers the Group does not have a significant concentration of credit risk. No single customer accounted for more than 1% of the Group's total revenues during the year.

(c) *Liquidity risk*

The liquidity risk of the Group is controlled by maintaining sufficient cash and cash equivalents, which is generated from the operating cash flow and financing cash flow.

All of the Group's financial liabilities mature within 1 year from the balance sheet date.

(d) *Interest rate risk*

Except for the fixed deposits and short-term bank deposits as at 30 June 2008 of HK$790,909,000 and HK$1,713,506,000 (2007: HK$7,143,000 and HK$164,425,000), held at interest rates of ranging from 0.90% to 4.14% per annum (2007: 1.62% to 3.65% per annum), the Group has no significant interest-bearing assets and liabilities. The Group's income and operating cash flows are substantially independent of changes in market interest rates. At the reporting date, management does not anticipate significant impact resulted from the changes in interest rates.

At 30 June 2008, if interest rates on cash and cash equivalents had been 50 basis points higher/lower with all other variables held constant, the Group's interest income would have been approximately HK$15,590,000 higher/lower (2007: approximately HK$4,799,000 higher/lower). The sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date.

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Fair value estimation

The carrying amounts less impairment provision of receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

3.3 Capital risk management

The Group's objectives on managing capital are to finance its operations with its owned capital and to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

With regard to the maintenance and enhancement of capital structure, the Group may consider relevant economic and market conditions and take necessary measures for the beneficial interests of the Group and its shareholders.

The Group monitors capital on the basis of available cash and current ratio as shown in and derived from the consolidated balance sheets. The table below analyses the Group's capital structure as at 30 June 2008:

	As at 30 June 2008 HK$'000	As at 30 June 2007 HK$'000
Cash and cash equivalents	**2,336,718**	960,391
Current ratio (i)	**2.78**	1.22

The Group's strategy was to maintain a capital base competitive to industry's average to support the operations and development of its business.

Note:

(i) Current assets divided by current liabilities.

Notes to the Financial Statements

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. Management will revise the depreciation charge where useful lives are different to previously estimated, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Net realisable value of inventories

Inventories are carried at the lower of cost and net realisable value. The cost of inventories is written down to net realisable value when there is an objective evidence that the cost of inventories may not be recoverable. The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may not also be recoverable if the estimated costs to be incurred to make the sale have increased. The amount written off to the income statement is the difference between the carrying value and net realisable value of the inventories. In determining whether the cost of inventories can be recoverable, significant judgement is required. In making this judgement, the Group evaluates, among other factors, the duration and extent by all means to which the amount will be recovered.

(c) Business combinations and allocation of purchase price amongst identifiable assets

The Group accounts for business combinations in accordance with HKFRS 3 "Business Combinations". It is required to recognise separately, at the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria regardless of whether they had been previously recognised in the acquiree's financial statements. The valuation in respect of the identifiable assets (including intangible assets recognised upon an acquisition during the year) and liabilities was referenced to the inflow of future economic benefits associated to the asset and the outflow of future economic resources required to settle the obligation based on fair value assessment. The assumptions adopted in the valuation include the revenue growth and the general market conditions.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(d) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment according to their recoverable amounts determined by the cash-generating units based on value-in-use calculations. These calculations require the use of estimates which are subject to change of economic environment in future.

(e) Employee benefits — share-based payments

The determination of the fair values of the share options granted requires estimates in determining the expected volatility of the share price, the dividends expected on the shares, the risk-free interest rate for the life of the option and the number of share options that are expected to become exercisable. Where the outcome of the number of options that are exercisable is different, such difference will impact the income statement in the subsequent remaining vesting period of the relevant share options.

Notes to the Financial Statements

5 REVENUE AND SEGMENT INFORMATION

Revenue includes commission income from concessionaire sales, sales of goods — direct sales, management fees and rental income.

	2008 HK$'000	2007 HK$'000
Commission income from concessionaire sales	**1,017,231**	759,124
Sales of goods — direct sales	**224,498**	116,591
Management fees	**165,518**	106,446
Rental income	**82,098**	64,724
	1,489,345	1,046,885

The income from concessionaire sales is analysed as follows:

	2008 HK$'000	2007 HK$'000
Gross revenue from concessionaire sales	**4,833,230**	3,576,915
Commission income from concessionaire sales	**1,017,231**	759,124

No segment analysis for business segment is presented as the Group principally operates in one business segment, which is the operation of department stores.

No segment analysis for geographical segment is presented as substantially all of the revenue, operating results, assets and liabilities are in Mainland China.

6 OTHER INCOME

	2008 HK$'000	2007 HK$'000
Interest income on bank deposits	**94,120**	11,851
Government grants	**8,804**	6,039
Other commission income	**6,009**	3,139
Entry fee	**—**	3,830
Sundries	**10,317**	7,468
	119,250	32,327

7 OTHER OPERATING EXPENSES

	2008 HK$'000	2007 HK$'000
Water and electricity	**93,908**	78,600
Promotion, advertising and related expenses	**51,647**	48,497
Net exchange losses	**3,053**	11,277
Share-based payments	**4,125**	—
Auditor's remuneration	**3,454**	4,252
Loss on disposal of property, plant and equipment	**1,089**	113
Others	**37,887**	45,864
	195,163	188,603

8 FINANCE INCOME

	2008 HK$'000	2007 HK$'000
Interest income from deposits relating to share subscription under the Listing	**10,789**	—
Net exchange gains	**—**	5,300
	10,789	5,300

9 EMPLOYEE BENEFIT EXPENSE

	2008 HK$'000	2007 HK$'000
Wages and salaries	**133,373**	101,630
Retirement benefit costs — defined contribution plans	**17,155**	10,783
Share-based payments	**13,344**	—
Other employment benefits	**51,048**	34,980
	214,920	147,393

Notes to the Financial Statements

9 EMPLOYEE BENEFIT EXPENSE (continued)

(a) Directors' and senior management's emoluments

The remuneration of every Director for the year ended 30 June 2008 is set out below:

Name of Director	Fees HK$'000	Salary, allowances and benefits in kind HK$'000	Retirement schemes contributions HK$'000	Bonus HK$'000	Share-based payments HK$'000	Total HK$'000
Non-executive directors						
Dr. Cheng Kar-shun, Henry	100	–	–	–	792	892
Mr. Au Tak-cheong	100	–	–	–	198	298
Executive directors						
Mr. Cheng Chi-kong, Adrian	150	–	–	–	396	546
Mr. Cheung Fai-yet, Philip	150	3,570	354	1,000	1,351	6,425
Mr. Lin Tsai-tan, David	150	1,462	99	994	439	3,144
Mr. Wong Kwok-kan, Kenneth	150	1,295	126	414	478	2,463
Ms. Ngan Man-ying, Lynda	150	–	–	–	396	546
Independent non-executive directors						
Mr. Cheong Ying-chew, Henry	200	–	–	–	198	398
Mr. Chan Yiu-tong, Ivan	200	–	–	–	198	398
Mr. Tong Hang-chan, Peter	200	–	–	–	198	398
Mr. Yu Chun-fai, Henry	200	–	–	–	198	398
	1,750	6,327	579	2,408	4,842	15,906

9 EMPLOYEE BENEFIT EXPENSE (continued)

(a) Directors' and senior management's emoluments (continued)

The remuneration of every Director for the year ended 30 June 2007 is set out below:

Name of Director	Fees	Salary, allowances and benefits in kind	Retirement schemes contributions	Bonus	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-executive directors					
Dr. Cheng Kar-shun, Henry	—	—	—	—	—
Mr. Au Tak-cheong	—	—	—	—	—
Executive directors					
Mr. Cheng Chi-kong, Adrian	—	—	—	—	—
Mr. Cheung Fai-yet, Philip	—	—	—	—	—
Mr. Lin Tsai-tan, David	—	1,374	93	564	2,031
Mr. Wong Kwok-kan, Kenneth	—	969	94	163	1,226
Ms. Ngan Man-ying, Lynda	—	—	—	—	—
Independent non-executive directors					
Mr. Cheong Ying-chew, Henry	—	—	—	—	—
Mr. Chan Yiu-tong, Ivan	—	—	—	—	—
Mr. Tong Hang-chan, Peter	—	—	—	—	—
Mr. Yu Chun-fai, Henry	—	—	—	—	—
	—	2,343	187	727	3,257

No Director waived or agreed to waive any emoluments during the year (2007: Nil).

9 EMPLOYEE BENEFIT EXPENSE (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group includes three (2007: one) Directors for the year ended 30 June 2008, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2007: four) individuals during the year ended 30 June 2008 are as follows:

	2008	2007
	HK$'000	HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**2,608**	4,305
Retirement benefit costs — defined contribution plans	**227**	362
Bonus	**399**	978
Share-based payments	**722**	—
	3,956	5,645

The emoluments fell within the following bands:

	Number of individuals	
	2008	2007
Emolument bands		
Under HK$1,000,000	**—**	—
HK$1,000,001–HK$1,500,000	**—**	4
HK$1,500,001–HK$2,000,000	**2**	—
	2	4

10 INCOME TAX EXPENSE

The amounts of taxation charged to the consolidated income statement represent:

	2008 HK$'000	2007 HK$'000
Current income tax		
— Hong Kong profits tax	**1,033**	998
— Mainland China taxation	**119,972**	63,261
Over provision in prior years	**(1,885)**	(297)
Deferred income tax (Note 25)	**4,488**	(10,630)
	123,608	53,332

Taxation has been provided at the appropriate tax rates prevailing in the countries in which the Group operates. Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profit for the year.

Mainland China enterprise income tax ("EIT") or foreign enterprise income tax ("FEIT") is provided on the basis of the profit for statutory financial reporting purpose, adjusted for income and expense items, which are not assessable or deductible for EIT or FEIT purpose. Prior to 1 January 2008, the applicable EIT or FEIT rate for the subsidiaries of the Group in Mainland China was 33%, which comprises 30% attributable to national enterprise income tax and 3% attributable to local municipal income tax, except that Shanghai New World Liying Department Store Co., Ltd., a wholly-owned subsidiary of the Company, entitled to full tax exemption for one year starting from 1 January 2006.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China. With effect from 1 January 2008, the tax rate applicable to enterprises established in Mainland China unified at 25%, with certain grandfathering provisions and preferential provisions.

Notes to the Financial Statements

10 INCOME TAX EXPENSE (continued)

The taxation of the Group's profit before income tax differs from the theoretical amount that would arise using the applicable tax rate, being the weighted average tax rates prevailing in the territories in which the Group operates, as follows:

	2008 HK$'000	2007 HK$'000
Profit before income tax	**600,183**	356,097
Tax calculated at applicable tax rate	**172,493**	112,934
Expenses not deductible for taxation purpose	**27,009**	24,376
Income not subject to taxation	**(58,074)**	(51,367)
Effect of income charged on deemed basis	**(29,643)**	(46,880)
Deferred income tax not recognised	**16,373**	18,058
Utilisation of previously unrecognised tax losses	**(2,426)**	(4,235)
Effect of changes in tax rate	**(239)**	743
Over provision in prior years	**(1,885)**	(297)
Income tax expense	**123,608**	53,332

	2008	2007
Weighted average domestic applicable tax rates	**29%**	32%

11 LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately HK$78,029,000 (2007: Nil).

12 DIVIDEND

No dividend had been paid or declared by the Company during the year (2007: Nil). At a meeting held on 9 October 2008, the Directors recommended a final dividend of HK$0.09 per share for the year ended 30 June 2008. This proposed dividend was not recognised as dividend payable in the financial statements for the year ended 30 June 2008.

13 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. In determining the weighted average number of ordinary shares in issue, a total of 1,218,900,000 ordinary shares were deemed to be in issue since 1 July 2006.

	2008	2007
Profit attributable to the equity holders of the Company (HK$'000)	**476,575**	302,765
Weighted average number of ordinary shares in issue (shares in thousands)	**1,667,773**	1,218,900
Basic earnings per share (HK$ per share)	**0.29**	0.25

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

During the year ended 30 June 2008, shares issuable upon exercise of the share options are the only dilutive ordinary shares. There was no potential dilutive effect from the share options. During the year ended 30 June 2007, there were no potential dilutive ordinary shares outstanding.

Notes to the Financial Statements

14 PROPERTY, PLANT AND EQUIPMENT

	Group								
	Buildings HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Computer HK$'000	Assets under construction HK$'000	Total HK$'000
Cost									
At 1 July 2007	98,821	53,475	2,015	753,916	4,982	8,077	55,222	3,078	979,586
Translation differences	22,324	5,126	254	84,284	737	821	6,438	375	120,359
Additions	–	729	952	191,443	1,985	2,226	13,679	33,476	244,490
Acquisition of assets (Note 29(a))	86,709	8	–	–	–	–	–	–	86,717
Business combination (Note 30)	275,245	90	372	18,631	952	148	2,368	378	298,184
Reclassification	–	–	–	2,789	950	(943)	57	(2,853)	–
Disposals	–	(80)	(109)	(3,739)	(597)	(720)	(1,952)	–	(7,197)
At 30 June 2008	483,099	59,348	3,484	1,047,324	9,009	9,609	75,812	34,454	1,722,139
Accumulated depreciation									
At 1 July 2007	21,448	27,368	963	323,298	3,095	5,481	34,210	–	415,863
Translation differences	950	2,673	134	39,101	482	636	4,415	–	48,391
Charge for the year	6,673	9,153	437	88,330	1,665	849	9,323	–	116,430
Reclassification	–	–	–	–	311	(311)	–	–	–
Written back on disposals	–	(59)	(84)	(2,368)	(547)	(698)	(1,903)	–	(5,659)
At 30 June 2008	29,071	39,135	1,450	448,361	5,006	5,957	46,045	–	575,025
Net book amount									
At 30 June 2008	454,028	20,213	2,034	598,963	4,003	3,652	29,767	34,454	1,147,114

14 PROPERTY, PLANT AND EQUIPMENT (continued)

	Group								
	Buildings HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Computer HK$'000	Assets under construction HK$'000	Total HK$'000
Cost									
At 1 July 2006	97,198	48,547	1,359	680,933	4,690	6,826	52,363	–	891,916
Translation differences	1,623	2,193	66	34,999	284	312	2,537	–	42,014
Additions	–	2,790	735	82,200	653	1,252	9,124	3,078	99,832
Reclassification	–	–	–	–	–	66	(66)	–	–
Disposals	–	(23)	–	(374)	(110)	(219)	(594)	–	(1,320)
Disposal of subsidiaries	–	(32)	(145)	(43,842)	(535)	(160)	(8,142)	–	(52,856)
At 30 June 2007	98,821	53,475	2,015	753,916	4,982	8,077	55,222	3,078	979,586
Accumulated depreciation									
At 1 July 2006	17,971	17,983	747	249,795	2,446	4,842	30,008	–	323,792
Translation differences	255	700	41	13,586	153	254	1,586	–	16,575
Charge for the year	3,222	8,711	284	70,895	896	673	8,201	–	92,882
Reclassification	–	–	–	–	–	5	(5)	–	–
Written back on disposals	–	(12)	–	(234)	(90)	(210)	(513)	–	(1,059)
Written back on disposal of subsidiaries	–	(14)	(109)	(10,744)	(310)	(83)	(5,067)	–	(16,327)
At 30 June 2007	21,448	27,368	963	323,298	3,095	5,481	34,210	–	415,863
Net book amount									
At 30 June 2007	77,373	26,107	1,052	430,618	1,887	2,596	21,012	3,078	563,723

Notes to the Financial Statements

15 LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments and their net book amounts are analysed as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
At 1 July	**168,449**	170,566
Acquisition of assets (Note 29(a))	**224,858**	—
Business combination (Note 30)	**372,872**	—
Amortisation	**(9,190)**	(4,574)
Translation differences	**30,382**	2,457
At 30 June	**787,371**	168,449

	Group	
	2008	2007
	HK$'000	HK$'000
In Mainland China held on:		
Leases of land use rights between 10 to 50 years	**787,371**	168,449

16 GOODWILL

	Group	
	2008	2007
	HK$'000	HK$'000
At 1 July	**—**	—
Business combination (Note 30)	**161,431**	—
Translation differences	**11,004**	—
At 30 June	**172,435**	—

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") identified. For the purpose of impairment test, the recoverable amount of CGU is determined based on value-in-use calculations, which uses cash flow projections based on financial estimates covering a period of five years and a pre-tax discount rate. Cash flows beyond the five-year period are extrapolated using estimated growth rates. The key assumptions adopted on growth rate and discount rate used in the value-in-use calculations are based on management best estimates. Growth rate of 5.0% are determined by considering both internal and external factors relating to the relevant businesses. Discount rate used also reflect specific risks relating to the relevant segments at 17.5% (2007: Nil).

17 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepaid rent and rental deposits	**69,269**	60,526	**—**	—
Prepaid construction fee	**2,467**	1,450	**—**	—
Management fee receivables	**86,768**	46,559	**—**	—
Others	**135,995**	79,432	**332**	—
	294,499	187,967	**332**	—
Less: long-term prepaid rent and rental deposits	**(37,136)**	(43,989)	**—**	—
	257,363	143,978	**332**	—

There were no other receivables past due but not impaired as of 30 June 2008.

The balances are mainly denominated in Renminbi. The carrying amounts of deposits approximate their fair values and due within 2 to 23 years from 30 June 2008.

The credit quality of other receivables neither past due nor impaired has been assessed by reference to historical information about the counterparty default rates. The existing counterparties do not have defaults in the past.

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2008	2007
	HK$'000	HK$'000
Unlisted shares and investments, at fair value		
Debt securities	**60,154**	—

On 14 December 2007, Skybird International Limited, a wholly-owned subsidiary of the Company, acquired 5,000 preferred shares of Renhe Commercial Holdings Company Limited (or "Renhe") at a consideration of approximately RMB50,000,000. Renhe is an operator and developer of underground shopping centers for wholesale of apparel and accessories in Mainland China.

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

The financial assets at fair value through profit or loss are denominated in Renminbi.

The fair values of unlisted investments are determined using financial models, primarily discounted cashflow model.

19 DEBTORS

The Group grants credit terms within 30 days in majority, based on the invoice date.

Aging analysis of debtors is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Within period for		
0–30 days	**18,438**	19,192
31–60 days	**2,326**	—
61–90 days	**1,196**	—
Over 90 days	**3,696**	—
	25,656	19,192

Trade debtors of HK$4,892,000 (2007: Nil) were past due but not impaired. The total amount includes HK$1,196,000 of less than 30 days past due and HK$3,696,000 of 31–60 days past due. These relate to companies for whom there is no recent history of default.

The carrying amounts of debtors approximate their fair values. All debtors are denominated in Renminbi. The credit quality of debtors neither past due nor impaired has been assessed by reference to historical information about the counterparty default rates. The existing counterparties do not have defaults in the past.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

20 AMOUNTS DUE FROM/(TO) FELLOW SUBSIDIARIES

The balances with fellow subsidiaries are unsecured, interest free and repayable on demand. The carrying amounts of amounts due from/(to) fellow subsidiaries approximate their fair values.

21 FIXED DEPOSITS

Fixed deposits are denominated in Renminbi.

The interest rate on fixed bank deposits was ranging from 3.78% to 4.14% per annum (2007: 2.43% to 2.79% per annum), these deposits have maturities ranging from 180 to 365 days (2007: 180 to 365 days).

22 CASH AND CASH EQUIVALENTS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Short-term bank deposits	**1,713,506**	164,425	**—**	—
Cash at bank and in hand	**623,212**	795,966	**9,728**	—
	2,336,718	960,391	**9,728**	—
Maximum exposure to credit risk	**2,327,191**	952,651	**9,728**	—

Cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong dollars	**1,160,945**	259,655	**9,728**	—
Renminbi	**783,381**	700,700	**—**	—
US dollars	**392,392**	36	**—**	—
	2,336,718	960,391	**9,728**	—

The interest rate on short-tem bank deposits was ranging from 0.90% to 3.78% per annum (2007: 1.62% to 3.65% per annum), these deposits have maturities ranging from 2 to 90 days (2007: 7 to 30 days).

The Group's cash and cash equivalents are deposited with banks in Mainland China. Cash at bank earns interest at floating rates based on daily bank deposit rates.

Renminbi is currently not a freely convertible currency in the international market. The conversion of Renminbi into foreign currencies and remittance of Renminbi out of the Mainland China are subject to the rules and regulations of the foreign exchange control promulgated by the Mainland China government.

Notes to the Financial Statements

23 SHARE CAPITAL

Movements were:

	Note	Number of shares '000	Nominal value HK$'000
Authorised:			
Ordinary shares of HK$0.1 each			
Upon incorporation		3,800	380
Increase in authorised share capital		9,996,200	999,620
At 30 June 2007 and 2008		10,000,000	1,000,000
Issued and fully paid:			
Ordinary shares of HK$0.1 each			
Upon incorporation		–	–
New shares issued	(i)	60,946	6,095
At 30 June 2007		60,946	6,095
Issue of shares in connection with the Listing	(ii)	467,245	46,725
Capitalisation of share premium account	(iii)	1,157,954	115,795
At 30 June 2008		1,686,145	168,615

Notes:

(i) On 7 June 2007, 60,945,999 ordinary shares of the Company were allotted and issued, credited as fully paid at par value of HK$0.1 each as consideration of and in exchange of the entired issued share capital of NWDSI, a wholly-owned subsidiary of the Company in connection with the Reorganisation.

(ii) On 12 July 2007, the Company issued 406,300,000 ordinary shares of HK$0.1 each at HK$5.8 per share in connection with the Listing, and raised gross proceeds of approximately HK$2,356,540,000.

On 7 August 2007, pursuant to the exercise of the over-allotment option, the Company issued 60,945,000 ordinary shares of HK$0.1 each at HK$5.8 per share and raised gross proceeds of approximately HK$353,481,000.

(iii) On 12 July 2007, 1,157,954,000 ordinary shares of the Company were alloted and issued, credited as fully paid at par value of HK$0.1 each to New World Development Company Limited ("NWD"), the ultimate holding company of the Group, the shareholder of the Company in proportion to NWD's then shareholding in the Company. The amount was paid up in full by applying an amount of HK$115,795,400 standing to the credit of share premium account of the Company.

23 SHARE CAPITAL (continued)

Share option scheme

The Company's share option scheme was adopted on 12 June 2007. The Board may, at their discretion, granted options to any eligible participants (as defined in the share option scheme), to subscribe for shares in the Company.

Movement of the number of share options granted and their related exercise prices during the year are as follows:

	Note	Exercise price per share HK$	Number of options '000
At 1 July 2007		—	—
Granted on 27 November 2007	(i)	8.660	19,995
Granted on 25 March 2008	(ii)	8.440	4,133
Lapse		8.660	(70)
At 30 June 2008		8.622	24,058

Notes:

(i) The share options were divided into 5 tranches and exercisable from 27 November 2008, 27 November 2009, 27 November 2010, 27 November 2011 and 27 November 2012, respectively, to 26 November 2013.

(ii) The share options were divided into 5 tranches and exercisable from 25 March 2009, 25 March 2010, 25 March 2011, 25 March 2012 and 25 March 2013, respectively, to 24 March 2014.

The fair values of the share options granted during the year with exercise prices per share of HK$8.660 and HK$8.440 are estimated at HK$3.002 and HK$2.775 respectively by using the Binomial pricing model. Values are estimated based on Hong Kong government bonds which will mature in November 2013 and February 2014 and the market yield as of date of grant ranging from 2.065% to 2.920%, a six years period historical volatility ranging from 39% to 40% based on the price volatility of the shares of the comparable companies with additional criterion that they must have public trading history of at least 6 years counted backward from the date of grant, assuming dividend yield at 1.5% per annum based on the market indication from the companies comparable with the Company and an expected option life of 6 years. The Binomial pricing model requires input of subjective assumptions such as the expected stock price volatility. Change in the subjective input may materially affect the fair value estimates.

Notes to the Financial Statements

24 RESERVES

(a) Group

	Share premium HK$'000	Capital reserve HK$'000	Statutory reserve HK$'000	Share option reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 July 2006	—	(6,095)	—	—	(4,672)	193,121	182,354
Capitalisation of shareholder's loan (Note i)	—	397,683	—	—	—	—	397,683
Share issuance costs	—	(54,020)	—	—	—	—	(54,020)
Transfer to statutory reserve (Note ii)	—	—	11,360	—	—	(11,360)	—
Profit for the year	—	—	—	—	—	302,765	302,765
Translation differences	—	—	—	—	22,352	—	22,352
At 30 June 2007	**—**	**337,568**	**11,360**	**—**	**17,680**	**484,526**	**851,134**
Issue of shares in connection with the Listing (Note 23(ii))	**2,663,296**	**—**	**—**	**—**	**—**	**—**	**2,663,296**
Capitalisation of share premium account (Note 23(iii))	**(115,795)**	**—**	**—**	**—**	**—**	**—**	**(115,795)**
Share issuance costs	**(149,251)**	**54,020**	**—**	**—**	**—**	**—**	**(95,231)**
Share-based payments	**—**	**—**	**—**	**17,469**	**—**	**—**	**17,469**
Lapse of share options	**—**	**—**	**—**	**(21)**	**—**	**21**	**—**
Transfer to statutory reserve (Note ii)	**—**	**—**	**24,316**	**—**	**—**	**(24,316)**	**—**
Profit for the year	**—**	**—**	**—**	**—**	**—**	**476,575**	**476,575**
Translation differences	**—**	**—**	**—**	**—**	**140,683**	**—**	**140,683**
	2,398,250	**391,588**	**35,676**	**17,448**	**158,363**	**936,806**	**3,938,131**
Proposed final dividend (Note 12)	**—**	**—**	**—**	**—**	**—**	**(151,753)**	**(151,753)**
At 30 June 2008	**2,398,250**	**391,588**	**35,676**	**17,448**	**158,363**	**785,053**	**3,786,378**

Notes:

(i) Pursuant to the shareholder's resolution of NWDSI on 28 December 2006, 1 ordinary share of NWDSI of HK$1 was allotted and issued as fully paid at a consideration of HK$397,683,000 to the then shareholder by capitalisation of an amount due to the same shareholder of HK$397,683,000.

(ii) Upon conversion of the Group's PRC subsidiaries into wholly-owned foreign enterprises in 2007 and pursuant to the relevant PRC Law and articles of association of the subsidiaries of the Company established in the PRC, they are required to appropriate 10% of their statutory net profit to the enterprise expansion fund. The enterprise expansion fund can only be used to increase capital of group companies or to expand their production operations upon approval by the relevant authority. Accordingly 10% of statutory net profit of each entity should be appropriated to this reserve for the year ended 30 June 2007 and 2008.

24 RESERVES (continued)

(b) Company

	Share premium HK$'000	Share option reserve HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 July 2006	—	—	—	—	—	—
Effect of the Reorganisation (Note iii)	—	—	874,405	—	—	874,405
Share issuance costs	—	—	(54,020)	—	—	(54,020)
At 30 June 2007	**—**	**—**	**820,385**	**—**	**—**	**820,385**
Issue of shares in connection with the Listing (Note 23(ii))	**2,663,296**	**—**	**—**	**—**	**—**	**2,663,296**
Capitalisation of share premium account (Note 23(iii))	**(115,795)**	**—**	**—**	**—**	**—**	**(115,795)**
Share issuance costs	**(149,251)**	**—**	**54,020**	**—**	**—**	**(95,231)**
Share-based payments	**—**	**17,469**	**—**	**—**	**—**	**17,469**
Lapse of share options	**—**	**(21)**	**—**	**—**	**21**	**—**
Loss for the year	**—**	**—**	**—**	**—**	**(78,029)**	**(78,029)**
Translation differences	**—**	**—**	**—**	**250,946**	**—**	**250,946**
	2,398,250	**17,448**	**874,405**	**250,946**	**(78,008)**	**3,463,041**
Proposed final dividend (Note 12)	**—**	**—**	**(151,753)**	**—**	**—**	**(151,753)**
At 30 June 2008	**2,398,250**	**17,448**	**722,652**	**250,946**	**(78,008)**	**3,311,288**

Note:

(iii) Contributed surplus of the Company arose when the Company issued 60,945,999 shares of HK$0.1 each to NWD in exchange for the entire issued share capital of NWDSI in connection with the Reorganisation. This surplus represents the difference between the nominal value of the Company's shares issued and the value of net assets of the underlying subsidiaries acquired.

25 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The net amounts are as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Deferred income tax assets	**27,133**	24,658
Deferred income tax liabilities	**(147,334)**	(10,577)
	(120,201)	14,081

The movement of net deferred income tax (liabilities)/assets account is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
At 1 July	**14,081**	3,066
Translation differences	**(4,338)**	385
Acquisition of assets (Note 29(a))	**(42,093)**	—
Business combination (Note 30)	**(83,363)**	—
(Charged)/credited to consolidated income statement (Note 10)	**(4,488)**	10,630
At 30 June	**(120,201)**	14,081

25 DEFERRED INCOME TAX (continued)

The movements in deferred income tax assets and liabilities without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Group

Deferred income tax assets:

	Tax losses	Accrued expenses	Pre-operating expenses	Tax depreciation	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 July 2006	5,377	24,486	553	6,128	36,544
Translation differences	406	1,441	19	323	2,189
Recognised in the consolidated income statement	5,457	4,980	(537)	(590)	9,310
At 30 June 2007	**11,240**	**30,907**	**35**	**5,861**	**48,043**
Translation differences	**819**	**4,113**	**39**	**778**	**5,749**
Recognised in the consolidated income statement	**(8,068)**	**9,176**	**617**	**(1,372)**	**353**
At 30 June 2008	**3,991**	**44,196**	**691**	**5,267**	**54,145**

25 DEFERRED INCOME TAX (continued)

Group

Deferred income tax liabilities:

	Tax depreciation HK$'000	Fair value adjustment on business combination HK$'000	Others HK$'000	Total HK$'000
At 1 July 2006	29,971	—	3,507	33,478
Translation differences	1,647	—	157	1,804
Recognised in the consolidated income statement	402	—	(1,722)	(1,320)
At 30 June 2007	**32,020**	**—**	**1,942**	**33,962**
Translation differences	**6,684**	**3,127**	**276**	**10,087**
Acquisition of assets (Note 29(a))	**42,093**	**—**	**—**	**42,093**
Business combination (Note 30)	**37,497**	**45,866**	**—**	**83,363**
Recognised in the consolidated income statement	**5,264**	**—**	**(423)**	**4,841**
At 30 June 2008	**123,558**	**48,993**	**1,795**	**174,346**

Deferred income tax assets are recognised for tax losses carry forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of approximately HK$21,706,000 (2007: approximately HK$9,650,000) in respect of accumulated losses amounting to approximately HK$86,825,000 (2007: approximately HK$38,598,000), that can be carried forward against future taxable profit within five years.

26 CREDITORS AND ACCRUALS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Creditors	**858,383**	663,858	**—**	—
Accruals and other payables	**588,160**	448,935	**4,788**	40,726
Less: long-term rental accruals	**(237,981)**	(163,229)	**—**	—
	1,208,562	949,564	**4,788**	40,726

Nature of accruals and other payables are as follows:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Rental accruals	**257,485**	178,215	**—**	—
Deposits from concessionaire suppliers	**110,253**	75,894	**—**	—
Payables for capital expenditures	**10,288**	9,401	**—**	—
Payables for staff costs	**35,932**	30,991	**—**	—
Valued-added taxes and other taxes payables	**35,194**	20,152	**—**	—
Utilities payables	**10,689**	9,534	**—**	—
Advance from customers	**70,458**	17,801	**—**	—
Share issuance cost accruals	**—**	40,726	**—**	40,726
Others	**57,861**	66,221	**4,788**	—
	588,160	448,935	**4,788**	40,726

Notes to the Financial Statements

26 CREDITORS AND ACCRUALS (continued)

The Group normally receives credit terms of 60 to 90 days. The aging analysis of the creditors which denominated in Renminbi, based on the invoice date, is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Within period for		
0–30 days	**341,584**	235,274
31–60 days	**271,985**	253,177
61–90 days	**74,794**	59,392
Over 90 days	**170,020**	116,015
	858,383	663,858

Included in creditors was a trading amount due to a related company of HK$16,815,000 (2007: HK$12,643,000) which was unsecured, interest free and repayable within 90 days.

The carrying amounts of creditors and accruals approximate their fair values.

27 SUBSIDIARIES

	Company	
	2008	2007
	HK$'000	HK$'000
Unlisted shares, at cost	**1,091,599**	880,500
Provision for impairment	**(28,537)**	—
	1,063,062	880,500
Amounts due from subsidiaries	**2,635,669**	—
Amounts due to subsidiaries	**72,347**	13,294

Amounts due from/(to) subsidiaries are unsecured, interest free and repayable on demand.

Particulars of the principal subsidiaries of the Company are detailed in Note 32.

28 COMMITMENTS

(a) Capital commitments

Capital commitments in respect of property, plant and equipment of the Group at the balance sheet date are as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Contracted but not provided for	**62,879**	5,427
Authorised but not contracted for	**6,112**	—
	68,991	5,427

(b) Operating lease commitments

The Group's future aggregate minimum lease expense under non-cancellable operating leases in respect of land and buildings is payable in the following periods:

	Group	
	2008	2007
	HK$'000	HK$'000
Within one year	**265,335**	233,459
In the second to fifth year	**1,088,742**	885,885
After the fifth year	**3,542,958**	2,742,578
	4,897,035	3,861,922

Notes to the Financial Statements

28 COMMITMENTS (continued)

(b) Operating lease commitments (continued)

The future minimum sublease payments expected to be received by the Group under non-cancellable subleases were:

	Group	
	2008	2007
	HK$'000	HK$'000
Within one year	**50,891**	36,200
In the second to fifth year	**118,806**	84,036
After the fifth year	**31,346**	40,982
	201,043	161,218

The above lease commitments only include commitments for basic rentals, and do not include commitments for additional rental payable (contingent rents), if any, which are to be determined generally by applying pre-determined percentages to future sales less the basic rentals of the respective leases, as it is not possible to determine in advance the amount of such additional rentals.

29 CONSOLIDATED CASH FLOW STATEMENTS

(a) Acquisition of assets

On 30 June 2008, the Group acquired 100% of the equity interest in Billion Glory Group Limited from New World Development (China) Limited, a fellow subsidiary of the Company, at a consideration of HK$270,000,000. The transaction is an acquisition of assets instead of a business combination as there are no business activities conducted by Billion Glory Group Limited at the date of acquisition. Accordingly, the cost of acquisition is allocated between the individual identifiable assets and liabilities acquired based on their relative fair values at the date of acquisition.

Details of the net assets acquired are as follows:

	2008 HK$'000
Property, plant and equipment (Note 14)	86,717
Land use rights (Note 15)	224,858
Prepayments, deposits and other receivables	7,034
Cash and cash equivalents	7,994
Other payables	(14,510)
Deferred income tax liabilities (Note 25)	(42,093)
Net assets acquired	270,000
Purchase consideration settled in cash	(270,000)
Cash and cash equivalents in subsidiaries acquired	7,994
Net cash outflow on acquisition of assets	(262,006)

Notes to the Financial Statements

29 CONSOLIDATED CASH FLOW STATEMENTS (continued)

(b) Disposal of subsidiaries

Details of the net liabilities disposed of are as follows:

Net liabilities disposed of:

	2008 **HK$'000**	2007 HK$'000
Property, plant and equipment	–	36,529
Inventories	–	1,637
Debtors	–	1,421
Prepayments, deposits and other receivables	–	52,630
Cash and cash equivalents	–	53,451
Creditors and accruals	–	(98,388)
Tax payable	–	(69)
Amounts due to fellow subsidiaries	–	(105,195)
	–	(57,984)
Less: Gain on disposal of subsidiaries	–	57,984
Cash consideration	–	—
Analysis of net cash flow from disposal of subsidiaries		
Cash consideration received	–	—
Cash and cash equivalents disposed of	–	(53,451)
Net cash outflow from disposal of subsidiaries	–	(53,451)

29 CONSOLIDATED CASH FLOW STATEMENTS (continued)

(c) Analysis of loss on disposal of property, plant and equipment

	2008 HK$'000	2007 HK$'000
Net book amount	**1,538**	261
Loss on disposal of property, plant and equipment	**(1,089)**	(113)
Proceeds from disposal of property, plant and equipment	**449**	148

30 BUSINESS COMBINATION

On 31 January 2008, the Group acquired 100% of the equity interest in Uphill Group Limited from Solar Leader Limited, a fellow subsidiary of the Company, at a consideration of HK$885,417,000. The acquired business contributed revenues of HK$101,771,000 and net profit of HK$42,876,000 to the Group for the period from 1 February 2008 to 30 June 2008. If the acquisition had occurred on 1 July 2007, Group's revenue would have been HK$1,625,529,000; profit for the year would have been HK$482,842,000. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the business to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment had applied from 1 July 2007, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

	HK$'000
Purchase consideration	
— Cash paid	**885,417**
Fair value of net assets acquired — shown as below	**(723,986)**
Goodwill (Note 16)	**161,431**

The goodwill is attributable to the department store located in Wuhan and operated under a wholly-owned subsidiary of Uphill Group Limited.

Notes to the Financial Statements

30 BUSINESS COMBINATION (continued)

The assets and liabilities as of 31 January 2008 arising from the acquisition are as follows:

	Fair values HK$'000	Acquiree's carrying amounts HK$'000
Property, plant and equipment (Note 14)	298,184	154,500
Land use rights (Note 15)	372,872	333,091
Inventories	11,087	11,087
Debtors	3,197	3,197
Prepayment, deposits and other receivables	36,382	36,382
Cash and cash equivalents	268,435	268,435
Creditors and accruals	(139,142)	(139,142)
Amounts due to fellow subsidiaries	(17,300)	(17,300)
Tax payable	(26,366)	(26,366)
Deferred income tax liabilities (Note 25)	(83,363)	(37,497)
Net assets acquired	723,986	586,387
Purchase consideration settled in cash		(885,417)
Cash and cash equivalents in subsidiaries acquired		268,435
Net cash outflow on acquisition		(616,982)

There was no business combination in the year ended 30 June 2007.

31 RELATED PARTY TRANSACTIONS

(a) During the year ended 30 June 2008, the Group has acquired Uphill Group Limited and its subsidiaries from Solar Leader Limited, a fellow subsidiary of the Company, at a consideration of HK$885,417,000.

(b) During the year ended 30 June 2008, the Group has acquired a building and land use rights in Shenyang from New World Development (China) Limited, a fellow subsidiary of the Company, at a consideration of HK$270,000,000.

(c) The following is a summary of significant related party transactions during the year carried out by the Group in the normal course of its business:

	Note	**2008 HK$'000**	2007 HK$'000
Fellow subsidiaries			
Management fee income	(i)	**77,082**	69,526
Sales of goods — direct sales	(ii)	**—**	11,227
Operating lease rental expenses	(iii)	**94,743**	78,965
Building management expenses	(iv)	**11,097**	7,960
Purchase of leasehold improvements	(v)	**79,139**	22,144
Related companies			
Concessionaires commissions	(vi)	**17,905**	12,375
Operating lease rental expenses	(iii)	**27,058**	24,872

Notes:

(i) The income is charged in accordance with master management agreement and terms of service fees in accordance with respective operational agreements.

(ii) The revenue is charged in accordance with the terms of respective contracts.

(iii) The operating lease rental expense is charged in accordance with respective tenancy agreements and reported in accordance with accounting policy of operating leases as disclosed in Note 2.11.

(iv) The building management fee is charged at fixed monthly amounts in accordance with respective contracts.

(v) This represents the purchase of leasehold improvement in respect of certain department stores. Such fee is charged in accordance with the terms of respective contracts.

(vi) The income is charged in accordance with concessionaire counter agreements with Chow Tai Fook Jewellery Company Limited or its subsidiaries, an associate of Chow Tai Fook Enterprises Limited, a shareholder of NWD. The commissions are mainly calculated by pre-determined percentages of gross sales value in accordance with respective agreements.

Notes to the Financial Statements

31 RELATED PARTY TRANSACTIONS (continued)

(d) Key management compensation

	2008 HK$'000	2007 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**11,310**	6,291
Retirement benefit costs — defined contribution plans	**987**	542
Bonus	**3,300**	1,385
Share-based payments	**3,713**	—
	19,310	8,218

32 PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company, all of which are private limited liability companies, as at 30 June 2008 are as follows:

Name	Place of incorporation/ establishment	Principal activities and place of operation	Issued and fully paid up share capital/ registered capital	Percentage of equity interests held directly	indirectly
New World Department Stores (Holdings) Limited	Hong Kong	Investment holding/ Hong Kong	HK$3	100	—
New World Department Store (China) Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB50,000,000	100	—
New World Department Stores Limited	Hong Kong	Provision of management services to department stores/Hong Kong	HK$2	100	—
Ningbo New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB40,000,000	100	—

32 PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment	Principal activities and place of operation	Issued and fully paid up share capital/ registered capital	Percentage of equity interests held directly	indirectly
Shanghai New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB18,000,000	—	100
Shanghai New World Trendy Plaza Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB50,000,000	—	100
Shenyang New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB30,000,000	—	100
Tianjin New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	US$5,000,000	100	—
Wuxi New World Department Store Ltd.	Mainland China	Department store operation/ Mainland China	US$5,000,000	100	—
Tianjin New World Trendy Plaza Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB30,000,000	—	100
New World Department Stores Investment (China) Co., Ltd.	Mainland China	Investment holding company/ Mainland China	US$40,262,068	100	—
Ningbo Firm Success Consulting Development Co., Ltd.	Mainland China	Investment holding and provision of consultancy services/Mainland China	US$5,000,000	—	100
Harbin New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB126,000,000	—	100

Notes to the Financial Statements

32 PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment	Principal activities and place of operation	Issued and fully paid up share capital/ registered capital	Percentage of equity interests held directly	Percentage of equity interests held indirectly
Wuhan New World Trendy Plaza Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB50,000,000	—	100
Shanghai New World Caixuan Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB30,000,000	—	100
Wuhan New World Trendy Department Store Co,, Ltd	Mainland China	Department store operation/ Mainland China	RMB41,910,490	100	—
Hubei New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB50,000,000	100	—
Wuhan New Eagle Development Co., Ltd.	Mainland China	Property investment and Department store operation/ Mainland China	US$15,630,000	—	100

33 POST BALANCE SHEET EVENTS

(a) On 7 July 2008, Wuhan New Eagle Development Co., Ltd, a wholly-owned subsidiary of the Company, entered into an agreement with a third party to acquire a building and land use rights located in Zhengzhou City at an aggregate consideration of approximately RMB307,317,000 which is subject to further adjustments.

(b) On 25 July 2008, Shenyang New World Department Store Co., Ltd., a wholly-owned subsidiary of the Company, entered into agreements with a third party to acquire a building, land use rights and right of use of carpark located in Shenyang at an aggregate consideration of approximately RMB287,540,000 which is subject to further adjustments.

34 ULTIMATE HOLDING COMPANY

The Directors regard NWD, a company incorporated in Hong Kong, as being the ultimate holding company of the Group.

35 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

Five-year Financial Summary

	For the year ended 30 June				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Revenue	**1,489,345**	1,046,885	806,742	646,861	513,022
Operating profit	**589,394**	350,797	171,627	128,181	112,551
Profit attributable to:					
Equity holders of the Company	**476,575**	302,765	157,938	100,751	74,923

	As at 30 June				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets, liabilities and equity					
Total assets	**5,760,430**	2,057,978	1,623,293	1,126,335	936,162
Total liabilities	**1,653,684**	1,200,749	1,434,844	1,090,862	1,001,186
Total equity	**4,106,746**	857,229	188,449	35,473	(65,024)

Notes: Certain comparatives have been reclassified for FY2004, FY2005, FY2006 and FY2007 to conform with the presentation of the Current Year.

Glossary of Terms

General terms

Approx	:	Approximately
Company	:	New World Department Store China Limited
FY	:	Fiscal year, July 1 to June 30
GFA	:	Gross floor area
Group	:	New World Department Store China Limited and its subsidiaries
HK	:	Hong Kong
HK$	:	Hong Kong dollar(s), the lawful currency of Hong Kong
China, PRC or Mainland China	:	The People's Republic of China
RMB	:	Renminbi, the lawful currency of the People's Republic of China
MOC	:	中華人民共和國商務部, the Ministry of Commerce of the PRC
NWD	:	New World Development Company Limited
sq. m. or m^2	:	Square metre
CBD	:	Central Business District

Financial terms

Operating profit margin : $\frac{\text{Operating profit}}{\text{Revenue}} \times 100\%$

Net profit margin : $\frac{\text{Profit for the year}}{\text{Revenue}} \times 100\%$

Current ratio (times) : $\frac{\text{Current assets}}{\text{Current liabilities}}$

Earnings per share or EPS : $\frac{\text{Profit attributable to the equity holders of the Company}}{\text{Weighted average number of ordinary shares in issue}}$

Corporate Information

BOARD OF DIRECTORS

Non-executive Directors

Dr. Cheng Kar-shun, Henry *(Chairman)*
Mr. Au Tak-cheong

Executive Directors

Mr. Cheng Chi-kong, Adrian
Mr. Cheung Fai-yet, Philip *(Managing Director)*
Mr. Lin Tsai-tan, David
Mr. Wong Kwok-kan, Kenneth
Ms. Ngan Man-ying, Lynda

Independent Non-executive Directors

Mr. Cheong Ying-chew, Henry
Mr. Chan Yiu-tong, Ivan
Mr. Tong Hang-chan, Peter
Mr. Yu Chun-fai, Henry

COMPANY SECRETARY

Mr. Wong Kwok-kan, Kenneth

QUALIFIED ACCOUNTANT

Mr. Wong Kwok-kan, Kenneth

AUDITORS

PricewaterhouseCoopers

SOLICITORS

Huen Wong & Co. in association
with Fried, Frank, Harris, Shriver & Jacobson LLP
Woo, Kwan, Lee & Lo

COMPLIANCE ADVISER

The Hongkong and Shanghai Banking
Corporation Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
Grand Cayman KY1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1403, 14th Floor, West Wing Office Building
New World Centre, 20 Salisbury Road
Tsimshatsui, Kowloon, Hong Kong
Tel: (852) 2753 3988
Fax: (852) 2318 0884

PRINCIPAL BANKERS

Bank of Communications Co., Ltd.
Hang Seng Bank Limited
Industrial and Commercial Bank of China (Asia) Limited

STOCK CODE

Hong Kong Stock Exchange 825

INVESTOR INFORMATION

For more information about the Group,
please contact the Corporate Affairs Department of
New World Department Store China Limited at:
Room 1403, 14th Floor, West Wing Office Building
New World Centre, 20 Salisbury Road
Tsimshatsui, Kowloon, Hong Kong
Tel: (852) 2753 3988
Fax: (852) 2318 0884
e-mail: nwdscad@nwds.com.hk

WEBSITE

www.nwds.com.hk

This annual report is printed on environmental paper.

www.nwds.com.hk

新世界百貨中國有限公司
New World Department Store China Limited
(incorporated in the Cayman Islands with limited liability)
(Stock Code: 825)

Room 1403, 14/F, West Wing Office Building, New World Centre,
20 Salisbury Road, Tsim Sha Tsui, Kowloon, Hong Kong
Tel: (852) 2753 3988 Fax: (852) 2318 0884