



# New World Department Store China Limited 新世界百貨中國有限公司

(Incorporated in the Cayman Islands with limited liability)  
Stock Code: 0825



Interim Report 2007/2008

**New World**  
New Shopping  
*Trends*



## Corporate Profile

### **New World Department Store: quality merchandise for quality living**

New World Department Store China Limited is a Hong Kong-listed company 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, having secured strategic footholds in 18 major cities, including Beijing, Shanghai, Shenyang and Wuhan, etc. Occupying an aggregate gross floor area of approximately 932,180 square metres, our retail chain comprises 18 self-owned stores and 13 managed stores in Hong Kong and the PRC. We operate under two brands — “New World” in 24 stores around China and “巴黎春天”(Ba Li Chun Tian) in seven stores in Shanghai.

### **Taping into China’s growing affluence: our target market**

We target the mid-to-high end of the PRC retail market and offer 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.



## Organised for top efficiency: our set-up

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

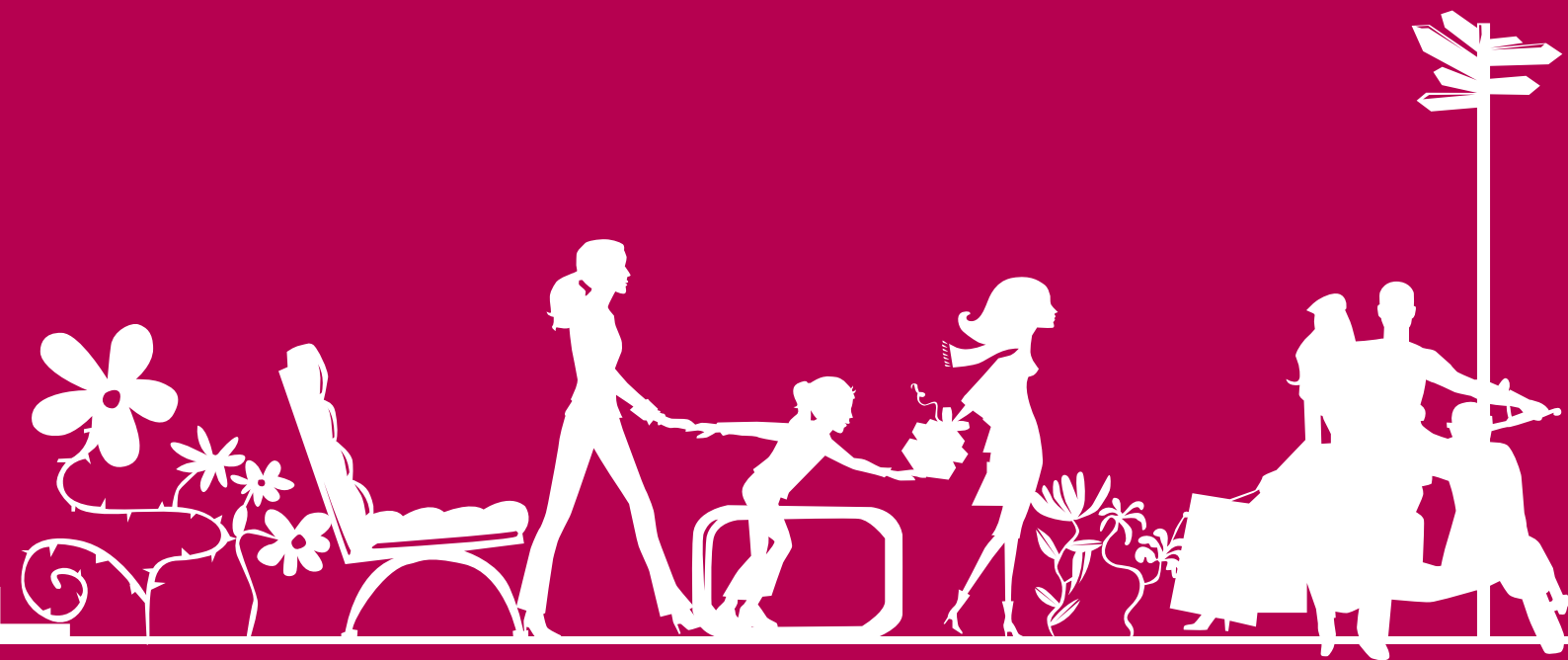
## Professionalism from top to bottom: our people

We currently employ 3,585 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.



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## Financial Highlights

# 62%

increase in profit for the period to

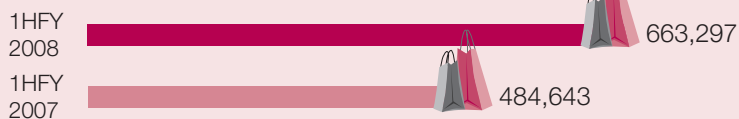
# HK\$227,844 thousand

	Six months ended 31 December	
	2007 HK\$'000	2006 HK\$'000
<b>Operating Result</b>		
Revenue	663,297	484,643
Representing:		
Commission income from concessionaire sales	443,532	360,671
Sales of goods — direct sales	88,631	50,649
Management fees	90,127	42,467
Rental income	41,007	30,856
	663,297	484,643
Operating profit	272,992	164,276
Profit for the period	227,844	140,363
	<b>As at 31 December 2007 HK\$'000</b>	<b>As at 30 June 2007 HK\$'000</b>
<b>Financial Position</b>		
Cash and cash equivalents	3,932,117	967,534
Total assets	5,362,302	2,057,978
Total liabilities	1,630,847	1,200,749
Total equity	3,731,455	857,229



	Six months ended 31 December	
	2007	2006
<b>Financial Ratios</b>		
Revenue growth	<b>36.9%</b>	29.6%
Operating profit margin (excluding gain on disposal of subsidiaries)	<b>106.2%</b>	66.1%
Net profit margin (excluding gain on disposal of subsidiaries)	<b>110.0%</b>	53.0%
	<b>As at 31 December 2007</b>	As at 30 June 2007
Current ratio (times)	<b>3.07</b>	1.22

### Revenue (HK\$'000)



**+37%**

Revenue

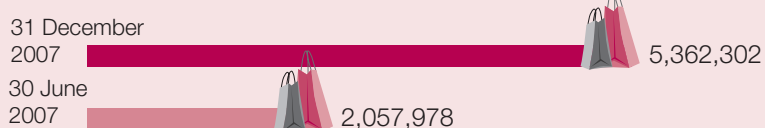
### Operating profit (HK\$'000)



**+66%**

Operating profit

### Total assets (HK\$'000)



**+161%**

Total assets

## Chairman's Statement



To grow our retail network in China, we have been executing a growth strategy that features establishment of footholds in major cities and radiation into neighbouring districts, cities and provinces. Through multiple presences in well-established regions, we seek to achieve cost-efficiencies and synergies. Meanwhile, we will explore greenfield projects and grasp acquisition opportunities as they arise.

The Group started a new phase of development following the historic moment on 12 July 2007 when we successfully listed our shares on the Main Board of The Stock Exchange of Hong Kong Limited. With our financial strength and liquidity position significantly enhanced, we were able to pursue our growth strategy for network expansion with increased assurance and flexibility.

For the six months ended 31 December 2007, the Group reported an operating profit of HK\$273.0 million, on a total revenue of HK\$663.3 million, representing a robust growth of 36.9% over the same period in the previous year. Profit attributable to shareholders increased by 62.3% to HK\$227.8 million. Earnings per share was HK\$0.14.

The market boom in 2007 was, and remains favourable to the growth of our business in China. Since we aim to serve the mid-high to high end of the Chinese retail market, the rise of 11.4% in GDP and 17.2% in per capita disposable income will encourage spending among urban population, our target customers. By introducing brands with national or international fame and appealing to motifs of quality, trendsetter and exclusivity, we shape as we meet their expectations for quality products and quality living.

To grow our retail network in China, we have been executing a growth strategy that features establishment of footholds in major cities and radiation into neighbouring districts, cities and provinces. Through multiple presences in well-established regions, we seek to achieve cost-efficiencies and synergies. Meanwhile, we will explore greenfield projects and grasp acquisition opportunities as they arise.

The Group has identified potential cities in major cities where we already have strong presences for locating new stores. Meanwhile, we will keep on exploring opportunities in other new markets, such as Hangzhou in Zhejiang, Xi'an in Shaanxi, Zhengzhou in Henan and Taiyuan in Shanxi.





The addition of two managed stores, one opened already in Wuhan and the other still in the pipeline in Beijing, will take our retail network to 33 stores within 2008. Together with the acquisition of Wuhan New World Department Store following its conversion from a managed store to a self-owned store, our portfolio will then comprise 19 self-owned stores and 14 managed stores. Our network will extend over 18 major cities and administrative regions in the PRC, with an aggregate gross floor area of about 1,014,180 square metres.

Looking ahead, despite macro adjustments to curb inflation, the persistent rise in consumption power, especially among urban population, will continue to sustain growth in China's retailing sector. Prospects remain strong in the middle-to-high spectrum of the department store sector, our target market.

In the short term, the 2008 Beijing Olympics is galvanising the nation, offering huge opportunities for us to theme promotions to recruit VIP members and increase market share in the interim leading up to the great occasion. We also stand to gain from the upcoming Shanghai 2010 Expo, having strengthened our presence in the metropolis to seven stores.

In the long run, the Group will continue to strengthen our corporate governance, improve transparency, further optimise internal structures and procedures, control operating risks and maximize cost-efficiencies. Resting our optimism on unique competitive advantages in brand equities, economy of scale and market positioning, we will be able to deliver even greater value for shareholders.

On behalf of the Board, I would like to thank our shareholders, customers and business partners for their support. I would also like to express appreciations for the dedication of our staff and management.

**Dr. Cheng Kar-shun, Henry**

*Chairman*

Hong Kong, 13 March 2008

# Milestones

## 2007

### July

Listed on the Main board of The Stock Exchange of Hong Kong Limited. (Stock code: 0825)

### August

Gross floor area of Shanghai Hongkou Store enlarged from about 15,500 square metres to about 19,600 square metres.

### September

Shanghai Pujian Store, with GFA of about 46,000 square metres, commenced operation, enlarging the Group's foothold in Shanghai to 7 stores.

### October

Further expanded the presence in Liaoning Province by opening a 7-storey, self-owned store in Anshan with GFA of about 35,000 square metres.

### November

New self-owned Nanjing Store, 5-storey and with GFA of about 30,000 square metres, marked the Group's first landing in Nanjing, Jiangsu.

### December

Announced acquisition (including store operation and property) of the Group's first managed store in China: Wuhan New World Department Store ("Wuhan Store"), enhancing the Group's presence in Central China and enriching revenue stream.

## 2008

### January

Opened Wuhan Xudong Store, a managed store of about 30,000 square metres GFA. Having 5 stores in Wuhan made the Group one of the largest store operators in Wuhan.

Resolution on Acquisition of Wuhan Store passed at Extraordinary General Meeting.

### February

Wuhan Store converted from managed to self-owned.



## Business Review

The Group's revenue increased by 36.9% from HK\$484.6 million for the six months ended 31 December 2006 (or "1HFY2007") to HK\$663.3 million for the six months ended 31 December 2007 (or "1HFY2008" or the "Current Period"). Profit for the period grew 62.3% from HK\$140.4 million in 1HFY2007 to HK\$227.8 million in 1HFY2008.

### BUSINESS NETWORK

In 1HFY2008, the Group operates 31 department stores, with a total gross floor area (GFA) of about 932,180 square metres and a total operating floor area of about 649,000 square metres. Located in six operational regions, namely Northeastern China, Northern China, Shanghai Municipality, Eastern China, Central China and Southwestern China, the stores cover 18 major cities and administrative regions in the PRC. These include Wuhan, Shenyang, Wuxi, Harbin, Tianjin, Ningbo, Beijing, Hong Kong, Shanghai, Dalian, Kunming, Lanzhou, Xiamen, Changsha, Chongqing, Chengdu, Anshan and Nanjing. Our business network comprises 18 self-owned stores and 13 managed stores.

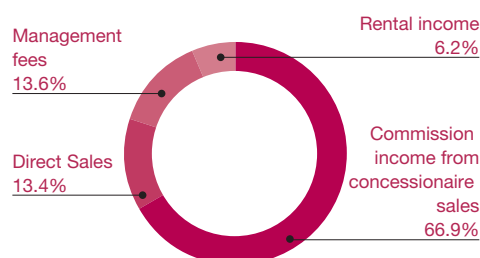
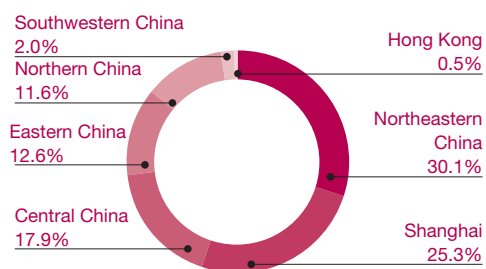
### REVENUE CONTRIBUTION

#### By region

Northeastern China contributed the most to the Group's revenue during the period under review, accounting for 30.1% of total revenue, followed by 25.3% and 17.9% from Shanghai Municipality and Central China, respectively.

#### By segment

Commission from concessionaire sales was the major type of income, accounting for 66.9% of total revenue. Proceeds from direct sales and management fees accounted for 13.4% and 13.6%, respectively. Rental income accounted for 6.2%.



During the period under review, commission from concessionaire sales grew 23.0% from the same period of last year. The growth in gross sales revenue contributed to the rise of commission income.

## Business Review

As for direct sales of goods, the Group strengthened operational management and optimized merchandise mix. The proportion of direct sales to total revenue rose from 10.4% to 13.4% during the period under review. Total direct sales of goods grew 75.1% year-on-year, due mainly to the growth in sales of cosmetics and Olympics-related goods.

In the period under review, management fees surged 112.0%, boosting their contribution to total revenue from 8.8% to 13.6%. The surge was mainly due to several reasons. First, the Group added Shanghai-Hong Kong New World Department Store-Pujian Store (“Shanghai Pujian Store”), a managed store that opened in the Current Period in New Pudong District, Shanghai. Second, five managed stores opened within the 2007 financial year had been in operation for over six months and recognized a full period management fees. Of the five, Changsha New World Trendy Plaza (“Changsha Trendy Plaza”) and Chongqing New World Department Store were opened in September 2006; Chengdu New World Department Store and Shanghai-Hong Kong New World Department Store-Wujiaochang Store (“Shanghai Wujiaochang Store”) were opened in December 2006; while Beijing New World Trendy Department Store commenced operation in March 2007. Third, Kunming New World Department Store and Ningbo New World Trendy Department Store had begun contributing to management fee income since their conversion from self-owned to managed stores in January 2007.

In addition, the Group also sublet portions of its store areas to third parties and earned rental income. Tenants such as Kentucky Chicken, Starbucks and Watsons helped boost visitor traffic at the stores. Rental income grew 32.7% within the Current Period.

## NEW STORE AND STORE EXPANSION

In the period under review, the Group expanded the Shanghai-Hong Kong New World Department Store — Hongkou Store (“Shanghai Hongkou Store”) and opened three new stores in Shanghai, Anshan and Nanjing. These included the self-owned Anshan New World Department Store (“Anshan Store”) and Nanjing New World Department Store (“Nanjing Store”), as well as the managed Shanghai Pujian Store. Together, they provided additional GFA of about 115,100 square metres, bringing total GFA to about 932,180 square metres.

During the Current Period, the Group added the self-owned Anshan Store with a GFA of about 35,000 square metres to the Northeastern China Region in Anshan, Liaoning. Leveraging our strong presence in Shenyang of Liaoning Province, the opening of the new store was consistent with the Group’s growth strategy for network expansion by radiating from an existing foothold into other prime locations with heavy pedestrian traffic.

During the period under review, apart from the Anshan Store, the Group applied the same radiation strategy in our Eastern China Region to set up Nanjing Store, another self-owned store measuring about 30,000 square metres in GFA in Nanjing, Jiangsu.

Also within the Current Period, the Group set up Shanghai Pujian Store, a managed store of about 46,000 square metres in GFA in New Pudong District, Shanghai. As the seventh branch store in the city, the new store underscored another growth strategy: “multiple presences in a single city”. With such a strategy, we could further reinforce market share in major Chinese cities and improve cost effectiveness.



Besides, the Group expanded within the Current Period the GFA of Shanghai Hongkou Store from about 15,500 square metres to about 19,600 square metres. Along with the new Shanghai Pujian Store, the expansion took our total GFA in Shanghai to about 196,330 square metres.

## OPERATIONAL STRATEGY

During the period under review, the Group adjusted its brand lineup and merchandise mix, lifting portfolio profile across the board. We reinforced carriage of international brands, enlarged coverage of exclusive labels, and further lowered the rate of product overlap with competitors with a view to encouraging customer loyalty.

As we optimized our brands, we staged effective promotions to boost sales. The Group's marketing activities in China grew increasingly innovative. They had double focuses on lifting sales and upgrading corporate profile. We deployed a diversity of promotional tactics. Keeping in line with government policy requirements, instead of offering regularly priced items plus cash coupons, our sale packages featured a combination of price-reduced and gift items. Other promotional tactics included double bonus points, price reduction for additional items and direct discounts. In addition, we sought to enhance the ambience at points-of-sales by improving the shopping environment and service standard.

To develop our VIP customer base, the Group explored into target markets in wider and wider peripheral regions from current operational footholds. Gradually we perfected our merchandise structure and enriched our product portfolio.

Capitalizing on the advantage of "multiple presences in a single city", we held a series of joint promotions. For instance, during the period reported, our four Wuhan stores in Central China Region celebrated shop anniversaries with a joint launch of new autumn arrivals. The stores also held in turn evening sale sessions offering increasingly greater benefits to our customers. Such coordinated efforts effectively multiplied awareness and goodwill for our own brand within the region.

Concurrently, we cultivated relationships with major suppliers, making good use of our "Strategic Partnership Scheme", "Maintenance Scheme for Major Brands" and our communication platform, the "New World Net", to further strengthen collaboration.

## EXPANSION STRATEGY

The Group has formulated a comprehensive, long-term expansion strategy. Apart from opening self-owned stores, we will continue to further grow our business through acquisitions, adding managed stores and developing greenfield projects.

## **Business Review**

The Group adopts three principles in determining the location and development for a new self-owned store. First, keep on looking for suitable sites to locate new stores in major cities and strategic footholds. Second, implement “multiple presences in a single city or province” to increase market share and enjoy cost-effectiveness. Third, enter cities radiated from where we have firmly established businesses to reduce risks and enhance bargaining powers at supplier negotiations.

Besides opening new self-owned stores, we will also consider adding managed stores at opportune moments to provide steady incomes. Concurrently, we will seek greenfield projects with good potential to extend the opportunities for growth.

The Group has planned to open new stores in cities where we either have strong presence or see good prospects for retail store operations, such as Beijing, Wuhan, Xi’an and Taiyuan. Meanwhile, more acquisitions are under consideration for managed stores that are making a profit. Existing managed stores, leased properties and stores in prime locations are priority targets for acquisition.

To seize opportunities for acquisition and new store opening, the Group has formulated a five-year project development plan, keeping a close monitor on the progress in store opening. In addition to setting up project development teams in our six operational regions, we have formed a task group comprising headquarters staff to fast-track development of new projects and to liaise proactively with the government and developers.

To reinforce and optimize our mode of large-scale regional operations in China, we have carried out resource integration in our six operational regions. Starting 1 February 2008, we have instituted a new operational region, Southern China, to enable more effectiveness in exploration and development of new projects and greater efficiency in operations. Besides, Shanghai Municipality has been subsumed within Eastern China Region. While optimizing deployment of human resources, we will make due allowance for convenience in merchandising and management so that we can better capitalize on regional advantages.

## **NATIONWIDE GROWTH IN VIP MEMBERSHIP**

During the period under review, the membership of both VIP card and platinum VIP card maintained a steady rise, increasing by 23% and 36% year-on-year, respectively. In the Current Period, total VIP membership nationwide has exceeded 1.23 million and VIP sales have accounted for over 45% of total sales. In addition to our own VIP cards, the Group also jointly launched a co-branded credit card with Bank of Communication in February 2007, widening channels of access to potential VIP members. Holders of the co-branded card numbered over 200,000 in the Current Period.



## OUTLOOK

According to National Bureau of Statistics of China, the national economy in 2007 maintained double-digit growth five years in a row, with GDP rising by 11.4% to RMB24,661.9 billion. Total retail sales of consumer goods rose 16.8% to RMB8,921 billion. The per capita disposable income of urban population grew by 17.2%. Thriving on the boom in the retail market, the department store sector is presenting an even more prosperous outlook.

With our unique competitive strengths, the Group will continue to benefit from persistent rises in GDP and consumption power in the PRC market. We have brand recognition and brand equities accumulated over 15 years in the market. We enjoy economy of scale in operations arising from our extensive retail network. In addition, we have established a clear, consistently communicated vision of our own market positioning.

The Group will continue to enhance our competitive advantage, upgrade operational standard and increase profitability. Through concerted efforts by our staff we will maximize return for shareholders.

# Management Discussion and Analysis

## FINANCIAL REVIEW

### Revenue

Revenue of the Group surged to HK\$663.3 million in 1HFY2008 representing an increase of 36.9% from HK\$484.6 million in 1HFY2007. The growth was primarily resulted from strong 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 23.0%, 75.1%, 112.0% and 32.7% respectively from the same period of last year.

Gross sales revenue, comprising gross revenue from concessionaire sales and sales of goods for direct sales, increased by 26.3% to HK\$2,262.2 million in 1HFY2008 from HK\$1,791.2 million for the same period of last year. The performance of gross sales revenue was primarily due to firstly, strong same store sales growth of approximately 27.0% for stores having operations for more than two years, secondly, the gross sales revenue contribution of recognizing a full period's operations of certain stores opened in FY2007 (or "last year") and thirdly, the gross sales revenue contribution of certain new stores opened in the Current Period. Commission income rate was 20.4% in 1HFY2008, slightly below the rate of 20.7% for the same period of last year, mainly due to the promotion of sales activities during the period under review.

Management fees increased by 112.0% to HK\$90.1 million in 1HFY2008, primarily as a result of recognizing a full period's management fees from certain managed stores which became managed stores in last year and the opening of Shanghai Pujian Store in 1HFY2008, also contributed to the growth of management fees in the Current Period.

### Rental income

Rental income increased by 32.7% to HK\$41.0 million in 1HFY2008 mainly because of the newly opened stores and the effect of recognizing a full period's operations of certain stores in the Current Period.

### Other income

Other income of the Group was HK\$73.7 million in 1HFY2008 representing an increase of 292.0% or HK\$54.9 million from HK\$18.8 million for the same period of last year, primarily as a result of an increase in interest income on bank deposits of HK\$54.7 million in which was mainly contributed by the Listing (defined as below) proceeds.





### **Purchases of and changes in inventories**

The purchases of and changes in inventories represent the cost of inventory sold for direct sales of goods. The purchases of and changes in inventories increased by 82.7% to HK\$67.6 million in 1HFY2008 from HK\$37.0 million for the same period of last year. As a percentage to direct sales of goods, gross profit margin in 1HFY2008 was 23.7% which was 3.2% lower than 26.9% for the same period of last year, primarily due to the promotion of sales turnover.

### **Employee benefit expense**

Employee benefit expense increased from HK\$71.9 million in 1HFY2007 to HK\$96.1 million in 1HFY2008. This increase was primarily due to an increase in wages and salaries and other employment benefits as a result of annual increment, recognizing a full period's operations of certain stores opened in last year and the opening of our new stores during the period under review. Employee benefit expense as a percentage to revenue decreased by 0.3% in 1HFY2008 to reflect improved operating efficiency.

### **Depreciation and amortisation**

Depreciation and amortisation expense increased by 9.5% from HK\$48.4 million in 1HFY2007 to HK\$53.0 million in 1HFY2008. This increase was primarily due to the effect of recognizing a full period's operations of certain stores opened in last year and the opening of our new stores during the period under review. Depreciation and amortisation expense as a percentage to revenue decreased by 2.0% in 1HFY2008 primarily due to strong performance of revenue.

### **Operating lease rental expense**

Operating lease rental expense increased by 16.4% from HK\$128.9 million in 1HFY2007 to HK\$150.1 million in 1HFY2008, primarily due to the effect of recognizing a full period's operations of certain stores opened in last year and the opening of our new stores during the period under review. Operating lease rental expense as a percentage to revenue decreased by 4.0% in 1HFY2008 mainly as a result of operating leverage of the expense.

### **Other operating expenses**

Other operating expenses increased by HK\$12.3 million or 14.5% from HK\$84.8 million in 1HFY2007 to HK\$97.1 million in 1HFY2008. This increase was primarily due to a HK\$10.8 million increase in promotion, advertising and related expenses and a HK\$2.9 million increase in water and electricity expenses relating primarily to the newly opened stores and the effect of recognizing a full period's operations of certain stores in the Current Period. Other operating expenses as a percentage to revenue decreased by 2.9% in 1HFY2008.

## Management Discussion and Analysis

### Operating profit

Operating profit increased by 66.2% to HK\$273.0 million in 1HFY2008 from HK\$164.3 million in 1HFY2007. Operating profit as a percentage to revenue increased by 7.3% to 41.2% in 1HFY2008, primarily as a result of strong organic growth of revenue.

### 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 91.4% from HK\$29.2 million in 1HFY2007 to HK\$55.9 million in 1HFY2008, primarily as a result of increase in profit before income tax. Income tax expense as a percentage to profit before income tax in 1HFY2008 was 19.7% which was slightly above 17.2% for the same period of last year.

### Profit for the period

As a result of the reasons mentioned above, profit for the period increased by 62.3% to HK\$227.8 million in 1HFY2008 from HK\$140.4 million in 1HFY2007. Net profit margin increased to 34.3% in 1HFY2008 from 29.0% for the same period of last year, primarily as a result of strong organic growth of revenue.

### Liquidity and financial resources

Cash and cash equivalents of the Group increased by HK\$2,964.6 million to HK\$3,932.1 million as at 31 December 2007 (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.

The Group had no borrowings as at 31 December 2007.

The capital commitments of the Group as at 31 December 2007 were HK\$914.5 million, of which HK\$895.0 million were contracted but not provided for in the balance sheet. About HK\$885.4 million for the acquisition of Uphill Group Limited and its outstanding shareholder's loan was included in the capital commitments.

**Pledge of assets**

No asset of the Group was pledged as at 31 December 2007.

**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 31 December 2007.

# Report on Review of Interim Financial Statements



羅兵咸永道會計師事務所

**PricewaterhouseCoopers**

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## TO THE BOARD OF DIRECTORS OF NEW WORLD DEPARTMENT STORE CHINA LIMITED

*(incorporated in the Cayman Islands with limited liability)*

### INTRODUCTION

We have reviewed the interim financial statements set out on pages 18 to 37, which comprises the condensed consolidated balance sheet of New World Department Store China Limited (the "Company") and its subsidiaries (together, the "Group") as at 31 December 2007 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these interim financial statements in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim financial statements based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### SCOPE OF REVIEW

We conducted our review in accordance with the Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 13 March 2008

## Condensed Consolidated Income Statement

For the six months ended 31 December 2007

	Note	Unaudited	Audited
		Six months ended 31 December 2007 HK\$'000	2006 HK\$'000
Revenue	4	<b>663,297</b>	484,643
Other income	5	<b>73,695</b>	18,811
Purchases of and changes in inventories		<b>(67,602)</b>	(37,047)
Employee benefit expense		<b>(96,119)</b>	(71,857)
Depreciation and amortisation		<b>(53,032)</b>	(48,423)
Operating lease rental expense		<b>(150,139)</b>	(128,939)
Other operating expenses	6	<b>(97,108)</b>	(84,845)
Gain on disposal of subsidiaries		<b>—</b>	31,933
Operating profit		<b>272,992</b>	164,276
Finance income	7	<b>10,789</b>	5,300
Profit before income tax		<b>283,781</b>	169,576
Income tax expense	8	<b>(55,937)</b>	(29,213)
Profit for the period		<b>227,844</b>	140,363
Attributable to equity holders of the Company		<b>227,844</b>	140,363
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in HK\$ per share)			
— Basic	9	<b>0.14</b>	0.12
— Diluted	9	<b>0.14</b>	N/A



## Condensed Consolidated Balance Sheet

As at 31 December 2007

	Note	Unaudited As at 31 December 2007 HK\$'000	Audited As at 30 June 2007 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		<b>718,946</b>	563,723
Land use rights		<b>168,103</b>	168,449
Available-for-sale financial assets		<b>53,004</b>	—
Long-term prepaid rent and rental deposits		<b>42,471</b>	43,989
Deferred tax assets		<b>26,618</b>	24,658
		<b>1,009,142</b>	800,819
<b>Current assets</b>			
Inventories at net realisable value		<b>40,175</b>	29,705
Debtors	12	<b>53,712</b>	19,192
Prepayments, deposits and other receivables		<b>243,856</b>	143,978
Amounts due from fellow subsidiaries	13	<b>83,300</b>	96,750
Cash and cash equivalents		<b>3,932,117</b>	967,534
		<b>4,353,160</b>	1,257,159
<b>Total assets</b>		<b>5,362,302</b>	2,057,978
<b>Equity</b>			
Share capital	14	<b>168,615</b>	6,095
Reserves	15	<b>3,562,840</b>	851,134
		<b>3,731,455</b>	857,229
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Accruals	16	<b>201,047</b>	163,229
Deferred tax liabilities		<b>12,507</b>	10,577
		<b>213,554</b>	173,806

## Condensed Consolidated Balance Sheet

As at 31 December 2007

	Note	Unaudited As at 31 December 2007 HK\$'000	Audited As at 30 June 2007 HK\$'000
Current liabilities			
Creditors and accruals	16	1,294,897	949,564
Tax payable		64,428	39,011
Amounts due to fellow subsidiaries	13	57,968	38,368
		<b>1,417,293</b>	1,026,943
Total liabilities		<b>1,630,847</b>	1,200,749
Total equity and liabilities		<b>5,362,302</b>	2,057,978
Net current assets		<b>2,935,867</b>	230,216
Total assets less current liabilities		<b>3,945,009</b>	1,031,035





## Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2007

	Share capital	Share premium	Capital reserve	Statutory reserve	Share option reserve	Exchange reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2006	6,095	—	(6,095)	—	—	(4,672)	193,121	188,449
Profit for the period	—	—	—	—	—	—	140,363	140,363
Capitalisation of shareholder's loan	—	—	397,683	—	—	—	—	397,683
Translation differences	—	—	—	—	—	8,336	—	8,336
At 31 December 2006 — Audited	6,095	—	391,588	—	—	3,664	333,484	734,831
At 1 July 2007	<b>6,095</b>	<b>—</b>	<b>337,568</b>	<b>11,360</b>	<b>—</b>	<b>17,680</b>	<b>484,526</b>	<b>857,229</b>
Issue of shares in connection with the Listing	<b>46,725</b>	<b>2,663,296</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>2,710,021</b>
Capitalisation of share premium accounts	<b>115,795</b>	<b>(115,795)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Share issuance costs	<b>—</b>	<b>(149,251)</b>	<b>54,020</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(95,231)</b>
Share based payments	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>2,629</b>	<b>—</b>	<b>—</b>	<b>2,629</b>
Lapse of share options	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(5)</b>	<b>—</b>	<b>5</b>	<b>—</b>
Transfer to statutory reserve	<b>—</b>	<b>—</b>	<b>—</b>	<b>5,755</b>	<b>—</b>	<b>—</b>	<b>(5,755)</b>	<b>—</b>
Profit for the period	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>227,844</b>	<b>227,844</b>
Translation differences	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>28,963</b>	<b>—</b>	<b>28,963</b>
At 31 December 2007 — Unaudited	<b>168,615</b>	<b>2,398,250</b>	<b>391,588</b>	<b>17,115</b>	<b>2,624</b>	<b>46,643</b>	<b>706,620</b>	<b>3,731,455</b>

## Condensed Consolidated Cash Flow Statement

For the six months ended 31 December 2007

	Unaudited Six months ended 31 December 2007 HK\$'000	Audited 2006 HK\$'000
Net cash generated from operating activities	<b>571,501</b>	526,441
Net cash used in investing activities	<b>(176,151)</b>	(82,037)
Net cash generated from financing activities	<b>2,560,769</b>	13
Effect of foreign exchange rate changes	<b>8,464</b>	(8,684)
Net increase in cash and cash equivalents	<b>2,964,583</b>	435,733
Cash and cash equivalents, at 1 July	<b>967,534</b>	488,730
Cash and cash equivalents, at 31 December	<b>3,932,117</b>	924,463
Analysis of cash and cash equivalents:		
Cash and bank deposits	<b>3,932,117</b>	924,463



# Notes to the Condensed Consolidated 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.

The Group underwent a group reorganisation (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”). Details of the Reorganisation were disclosed in the annual financial statements of the Group for the year ended 30 June 2007.

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

These condensed consolidated financial statements are presented in thousands of units of Hong Kong dollars (“HK\$’000”), unless otherwise stated. These condensed consolidated financial statements were approved for issue by the board of directors (the “Board” or “Directors”) on 13 March 2008.

## 2 BASIS OF PREPARATION

These condensed consolidated financial statements have been prepared using the principles of merger accounting, as described in Hong Kong Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and presented the results of the Group as if the structure of the Group resulting from the Reorganisation had been in existence throughout the period. Comparative figures for the period ended 31 December 2006 have been prepared on the same basis.

These condensed consolidated financial statements for the six months ended 31 December 2007 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, issued by HKICPA.

These condensed consolidated financial statements should be read in conjunction with the Group’s annual financial statements for the year ended 30 June 2007.

## Notes to the Condensed Consolidated Financial Statements

### 3 ACCOUNTING POLICIES

The accounting policies are consistent with those as described in the Group's annual financial statements for the year ended 30 June 2007, except that the Group has adopted the following new standards, amendments to standards and interpretation which are relevant to the Group's operations and are mandatory for the financial year ending 30 June 2008:

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

The adoption of these new standard, amendment and interpretations does not have any significant impact on the results and financial position or changes in the accounting policies of the Group. However, the adoption of HKAS 1 Amendment and HKFRS 7 requires additional disclosures in the annual financial statements.

The following new standards and interpretations have been issued by the HKICPA but are not effective for financial year ending 30 June 2008 and have not been early adopted:

HKAS 1 (Revised)	Presentation of financial statements
HKAS 23 (Revised)	Borrowing costs
HKFRS 8	Operating segments
HK(IFRIC)-Int 12	Service concession arrangements
HK(IFRIC)-Int 13	Customer loyalty programmes
HK(IFRIC)-Int 14	HKAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction



#### 4 REVENUE AND SEGMENT INFORMATION

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

	<b>Unaudited</b>	Audited
	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Commission income from concessionaire sales	<b>443,532</b>	360,671
Sales of goods — direct sales	<b>88,631</b>	50,649
Management fees	<b>90,127</b>	42,467
Rental income	<b>41,007</b>	30,856
	<b>663,297</b>	484,643

The income from concessionaire sales is analysed as follows:

	<b>Unaudited</b>	Audited
	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Gross revenue from concessionaire sales	<b>2,173,634</b>	1,740,636
Commission income from concessionaire sales	<b>443,532</b>	360,671

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.

## Notes to the Condensed Consolidated Financial Statements

### 5 OTHER INCOME

	Unaudited Six months ended 31 December 2007 HK\$'000	Audited 2006 HK\$'000
Interest income on bank deposits	59,898	5,218
Government grants	4,716	2,460
Other commission income	1,731	1,391
Entry fee	—	3,686
Sundries	7,350	6,056
	<b>73,695</b>	18,811

### 6 OTHER OPERATING EXPENSES

	Unaudited Six months ended 31 December 2007 HK\$'000	Audited 2006 HK\$'000
Promotion, advertising and related expenses	31,240	20,384
Auditor's remuneration	1,950	1,072
Loss on disposal of property, plant and equipment	551	67
Water and electricity	43,357	40,497
Net exchange losses	5,782	2,699
Others	14,228	20,126
	<b>97,108</b>	84,845



## 7 FINANCE INCOME

	<b>Unaudited</b>	Audited
	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Interest income from deposits relating to share subscription under the Listing	<b>10,789</b>	—
Net exchange gains	<b>—</b>	5,300
	<b>10,789</b>	5,300

## 8 INCOME TAX EXPENSE

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

	<b>Unaudited</b>	Audited
	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Current income tax		
— Hong Kong profits tax	<b>561</b>	501
— Mainland China taxation	<b>55,329</b>	28,297
(Over)/under provision in prior years	<b>(510)</b>	951
Deferred income tax	<b>557</b>	(536)
	<b>55,937</b>	29,213

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 17.5% (six months ended 31 December 2006: 17.5%) on the estimated assessable profit for the period.

## Notes to the Condensed Consolidated Financial Statements

### 8 INCOME TAX EXPENSE (continued)

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. The applicable EIT or FEIT rate for the subsidiaries of the Group in Mainland China is 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 (the new "CIT Law") of the People's Republic of China ("PRC"). The new CIT Law reduces the corporate income tax rate from 33% to 25% with effect from 1 January 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

### 9 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 period. 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.

	Unaudited Six months ended 31 December 2007	Audited 2006
Profit attributable to the equity holders of the Company (HK\$'000)	227,844	140,363
Weighted average number of ordinary shares in issue (shares in thousands)	1,649,600	1,218,900
Basic earnings per share (HK\$ per share)	0.14	0.12





## 9 EARNINGS PER SHARE (continued)

### (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.

Shares issuable under the share option schemes are the only dilutive potential ordinary shares. A calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average daily quoted market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

During the six months ended 31 December 2007, there was no potential dilutive effect from the share options.

## 10 DIVIDEND

No dividend had been paid or declared by the Company during the period (six months ended 31 December 2006: Nil).

## 11 CAPITAL EXPENDITURE

For the six months ended 31 December 2007, the Group has acquired property, plant and equipment of HK\$186,225,000 (six months ended 31 December 2006: HK\$81,369,000). The Group has disposed of property, plant and equipment of net book value of HK\$981,000 (six months ended 31 December 2006: HK\$3,002,000).

## Notes to the Condensed Consolidated Financial Statements

### 12 DEBTORS

The Group normally grants credit terms of 30 days. The ageing analysis of the debtors, based on the invoice date, is as follows:

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2007</b>	2007
	<b>HK\$'000</b>	HK\$'000
Within period for		
0–30 days	<b>50,748</b>	19,192
31–60 days	<b>963</b>	—
61–90 days	<b>1,097</b>	—
Over 90 days	<b>904</b>	—
	<b>53,712</b>	19,192

The debtors are denominated in Renminbi. The carrying amounts of debtors approximate their fair values.

### 13 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.



## 14 SHARE CAPITAL

Movements were:

	Note	Number of share '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 31 December 2007		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 31 December 2007		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 entire issued share capital of New World Department Stores (Holdings) Limited, 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 allotted and issued, credited as fully paid at par value of HK\$0.1 each to New World Development Company Limited ("NWD"), 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.

## Notes to the Condensed Consolidated Financial Statements

### 14 SHARE CAPITAL (continued)

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 outstanding and their related exercise prices during the period are as follows:

	<b>Exercise price per share HK\$</b>	<b>Number of options '000</b>
At 1 July 2007	—	—
Granted on 27 November 2007	<b>8.660</b>	<b>19,995</b>
Lapse	<b>8.660</b>	<b>(35)</b>
At 31 December 2007		<b>19,960</b>

On the date of grant, 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.



## 15 RESERVES

	Share premium HK\$'000	Capital reserve HK\$'000	Statutory reserve HK\$'000	Share option reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 July 2006	—	(6,095)	—	—	(4,672)	193,121	182,354
Profit for the period	—	—	—	—	—	140,363	140,363
Capitalisation of shareholder's loan	—	397,683	—	—	—	—	397,683
Translation differences	—	—	—	—	8,336	—	8,336
At 31 December 2006							
— Audited	—	391,588	—	—	3,664	333,484	728,736
At 1 July 2007	—	<b>337,568</b>	<b>11,360</b>	—	<b>17,680</b>	<b>484,526</b>	<b>851,134</b>
Issue of shares in connection with the Listing (Note 14(ii))	<b>2,663,296</b>	—	—	—	—	—	<b>2,663,296</b>
Capitalisation of share premium account (Note 14(iii))	<b>(115,795)</b>	—	—	—	—	—	<b>(115,795)</b>
Share issuance costs	<b>(149,251)</b>	<b>54,020</b>	—	—	—	—	<b>(95,231)</b>
Share based payments	—	—	—	<b>2,629</b>	—	—	<b>2,629</b>
Lapse of share options	—	—	—	<b>(5)</b>	—	<b>5</b>	—
Transfer to statutory reserve	—	—	<b>5,755</b>	—	—	<b>(5,755)</b>	—
Profit for the period	—	—	—	—	—	<b>227,844</b>	<b>227,844</b>
Translation differences	—	—	—	—	<b>28,963</b>	—	<b>28,963</b>
At 31 December 2007							
— Unaudited	<b>2,398,250</b>	<b>391,588</b>	<b>17,115</b>	<b>2,624</b>	<b>46,643</b>	<b>706,620</b>	<b>3,562,840</b>

## Notes to the Condensed Consolidated Financial Statements

### 16 CREDITORS AND ACCRUALS

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2007</b>	2007
	<b>HK\$'000</b>	HK\$'000
Creditors	<b>961,523</b>	663,858
Accruals	<b>534,421</b>	448,935
Less: long-term rental accruals	<b>(201,047)</b>	(163,229)
	<b>1,294,897</b>	949,564

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

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2007</b>	2007
	<b>HK\$'000</b>	HK\$'000
Within period for		
0–30 days	<b>482,497</b>	235,274
31–60 days	<b>264,725</b>	253,177
61–90 days	<b>105,536</b>	59,392
Over 90 days	<b>108,765</b>	116,015
	<b>961,523</b>	663,858

The creditors are denominated in Renminbi. Included in creditors was a trading amount due to a related company of HK\$15,151,000 (30 June 2007: HK\$12,643,000) which was unsecured, interest free and repayable on demand.

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



## 17 CAPITAL COMMITMENTS

Capital commitments of the Group at the balance sheet date are as follows:

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2007</b>	2007
	<b>HK\$'000</b>	HK\$'000
Contracted but not provided for		
Property, plant and equipment	<b>9,546</b>	5,427
Purchase consideration for the acquisition of a fellow subsidiary (Note 19)	<b>885,417</b>	—
Authorised but not contracted for	<b>19,534</b>	—
	<b>914,497</b>	5,427

## Notes to the Condensed Consolidated Financial Statements

### 18 RELATED PARTY TRANSACTIONS

#### (a) Transactions with related parties

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

		<b>Unaudited</b>	Audited
		<b>Six months ended</b>	
		<b>31 December</b>	
	Note	<b>2007</b>	2006
		<b>HK\$'000</b>	HK\$'000
<b>Fellow subsidiaries</b>			
Management fee income	(i)	<b>47,178</b>	32,506
Revenue from sales of goods	(ii)	—	2,744
Rental expenses	(iii)	<b>45,229</b>	35,630
Building management expenses	(iv)	<b>4,254</b>	3,558
Purchase of leasehold improvements	(v)	<b>46,615</b>	21,288
<b>Related companies</b>			
Commission income from concessionaire sales	(vi)	<b>6,293</b>	4,186
Rental expenses	(vii)	<b>12,667</b>	12,192

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 rental is charged in accordance with the terms of respective tenancy agreements.
- (iv) The building management fee is charged at fixed monthly amounts in accordance with respective contracts.
- (v) This represents the employment of engineering consultancy service in respect of certain of the Group's department stores. Such fee is charged at fixed amount 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, is 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.
- (vii) The rental is charged in accordance with the terms of respective tenancy agreements with New Bei Fang Hotel Ltd., a jointly controlled entity of NWD.





## 18 RELATED PARTY TRANSACTIONS (continued)

### (b) Key management compensation

	Unaudited Six months ended 31 December 2007 HK\$'000	Audited 2006 HK\$'000
Basic salaries, allowances and benefits in kind	7,704	4,258
Retirement benefit costs — defined contribution plans	473	250
Share based payments	509	—
	<b>8,686</b>	4,508

## 19 EVENTS AFTER THE BALANCE SHEET DATE

On 17 December 2007, New Bright Resources Limited (“New Bright Resources”), being a direct wholly-owned subsidiary of the Company, entered into an agreement with Solar Leader Limited (“Solar Leader”), being an indirect wholly-owned subsidiary of NWD, a controlling shareholder of the Company, pursuant to which New Bright Resources conditionally agreed to acquire the entire issued share capital of Uphill Group Limited (“Uphill Group”), being a direct wholly-owned subsidiary of Solar Leader, and the outstanding shareholder’s loan of Uphill Group owed to Solar Leader at an aggregate consideration of HK\$885,417,000. The acquisition was approved by the shareholders of the Company other than NWD and its associates on 29 January 2008.

## 20 ULTIMATE HOLDING COMPANY

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

## 21 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the Current Period’s presentation.

# Corporate Citizenship

## COMMUNITY AND CHARITABLE ACTIVITIES

In community service, the Group focuses on environmental conservation, Project Hope efforts and humanitarian relief. In true caring spirit, we practise give-and-take in the community, winning recognition and acclaim from the government and the public.

### Northeastern China Region donates cotton jackets

During the period under review, Harbin New World Department Store ("Harbin Store") jointly held *Cotton Warmth Against Wintry Cold* with SAFRON, donating cotton jackets worth about RMB100,000 to Heilongjiang Women and Children Trust Fund.

### Northern China Region supports Red Cross with Olympics sales

Beijing New World Shopping Mall supported Red Cross in Chongwen District in aid of children with leukemia. The store donated the proceeds from concessionaire sales of Olympics-related goods in two timeslots of the 14 September anniversary sale held in commemoration of the store's ninth anniversary.

### Central China Region: One Dollar One Education Dream

Between October and December 2007, our stores in Central China Region joined Wuhan Youth Trust Fund and Office of Project Hope on the *One Dollar One Education Dream* project. We appealed to staff members and customers for donations in aid of children deprived of education.

### Shanghai Municipality: Blankets giving and snow sweeping

Shortly ahead of the 2008 Lunar New Year in mid-January, when freezing weather persisted and snowstorms raged, Shanghai Wujiaochang Store responded to charity calls by General Trade Union of Wujiaochang Street. The store bought cotton blankets and distributed them via union representatives to poverty-stricken families in the region before the Spring Festival. Besides, the Shanghai Wujiaochang Store also organized street snow-sweeping by store staff to restore convenience in pedestrian traffic.

### Eastern China Region: Reverence for elders and water donation

Staff from Wuxi New World Department Store visited the elderly at Tandu Old-aged Rehabilitation Centre of Wuxi on the eve of Chung Yeung Festival and distributed daily necessities including underwear, towels and reading glasses. The store aimed to foster respect and care for the elderly among its staff and the local community.

Wuxi faced a serious shortage of water last summer during the period under review. The municipal government had to arrange for emergency supplies of pure water to relieve the situation. Wuxi New World Department Store initiated a water charity, sourcing 5,000 boxes of pure water from various channels for subsequent donation to children's welfare bodies, local police, city guards, firefighters and the store's VIP guests.



## GROUP HONOURS

### AAA-graded “Honesty-based Enterprise”

During the period under review, Harbin Store in Northeastern China Region won designation as an AAA-graded “Honesty-based Enterprise”. The Harbin Ministry of Commerce conducted the five-month project, assigning AAA grading to ten of the city’s large and medium-sized enterprises.

### “Beijing Olympics Service with a Smile” & “Patriotic Hygiene” designations

In September 2007, the Main Service Counter and VIP Centre of Beijing New World Shopping Mall received commendations as role models of “Beijing Olympics Service with a Smile” from the coordinating committee for Olympics training for frontline businesses in Beijing. A store cashier won designation as an ambassador of “2008 Beijing Olympics Service with a Smile”. In December 2007, the store was honoured as an “Advanced Unit of Patriotic Hygiene in Beijing”.

### “Excellent Entrepreneur”, “Fixed Asset Investment”, “Excellent Operating Unit”, “Best 10 Shopping Guardian Angels”

Changsha Trendy Plaza received three awards from Changsha Fu Rong District, including “Excellent Entrepreneur”, “Fixed Asset Investment” and “Excellent Operating Unit”. Xiamen New World Department Store took part in the *Shopping Guardian Angels* election in Xiamen in July 2007 and won two awards including “Best 10 Shopping Guardian Angels” and “Best Body Gesture”.

### “Best Organization in Haishu Shopping Festival”, “Consumer-trusted Unit”

Ningbo New World Department Store won “Best Organization in 2007 Ningbo Haishu Shopping Festival” from the organising committee of Ningbo Haishu Shopping Festival and “Third Ningbo Haishu District Consumer-trusted Unit” from the Committee on Protection of Consumer Rights of Ningbo Haishu District.

## SOCIAL ACTIVITIES

### Shanghai Hongkou Store welcomes 2007 Special Olympics athletes

Shanghai Hongkou Store held a reception on 4 October 2007 for athletes and an entourage of about 400 family members, coaches and team leaders, in addition to hundreds of volunteers. They came for the Special Olympics World Games from 14 countries including Greece, Cuba, Peru, Puerto Rico, Moldova, Dominica, Burma, Vietnam, Laos, Cambodia, Singapore and Nepal.

## Other Information

### DIVIDEND

No dividend had been paid or declared by the Company during the period (six months ended 31 December 2006: Nil).

### AUDIT COMMITTEE

Audit committee was established in accordance with requirements of the Rules Governing the Listing of Securities on the Stock Exchange (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 of the Company. The audit committee has reviewed the unaudited condensed consolidated financial statements and the interim report for the six months ended 31 December 2007 (or the "Current Period") and discussed the financial related matters with management. The unaudited interim results of the Group for the Current Period have been reviewed by the Company's auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

### CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules since the Listing.

### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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 and the relevant employees. 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.

### EMPLOYEES, REMUNERATION POLICY

As at 31 December 2007, total number of employees for the Group was approximately 3,585. 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: pension plans, medical, unemployment, work related injury and maternity insurance. Such arrangements are in compliance with relevant laws and regulations.



## **PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY**

The Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold any of the securities during the six months ended 31 December 2007.

## **DEED OF NON-COMPETITION**

Under the deed of non-competition dated 22 June 2007 given by New World Development Company Limited (the "New World Development") in favour of the Company, details of which were stated in the prospectus of the Company dated 28 June 2007, New World Development 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 12 July 2007 (the date of listing of the Company's shares on the main board of the Stock Exchange (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 Resources"), a 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 New World Development, whereby New Bright Resources 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 HKD586,355,928.25 as of 30 November 2007 for an aggregate consideration of HKD885,417,000. Uphill Group is an investment holding company which owns 100% legal and beneficial interests in Wuhan New Eagle Development Co., Ltd., which owns 100% legal and beneficial interests in the Wuhan Store and its property.

As regards the Kunming Store, New World Development 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, New World Development currently holds the entire beneficial ownership of the companies which hold these stores. New World Development is still procuring the legal title holders, who are independent third parties, to transfer the legal title of these companies. New World Development has undertaken to use its best endeavors to continue procuring resolutions of these issues as soon as practicable.

## Other Information

### DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2007, the interests of the Directors and their associates in shares and underlying shares of the Company or any of its associated corporations which were recorded in the register required to be kept by the Company under section 352 of the Securities and Futures Ordinance ("SFO") or otherwise notified or as required to be notified to the Stock Exchange and the Company pursuant to the Model Code were as follows:

#### (a) Long positions in shares

	Number of shares			Total	Approximate percentage of shareholding
	Beneficial interests	Interests of child under 18 or spouse	Interests of controlled corporation		
<b>The Company</b>					
Mr. CHENG Chi-kong, Adrian	—	—	1,107,000 <sup>(1)</sup>	1,107,000	0.07
Mr. CHEUNG Fai-yet, Philip	660,000	—	—	660,000	0.04
<b>New World Development</b>					
Dr. CHENG Kar-shun, Henry	—	300,000	—	300,000	0.01
<b>NWS Holdings Limited</b>					
Dr. CHENG Kar-shun, Henry	9,179,199	587,000	8,000,000 <sup>(2)</sup>	17,766,199	0.88
<b>Mega Choice Holdings Limited</b>					
Dr. CHENG Kar-shun, Henry	—	—	3,710 <sup>(3)</sup>	3,710	34.61
<b>New World China Land Limited</b>					
Dr. CHENG Kar-shun, Henry	12,500,000	1,000,000	52,271,200 <sup>(2)</sup>	65,771,200	1.72
Mr. CHENG Chi-kong, Adrian	110,400	—	760,000 <sup>(1)</sup>	870,400	0.02
Ms. NGAN Man-ying, Lynda	100,000	—	—	100,000	0.00

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 a company wholly-owned by Dr. CHENG Kar-shun, Henry.

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



## DIRECTORS' INTERESTS IN SECURITIES (continued)

### (b) Long positions in underlying shares

#### (i) The Company

Name of Director	Date of grant	Exercisable period <sup>(1)</sup>	Number of share options held	Exercise price per share HK\$
Dr. CHENG Kar-shun, Henry	27 November 2007	27 November 2008 to 26 November 2013	1,000,000	8.660
Mr. AU Tak-cheong	27 November 2007	27 November 2008 to 26 November 2013	250,000	8.660
Mr. CHENG Chi-kong, Adrian	27 November 2007	27 November 2008 to 26 November 2013	500,000	8.660
Mr. CHEUNG Fai-yet, Philip	27 November 2007	27 November 2008 to 26 November 2013	1,500,000	8.660
Mr. LIN Tsai-tan, David	27 November 2007	27 November 2008 to 26 November 2013	459,000	8.660
Mr. WONG Kwok-kan, Kenneth	27 November 2007	27 November 2008 to 26 November 2013	501,000	8.660
Ms NGAN Man-ying, Lynda	27 November 2007	27 November 2008 to 26 November 2013	500,000	8.660
Mr. CHEONG Ying-chew, Henry	27 November 2007	27 November 2008 to 26 November 2013	250,000	8.660
Mr. CHAN Yiu-tong, Ivan	27 November 2007	27 November 2008 to 26 November 2013	250,000	8.660

## Other Information

### DIRECTORS' INTERESTS IN SECURITIES (continued)

#### (b) Long positions in underlying shares (continued)

##### (i) The Company (continued)

Name of Director	Date of grant	Exercisable period <sup>(1)</sup>	Number of share options held	Exercise price per share HK\$
Mr. TONG Hang-chan, Peter	27 November 2007	27 November 2008 to 26 November 2013	250,000	8.660
Mr. YU Chun-fai, Henry	27 November 2007	27 November 2008 to 26 November 2013	250,000	8.660

Notes:

- (1) The share options were divided into 5 tranches being 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) The cash consideration paid by each director for each grant of the share option is HK\$1.00.

##### (ii) New World Development

Name of Director	Date of grant	Exercisable period (Note)	Number of share options held	Exercise price per share HK\$
Dr. CHENG Kar-shun, Henry	19 March 2007	19 March 2007 to 18 March 2012	36,500,000	17.756
Mr. CHENG Chi-kong, Adrian	19 March 2007	19 March 2007 to 18 March 2012	500,000	17.756
Mr. AU Tak-cheong	19 March 2007	19 March 2007 to 18 March 2012	1,200,000	17.756

Note: The share options were divided into 5 tranches being exercisable from 19 March 2007, 19 March 2008, 19 March 2009, 19 March 2010 and 19 March 2011, respectively, to 18 March 2012.




**DIRECTORS' INTERESTS IN SECURITIES** (continued)

**(b) Long positions in underlying shares** (continued)

**(iii) New World China Land Limited**

Name of Director	Date of grant	Exercisable period <sup>(1)</sup>	Number of share options				Exercise price per share HK\$
			Balance as at 1 July 2007	Granted during the period	Exercised during the period <sup>(2)</sup>	Balance as at 31 December 2007	
Mr. CHENG Chi-kong, Adrian	25 July 2006	26 August 2006 to 25 August 2011	552,400	–	(110,400)	442,000	2.865
			552,400	–	(110,400)	442,000	

Notes:

- (1) The share options are exercisable within five years commencing one month after the date of grant, 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) The exercise date was 23 August 2007. On the trading date immediately before the share options were exercised, the closing price per share was HK\$7.10.

**(iv) NWS Holdings Limited**

Name of Director	Date of grant	Exercisable period (Note)	Number of share options held	Exercise price per share HK\$
Dr. CHENG Kar-shun, Henry	21 August 2007	21 August 2008 to 20 August 2012	3,000,000	16.200

Note: 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.

## Other Information

### DIRECTORS' INTERESTS IN SECURITIES (continued)

Save as disclosed above, as at 31 December 2007, none of the directors and the chief executive of the Company had any interest or short positions in the shares or underlying shares or interests in 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.

### SHARE OPTIONS GRANTED TO OTHER ELIGIBLE PARTICIPANTS

On 12 June 2007, the Company adopted a share option scheme (the "Scheme"). Under the Scheme, the Directors may at their discretion grant options to any eligible participants to subscribe for shares of the Company. During the Current Period, movement of share options granted to eligible participants, other than that of the Directors as disclosed in the section "Directors' Interests in Securities", under the Scheme of the Company was as follows:

Date of grant	Exercisable period	Number of share options				Balance as at 31 December 2007	Exercise price per share HK\$
		Balance as at 1 July 2007	Granted during the period	Exercised during the period	Lapsed during the period		
27 November 2007	27 November 2008 to 26 November 2013 <sup>(1)</sup>	—	14,285,000 <sup>(2)</sup>	—	(35,000)	14,250,000	8.660
		—	14,285,000	—	(35,000)	14,250,000	

Notes:

- (1) 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) The closing price per share immediately before 27 November 2007, the date of grant, was HK\$8.690.
- (3) The cash consideration paid by each eligible participant for each grant of the share option is HK\$1.00.



### SHARE OPTIONS GRANTED TO OTHER ELIGIBLE PARTICIPANTS (continued)

The fair value of the share options granted during the period with exercise price per share of HK\$8.660 is estimated at HK\$3.002 using the Binomial pricing model. Value is estimated based on Hong Kong government bond which will mature in November 2013 and the market yield as of date of grant is 2.92%, a six years period historical volatility of 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.

### SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2007, the interests or short positions of substantial shareholders (as defined in the Listing Rules) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows :

Name	Number of shares held			Approximate percentage of shareholding
	Beneficial interests	Corporate interests	Total	
Cheng Yu Tung Family (Holdings) Limited ("CYTFH") <sup>(1)</sup>	—	1,218,900,000	1,218,900,000	72.29
Centennial Success Limited ("Centennial") <sup>(2)</sup>	—	1,218,900,000	1,218,900,000	72.29
Chow Tai Fook Enterprises Limited ("CTF") <sup>(3)</sup>	—	1,218,900,000	1,218,900,000	72.29
New World Development	1,218,900,000	—	1,218,900,000	72.29

Notes:

- (1) CYTFH holds 51% direct interests in Centennial and is accordingly deemed to have interests in the Shares deemed to be interested by Centennial.
- (2) Centennial holds 100% direct interests in CTF and is accordingly deemed to have interests in the Shares interested by or deemed to be interested by CTF.
- (3) CTF together with its subsidiaries hold an aggregate of approximately 36.32% interest in NWD and is accordingly deemed to have interests in the Shares interested by NWD.

Save as disclosed above, no other person was recorded in the register kept pursuant to Section 336 of the SFO as having interests in 5% or more of the issued share capital of the Company as at 31 December 2007.

# 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

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

## 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

Hang Seng Bank Limited  
Bank of Communications Co., Ltd.

## STOCK CODE

Hong Kong Stock Exchange 0825

## INVESTOR INFORMATION

For more information about the Group,  
please contact the Corporate Affairs Department at:  
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## WEBSITE

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New World Department Store China Limited  
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