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)

ANNUAL RESULTS ANNOUNCEMENT 2006/2007

HIGHLIGHTS ON ANNUAL RESULTS

Same store sales[1] ("SSS") growth remains strong at 16.5%.

Revenue improved to HK$982.2 million, an increase of 31.0%, compared to HK$749.9 million of last year.

Operating profit improved to HK$353.9 million, an increase of 105.9%, compared to HK$171.9 million of last year.

Profit for the year improved to HK$302.8 million, an increase of 91.8%, compared to HK$157.9 million of last year.

[1] Same store sales growth represents stores having operations for more than 3 years.

ANNUAL RESULTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

The Board of Directors of New World Department Store China Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (together the "Group") for the year ended 30 June 2007 as follows:

CONSOLIDATED INCOME STATEMENT

	Note	**2007** *HK$'000*	2006 *HK$'000*
Revenue	3	**982,161**	749,861
Other income	4	**97,051**	81,825
Purchases of and changes in inventories		**(85,272)**	(65,023)
Employee benefit expense		**(147,393)**	(128,833)
Depreciation and amortisation		**(97,456)**	(81,393)
Operating lease rental expense		**(267,675)**	(234,674)
Other operating expenses	5	**(185,489)**	(149,816)
Gain on disposal of subsidiaries		**57,984**	—
Operating profit		**353,911**	171,947
Finance income	6	**2,186**	10,677
Profit before income tax		**356,097**	182,624
Income tax expense	7	**(53,332)**	(24,686)
Profit for the year		**302,765**	157,938
Attributable to equity holders of the Company		**302,765**	157,938
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in HK$ per share)			
— Basic	8	**4.97**	2.59
— Diluted	8	**N/A**	N/A

CONSOLIDATED BALANCE SHEET

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment		**563,723**	568,124
Land use rights		**168,449**	170,566
Long-term prepaid rent and rental deposits		**43,989**	49,579
Deferred tax assets		**24,658**	20,850
		800,819	809,119
Current assets			
Inventories at net realisable value		**29,705**	15,712
Debtors	10	**19,192**	8,041
Prepayments, deposits and other receivables		**143,978**	291,594
Amounts due from fellow subsidiaries		**96,750**	10,097
Cash and cash equivalents		**967,534**	488,730
		1,257,159	814,174
Total assets		**2,057,978**	1,623,293
Equity			
Share capital		**6,095**	6,095
Reserves		**851,134**	182,354
		857,229	188,449
Liabilities			
Non-current liabilities			
Accruals		**163,229**	120,258
Deferred tax liabilities		**10,577**	17,784
		173,806	138,042
Current liabilities			
Creditors and accruals	11	**949,564**	806,095
Tax payable		**39,011**	21,281
Amounts due to fellow subsidiaries		**38,368**	47,974
Amount due to ultimate holding company		**—**	397,683
Amount due to a related company		**—**	23,769
		1,026,943	1,296,802
Total liabilities		**1,200,749**	1,434,844
Total equity and liabilities		**2,057,978**	1,623,293
Net current assets/(liabilities)		**230,216**	(482,628)
Total assets less current liabilities		**1,031,035**	326,491

NOTES

1 General information and group reorganisation

1.1 General information

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

The Group is engaged in department store operations in Mainland China.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (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 10 October 2007.

1.2 Group reorganisation

In the preparation for the initial public offering of the shares of the Company on the Stock Exchange, the Group underwent a group reorganisation (the "Reorganisation"). The Company acquired the entire issued share capital of New World Department Stores (Holdings) Limited through a share swap pursuant to an agreement dated 7 June 2007 and became the holding company of the companies comprising the Group. As part of the Reorganisation, as at 1 January 2007, the Group disposed of two subsidiaries, namely Ningbo New World Trendy Department Store Co., Ltd. ("Ningbo Trendy Store") and Yunnan New World Department Store Co., Ltd. ("Kunming Store") to Solar Leader Limited, a related company of the Group, at a consideration of RMB2.

These consolidated financial statements have been prepared using the principles of merger accounting, as prescribed 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 year. Comparative figures for the year ended 30 June 2006 have been prepared on the same basis.

2 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by HKICPA. The consolidated financial statements have been prepared under the historical cost convention.

New standards, amendments and interpretations have been published and are effective in 2007:

(i) Amendment to HKAS 39 and HKFRS 4, Amendment "Financial Guarantee Contracts" (effective for annual periods beginning on or after 1 January 2006). This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred, and (ii) the expenditure required to settle the commitment at the balance sheet date. The adoption of this amendment does not have a significant impact on these consolidated financial statements.

(ii) HKAS 21 Amendment "Net Investment in a Foreign Operation" (effective for annual periods beginning on or after 1 January 2006). This amendment permits inter-company loans denominated in any currency to be part of a net investment in a foreign operation, and therefore any relating exchange difference to be treated as equity in the consolidated financial statements. Previously such loans had to be denominated in the functional currency of one of the parties to the transaction. The adoption of this amendment does not have a significant impact on the Group's financial statements.

(iii) HK(lFRIC)-lnt 4 "Determining Whether an Arrangement Contains a Lease" (effective for annual periods beginning on or after 1 January 2006). It requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (i) fulfilment of the arrangement is dependent on the use of a specific asset or assets ("the asset"); and (ii) the arrangement conveys a right to use the asset. The adoption of this interpretation does not have a significant impact on the Group's financial statements.

(iv) HK(IFRIC)-Int 9 "Reassessment of Embedded Derivatives" (effective for annual periods beginning on or after 1 June 2006). It requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modified the cash flow that otherwise would be required under the contract, in which case reassessment if required. The adoption of this interpretation does not have a significant impact on the Group's financial statements.

3 Revenue and segment information

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

	2007	2006
	HK$'000	*HK$'000*
Commission income from concessionaire sales	**759,124**	618,723
Sales of goods — direct sales	**116,591**	86,698
Management fees	**106,446**	44,440
	982,161	749,861

The income from concessionaire sales is analysed as follows:

	2007	2006
	HK$'000	*HK$'000*
Gross revenue from concessionaire sales	**3,576,915**	2,875,476
Commission income from concessionaire sales	**759,124**	618,723

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.

4 Other income

	2007	2006
	HK$'000	*HK$'000*
Rental income	**64,724**	56,881
Other commission income	**3,139**	4,465
Government grants	**6,039**	3,930
Interest income on bank deposits	**11,851**	5,823
Entry fee	**3,830**	4,684
Sundries	**7,468**	6,042
	97,051	81,825

5 Other operating expenses

	2007	2006
	HK$'000	*HK$'000*
Promotion, advertising and related expenses	**48,497**	42,073
Auditor's remuneration	**4,252**	2,050
Loss on disposal of property, plant and equipment	**113**	1,278
Water and electricity	**78,600**	64,906
Others	**54,027**	39,509
	185,489	149,816

6 Finance income

	2007	2006
	HK$'000	*HK$'000*
Bank charges	**(415)**	(320)
Net foreign exchange translation gains	**2,601**	10,997
	2,186	10,677

7 Income tax expense

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

	2007	2006
	HK$'000	*HK$'000*
Company and subsidiaries		
Current income tax		
— Hong Kong profits tax	**998**	—
— Mainland China taxation	**63,261**	38,315
Over provision in prior years	**(297)**	(5,905)
Deferred income tax	**(10,630)**	(7,724)
	53,332	24,686

8 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 60,946,000 ordinary shares were deemed to be in issue since 1 July 2005.

	2007	2006
Profit attributable to the equity holders of the Company *(HK$'000)*	**302,765**	157,938
Weighted average number of ordinary shares in issue *(shares in thousands)*	**60,946**	60,946
Basic earnings per share *(HK$ per share)*	**4.97**	2.59

(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 years ended 30 June 2006 and 2007, there were no potential dilutive ordinary shares outstanding.

9 Dividend

No dividend had been paid or declared by the Company during the year (2006: Nil).

10 Debtors

The Group normally grants credit terms within 30 days. As at 30 June 2007, all debtors which denominated in Renminbi were aged between 0 and 30 days (2006: between 0 and 30 days), based on the invoice date. The carrying amounts of debtors approximate their fair values.

11 Creditors

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

	Group	
	2007	2006
	HK$'000	*HK$'000*
Within period for		
0–30 days	**235,274**	187,322
31–60 days	**253,177**	200,638
61–90 days	**59,392**	69,096
Over 90 days	**116,015**	112,539
	663,858	569,595

The carrying amounts of creditors approximate their fair values.

BUSINESS REVIEW

Revenue of the Group surged to HK$982.2 million in FY2007 (or "current year") representing an increase of 31.0% from HK$749.9 million in FY2006 (or "last year"). Profit for the year increased by 91.8% to HK$302.8 million in FY2007 from HK$157.9 million in FY2006.

Business Review — 6 regions

Northeastern China

Formidable strength and unlimited potential

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

With the rise in personal income, the demand for quality pre-sales and post-sales services grew significantly. A new emphasis on personalised mode of consumption took hold. As a result, the importance of good enterprise management, product safety and image branding received increasing attention.

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

New store under planning

In the period under review, the Group did not open any store in the region. A new store at Anshan, Liaoning Province, had been scheduled for opening in October 2007.

Answering changes in climate and customer demands

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

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

Harbin New World Department Store concentrates on adjusting international brands and apparel for men and women. Dalian New World Department Store ("Dalian Store") built up its merchandise portfolio, principally from first-tier brands, supplemented by second-tier brands.

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

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

Central China

Capturing development opportunities in central China

Changes in modes of living, personal preferences and beliefs gave rise to changes in the consumer market. A tendency had developed among consumers for enjoyment on higher levels. As a result, many local and foreign retailers had been investing huge sums in cities in the region, unleashing immense potential for growth for the department store business.

Vibrancy and dynamism at new stores

In the period under review, the Group opened our self-owned Wuhan New World Department Store — Qiaokou Branch Store ("Wuhan Qiaokou Branch Store"), and added Changsha New World Trendy Plaza ("Changsha Trendy Plaza") to our portfolio of managed stores. Opened in September 2006, Wuhan Qiaokou Branch Store has a market positioning of mid- to high-end, with a high-end bias.

Merchandise on offer includes top international fashion brands, cosmetics, jewellery, watches, eyewear, fashion and sportswear, footwear for men and women, handbags, accessories, children's wear and household items. The store features an indoor shopping lane, which creates a stylish ambience evocative of continental Europe. Alive with dynamics of contemporary living, the store complex integrates shopping, dining and entertainment facilities into a centre of leisure and culture.

Also opened in September 2006 was Changsha Trendy Plaza. Located in the most prosperous district of Changsha, it enjoys convenience in transport. Positioning itself at the middle- to high-end of the market, it targets customers aged between 25 and 45. It has a total GFA of 35,000 sq m, with the basement floor devoted to fashionable, trendy goods, and each of the six floors above it housing a pavilion themed, respectively, on international premiums, ladies' fashion, ladies' elegance wear, menswear and accessories, sports and leisure, as well as colourful living. A full range of leisure and entertainment facilities and services is available to shoppers to add comfort and convenience to their shopping delight.

A confluence of local and foreign brands within multiple shops in a single city

During the period reported, our stores implemented well-planned marketing strategies, and further enhanced both market positioning and corporate image. All five stores had an apparel bias in terms of merchandise. Nonetheless, they all recorded growth in year-on-year sales in apparel-related and non-apparel merchandise categories such as cosmetics and watches.

Four of the stores — Wuhan New World Department Store ("Wuhan Store"), Wuhan New World Department Store —Wuchang Branch Store, Wuhan Qiaokou Branch Store and Changsha Trendy Plaza — position themselves as integrated department stores at the middle- to high-end of the market, and build their competitive niche on the concentration of international brands and a wealth of exclusive labels under one roof.

In addition, there was apparent development in direct-sales brands. We recorded excellent sales from Olympic Games concessionaires in all stores, as well as in the cosmetics category at Wuhan Store.

Capitalising on our multiple presences within a single city, our merchandising teams in central China joined hands in offering multiple vantage points to suppliers. In this way, we had bigger room in cultivating partnership with suppliers on the one hand while enabling, on the other, our suppliers to keep and increase market shares.

So, located though in different business districts, our three stores in Wuhan shared the same market positioning. With a high rate of overlapping in brands, we could satisfy our suppliers' need for growth and reinforce the operational niche of individual stores.

Eastern China

Leveraging advantages in eastern China

As the wealthiest economic region in Mainland China, eastern China has the highest rate of utilisation in terms of capital and resources. Rich in tourism resources, it is also the key region benefiting from the sixth escalation in railway speed commencing nationwide on 18 April 2007. With traveling time among major cities significantly shortened, new opportunities arise for further growth of the retail and tourism industries within the region.

New direction for new store

Opened in early September 2006 and located at Jiahe Road, Mingfa Mall in the Fushan commercial district, Xiamen New World Department Store ("Xiamen Store") has a GFA of about 20,000 sq m. The store has started with a mid- to high-end market positioning, on a fashion-and-accessories theme. The key customer groups targeted, aged 25-50 and mainly feminine, are mid-to high-income local residents and weekend "jetsetters" from the Fujian Golden Triangle.

The store fully leverages its geographic advantages and the excellence of the Group's vision and mission in its operations. By continually optimising merchandise mix, reinforcing and growing international brand portfolio through introduction of more non-apparel goods, it gradually adjusted its positioning bias from an apparel specialty store to an integrated department store.

Maximising efficacy with differentiated marketing strategies

Considering market demands for high-end products, Wuxi New World Department Store ("Wuxi Store") and the two Ningbo stores optimised merchandise mix with a view to raising brand profile. Certain merchandise sections at these stores were either renovated or re-designed to enhance the shopping environment and to raise overall profile as a department store.

In the period reported, sales of international brands, cosmetics and up market women's clothing reported marked growth at Wuxi Store, which operated in a local market dominated, in branding and in sales, by Korean brands.

Similarly, there was apparent growth in sales at Ningbo New World Department Store in international brands, jewellery, premium menswear, men's shoes, leather bags, up market ladies' wear and ladies' shoes. Ningbo Trendy Store expanded its accessories range and jewellery section.

Based on a review of operations after about a year in business, and a series of market research and survey, Xiamen Store optimised merchandise mix to include cosmetics, bedding, children's wear, sportswear and casual wear. Many renowned brands had already been introduced.

In the region the Group succeeded in implementing a business strategy that, targeting differentiated market segments, had effectively driven growth in total sales.

Northern China

Business opportunities abound in anticipation of 2008 Beijing Olympics

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

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

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

Renovated for trendsetting missions

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

Raising merchandise profile and improving shopping environment

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

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

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

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

Shanghai Municipality

A cosmopolitan city with all the blessings

Shanghai is one of the wealthiest contemporary cities in China. In the period under review, the national economy maintained steady growth while municipal finance improved. Local GDP sustained fast, double-digit growth for 15 years in a row. Thanks to a comprehensive social security policy, consumer prices kept climbing and relevant indices set new records one after another. Retail prices of social consumer goods surged to higher and higher levels, with percentage increases hitting new heights since 1998. Consumption through credit cards grew popular, gradually turning into a consumer habit.

The city encourages development of high value-added services. Modern businesses and enterprises quickened their paces of development, achieving spectacular results in infrastructure, finance, logistics, information services, tourism, as well as convention and exhibition. World Expo 2010 and other large-scale projects provided impetus to the steady rise in the percentage growth of investment in fixed assets in the city.

A flagship of the latest and best local and foreign brands

In the period under review, Shanghai-Hong Kong New World Department Store — Wujiaochang Branch Store ("Shanghai Wujiaochang Branch Store") opened in December 2006. The market positioning is middle-end, integrated departmental retailing with a bias on apparel and accessories. With an approximate GFA of 44,000 sq m, it is the largest integrated department store in Shanghai. On seven floors, we offer fashion for men and women, cosmetics, jewellery, accessories, furniture, leisure goods, children's wear, footwear, sportswear and sporting goods.

The Group set up its first flagship store inside Shanghai Wujiaochang Branch Store, offering an array of celebrated brands, local and foreign, in a spacious layout. Customers can enjoy rich choices in styles and designs, and a host of customer services specially introduced to deliver the perfect experience in shopping. The shop has designated different lounges or rest areas for customers, VIP guests, infants and children.

Becoming a retail magnet through innovative operations

In the period reported, the stores implemented various strategies to sustain business growth within the region and afford unique shopping experiences for customers. They had tried to increase GFA productivity by enlarging sales area, and to optimise merchandise mix through introduction of unique products.

Shanghai-Hong Kong New World Department Store — Huaihai Branch Store changed the mode of operation for its sportswear and sporting goods section, effectively raising sales commissions. Shanghai-Hong Kong New World Department Store — Xinning Branch Store closed down its supermarket to make way for a shift to bigger department store operations, resulting in a substantial increase in floor productivity. Shanghai-Hong Kong New World Department Store — Hongkou Branch Store expanded operations for one of its floors and, having completed all legal procedures and undergone renovation, re-opened for business in August 2007.

The Group introduced the Japanese retail concept of uniform pricing and Shanghai-Hong Kong New World Department Store — Qibao Branch Store and Shanghai Wujiaochang Branch Store became the first two outlets to offer "10-yuan uniform price" products. With over 3,000 items in a variety of product categories across the spectrum of daily necessities, both stores led the Shanghai market in terms of choice and quantity. Considering their wide, immediate popularity with consumers, the Group is planning to implement similar pricing strategies to other suitable outlets within the Shanghai region.

Southwestern China

Natural gifts backing rapid growth

During the period under review, southwestern China has been pursuing clear-cut directions in developing its major inland cities. The Central Government and Municipal Government were keen on attracting foreign investments to realise their supportive "Go West" policy for the development of the region. Major cities within the region gradually emerged from dependence on traditional industries and undergo transformation into modern cities with high value-added industries. Hi-tech industries such as information sciences and biopharmacy are flourishing as well.

Along with marked improvements in the living environment and the quality of life, the mode of consumption changes accordingly. There is huge, increasing demand for avant-garde, fashionable and high-end consumer goods.

Trends converging at new store

Chongqing New World Department Store ("Chonqing Store") entered the core business district of Jiangbei in September 2006, occupying a total GFA of about 42,000 sq m on six levels. Its key target customer groups are urban elites in the rising northern cities and the middle class. Its merchandise base comprises mainly international brands, fashion and accessories for men and women. Supplemented by household products, children's wear, food court, and related services and facilities, it all adds up to an urban, one-stop, integrated department store.

Opened in December 2006, Chengdu New World Department Store ("Chengdu Store") is located in Plaza Central, at the junction of the two commercial districts of Yan Shi Kou and Chunxi Road Shopping Lane. It has a total GFA of 29,500 sq m spreading over five levels. It positions itself at the middle section of the market, with its merchandise mix comprising well-established, trendy and youth-popular brands in apparel, leather goods, footwear for men and women, accessories, cosmetics, jewellery and watches. The store integrates shopping with leisure and dining facilities, including international fast-food chain store, Japanese and Korean eateries, Sichuan snack shop and western restaurants.

Infusing youthful dynamism to optimise merchandise mix

The Group operates three managed stores in southwestern China, namely Chongqing Store, Chengdu Store and Kunming Store. All benefit from prime location in bustling business districts and proximity to transport hubs and large-scale shopping centres, commercial walks, hotels, high-grade commercial buildings and leisure squares. All enjoy heavy pedestrian traffic.

In the period under review, all regional shops effectively carried out business re-orientation, emphasizing more carriage of renowned brands. Considering the market demand for youthful and trendy fashion, leisure goods and high-end consumer products, our stores had optimised merchandise mix to enhance overall sales.

Taking into account market demands and development tendencies, Chongqing Store further strengthened its competitive advantage in menswear, complementing it with a larger proportion of leisure products for men. Concurrently, it introduced fashionable ladies' wear. Together, these strategic moves greatly enhanced the attractiveness of the merchandise mix of the store. Sales in footwear, in particular, stood out in the Jiangbei business district.

Considering the characteristics of the business districts in the periphery, Chengdu Store stressed the development of special sales venues and expansion of the leisure section. Committed itself to introducing popular fashion brands for teenage girls and young ladies, with great success the store projected a youthful and fashionable image, resulting in a steady rise in both shopper traffic and total sales.

During the period under review, Kunming Store continued to expand its sales area and introduce more brands in ladies' shoes and jewellery. To raise store profile, it renovated and re-furnished the concessionaires in the jewellery section. To make shopping even more convenient for customers, it optimised merchandise mix for each sales floor.

STRATEGIES FOR FUTURE DEVELOPMENT

For over 10 years, the Group has been developing the department store business in China as we carry out our corporate mission of becoming the dominant department store operator in Mainland China. With reference to the latest consumption patterns and market trends in China, we have formulated a comprehensive, long-term development strategy.

Benefiting from prime locations in major cities

We exercise great care in qualifying potential sites for new stores. Targeting major cities that are populous and economically well developed, we look for prime locations in major business districts or residential areas with convenient transport facilities and heavy pedestrian traffic.

Four new stores, Shanghai Pujian Store, Liaoning Anshan Store, Wuhan Xudong Store and Beijing Liying Store, have been scheduled for grand opening, respectively, in September, October and December of 2007 and by the end of 2008, the Olympic year.

In addition, we are also planning to open more stores in cities with rich potential for department store business, such as Nanjing, Xi'an, Zhengzhou and Taiyuan.

Capturing acquisition and other opportunities to locate new stores

We will develop our business in the most cost-effective way, through acquisition of the current stores under our management, and other commercial properties and department stores that meet our requirements. We will also consider buying land from the government or real estate developers as well as taking ownership of commercial properties with large retail space on street level for construction of department stores according to our requirements.

In addition, we will consider operating on suitable leased properties. In such instances, whenever we negotiate for terms of lease, we strive to include provisions for the right to extend the lease agreement and the right of first refusal to acquire.

Adopting operative modes for greater efficiency, transparency and growth

To stand out from the increasingly competitive retail market, and to maintain our market advantage, we will adopt a series of operative modes and strategies that can enhance efficiency, transparency and growth in three business dimensions: concessionaire sales, direct sales and management consultancy services.

One such strategy is enriching the portfolio and merchandise mix for direct-sales products so that we can improve our profit structure and keep an edge on competitors in gross profit margin. Another way to better meet market demand and quickly lift sales is to optimise our direct-sales product portfolio by enlarging the relative proportion of the cosmetics category. Yet another strategy is to continue to reinforce relationship with loyal customers through further promotion and enrichment of the VIP card programme.

In short, by fast-tracking network expansion, keeping a dual focus on self-owned and managed stores, and optimising merchandise mix, we can increase the success rate for store transactions and the size per ticket of customer orders.

Grooming management for business expansion

In future, we will place greater emphasis on training up local middle-tier management personnel and formulating training plans for regional management teams, taking into account requirements for regional development. We believe that a whole new generation of experienced management talents will emerge from our training to spearhead our expansion and operation across all regions in Mainland China.

Utilising high-efficiency information management systems

During the year under review, our Group successfully developed a graphical analysis software programme, which could greatly enhance the capabilities of our headquarters in regional management and deployment. In future, we will continue to strengthen the performance of our computer network to bolster efficiency in data transfer between headquarters and branch stores, allowing headquarters staff to grasp the operational status of the stores in a faster, timelier manner.

We will also strengthen our financial management system to enhance management's abilities in financial management and control and in performing various financial analyses, including ROI assessments for new projects.

Besides, to better meet customer demands, we will effectively deploy corporate resources in enhancing analyses of VIP consumption patterns and visitor traffic at our stores.

Emphasising human resources training

We seek to continually upgrade staff quality by developing and offering training courses. These are classified into four categories, namely corporate culture, service delivery, daily operations and leadership. We have set up New World Department Store Management Academy and jointly offered specialised courses with Shanghai Jiao Tong University. We also organise overseas study trips and a variety of seminars on development strategies on a regular basis. With these, we have successfully broadened the outlook of our colleagues in mid- to senior-level management.

Fostering a corporate culture with tripartite attributes of vision-mission-core values, and based on a self-developed model of "New World Core Competencies", we can effectively undertake career planning for our key executives.

FINANCIAL REVIEW

Revenue

Revenue of the Group surged to HK$982.2 million in FY2007 representing an increase of 31.0% from HK$749.9 million in FY2006. The growth primarily resulted from strong performance of all sources of revenue including commission income from concessionaire sales, sales of goods for direct sales and management consultancy fees, which increased by 22.7%, 34.5% and 139.6% respectively from last year.

Gross sales revenue, comprising gross revenue from concessionaire sales and sales of goods for direct sales, increased by 24.7% to HK$3,693.5 million in FY2007 from 2,962.2 million for last year. Despite the disposal of three department stores in current year, gross sales revenue showed an increase primarily because of firstly, strong SSS growth of approximately 16.5% for stores having operations for more than three years, secondly, the gross sales revenue contribution of recognizing a full year's operations of certain stores opened in last year and thirdly, the gross sales revenue contribution of certain new stores opened in current year under review. Commission income rate was 21.2% in FY2007 which was slightly below the rate of 21.5% for last year. In FY2007, ladieswear and accessories made up approximately 57.5% of gross sales revenue. Menswear and accessories made up approximately 31.5% and kidswear, sportswear, watches, gifts and stationery largely made up the rest of gross sales revenue.

Management consultancy fees increased by 139.6% to HK$106.4 million in FY2007, primarily as a result of the opening of certain new managed stores including Changsha Trendy Plaza, Chengdu Store, Chongqing Store, Shanghai Wujiaochang Branch Store, Beijing Trendy Store. Dalian Store, Kumming Store and Ningbo Trendy Store, which became managed stores in FY2007, also contributed to the growth of management consultancy fees.

Other income

Other income of the Group was HK$97.1 million in FY2007 representing an increase of 18.7% or HK$15.3 million from HK$81.8 million for last year, primarily as a result of an increase in rental income of HK$7.8 million or 13.7% and an increase in interest income on bank deposits of HK$6.0 million or 103.5%. Both the increases in rental income and interest income were on the back of strong retail market in Mainland China and operational performance of the Group.

Purchases of and changes in inventories

The purchases of and changes in inventories represent the cost of sales for direct sales of goods. In line with the increase of direct sales of goods, the purchases of and changes in inventories increased by 31.2% to HK$85.3 million in FY2007 from HK$65.0 million for last year. As a percentage to direct sales of goods, gross profit margin increased by 1.8% to 26.8% in FY2007 from 25.0% for last year, primarily due to the strategy of promoting merchandise mix to higher margin products.

Employee benefit expense

Employee benefit expense increased by 14.4% from HK$128.8 million in FY2006 to HK$147.4 million in FY2007. This increase was primarily due to increase in wages and salaries and other employment benefits as a result of recognising a full year's operations of certain stores opened in last year and new stores openings in current year under review. Employee benefit expense as a percentage to revenue decreased by 2.2% in FY2007 primarily due to improved operating efficiency.

Depreciation and amortisation

Depreciation and amortisation expense increased by 19.8% from HK$81.4 million in FY2006 to HK$97.5 million in FY2007. 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 last year and new stores openings in current year under review. Depreciation and amortisation expense as a percentage to revenue decreased by 1.0% in FY2007 primarily due to strong performance of revenue.

Operating lease rental expense

Operating lease rental expense increased by 14.1% from HK$234.7 million in FY2006 to HK$267.7 million in FY2007, primarily due to the effect of recognising a full year's operations of certain stores opened in last year and new stores openings in current year under review. Operating lease rental expense as a percentage to revenue decreased by 4.0% in FY2007 mainly as a result of operating leverage of the expense.

Other operating expenses

Other operating expenses increased by 23.8% from HK$149.8 million in FY2006 to HK$185.5 million in FY2007. This increase was primarily due to a HK$13.7 million increase in water and electricity expenses relating primarily to the newly opened stores and the effect of recognising a full year's operations of certain stores in current year, a HK$6.4 million increase in promotion, advertising and related expenses. Other operating expenses as a percentage to revenue decreased by 1.1% in FY2007.

Gain on disposal of subsidiaries

Gain on disposal of subsidiaries of HK$58.0 million was primarily a result of the HK$31.9 million gain on disposal of Dalian Store on 1 July 2006 and the remaining HK$26.1 million gain on disposal of subsidiaries mainly represented the gain on disposal of Kunming Store and Ningbo Trendy Store to Solar Leader Limited, a related company of the Group, on 1 January 2007.

Operating profit

Operating profit, including gain on disposal of subsidiaries, as a percentage to revenue increased by 13.1% to 36.0% in FY2007. Operating profit, excluding gain on disposal of subsidiaries, as a percentage to revenue increased by 7.2% to 30.1% in FY2007, primarily as a result of strong growth of revenue and lower expenses percentages of revenue.

Finance income

Finance income decreased by HK$8.5 million primarily due to decreased net foreign exchange translation gains. This decrease in translation gains is primarily attributable to accounting treatment of the HK$-denominated amount due to New World Development Company Limited ("NWD"). Pursuant to an agreement reached with NWD on 28 December 2006, an amount of HK$397.7 million was capitalised during FY2007.

Income tax expense

Income tax expense increased by 115.8% from HK$24.7 million in FY2006 to HK$53.3 million in FY2007, primarily as a result of increase in profit before income tax of 95.0% or HK$173.5 million to HK$356.1 million for the same year. Income tax expense as a percentage to profit before income tax in FY2007 was 15.0% which was slightly above 13.5% for last year.

Profit for the year

As a result of the reasons mentioned above, profit for the year increased by 91.8% to HK$302.8 million in FY2007 from HK$157.9 million in FY2006. Net profit margin excluding gain on disposal of subsidiaries increased to 24.9% in FY2007 from 21.1% for last year.

Liquidity and financial resources

Cash and cash equivalents of the Group increased by HK$478.8 million to HK$967.5 million as at 30 June 2007 (30 June 2006: HK$488.7 million). This increase was primarily as a result of net cash generated from operating activities which was mitigated by the effect of cash outflow due to leasehold improvements of stores.

The Group had no borrowings as at 30 June 2007. The balance of HK$397.7 million due to NWD as at 30 June 2006 was capitalised pursuant to an agreement on 28 December 2006.

The capital expenditure and capital commitments of the Group as at 30 June 2007 were HK$105.2 million, of which HK$5.4 million were contracted but not provided for in the balance sheet.

The operating lease commitments of the Group as at 30 June 2007 were HK$3,861.9 million, of which HK$2,742.6 million were payable after five years.

Pledge of assets

Assets of the Group were not pledged as at 30 June 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 30 June 2007.

Guarantee

The Group provided guarantees in favour of certain landlords in respect of lease rental and property management obligations of certain tenants, who were independent third parties, of some of our managed stores. All such issued guarantees were released prior to March 2007.

Disposal of subsidiaries

On 1 July 2006, the Group disposed of 100% interest in Dalian Store to independent third parties for RMB1. On 1 January 2007, the Group disposed of 100% interests in Kunming Store and Ningbo Trendy Store to Solar Leader Limited, a related company of the Group, for an aggregate consideration of RMB2. Pursuant to management consultancy agreements entered into between the Group and these three stores, the Group continued to manage them and receive management consultancy fees.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2007, total number of employees for the Group was approximately 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.

No option has been granted since the date of adoption of the employee share option scheme by the Company on 12 June 2007.

USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The Company was just listed on the Stock Exchange on 12 July 2007. The net proceeds from the Company's issue of new shares (after deducting the underwriting commission and estimated expenses payable by the Group in relation to the listing of the Company on the Main Board of the Stock Exchange after the exercise of the over-allotment option in full), which are intended to be applied in accordance with the proposed applications set out in the section headed "Future plans and use of proceeds" contained in the prospectus of the Company dated 28 June 2007.

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 shares during the year ended 30 June 2007.

CODE ON CORPORATE GOVERNANCE PRACTICES

As the Company was just listed on the Stock Exchange on 12 July 2007 (the "Listing Date"), the Company was not required to comply with the provisions as set out in the Code on Corporate Governance Practices (the "Corporate Governance Code") contained in Appendix 14 to the Rules of Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") for the year ended 30 June 2007. Nevertheless, the Company has adopted the code provisions set out in the Corporate Governance Code and has applied the principles of, and has complied with, all the applicable code provisions set out in the Corporate Governance Code since the Listing Date.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all directors, all directors confirmed that they have complied with the required standard set out in the Model Code since the Listing Date.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year ended 30 June 2007, the Company was not listed and did not have any connected transactions which were subject to the requirements of the Listing Rules. Nevertheless, the Company has complied with the relevant requirements under Chapter 14A of the Listing Rules since the Listing Date.

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 12 June 2007 with written terms of reference in compliance with the Corporate Governance Code.

The Committee comprises the four independent non-executive directors of the Company, namely Mr. CHEONG Ying-chew, Henry, Mr. CHAN Yiu-tong, Ivan, Mr. TONG Hang-chan, Peter and Mr. YU Chun-fai, Henry.

The Committee has reviewed the consolidated financial statements for the year ended 30 June 2007.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 22 November 2007 to 26 November 2007, both days inclusive, during which period no transfer of shares will be registered. In order to determine the identity of the shareholders who are entitled to attend the Company's forthcoming annual general meeting to be held on 26 November 2007, all transfers of shares accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on 21 November 2007.

For and on behalf of the Board
Dr. CHENG Kar-shun, Henry
Chairman and
Non-executive Director

Hong Kong, 10 October, 2007

As at the date of this announcement, the non-executive directors of the Company are Dr. CHENG Kar-shun, Henry and Mr. AU Tak-cheong, the executive directors are Mr. CHEUNG Fai-yet, Philip, Mr. LIN Tsai-tan, David, Mr. WONG Kwok-kan, Kenneth, Mr. CHENG Chi-kong, Adrian and Ms. NGAN Man-ying, Lynda and the independent non-executive directors are Mr. CHEONG Ying-chew, Henry, Mr CHAN Yiu-tong, Ivan, Mr. TONG Hang-chan, Peter and Mr. YU Chun-fai, Henry.