

Report of the Directors

The Board is pleased to present the first annual report of the Company together with the audited consolidated financial statements of the Group for the year ended 30 June 2007.

GROUP REORGANISATION AND PUBLIC LISTING

The Company was incorporated with limited liability in the Cayman Islands on 25 January 2007. Pursuant to the group reorganisation to rationalise the structure of the Group in the preparation for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 7 June 2007.

Details of group reorganisation during the year are set out in note 1 to the consolidated financial statements of the Group. The shares of the Company was listed on Stock Exchange on 12 July 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of the Group are engaged in department store operation in Mainland China. The activities of its subsidiaries are set out in note 1 to the consolidated financial statements of the Group.

RESULTS

The results of the Group for the year ended 30 June 2007 are set out in the consolidated income statement of the Group on page 98.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment during the year are set out in note 13 to the consolidated financial statements of the Group.

DIVIDENDS

The Directors do not recommend the payment of dividend for the year ended 30 June 2007.

SHARE CAPITAL

Details of the movements in share capital during the year are set out in note 19 to the consolidated financial statements of the Group.

RESERVES

Details of the movements in reserves during the year are set out in note 20 to the consolidated financial statements of the Group.

As at 30 June 2007, the distributable reserve of the Company amounted to approximately HK\$820,385,000.



FINANCIAL SUMMARY

Financial summary for the years of 2004 to 2007 are set out on page 146.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to HK\$171,000.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands.

DIRECTORS

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

Non-executive Directors

Dr. CHENG Kar-shun, Henry	(appointed on 12 June 2007)
Mr. AU Tak-cheong	(appointed on 12 June 2007)

Executive Directors

Mr. CHENG Chi-kong, Adrian	(appointed on 12 June 2007)
Mr. CHEUNG Fai-yet, Philip	(appointed on 12 June 2007)
Mr. LIN Tsai-tan, David	(appointed on 12 June 2007)
Mr. WONG Kwok-kan, Kenneth	(appointed on 25 January 2007)
Ms. NGAN Man-ying, Lynda	(appointed on 25 January 2007)

Independent Non-executive Directors

Mr. CHEONG Ying-chew, Henry	(appointed on 12 June 2007)
Mr. CHAN Yiu-tong, Ivan	(appointed on 12 June 2007)
Mr. TONG Hang-chan, Peter	(appointed on 12 June 2007)
Mr. YU Chun-fai, Henry	(appointed on 12 June 2007)

In accordance with Article 86(3) of the Company's articles of association, Dr CHENG Kar-shun, Henry, Messrs AU Tak-cheong, CHENG Chi-kong, Adrian, CHEUNG Fai-yet, Philip, LIN Tsai-tan, David, CHEONG Ying-chew, Henry, CHAN Yiu-tong, Ivan, TONG Hang-chan, Peter and YU Chun-fai, Henry will retire at the forthcoming annual general meeting and being eligible, offer themselves for re-election.

Report of the Directors

DIRECTORS (continued)

In accordance with Article 87(1) of the Company's articles of association, Mr. WONG Kwok-kan, Kenneth will retire by rotation at the forthcoming annual general meeting and being eligible, offer himself for re-election.

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 12 June 2007 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

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.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than as disclosed under the "Continuing Connected Transactions" section below, no contracts of significance to which the Company, its holding company, subsidiaries or fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year ended 30 June 2007 or at any time during the year ended 30 June 2007.

COMPETING BUSINESS INTERESTS OF DIRECTORS

New World Development Company Limited (NWD, and together with its subsidiaries, the "NWD Group") owns four department stores in the PRC and one department store in Hong Kong. These 5 excluded department stores are Beijing New World Shopping Mall ("Beijing Shopping Mall"), Kunming New World Department Store ("Kunming Store"), Ningbo New World Trendy Department Store ("Ningbo Trendy Store"), Wuhan New World Department Store ("Wuhan Store") and Hong Kong New World Department Store ("Hong Kong Store") (together the "Excluded Stores") managed by the Group.



COMPETING BUSINESS INTERESTS OF DIRECTORS (continued)

Chow Tai Fook Enterprises Limited, a substantial shareholder of NWD, which is our controlling shareholder, has an interest in Lifestyle International Holdings Limited ("Lifestyle"). Dr CHENG Kar-shun, Henry, the chairman of the Company and a non-executive Director, is also a non-executive Director of Lifestyle and, apart from that, none of the Directors has any interest in Lifestyle nor is a director of Lifestyle.

As at the date of this report, save as disclosed above, none of the Directors and Directors of the Company's subsidiaries, or their respective associates had interests in businesses, other than being a director of the Company and/or its subsidiaries and their respective associates, which compete or are likely to compete, either directly or indirectly, with the businesses of the Company and its subsidiaries as required to be disclosed pursuant to the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

Following the announcement of listing and dealings of the shares of the Company on the Listing Date, the transactions set forth below constituted connected transactions of the Company under Chapter 14A of the Listing Rules. Details of these transactions are set out below.

i. Master Management Agreement

As NWD is a connected person of the Company under the Listing Rules, transactions between the Company and members of NWD Group constitute connected transactions of the Company under the Listing Rules.

On 22 June 2007, the Company and NWD entered into the master management agreement (the "Master Management Agreement") pursuant to which the Company agreed to provide management services to the NWD Group in accordance with the respective terms of the relevant agreement (the "Operational Agreement") entered into between members of NWD Group and members of the Group. The terms of the Operational Agreement(s) for Wuhan Store and Beijing Shopping Mall are 45 years and 10.5 years, respectively, whilst those for each of Kunming Store, Ningbo Trendy Store and Hong Kong Store are three years and extendable for another three years at the option of the Company. Services provided under the Master Management Agreement include consultancy and financial advice, marketing, human resources management and licences to use the computer software and trademarks of the Group for the Excluded Stores.

Report of the Directors

CONTINUING CONNECTED TRANSACTIONS (continued)

ii. Master Leasing Agreement

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

iii. Concessionaire counter arrangements

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

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

The transactions contemplated under the Master Management Agreement, Master Leasing Agreement and the Concessionaire Counter Arrangements (collectively the "Continuing Connected Transactions") constitute continuing connected transactions of the Company following the listing of the shares of the Company on the Listing Date. Nevertheless, a waiver from strict compliance with the announcement and independent shareholders' approval requirements under Rules 14A.47 and 14A.48 to 14A.54 of the Listing Rules was granted by the Stock Exchange prior to the Listing Date.

The Company only became listed on the Stock Exchange on 12 July 2007 and had no transactions which constituted connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules for the year ended 30 June 2007. The Company has taken action to ensure compliance with the relevant requirements under Chapter 14A of the Listing Rules since the Listing Date.



MANAGEMENT CONTRACTS

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

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

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

DISCLOSURE OF INTERESTS AND SHORT POSITIONS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2007, the Company had not received any notice of interest to be recorded under Section 352 of the Securities and Futures Ordinance ("SFO") as the shares had not been listed on the Stock Exchange as at that date.

So far as the Directors are aware, as at the date of this report, taking into account the shares which has been allotted and issued upon the exercise of the over-allotment option, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of SFO (including interests and short positions which they are taken or deemed to have under such provisions of SFO) upon the listing of shares, or which are required, pursuant to section 352 of SFO, to be entered in the register referred to therein once the shares are listed, or which will be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange once the shares are listed, are as follows:

(a) Long positions in the shares of the Company and its associated corporations

Name of corporation and name of its relevant shareholder	Number of shares/amount of registered capital			Total	Percentage to the relevant issued/ registered capital as the date of this report
	Beneficial owner	Interest of child under 18 or spouse	Interest of a controlled corporation		
New World Department Store China Limited					
Mr. CHENG Chi-kong, Adrian	—	—	920,000 (Note 1)	920,000	0.05
Mr. CHEUNG Fai-yet, Philip	660,000	—	—	660,000	0.04

Report of the Directors

DISCLOSURE OF INTERESTS AND SHORT POSITIONS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (continued)

(a) Long positions in the shares of the Company and its associated corporations (continued)

Name of corporation and name of its relevant shareholder	Number of shares/amount of registered capital			Total	Percentage to the relevant issued/ registered capital as the date of this report
	Beneficial owner	Interest of child under 18 or spouse	Interest of a controlled corporation		
Mega Choice Holdings Limited					
Dr. CHENG Kar-shun, Henry	—	—	3,710 (Note 2)	3,710	34.61
New World China Land Limited					
Dr. CHENG Kar-shun, Henry	12,500,000		52,271,200 (Note 3)	64,771,200	1.69
Mr. CHENG Chi-kong, Adrian	110,400	—	650,000 (Note 1)	760,400	0.02
Ms. NGAN Man-ying, Lynda	100,000	—	—	100,000	0.00
New World Development Company Limited					
Dr. CHENG Kar-shun, Henry	—	300,000	—	300,000	0.01
NWS Holdings Limited					
Dr. CHENG Kar-shun, Henry	9,179,199	587,000	8,000,000 (Note 3)	17,766,199	0.88

Note:

1. These shares are beneficially owned by a company wholly-owned by Mr. CHENG Chi-kong, Adrian.
2. These shares are beneficially owned by companies which are wholly-owned by Dr. CHENG Kar-shun, Henry.
3. These shares are beneficially owned by a company wholly-owned by Dr. CHENG Kar-shun, Henry.



DISCLOSURE OF INTERESTS AND SHORT POSITIONS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (continued)

(b) Long positions in the underlying shares of the Company and its associated corporations

(i) New World China Land Limited

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

Name	Date of grant	Exercisable period	Number of share options			Balance as at the date of this report	Exercise price per share HK\$
			Balance as at 1 July 2006	Granted during the period	Exercised during the period		
Ms. NGAN Man-ying, Lynda	14 July 2005	15 August 2006 to 14 August 2007	100,000	—	100,000	—	2.300
Mr. CHENG Chi-kong, Adrian	25 July 2006	26 August 2006 to 25 August 2011 (Note)	—	552,400	110,400	442,000	2.865

Note: (i) The share options are exercisable within five years commencing one month after the dates 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. These share options represent personal interests held by the relevant directors in a capacity as beneficial owners.

(ii) The closing price per share immediately before 25 July 2006, the date of grant, was HK\$2.84.

(iii) The cash consideration paid by Mr. CHENG Chi-kong, Adrian for the grant of the share options is HK\$10.0.

Report of the Directors

DISCLOSURE OF INTERESTS AND SHORT POSITIONS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (continued)

(b) Long positions in the underlying shares of the Company and its associated corporations (continued)

(ii) New World Development Company Limited

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

Name	Date of grant	Exercisable period	Number of share options			Balance as at the date of this report	Exercise price per share HK\$
			Balance as at 1 July 2006	Granted during the period	Exercised during the period		
Dr. CHENG Kar-shun, Henry	19 March 2007	19 March 2007 to 18 March 2012	—	36,500,000	—	36,500,000	17.756
Mr. CHENG Chi-kong, Adrian	19 March 2007	19 March 2007 to 18 March 2012 (Note)	—	500,000	—	500,000	17.756
Mr. AU Tak-cheong	19 March 2007	19 March 2007 to 18 March 2012 (Note)	—	1,200,000	—	1,200,000	17.756

Note: The share options were divided into 5 tranches exercisable from 19 March 2007, 19 March 2008, 19 March 2009, 19 March 2010 and 18 March 2011, respectively, to 18 March 2012. These share options represent personal interests held by the relevant Directors in a capacity as beneficial owners.



DISCLOSURE OF INTERESTS AND SHORT POSITIONS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (continued)

(b) Long positions in the underlying shares of the Company and its associated corporations (continued)

(iii) NWS Holdings Limited

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

Name	Date of grant	Exercisable period	Number of share options			Balance as at the date of this report	Exercise price per share
			Balance as at 1 July 2006	Granted during the period	Exercised during the period		
Dr. CHENG Kar-shun, Henry	21 August 2007	21 August 2008 to 20 August 2012	—	3,000,000	—	3,000,000	16.2

Note: The share options were divided into 4 tranches exercisable from 21 August 2008, 21 August 2009, 21 August 2010 and 21 August 2011, respectively, to 20 August 2012. These share options represent personal interests held by the relevant Directors in a capacity as beneficial owners.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at the date of this report, the following persons (not being Directors) have an interest or a short position in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Company:

Name	Long/ Short Position	Capacity	Number of shares	Percentage of shareholding (direct or indirect)
Cheng Yu Tung Family (Holdings) Limited ("CYTFH") (Note 1)	Long	Interest of a controlled corporation	1,218,900,000	72.29%
Centennial Success Limited ("Centennial") (Note 2)	Long	Interest of a controlled corporation	1,218,900,000	72.29%
Chow Tai Fook Enterprises Limited ("CTF")(Note 3)	Long	Interest of a controlled corporation	1,218,900,000	72.29%
NWD	Long	Beneficial owner	1,218,900,000	72.29%

Notes:

- 1 CYTFH holds 51% direct interest in Centennial and is accordingly deemed to have an interest in the shares deemed to be interested by Centennial.
- 2 Centennial holds 100% direct interest in CTF and is accordingly deemed to have an interest in the shares interested by or deemed to be interested by CTF.
- 3 CTF together with its subsidiaries hold an aggregate of approximately 36.53% interest in NWD and is accordingly deemed to have an interest in the shares interested by NWD.

Save as disclosed herein, the Directors are not aware of any person (who are not Directors) who, as at the date of this report, have an interest or a short position in shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.



SHARE OPTION SCHEME

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 participant (as explained hereinafter) to subscribe for the shares, subject to the passing of an ordinary resolution approving the Scheme by the shareholders of NWD Company Limited at a general meeting.

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

Purpose of the Scheme	The purpose of the Scheme is to attract and retain the best available personnel and to provide additional incentives to employees, directors, consultants, business associates and advisers of the Company to promote the success of the Group.
Participants of the Scheme	The Directors may offer any employee (whether full-time or part-time), Director, consultant, business associate or adviser of the Company and its subsidiaries options to subscribe for shares at a price calculated in accordance with the terms of the Scheme.
Total number of shares available for issue under the Scheme and percentage of issued share capital as at the date of this annual report	<p>The Company had not granted any options under the Scheme up to the date of this report.</p> <p>The total number of shares available for issue under the Scheme is 162,520,500 representing approximately 10.0% of the Company’s issued share capital as at the date on which the shares are listed on the Stock Exchange.</p>
Maximum entitlement of each participant under the Scheme	Unless approved by shareholders of the Company in the manner as set out in the Scheme, the total number of shares issued and to be issued upon exercise of the options granted to each eligible person (including both exercised, cancelled and outstanding options) in any 12-month period must not exceed 1.0% of the relevant class of securities of the Company in issue.
The period within which the shares must be taken up under an option	A period to commence not less than one year and not to exceed 10 years from the date of grant of options.

Report of the Directors

The minimum period for which an option must be held before it can be exercised	Not less than one year upon the grant of options by the Directors.
The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be paid	The amount payable for the acceptance of an option shall be the sum of \$1.0 which shall be paid upon acceptance of the offer of such option. An offer of an option must be made by the Company in writing on a business day and accepted in writing by the participant in such manner as the board of directors of the Company may prescribe within 21 calendar days (from and including the date of the offer by the Company) of the same being made and if not so accepted such offer shall lapse.
The basis of determining the exercise price	The exercise price shall be determined by the Directors, being the higher of: (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of option; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of option; or (c) the nominal value of a share.
The remaining life of the Scheme	The Scheme shall be valid and effective for a period not to exceed 10 years from the date of adoption, i.e. 12 June 2007.

EMPLOYEES, REMUNERATION POLICY AND PENSION SCHEME

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.

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.

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.

SUFFICIENCY OF PUBLIC FLOAT

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, less than 30% of the Group's revenue were attributed by the Group's five largest customers and 41.9% of the Group's total purchases were attributed by the Group's five largest direct sales suppliers and 18.9% of the Group's total purchases were attributed by the Group's largest supplier. To the knowledge of the Directors, none of the Directors or shareholders who owned 5% or more of the issued share capital of the Company as at 30 June 2007 or any of their respective associates held any interest in any of the five largest suppliers of the Group.

POST BALANCE SHEET EVENTS

Details of the post balance sheet events are set out in note 30 to the consolidated financial statements of the Group.

AUDITORS

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

A resolution to re-appoint PricewaterhouseCoopers as auditors of the Company will be submitted at the forthcoming annual general meeting.

For and on behalf of the Board

CHENG Kar-shun, Henry

Chairman and Non-executive Director

Hong Kong, 10 October 2007