Notes to the Financial Statements

1 GENERAL INFORMATION AND GROUP REORGANISATION

1.1 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 Century Yard, 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 Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 July 2007 (Note 30).

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 ("NWDSH") 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. and Yunnan New World Department Store Co., Ltd. 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.

The following is a reconciliation of the effect arising from the common control combination on the consolidated balance sheet.

1 GENERAL INFORMATION AND GROUP REORGANISATION (continued)

1.2 Group reorganisation (continued)

The consolidated balance sheet as at 30 June 2007:

	The Company HK$'000	The NWDSH Group HK$'000	Adjustments (Note 1) HK$'000	Consolidated HK$'000
Investments in NWDSH and its subsidiaries ("NWDSH Group")	**880,500**	**—**	**(880,500)**	**—**
Other (liabilities)/assets — net	**(54,020)**	**911,249**	**—**	**857,229**
Net assets	**826,480**	**911,249**	**(880,500)**	**857,229**
Share capital	**6,095**	**—**	**—**	**6,095**
Capital reserve	**—**	**397,683**	**(60,115)**	**337,568**
Contributed surplus	**820,385**	**—**	**(820,385)**	**—**
Statutory reserve	**—**	**11,360**	**—**	**11,360**
Retained earnings	**—**	**484,526**	**—**	**484,526**
Exchange reserve	**—**	**17,680**	**—**	**17,680**
	826,480	**911,249**	**(880,500)**	**857,229**

Note:

(1) The above adjustments represent: (i) the elimination of investment cost of the Company in its subsidiaries against the contributed surplus which is reclassified into the component of reserves of the NWDSH Group on consolidation; and (ii) the reduction of capital reserve by the nominal value of share capital issued by the Company to acquire the subsidiaries comprising the Group amounting to HK$6,095,000.

1 GENERAL INFORMATION AND GROUP REORGANISATION (continued)

1.2 Group reorganisation (continued)

The consolidated balance sheet as at 30 June 2006:

	The NWDSH Group HK$'000	Adjustments (Note) HK$'000	Consolidated HK$'000
Other assets	188,449	—	188,449
Net assets	188,449	—	188,449
Share capital	—	6,095	6,095
Capital reserve	—	(6,095)	(6,095)
Retained earnings	193,121	—	193,121
Exchange reserve	(4,672)	—	(4,672)
	188,449	—	188,449

Note: The above adjustment represents the reduction of capital reserve by the nominal value of share capital issued by the Company to acquire the subsidiaries comprising the Group amounting to HK$6,095,000 which is deemed to have been in issue throughout the accounting periods presented in the financial statements.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) New standards, amendments and interpretations have been published and are effective in 2007

- 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.

- 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.

- HK(IFRIC)-Int 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.

- 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.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) Standards, amendments and interpretations to published standards which are not yet effective

Certain new standards amendments and interpretations to published standards that are mandatory for annual periods beginning on or after 1 January 2007 or later periods but which the Group has not yet adopted, are as follows:

Effective for the 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

Effective for the year ending 30 June 2009

HK(IFRIC)-Int 12	Services 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 the interpretation

Effective for the year ending 30 June 2010

HKFRS 8	Operating segments
HKAS 23 (Revised)	Borrowing costs

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Merger accounting for common control combination

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognised as an expense in the period in which it is incurred.

2.3 Subsidiaries

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Subsidiaries (continued)

Apart from the Reorganisation referred to in Note 1.2 above which had been accounted for by regarding the Company as being the holding company of the subsidiaries from the beginning of the earliest period presented, or since the date when the combining companies first came under the control of the Group, where there is a shorter period, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides an evidence of an impairment of the asset transferred.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

2.4 Segment reporting

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment

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

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

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

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

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

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

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.6 Land use rights

All land in Mainland China is state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the right to use certain land. The premiums paid for such right are treated as prepayment for operating lease and recorded as land use rights, which are amortised over the lease periods using the straight-line method.

2.7 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount of the assets and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2.8 Impairment of non-financial assets

Non-financial assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Non-financial assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Inventories

Inventories comprise finished goods and are stated at the lower of cost and net realisable value. Cost, calculated on the first in first out basis, comprises purchases at invoiced value from suppliers. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.10 Operating leases

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

2.11 Deferred income tax

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

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

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

2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks.

2.13 Provisions

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.13 Provisions (continued)

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

2.14 Employee benefits

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

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

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

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

2.15 Revenue recognition

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.15 Revenue recognition (continued)

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

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

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

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

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

2.16 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities including the Company are measured using Renminbi, the currency of the primary economic environment in which the entities operate ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, the Company's presentation currency, which follows the presentation currency of New World Development Company Limited ("NWD"), the ultimate holding company.

(ii) Transactions and balances

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.16 Foreign currency translation (continued)

(iii) Group companies

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

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

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

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

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale.

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

2.17 Government grants

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.18 Dividend distribution

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

2.19 Share capital

Ordinary shares are classified as equity.

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks, including foreign exchange risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign exchange risk

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.

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

The Group has no significant concentrations of credit risk and debtors represent mainly credit card receivables from individual owned stores. It has policies that limit the amount of credit exposures to managed stores and fellow subsidiaries. The Group has no significant bad debt history in collection of bank deposits, trade and other receivables with third parties and related companies.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through cash flow from operating activities and efficient working capital management.

3.2 Fair value estimation

The nominal value less estimated credit adjustments of receivables and payables are a reasonable approximation of their fair values.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Useful lives of property, plant and equipment

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(b) Net realisable value of inventories

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

5 REVENUE AND SEGMENT INFORMATION

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

	2007 **HK$'000**	2006 HK$'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

5 REVENUE AND SEGMENT INFORMATION (continued)

The income from concessionaire sales is analysed as follows:

	2007 HK$'000	2006 HK$'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.

6 OTHER INCOME

	2007 HK$'000	2006 HK$'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

7 OTHER OPERATING EXPENSES

	2007 HK$'000	2006 HK$'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

8 FINANCE INCOME

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

9 EMPLOYEE BENEFIT EXPENSE

	2007 HK$'000	2006 HK$'000
Wages and salaries	**101,630**	89,684
Retirement benefit costs		
— defined contribution plans	**10,783**	10,375
Other employment benefits	**34,980**	28,774
	147,393	128,833

9 EMPLOYEE BENEFIT EXPENSE (continued)

(a) Directors' and senior management's emoluments

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

Name of Director	Fees HK$'000	Salary, allowances and benefits in kind HK$'000	Retirement benefit costs -defined contribution plans HK$'000	Bonus HK$'000	Total HK$'000
Non-executive Directors					
Dr. CHENG Kar-shun, Henry	—	—	—	—	—
Mr. AU Tak-cheong	—	—	—	—	—
Executive Directors					
Mr. CHENG Chi-kong, Adrian	—	—	—	—	—
Mr. CHEUNG Fai-yet, Philip (Note i)	—	—	—	—	—
Mr. LIN Tsai-tan, David	—	1,374	93	564	2,031
Mr. WONG Kwok-kan, Kenneth	—	969	94	163	1,226
Ms. NGAN Man-ying, Lynda	—	—	—	—	—
Independent Non-executive Directors					
Mr. CHEONG Ying-chew, Henry	—	—	—	—	—
Mr. CHAN Yiu-tong, Ivan	—	—	—	—	—
Mr. TONG Hang-chan, Peter	—	—	—	—	—
Mr. YU Chun-fai, Henry	—	—	—	—	—
	—	2,343	187	727	3,257

9 EMPLOYEE BENEFIT EXPENSE (continued)

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

Note:

(i) Mr. CHEUNG Fai-yet, Philip, a Director of the Company received emoluments of approximately HK$3,826,000 (2006: HK$3,283,000) from NWD, the ultimate holding company, for the year ended 30 June 2007, part of which is in respect of his services to the Group. No apportionment has been made as the Director considers that it is impracticable to apportion this amount between his service to the Group and his service to NWD.

No emoluments were paid or payable to the Directors of the Company during the year ended 30 June 2006.

No Director waived or agreed to waive any emoluments during the year (2006: Nil). No incentive payment for joining the Group or compensation for loss of office was paid or payable to any Directors during the year (2006: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group includes one Director for the year (2006: None). The emoluments payable to the remaining four (2006: five) individuals during the year are as follows:

	2007 HK$'000	2006 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**4,305**	5,330
Retirement benefit costs — defined contribution plans	**362**	368
Bonus	**978**	—
	5,645	5,698

The emoluments fell within the following bands:

	Number of individuals	
	2007	2006
Emolument bands		
Under HK$1,000,000	**—**	1
HK$1,000,001–HK$1,500,000	**4**	4
	4	5

10 INCOME TAX EXPENSE

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

	2007 **HK$'000**	2006 HK$'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 (Note 21)	**(10,630)**	(7,724)
	53,332	24,686

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% (2006: 17.5%) on the estimated assessable profit for the year.

Mainland China enterprise income tax ("EIT") or foreign enterprise income tax ("FEIT") is provided on the basis of the profit for statutory financial reporting purpose, adjusted for income and expense items, which are not assessable or deductible for EIT or FEIT purpose. 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 the following companies are entitled to the following preferential tax treatment.

Name	**Tax treatment**	**For the year starting**
Shanghai New World Liying Department Store Co., Ltd.	Full tax exemption for one year	1 January 2006
Shanghai New World Qianzi Department Store Co., Ltd.	Full tax exemption for one year	1 January 2004
Shanghai New World Caixuan Department Store Co., Ltd.	Full tax exemption for one year	1 January 2005

10 INCOME TAX EXPENSE (continued)

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

	2007 HK$'000	2006 HK$'000
Profit before income tax	**356,097**	182,624
Tax calculated at applicable tax rate	**112,934**	57,527
Expenses not deductible for taxation purpose	**24,376**	21,974
Income not subject to taxation	**(51,367)**	(32,622)
Effect of income charged on deemed basis	**(46,880)**	(23,941)
Deferred income tax not recognised	**18,058**	7,653
Utilisation of previously unrecognised tax losses	**(4,235)**	—
Effect of changes in tax rate (Note)	**743**	—
Over provision in prior years	**(297)**	(5,905)
Income tax expense	**53,332**	24,686

	2007	2006
Weighted average domestic applicable tax rates	**32%**	32%

Note: On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law (the new "CIT Law") of the People's Republic 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, resulting in a deferred tax charge of approximately HK$743,000 reported in the current year.

11 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 as detailed in Note 1.2.

	2007	2006
Profit attributable to 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.

12 DIVIDEND

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

13 PROPERTY, PLANT AND EQUIPMENT

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

13 PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Leasehold improve-ments HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Computer HK$'000	Assets under construction HK$'000	Total HK$'000
Cost									
At 1 July 2005	97,701	14,230	1,144	505,218	10,689	6,490	49,589	73	685,134
Translation differences	843	178	34	14,054	297	154	1,362	2	16,924
Additions	—	31,985	186	163,409	885	621	9,473	—	206,559
Reclassification	—	4,516	(5)	432	(5,122)	249	5	(75)	—
Disposals	(1,346)	(2,362)	—	(2,180)	(2,059)	(688)	(8,066)	—	(16,701)
At 30 June 2006	97,198	48,547	1,359	680,933	4,690	6,826	52,363	—	891,916
Accumulated depreciation									
At 1 July 2005	14,954	11,405	506	188,874	5,273	4,777	28,555	—	254,324
Translation differences	85	142	17	5,250	142	120	815	—	6,571
Charge for the year	3,187	6,238	226	56,969	990	607	8,653	—	76,870
Reclassification	—	2,021	(2)	154	(2,195)	23	(1)	—	—
Written back on disposals	(255)	(1,823)	—	(1,452)	(1,764)	(685)	(7,994)	—	(13,973)
At 30 June 2006	17,971	17,983	747	249,795	2,446	4,842	30,008	—	323,792
Net book amount									
At 30 June 2006	79,227	30,564	612	431,138	2,244	1,984	22,355	—	568,124

14 LAND USE RIGHTS

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

	2007 HK$'000	2006 HK$'000
Opening net book amount	**170,566**	173,773
Amortisation	**(4,574)**	(4,523)
Translation differences	**2,457**	1,316
Closing net book amount	**168,449**	170,566

	2007 HK$'000	2006 HK$'000
In Mainland China held on:		
Leases of land use rights between 10 to 50 years	**168,449**	170,566

15 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2007 HK$'000	2006 HK$'000
Prepaid rent and rental deposits	**60,526**	94,196
Value-added tax recoverable	**56,753**	52,567
Prepaid construction fee	**1,450**	158,582
Management fee receivables	**46,559**	—
Others	**22,679**	35,828
	187,967	341,173
Less: long-term prepaid rent and rental deposits	**(43,989)**	(49,579)
	143,978	291,594

The balances are mainly denominated in Renminbi. The carrying amounts of deposits approximate their fair values and due within 2 to 24 years from 30 June 2007.

16 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.

17 AMOUNTS DUE FROM/(TO) FELLOW SUBSIDIARIES AND ULTIMATE HOLDING COMPANY

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

18 CASH AND CASH EQUIVALENTS

	2007 HK$'000	2006 HK$'000
Short-term bank deposits	**171,568**	36,115
Cash at bank and in hand	**795,966**	452,615
	967,534	488,730

18 CASH AND CASH EQUIVALENTS (continued)

Cash and cash equivalents are denominated in the following currencies:

	2007 HK$'000	2006 HK$'000
Renminbi	**707,843**	345,541
Hong Kong dollars	**259,655**	141,514
US dollars	**36**	1,675
	967,534	488,730

The weighted average effective interest rate on short-term bank deposits, with average maturities of 21 (2006: 9) days were 2.1% (2006: 2.3%) per annum as at 30 June 2007, respectively.

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

19 SHARE CAPITAL

Movements were:

	Note	2007 Number of shares '000	 Nominal value HK$'000
Authorised:			
Ordinary shares of HK$0.1 each upon incorporation	(i)	**3,800**	380
Increase in authorised share capital	(ii)	**9,996,200**	999,620
		10,000,000	1,000,000
Issued and fully paid:			
Ordinary shares of HK$0.1 each allotted and issued	(i)	**—**	—
New shares issued	(ii)	**60,946**	6,095
Ordinary shares of HK$0.1 each		**60,946**	6,095

19 SHARE CAPITAL (continued)

Notes:

(i) On 25 January 2007 (date of incorporation), the authorised share capital of the Company was HK$380,000 divided into 3,800,000 shares of HK$0.1 each. 1 ordinary share of HK$0.1 each was allotted and issued as fully paid.

(ii) Pursuant to an ordinary resolution of the Company passed on 7 June 2007,

— the authorised share capital of the Company was increased from HK$380,000 to HK$1,000,000,000 by the creation of an additional 9,996,200,000 ordinary shares; and

— 60,945,999 ordinary shares of the Company were allotted and issued, credited as fully paid at par value of HK$0.1 each as consideration of and in exchange of the entired issued share capital of NWDSH in connection with the Reorganisation (Note 1.2).

(iii) On 12 June 2007, the Company has adopted a share option scheme whereby its participants may be granted options to subscribe for shares in the Company of the discretion of the Board of Directors.

20 RESERVES

(a) Group

As mentioned in Note 1.2, the consolidated financial statements have been prepared as if the current group structure had been in existence throughout the years. Reserves during the years represent the consolidated equities of the companies comprising the Group after elimination of inter-company transactions and balances.

	Capital reserve HK$'000	Statutory reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 July 2005	(6,095)	—	290	35,183	29,378
Profit for the year	—	—	—	157,938	157,938
Translation differences	—	—	(4,962)	—	(4,962)
At 30 June 2006	**(6,095)**	**—**	**(4,672)**	**193,121**	**182,354**
Profit for the year	**—**	**—**	**—**	**302,765**	**302,765**
Capitalisation of shareholder's loan (Note i)	**397,683**	**—**	**—**	**—**	**397,683**
Share issuance costs	**(54,020)**	**—**	**—**	**—**	**(54,020)**
Translation differences	**—**	**—**	**22,352**	**—**	**22,352**
Transfer to statutory reserve (Note ii)	**—**	**11,360**	**—**	**(11,360)**	**—**
At 30 June 2007	**337,568**	**11,360**	**17,680**	**484,526**	**851,134**

20 RESERVES (continued)

(a) Group (continued)

Notes:

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

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

(b) Company

	Contributed surplus HK$'000
At 1 July 2005 and 30 June 2006	**—**
Effect of Reorganisation (Note iii)	**874,405**
Share issuance costs	**(54,020)**
At 30 June 2007	**820,385**

Note:

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

21 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	2007 **HK$'000**	2006 HK$'000
Deferred tax assets	**24,658**	20,850
Deferred tax liabilities	**(10,577)**	(17,784)
	14,081	3,066

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

	2007 **HK$'000**	2006 HK$'000
At 1 July	**3,066**	(4,582)
Translation differences	**385**	(76)
Credited to the consolidated income statement (Note 10)	**10,630**	7,724
At 30 June	**14,081**	3,066

21 DEFERRED INCOME TAX (continued)

The movement in deferred tax assets and liabilities during the years without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets:

	Tax losses HK$'000	Accrued expenses HK$'000	Pre-operating expenses HK$'000	Tax depreciation HK$'000	Total HK$'000
At 1 July 2005	7,511	20,943	456	1,766	30,676
Translation differences	202	634	14	83	933
Recognised in the consolidated income statement	(2,336)	2,909	83	4,279	4,935
At 30 June 2006	**5,377**	**24,486**	**553**	**6,128**	**36,544**
Translation differences	**406**	**1,441**	**19**	**323**	**2,189**
Recognised in the consolidated income statement	**5,457**	**4,980**	**(537)**	**(590)**	**9,310**
At 30 June 2007	**11,240**	**30,907**	**35**	**5,861**	**48,043**

Deferred tax liabilities:

	Tax depreciation HK$'000	Others HK$'000	Total HK$'000
At 1 July 2005	32,409	2,849	35,258
Translation differences	922	87	1,009
Recognised in the consolidated income statement	(3,360)	571	(2,789)
At 30 June 2006	**29,971**	**3,507**	**33,478**
Translation differences	**1,647**	**157**	**1,804**
Recognised in the consolidated income statement	**402**	**(1,722)**	**(1,320)**
At 30 June 2007	**32,020**	**1,942**	**33,962**

Deferred income tax assets are recognised for tax losses carry forwards to the extent that the realisation of the related benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of approximately HK$9,650,000 (2006: HK$30,923,000) in respect of accumulated losses amounting to HK$38,598,000 (2006: HK$93,707,000), that can be carried forward against future taxable profit with expiry date of five years.

22 CREDITORS AND ACCRUALS

	Group	
	2007	2006
	HK$'000	HK$'000
Creditors	**663,858**	569,595
Accruals	**448,935**	356,758
Less: long-term rental accruals	**(163,229)**	(120,258)
	949,564	806,095

Nature of accruals is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Rental accruals	**178,215**	122,674
Deposits from concessionaire suppliers	**75,894**	71,884
Payables for capital expenditure	**9,401**	28,393
Payables for staff costs	**30,991**	39,985
Valued-added taxes and other taxes payables	**20,152**	25,491
Utilities payables	**9,534**	7,551
Advance from customers	**17,801**	2,824
Share issuance cost accruals	**40,726**	—
Other payables (Note i)	**66,221**	57,956
	448,935	356,758

Note:

(i) Other payables include payables for professional parties, advertising and promotion expenses, provision for loyalty programmes and certain other items.

22 CREDITORS AND ACCRUALS (continued)

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

Included in creditors was a trading amount due to a related company of HK$12,643,000 (2006: HK$10,471,000) which was unsecured, interest free and repayable on demand.

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

Nature of accruals is as follows:

	Company
	2007
	HK$'000
Share issuance cost accruals	**40,726**

The carrying amounts of accruals approximate their fair value.

23 SUBSIDIARY

	Company
	2007
	HK$'000
Unlisted shares, at cost	**880,500**
Amount due to a subsidiary	**13,294**

23 SUBSIDIARY (continued)

Amount due to a subsidiary is unsecured, interest free and repayable on demand. The carrying amount of amount due to a subsidiary approximates its fair value.

Particulars of the principal subsidiaries of the Group are detailed in Note 29.

24 AMOUNT DUE TO A RELATED COMPANY

The amount due to a related company is unsecured, interest free and repayable on demand. The carrying amount of the amount due to the related company approximates its fair value.

25 COMMITMENTS

(a) Capital commitments

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

	2007 **HK$'000**	2006 HK$'000
Contracted but not provided for	**5,427**	—
Authorised but not contracted for	**—**	4,281
	5,427	4,281

(b) Operating lease commitments

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

	2007 **HK$'000**	2006 HK$'000
Within one year	**233,459**	260,192
In the second to fifth year	**885,885**	1,290,734
After the fifth year	**2,742,578**	4,734,883
	3,861,922	6,285,809

25 COMMITMENTS (continued)

(b) Operating lease commitments (continued)

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

	2007 **HK$'000**	2006 HK$'000
Within one year	**36,200**	25,739
In the second to fifth year	**84,036**	41,947
After the fifth year	**40,982**	11,288
	161,218	78,974

26 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. Pursuant to the terms of the guarantees, upon default of these obligations by the tenants, the Group was responsible to perform these obligations for the unexpired terms of the relevant leases. All such issued guarantees were released prior to March 2007.

27 CONSOLIDATED CASH FLOW STATEMENTS

(a) Disposal of subsidiaries

Details of the net liabilities disposed of are as follows:

Net liabilities disposed of:

	2007 HK$'000	2006 HK$'000
Property, plant and equipment	36,529	—
Inventories at net realisable value	1,637	—
Debtors	1,421	—
Prepayments, deposits and other receivables	52,630	—
Cash and cash equivalents	53,451	—
Creditors and accruals	(98,388)	—
Tax payable	(69)	—
Amounts due to fellow subsidiaries	(105,195)	—
	(57,984)	—
Less: Gain on disposal of subsidiaries	57,984	—
Cash consideration	—	—
Analysis of net cash flow from disposal of subsidiaries		
Cash consideration received	—	—
Cash and cash equivalents disposed of	(53,451)	—
Net cash outflow from disposal of subsidiaries	(53,451)	—

27 CONSOLIDATED CASH FLOW STATEMENTS (continued)

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

	2007 HK$'000	2006 HK$'000
Net book amount	**261**	2,728
Loss on disposal of property, plant and equipment	**(113)**	(1,278)
Proceeds from disposal of property, plant and equipment	**148**	1,450

(c) Analysis of changes in financing during the year

Amount due to ultimate holding company

	2007 HK$'000	2006 HK$'000
At beginning of the year	**397,683**	397,672
Capitalisation of shareholder's loan (Note)	**(397,683)**	—
Cash inflow	**—**	11
At end of the year	**—**	397,683

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

28 RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

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

	Note	**2007 HK$'000**	2006 HK$'000
Fellow subsidiaries			
Management fee income	(i)	**68,528**	43,345
Revenue from sales of goods	(ii)	**11,227**	—
Rental expenses	(iii)	**78,965**	61,361
Building management expenses	(iv)	**7,960**	8,605
Purchase of leasehold improvements	(v)	**22,144**	34,596
Related companies			
Commission income from concessionaire sales	(vi)	**10,082**	5,592
Rental expenses	(iii)	**24,872**	23,358

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 respective tenancy agreements and reported in accordance with accounting policy of operating leases as disclosed in Note 2.10.

(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 Enterprises Limited. The commissions are mainly calculated by pre-determined percentages of gross sales value in accordance with respective agreements.

28 RELATED PARTY TRANSACTIONS (continued)

(b) Key management compensation

	2007 HK$'000	2006 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**6,291**	5,661
Bonus	**1,385**	—
Retirement benefit costs — defined contribution plans	**542**	428
	8,218	6,089

29 PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company, all of which are private limited liability companies, at the date of the report are as follows:

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

29 PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment	Principal activities and place of operation	Issued and fully paid up share capital/ registered capital	Percentage of equity interests held directly	Percentage of equity interests held indirectly
Shanghai New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB18,000,000	—	100
Shanghai New World Trendy Plaza Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB16,000,000	—	100
Shenyang New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB30,000,000	—	100
Tianjin New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	US$5,000,000	—	100
Wuxi New World Department Store Ltd.	Mainland China	Department store operation/ Mainland China	US$5,000,000	—	100
Tianjin New World Trendy Plaza Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB30,000,000	—	100
New World Department Stores Investment (China) Co., Ltd.	Mainland China	Investment holding company/ Mainland China	US$30,000,000	—	100
Ningbo Firm Success Consulting Development Co., Ltd.	Mainland China	Investment holding and provision of consultancy services/ Mainland China	US$5,000,000	—	100

30 POST BALANCE SHEET EVENTS

(a) On 12 July 2007, the Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing"). 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.

(b) On the same day, 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 NWD, the shareholder of the Company in proportion to NWD shareholdings, by the capitalisation of HK$115,795,400 from the share premium account.

(c) On 2 August 2007, the Company issued 60,945,000 ordinary shares of HK$0.1 each at HK$5.8 per share under an over-allotment arrangement in connection with the Listing, and raised gross proceeds of approximately HK$353,481,000.

31 ULTIMATE HOLDING COMPANY

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