

Management Discussion & Analysis

FINANCIAL REVIEW

Revenue

Revenue of the Group was HK\$1,872.9 million in FY2010 representing an increase of 8.8% from HK\$1,721.2 million in FY2009. The growth was primarily contributed from commission from concessionaire sales, sales of goods for direct sales and rental income.

Gross sales revenue, comprising gross revenue from concessionaire sales and sales of goods for direct sales, increased by 9.3% to HK\$6,554.1 million in FY2010 from HK\$5,994.5 million in FY2009. The increase was due to firstly, the increase in sales of goods for direct sales of 45.2% to HK\$397.4 million in the Current Year from HK\$273.6 million in the Previous Year. Direct sales turnover was mainly comprised of cosmetic products (approximately 38.0%), ladieswear and menswear (approximately 27.5%), groceries, housewares and perishables (approximately 14.5%), accessories, handbags and underwears (approximately 10.4%). Gross margin of direct sales in the Current Year achieved 25.5% compared to 23.5% of the Previous Year; secondly, the increase in gross revenue from concessionaire sales to HK\$6,156.7 million in the Current Year from HK\$5,720.9 million in the Previous Year. Commission income rate was 19.4% compared with 20.3% in the Previous Year. In FY2010, ladieswear and accessories made up approximately 57.3% of gross sales revenue. Menswear and accessories made up approximately 26.7% and kidswear, sportswear, watches, gifts and stationery largely made up the rest of gross sales revenue.

Management fees was HK\$154.2 million in FY2010 showing a decrease from HK\$184.4 million in FY2009. The decrease was primarily due to the conversion of Kunming Store and Ningbo Trendy Store from managed stores to self-owned stores in March and April 2009 respectively and there was no contribution to the management fee in the Current Year as compared with the management fee for approximately nine months in FY2009. Moreover, Shanghai Pujian Branch Store was converted from managed store to self-owned store in January 2010 and there was only management fee for approximately six months in the Current Year as compared with the management fee for full period in the Previous Year.

Rental income increased by 24.2% to HK\$124.2 million in FY2010 mainly due to increased leasing area from firstly, the opening of new self-owned Shanghai Baoshan Branch Store, Shanghai Chengshan Branch Store and Beijing Shishang Store

in the Current Year and secondly, the conversion of Shanghai Pujian Branch Store to self-owned store in the Current Year and thirdly, recognising a full year operation of certain stores opened and acquired in the Previous Year.

Other income

Other income of the Group was HK\$72.7 million in FY2010 and primarily comprised interest income on bank deposits for HK\$37.6 million in the Current Year compared with HK\$76.7 million in the Previous Year. The decrease was due to low deposit interest rates prevailing in the Current Year.

Other gains, net

Other gains of the Group was HK\$166.0 million in the Current Year compared with HK\$61.8 million in the Previous Year. Other gains in the Current Year included HK\$167.6 million gain before deduction of related income tax expense on disposal of land use right and a property at which Shenyang Taiyuan Street Branch Store was situated. Related income tax expense was HK\$69.3 million including land appreciation tax expense of HK\$35.9 million and corporate income tax expense of HK\$33.4 million which were classified into income tax expense mentioned below. Net gain after deduction of related income tax expense on disposal of land use right and the property was HK\$98.3 million.

Purchases of and changes in inventories

The purchases of and changes in inventories represented the cost of sales for direct sales of goods. It increased by 41.5% to HK\$296.2 million in FY2010 from HK\$209.3 million for FY2009. The percentage of increase was in line with the increase in sales of goods for direct sales. Gross margin of direct sales in the Current Year was 25.5% compared with 23.5% for the Previous Year.

Employee benefit expense

Employee benefit expense decreased to HK\$239.6 million in FY2010 from HK\$253.0 million in FY2009. The improvement was primarily due to the decrease of employee share option expenses to HK\$9.4 million in the Current Year from HK\$18.5 million in the same period of Previous Year, the decrease in employee benefit expense as a result of disposal of Xiamen New World Department Store in May 2009 and the continuous efforts by management to carry



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out cost control measures in the Current Year. However, the improvement was partially offset by the increase in employee benefit expenses as a result of recognising a full year's operation of Wuhan Hanyang Branch Store opened in November 2008, the conversion of Kunming Store, Ningbo Trendy Store and Shanghai Pujian Branch Store from managed stores to self-owned stores in March, April 2009 and January 2010 respectively, and the opening of new self-owned Shanghai Baoshan Branch Store, Shanghai Chengshan Branch Store and Beijing Shishang Store in January, April and May 2010 respectively.

Depreciation and amortisation

Depreciation and amortisation expense increased to HK\$199.0 million in FY2010 from HK\$170.6 million in FY2009. The increase was primarily due to additional depreciation and amortisation as a result of the capital expenditure for expansion of Harbin Store. The recognition of a full year's operation of Wuhan Hanyang Branch Store opened in November 2008, the conversion of Kunming Store, Ningbo Trendy Store and Shanghai Pujian Branch Store from managed stores to self-owned stores in March, April 2009 and January 2010 respectively and newly opened Shanghai Baoshan Branch Store, Shanghai Chengshan Branch Store and Beijing Shishang Store also contributed to the increase of depreciation and amortisation in the Current Year.

Operating lease rental expense

Operating lease rental expense increased to HK\$362.3 million in FY2010 from HK\$325.1 million in FY2009, primarily due to the effect of recognising a full year's operation of Wuhan Hanyang Branch Store opened in November 2008, the conversion of Kunming Store and Ningbo Trendy Store and Shanghai Pujian Branch Store from managed stores to self-owned stores in March, April 2009 and January 2010 respectively and newly opened Shanghai Baoshan Branch Store, Shanghai Chengshan Branch Store and Beijing Shishang Store in the Current Year. Operating lease rental expense as a percentage of revenue was 19.3% in the Current Year slightly above 18.9% in the Previous Year.

Other operating expenses, net

Other operating expenses decreased from HK\$243.0 million in FY2009 to HK\$203.0 million in FY2010 mainly due to firstly, a write-back of

provision of HK\$5.3 million, primarily in relation to the provision of HK\$24.0 million made in FY2009 for the recovery of receivables on stored value card; secondly, effective control of advertising, promotion expenses and other operating expenses by management in the Current Year. However, the decreases were partially offset by the increase in expenses due to the recognition of a full year's operation of Wuhan Hanyang Branch Store opened in November 2008, the conversion of Kunming Store, Ningbo Trendy Store and Shanghai Pujian Branch Store from managed stores to self-owned stores in March and April 2009 and January 2010 respectively, and newly opened Shanghai Baoshan Branch Store, Shanghai Chengshan Branch Store and Beijing Shishang Store in the Current Year.

Operating profit

Operating profit was HK\$811.5 million in FY2010 compared with HK\$695.0 million of FY2009. Operating profit as a percentage of revenue was 43.3% compared with 40.4% of FY2009.

Share of results of an associated company

In FY2009, the Group had entered into an agreement with a third party to establish Taizhou New World Department Store Co., Ltd. ("Taizhou Co") and contributed RMB2.0 million or 25% of the equity interest of Taizhou Co. The share of results of an associated company of HK\$0.2 million in the Current Year represents the Group's share of the loss of Taizhou Co in the Current Year.

Income tax expense

Income tax expense increased to HK\$233.7 million in FY2010 from HK\$145.7 million in FY2009. Income tax expense in the Current Year included related income tax expense on disposal of land use right and a property at which Shenyang Taiyuan Street Branch Store was situated. Related income tax expense was HK\$69.3 million including land appreciation tax expense of HK\$35.9 million and corporate income tax expense of HK\$33.4 million.

Excluding the gain of HK\$167.6 million on disposal of land use right and a property at which Shenyang Taiyuan Street Branch Store was situated in the Current Year and its related income tax expense of HK\$69.3 million, effective income tax rate in the Current Year was 25.5% compared with 21.0% in the Previous Year.

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Profit for the Year

As a result of the reasons mentioned above, profit for the Current Year was HK\$577.6 million compared with HK\$547.3 million for the Previous Year.

Liquidity and financial resources

Cash and fixed deposits of the Group amounted to HK\$3,596.7 million as at 30 June 2010 (30 June 2009: HK\$2,923.5 million). The financial resources are sufficient for the operation and development of the Group.

The Group had no borrowings as at 30 June 2010.

The capital commitment of the Group as at 30 June 2010 were HK\$249.5 million, of which HK\$248.7 million were contracted but not provided for in the statement of financial position. For the contractual payment of HK\$248.7 million, approximately HK\$130.4 million to acquire a building, land use right and right of use of carpark located in Shenyang City, and approximately HK\$108.1 million for the acquisition of 100% the equity interest in Broad Park Limited ("Broad Park") and its outstanding shareholder's loan from Solar Leader Limited ("Solar Leader"), a fellow subsidiary of the Company. Broad Park is a company incorporated in Hong Kong and a wholly-owned subsidiary of Solar Leader.

Pledge of assets

Assets of the Group were not pledged as at 30 June 2010.

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 2010.

OUTLOOK

Domestic consumption has walked out of global economic slump since the second half of 2009, and is back on track now. According to National Statistics Bureau of China, total retail sales of consumer goods and per capita disposable income of urban residents also increased in the first half of 2010. In December 2009, the Central Economic Working Conference delivered the State's major concerns and guidelines to stimulate economic growth through the policy of "To Stabilize Development, To Adjust Structures and To Prevent Inflation". Among them, "To Adjust Structures" brings opportunities for the development of Chinese consumption market. Retail industry will be greatly enhanced as well. The Chinese retail industry has already seen the silver lining after financial crisis, hence, we are cautiously optimistic about the development of the industry. We will formulate our long-term and comprehensive development strategies timely in response to the domestic consumption conditions and trends, as well as in line with our rebranding program launched in June 2009.

STRATEGIES FOR FUTURE DEVELOPMENT

For 17 years since our founding, the Group has never ceased pursuing the corporate mission of becoming one of the dominant department store operators in the PRC. After the rebranding program was launched in June 2009, the Group abandons the conventional store positioning by "Class Basis" and initiates "Fashion style" & "Living Style" concept in the retail industry by categorizing the stores into one-stop shopping department store and themed department store, namely "Living Gallery" and "Fashion Gallery" respectively, creating the brand new concept of "Enriching Lives • Enhancing Character". The rebranding program was first launched in Shenyang and has then been carrying out in different cities in an orderly schedule, targeting for completion in 2012.

To echo with the implementation of the rebranding program, the Group hosted the 11-month contest of "The 1st NWDS Spokesperson" since July 2009. A male and a female were selected as spokesperson from 21,000 applicants to represent the innovative and ever-energetic New World Department Store. The whole rebranding program including the subsequent contest of "The 1st NWDS Spokesperson" has won 600 media coverage,



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whereas the contest has attracted 4 million online and in-store votes, bringing the new image of New World Department Store to the public successfully.

OPERATIONAL STRATEGY

In the course of rebranding program, the Group has built a benign corporate culture and structure through brand-new corporate values internally; while externally renovating the image of all stores, striving to create an unprecedented shopping environment with “Enriching Lives • Enhancing Character”. The rebranding program reforms merchandise mix, optimizes VIP services and enhances staff quality as well as revamping store interior decoration and shopping ambience, in order to meet discerning customers’ needs for a quality living.

Reform Merchandise Mix

Merchandise mix is the key to stand out from the furious competitive department store market in China. To complement our rebranding endeavors, we keep reforming our merchandise mix according to different markets, creating customized quality shopping environment for our customers.

Abandon the old and initiate the new by introducing “Fashion Gallery” and “Living Gallery”

The Group took the lead to introduce “Fashion Style” and “Living Style” as the core positioning of our stores. All stores are therefore categorized into “Fashion Gallery” and “Living Gallery” coupled with the optimization of merchandise mix and complementary services in line with the positioning.

“Fashion Gallery” is a “Themed Department Store” selling fashion and accessories with its focus on “Trendy” and “Character”. It emphasizes “Mix & Match” element with exclusive brands and designer brands introduced, striving to become the “Trendy” landmark in the cities. In the year under review, the Group opened a “Fashion Gallery”, Beijing Shishang Store, in Beijing, targeting female customers. In order to seek resonance from white-collar elites, Beijing Shishang Store makes a breakthrough to hire all male frontline salesperson to provide attentive services and shopping advices for female customers from male perspectives. Moreover, the largest and comprehensive indoor pet flagship store is set up specially for female

pet lovers. The store also adopts an innovative composite operation mode which combines bookstore and coffee shop to create a unique book bar for vogue enthusiasts. All of these break new ground in the industry, bringing unprecedented shopping experience to customers. With a theme of “Fashion Brand Outlet”, Shanghai Changning Branch Store takes good care of customers who look for high quality goods with lower price. It maintains its competitive edge within the corresponding business circle by selling ladies’ wear, sporting goods and shoes in discount prices. Shenyang Nanjing Street Branch Store is positioned as “Fashion Brand Gallery”, focusing on selling not only international renowned brands, but also popular fashion brands and exclusive designer brands.

“Living Gallery” is a “One-stop Shopping Department Store” that targets people of all ages and both genders, catering for their needs in terms of “Clothing”, “Dining”, “Living”, “Travelling” and “Entertainment”. In the year under review, the Group opened 2 brand new “Living Gallery” in Shanghai, namely Shanghai Baoshan Branch Store and Shanghai Chengshan Branch Store. With gross floor area of approximately 40,000 sq.m. of each store, around 20%-30% of the store area is reserved for complimentary facilities, providing supermarket, children’s playground, education centre, spa & beauty centre, laundry and shoe repair services, etc.. Beijing Store also has an ice-skating rink, whilst the complex where Beijing Qianzi Store which was opened in September 2010 located boasts an international cinema, meeting families’ needs as well as extending the time they spend in store.

In addition to setting up “Fashion Gallery” and “Living Gallery”, we also renovate the existing stores. Shenyang Nanjing Street Branch Store and Shenyang Zhonghua Road Branch Store are positioned as “Fashion Gallery” and “Living Gallery” respectively, their same store sales growth improved significantly after completion of the rebranding program in March 2010.

Re-structure Floors to Increase Customer Traffic

Further to the new shopping experience brought by “Living Gallery” and “Fashion Gallery”, the Group sets up multi-purpose Event Hall on the top level of some stores as “Brand Outlet Floors”, where a variety of out-seasoned products of fashionable brands are offered at attractive prices. In the year under review, sport outlet and household product outlet were set up in Shanghai Chengshan Branch

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Store; while Beijing Liying Store opened cashmere outlet and men's casual wear outlet. Beddings discount corner and household product discount corner in Shanghai Qibao Branch Store mainly provided household items, forming a differentiated operation mode with the themed outlet located on 6th floor, driving customer flow by attractive prices and further improving the sales performances. In addition, "Living Gallery" provided complimentary facilities such as food and beverage, fitness centre, spa and beauty centre, bank, education centre and laundry, extending consumers' spending time in store.

In future, the Group will continue to set up multi-purpose Event Hall in certain stores in which themed promotions will be staged with topics changed regularly. Apart from increasing customer traffic, the Event Hall can successfully attract customers to top floors and create the top-down customer flow diversion effect, evening out the traffic to areas on different floors. Moreover, we will build different themed discount area on different floors, further increasing customer traffic.

Breakthrough Tight Market Competition by Deploying the Symbol of "N-only" and Exclusive Brand Strategy

Striving to achieve a differentiated business operation mode from competitors as well as demonstrating the concept of Mix & Match and personal character, starting from April 2010, the symbol of "N-only" was introduced to enable customers to differentiate the exclusive brands of New World Department Store easily. Brands and products sold on the counters with the symbol of "N-only" indicate that they are monopolies of New World Department Store within the located district. We hope customers can be able to "Mix & Match" with our exclusive brands, dressing in their personal style so as to deliver a unique individual image. This strategy is expected to draw in customers on a regular basis effectively. Besides increasing customer traffic, it also helps strengthen customer loyalty. We will continue to introduce more quality products, exclusive brands and designer brands to boost competitiveness.

Recombine Merchandise Mix and Introduce Killer Category

Rebranding program emphasizes enhancing the competitive edges by flexibly adjusting merchandise mix and defining killer product categories. In the year under review, many

stores have participated in weeding out the least popular categories and introduced pillar brands in market, as well as optimizing and recombining key categories. For instance, stores including Taizhou Store, Chengdu Store, Chongqing Store, Wuhan Xudong Branch Store, Ningbo Trendy Store, Nanjing Store, Shanghai Qibao Branch Store identified women's shoes as their key category. They drew customers' attentions by promotion the concept of "Want Shoes? Go to New World" in line with the enlargement of women's shoes portfolio, striving to create the largest women's shoes outlet in their respective business districts.

In future, the Group will keep adjusting the merchandise mix according to the ever-changing market in order to strengthen our competitive edges.

Increase Proportion of Direct-sales Goods to Raise Gross Profit

The Group endeavors to enlarge the proportion of direct-sales goods, for instance, many stores are equipped with direct-sales "one price shop" selling commodities from kitchenware to stationary suppliers while Changsha Trendy Plaza has expanded its direct-sales counter, *Home of New World*, selling household products and beddings. Based on operational requirements, the direct-sales operations are organized in a three-tier structure of headquarters, region and store. The mode of product sourcing is determined according to the nature of individual products to afford greater flexibility, ensuring sufficient and stable supply to raise gross profit margin and optimize profit structure.

Secure Close Relations with Concessionaires and Suppliers

The Group endeavors to maintain cooperative relationships with concessionaires and suppliers in order to provide excellent quality products to customers. We will stick to our heritage to identify new partners among quality suppliers with good market potential while maintaining sound partnership with existing suppliers so as to gain support from them. By the business communication platform of "New World Net", the Group will keep on promoting sound, long-term relationship with suppliers and partners, achieving a win-win scenario. In addition, we will co-host various promotional activities and programs, as well as providing suppliers with latest market information and government policies so as to assist them with selling.



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Optimize VIP Services and Enhance Staff Quality

Tying in with our new mission of “To create a modern, metropolitan lifestyle with creativity, foresight and efficiency in China”, the Group puts lots of efforts in providing sincere VIP services that help boost members’ senses of belonging and esteem externally; while internally enhancing staff training to provide the best services to customers.

Enhance VIP Services to Expand Customer Base and Reinforce Customer Loyalty

To complement the corporate rebranding, the Group launched three VIP clubs during the year reported. Targeted young females, “Smart Lady Club” offers joint programs with well-known cosmetic brands, such as makeup classroom and beauty salon as well as providing bride services, wedding gift advices, seasonal fashion and grooming tips, fashion trend advices and Mix & Match seminars; Targeted mothers, “Perfect House Wife Club” invites mommies and babies into regular parental activities like English class and baby crawling games, as well as seasonal travel talks, cooking and housekeeping courses, festival delicacies introductions and home décor talks; “Platinum VIP Club” benefits platinum VIPs with privileged programs like wine-tasting party, private guided shopping, 12% off discount. The Group is committed to offering customized activities and endearing services to VIPs of different backgrounds, strengthening the loyalty and senses of privilege of club members. With only one year ever since these VIP clubs were launched, the number of our VIP club was over 400,000 whereas club activities also successfully attracted more new VIP members, the total number of VIP members therefore increased to 1.88 million in the Current Year from 1.65 million in the Previous Year.

Under the year of review, the Group has created brand new deluxe VIP lounge with internet access service and massage chair facility provided in new stores. We will continue to renovate the existing Customer Service Centres, VIP lounges and washrooms to upgrade the pleasant shopping experience for customers.

To expand the VIP base, New World Department Store, together with the subsidiaries of New World Group including New World China Land, New World Hotel and our brother company, Chow Tai Fook, present joint VIP membership, which allows sharing of VIP privileges among multiple parties. Meanwhile, we will further our collaboration with

Bank of Communications in the development of co-branded card to enrich our customer base.

Nurture Talents to Lay a Robust Foundation

The Group values employees as the most precious assets. Following the new philosophy of “nurturing talents with respect, care and trust”, we strive to nurture talents who, in turn, lay a robust foundation for future business development.

Our experienced and insightful management team is capable of initiating forward-looking and competitive development strategies according to market changes. Apart from keeping abreast of local market situations, the team has also partaken in a business field trip to Japan in the Current Year to visit renowned Isetan and Mitsukoshi department stores, fostering exchange of insights into operational opportunities and challenges of department stores in the two countries. By exchanging experiences, excellent talent management and entrepreneurship were able to be maintained.

In line with the rebranding program, the group has invited a renowned Japanese designer to conduct a visual merchandising and display design course through which our staff can acquire general design skills. The course was followed by a visual merchandising contest where staff across all stores could showcase their talents and demonstrate what they have learnt by decorating individual stores and their windows according to different themes. Besides, training courses and programs are offered including Intern Management Training Plan, Post Shifting Plan, Benefit Training Plan, Overseas Training Plan, etc. All employees are eligible for training programs regardless of their position – senior management, mid-level management, office secretaries or front-line staff. The Group also hire world-class consulting companies periodically to design training programs tailored for different staff, such as Excellent Management Training, Team Work Training and Business Negotiation Training. During the year under review, a contest was conducted among cashiers. Cashiers who had been excellent at their jobs were rewarded a trip to South Korea experiencing the advanced operational models in Korean department stores as well as learning how to serve customers. The group also hosted an “Innovative Rewarding Program” in the Current Year collecting outstanding ideas on how to improve sales performance from all staffs. By encouraging employees to provide ideas on innovative operation and marketing strategy as well as adopting their ideas, we are able to boost employees’ loyalty towards the Company.

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What's more, we also hosted the "2010 Summer Internship in New World" program. 12 university students from Hong Kong spent their summer holiday in Shanghai Management Office in Shanghai, taking courses like Customer Services and Floor Management, engaging in field practices at different posts, helping them quickly adapt to society after graduation. Moreover, in order to implement the nurturing talents strategy of New World Group, we carried out the Pre-post Training for Trainees in Shanghai Management Office as well as in our stores in Shanghai in March 2010. We aimed to nurture new generation talents by equipping trainees with operational knowledge in department store industry.

Enhance Interior Decoration and Shopping Ambience of Stores

Typing in with the new image of the Group, we have adopted a sensory marketing strategy through which different elements concerning atmosphere (sight), catering (taste), scent (smell), music (sound) and an open display (touch) are used to attract different customers.

Enhance Atmosphere to Achieve Unparalleled Shopping Environment

"Fashion Gallery" embodies an avant-garde and dynamic design which projects individuality by using sharp contrast in terms of color and form. Multi-media areas are incorporated to convey latest fashion information. All recreational areas are also decorated with abstract artifacts to manifest our distinguished image of chic, novelty and excellence. For "Living Gallery", the theme of "Eco Paradise" is adopted. Using a reddish-orange palette, the stores are decorated with butterfly, flower, forest, rainbow, grassland, river and other design elements inspired by the nature, creating a lively and relaxing shopping environment that helps promote green concept. The Group will keep on adhering to these two design direction to create quality shopping environment with an accent.

During Lunar New Year in 2010, the Group has conceived a unified theme decoration for 5 stores. Under the guidance of a creative director from a renowned HK advertising firm, all 5 stores were decorated into the most excellent shopping environment steeped in festive atmosphere, drawing in endless customer traffic. To complement the New Year decoration theme, we have hosted

a photo competition, which attracted more than 4,000 contestants and 16,000 votes, underlining the popularity of the event. In the future, we will host more full-fledge activities and create festive atmosphere for customers.

Background Music to Go with Store Themes

In terms of sensory of sound, the Group will assign different music playlist based on different store themes. Listening to appealing music, customers will feel relaxed while enjoying shopping fun.

Multitude of Catering Services to Suit Different Tastes

The group strives to bring in a large variety of dining options to the stores to satisfy the needs of different customers. As a department store for family, the "Living Gallery" like Shanghai Baoshan Branch Store boasts nearly 100 food and dining outlets, providing a plethora of options including snack stores, Taiwanese noodles restaurants, HK style restaurants and dessert cafés. For "Fashion Gallery", quality catering and themed restaurants are featured. A prominent example is the innovative composite operation mode of book bar in Beijing Shishang Store, which combines bookstore and café to form a unique space for discerning modern ladies to unwind, have snack and enjoy life.

Pleasant Scent to Ignite Shopping Urges

Pleasant scent can refresh your mind and boost your well-being. In view of this, the Group will use different scents for different areas, creating a unique shopping experience accompanied by an olfactory enjoyment. Smell can also spark the desire for shopping. For example, Beijing Shishang Store combines a book store with a café helps ignite the patronized desire of customers reading in the bar with the stimulation of strong and delicious scent of coffee.

Open Display to Allow First-hand Experience

For sensory of touch, all stores of New World Department Store boast open-style counters and displays, which encourage self-help fittings that allow Mix & Match of customers' own accord to demonstrate individual styles.



EXPANSION STRATEGY

Select Site-location Strictly to Complement a Gradual Expansion Strategy

The Group will carry on with the expansion strategy of opening 2 to 3 self-owned stores per fiscal year, amounting to about 100,000 – 120,000 sq.m. in total. In locating new self-owned stores, we will focus strictly on prime locations in cities with good development potential. The criterion on site selection concentrates mainly on prime commercial circles and gradually expands into community circles. Shanghai Chengshan Branch Store opened in April 2010 and Beijing Qianzi Store opened in Shunyi district of Beijing this September are two examples of entering community zone. In addition, the Group will evaluate figures such as GDP per capita, total retail sales of consumer goods and per capita disposable income in determining the opportune moment for entering into appropriate department store market. Shenyang New World Department Store – Jianqiao Road Branch Store (“Shenyang Jianqiao Road Branch store”) and Zhengzhou New World Department Store (“Zhengzhou Store”) which will commence operation in 2011, are new footholds in second-tier cities.

Apart from exploring other outstanding development opportunities in existing cities, such as Beijing, Sichuan, Harbin and Liaoning Province, the Group will seek for the right occasions to expand into new cities, like Xian in Shaanxi, Taiyuan in Shanxi and Guangzhou in Guangdong.

Stick to “Multiple Presences in a Single City” and “Radiation City” Strategies

The Group has designated a core city for each operational region. With the strategy of “multiple stores in a single city”, we increase our footholds in each core city.

The Group gained a footing on Beijing, the core city of the Northern China Region, as early as 1998. After setting up Beijing Store, Beijing Trendy Store and Beijing Liying Store, we have opened Beijing Shishang Store and Beijing Qianzi Store in May and September 2010 respectively. In the Eastern China Region, for instance, we are running 9 stores in Shanghai after the opening of Shanghai Baoshan Branch Store and Shanghai Chengshan Branch Store in the Current Year. After opening of 2 stores

in Shenyang, we will open Shenyang Jinqiao Road Branch Store in Zhong Street Commercial Circle in 2011. By adopting the strategy of “multiple stores in a single city”, we can increase market share and organize joint functions with fellow city stores to exploit economy of scale and achieve synergy effect.

To minimize the risks associated with entering new markets, the Group will continue to deploy the “radiation city” strategy as we expand our business from a core city into other cities on the periphery. For instance, Zhengzhou, where we have scheduled a new store, Zhengzhou Store, for opening in 2011, is a radiation city on the periphery of Wuhan, the core city of Central China Region.

Seize Opportunity to Acquire Project with Potential

During the year under review, the Group has acquired the operating right of Shanghai Pujian Branch Store in January 2010, converting the store from managed to self-owned. In August of the same year, the Group successfully acquired the operating right of Beijing Store and agreed to acquire Chengdu Store as self-owned store with the application on progress. In future, the Group will continue to actively seek worthwhile acquisition targets including existing managed stores and potential greenfield projects.

Increase Managed Stores at Opportune Moments

Meanwhile, the Group will seek to add potential managed stores at opportune moments to maintain steady income from management fees.

Moreover, the Group will also expand existing stores after careful evaluation of local market needs and potential to maintain competitive advantage.