



Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The board of directors (the "Directors" or "Board") of New World Department Store China Limited (the "Company"), together with its subsidiaries (the "Group"), recognises the importance of corporate governance practices to a listed company. The Company is committed to ensuring high standards of corporate governance in the interest of the shareholders (the "Shareholders") and stakeholders of the Company.

The Company has been making an effort to enhance the corporate governance standard of the Company by reference to the code provisions and recommended best practices set out in the Corporate Governance Code (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). During the year ended 30 June 2013, the Company has applied and complied with all the code provisions set out in the Code except for the deviation from code provision E.1.2.

Code provision E.1.2 provides, among other things, that the chairman of the board should attend annual general meeting. Dr. Cheng Kar-shun, Henry, the chairman of the Board (the "Chairman") and a non-executive Director was not able to attend the annual general meeting of the Company held on 20 November 2012 (the "AGM") owing to other commitment in the People's Republic of China (the "PRC"). Mr. Cheng Chi-kong, Adrian, who took the chair of the AGM, together with other members of the Board who attended the AGM, were of sufficient calibre for answering questions at the AGM.

The Board will continually review and improve the corporate governance practices and standards of the Company to ensure that business and decision making processes are regulated in a proper and prudent manner.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the

"Model Code") as its own code of conduct regarding securities transactions by the Directors. Upon the Company's specific enquiry of each Director, all Directors confirmed that they had complied with the required standard set out in the Model Code and the code of conduct regarding Directors' securities transactions adopted by the Company during the year ended 30 June 2013.

EMPLOYEES' SECURITIES TRANSACTIONS

The Code provision A.6.4 provides that there should be written guidelines on no less exacting terms than the Model Code for the relevant employees in respect of their dealing in the securities of the Company.

The Company has established guidelines for employees as required under the Code provision.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises three non-executive Directors, three executive Directors and four independent non-executive Directors. Their names, biographical details and respective relationships with other Directors are set out on pages 54 to 58 of this annual report.

The Board regulates the directions of the Group, monitors its overall performance and maintains effective supervision over the management running the Group through relevant committees of the Board in a sound and efficient manner. The executive committee of the Company (the "Executive Committee") and the management are delegated the authority and responsibilities by the Board for the routine management and operation of the Company.

The Board will have at least four meetings a year at approximately quarterly intervals and will meet at other times as and when required to review business strategies and financial and operating performance. The Board met four times during the year ended 30 June 2013.

All Directors are subject to retirement by rotation and re-election, if eligible, in accordance with the articles of association of the Company (the "Articles").

During the year, the Directors' attendance at the Board meetings and general meetings is set out as follows:—

Number of meetings attended/held

| Name | Board Meetings | Annual General Meeting | Extraordinary General Meeting |
|---|----------------|------------------------|-------------------------------|
| Non-executive Directors | | | |
| Dr. Cheng Kar-shun, Henry (<i>Chairman</i>) | 4/4 | 0/1 | 1/1 |
| Mr. Au Tak-cheong | 4/4 | 1/1 | 0/1 |
| Ms. Ngan Man-ying, Lynda ⁽¹⁾ | 4/4 | 1/1 | 0/1 |
| Executive Directors | | | |
| Mr. Cheng Chi-kong, Adrian | 4/4 | 1/1 | 0/1 |
| Mr. Cheung Fai-yet, Philip (<i>Managing Director</i>) | 4/4 | 1/1 | 1/1 |
| Mr. Lin Tsai-tan, David ⁽²⁾ | 0/0 | 0/0 | 0/0 |
| Mr. Wong Kwok-kan, Kenneth | 4/4 | 1/1 | 1/1 |
| Independent non-executive Directors | | | |
| Mr. Cheong Ying-chew, Henry | 4/4 | 1/1 | 1/1 |
| Mr. Chan Yiu-tong, Ivan | 4/4 | 1/1 | 1/1 |
| Mr. Tong Hang-chan, Peter | 4/4 | 1/1 | 1/1 |
| Mr. Yu Chun-fai | 4/4 | 1/1 | 1/1 |

CORPORATE GOVERNANCE REPORT

Notes:

- (1) Ms. Ngan Man-ying, Lynda was re-designated as non-executive Director with effect from 10 December 2012.
- (2) Mr. Lin Tsai-tan, David resigned as executive Director with effect from 1 August 2012.

The Roles of the Chairman and Managing Director

Dr. Cheng Kar-shun, Henry, the Chairman, is responsible for the leadership and effective running of the Board, ensuring that all material issues are decided by the Board in a constructive manner. While Mr. Cheung Fai-yet, Philip, managing director of the Company (the "Managing Director"), is responsible for running the Group's business and the timely implementation of the approved strategies of the Group.

Non-executive Directors

Non-executive Directors (including the independent non-executive Directors) serve the relevant function of bringing independent judgement on the development, performance and risk management of the Group. The non-executive Directors have been appointed for a specific term of services and are subject to retirement by rotation and re-election, if eligible, in accordance with the Articles.

During the year, the Company has complied with Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules regarding the appointment of sufficient number of independent non-executive Directors and is having independent non-executive Directors with relevant professional qualifications or accounting or relating financial management expertise. The Company has received annual confirmation of independence from each of the independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Board is of the view that all the independent non-executive Directors are independent in accordance with the Listing Rules.

Audit Committee

The audit committee of the Company (the "Audit Committee") has been established with written terms of reference setting out duties, responsibilities and authorities delegated to them by the Board. The Audit Committee comprises four independent non-executive Directors, namely Mr. Chan Yiu-tong, Ivan, Mr. Cheong Ying-chew, Henry, Mr. Tong Hang-chan, Peter and Mr. Yu Chun-fai. Mr. Chan Yiu-tong, Ivan is the chairman

of the Audit Committee and possesses financial management expertise. The Audit Committee meeting will be held at least twice a year.

The major duties and responsibilities of the Audit Committee include review of the effectiveness of the Group's financial reporting processes and internal control system. The duties of the Audit Committee also include review of the scope and nature of the audit carried out by the Company's auditor. The Audit Committee will meet with external auditor at least once a year to discuss any issues from the audit and any matters the external auditor may wish to raise.

During the year, the Audit Committee reviewed with auditor of the Company the audited financial statements for the year ended 30 June 2012 and the unaudited interim financial information for the six months ended 31 December 2012 as well as internal control system of the Company including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget with recommendations to the Board for approval. The Audit Committee also reviewed the financial statements for the year ended 30 June 2013 and internal audit report, including the effectiveness of the internal control system, with recommendation to the Board for approval. The Audit Committee met five times, including a store visit, during the year ended 30 June 2013.

The corporate management services department of the Group (the "Corporate Management Services Department") has conducted audits of the Company and its subsidiaries. The Corporate Management Services Department performs risk-based audits to review the effectiveness of the Group's material internal controls so as to provide assurance that key businesses and operational risks are identified and managed. The work carried out by the Corporate Management Services Department will ensure the internal controls are carried out appropriately and functioning as intended. The Corporate Management Services Department shall report its findings and make recommendations to improve and to plan the internal control of the Group.

During the year, the members' attendance of the meetings of the Audit Committee is set out as follows:-

| Name | Number of meetings of the Audit Committee attended/held |
|-----------------------------|---|
| Mr. Chan Yiu-tong, Ivan | 5/5 |
| Mr. Cheong Ying-chew, Henry | 5/5 |
| Mr. Tong Hang-chan, Peter | 5/5 |
| Mr. Yu Chun-fai | 5/5 |



Remuneration Committee

The remuneration committee of the Company (the "Remuneration Committee") has been established with written terms of reference setting out duties, responsibilities and authorities delegated to them by the Board. The Remuneration Committee comprises Mr. Cheng Chi-kong, Adrian, Mr. Tong Hang-chan, Peter, Mr. Cheung Fai-yet, Philip, Mr. Wong Kwok-kan, Kenneth, Mr. Cheong Ying-chew, Henry, Mr. Chan Yiu-tong, Ivan and Mr. Yu Chun-fai. Mr. Tong Hang-chan, Peter is the chairman of the Remuneration Committee. The Remuneration Committee meeting will be held at least once a year.

The primary duties of the Remuneration Committee include review of and determining, with delegated responsibility, and making recommendations on the remuneration structure for individual Directors and the Group. During the year ended 30 June 2013, the Remuneration Committee met five times to review the remuneration policy for Directors and the Group, assessing performance of executive

Directors and approving terms of executive Directors' service contracts. The Remuneration Committee is to determine, with delegated responsibility, the remuneration packages of individual executive Directors and management. This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment. The Remuneration Committee is also to make recommendations to the Board on the remuneration of non-executive Directors and to ensure that no Directors or any of their associates are involved in deciding their own remuneration.

Details of the amount of emoluments of Directors for the year ended 30 June 2013 are set out in note 10 to the consolidated financial statements.

During the year, the members' attendance of the meetings of the Remuneration Committee is set out as follows:—

| Name | Number of meetings of the Remuneration Committee attended/held |
|-----------------------------|--|
| Mr. Tong Hang-chan, Peter | 5/5 |
| Mr. Cheng Chi-kong, Adrian | 2/5 |
| Mr. Cheung Fai-yet, Philip | 5/5 |
| Mr. Wong Kwok-kan, Kenneth | 5/5 |
| Mr. Cheong Ying-chew, Henry | 5/5 |
| Mr. Chan Yiu-tong, Ivan | 5/5 |
| Mr. Yu Chun-fai | 5/5 |

Executive Committee

The Executive Committee serves as an executive arm of the Board with authority and responsibility for delegating certain operating functions to the management to handle the day-to-day businesses of the Company, while reserving certain key matters including the declaration of interim dividend, making recommendation of final dividend or other distributions for the approval by the Board. The Executive Committee comprises Mr. Cheng Chi-kong, Adrian, Mr. Cheung Fai-yet, Philip, Mr. Chan Yuk-chuen, Pius and Mr. Wong Kwok-kan, Kenneth. Mr. Cheng Chi-kong, Adrian is the chairman of the Executive Committee. The Executive Committee meets as when necessary.

Nomination Committee

The nomination committee of the Company (the "Nomination Committee") has been established on 1 April 2012 with written terms of reference setting out duties, responsibilities and authorities delegated to them by the Board, the Nomination Committee

comprises Mr. Cheng Chi-kong, Adrian, Mr. Yu Chun-fai and Mr. Tong Hang-chan, Peter. Mr. Yu Chun-fai is the chairman of the Nomination Committee. The Nomination Committee meeting will be held at least once a year. The primary duties of the Nomination Committee include review the structure, size and composition of the Board, make recommendations on any proposed changes to the Board, and to assess the independence of the independent non-executive Directors. The Nomination Committee is also to determine the policy and to adopt the nomination procedures and the process and criteria, such as experience and independence, to select and recommend candidates for directorship. During the year ended 30 June 2013, the Nomination Committee met once. To codify board diversity and to comply with the revised Code that has been implemented in September 2013, the terms of reference of the Nomination Committee, and the nomination policy and procedures of Directors have been revised and adopted.

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During the year, the members' attendance of the meetings of the Nomination Committee is set out as follows:–

| Name | Number of meetings of the Nomination Committee attended/held |
|----------------------------|--|
| Mr. Yu Chun-fai | 1/1 |
| Mr. Cheng Chi-kong, Adrian | 1/1 |
| Mr. Tong Hang-chan, Peter | 1/1 |

Corporate Governance Functions

The Board is to perform the corporate governance duties with written terms of reference which include the applicable code provisions as set out in the Code. The Board has reviewed the compliance with the Code and disclosure of the Company in this Corporate Governance Report and determine the policy for corporate governance of the Company and duties performed by the Board.

All Directors are kept informed on a timely basis of major changes that may have affected the Group's business, including relevant rules and regulations and

are able to make further enquiries and they may seek independent professional advice and consultation when necessary. To enhance proper and up-to-date understanding of the Company's operations and business, legal and other regulatory requirements and appropriate emphasis on the roles, functions and duties of Directors, the Company has arranged seminars and provide reading materials as professional development programs to the Directors. During the year, all Directors have participated in continuous professional development to develop and refresh their knowledge and skills. The Company has received training records of the Directors as below:

| Name | Training records received by the Company |
|---|---|
| Non-executive Directors | |
| Dr. Cheng Kar-shun, Henry (<i>Chairman</i>) | √ |
| Mr. Au Tak-cheong | √ |
| Ms. Ngan Man-ying, Lynda ⁽¹⁾ | √ |
| Executive Directors | |
| Mr. Cheng Chi-kong, Adrian | √ |
| Mr. Cheung Fai-yet, Philip (<i>Managing Director</i>) | √ |
| Mr. Lin Tsai-tan, David ⁽²⁾ | N/A |
| Mr. Wong Kwok-kan, Kenneth | √ |
| Independent non-executive Directors | |
| Mr. Cheong Ying-chew, Henry | √ |
| Mr. Chan Yiu-tong, Ivan | √ |
| Mr. Tong Hang-chan, Peter | √ |
| Mr. Yu Chun-fai | √ |

Notes:

(1) Ms. Ngan Man-ying, Lynda was re-designated as non-executive Director with effect from 10 December 2012.

(2) Mr. Lin Tsai-tan, David resigned as executive Director with effect from 1 August 2012.



Remuneration of Directors

To provide an opportunity for the Directors to participate in the equity of the Company as well as to motivate them to optimize their performance, all Directors have been granted share options to subscribe for shares of the Company under the Company's share option scheme adopted on 12 June 2007 (the "Scheme"). In addition, all Directors are covered by appropriate insurance on Directors' liabilities from their risk exposure arising from the management of the Group.

FINANCIAL REPORTING AND INTERNAL CONTROL

The annual and interim results of the Company were respectively published in a timely manner during the year. The Directors acknowledge their responsibility for the preparation of the annual report and financial statements of the Company to ensure that the accounts give a presentation in accordance with the applicable laws and accounting standards. The Directors consider that in preparing the accounts, the Group has made judgments that are reasonable and prudent, in accordance with the applicable accounting standards.

The reporting responsibilities of PricewaterhouseCoopers, the Company's external auditor, are stated in the Independent Auditor's Report on pages 83 to 84 of this annual report.

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness and procedures. The Board, through the Audit Committee, conducted regular reviews regarding internal control system of the Group. In the year under review, the Audit Committee and the Board had also reviewed the Group's internal control system to ensure that effective and reasonable measures were in place.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors acknowledge their responsibilities for keeping proper accounting records and preparing financial statements of each financial period, giving a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 30 June 2013, the Directors had:

1. approved the adoption of all applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants;
2. selected and applied consistently appropriate accounting policies; and
3. prepared the financial statements on a going concern basis.

COMPANY SECRETARY

The company secretary of the Company (the "Company Secretary") is an employee of the Company and has day-to-day knowledge of the Company's affairs. During the year ended 30 June 2013, the Company Secretary has taken no less than 15 hours of relevant professional training.

COMMUNICATION WITH SHAREHOLDERS

The chairman of the Board, the chairmen of the Board committees, members of the Board and external auditor will attend the annual general meeting of the Company at which the Directors will answer questions raised by the Shareholders on the performance of the Group. To ensure the general meetings are conducted in a fair and transparent manner, each of the resolutions considered at the general meetings held in the past year has been voted by poll and the branch share registrar and transfer agent of the Company in Hong Kong was appointed as the scrutineers to count the votes and explain to the Shareholders at the meetings the procedures for voting by poll. The poll results and other corporate communications were posted on and can also be downloaded from the websites of the Company (www.nwds.com.hk) and the Stock Exchange (www.hkexnews.hk) respectively.

SHAREHOLDERS' RIGHTS

According to the Articles, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board and to put forward proposals specified in such requisition by the procedures below:

The Shareholder shall deposit a requisition in writing to require an extraordinary general meeting and to put forward proposals at the Company's head office at 7th Floor, 88 Hing Fat Street, Causeway Bay, Hong Kong (attention to: Company Secretary) or the Company's branch share registrar and transfer agent in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong (attention to: Mr. Ricky Lee).

The requisition must include the business to be transacted at the required extraordinary general meeting and must be signed by the Shareholder concerned. If the requisition is confirmed as proper and valid, an extraordinary general meeting shall be held within two months after the deposit of such requisition subject to the requirements of the relevant Articles and the Listing Rules. In case an extraordinary general meeting could not be convened upon the request, the Company will inform the Shareholder accordingly.

If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

For enquiries to the Board, the Shareholder shall contact the Corporate Affairs Department at the head office of the Company at 7th Floor, 88 Hing Fat Street, Causeway Bay, Hong Kong or by e-mail to nwdsca@nwds.com.hk. The Company will endeavour to respond to their queries in a timely manner.

CONSTITUTIONAL DOCUMENTS

There is no significant change in the Company's constitutional documents during the year.

INVESTOR RELATIONS

With excellent and effective management of investor relations during the year under review, the Group largely reinforced the communications with current and potential investors, duly protected their legal rights and interests, as well as enhanced their understanding and recognition of New World Department Store, thus establishing a positive image both in domestic and overseas capital markets.

The investor relations team of the Group is formed by senior management executives. Ever since the Group was listed on the main board of Hong Kong Stock Exchange in July 2007, the team has been contacting institutional investors and analysts actively both in domestic and overseas capital markets, mainly by means of one-on-one meetings, conference calls and store visits. A total of 288 meetings and store visits were organized for investors during the year under review. Every year, the Group hosts analyst briefings after its annual and interim results announcements to disclose information to analysts and investment institutions proactively. Research reports regarding the Group are also issued by prominent investment research institutions, including Deutsche Bank, HSBC, Barclays Capital, CLSA, CICC, Morgan Stanley, Goldman Sachs, DBS Vickers, Macquarie Securities, Nomura International, Fubon Securities, and China Galaxy International.

Upon the release of its annual and interim results, the Group also carries out overseas roadshows and visits to major investment institutions. The New World Department Store management carried out roadshows in Hong Kong in September 2012 and February 2013,

and in Europe and the US in November 2012 and December 2012 respectively. Apart from the roadshow in Singapore in March 2013, and some others in Taiwan in January and May 2013, the New World Department Store management was also invited to a number of investor conferences held by major banks and securities companies. In total, the management met more than 250 investment institutions. The conferences were "APAC Retail Corporate Day" by Credit Suisse, "HSBC 2nd Annual China Consumption Conference" by HSBC, and "Greater China CEO Summit 2012" by Goldman Sachs in Hong Kong in October 2012; "11th Annual Asia Pacific Summit" by Morgan Stanley in Singapore in November 2012; "dbAccess China Conference 2013" by Deutsche Bank in Beijing in January 2013; "Asian Investment Conference 2013" by Credit Suisse in Hong Kong in March; "dbAccess Asia Conference 2013" by Deutsche Bank in Singapore in May; "Greater China Conference" by Macquarie and "Fourth Annual Hong Kong Investor Summit" by Morgan Stanley in Hong Kong in May.

To ensure shareholders' timely access to the Group's information, an "Investors" section has been specially set up in the New World Department Store corporate website of www.nwds.com.hk, providing the Group's latest announcements, circulars, press releases, financial reports and presentations. In addition, by means of interim and annual reports, notices, annual general meetings as well as real-time distribution of updates to e-News subscribers, the investor relations team helps investors develop a better understanding on the Group's business development strategies and latest operations details.

The Group attaches great importance to corporate transparency. Therefore, during the year under review, the Group established Disclosure Committee and set up corresponding internal policy on fair disclosure of the Group's information. The investor relations team of New World Department Store will continue to communicate with the investors in a proactive manner, so as to reinforce their confidences in the Group and to create an ideal financing environment for the Group in the capital markets.

AUDITOR'S REMUNERATION

Fees for auditing services and non-auditing services amounted to approximately HK\$5,800,000 (2012: approximately HK\$5,000,000) and approximately HK\$1,656,000 (2012: approximately HK\$2,293,000) respectively were provided in the Group's consolidated income statement for the year ended 30 June 2013.