

THE CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **New World Department Store China Limited**, you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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New World Department Store China Limited

新世界百貨中國有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0825)

CONTINUING CONNECTED TRANSACTION

**Independent financial adviser to the Independent Board Committee
and Independent Shareholders**



A notice convening an extraordinary general meeting of New World Department Store China Limited to be held at Room 201A (New Wing), Hong Kong Convention & Exhibition Centre, 1 Expo Drive, Wanchai, Hong Kong on Monday, 26 November, 2007 at 10:30 a.m. (or so soon thereafter as the annual general meeting of the Company convened for the same date and place at 9:30 a.m. shall have been concluded or adjourned) is set out on page 16 of this circular. Whether or not you propose to attend the meeting, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong at Tricor Investor Services Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof.

Hong Kong, 31 October 2007

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DEFINITIONS

In this circular, the following expressions have the following meanings, unless the context otherwise requires:

“associate”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday or Sunday) on which licensed bank are generally open for business in Hong Kong and the Stock Exchange is open for business of dealing in securities
“Caps”	for the purpose of Chapter 14A of the Listing Rules, means for each of the two financial years ending 30 June 2008 and 2009, RMB90,000,000 (equivalent to approximately HK\$92,700,000) and RMB125,000,000 (equivalent to approximately HK\$132,612,500) in respect of the aggregate of the service fees for the Transactions payable under the Master Services Agreement
“Company”	New World Department Store China Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
“Companies Ordinance”	Companies Ordinance, Chapter 32 of the Laws of Hong Kong
“Dao Heng”	Dao Heng Securities Limited, a licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Master Services Agreement
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be held to consider and, if thought fit, approve the Master Services Agreement, the transactions contemplated thereunder and the Caps
“EGM Notice”	the notice convening the EGM as set on page 16 of this circular
“Group”	the Company and its subsidiaries
“Independent Board Committee”	an independent committee of the Board comprising the independent non-executive Directors, namely Cheong Ying-chew, Henry, Chan Yiu-tong, Ivan, Tong Hang-chan, Peter and Yu Chun-fai, Henry
“Independent Shareholders”	Shareholders other than NWD and its associates
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Latest Practicable Date”	26 October 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Services Agreement”	the master services agreement entered into between the Company and NWSH dated 11 October 2007
“NWD”	New World Development Company Limited (新世界發展有限公司), a company incorporated in Hong Kong whose shares are listed on the main board of the Stock Exchange

DEFINITIONS

“NWSH”	NWS Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange
“NWSH Group”	NWSH and its associates
“PRC”	the People’s Republic of China
“Services”	includes (a) the maintenance services, including routine maintenance check, non-routine maintenance, ad hoc maintenance support; (b) electrical and mechanical services repair including those works of new department stores; (c) electrical and mechanical renovation services including supply and installation of air-conditioning, heating and ventilation systems, fire services systems, plumbing, drainage systems and low voltage system; (d) renovation maintenance including lift repair and maintenance services; (e) electrical and mechanical services design including electrical systems and system design and consultancy; and (f) new department stores electrical and mechanical works including computer aided drafting services, and such other types of services as may be agreed upon from time to time in writing by the Company and NWSH
“Service Contract(s)”	the specific contract or service requisition order to be entered into or concluded between member of the Group and member of the NWSH Group during the duration of the Master Services Agreement in respect of a particular occasion of provision of the Services; and “Service Contracts” shall be construed accordingly
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Shares”	shares of HK\$0.10 each of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Stores”	the department stores operated by the Group from time to time
“subsidiary”	shall have the meaning ascribed to it under the Companies Ordinance
“substantial shareholder”	shall have the meaning ascribed to it under the Listing Rules
“Transaction”	the transaction between any member of the Group and any member of the NWSH Group in respect of a particular provision of the Services; and “Transactions” shall be so construed accordingly
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent

Unless otherwise specified in this circular, amounts denominated in RMB have been converted, for the purpose of illustration only, into HK\$ at the rate of RMB1.00=HK\$1.03. No representation is made that any amounts in HK\$ or RMB can be or could have been converted at the relevant dates at the above rate or any other rates at all.

The English text of this circular shall prevail over the Chinese text.



New World Department Store China Limited

新世界百貨中國有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0825)

Non-executive Directors:

Dr. Cheng Kar-shun, Henry

Mr. Au Tak-cheong

Executive Directors:

Mr. Cheng Chi-kong, Adrian

Mr. Cheung Fai-yet, Philip

Mr. Lin Tsai-tan, David

Mr. Wong Kwok-kan, Kenneth

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

Registered Office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

31 October 2007

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTION

1. INTRODUCTION

The Board refers to the announcement of the Company dated 11 October 2007 relating to the continuing connected transaction whereby the Board announced that on 11 October 2007, the Company entered into the Master Services Agreement with NWSH regarding the provision of the Services for the Stores for a term of two years. The Transaction contemplated by the Master Services Agreement constitutes a continuing connected transaction of the Group.

The purposes of this circular are: (i) to provide you with further information regarding the Master Services Agreement; (ii) to set out the letter of advice from Dao Heng to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Transaction; (iii) to set out the recommendation and opinion of the Independent Board Committee after taking into consideration of the advice of Dao Heng in relation to the terms of the Master Services Agreement; and (iv) to give you notice of the EGM to consider and if thought fit, to approve the resolution relating to the Master Services Agreement at the EGM.

LETTER FROM THE BOARD

2. THE MASTER SERVICES AGREEMENT

Date :

11 October 2007

Parties :

- (1) the Company; and
- (2) NWSH.

As at the Latest Practicable Date, NWSH is a non-wholly owned subsidiary of NWD, the controlling shareholder of the Company. NWSH is therefore a connected person of the Company within the meaning of the Listing Rules.

Duration :

The Master Services Agreement is for a term of two years unless either party terminates the agreement by giving at least one month's written notice to the other party.

Subject matter :

Under the Master Services Agreement, NWSH agrees to, and agrees to procure its subsidiaries to, provide the Services, on a non-exclusive basis, to the Group for the Stores at the request of any member of the Group from time to time during the term of the Master Services Agreement pursuant to the particular terms and conditions of the relevant Service Contract(s) to be entered into from time to time.

Condition precedent :

The Master Services Agreement is conditional upon the approval by the Independent Shareholders of (i) the Master Services Agreement and the transactions contemplated thereunder; and (ii) the Caps at an EGM to be held in accordance with the requirements of the Listing Rules.

In the event that the above condition is not fulfilled by 31 December 2007 (or such later date as may be agreed by the parties to the Agreement), the Agreement shall thereupon terminate.

Consideration and terms for the provision of the Services :

Pursuant to the Master Services Agreement, a separate Service Contract may be entered into from time to time between any member of the Group and any member of the NWSH Group in respect of each Transaction. In this connection, the Company and NWSH have agreed that the service fees and terms of each Transaction shall be negotiated on a case-by-case basis and in compliance with the applicable laws and regulations, and shall be on arm's length basis, on normal commercial terms and on terms no less favourable than the terms offered by the NWSH Group to independent third parties.

The maximum annual aggregate service fees in respect of the Services to be provided by the NWSH Group to the Group for the term of two years as set out in the Master Services Agreement are as follows :-

- (a) for the financial year ending 30 June 2008, not exceeding RMB90,000,000 (equivalent to approximately HK\$92,700,000); and
- (b) for the financial year ending 30 June 2009, not exceeding RMB125,000,000 (equivalent to approximately HK\$132,612,500).

LETTER FROM THE BOARD

Proposed annual caps :

The Directors expect that for each of the two financial years ending 30 June 2009, the annual aggregate value of the Transactions will not exceed RMB90,000,000 (equivalent to approximately HK\$92,700,000) and RMB125,000,000 (equivalent to approximately HK\$132,612,500) respectively.

The annual caps for the service fees payable by the Group to the NWSH Group in respect of the Services have been determined by reference to future expansion of the Stores, as it is expected that there will be further extension to the existing Stores and new Stores will be opened in the coming years.

3. REASONS FOR, AND BENEFITS OF ENTERING INTO THE MASTER SERVICES AGREEMENT

The Transactions are expected to be of a recurrent nature and will occur on a regular and continuing basis in the ordinary and usual course of business of the Group. The Service Contracts will be agreed on an arm's length basis on normal commercial terms. The entering into of the Master Services Agreement would enable the Group to regulate the provision of the Services by the NWSH Group to the Group under a common framework agreement.

The Directors (including the independent non-executive Directors) consider that the terms of the Master Services Agreement have been negotiated on an arm's length basis and on normal commercial terms and the terms thereof are fair and reasonable and are in the best interests of the Group and the Shareholders as a whole. The Board recommends that the Independent Shareholders should vote in favour of the resolution as set out in the EGM Notice.

4. LISTING RULES REQUIREMENTS

The Transaction contemplated by the Master Services Agreement constitutes a non-exempt continuing connected transaction of the Company under Rule 14A.35 of the Listing Rules and is subject to the reporting, annual review and independent shareholders' approval requirements under the Listing Rules.

5. INFORMATION ON THE COUNTERPARTIES

The Group is principally engaged in the operation of department stores in the PRC.

The principal activities of the NWSH Group include: (i) the investment in and/or operation of facilities, contracting, transport and financial services; and (ii) the development, investment, operation and/or management of power plants, water treatment and waste management plants, roads as well as container terminals.

6. PROCEDURES FOR DEMANDING A POLL

Pursuant to Article 66 of the Articles of Association of the Company, at any general meeting resolutions put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the results of the show of hands or on the withdrawal of any other demand for a poll) demanded :-

- (a) by the chairman of the meeting;
- (b) by at least three members present in person or at the meeting;
- (c) by any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting;

LETTER FROM THE BOARD

- (d) by any member or members present in person or by proxy and holding Share conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right; or
- (e) if required by the Listing Rules, by any Director or Directors who individually or collectively hold proxies in respect of Shares representing five per cent or more of the total voting rights at the meeting.

7. EXTRAORDINARY GENERAL MEETING

Set out on page 16 of this circular is the notice convening the EGM at which ordinary resolution will be proposed to approve, among other things, the Master Services Agreement and the Caps.

NWD, being the controlling Shareholder, beneficially owning approximately 72.29% of the share capital of the Company as at the Latest Practicable Date, and its associates will abstain from voting on the resolutions approving, among other things, the Master Services Agreement and the Caps to be proposed at the EGM.

The votes to be taken at the EGM will be taken by poll, an announcement of the results of which will be published on the Business Day following the EGM.

8. ACTION TO BE TAKEN

A proxy form for use at the EGM is enclosed herein. Whether or not you intend to attend the EGM, you are requested to complete the proxy form and return it to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time appointed for holding the EGM. Delivery of a proxy form will not preclude Shareholders from attending and voting in person at the EGM if they so wish.

9. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 7 of this circular which contains its recommendation to the Independent Shareholders. The Independent Board Committee, having taken into account the advice of Dao Heng, considers that the Master Services Agreement and the transactions contemplated thereunder are on normal commercial terms in the ordinary and usual course of business of the Group and are in the interest of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Board recommends that the Independent Shareholders should vote in favour of the resolution as set out in the EGM Notice.

Your attention is also drawn to the additional information set out in the appendix to this circular.

By order of the Board
CHENG Kar-shun, Henry
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter of recommendation from the Independent Board Committee which has been prepared for the purpose of inclusion in this circular.



New World Department Store China Limited

新世界百貨中國有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code:0825)

31 October 2007

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTION

We refer to the circular of the Company dated 31 October 2007 (the “**Circular**”) to the Shareholders, of which this letter forms part. Terms defined in the Circular have the same meanings in this letter unless the context requires otherwise.

We have been appointed by the Board as the Independent Board Committee to advise you as to whether, in our opinion, the terms of the Master Services Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

Dao Heng has been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Transactions contemplated under the Master Services Agreement. Details of its advice, together with the principal factors taken into consideration in arriving at such, are set out in its letter on pages 8 to 11 of the Circular.

Your attention is drawn to the letter from the Board set out on pages 3 to 6 of the Circular and the general information set out in the appendix.

Having taken into account the terms of the Master Services Agreement, and the advice given by Dao Heng, we consider that the Master Services Agreement are on normal commercial terms and in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution approving the Master Services Agreement, the Transactions contemplated thereunder and the Caps provided therein to be proposed at the EGM.

Yours faithfully,
Cheong Ying-chew, Henry
Chan Yiu-tong, Ivan
Tong Hang-chan, Peter
Yu Chun-fai, Henry
Independent Board Committee

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice to the Independent Board Committee and the Independent Shareholders from Dao Heng Securities Limited prepared for the purpose of incorporation in this circular.



31 October 2007

*To: The Independent Board Committee and the Independent Shareholders of
New World Department Store China Limited*

Dear Sirs,

CONTINUING CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Transactions and the Caps thereto are on normal commercial terms, in the ordinary and usual course of business and in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Details of the Transactions are set out in the letter from the Board in the circular of the Company dated 31 October 2007 (the “Circular”), of which this letter forms part. Capitalized terms used in this letter shall have the same respective meanings as those defined in the Circular unless the context otherwise requires.

On 11 October 2007, the Company entered into the Master Services Agreement with NWS Holdings Limited (“NWSH”) pursuant to which NWSH agrees to, and agrees to procure its subsidiaries (collectively the “NWSH Group”) to, provide the Services (which includes, among other things, electrical and mechanical services and repair and maintenance works), on a non-exclusive basis, to the Group for the Stores at the request of any member of the Group from time to time during the term of the Master Services Agreement according to the particular terms and conditions of separate Service Contract(s) to be entered into from time to time.

As at the Latest Practicable Date, NWSH is a non-wholly owned subsidiary of New World Development Company Limited (“NWD”), which is also the controlling shareholder of the Company. By virtue of the relationship between NWSH, NWD and the Company, NWSH is an associate of NWD and is hence a connected person of the Company pursuant to Rule 14A.11 of the Listing Rules and the Transactions contemplated under the Master Services Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Since the highest of all applicable percentage ratios of the annual cap amount of the Transactions is above 2.5%, the Transactions and the respective Caps shall be subject to the reporting, announcement and Independent Shareholders’ approval requirements under the requirements of Chapter 14A of the Listing Rules.

The Independent Board Committee comprising the independent non-executive Directors, Mr. Cheong Ying-chew, Henry, Mr. Chan Yiu-tong, Ivan, Mr. Tong Hang-chan, Peter and Mr. Yu Chun-fai, Henry, has been established to advise the Independent Shareholders as to whether the Transactions and the Caps thereto are on normal commercial terms, in the ordinary and usual course of business and in the interest of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. NWD and its associates will abstain from voting on the relevant resolution at the EGM.

BASIS OF OUR OPINION

We are not associated with the Company and its substantial Shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, is considered eligible to give independent advice on the Transactions and the Caps thereto. Apart from normal professional fee payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company or its substantial Shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion with regard to the Transactions, we have relied on the information supplied, representations made and opinions expressed by the Company, its Directors, advisers and representatives, for which they are solely responsible. We have assumed that all such information and representations were true, accurate and complete at the time they were made and continue to be so at the date of this letter. We have also assumed that all statements of belief, opinion and intention of the Directors, the Company's advisers and representatives produced to us were reasonably made after due and careful inquiry. We have been advised by the Company that no material facts, the omission of which would make any statement or opinion contained in this letter to be misleading, have been omitted from the information provided by the Company to us.

We consider that we have been provided with, and we have reviewed, sufficient information to enable us to reach an informed view thereof and to justify reliance on the accuracy of the information provided to us so as to provide a reasonable basis for our advice. We have no reason to suspect that any material facts or information have been omitted or withheld from the information supplied or opinions expressed to us nor to doubt the truth, accuracy and completeness of the information and representations provided, or the reasonableness of the opinions expressed, to us by the Company, its Directors, advisers and representatives. We have not, however, carried out any independent verification of the information provided to us by the Company, its Directors, advisers and representatives, nor have we conducted any independent in-depth investigation into the business and affairs or future prospects of the Group. Accordingly, we do not warrant the accuracy or completeness of any such information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Reasons for the Transactions

The Company was listed on the main board of the Stock Exchange on 12 July 2007. It is an owner and operator of department stores and is currently operating 22 "New World" branded department stores and 6 "巴黎春天" (Ba Li Chun Tian) branded department stores in the PRC and Hong Kong. Out of these 28 department stores, the Group owns and operates 16 stores while the remaining 12 stores are managed by the Group but are owned by independent third parties and the Group's connected persons.

As stated in the Company's prospectus dated 28 June 2007, the Group will continue to seek opportunities to expand its retail network through various ways, including establishing new self-owned stores and expanding some of its existing stores. The Directors intended to utilise the net proceeds of its global offering partly for establishing new stores and for the expansion, refurbishment and renovation of certain existing stores.

NWSH is also listed on the main board of the Stock Exchange. Contracting, which includes managing construction projects and mechanical and electrical engineering projects, is one of the core businesses of the NWSH Group and contributed approximately HK\$11,205 million to the total turnover and approximately HK\$255.9 million to the attributable operating profit ("AOP") to the NWSH Group (representing approximately 74.5% and approximately 11.2% of the total turnover and AOP of the NWSH Group respectively) for the year ended 30 June 2007. Through certain operating subsidiaries of the NWSH Group, the NWSH Group offers various mechanical and electrical engineering services to its customers.

The Directors consider the Services, such as electrical and mechanical design and renovation services, are essential on implementing the Group's expansion plan on establishing new self-owned stores and expanding existing self-owned stores. On this basis, the Company entered into the Master Services Agreement with NWSH to secure a

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

service provider for projects to be launched in 2008 and 2009. The NWSH Group will also provide on-going repair and maintenance services to the self-owned stores of the Group under the Master Services Agreement.

As advised by the Directors, the NWSH Group is experienced in handling similar projects for department stores in the PRC (including stores of the Group). Certain operating subsidiaries of the NWSH Group have been granted by relevant PRC authorities certain certificates in respect of their qualifications at electrical and mechanical engineering areas. We are given to understand from the Directors that the Group satisfied with the performances and quality of services, including the after-sales services, provided by the NWSH Group and no material defects was discovered by the Group on projects handled by the NWSH Group in the past.

Having considered (i) the expansion plan of the Group as a whole; (ii) the background and qualification of the NWSH Group; and (iii) the level of services provided by the NWSH Group, we are of the view that the entering into the Master Services Agreement with NWSH is in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Master Services Agreement

Pursuant to the Master Services Agreement, the terms and services fee payable in respect of each Transaction will be determined by both parties on a case-by-case basis based on arm's length negotiations and on normal commercial terms. Such terms will be no less favourable than the terms offered by the NWSH Group to its independent third party customers. As stated in the Master Services Agreement, the Group has the absolute discretion to engage any other third parties for the Services.

We are advised by the Company that the Transactions are essential and in line with the Company's future expansion plan on establishing new self-owned stores and expansion of existing stores. Depending on the expected completion time for each project, after taking into account various factors as considered by the Directors, including but not limited to, rent-free periods granted by landlords, weather condition of different locations of which the Stores are situated and the expected business commencement dates of the Stores, it is of the Group's normal business practice to contract the projects either by way of public tendering or direct engaging the NWSH Group as contractor.

As confirmed by the Directors, for projects with longer expected completion time in the opinion of the Directors as discussed above, the Group invites tenders from qualified contractors. A third party independent professional quantity surveyor, who is a member of the Hong Kong Institute of Surveyors, will be appointed by the Group as a consultant to assess the quotations from those contractors and advise the Group which offer should be selected. The contractor will then be appointed by the Group after considering the advice from this consultant. The Group had the experiences of engaging the NWSH Group as a contractor through public tender processes as it offered the most favourable terms to the Group for those projects in the opinion of the Group and its consultant.

In the event of direct engagements with the NWSH Group, the Group takes similar approaches by appointing a third party professional quantity surveyor as a consultant to assess the fairness and reasonableness of the terms offered by the NWSH Group. The Directors, after taking into account the advice of such consultant, finalises and concludes the contract terms with the NWSH Group.

We have reviewed samples of tender documents and reports of the professional quantity surveyor to confirm our understanding to the Group's pricing policies on relevant projects. We have also confirmed with the Directors that similar approaches will be adopted for future Transactions.

Based on the factors that (i) the terms under the Master Services Agreement will be no less favourable than the same offering by the NWSH Group to its third party customers; (ii) the Group has its own discretion to engage contractors other than the NWSH Group; and (iii) the projects will be offered by way of public tendering or direct engagements with the NWSH Group after consulting with an independent professional quantity surveyor to the Group, we considered the terms of the Master Services Agreement and the pricing mechanism on the Transactions are fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. Proposed caps

Pursuant to the Master Services Agreement, the Caps (in terms of total contract sum) in respect of the Services to be provided by the NWSH Group for the two financial years ending 30 June 2009 are set out as follows:-

	Year ending 30 June	
	2008	2009
Annual Caps of the Services	RMB90,000,000	RMB125,000,000
	<i>(equivalent to approximately</i>	<i>(equivalent to approximately</i>
	<u>HK\$92,700,000)</u>	<u>HK\$132,612,500)</u>

In assessing the reasonableness of the Caps, we have discussed with the Directors the basis and assumptions to determine the Caps. We are given to understand that the Directors have taken into account, among other things, (i) the expected number of projects to be launched in the year 2008 and 2009; (ii) the gross floor areas of department stores that the Services are required; (iii) the facilities required to be built in the Stores; (iv) the expected contract sum for each project under prevailing market rates; and (v) the expected miscellaneous repair and maintenance expenses of the Stores.

As advised by the Directors, the cost of each project varies depending on the facilities required to be built in the Stores. As explained by the Directors, the cost will be much lower if facilities such as electricity supply systems, fire control facilities, etc, have already been set up in the premises where the Stores are located. Based on the experiences of the management on similar projects, the average cost ranges from approximately RMB450 to RMB1,200 per square meter. We are provided with information regarding the projects to be launched in 2008 and 2009 and note that the average cost for projects in 2008 and 2009 is within the said range.

It is anticipated by the Directors that areas occupied by the new self-owned departments stores to be opened in 2009 will be larger than the average size of the existing stores. The increase in proposed cap in 2009 is a result of the commencement of larger scale renovation projects, of which the expected total gross floor areas will be approximately 20% greater than that of 2008, for the purpose of establishment of new department stores. It is also noted that the expected average cost for projects in 2009 is higher than those in 2008 and is anticipated by the Directors to be at the upper end of the above said range.

In view of the above, we are of the view that the proposed Caps for the year ending 2008 and 2009 are fair and reasonable so far as the Company and the Independent Shareholders as a whole are concerned.

RECOMMENDATIONS

Having considered the above principal factors and reasons as mentioned above, in particular that the Group can secure a reliable, quality and stable Services provided by an experienced contractor, the pricing mechanism and the assumptions made in determining the Caps, we consider that the Transactions and the Caps are on normal commercial terms, in the ordinary course of business and in the interests of the Company and the Shareholders as a whole, and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, and we also recommend the Independent Shareholders, to vote in favour of the relevant resolution in relation to the Master Services Agreement and the transactions contemplated thereunder and the Caps, to be proposed at the EGM.

Yours faithfully,
For and on behalf of
DAO HENG SECURITIES LIMITED
Kenneth Sit
Director Corporate Finance

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained herein the omission of which would make any statement contained in this circular misleading.

2. DISCLOSURE OF DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares and debentures of the Company or the shares and debentures of any associated corporation of the Company (within the meaning of Part XV of the SFO) which were required pursuant to: (a) Divisions 7 and 8 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; or (b) section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange, were as follows:

(I) Long position in Shares

	Number of Shares			Total	Approximate percentage of shareholding
	Beneficial interests	Family interests	Interests of controlled corporation		
<i>The Company</i>					
Mr. Cheng Chi-kong, Adrian	—	—	920,000 (note 1)	920,000	0.05
Mr. Cheung Fai-yet, Philip	660,000	—	—	660,000	0.04
<i>NWD</i>					
Dr. Cheng Kar-shun, Henry	—	300,000	—	300,000	0.01
<i>NWS Holdings Limited</i>					
Dr. Cheng Kar-shun, Henry	9,179,199	587,000	8,000,000 (note 2)	17,766,199	0.88
<i>Mega Choice Holdings Limited</i>					
Dr. Cheng Kar-shun, Henry	—	—	3,710 (note 3)	3,710	34.61
<i>New World China Land Limited</i>					
Dr. Cheng Kar-shun, Henry	12,500,000	—	52,271,200 (note 2)	64,771,200	1.69
Mr. Cheng Chi-kong, Adrian	110,400	—	650,000 (note 1)	760,400	0.02
Ms. Ngan Man-ying, Lynda	100,000	—	—	100,000	0.00

Notes:

1. These shares are beneficially owned by a company wholly-owned by Mr. Cheng Chi-kong, Adrian.

2. *These shares are beneficially owned by a company wholly-owned by Dr. Cheng Kar-shun, Henry.*
3. *These shares are beneficially owned by certain companies wholly-owned by Dr. Cheng Kar-shun, Henry.*

(II) Long position in underlying Shares*(i) NWD*

Name of Director	Date of grant	Exercisable period	Number of share options held	Exercise price per share
Dr. Cheng Kar-shun, Henry	19/3/2007	19/3/2007 to 18/3/2012	36,500,000	17.756
Mr. Cheng Chi-kong, Adrian	19/3/2007	19/3/2007 to 18/3/2012 <i>(note)</i>	500,000	17.756
Mr. Au Tak-cheong	19/3/2007	19/3/2007 to 18/3/2012 <i>(note)</i>	1,200,000	17.756

Note: The share options were divided into 5 tranches exercisable from 19 March 2007, 19 March 2008, 19 March 2009, 19 March 2010 and 19 March 2011, respectively, to 18 March 2012.

(ii) New World China Land Limited

Name of Director	Date of grant	Exercisable period	Number of share options held	Exercise price per share
Mr. Cheng Chi-kong, Adrian	25/7/2006	26/8/2006 to 25/8/2011	442,000 <i>(note)</i>	2.865

Note: The share options were exercisable within five years commencing one month after the dates of grant, provided that the maximum number of share options that can be exercised during each anniversary year is 20% of the total number of share options granted together with any unexercised share options carried forward from the previous anniversary years.

(iii) NWS Holdings Limited

Name of Director	Date of grant	Exercisable period	Number of share options held	Exercise price per share
Dr. Cheng Kar-shun, Henry	21/8/2007	21/8/2008 to 20/8/2012 <i>(note)</i>	3,000,000	16.200

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

Save as disclosed above, as at the Latest Practicable Date, there was no outstanding share options or derivative instruments granted to the Directors and none of the Directors and the chief executive of the Company had any interest or short positions in the Shares or underlying Shares or interest in debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

None of the Directors has any direct or indirect interest in any assets which have since 30 June 2007 (being the date which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group.

None of the Directors is materially interested in any contract or arrangement entered subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

3. DISCLOSURE OF INTEREST OF SUBSTANTIAL SHAREHOLDERS

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

Name of substantial shareholder	Long/Short Position	Nature of Interest	Number of Shares	Approximate percentage of shareholding (direct or indirect)
Cheng Yu Tung Family (Holdings) Limited (“CYTFH”) (note 1)	Long	Corporate	1,218,900,000	72.29
Centennial Success Limited (“Centennial”) (note 2)	Long	Corporate	1,218,900,000	72.29
Chow Tai Fook Enterprises Limited (“CTF”) (note 3)	Long	Corporate	1,218,900,000	72.29
NWD	Long	Beneficial Owner	1,218,900,000	72.29

Notes:

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

Save as disclosed herein, the Directors are not aware of any person (who are not Directors) who had an interest or a short position in Share or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of part XV of the SFO.

4. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

Name	Qualification
Dao Heng	a licensed corporation under the SFO for carrying out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO

Dao Heng has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they appear.

As at the Latest Practicable Date, Dao Heng does not have any direct or indirect interest in any assets which have since 30 June 2007 (being the date which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, Dao Heng is not beneficially interested in the share capital of any member of the Group nor has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 30 June 2007, being the date to which the latest published audited financial statements of the Group were made up.

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into a service contract with any member of the Group which does not expire or is not terminable within one year without payment of compensation (other than statutory compensation).

7. COMPETING INTERESTS

As at the Latest Practicable Date, the following Directors had interests in the following businesses which were considered to compete or were likely to compete, either directly or indirectly, with the businesses of the Group other than those businesses where the Directors were appointed as Directors to represent the interests of the Company and/or the Group pursuant to the Listing Rules:

**Businesses which were considered to compete or likely
to compete with the business of the Group**

Name of Director	Name of entity	Description of business	Nature of interest of the Director in the entity
Dr. Cheng Kar-shun, Henry	Lifestyle International Holdings Ltd. group of companies	Department store operations	Director

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at Room 1403, 14th Floor, West Wing Office Building, New World Centre, 20 Salisbury Road, Tsimshatsui, Kowloon, Hong Kong up to and including the date of the EGM:

- (a) the Master Services Agreement;
- (b) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 7 of this circular;
- (c) the letter issued by Dao Heng, the text of which is set out on pages 8 to 11 of this circular; and
- (d) the written consent of Dao Heng referred to in paragraph 4 in this appendix.

NOTICE OF EXTRAORDINARY GENERAL MEETING



New World Department Store China Limited

新世界百貨中國有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0825)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Meeting**”) of the shareholders of New World Department Store China Limited (the “**Company**”) will be held at Meeting Room 201A (New Wing), Hong Kong Convention & Exhibition Centre, 1 Expo Drive, Wanchai, Hong Kong on 26 November 2007 at 10:30 a.m. (or so soon thereafter as the annual general meeting of the Company to be convened and held at the same date and place at 9:30 a.m. shall have been concluded or adjourned) for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolution as an ordinary resolution of the Company :-

ORDINARY RESOLUTION

“**THAT:** –

- (a) the Master Services Agreement, as defined and described in the circular of the Company dated 31 October 2007 (the “**Circular**”), a copy of the agreement marked “A” together with a copy of the Circular marked “B” are tabled before the Meeting and initialed by the chairman of the Meeting for identification purpose, and transactions contemplated under the Master Services Agreement and the implementation thereof be and are hereby approved, ratified and confirmed;
- (b) the proposed Caps for the service fees in relation to the Services payable under the Master Services Agreement as defined and described in the Circular be and is hereby approved; and
- (c) the directors of the Company be and are hereby authorized for and on behalf of the Company to do all such acts and things, to sign and execute all such documents, instruments and agreements and to take all such steps as they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Master Services Agreement and all other matters incidental thereto.”

By order of the Board
Wong Kwok-kan, Kenneth
Company Secretary

Hong Kong, 31 October 2007

Notes:

- (1) Any member entitled to attend and vote at the Meeting is entitled to appoint more than one proxy to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company.
- (2) Where there are joint registered holders of any share, any one of such persons may vote at the Meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share, shall alone be entitled to vote in respect thereof.
- (3) A form of proxy for use at the Meeting is enclosed.
- (4) To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority, must be deposited at the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited of 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or adjourned meeting. Completion and return of the form of proxy will not preclude members from attending and voting in person at the Meeting.
- (5) The Ordinary Resolution as set out above will be determined by way of a poll.
- (6) The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.
- (7) As at the date of this notice, the non-executive Directors are Dr. Cheng Kar-shun, Henry and Mr. Au Tak-cheong; the executive Directors are Mr. Cheng Chi-kong, Adrian, Mr. Cheung Fai-yet, Philip, Mr. Lin Tsai-tan, David, Mr. Wong Kwok-kan, Kenneth, and Ms. Ngan Man-ying, Lynda; and the independent non-executive Directors are Mr. Cheong Ying-chew, Henry, Mr. Chan Yiu-tong, Ivan, Mr. Tong Hang-chan, Peter and Mr. Yu Chun-fai, Henry.