新世界百貨中國有限公司
New World Department Store China Limited
(incorporated in the Cayman Islands with limited liability)
(Stock Code: 825)

ANNUAL RESULTS ANNOUNCEMENT 2013/2014

HIGHLIGHTS

Same-store sales[(1)] (“SSS”) declined by 4.3%.

Gross sales revenue improved by 0.1% to HK$16,428.0 million from HK$16,414.4 million in the Previous Year.

Revenue improved by 3.1% to HK$4,136.2 million from HK$4,011.5 million in the Previous Year.

Profit for the year decreased by approximately 18.9% to HK$520.5 million from HK$641.5 million in the Previous Year.

Core profit for the year[(2)] decreased by approximately 11.9% to HK$557.1 million from HK$632.4 million in the Previous Year.

Earnings per share was HK$0.31.

Proposed final dividend was HK$101.2 million.

(1) Same-store sales calculation represents change in total gross sales proceeds and rental income for stores in operation throughout the comparable years.

(2) Core profit for the year excludes other loss, changes in fair value of investment properties and its related income tax expense, one-off tax adjustment on disposal of properties situated in Wuxi and other non-core items.

ANNUAL RESULTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

The board of directors (the "Board" or "Directors") of New World Department Store China Limited (the "Company") is pleased to announce the audited annual results of the Company and its subsidiaries (together, the "Group") for the year ended 30 June 2014 as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

	Notes	**2014** *HK$'000*	2013 *HK$'000*
Revenue	*2*	**4,136,206**	4,011,545
Other income	*3*	**136,140**	146,274
Other loss	*4*	**(8,442)**	(60,432)
Changes in fair value of investment properties		**16,834**	70,852
Purchases of and changes in inventories		**(671,074)**	(693,086)
Employee benefit expense		**(661,424)**	(572,348)
Depreciation and amortisation		**(321,212)**	(320,310)
Operating lease rental expense		**(1,118,450)**	(980,394)
Other operating expenses, net	*5*	**(831,369)**	(767,644)
Operating profit		**677,209**	834,457
Finance income		**66,386**	89,998
Finance costs		**(31,035)**	(49,159)
Finance income, net		**35,351**	40,839
Profit before income tax		**712,560**	875,296
Income tax expense	*6*	**(192,035)**	(233,793)
Profit for the year		**520,525**	641,503
Attributable to equity holders of the Company		**520,525**	641,503
Dividends	*7*	**596,896**	320,367
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in HK$ per share)			
– Basic and diluted	*8*	**0.31**	0.38

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2014

	2014	2013
	HK$'000	*HK$'000*
Profit for the year	**520,525**	641,503
Other comprehensive income		
Item that will not be reclassified to profit or loss		
Revaluation of property upon reclassification from property, plant and equipment and land use rights to investment properties	**3,911**	96,287
– Deferred tax thereof	**(978)**	(24,072)
	2,933	72,215
Item that may be reclassified subsequently to profit or loss		
Translation differences	**(81,719)**	241,540
Other comprehensive income for the year, net of tax	**(78,786)**	313,755
Total comprehensive income for the year	**441,739**	955,258
Total comprehensive income attributable to equity holders of the Company	**441,739**	955,258

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2014

	Notes	2014 HK$'000	2013 HK$'000
Assets			
Non-current assets			
Property, plant and equipment		**2,171,857**	2,036,213
Investment properties		**4,339,656**	2,431,611
Land use rights		**899,678**	622,831
Goodwill		**1,867,241**	1,332,947
Other non-current assets	9	**305,111**	1,965,009
Long-term prepayments and rental deposits		**442,200**	488,231
Deferred income tax assets		**179,656**	141,463
		10,205,399	9,018,305
Current assets			
Inventories		**160,617**	152,269
Debtors	10	**105,101**	98,365
Prepayments, deposits and other receivables		**678,126**	605,098
Amounts due from fellow subsidiaries		**2,161**	455
Amounts due from related companies		**24**	303
Fixed deposits		**630,574**	485,518
Cash and cash equivalents		**896,538**	2,473,952
		2,473,141	3,815,960
Total assets		**12,678,540**	12,834,265
Equity			
Share capital		**168,615**	168,615
Reserves		**6,146,759**	6,301,916
Proposed dividend		**101,169**	155,125
		6,416,543	6,625,656
Liabilities			
Non-current liabilities			
Long-term borrowings		**696,844**	608,993
Accruals		**608,723**	581,942
Deferred income tax liabilities		**852,224**	511,751
		2,157,791	1,702,686

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 30 JUNE 2014

	Notes	2014 HK$'000	2013 HK$'000
Current liabilities			
Creditors, accruals and other payables	11	**3,959,809**	4,292,484
Amounts due to fellow subsidiaries		**24,911**	8,766
Amounts due to related companies		**30,809**	14,131
Current portion of long-term borrowings		**–**	50,304
Tax payable		**88,677**	140,238
		4,104,206	4,505,923
Total liabilities		**6,261,997**	6,208,609
Total equity and liabilities		**12,678,540**	12,834,265
Net current liabilities		**(1,631,065)**	(689,963)
Total assets less current liabilities		**8,574,334**	8,328,342

NOTES

1 Basis of preparation

The consolidated financial statements of the Company for the year ended 30 June 2014 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

At 30 June 2014, the Group's current liabilities exceeded its current assets by HK$1,631,065,000 (2013: HK$689,963,000). Taking into account the cash flows from operating activities, ability to generate additional financing and its asset backing, the Group has a reasonable expectation that it has adequate resources to meet its liabilities and commitments as and when they fall due and to continue in operational existence for the foreseeable future. Accordingly, it continues to adopt the going concern basis in preparing the consolidated financial statements.

In the current year, the Group has adopted the following new or revised standards, amendments to standards and interpretations which are mandatory for the financial year ended 30 June 2014:

HKFRS 1 (Amendment)	Government Loans
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurements
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKAS 19 (Revised 2011)	Employee Benefits
HKAS 27 (Revised 2011)	Separate Financial Statements
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine
Annual Improvements Project	Annual Improvements 2009–2011 Cycle

The adoption of these new or revised standards, amendments to standards and interpretations does not have any significant effect on the results and financial position of the Group except for below:

HKFRS 13 "Fair Value Measurements" defines fair value and provides a single source of fair value measurement and disclosure requirements for use across HKFRS. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities, but it affects certain financial statement presentation and requires additional disclosures.

1 Basis of preparation (Continued)

The following new standards, amendments to standards and interpretations are mandatory for the accounting periods beginning on or after 1 July 2014 or later periods which the Group has not early adopted:

HKFRS 9	Financial Instruments
HKFRS 9	Financial Instruments (Hedge Accounting and Amendments to HKFRS 9, HKFRS 7 and HKAS 39)
HKFRS 7 and HKFRS 9 (Amendments)	Financial Instruments: Disclosures- Mandatory Effective Date of HKFRS 9 and Transition Disclosures
HKFRS 14	Regulatory Deferral Accounts
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (Revised 2011)	Investment Entities
Amendments to HKFRS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to HKAS 16 and HKAS 38	Clarification Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 19 (Revised 2011)	Defined Benefit Plans: Employee Contributions
HKAS 32 (Amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
HKAS 36 (Amendment)	Recoverable Amount Disclosures for Non-Financial Assets
HKAS 39 (Amendment)	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies
Annual Improvements Project	Annual Improvements 2010–2012 Cycle
Annual Improvements Project	Annual Improvements 2011–2013 Cycle

The Group is in the process of making an assessment of the impact of these new or revised standards, amendments to existing standards and interpretation on its result of operation and financial position.

2 Revenue and segment information

	2014	2013
	HK$'000	*HK$'000*
Commission income from concessionaire sales	**2,635,070**	2,638,907
Sales of goods – direct sales	**787,058**	809,626
Management and consultancy fees	**55,970**	52,277
Rental income	**658,108**	510,735
	4,136,206	4,011,545

The income from concessionaire sales is analysed as follows:

	2014	2013
	HK$'000	*HK$'000*
Gross revenue from concessionaire sales	**14,790,731**	14,895,486
Commission income from concessionaire sales	**2,635,070**	2,638,907

The chief operating decision-maker ("CODM") has been identified as executive Directors. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The CODM considers that the Group has department store and property investment business. The CODM assesses the performance of the operating segments based on their revenue and operating results. The measurement of segment operating results excludes the effect of other loss, changes in fair value of investment properties and unallocated corporate expenses. In addition, finance income, net is not allocated to segments. The measurement of segment assets excludes deferred income tax assets and unallocated corporate assets. There is no inter-segment sales.

All revenue is generated in Mainland China and all significant operating assets of the Group are in Mainland China.

2 Revenue and segment information (Continued)

For the year ended 30 June 2014

	Department store *HK$'000*	Property investment *HK$'000*	Consolidated *HK$'000*
Segment revenue	**3,941,101**	**195,105**	**4,136,206**
Segment results	**525,560**	**153,549**	**679,109**
Other loss	**(8,442)**	**–**	**(8,442)**
Changes in fair value of investment properties	**–**	**16,834**	**16,834**
Unallocated corporate expenses			**(10,292)**
Operating profit			**677,209**
Finance income			**66,386**
Finance costs			**(31,035)**
Finance income, net			**35,351**
Profit before income tax			**712,560**
Income tax expense			**(192,035)**
Profit for the year			**520,525**

For the year ended 30 June 2013

	Department store *HK$'000*	Property investment *HK$'000*	Consolidated *HK$'000*
Segment revenue	3,905,109	106,436	4,011,545
Segment results	747,182	83,467	830,649
Other loss	(60,423)	(9)	(60,432)
Changes in fair value of investment properties	–	70,852	70,852
Unallocated corporate expenses			(6,612)
Operating profit			834,457
Finance income			89,998
Finance costs			(49,159)
Finance income, net			40,839
Profit before income tax			875,296
Income tax expense			(233,793)
Profit for the year			641,503

2 Revenue and segment information (Continued)

As at 30 June 2014

	Department store *HK$'000*	Property investment *HK$'000*	Consolidated *HK$'000*
Segment assets	**7,514,903**	**4,976,169**	**12,491,072**
Deferred income tax assets			**179,656**
Corporate assets:			
Cash and cash equivalents			**7,792**
Others			**20**
Total assets			**12,678,540**
For the year ended 30 June 2014			
Additions to non-current assets (Note)	**951,953**	**714,521**	**1,666,474**
Depreciation and amortisation	**320,324**	**888**	**321,212**

As at 30 June 2013

	Department store *HK$'000*	Property investment *HK$'000*	Consolidated *HK$'000*
Segment assets	8,122,060	4,566,680	12,688,740
Deferred income tax assets			141,463
Corporate assets:			
Cash and cash equivalents			4,037
Others			25
Total assets			12,834,265
For the year ended 30 June 2013			
Additions to non-current assets (Note)	467,532	1,270,942	1,738,474
Depreciation and amortisation	319,647	663	320,310

Note:

Additions to non-current assets represent additions to non-current assets other than financial instruments and deferred income tax assets.

3 Other income

	2014	2013
	HK$'000	*HK$'000*
Government grants	**29,699**	25,767
Income from suppliers	**81,303**	91,353
Sundries	**25,138**	29,154
	136,140	146,274

4 Other loss

	2014	2013
	HK$'000	*HK$'000*
Loss on disposal of property, plant and equipment and land use rights	**8,442**	60,432

5 Other operating expenses, net

	2014	2013
	HK$'000	*HK$'000*
Water and electricity	**178,263**	173,373
Selling, promotion, advertising and related expenses	**216,176**	232,208
Cleaning, repairs and maintenance	**99,960**	90,798
Auditor's remuneration	**6,500**	5,800
Share-based payments	**–**	74
Net exchange losses	**15,577**	15,976
Other tax expenses	**221,045**	205,165
Others	**93,848**	44,250
	831,369	767,644

6 Income tax expense

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

	2014	2013
	HK$'000	*HK$'000*
Current income tax		
– Mainland China taxation	**174,595**	223,965
Under/(over) provision in prior years	**707**	(19,203)
Deferred income tax		
– Deferred taxation on undistributed retained earnings	**(19,993)**	5,655
– Other temporary differences	**36,726**	23,376
	192,035	233,793

Taxation has been provided at the tax rates prevailing in the tax jurisdictions in which members of the Group operate. No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profit in Hong Kong for the years ended 30 June 2013 and 2014.

Subsidiaries of the Group in Mainland China are subject to corporate income tax at a rate of 25% (2013: 25%).

7 Dividends

	2014	2013
	HK$'000	*HK$'000*
Interim dividend paid of HK$0.094 (2013: HK$0.098) per share	**158,498**	165,242
Special dividend paid of HK$0.200 (2013: Nil) per share	**337,229**	–
Final dividend proposed of HK$0.060 (2013: HK$0.092) per share	**101,169**	155,125
	596,896	320,367

At a meeting held on 23 September 2014, the Directors recommended a final dividend of HK$0.060 (2013: HK$0.092) per share for the year ended 30 June 2014. This proposed dividend was not recognised as dividend payable in the financial statements for the year ended 30 June 2014 and will be paid out of share premium account.

8 Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2014	2013
Profit attributable to the equity holders of the Company (HK$'000)	**520,525**	641,503
Weighted average number of ordinary shares in issue (shares in thousands)	**1,686,145**	1,686,145
Basic earnings per share (HK$ per share)	**0.31**	0.38

8 Earnings per share (Continued)

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

During the years ended 30 June 2013 and 2014, shares issuable upon exercise of the share options are the only dilutive ordinary shares. There was no potential dilutive effect from the share options.

9 Other non-current assets

Balances as at 30 June 2014 and 2013 represented the following transactions:

(a) On 8 February 2013, Shenyang Trendy Property Company Limited ("Shenyang Trendy"), a wholly-owned subsidiary of the Company, entered into a cooperation agreement with Shenyang New World Hotel Co., Ltd. ("SYNWH"), a wholly-owned subsidiary of New World China Land Limited ("NWCL") and a fellow subsidiary of the Company. Pursuant to the cooperation agreement, Shenyang Trendy and SYNWH agreed to cooperate in a property redevelopment project in Shenyang City. Shenyang Trendy agreed to surrender to the local government authority the land and building where Shenyang Nanjing Street Branch Store was situated for a compensation of RMB250,012,000 and to make contribution of RMB527,060,000 (subject to further adjustments) to SYNWH for the related costs of demolition of the existing building and design, construction and payment of any relevant land grant premium of certain portion of the redeveloped building. As at 30 June 2014, the balance in connection to this transaction was approximately HK$305,111,000 (30 June 2013: HK$222,074,000).

(b) On 4 October 2010, Shenyang New World Department Store Ltd. ("Shenyang Co"), a wholly-owned subsidiary of the Company, entered into agreements with SYNWH. Shenyang Co agreed to acquire the building ownership right, land use right of certain exclusive and common-use areas of the building, located in Shenyang City, and right of use of certain areas of the equipment and facility room, the outer wall, the facilities, the electrical and mechanical systems, for a consideration of approximately RMB456,534,000. As at 30 June 2013, the balance in connection with this acquisition was approximately HK$475,214,000. Upon completion of the transaction in April 2014, the balance was transferred to property, plant and equipment and land use rights.

(c) On 27 May 2013, New World Department Stores Investment (China) Co., Ltd. ("NWDSI"), a wholly-owned subsidiary of the Company, entered into an agreement with independent third parties to acquire the entire equity interest in Shanghai Hongxin Properties Company Limited ("Hongxin Co"), a limited liability company incorporated in the People's Republic of China ("PRC"), for a gross consideration of RMB1,250,000,000. As at 30 June 2013, the Group has made payment of approximately HK$1,217,088,000 and recognised payable of approximately HK$50,633,000 in connection with such acquisition. The acquisition was completed on 30 July 2013.

10 Debtors

	2014	2013
	HK$'000	*HK$'000*
Debtors	**105,101**	98,365

The Group grants credit terms within 30 days in majority.

Aging analysis of the debtors, based on the invoice dates, is as follows:

	2014	2013
	HK$'000	*HK$'000*
Within period for		
0–30 days	**59,113**	78,098
31–60 days	**5,224**	1,728
61–90 days	**9,112**	821
Over 90 days	**31,652**	17,718
	105,101	98,365

Debtors included amounts due from fellow subsidiaries and a related company of HK$6,232,000 (2013: HK$1,057,000) and HK$1,425,000 (2013: Nil) which were unsecured, interest free and repayable on demand.

The carrying amounts of debtors approximate their fair values. All debtors are denominated in Renminbi.

11 Creditors, accruals and other payables

The Group normally receives credit terms of 60 to 90 days. The aging analysis of the creditors which are denominated in Renminbi, based on the invoice dates, is as follows:

	2014	2013
	HK$'000	*HK$'000*
Within period for		
0–30 days	**1,012,268**	1,114,797
31–60 days	**653,098**	971,181
61–90 days	**171,437**	213,937
Over 90 days	**421,692**	398,570
	2,258,495	2,698,485

Creditors included amounts due to related companies of HK$53,113,000 (2013: HK$108,903,000) which were unsecured, interest free and repayable within 90 days.

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

BUSINESS REVIEW

During the year under review, the Group's revenue increased by 3.1% from HK$4,011.5 million in FY2013 (or the "Previous Year") to HK$4,136.2 million in FY2014 (or the "Current Year"). Profit for the year was HK$520.5 million.

Business Network

During the Current Year, the Group operated 41 department stores and two shopping malls, with a total gross floor area ("GFA") of about 1,656,090 square meters ("sq.m.") and a total operating floor area ("OFA") of about 1,323,920 sq.m. Located in three operating regions, namely Northern China, South Eastern China and Central Western China, the stores covered 21 major cities in Mainland China, including Wuhan, Shenyang, Harbin, Tianjin, Ningbo, Beijing, Shanghai, Dalian, Kunming, Lanzhou, Changsha, Chongqing, Chengdu, Anshan, Nanjing, Zhengzhou, Mianyang, Yancheng, Xi'an, Yanjiao and Yantai with 39 self-owned stores and four managed stores.

Revenue Contribution

By Region

The Northern China Region contributed the most to the Group's revenue during the year under review, accounting for 50.1% of revenue, followed by the South Eastern China Region and the Central Western China Region, accounting for 27.6% and 22.3% of revenue respectively.

By Segment

Commission income from concessionaire sales was the major source of income, accounting for 63.7% of revenue. Sales of goods for direct sales and rental income accounted for 19.0% and 15.9% respectively. Management and consultancy fees accounted for 1.4%.

Store Network Development

During the year under review, the Group completed the acquisition of Shanghai Hongxin Trendy Plaza and Hong Kong New World Department Store – Shanghai Wujiaochang Branch Store ("Shanghai Wujiaochang Branch Store"), which further strengthened its market position in Shanghai. In addition, the Group continued to expand its business scale in the Northern China Region. A new self-owned store, Yantai New World Department Store ("Yantai Store"), was set up in Yantai City, Shandong Province.

As at 30 June 2014, the Group's total GFA was approximately 1,656,090 sq.m., representing a 9.4% increase from the Previous Year. The total GFA of self-owned stores was approximately 1,518,890 sq.m., which marked a 13.3% growth from the Previous Year.

Operations Strategies

Revamping Mature Stores to Bring Something New

To maintain its leading position in the competitive market, the Group will initiate a mature store revamp in the wake of "rebranding program" by optimizing store layout, interior decoration and design to enhance consumers' shopping experience. On the other hand, the Group will adjust its in-store merchandise and service mix in accordance with the needs of consumers and the positioning of an individual store through the addition of lifestyle brands and the regular revitalization of merchandise mix to attract young customers.

Increasing Leasing Projects to Cater for the Regime of Experiential Consumption

Committed to offering Chinese consumers a stylish shopping experience, the Group has gradually strengthened its in-store complementary facilities since 2009 and introduced experiential consumption facilities, such as restaurants, beauty salons, children's playgrounds and cinemas, to create a one-stop shopping experience. In the light of a remarkably increasing demand for specialty dining and children-oriented facilities in recent years, the Group will further expand the operating area of leasing projects in these two categories to prolong customers' duration of stay.

Developing Private Labels to Form Tasteful Customer Cluster

The expanding middle class in Mainland China has facilitated increasing desire for quality living. Hence, the Group launched its private label, LOL Concept Shop, in March 2013, which procures creative lifestyle gadgets directly from all over the world to offer consumers a wide range of trendy and innovative merchandise so as to further enhance the Group's product differentiation and improve the gross profit margin of goods for direct sales. At the moment, there are 12 LOL shops in Beijing, Shanghai, Wuhan, Chengdu, Chongqing, Harbin and Shenyang. Looking forward, the Group will continue to accelerate the development of its private label business with the aim of increasing the number of LOL shops to around 20 by FY2015, and to actively organize tailored VIP activities with major brands to form a tasteful customer cluster. Catering to the spending habit of young customers, the Group will introduce the LOL brand to various e-commerce platforms to further widen its sales channel and to maximize its influence with standardized online and offline pricing.

Comprehensive Staff Trainings to Cope with Business Development Needs

Amid the ever-changing retail market, more all-round retail professionals are in need to help the Group cope with its expanding business. Hence, the Group will continue to provide tailored training programs for staff at different levels with the conviction of "Nurture Talents with Respect, Care and Trust". The programs include "Project Xinpeng – NWDS Management Intern Cultivation" for nurturing future talents, "Elite Talents Nurturing Plan", "Certificate Program of Further Studies in Retail Operation and Management 2014" and "Golden Ladder" nurturing program for middle management, and "Operational Management Training Camp for Store Managers" for senior management. At the same time, the Group will continue to strengthen its training for in-house trainers so that the integrated ability of in-house trainers and team coherence could be enhanced through experience and technique sharing among colleagues. On the other hand, the Group plans to collaborate with famous institutions, including the China Europe International Business School and Shanghai Jiao Tong University, to introduce top training programs to strengthen employees' expertise in department store, shopping mall and direct sales business, and to escalate the strategic vision and integrated management ability of managerial staff.

Upgraded Information Management System to Boost Operational Efficiency

To handle the large amount of data and customer information generated from daily operation, the Group will continue to optimize its existing information system and utilize technology to increase operational efficiency, so as to enhance its operational performance and responsiveness. With respect to back-office operations, the Group will conduct a full upgrade of its business management system to strengthen internal control, and will further increase the level of office automation in order to enhance the Group's productivity and competitiveness in the market. For store operations, the Group will further improve the back-end system integration among its concessionaires, leasing and direct sales business to make centralized management possible, in order to enhance operational efficiency. In response to the popularity of mobile shopping, the Group will continue to promote O2O (Online-to-Offline) marketing and gradually increase the amount of resources allocated to the installation of Wi-Fi infrastructures, the development of foot traffic analyzing system and mobile e-shopping platform; at the same time, to increase the number of convenient mobile cash registers, such as POS devices, to shorten payment processing time so as to optimize customers' shopping experience.

Merchandise Strategies

Diversifying Merchandising Channels to Enhance In-Store Complementary Facilities

In view of consumers' eagerness for experiential consumption, the Group will strengthen its tenant acquisition efforts in dining and entertainment categories to expand the leasing areas for complementary facilities. For efficient management of new leasing projects and merchandise mix adjustment, the Group has established two specified task forces, namely the national merchandising team and the business planning and management team, to undertake the responsibilities of centralized management and planning of the above projects. At the same time, the Group will further broaden its merchandising channels, bringing in more new suppliers and tenants to diversify its merchandise portfolio and increase the overall competitiveness of its department stores.

Head Office-Head Office Strategic Partnership to Sketch Nationwide Brand Development Roadmap

The Group will further strengthen the centralized management of its merchandising projects by forming a specified task force to establish direct communication with sizable suppliers to jointly sketch a nationwide brand development roadmap from a more macroscopic perspective, and to explore strategic partnership opportunities at all levels in accordance with the development strategies of both parties, such as organizing exclusive branded sales promotions, to multiply the competitive advantages by combining the strengths of both parties.

Tiered Brand Maintenance to Consolidate Cooperation

Suppliers have always been the Group's important business partners. Thus, the Group will continue to consolidate and optimize the "Head office – Region – Store" three-tier supplier management system to carry out tiered brand maintenance and strengthen the partnership with strategic brands. In addition to category killers, such as ladies' footwear, gold and jewelry, and ladies' casual wear, the Group will also carefully maintain the relationship with well-known food and beverage companies and other tenants providing complementary services, fostering strong and long-term partnerships with suppliers.

Marketing Strategies

Adding Large-Scale Children-Oriented Facilities to Create "Happy New World"

Incorporating the fantasy of large-scale theme parks into the relaxing shopping experience of department stores, the Group introduces a new concept of "Happy New World" to deliver a brand-new shopping experience to customers. Apart from further enriching their in-store children-oriented and recreational facilities together with the related merchandise, stores will hold amusing family and celebrity meetup activities on a regular basis to strengthen the interaction with customers comprehensively, creating a place where is full of "happy shopping" ambience that customers would prefer to visit for entertainment, gathering and shopping with their families. The Group has rolled out the "Happy New World" concept in selected stores since June 2014 to attract more family customers.

Capitalizing on Economies of Scale to Launch Nationwide Inter-store Marketing Campaigns

The Group will continue to leverage its national scale to organize inter-store promotional campaigns at regional and national level to lower investment from individual store while increasing campaigns' publicity. For instance, to be in line with the new "Happy New World" positioning, the Group launched an inter-store campaign, "Happy Ping-Pong", in five major cities in July 2014 to let participants across the country fight for the thrones of table tennis champion. The event has effectively increased stores' foot traffic and the profile of the Group. The Group will organize more similar nationwide inter-store campaigns in the future to further strengthen its interaction with customers.

Establishing O2O Marketing Platforms to Convert Information into Sales Revenue

The emerging mobile Internet technology has shaped current consumption behavior. Hence, the Group will adopt an O2O marketing model and explore in-depth partnership with renowned e-commerce operators in the aspects of membership recruitment and online payment to draw online users to physical stores. On the other hand, the Group will continue to enhance the installation of its in-store Wi-Fi infrastructures and plans to reform the existing e-shopping platform to be compatible with mobile devices so that customers can access to brand and discount information anytime with their mobile devices. A large "Digital Shopping Wall" will also be installed to facilitate in-store online shopping, realizing the conversion of information into sales revenue. Through gathering customers' online shopping data, the Group will be able to carry out more precise and targeted marketing campaigns and nurture "service-oriented" customer clusters.

Optimized Membership Mechanism and Services to Boost Customer Satisfaction

Following the previous adjustment on its membership structure, the Group will launch a new premium card, "Diamond N-VIP", to attract more high-end consumers with exclusive discounts and differentiated services. The Group will also further optimize its existing bonus point redemption system and launch a computer-and-mobile-compatible bonus point redemption portal so that VIP members can redeem their bonus points online anywhere, anytime, and enjoy the flexibility to pick up the gifts at stores or delivery to their homes. The online bonus point redemption platform will also link to the new mobile e-shopping platform, so that VIP members can earn bonus points upon purchase while doing redemption, offering a perfectly seamless shopping experience.

Expansion Strategies

The official release of China's *National New Urbanization Plan 2014-2020* in March 2014 provides a clear national development schedule with the focus on accelerating urbanization in the central and western region to realize the in situ urbanization of 100 million local farmers. It is expected that the government will escalate the importance of the new urbanization plan to be the future economic growth driver. In view of this, the Group will continue to carry through the expansion strategies of "multiple presences within a single city" and "radiation city" by opening new stores in first- and second-tier cities to consolidate its regional competitive advantage, extending its presence to surrounding third- and fourth-tier cities with great development potential and expanding its management and consultancy services, in order to grasp the new prospects brought by the new urbanization plan.

Increasing Self-owned Stores by Renting and Acquisition

The Group will continue to expand the business of its self-owned stores by means of renting and acquisition. For renting, the Group's reputation and scale advantage arising from its extensive business network enable it to enjoy competitive and long-term leasing agreements from landlords to effectively alleviate the impact of fluctuating rental expenses on its business performance. With respect to acquisitions, the Group will take individual store's operations performance, the consumption power in where it situated and other factors into consideration, and acquire managed stores with sound business performance at an appropriate time to increase the number of its self-owned stores. On the other hand, the Group will continue to strengthen its cooperation with local government agencies to explore potential retail projects. As intensified industry competition gives rise to elimination, the Group could ride on the opportunity to acquire retail properties with high potential or in strategic location by leveraging its financial strength.

The Group will open its Shanghai 118 Project in Putuo District, Shanghai, with a total GFA of approximately 62,600 sq.m. in FY2015, to further increase its influence in Shanghai. In addition, in FY2016, the Group plans to establish a new "Living Gallery" in Hengyang City, Hunan Province, with a total GFA of approximately 42,200 sq.m. Hengyang City is the bridge between Hunan Province and the world's economy. The inflow of numerous well-known enterprises to Hengyang City in recent years has brought positive impact to its local economy and boosted the local consumption power.

Since space delivers a pleasant shopping experience to customers, the Group will continue to expand the operating area of its stores. The expansion of Shenyang Nanjing Street Branch Store Phase II Project is expected to complete in FY2016 with a total GFA of approximately 25,400 sq.m.; the redevelopment of Shenyang Nanjing Street Branch Store Phase I Project is underway. The store is expected to re-open in FY2017, with a total GFA increased to approximately 26,300 sq.m. The two phases will collectively create a new shopping space of approximately 51,700 sq.m..

Grasping Opportunities from New Urbanization through Developing Management and Consultancy Business

To seize the opportunities arising from the new urbanization plan in third- and fourth-tier cities, the Group will diversify its revenue streams in a "low-risk, low-investment" approach by providing consultancy and management services. As more real estate projects emerge in third- and fourth-tier cities, professional advice is needed when developers put their retail real estate projects into operations, creating the demand for consultancy services. Through providing such service, the Group can gain a deeper understanding on the potential and location of the projects, background of their owner as well as the consumption power of the cities where the projects are situated to help filter projects with high potential.

In FY2016, the Group will expand its market presence in the northern district and set up a managed store with a total GFA of approximately 40,000 sq.m in Jiamusi City, Heilongjiang Province. On the other hand, the Group plans to provide consultancy services to multiple retail real estate projects located in third- and fourth-tier cities of the central and western region, laying a foundation for the Group's business expansion in the related region.

OUTLOOK

In the first half of 2014, the gradually stabilized economic growth in the United States and the Eurozone's economic recovery drew capital back to developed countries and slowed down the development of emerging economies; meanwhile, the market anticipates that the growth of Mainland China, which is currently undergoing an economic restructure, will be constrained in the short run. To break out of such predicament, the Chinese government launched a series of mild "micro-stimulation" measures in March 2014, including increasing tax reduction for small enterprises, transformation of squatter settlement and railway reform, to stabilize its economic growth. However, the market is uncertain about the effectiveness of the measures due to their limited scale. On the other hand, although China's new urbanization plan is one of the prioritized agenda for the government, which is expected to further unleash the domestic demand, its stimulation effect to the economy is yet to be reflected in the short run due to its long implementation timeframe. Taking various factors into account, the Group is prudent about its business development in the future.

Confronted by the challenging operating environment during the year under review, the Group will continue to diversify its revenue streams and stabilize its business performance through the means of increasing the number of leasing projects, developing private labels, and expanding management and consultancy service business. At the same time, the Group will continue to react to market changes in a responsive manner and grasp the opportunities brought by the new urbanization plan and the expanding domestic consumption. Riding on the development momentum of mobile Internet, the Group will also embrace O2O marketing into sales promotions to draw young online consumers to its physical stores, maintaining a stable pace in its business development to safeguard shareholders' return.

FINANCIAL REVIEW

Revenue

Revenue of the Group was HK$4,136.2 million in FY2014 representing an increase of 3.1% from HK$4,011.5 million in FY2013. The growth was primarily contributed from management and consultancy fee income and rental income.

Gross sales revenue, comprising gross revenue from concessionaire sales, sales of goods for direct sales, management and consultancy fees, rental income and other income slightly increased by 0.1% to HK$16,428.0 million in FY2014 from HK$16,414.4 million in FY2013. Gross revenue from concessionaire sales decreased by 0.7% to HK$14,790.7 million from HK$14,895.5 million in the Previous Year. Commission income rate increased from 17.7% in the Previous Year to 17.8% in the Current Year. The increase was primarily due to the sales decline of jewelry and gold with lower commission rate. Sales of goods for direct sales was HK$787.1 million in FY2014 compared with HK$809.6 million in FY2013. Direct sales turnover mainly comprised of groceries, housewares and perishables (approximately 54.8%), cosmetic products (approximately 42.7%), ladieswear and menswear (approximately 1.9%), accessories, handbags and underwears (approximately 0.6%). Gross margin of direct sales was 14.7% compared to 14.4% in the Previous Year. The increase was mainly due to the growth of private label business, LOL, improved the sales margin in the Current Year. In FY2014, ladieswear and accessories made up approximately 65.7% of gross revenue from concessionaire sales and sales of goods for direct sales. Menswear and accessories made up approximately 16.1% and sportswear, bread and snacks, electrical appliances, kidswear and personal care products largely made up the rest.

Management and consultancy fees was HK$56.0 million in FY2014 showing an increase by 7.1% from HK$52.3 million in FY2013. The increase was primarily due to the Group received fees for the provision of consultancy services for some new projects which were at pre-opening stage in the Current Year.

Rental income increased by 28.9% to HK$658.1 million in FY2014 mainly due to increased leasing area from firstly, recognising a full-year operation of Yancheng New World Department Store ("Yancheng Store") and Xi'an New World Department Store ("Xi'an Store") opened in December 2012; secondly, the newly acquired Shanghai Hongxin Trendy Plaza in July 2013; thirdly, the conversion of Shanghai Wujiaochang Branch Store from a managed store to a self-owned store in November 2013; fourthly, a more efficient use of the leasing area of the existing stores.

Other Income

Other income of the Group was HK$136.1 million in FY2014 compared with HK$146.3 million of FY2013. Other income in FY2014 mainly comprised HK$81.3 million of the income from suppliers and HK$29.7 million of government grants.

Other Loss

Loss on disposal of property, plant and equipment and land use rights of the Group in the Current Year was HK$8.4 million (FY2013: HK$60.4 million).

Changes in Fair Value of Investment Properties

Changes in fair value of investment properties in the Current Year was HK$16.8 million related to the properties of Hong Kong New World Department Store – Shanghai Shaanxi Road Branch Store, Shanghai Hongxin Trendy Plaza, Zhengzhou New World Department Store and Shenyang New World Department Store – Jianqiao Road Branch Store.

Purchases of and Changes in Inventories

The purchases of and changes in inventories represented the cost of sales for direct sales of goods. It decreased by 3.2% to HK$671.1 million in FY2014 from HK$693.1 million in FY2013. The decrease was in line with the improvement in direct sales margin in the Current Year.

Employee Benefit Expense

Employee benefit expense increased to HK$661.4 million in FY2014 from HK$572.3 million in FY2013. This increase was primarily due to the increase in wages and salaries, retirement benefit costs and other employee benefits as a result of recognising a full-year operation of Yancheng Store and Xi'an Store opened in FY2013. The newly acquired Shanghai Hongxin Trendy Plaza in July 2013, the conversion of Shanghai Wujiaochang Branch Store from a managed store to a self-owned store in November 2013 and the newly opened Yantai Store in December 2013 as well as the increase in manpower for customer relation management and digital marketing also contributed to the increase of employee benefit expense in the Current Year.

Depreciation and Amortisation

Depreciation and amortisation expense in FY2014 was HK$321.2 million which slightly increased from HK$320.3 million in FY2013.

Operating Lease Rental Expense

Operating lease rental expense increased to HK$1,118.5 million in FY2014 from HK$980.4 million in FY2013. This increase was a result of recognising a full-year operation of Xi'an Store opened in FY2013, the conversion of Shanghai Wujiaochang Branch Store from a managed store to a self-owned store in November 2013 and the newly opened Yantai Store in December 2013.

Other Operating Expenses, net

Other operating expenses increased to HK$831.4 million in FY2014 from HK$767.6 million in FY2013. Selling, promotion, advertising and related expenses were controlled and decreased from HK$232.2 million in FY2013 to HK$216.2 million in FY2014. An increase in other tax expenses from HK$205.2 million in FY2013 to HK$221.0 million in FY2014 was due to the reduction of reimbursement from suppliers in relation to the consumption tax arising from sales of gold related products.

Operating Profit

Operating profit was HK$677.2 million in FY2014 compared with HK$834.5 million in FY2013.

Income Tax Expense

Income tax expense of the Group was HK$192.0 million in FY2014 compared with HK$233.8 million in FY2013. The effective tax rate of the Group in FY2014 was 26.9% (FY2013: 26.7%).

Profit for the Year

As a result of the reasons mentioned above, profit for the year was HK$520.5 million compared with HK$641.5 million in the Previous Year. Core profit for the year, which has excluded other loss, changes in fair value of investment properties and its related income tax expense, one-off tax adjustment on disposal of properties situated in Wuxi and other non-core items, decreased by approximately 11.9% to HK$557.1 million from HK$632.4 million in the Previous Year.

Liquidity and Financial Resources

Cash and fixed deposits of the Group amounted to HK$1,527.1 million as at 30 June 2014 (30 June 2013: HK$2,959.5 million).

The Group's borrowings from banks as at 30 June 2014 was HK$696.8 million (30 June 2013: HK$659.3 million) of which HK$500.0 million (30 June 2013: HK$632.9 million) was secured by pledge of assets.

At 30 June 2014, the Group's current liabilities exceeded its current assets by HK$1,631.1 million (30 June 2013: HK$690.0 million). The Group will continue to monitor rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs and its liabilities and commitments as and when they fall due.

The capital commitment of the Group as at 30 June 2014 were HK$507.1 million, of which HK$506.8 million were contracted but not provided for in the statement of financial position. For the contractual payment of HK$506.8 million, approximately HK$395.3 million was related to the property redevelopment project in Shenyang City.

Pledge of Assets

As at 30 June 2014, investment properties of HK$1,900.0 million (30 June 2013: HK$1,913.9 million) of the Group were pledged as securities for bank borrowings of HK$500.0 million (30 June 2013: HK$632.9 million).

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 to hedge its foreign exchange risk. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 30 June 2014.

FINAL DIVIDEND

The Directors have resolved to recommend a final dividend of HK$0.060 per share (2013: HK$0.092 per share) for the year ended 30 June 2014 to shareholders whose names appear in the register of members of the Company on 1 December 2014. It is expected that the proposed final dividend will be paid on or about 29 December 2014 subject to shareholders' approval at the forthcoming annual general meeting of the Company to be held on 18 November 2014.

EMPLOYEES, REMUNERATION POLICY AND PENSION SCHEME

As at 30 June 2014, total number of employees for the Group was 6,563 (2013: 6,616). The Group ensures that all levels of employees are paid competitively within the standard in the market and employees are rewarded on performance related basis within the framework of the Group's salary and incentives.

The Group has made contributions to the staff related plans or funds in accordance with the regulations like pension plans, medical, unemployment, work related injury and maternity insurance. Such arrangements are in compliance with relevant laws and regulations.

ACQUISITION AND DISPOSAL

On 27 May 2013, NWDSI entered into an agreement with independent third parties to acquire the entire equity interest in Hongxin Co, for a gross consideration of RMB1,250.0 million which includes RMB540.0 million of cash paid for the repayment of a principal amount of the outstanding bank borrowings of Hongxin Co. Hongxin Co owns and operates a shopping mall in Shanghai. The acquisition was completed on 30 July 2013.

In November 2013, Shenyang Co acquired 100% of the entire interest in Shanghai New World Huizi Department Store Co., Ltd. ("Shanghai Huizi Co") for a consideration of RMB280.0 million from independent third parties. Shanghai Huizi Co is a limited liability company incorporated in the PRC and is engaged in the operations of a department store in Shanghai.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company had not redeemed any of its listed securities during the year. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities during the year.

CORPORATE GOVERNANCE CODE

The Company has complied with all the applicable code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year ended 30 June 2014.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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 2014.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established in accordance with requirements of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee consists of the four independent non-executive Directors. The Audit Committee has reviewed the systems of internal control and the annual results and the financial statements for the year ended 30 June 2014 and discussed the financial related matters with the management.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 14 November 2014 to Tuesday, 18 November 2014, both days inclusive, during which period no transfer of share of the Company will be registered. In order to establish entitlements to attend and voting at the forthcoming annual general meeting of the Company, all transfers of shares of the Company accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the branch share registrar and transfer agent of the Company in Hong Kong, Tricor Investor Services Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 13 November 2014.

Subject to shareholders' approval at the forthcoming annual general meeting of the Company, the proposed final dividend will be payable to shareholders whose name appear on the register of members of the Company on Monday, 1 December 2014. The register of members of the Company will be closed from Thursday, 27 November 2014 to Monday, 1 December 2014, both days inclusive, during which period no transfer of share of the Company will be registered. In order to establish entitlements to the proposed final dividend, all transfers of shares of the Company accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the branch share registrar and transfer agent of the Company in Hong Kong, Tricor Investor Services Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 26 November 2014.

For and on behalf of the board of
New World Department Store China Limited
Dr. Cheng Kar-shun, Henry
Chairman

Hong Kong, 23 September 2014

As at the date of this announcement, the non-executive Directors are Dr. Cheng Kar-shun, Henry, Mr. Au Tak-cheong and Ms. Ngan Man-ying, Lynda; the executive Directors are Dr. Cheng Chi-kong, Adrian, Mr. Cheung Fai-yet, Philip and Mr. Wong Kwok-kan, Kenneth; 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.