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 2015/2016

HIGHLIGHTS

Same-store sales[1] ("SSS") declined by 8.9%.

Gross sale revenue declined by 14.3% to HK$13,077.0 million from HK$15,258.4 million in the Previous Year.

Revenue declined by 9.2% to HK$3,659.9 million from HK$4,029.4 million in the Previous Year.

Profit for the year decreased by approximately 34.9% to HK$45.4 million from HK$69.7 million in the Previous Year.

Earnings per share was HK$0.03.

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

ANNUAL RESULTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

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 2016 as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2016

	Note	**2016** **HK$'000**	2015 HK$'000
Revenue	2	**3,659,896**	4,029,351
Other income	3	**170,424**	168,589
Other losses, net	4	**(25,164)**	(176,422)
Changes in fair value of investment properties		**(25,437)**	766
Purchases of and changes in inventories, net		**(756,036)**	(719,380)
Employee benefit expense		**(633,223)**	(747,285)
Depreciation and amortisation		**(300,730)**	(344,248)
Operating lease rental expense		**(1,163,895)**	(1,191,665)
Other operating expenses, net	5	**(716,135)**	(788,844)
Operating profit		**209,700**	230,862
Finance income		**67,240**	74,850
Finance costs		**(38,031)**	(48,819)
Finance income, net		**29,209**	26,031
		238,909	256,893
Share of result of an associated company		**(130)**	–
Profit before income tax		**238,779**	256,893
Income tax expense	6	**(193,381)**	(187,152)
Profit for the year		**45,398**	69,741
Attributable to:			
Shareholders of the Company		**45,643**	69,741
Non-controlling interests		**(245)**	–
		45,398	69,741
Earnings per share for profit attributable to shareholders of the Company during the year (expressed in HK$ per share)			
– Basic and diluted	8	**0.03**	0.04

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016

	2016	2015
	HK$'000	*HK$'000*
Profit for the year	**45,398**	69,741
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Revaluation of properties upon reclassification from property, plant and equipment and land use rights to investment properties	**20,113**	29,750
– Deferred income tax thereof	**(5,028)**	(7,437)
	15,085	22,313
Items that may be reclassified subsequently to profit or loss		
Release of exchange reserve upon liquidation of a subsidiary	**–**	(10,097)
Fair value changes of available-for-sale financial asset	**(4,399)**	–
Translation differences	**(405,776)**	(1,839)
	(410,175)	(11,936)
Other comprehensive income for the year, net of tax	**(395,090)**	10,377
Total comprehensive income for the year	**(349,692)**	80,118
Attributable to:		
Shareholders of the Company	**(349,454)**	80,118
Non-controlling interests	**(238)**	–
	(349,692)	80,118

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	Note	2016 HK$'000	2015 HK$'000
Assets			
Non-current assets			
Property, plant and equipment		**1,482,758**	1,794,395
Investment properties		**4,567,522**	4,717,926
Land use rights		**671,759**	803,474
Intangible assets		**1,748,725**	1,869,132
Interests in associated companies		**361**	–
Other non-current assets	9	**616,336**	314,707
Prepayments, deposits and other receivables		**332,816**	395,627
Available-for-sale financial asset		**35,893**	–
Financial asset at fair value through profit or loss		**9,040**	–
Deferred income tax assets		**150,866**	162,571
		9,616,076	10,057,832
Current assets			
Inventories		**231,117**	230,412
Debtors	10	**114,183**	98,206
Prepayments, deposits and other receivables		**542,733**	637,139
Amounts due from fellow subsidiaries		**2,842**	27,207
Amounts due from related companies		**2,210**	365
Fixed deposits		**39,269**	26,806
Cash and cash equivalents		**1,163,409**	2,089,111
		2,095,763	3,109,246
Total assets		**11,711,839**	13,167,078
Equity and liabilities			
Equity			
Share capital		**168,615**	168,615
Reserves		**5,744,224**	6,124,022
Shareholders' funds		**5,912,839**	6,292,637
Non-controlling interests		**(4)**	–
Total equity		**5,912,835**	6,292,637

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 30 JUNE 2016

	Note	2016 HK$'000	2015 HK$'000
Liabilities			
Non-current liabilities			
Accruals and other payables		**527,499**	601,043
Obligation under finance leases		**47**	62
Borrowings		**385,965**	1,578,056
Deferred income tax liabilities		**856,502**	876,775
		1,770,013	3,055,936
Current liabilities			
Creditors, accruals and other payables	*11*	**3,313,310**	3,583,344
Amounts due to fellow subsidiaries		**6,735**	4,086
Amounts due to related companies		**12,163**	12,356
Amount due to an associated company		**477**	–
Obligation under finance leases		**16**	16
Borrowings		**609,687**	128,970
Tax payable		**86,603**	89,733
		4,028,991	3,818,505
Total liabilities		**5,799,004**	6,874,441
Total equity and liabilities		**11,711,839**	13,167,078

NOTES

1 BASIS OF PREPARATION

The consolidated financial statements of the Company for the year ended 30 June 2016 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, available-for-sale financial asset and financial asset at fair value through profit or loss, which have been measured at fair value.

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 2016, the Group's current liabilities exceeded its current assets by HK$1,933,228,000 (2015: HK$709,259,000). 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.

There are no standards, amendments to standards or interpretations that are effective for the first time for the year ended 30 June 2016.

The following new or revised standard and amendments to existing standards are mandatory for the accounting periods beginning on or after 1 July 2016 which the Group has not early adopted:

Effective for the year ending 30 June 2017:

HKFRS 14	Regulatory Deferral Accounts
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Annual Improvements Project	Annual Improvements 2012-2014 Cycle

Effective for the year ending 30 June 2018 or after:

HKFRS 9 (2014)	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HKFRS 16	Leases
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKAS 7	Statement of Cash Flows
Amendments to HKAS 12	Income Taxes

Effective date to be determined:

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

2 REVENUE AND SEGMENT INFORMATION

	2016	2015
	HK$'000	*HK$'000*
Commission income from concessionaire sales	**1,977,219**	2,441,660
Sales of goods – direct sales	**1,002,932**	895,410
Management and consultancy fees	**40,288**	53,565
Rental income	**639,457**	638,716
	3,659,896	4,029,351

The income from concessionaire sales is analysed as follows:

	2016	2015
	HK$'000	*HK$'000*
Gross revenue from concessionaire sales	**11,223,896**	13,502,152
Commission income from concessionaire sales	**1,977,219**	2,441,660

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 other related businesses, 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 net other losses, changes in fair value of investment properties and unallocated corporate expenses. In addition, net finance income and share of result of an associated company are not allocated to segments. The measurement of segment assets excludes interests in associated companies, deferred income tax assets and unallocated corporate assets. There is no inter-segment sales.

Revenue is primarily generated in Mainland China and all significant operating assets of the Group are in Mainland China.

2 REVENUE AND SEGMENT INFORMATION (CONTINUED)

	Department store and other related businesses *HK$'000*	Property investment *HK$'000*	Consolidated *HK$'000*
For the year ended 30 June 2016			
Segment revenue	**3,494,906**	**164,990**	**3,659,896**
Segment results	**158,725**	**108,687**	**267,412**
Other losses, net	**(25,164)**	**–**	**(25,164)**
Changes in fair value of investment properties	**–**	**(25,437)**	**(25,437)**
Unallocated corporate expenses			**(7,111)**
Operating profit			**209,700**
Finance income			**67,240**
Finance costs			**(38,031)**
Finance income, net			**29,209**
			238,909
Share of result of an associated company			**(130)**
Profit before income tax			**238,779**
Income tax expense			**(193,381)**
Profit for the year			**45,398**
For the year ended 30 June 2015			
Segment revenue	3,870,350	159,001	4,029,351
Segment results	337,432	75,627	413,059
Other losses, net	(176,422)	–	(176,422)
Changes in fair value of investment properties	–	766	766
Unallocated corporate expenses			(6,541)
Operating profit			230,862
Finance income			74,850
Finance costs			(48,819)
Finance income, net			26,031
Profit before income tax			256,893
Income tax expense			(187,152)
Profit for the year			69,741

2 REVENUE AND SEGMENT INFORMATION (CONTINUED)

	Department store and other related businesses *HK$'000*	Property investment *HK$'000*	Consolidated *HK$'000*
As at 30 June 2016			
Segment assets	**6,108,770**	**5,450,310**	**11,559,080**
Interests in associated companies	**361**	**–**	**361**
Deferred income tax assets	**150,866**	**–**	**150,866**
Unallocated corporate assets:			
Cash and cash equivalents			**1,300**
Others			**232**
Total assets			**11,711,839**
For the year ended 30 June 2016			
Additions to non-current assets *(Note)*	**477,937**	**47,158**	**525,095**
Depreciation and amortisation	**298,639**	**2,091**	**300,730**
Impairment loss on property, plant and equipment	**30,146**	**–**	**30,146**
As at 30 June 2015			
Segment assets	7,174,905	5,823,887	12,998,792
Deferred income tax assets	162,571	–	162,571
Unallocated corporate assets:			
Cash and cash equivalents			5,485
Others			230
Total assets			13,167,078
For the year ended 30 June 2015			
Additions to non-current assets *(Note)*	387,273	56,167	443,440
Depreciation and amortisation	342,697	1,551	344,248
Impairment loss on property, plant and equipment	123,147	–	123,147

Note:

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

3 OTHER INCOME

	2016 *HK$'000*	2015 *HK$'000*
Government grants	**24,827**	21,036
Income from suppliers	**76,228**	83,217
Compensation for termination of lease	**15,667**	26,410
Sundries	**53,702**	37,926
	170,424	168,589

4 OTHER LOSSES, NET

	2016	2015
	HK$'000	*HK$'000*
Fair value gain on financial asset at fair value through profit or loss	**9,312**	–
Gain on liquidation of a subsidiary	**–**	10,097
Loss on disposal of property, plant and equipment *(Note i)*	**(4,330)**	(63,372)
Impairment loss on property, plant and equipment *(Note ii)*	**(30,146)**	(123,147)
	(25,164)	(176,422)

Notes:

(i) During the year ended 30 June 2015, loss on disposal of property, plant and equipment of approximately HK$4,432,000 was derived taking into account the compensation amount from the termination of lease.

(ii) The impairment provision was made to reflect management's assessment for mainly one department store (2015: two department stores) in light of the latest market environment and the management's assessment on the business prospect thereof.

5 OTHER OPERATING EXPENSES, NET

	2016	2015
	HK$'000	*HK$'000*
Water and electricity	**129,058**	159,052
Selling, promotion, advertising and related expenses	**165,887**	250,956
Cleaning, repairs and maintenance	**91,730**	102,062
Auditors' remuneration		
– Audit services	**7,080**	6,540
– Non-audit services	**1,141**	2,837
Net exchange losses/(gains) *(Note)*	**62,446**	(9,798)
Other tax expenses	**169,974**	201,996
Provision for doubtful debts, net	**2,187**	12,152
Others	**86,632**	63,047
	716,135	788,844

Note: The amount excluded exchange losses arising from foreign currency borrowings capitalised to other non-current assets of HK$3,140,000 (2015: HK$Nil), which represented the interest rate differential between borrowing costs that would be incurred if the Company's subsidiaries had borrowed funds in their functional currencies.

6 INCOME TAX EXPENSE

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

	2016	2015
	HK$'000	*HK$'000*
Current income tax		
– Mainland China taxation	**159,277**	161,637
– Under/(over)-provision in prior years	**108**	(2,571)
Deferred income tax		
– Undistributed retained earnings	**1,819**	(6,962)
– Other temporary differences	**32,177**	35,048
	193,381	187,152

6 INCOME TAX EXPENSE (CONTINUED)

Taxation has been provided at the tax rates prevailing in the tax jurisdictions in which the 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 2016 and 2015.

Subsidiaries of the Group in Mainland China are subject to corporate income tax at a rate of 25% (2015: 25%).

7 DIVIDENDS

	2016	2015
	HK$'000	*HK$'000*
Interim dividend paid of HK$Nil (2015: HK$0.061) per share	**–**	102,855
Final dividend proposed of HK$Nil (2015: HK$0.018) per share	**–**	30,351
	–	133,206

The Directors have resolved not to recommend a final dividend for the year ended 30 June 2016 (2015: HK$0.018 per share).

8 EARNINGS PER SHARE

(a) Basic

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

	2016	2015
Profit attributable to the shareholders of the Company (HK$'000)	**45,643**	69,741
Weighted average number of ordinary shares in issue (shares in thousands)	**1,686,145**	1,686,145
Basic earnings per share (HK$ per share)	**0.03**	0.04

(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 2016 and 2015, there was no dilutive potential ordinary share.

9 OTHER NON-CURRENT ASSETS

Balances as at 30 June 2016 and 2015 represented the following transaction:

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 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 New World Department Store – 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 2016, the balance in connection to this transaction and the costs capitalised was approximately HK$616,336,000 (2015: HK$314,707,000).

10 DEBTORS

	2016	2015
	HK$'000	*HK$'000*
Debtors	**132,521**	121,524
Less: provision for doubtful debts	**(18,338)**	(23,318)
Debtors, net	**114,183**	98,206

The Group grants credit terms within 30 days in majority.

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

	2016	2015
	HK$'000	*HK$'000*
Within period for		
0-30 days	**69,384**	69,423
31-60 days	**16,709**	6,198
61-90 days	**3,736**	2,697
Over 90 days	**24,354**	19,888
	114,183	98,206

Debtors included amounts due from fellow subsidiaries of approximately HK$Nil (2015: HK$9,804,000), which were unsecured, interest free and repayable on demand.

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

11 CREDITORS

The Group normally receives credit terms of 60 to 90 days. The ageing analysis of the creditors, based on the invoice dates, is as follows:

	2016	2015
	HK$'000	*HK$'000*
Within period for		
0-30 days	**764,708**	914,025
31-60 days	**687,984**	567,276
61-90 days	**148,757**	147,174
Over 90 days	**348,792**	400,326
	1,950,241	2,028,801

Creditors included amounts due to related companies of approximately HK$78,162,000 (2015: HK$59,452,000), which were unsecured, interest free and repayable within 90 days.

The carrying amounts of creditors approximate their fair values. The creditors are primarily denominated in Renminbi.

BUSINESS REVIEW

During the year under review, the Group's revenue declined by 9.2% from HK$4,029.4 million in FY2015 (or the "Previous Year") to HK$3,659.9 million in FY2016 (or the "Current Year"). Profit for the year was HK$45.4 million.

Business Network

During the Current Year, the Group operated 39 department stores and two shopping malls, with a total gross floor area ("GFA") of about 1,614,180 square metres ("sq.m.") and a total operating floor area ("OFA") of about 1,280,440 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 37 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 51.1% of revenue, followed by the South Eastern China Region and the Central Western China Region, accounting for 31.1% and 17.8%, respectively.

By Segment

Commission income from concessionaire sales was the major source of income, accounting for 54.0% of revenue. Sales of goods for direct sales and rental income accounted for 27.4% and 17.5% respectively. Management and consultancy fees accounted for 1.1%.

Operations Strategies

Deploying Refined Management Strategies to Improve Operational Efficiency

Under the ever-changing operating environment with heated competition, the Group exercised stringent cost control measures including closing smaller stores with weaker development potentials during the year under review. The Group also improved its operational efficiency by streamlining administrative processes and adopting a new result-oriented management methodology. Going forward, the Group will formulate more fitted market positioning and operations strategies for each and individual store according to the economic circumstances and the characteristics of consumers at where they are located on top of the existing store classification of "Living Gallery" and "Fashion Gallery". This attempt symbolizes the rollout of the Group's refined management strategies which are believed to strengthen the operational capability of its stores in the long run.

With the Theme of "NWDS' Theory of Happiness" to Craft Happiness-packed Shopping Experience

Consumer behaviour in Mainland China has been upgraded from the mere purchasing of commodities in previous years to a call for an overall customer experience nowadays. The Group, therefore, has introduced "NWDS' Theory of Happiness" with an aim to provide "happiness-inducing" services that cover the social, interactive and experiential aspects of shopping and to shape itself as a new physical retailer that responds to and meets consumer needs.

To carry through the theory, the Group has changed its operations strategies from a brand-oriented one to a customer-oriented one and has continuously optimized its merchandise and service mix. In the light of an increasing demand for children's and sports products as a result of the "two-child policy" and the *National Fitness Plan (2011-2015)*, the Group expanded the operating area for these categories during the year under review. At Beijing New World Qianzi Department Store ("Beijing Qianzi Store"), for example, the children's floor was moved to the second floor with higher foot traffic, where more premium children's wear brands were introduced. At Wuhan New World Department Store – Xudong Branch Store ("Wuhan Xudong Branch Store"), the sports section was moved to the spacious first floor, on which outdoor sports and climbing supplies specialty stores were introduced to create a dedicated zone of over 1,000 sq.m. for outdoor products. Targeting ladies who pursue trendy and quality products, the Group further strengthened the cosmetics category during the year under review. At Chengdu New World Department Store ("Chengdu Store"), an array of European and American cosmetics brands were introduced so that the Group can leverage their brand appeal to draw more traffic.

Promoting Themed Interior Design to Create a Unique Shopping Ambience

During the year under review, the Group adopted a differentiated operations strategy and set up themed interior design in a number of stores to cater for the cultural and spiritual needs of consumers. The "Happy Slide" at Hong Kong New World Department Store – Shanghai Pujian Branch Store aims to spread the message of happy shopping and to boost spending from family customers as they enjoy a leisure time. The High Street at Yantai New World Department Store is decorated with containers, junks, graffiti and sculptures to set up the ambience of a cultural quarter, perfectly integrating the elements of originality, art and culture, recreation and trendy lifestyle. Nanjing New World Department Store strengthened its positioning as a "Trendy Mini Mall" by introducing DM cinema, HONEYMOON DESSERT and other businesses to stimulate associated spending. Looking ahead, the Group will continue to push forward the operating model which features themed interior design, so as to create a unique shopping ambience and provide customers with all-spectrum, all-customer-group services in addition to premium products.

Expanding Direct Sales Business to Actualize Differentiation in Products and Services

To respond to the increasing demand for quality food and products as a result of the improved living standard in Mainland China, the Group continued to increase the proportion of its direct sales business through product procurement and the establishment of private labels during the year under review to improve gross margin and to enrich the field experience of its procurement team. Following the opening of the first n+ Natural Taste Plus specialty store in Shanghai, the Group will carry through the "multiple presences within a single city" strategy to increase the number of its outlets in Shanghai with an attempt to gradually expand to other affluent cities like Beijing. The Group plans to open 20 n+ Natural Taste Plus specialty stores in the next three years. On the other hand, LOL (Love • Original • Life) Concept Shop ("LOL") continued to offer nationally exclusive and limited debuts of stylish lifestyle premiums during the year under review. Its product categories were extended to tea merchandise, floral displays and artworks, etc. In future, the Group will continue to develop its LOL business on Tmall.com by leveraging on the influence of internet celebrities to stimulate online sales as well as by accelerating the integration of its online and offline businesses to consolidate its dual sales channels.

As the sluggish economy created a stronger blow to the luxury market, the Group's distribution business of high-end fashion brands launched new apparel lines targeting young customer group during the year under review, such as the collaboration of MOSCHINO with a video game developer on an animated characters series, as a means to expand customer base and to strengthen sales. The brands also implemented effective cost-control measures to secure their profit. Going forward, the Group will continue to identify and sponsor mainland artistes who are stylishly consistent with MOSCHINO, LOVE MOSCHINO and REDValentino as a way to increase their media exposure and national repute to further attract young and other target customer groups.

Merchandising Strategies

Recruiting More Customer-wanted Children's, Sports and Cosmetics Brands

As the execution of "NWDS' Theory of Happiness", the merchandising strategy of the Group has become more customer-oriented with a greater focus on the experience and personality of its customers. During the year under review, the Group focused on recruiting children's, sports and cosmetics brands to further strengthen its merchandise mix. For the children's category, Beijing Qianzi Store and Hong Kong New World Department Store – Shanghai Wujiaochang Branch Store introduced children's wear brands such as Balabala, adidas KIDS, FILA KIDS, SKECHERS Kids and Paw in Paw respectively. In the sports category, Wuhan Xudong Branch Store introduced outdoor sports and climbing supplies brands such as new balance, NIKE, NORTHLAND and KAILAS. For the cosmetics category, Chengdu Store introduced famous European and American make-up brands such as M•A•C, ORIGINS and ANNA SUI, etc.

To provide customers with an omni-channel shopping experience, the Group stepped up its efforts in introducing online brands to its stores. It successfully worked with INMAN, one of the top three online ladieswear brands and craftsmen for linen and cotton, and opened six physical stores in the mainland with synchronized online and offline pricing. The move has been critically acclaimed. In FY2017, the Group will start its cooperation with INMAN's associated high-end women's fashion brand, A Life On The Left, and put forward its store opening plan in the mainland.

Introducing Lifestyle-related Tenants to Enhance Amenities Offerings

To attract customers in different age groups, the Group strategically adjusted the tenant mix of its in-store lifestyle complementary facilities during the year under review based on the economic circumstances of where the stores are located. The Group placed its tenant recruitment focus on specialty food and beverage ("F&B"), recreation and entertainment, educational organizations and fitness centres, etc. to elevate its in-store amenities offerings. Xi'an New World Department Store, for example, opened the "Silk Road Delicacies", a food court of 2,800 sq.m. which gathered restaurants with regional characters, such as Kwon Geum Sung Korean BBQ, CYGNET HOT POT, Tibetan Secret Recipe Baked Fish and HuangJiHuang Three-Sauce Simmer Pot. Beijing New World

Department Store, on the other hand, brought on board tenants of integrated functions, including hosa Fitness, MINISO, Xize Travels, the fresh fruit bouquet shop Edible Arrangements, etc. to cater for different customer needs. In FY2017, the Group will step up its efforts in exploring the interactive experience sector and introducing tenants specialising in room escape games, virtual reality games, etc. to inject new elements into consumer experience.

Exploring New Operating Models and Introducing Joint-venture F&B Projects

During the year under review, the Group launched a few joint-venture F&B projects and successfully collaborated with three caterers to jointly operate the Korean fast food store Aza Aza!, the Korean honeycomb ice-cream specialty store Sweetruck and the Taiwanese honey beverage store Une Petite Abeille, further actualizing its differentiated operations. In future, the Group will enhance its efforts in seeking potential brands and introducing projects operated in new models.

Marketing Strategies

Headquarters-led Marketing Campaigns to Foster Sales and Brand Promotions

During the year under review, the Group organized a number of signature regionwide and nationwide inter-store marketing campaigns, including "Blast of Joy", "Tailored Feast for You" and "Non-stop Mega Sales", to continually stimulate foot traffic and sales all year round. In particular, the campaign "630 Your Happiest Day in the Year", which was themed around "NWDS' Theory of Happiness" and took place during late June to early July 2016, comprised special shopping sessions for staff and allies as well as special offer days for customers. Coupled with the provision of multiple incentives on dining and entertainment spending, sales grew 55% during the campaign period. In future, the Group plans to increase the number of nationwide inter-store marketing campaigns to four per year, stepping up its efforts in providing stores with detailed guidance and support from the headquarters which includes framework and implementation proposal for the overall campaign, as well as the highlights and details of its daily activities. The headquarters will also take the lead to engage with key brands to seize competitive discounts in order to drive transactions. On the other hand, the Group also plans to feature highly-recommended products at different times of the campaign period, so as to strengthen its collaboration with concessionaire counters on promotion and to drive sales throughout the campaign period to achieve a win-win outcome.

Cross-industry Marketing Cooperation with Renowned Enterprises to Boost Customer Base and Transaction

During the year under review, the Group actively undertook cross-industry cooperation. It partnered with renowned mobile game operator China Mobile Games and Entertainment to organize online traffic directing campaign "Tian Tian Xuan Wu" to push stores' promotional information to its players, and draw them to the stores where an offline "Tian Tian Xuan Wu Dance Championship" was held. Furthermore, the Group worked with emerging mobile karaoke social application Maichang and organized two offline mobile recording studio activities, which were enthusiastically received by young communities and successfully boosted foot traffic. On top of continuing the use of WeChat and Weibo as traffic directing tools, the Group will run its upcoming campaigns with a focus on facilitating transactions and plans to launch cross-industry marketing campaigns with banks and financial institutions to attract their widespread and affluent customers to the stores by providing exclusive shopping offers.

The Digitization of VIP Membership and Marketing Tactics to Enable Target Marketing

To foster and maintain its relationship with VIP members, the Group plans to step up its efforts in driving the digitization progress of its VIP membership and marketing. For membership, the Group plans to provide digitalized membership services with third party payment service providers such as Alipay, WeChat Pay and banks, that enable the attachment of VIPs' memberships with their debit or third party payment accounts. Riding on the foundation of digitized membership, all member-related data will be segmented for storage in the database by multiple tags, enabling an effective and scientific analysis to take place to generate a clearer picture on the spending patterns and habits of VIP members, which can help the Group to carry out target marketing to facilitate transactions. Concurrently, the Group will leverage on various digital marketing platforms to push notifications featuring bonus point redemption, vouchers, latest special offers and product information to VIP members to foster engagement.

Expansion Strategies

The growth of the total retail sales of consumer goods in Mainland China slowed down to about 10% during the year under review. The decline was mainly a result of weakened consumer sentiments arising from the sustained deceleration of the Chinese economy. Moreover, sales in the physical retail sector were struck twice by online shopping and consumption abroad. Amidst such a challenging operating environment, the Group maintains a cautious and conservative attitude, striving to refine its operations strategies to improve operational efficiency, so as to offer the best merchandise and service mix and shopping environment to consumers.

Consumption Upgrade is one of the important agendas in the "13th Five-Year Plan", which envisions to unleash domestic consumption by improving the consumption environment, thus giving momentum to the overall economic growth. With the launch of the "two-child policy" and the new urbanization policy, added with favourable factors such as the emergence of the middle class, China's consumption market will receive powerful support in the long run. To capture future opportunities, the Group will gradually complete its self-owned stores in the pipeline from FY2017 onwards. The Group also plans to open two managed stores in third- and fourth-tier cities with the "low risk, low investment" approach.

Carrying Through the "Radiation City" Strategy to Capture Urbanization Opportunities

Benefiting from the new urbanization policy, the economies of third- and fourth-tier cities in Mainland China are growing at an accelerated rate. The Group will carry through its "radiation city" expansion strategy and plans to open a self-owned store, with a total GFA of 35,000 sq.m., in Jingmen City which is adjacent to Wuhan City.

To respond to the phenomenon of increasing lifestyle-related spending, the Group is conducting the construction of Shenyang Nanjing Street Branch Store Phase I Redevelopment Project and the expansion of Shenyang Nanjing Street Branch Store Phase II Project. Upon completion, the two projects will form a department store with a total GFA of nearly 52,000 sq.m. and create a premium shopping experience for consumers.

Provision of Third Party Management Services to Enter Third- and Fourth-tier Cities With Great Flexibility

To speed up entrance into new markets and to lower the relevant operational risks, the Group provides third party management and consultancy services to a number of real estate retail projects. In addition to receiving a steady flow of management fees income, the Group can also get familiarized with the local consumer market through day-to-day operations, while enjoying the opportunity to invest in or develop local projects or to acquire currently-managed projects at an appropriate time, increasing its flexibility in both operations and business development. Going forward, the Group plans to open managed stores in Yibin City, Sichuan Province and Tongliang District, Chongqing City respectively.

OUTLOOK

The international economic landscape of 2016 is an intricately complicated one. Due to the weakened household consumption and corporate investments of developed countries, demand of the global commodities market is weak and trade has continued to shrink. Added with the concussions of the international financial market, China's economy has been constantly pressured by external factors. China's GDP in the first half of 2016 only rose 6.7% year-on-year, the lowest since 1990. The weak impetus provided by the "Troika", namely investment, exports and consumption, resulted in an overall weak economic performance. Looking forward to the second half of the year, the market does not expect the global economy to resume significant growth in the short term, which will continue to affect China's export trade. The overcapacity in the mainland, intensifying pressure on Renminbi depreciation, as well as corporate profits being dragged by the economy may lead to increased debts, the possibility of a wave of company closures and escalating bad and doubtful debts for banks. The viscous cycle could worsen the downward pressure on the Chinese economy and affect consumer sentiments. Amidst the above-stated gloomy economic circumstances, added with the influence of industrial factors such as heated competition in the department store sector, the impact from e-commerce and the ever-increasing operating costs, the prospects for China's physical retail industry remains challenging.

Although China's retail industry faces a long list of challenges, it is also welcoming opportunities from expanded and upgraded consumption in the long run. In 2016, the first year of the "13th Five-Year Plan", the government is implementing a number of consumption-boosting measures. The full implementation of the "two-child policy", for example, will unleash much domestic consumption potentials; the integrated development amongst rural industries, on the other hand, will increase farmers' per capita disposable income; the accelerated urbanization in third- and fourth-tier cities will speed up their economic development; and the reform and refinement of the social welfare system will improve the overall standard of living. All these measures are believed to be effective in continually expanding domestic consumption. With constant improvement in people's standard of living, their consumer behaviour is upgrading and transforming towards the directions of high quality, personalization, diversification and convenience. To cope with the market trend, the Group strives to strengthen the themed interior design and complementary facilities of its stores, including F&B, recreation, entertainment, fitness, etc., to create an appealing shopping ambience. The enhanced deployment of the Group's omni-channel marketing also further enriches customers' shopping experience. The Group is well positioned and equipped to embrace various challenges ahead and to grasp future development opportunities with a pragmatic and cautious attitude.

FINANCIAL REVIEW

Revenue

Revenue of the Group was HK$3,659.9 million in FY2016 representing a decline of 9.2% from HK$4,029.4 million in FY2015.

Gross sales revenue, comprising gross revenue from concessionaire sales, sales of goods for direct sales, management and consultancy fees, rental income and other income decreased by 14.3% to HK$13,077.0 million in FY2016 from HK$15,258.4 million in FY2015. Gross revenue from concessionaire sales decreased to HK$11,223.9 million from HK$13,502.2 million in the Previous Year. Commission income rate decreased from 18.1% in the Previous Year to 17.6% in the Current Year. The decrease was primarily due to proportionate increase in sales of gold and jewelry as well as sportswear which had lower margins. Sales of goods for direct sales was HK$1,002.9 million in FY2016 compared with HK$895.4 million in FY2015. Direct sales revenue mainly comprised sales of groceries, housewares and perishables (approximately 36.9%), cosmetic products (approximately 28.8%), ladieswear and menswear (approximately 28.8%), as well as accessories and miscellaneous items (approximately 5.5%). Gross margin of direct sales was 24.6% compared to 19.7% in the Previous Year. The increase was mainly due to the inclusion of the distribution business of high-end fashion brands since January 2015 which had a higher gross margin. In FY2016, ladieswear and accessories made up approximately 63.3% of gross revenue from concessionaire sales and sales of goods for direct sales. Menswear and accessories made up approximately 9.6% and sportswear, bread and snacks, electrical appliances, kidswear and personal care products largely made up the rest.

Management and consultancy fees was HK$40.3 million in FY2016 showing a decrease by 24.8% from HK$53.6 million in FY2015. The decrease was primarily due to drop in Group's recognition of fees for the provision of consultancy services for new projects in the Current Year.

Rental income increased slightly by 0.1% to HK$639.5 million in FY2016 from HK$638.7 million in FY2015, mainly due to expanded rentable area and improved tenant mix, which was partially offset by the reduced rentable area as a result of the closure of Wuhan New World Department Store – Qiaokou Branch Store ("Wuhan Qiaokou Branch Store") and Beijing Shishang New World Department Store ("Beijing Shishang Store") in November 2014 and December 2015 respectively and the downsizing of Shenyang New World Department Store – Jianqiao Road Branch Store ("Shenyang Jianqiao Road Branch Store") in March 2015.

Other Income

Other income of the Group was HK$170.4 million in FY2016 compared with HK$168.6 million in FY2015. Other income in FY2016 mainly comprised HK$76.2 million of income from suppliers, HK$24.8 million of government grants, HK$15.7 million of compensation from a landlord for the termination of lease of Beijing Shishang Store, HK$13.0 million of compensation from a tenant for the termination of sub-lease in Ningbo New World Trendy Department Store ("Ningbo Trendy Store") and HK$9.8 million of one-off income due to the termination of management and consultancy fee agreements for certain new projects.

Other Losses, Net

Net other losses of the Group in the Current Year was HK$25.2 million which was primarily resulted from HK$9.3 million of fair gain on the indemnification in connection with the acquisition of a subsidiary and HK$30.1 million of impairment loss on property, plant and equipment of the existing stores.

Changes in Fair Value of Investment Properties

A loss in fair value of investment properties in the Current Year was HK$25.4 million which related to the properties of Shenyang Jianqiao Road Branch Store, Hong Kong New World Department Store – Shanghai Tianshan Road Branch Store and Tianjin New World Department Store.

Purchases of and Changes in Inventories

The purchases of and changes in inventories primarily represented the cost of sales for direct sales of goods. It increased by 5.1% to HK$756.0 million in FY2016 from HK$719.4 million in FY2015. The increase was in line with the increase in sales of goods for direct sales in the Current Year.

Employee Benefit Expense

Employee benefit expense decreased to HK$633.2 million in FY2016 from HK$747.3 million in FY2015. The decrease in employee benefit expense was primarily due to the continuous efforts by management to carry out cost control measures as well as the closure of Wuhan Qiaokou Branch Store in November 2014 also contributed to the decrease of employee benefit expense in the Current Year.

Though control of expenses, the decrease was partially offset by the recognition of a full-year employee benefit expense of the newly opened Hong Kong New World Department Store – Shanghai 118 Branch Store ("Shanghai 118 Branch Store") in November 2014 and a subsidiary, engaged in the distribution and retailing businesses, which was acquired in January 2015 (the "Acquired Subsidiary").

Depreciation and Amortisation

Depreciation and amortisation expense decreased from HK$344.2 million in FY2015 to HK$300.7 million in FY2016, primarily due to no depreciation was provided in the Current Year for property, plant and equipment impaired for mainly two department stores in FY2015 and some stores with assets that have been fully depreciated. The decrease was partially offset by the recognition of a full-year depreciation and amortisation expense of Shanghai 118 Branch Store opened in FY2015 and the Acquired Subsidiary.

Operating Lease Rental Expense

Operating lease rental expense decreased to HK$1,163.9 million in FY2016 from HK$1,191.7 million in FY2015, primarily due to the reduction of rental rates for certain leased properties in the Current Year and the closure of Wuhan Qiaokou Branch Store and Beijing Shishang Store in November 2014 and December 2015 respectively. However, the decreased was partially offset by the recognition of a full-year rental expense of of Shanghai 118 Branch Store opened in FY2015 and the Acquired Subsidiary.

Other Operating Expenses, Net

Net other operating expenses decreased to HK$716.1 million in FY2016 from HK$788.8 million in FY2015. The decrease was primarily due to the effective control of water and electricity, promotion and advertising expenses by management and a decline in other tax expenses which was in line with the decline of revenue in FY2016. The decrease was partially offset by the inclusion of exchange loss for HK$62.4 million mainly arising from the devaluation of Renminbi and compensation to the landlord for HK$12.8 million due to the early termination of lease of Ningbo Trendy Store. In addition, the newly opened Shanghai 118 Branch Store in November 2014 and the Acquired Subsidiary also contributed to a full-year other operating expenses in the Current Year.

Operating Profit

Operating profit was HK$209.7 million in FY2016 compared with HK$230.9 million in FY2015.

Income Tax Expense

Income tax expense of the Group was HK$193.4 million in FY2016 compared with HK$187.2 million in FY2015. A reversal of deferred income tax asset of approximately HK$28.0 million, with respect to previously recognised tax losses which were not utilised or not expected to be utilised before expiry dates based on Group's latest estimate on the profitability of respective stores, was included in Current Year.

Profit for the Year

As a result of the reasons mentioned above, profit for the year decreased by approximately 34.9% to HK$45.4 million compared with HK$69.7 million in the Previous Year.

Liquidity and Financial Resources

Cash and fixed deposits of the Group amounted to HK$1,202.7 million as at 30 June 2016 (30 June 2015: HK$2,115.9 million).

The Group's borrowings from banks as at 30 June 2016 were HK$995.7 million (30 June 2015: HK$1,707.0 million) of which HK$409.4 million (30 June 2015: HK$524.3 million) was secured by pledge of asset.

At 30 June 2016, the Group's current liabilities exceeded its current assets by HK$1,933.2 million (30 June 2015: HK$709.3 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 2016 were HK$116.2 million, of which HK$116.2 million were contracted but not provided for in the consolidated statement of financial position. For the contractual payment of HK$116.2 million, approximately HK$61.6 million is for the redevelopment project of a building in Shenyang City.

Pledge of Assets

As at 30 June 2016, investment properties of HK$1,784.8 million (30 June 2015: a property, land use rights and investment properties of HK$1,952.5 million) of the Group were pledged as securities for bank borrowings and banking facilities of HK$409.4 million (30 June 2015: HK$525.0 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, mainly arising from the exposure of Hong Kong dollars against Renminbi. The Group has not used any forward contracts to hedge its foreign exchange risk during the year. 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 2016.

FINAL DIVIDEND

The Directors have resolved not to recommend a final dividend for the year ended 30 June 2016 (2015: HK$0.018/per share).

EMPLOYEES, REMUNERATION POLICY AND PENSION SCHEME

As at 30 June 2016, the total number of employees of the Group was 4,957 (31 December 2015: 5,133). 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 insurance, unemployment assistance, work related injury and maternity insurance. Such arrangements are in compliance with relevant laws and regulations.

ACQUISITION AND DISPOSAL

The Group did not have any significant acquisition and disposal for the year ended 30 June 2016.

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") for the time being in force during the year ended 30 June 2016.

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 2016.

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 risk management and internal controls. The Audit Committee consists of the four independent non-executive Directors. The Audit Committee has reviewed the systems of risk management and internal control and the annual results and the financial statements for the year ended 30 June 2016 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, 18 November 2016 to Monday, 21 November 2016, 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, 17 November 2016.

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

Hong Kong, 20 September 2016

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 and Mr. Cheung Fai-yet, Philip; 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.