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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 2010/2011**

### **HIGHLIGHTS**

Same store sales<sup>(1)</sup> (“SSS”) growth of 18.2%.

Revenue improved by 46.8% to HK\$2,749.5 million from HK\$1,872.9 million of the Previous Year.

Operating profit increased by 37.2% to HK\$1,113.2 million from HK\$811.5 million of the Previous Year.

Profit for the year increased by 48.1% to HK\$855.6 million from HK\$577.6 million of the Previous Year.

Earnings per share was HK\$0.51.

Proposed final dividend is HK\$0.065 per share<sup>(2)</sup>.

Proposed special dividend is HK\$0.010 per share.

<sup>(1)</sup> Same store sales growth represents change in total gross sales proceeds and rental income for stores in operation throughout the comparable years.

<sup>(2)</sup> The proposed dividend payout ratio in FY2011 is 50% compared with 53% in FY2010 which is derived from the profit in the Current Year excluding the effect of revaluation of investment properties, disposal of available-for-sale financial assets and disposal of a certain portion of property and land use right at which Wuxi Store was situated.

## ANNUAL RESULTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

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 (collectively, the “Group”) for the year ended 30 June 2011 as follows:

### CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2011

	<i>Note</i>	<b>2011</b> <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Revenue	2	<b>2,749,485</b>	1,872,905
Other income	3	<b>195,661</b>	81,954
Other gains	4	<b>398,527</b>	165,972
Changes in fair value of investment properties		<b>20,751</b>	–
Purchases of and changes in inventories		<b>(448,826)</b>	(296,166)
Employee benefit expense		<b>(411,281)</b>	(239,617)
Depreciation and amortisation		<b>(282,327)</b>	(198,968)
Operating lease rental expense		<b>(704,141)</b>	(362,325)
Other operating expenses	5	<b>(404,634)</b>	(212,248)
Operating profit		<b>1,113,215</b>	811,507
Share of loss of an associated company		<b>–</b>	(203)
Profit before income tax		<b>1,113,215</b>	811,304
Income tax expense	6	<b>(257,627)</b>	(233,697)
Profit for the year		<b>855,588</b>	577,607
Attributable to equity holders of the Company		<b>855,588</b>	577,607
Dividends	7	<b>269,783</b>	252,922
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	<b>0.51</b>	0.34

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
*FOR THE YEAR ENDED 30 JUNE 2011*

	<b>2011</b> <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Profit for the year	<b>855,588</b>	577,607
Revaluation of property upon reclassification from property, plant and equipment to investment properties	<b>2,653</b>	–
– Deferred tax thereof	<b>(663)</b>	–
Fair value (loss)/gain on available-for-sale financial assets	<b>(13,676)</b>	2,043
Release of investment revaluation upon disposal of available-for-sale financial assets	<b>(20,452)</b>	–
Translation differences	<b>233,867</b>	211
Other comprehensive income for the year, net of tax	<b>201,729</b>	2,254
Total comprehensive income for the year	<b>1,057,317</b>	579,861
Total comprehensive income attributable to equity holders of the Company	<b>1,057,317</b>	579,861

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2011

	<i>Note</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment		2,083,104	1,579,406
Investment properties		274,220	–
Land use rights		898,898	858,711
Goodwill		785,137	228,710
Other non-current assets	9	352,301	206,640
Long-term prepaid rent and rental deposits		244,644	153,266
Available-for-sale financial assets		–	110,998
Deferred income tax assets		125,939	44,247
		<u>4,764,243</u>	<u>3,181,978</u>
<b>Current assets</b>			
Inventories		144,682	78,501
Debtors	10	29,685	19,612
Prepayments, deposits and other receivables		572,497	362,213
Amounts due from fellow subsidiaries		2,251	32,991
Fixed deposits		1,205,463	1,272,033
Cash and cash equivalents		2,947,574	2,324,666
		<u>4,902,152</u>	<u>4,090,016</u>
Non-current assets classified as assets held for sale	11	<u>7,117</u>	<u>–</u>
		<u>4,909,269</u>	<u>4,090,016</u>
<b>Total assets</b>		<u><b>9,673,512</b></u>	<u><b>7,271,994</b></u>
<b>Equity</b>			
Share capital		168,615	168,615
Reserves		5,277,352	4,482,548
Proposed dividend		126,461	118,030
		<u>5,572,428</u>	<u>4,769,193</u>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 30 JUNE 2011

	<i>Note</i>	<b>2011</b> <b>HK\$'000</b>	2010 <i>HK\$'000</i>
Liabilities			
Non-current liabilities			
Accruals and deferred income		<b>564,095</b>	312,305
Deferred income tax liabilities		<b>184,304</b>	151,552
		<b>748,399</b>	463,857
Current liabilities			
Creditors, accruals and other payables	<i>12</i>	<b>2,979,653</b>	1,934,855
Amounts due to fellow subsidiaries		<b>225,186</b>	19,551
Amounts due to related companies		<b>57,156</b>	–
Tax payable		<b>90,690</b>	84,538
		<b>3,352,685</b>	2,038,944
Total liabilities		<b>4,101,084</b>	2,502,801
Total equity and liabilities		<b>9,673,512</b>	7,271,994
Net current assets		<b>1,556,584</b>	2,051,072
Total assets less current liabilities		<b>6,320,827</b>	5,233,050

# NOTES

## 1 Basis of preparation

The consolidated financial statements of the Company 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 and available-for-sale financial assets.

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.

In the current year, the Group has adopted the following new or revised standards, amendments to existing standards and interpretations are mandatory for the year ended 30 June 2011:

HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 1 (Amendment)	Limited Exemption for Comparative HKFRS 7 Disclosures for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments
HK – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
HKFRSs Amendment	Improvements to HKFRSs 2009

HKAS 32 Amendment “Classification of Rights Issues” was early adopted by the Group for the year ended 30 June 2010.

In addition, the Group has early adopted HKAS 12 Amendment “Deferred Tax: Recovery of Underlying Assets” for the year ended 30 June 2011. Currently HKAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a rebuttable presumption that investment property measured at fair value is recovered entirely through sale. The presumption that carrying amounts of the investment properties will be recovered through sale is rebutted by the Group as the investment properties are held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Consequently, the Group has continued to recognise deferred taxes on the basis that the carrying amounts of investment properties are recovered through use.

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

The following new or revised standards, amendments to existing standards and interpretations are mandatory for the accounting periods beginning on or after 1 July 2011 or later periods which the Group has not early adopted:

HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 (Amendment)	Disclosures – Transfer of Financial Assets
HKFRS 9	Financial Instruments
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurements
HKAS 19 (Amendment)	Employee Benefits
HKAS 24 (Revised)	Related Party Disclosures
HKAS 27 (2011)	Separate Financial Statements
HK(IFRIC) – Int 14 Amendment	Prepayments of a Minimum Funding Requirement
HKFRSs Amendments	Improvements to HKFRSs 2010

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

## 2 Revenue and segment information

The chief operating decision-maker has been identified as the board of directors (“CODM”). 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 a single operating and reporting segment which is the operation and management of department stores. CODM assesses the performance of this single segment based on a measure of revenue and operating result before income tax. All revenue is generated in Mainland China and all significant operating assets are in Mainland China.

	2011 <i>HK\$’000</i>	2010 <i>HK\$’000</i>
Commission income from concessionaire sales	1,925,920	1,197,085
Sales of goods – direct sales	545,946	397,419
Management fees	57,068	154,247
Rental income	220,551	124,154
	<u>2,749,485</u>	<u>1,872,905</u>

The income from concessionaire sales is analysed as follows:

	2011 <i>HK\$’000</i>	2010 <i>HK\$’000</i>
Gross revenue from concessionaire sales	<u>10,233,298</u>	<u>6,156,659</u>
Commission income from concessionaire sales	<u>1,925,920</u>	<u>1,197,085</u>

### 3 Other income

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Interest income on bank deposits	56,461	37,606
Government grants	14,528	10,754
Dividend income from available-for-sale financial assets	–	7,104
Other commission income	21,041	6,923
Write-back of other payables	85,743	14,139
Promotion income	7,064	704
Sundries	10,824	4,724
	<u>195,661</u>	<u>81,954</u>

### 4 Other gains

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Gain on disposal of property, plant and equipment, and land use right (Note)	378,075	165,972
Gain on disposal of available-for-sale financial assets	20,452	–
	<u>398,527</u>	<u>165,972</u>

*Note:*

During the year, the Group disposed of its interest of a certain portion of property located in Wuxi City, resulting in a gain on disposal of HK\$381,579,000.

### 5 Other operating expenses

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Water and electricity	168,662	114,385
Promotion, advertising and related expenses	121,239	52,500
Cleaning, repairs and maintenance	52,303	28,469
Auditor's remuneration	4,395	3,950
Share-based payments	1,504	3,472
Net exchange losses	10,923	1,841
Write-back of provision for doubtful debts	(672)	(5,278)
Others	46,280	12,909
	<u>404,634</u>	<u>212,248</u>



## 6 Income tax expense

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

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Current income tax		
– Mainland China taxation	197,539	200,683
– Mainland China land appreciation tax	27,859	35,867
Under-provision in prior years	1,558	936
Deferred income tax		
– Deferred taxation on undistributed dividends	5,530	(119)
– Other temporary differences	25,141	(3,670)
	<u>257,627</u>	<u>233,697</u>

Taxation has been provided at the appropriate tax rates prevailing in the tax jurisdictions in which members of the Group are domiciled and operate. No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profit in Hong Kong for the year ended 30 June 2011 (2010: Nil).

Subsidiaries of the Group in Mainland China are subject to enterprise income tax at a rate of 25% (2010: 25%).

Mainland China land appreciation tax is provided at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including costs of land use rights and related business tax paid.

## 7 Dividends

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Interim dividend paid of HK\$0.085 (2010: HK\$0.080) per share	143,322	134,892
Final dividend proposed of HK\$0.065 (2010: HK\$0.070) per share	109,599	118,030
Special dividend proposed of HK\$0.010 (2010: Nil) per share	16,862	–
	<u>269,783</u>	<u>252,922</u>

At a meeting held on 27 September 2011, the Directors recommended a final dividend of HK\$0.065 (2010: HK\$0.070) per share and a special dividend of HK\$0.010 per share (2010: Nil) for the year ended 30 June 2011. This proposed dividend was not recognised as dividend payable in the financial statements for the year ended 30 June 2011.

## 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.

	2011	2010
Profit attributable to the equity holders of the Company (HK\$'000)	<u>855,588</u>	<u>577,607</u>
Weighted average number of ordinary shares in issue (shares in thousands)	<u>1,686,145</u>	<u>1,686,145</u>
Basic earnings per share (HK\$ per share)	<u>0.51</u>	<u>0.34</u>

### (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 2010 and 2011, 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

On 25 July 2008, Shenyang New World Department Store Ltd. ("Shenyang Co"), a wholly-owned subsidiary of the Company, entered into agreements with a third party to acquire a building, land use right and right of use of carpark located in Shenyang City. As at 30 June 2011, the Group has made progress payment of approximately HK\$344,400,000 (2010: approximately HK\$194,473,000) and paid direct costs of approximately HK\$16,149,000 (2010: approximately HK\$12,167,000) in connection with such acquisition. Upon the completion of the transaction in September 2010, the carrying amounts of these other non-current assets were transferred to investment properties of HK\$154,724,000, property, plant and equipment of HK\$128,774,000 and land use rights of HK\$77,051,000, where appropriate.

Balance as at 30 June 2011 mainly represents the following transaction:

On 4 October 2010, Shenyang Co entered into an agreement with Shenyang New World Hotel Co., Ltd., a wholly-owned subsidiary of New World China Land Limited and a fellow subsidiary of the Company. 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 which is subject to the terms of the agreement for further adjustments. As at 30 June 2011, the Group has made progress payment of approximately HK\$110,008,000 and paid direct costs of approximately HK\$22,277,000 and recognised construction payable to a fellow subsidiary of approximately HK\$220,016,000 in connection with such acquisition. As at 30 June 2011, capital commitment in relation to this acquisition is approximately HK\$220,016,000.

## 10 Debtors

	<b>2011</b> <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Trade receivables	<u>29,685</u>	<u>19,612</u>

The Group grants credit terms within 30 days in majority, based on the invoice date.

Aging analysis of the debtors is as follows:

	<b>2011</b> <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Within period for		
0-30 days	27,837	17,187
31-60 days	185	1,501
61-90 days	185	866
Over 90 days	<u>1,478</u>	<u>58</u>
	<u>29,685</u>	<u>19,612</u>

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

## 11 Non-current assets classified as assets held for sale

The Group agreed with an independent third party to dispose of 100% equity interest in Focus Smart Limited, a wholly owned subsidiary of the Company and the owner of the remaining portion of property and land use right situated in Wuxi City.

	<b>2011</b> <i>HK\$'000</i>
Property, plant and equipment	919
Land use right	<u>6,198</u>
At 30 June	<u>7,117</u>

## 12 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 date, is as follows:

	<b>2011</b> <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Within period for		
0-30 days	803,572	440,938
31-60 days	556,777	370,643
61-90 days	170,103	93,480
Over 90 days	<u>302,164</u>	<u>191,997</u>
	<u>1,832,616</u>	<u>1,097,058</u>

Creditors included amounts due to related companies of HK\$88,050,000 (2010: HK\$18,935,000) which are unsecured, interest free and repayable within 90 days.

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

## **BUSINESS REVIEW**

In the year under review, the Group's revenue increased 46.8% from HK\$1,872.9 million in FY2010 (or "the Previous Year") to HK\$2,749.5 million in FY2011 ("the Current Year"). Profit for the year grew 48.1% from HK\$577.6 million in the Previous Year to HK\$855.6 million in the Current Year.

### **Business Network**

In the Current Year, the Group operated 37 department stores, with a total gross floor area ("GFA") of about 1,275,320 square meters and a total operating floor area of about 995,000 square meters. Located in five operational regions, namely Northeastern China, Northern China, Eastern China, Central China, and Southwestern China, the stores covered 17 major cities in the PRC, including Wuhan, Shenyang, Harbin, Tianjin, Ningbo, Beijing, Shanghai, Dalian, Kunming, Lanzhou, Changsha, Chongqing, Chengdu, Anshan, Nanjing, Zhengzhou and Taizhou. Our business network comprised 32 self-owned stores and 5 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 32.9% of total revenue, followed by the Central China Region and the Eastern China Region, accounting for 25.2% and 25.0% of total revenue, respectively.

#### *By Segment*

Commission from concessionaire sales was the major type of income, accounting for 70.0% of total revenue. Proceeds from direct sales and management fees accounted for 19.9% and 2.1%, respectively. Rental income accounted for 8.0% of total revenue.

### **Store Network Development**

In the year under review, the Group opened three new self-owned stores in Beijing, Shenyang and Zhengzhou. They are Beijing New World Qianzi Department Store ("Beijing Qianzi Store"), Shenyang New World Department Store-Jianqiao Road Branch Store ("Shenyang Jianqiao Road Branch Store") and Zhengzhou New World Department Store ("Zhengzhou Store"). Besides, Wuxi New World Department Store ("Wuxi Store") ceased to be the Group's self-owned store since May 2011.

Therefore, as of 30 June 2011, the Group's total GFA was approximately 1,275,320 square meters, up 8.6% from the Previous Year, whilst the GFA of self-owned store was about 1,088,420 square meters, up 43.8% from the Previous Year.

## Operational Regions

### Northeastern China Region

During the year under review, the Northeastern China Region contributed 12.4% to the Group's revenue. We operated three living galleries in the Northeastern China Region, namely, Harbin New World Department Store ("Harbin Store"), Shenyang New World Department Store – Zhonghua Road Branch Store ("Shenyang Zhonghua Road Branch Store") and Shenyang Jianqiao Road Branch Store. In addition, we also operated three fashion galleries, namely, Shenyang New World Department Store – Nanjing Street Branch Store ("Shenyang Nanjing Street Branch Store"), Anshan New World Department Store ("Anshan Store") and Dalian New World Department Store ("Dalian Store").

Shenyang as a core city to capitalize on the Group's strategy of "Multiple Presence in a Single City", a new self-owned store, Shenyang Jianqiao Road Branch Store, was opened in May 2011 with a GFA of approximately 34,000 square meters. Located at another business circle, Zhong Street commercial circle, the store is the Group's second living gallery in Shenyang, satisfying the needs of people of all ages and both genders, catering their needs in terms of "Clothing", "Dining", "Living", "Travelling" and "Entertainment". To cater the main white-collar consumers in the business circle, the new store focused on the merchandise of popular fashion clothes and accessories, equipping with delectable range of themed restaurants, professional beauty salon, stylish decorated VIP lounge, refined dressing room tailored for female and children's playground, etc, bringing customers a refresh image as well as providing them with a high-quality and comfortable shopping environment.

#### *Hosting Continuous Membership Activities to Stimulate VIP Member Consumption*

Stores in the Northeastern China Region were dedicated to provide diversified membership activities to attract more customers to join the VIP membership such as holding private activity of "Platinum Night Banquet" for the high-end customers and establishing "New World Department Store Sport Lovers' Club", etc. In the year under review, the number of VIP club members in the Northeastern China Region rose by 129% to over 150,000.

## Eastern China Region

In the year under review, the Eastern China Region contributed 25.0% to the Group's revenue. In the year reported, we operated 13 department stores in the Eastern China Region including 5 living galleries under the "Ba Li Chun Tian" brand, namely, Hong Kong New World Department Store – Shanghai Qibao Branch Store ("Shanghai Qibao Branch Store"), Hong Kong New World Department Store-Shanghai Pujian Branch Store ("Shanghai Pujian Branch Store"), Hong Kong New World Department Store – Shanghai Wujiaochang Branch Store ("Shanghai Wujiaochang Branch Store"), Hong Kong New World Department Store-Shanghai Baoshan Branch Store ("Shanghai Baoshan Branch Store") and Hong Kong New World Department Store-Shanghai Chengshan Branch Store ("Shanghai Chengshan Branch Store"); and 8 fashion galleries including 4 department stores under the "New World" brand, namely, Ningbo New World Department Store ("Ningbo Store"), Ningbo New World Trendy Department Store ("Ningbo Trendy Store"), Nanjing New World Department Store ("Nanjing Store") and Taizhou New World Department Store ("Taizhou Store"); and 4 department stores under the "Ba Li Chun Tian" brand, namely, Hong Kong New World Department Store-Shanghai Huaihai Branch Store ("Shanghai Huaihai Branch Store"), Hong Kong New World Department Store-Shanghai Xinning Branch Store ("Shanghai Xinning Branch Store"), Hong Kong New World Department Store-Shanghai Hongkou Branch Store ("Shanghai Hongkou Branch Store") and Hong Kong New World Department Store-Shanghai Changning Branch Store ("Shanghai Changning Branch Store").

During the year under review, living galleries in the Eastern China Region utilized "Environmental Paradise" as the theme, bringing a brand new design with natural elements such as flying butterflies, flourishing flowers, forests, rainbows, grasslands and rivers incorporated into the entire store to meet the customers' growing interest in natural beauty. In addition, living galleries in the region brought in more flagship shops of popular brands to strengthen the stores' competitive advantage. Fashion galleries readjusted their market positions, floor plans and merchandise mix according to their different themes. For instance, in response to customers' desire for discounted goods, Shanghai Changning Branch Store, Ningbo Trendy Store and Nanjing Store positioned as discounted fashion galleries so as to attract other scope of consumers.

### *Enhancing VIP Members' Loyalty and Promoting Club Membership*

Utilizing the opportunities brought by traditional and newly celebrated festivals, stores in the region organized different thematic promotional activities to boost traffic flow in the Current Year. In addition, stores provided their VIP members with a series of special activities to strengthen the VIP members' loyalty. For instance, activities for Perfect Housewife Club members including the Five-season Chinese Medicine and Health Care Seminar on the topic of health care in Autumn, DIY family knitting class, etc, successfully attracting more customers to become VIP members. During the year under review, the total number of VIP members in the Eastern China Region reached 470,000, up 12% from the Previous Year. Total number of club members exceeded 200,000, increasing 128% year-on-year.

## Central China Region

In the year under review, the Central China Region contributed 25.2% to the Group's revenue. We operated 4 living galleries in the region, namely, Wuhan New World Department Store ("Wuhan Store"), Wuhan New World Department Store-Qiaokou Branch Store ("Wuhan Qiaokou Branch Store"), Wuhan New World Department Store-Hanyang Branch Store ("Wuhan Hanyang Branch Store") and Zhengzhou Store. We also operated 4 fashion galleries, namely, Wuhan New World Trendy Plaza ("Wuhan Trendy Plaza"), Wuhan New World Department Store-Wuchang Branch Store ("Wuhan Wuchang Branch Store"), Wuhan New World Department Store –Xudong Branch Store ("Wuhan Xudong Branch Store") and Changsha New World Trendy Plaza ("Changsha Trendy Plaza").

Deploying the expansion strategy of "radiation cities", the Group opened a living gallery, Zhengzhou Store, in Zhengzhou City in April 2011. The store has four storeys with a GFA of about 35,500 square meters and nearly 900 car parking spaces provided. On the fourth floor, there is a specialized discounted zone selling various featured goods, ladieswear, outdoor and household supplies. Rest Space is specially provided for leisure and covering free wifi services for customers to get on line any time, providing a supreme comfortable shopping environment.

### *Innovative Activities and Prestigious VIP Events*

Stores in the region held a number of large-scale activities in the year reported, which were highly welcomed by customers and attracted lots of media coverage, increasing the stores' popularity in the region. In addition, stores held a variety of exclusive activities for the club members such as *Valentine's Day DIY chocolate*, *Love In Spring • Coffee with Love* activity for members of Smart Lady Club, attracting customers' attention and absorbing more VIP members. In the year reported, the number of VIP members in Central China Region exceeded 460,000, increasing 18% year-on-year. Number of club members increased by 126% to 268,000.

## Northern China Region

During the year under review, the Northern China Region contributed 32.9% to the Group's revenue. We operated 4 living galleries in the Northern China Region in the year reported, namely, Beijing Qianzi Store, Beijing New World Liying Department Store ("Beijing Liying Store"), Beijing New World Department Store ("Beijing Store") and Tianjin New World Department Store ("Tianjin Store"). We also operated 3 fashion galleries, namely, Beijing Shishang New World Department Store ("Beijing Shishang Store"), Beijing New World Trendy Department Store ("Beijing Trendy Store") and Lanzhou New World Department Store ("Lanzhou Store").

In September 2010, the Group opened a brand new self-owned store, Beijing Qianzi Store, in Shunyi District of Beijing. It is the Group's first brand new living gallery in the Northern China Region with a total GFA of approximately 40,000 square meters, targeting family consumers with relatively higher consuming power. Inside the leisure shopping center where Beijing Qianzi Store is situated, there are a number of thematic restaurants, food courts, supermarket as well as luxurious and comfortable international cinemas. Different types of movies are broadcasted to cater for family consumers, becoming a spot for leisure and entertainment for all family members.

### *Consolidating VIP Members' Loyalty, Attracting More Club Members*

In the year reported, stores in the region successfully increased the traffic flow and boosted sales through a variety of diversified promotional activities during traditional festivals. In addition, stores also exploited the newly celebrated holidays to hold innovative promotions. For example, during Halloween, all stores in the region held Halloween Parade to differentiate their business operations from the neighboring department stores. Furthermore, to strengthen the VIP club members' loyalty, all stores have organized a series of exclusive activities for different club members in the year reported to satisfy their needs. For instance, the regular parental classes and family drawing competition on Mother's Day were held for Perfect Housewife Club members. During the year under review, the number of VIP members in the Northern China Region increased by 17% to 820,000. Number of club members reached 146,000, with an increase of 80% year-on-year.

### **Southwestern China Region**

In the year reported, the Southwestern China Region contributed 4.5% to the Group's revenue. We operated three fashion galleries in Southwestern China Region, namely Kunming New World Department Store ("Kunming Store"), Chengdu New World Department Store ("Chengdu Store") and Chongqing New World Department Store ("Chongqing Store").

The three stores in the region endeavored to deliver the trendy and fashionable shopping image, laying a good foundation for revamping into fashion galleries. To facilitate the upcoming rebranding process, all stores have optimized their product mix in the year reported. For example, Chongqing Store has adjusted 68% of its merchandise mix, taking women's shoes as chief merchandise continuously and strengthening the public perception of "Buying Shoes in New World Department Store". According to the current plan, Southwestern China Region will be the last region of the Group's rebranding process.



### *Flexible and Multiple Promotional Activities Reinforced the Market Position*

To attract young, modern customers and new concept lovers, stores in the Southwestern China Region strived to bring creative surprises and exceptional shopping experiences to their customers during the year under review. Stores gradually became hot spots for fashion and trendy customers. For instance, Chengdu Store held “Balloon Art Festival”, inviting fashion designers to design various clothes with balloons. To strengthen VIP members’ sense of prestige and thank for their support to the Group, stores in the region actively collaborated with different partners like hosting the “Group’s Exclusive VIP Day” with associated company (eg. Chow Tai Fook), impressing members with the pride of being VIP. In the year reported, the number of VIP members in Southwestern China Region exceeded 196,000, rising 25% year-on-year. Number of club members exceeded 66,000, up 138% from the Pervious Year.

## **FINANCIAL REVIEW**

### **Revenue**

Revenue of the Group was HK\$2,749.5 million in FY2011 representing an increase of 46.8% from HK\$1,872.9 million in FY2010. The growth was primarily contributed from commission from concessionaire sales, sales of goods for direct sales and rental income.

Gross sales revenue, comprising gross revenue from concessionaire sales and sales of goods for direct sales, increased by 64.5% to HK\$10,779.2 million in FY2011 from HK\$6,554.1 million in FY2010. Gross revenue from concessionaire sales increased to HK\$10,233.3 million in the Current Year from HK\$6,156.7 million in the Previous Year. Commission income rate was 18.8% in the Current Year compared with 19.4% in the Previous Year. Sales of goods for direct sales was HK\$545.9 million in FY2011 increased by 37.4% compared with HK\$397.4 million in FY2010. Direct sales turnover was mainly comprised of cosmetic products (approximately 45.0%), groceries, housewares and perishables (approximately 38.3%), ladieswear and menswear (approximately 8.4%), accessories, handbags and underwears (approximately 7.2%). Gross margin of direct sales was 17.8% compared to 25.5% in the Previous Year. In FY2011, ladieswear and accessories made up approximately 59.1% of gross sales revenue. Menswear and accessories made up approximately 22.6% and sportswear, bread and snacks, electrical appliances, kidswear and personal care products largely made up the rest of gross sales revenue. The above incorporated the results of Beijing Store, Chengdu Store, Changsha Trendy Plaza, Beijing Trendy Store and Chongqing Store which were converted into self-owned stores in the Current Year.

Management fees was HK\$57.1 million in FY2011 showing a decrease from HK\$154.2 million in FY2010. The decrease was primarily due to the conversion of Beijing Store, Chengdu Store, Changsha Trendy Plaza, Beijing Trendy Store and Chongqing Store from managed stores to self-owned stores in August, October and December 2010, March and April 2011 respectively as compared with the management fees for full period in the Previous Year.

Rental income increased by 77.6% to HK\$220.6 million in FY2011 mainly due to increased leasing area from firstly, the opening of new self-owned Beijing Qianzi Store, Zhengzhou Store and Shenyang Jianqiao Road Branch Store in September 2010, April and May 2011 respectively; secondly, the conversion of Beijing Store, Chengdu Store, Changsha Trendy Plaza, Beijing Trendy Store and Chongqing Store from managed stores to self-owned stores in August, October and December 2010, March and April 2011 respectively and thirdly, recognising a full year's operation of self-owned stores acquired or opened in FY2010. Those stores include Shanghai Pujian Branch Store, Shanghai Baoshan Branch Store, Shanghai Chengshan Branch Store and Beijing Shishang Store.

### **Other income**

Other income of the Group increased from HK\$82.0 million in FY2010 to HK\$195.7 million in FY2011. The increase was primarily due to the recognition of a full year's operation of self-owned stores acquired and opened in FY2010 and the conversion of Beijing Store, Chengdu Store, Changsha Trendy Plaza, Beijing Trendy Store and Chongqing Store from managed stores to self-owned stores in August, October and December 2010, March and April 2011 respectively.

### **Other gains**

Other gains of the Group was HK\$398.5 million in the Current Year compared with HK\$166.0 million in the Previous Year. Other gains in FY2011 mainly represented the gain of HK\$381.6 million on disposal of a certain portion of property and land use right at which Wuxi Store was situated. The disposal gain was before the deduction of its related direct expenses of HK\$8.6 million and income tax expenses of HK\$62.6 million. Net post-tax gain on this disposal was HK\$310.4 million. The Group also disposed of its investment in Renhe Commercial Holdings Company Limited and recognised a gain of HK\$20.5 million in FY2011.

### **Changes in fair value of investment properties**

Changes in fair value of investment properties in the Current Year was HK\$20.8 million related to properties located in Shenyang City and Zhengzhou City respectively.

## **Purchases of and changes in inventories**

The purchases of and changes in inventories represented the cost of sales for direct sales of goods. It increased by 51.5% to HK\$448.8 million in FY2011 from HK\$296.2 million in FY2010. Gross margin of direct sales in the Current Year was 17.8% mainly reflecting the contributed effect made by direct sales of supermarket of Beijing Store converted from a managed store to a self-owned store in the Current Year.

## **Employee benefit expense**

Employee benefit expense increased to HK\$411.3 million in FY2011 from HK\$239.6 million in FY2010. This increase was as a result of recognising a full year's operation of Shanghai Pujian Branch Store, Shanghai Baoshan Branch Store, Shanghai Chengshan Branch Store, Beijing Shishang Store acquired or opened in the Previous Year and the newly opened Beijing Qianzi Store, Zhengzhou Store and Shenyang Jianqiao Road Branch Store in September 2010, April and May 2011 respectively. In addition, the conversion of Beijing Store, Chengdu Store, Changsha Trendy Plaza, Beijing Trendy Store and Chongqing Store from managed stores to self-owned stores also contributed to the increase of employee benefit expense in the Current Year.

## **Depreciation and amortisation**

Depreciation and amortisation expense increased from HK\$199.0 million in FY2010 to HK\$282.3 million in FY2011. This was primarily due to the conversion of Beijing Store, Chengdu Store, Changsha Trendy Plaza, Beijing Trendy Store and Chongqing Store from managed stores to self-owned stores in August, October and December 2010, March and April 2011 respectively; the recognition of a full year's operation of Shanghai Pujian Branch Store acquired in January 2010, Shanghai Baoshan Branch Store, Shanghai Chengshan Branch Store, Beijing Shishang Store opened in January, April and May 2010 respectively and newly opened Beijing Qianzi Store in September 2010. Moreover, the completed acquisition of properties and land use rights in Zhengzhou City and Shenyang City in April and September 2010 respectively also contributed to the increase of depreciation and amortisation in the Current Year.

## **Operating lease rental expense**

Operating lease rental expense increased to HK\$704.1 million in FY2011 from HK\$362.3 million in FY2010, primarily due to the conversion of Beijing Store, Chengdu Store, Changsha Trendy Plaza, Beijing Trendy Store and Chongqing Store from managed stores to self-owned stores in August, October and December 2010, March and April 2011 respectively; the effect of recognising a full year's operation of Shanghai Pujian Branch Store acquired in January 2010, Shanghai Baoshan Branch Store, Shanghai Chengshan Branch Store, Beijing Shishang Store opened in January, April and May 2010 respectively and the opening of new self-owned Beijing Qianzi Store in September 2010.

## **Other operating expenses**

Other operating expenses increased to HK\$404.6 million in FY2011 from HK\$212.2 million in FY2010. The increase in other operating expenses was mainly due to the conversion of Beijing Store, Chengdu Store, Changsha Trendy Plaza, Beijing Trendy Store and Chongqing Store from managed stores to self-owned stores in August, October and December 2010, March and April 2011 respectively. Moreover, the increase was due to the effect of recognising a full year's operation of Shanghai Pujian Branch Store, Shanghai Baoshan Branch Store, Shanghai Chengshan Branch Store, Beijing Shishang Store acquired and opened in the Previous Year. In addition, the newly opened Beijing Qianzi Store in September 2010 also contributed to the increase of relevant expenses.

## **Operating profit**

Operating profit was HK\$1,113.2 million in FY2011 compared with HK\$811.5 million of FY2010. Operating profit, excluding changes in fair value of investment properties of HK\$20.8 million, gain on disposal of available-for-sale financial assets of HK\$20.5 million and net pre-tax gain of HK\$373.0 million on disposal of a certain portion of property and land use right at which Wuxi Store was situated, increased by 8.5% to HK\$698.9 million in the Current Year from HK\$643.9 million in the Previous Year. In FY2010, operating profit included a pre-tax gain of HK\$167.6 million on disposal of a property and land use right at which Shenyang Taiyuan Street Branch Store was situated.

## **Income tax expense**

Income tax expense increased to HK\$257.6 million in FY2011 from HK\$233.7 million in FY2010, primarily as a result of the increase in profit before income tax. Excluding the effect of revaluation of investment properties, disposal of available-for-sale financial assets, disposal of a certain portion of property and land use right at which Wuxi Store was situated and loss making stores, the effective income tax rate in the Current Year was 24.3% compared with 24.9% in the Previous Year.

## **Profit for the year**

As a result of the reasons mentioned above, profit for the Current Year was HK\$855.6 million compared with HK\$577.6 million for the Previous Year. Profit for the Current Year, excluding changes in fair value of investment properties and its related income tax expense of HK\$15.6 million, gain on disposal of available-for-sale financial assets of HK\$20.5 million, net post-tax disposal gain of HK\$310.4 million on a certain portion of property and land use right at which Wuxi Store was situated, increased by 6.2% to HK\$509.1 million compared with HK\$479.3 million in the Previous Year. In the Previous Year, the profit included a post-tax gain of HK\$98.3 million on disposal of a property and land use right at which Shenyang Taiyuan Street Branch Store was situated.

## **Liquidity and financial resources**

Cash and fixed deposits of the Group amounted to HK\$4,153.0 million as at 30 June 2011 (2010: HK\$3,596.7 million).

The Group had no borrowings as at 30 June 2011.

The capital commitment of the Group as at 30 June 2011 were HK\$228.3 million, and were contracted but not provided for in the statement of financial position. For the contractual payment of HK\$228.3 million, approximately HK\$220.0 million was related to the acquisition of building ownership right, land use right and right of use of the equipment and facility room, the outer wall, the facilities, the electrical and mechanical systems for certain exclusive and common-use areas of a building, located in Shenyang City.

## **Pledge of assets**

Assets of the Group were not pledged as at 30 June 2011.

## **Treasury policies**

The Group mainly operates in Mainland China with most of the transactions denominated in Renminbi. The Group is exposed to foreign exchange translation risk, arising from the exposure of Hong Kong dollars against Renminbi. The Group has not used any forward contracts or currency borrowings to hedge its foreign exchange risk. 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 2011.

## **OUTLOOK**

According to data from National Bureau of Statistics of China, total retail sales of consumer goods in first half of 2011 grew 16.8% year-on-year, showing that consumption demand indicated by the drive of economic growth and living standard improvement has maintained a steady upward trend. Meanwhile, income of urban resident continues to boost whilst social security and consumption conditions are improving constantly. In addition, the National People's Congress of China has approved the proposal that individual income tax-free threshold would uplift from RMB2,000 to RMB3,500 effective from September 1 this year, tax burden of the general public will greatly be relieved, further increasing the consumption potential and improving consuming propensity. Furthermore, ultimate consumption in first half of 2011 contributed 47.5% to the GDP and domestic demand continued its accelerated

growing trend in 2009 and 2010, playing an increasingly important role in economic growth. Benefiting from the continuous positive trend of domestic economy, the Group is optimistic about the future development of the industry and believes that domestic retail sector will continue to exhibit steady growth, albeit the fact that China's market may be affected by unstable factors such as appreciation of RMB and inflation.

## **STRATEGIES FOR FUTURE DEVELOPMENT**

In the year under review, the Group maintained its core essence of “reformation” by implementing the rebranding program with focus on transforming the stores into “Living Galleries” and “Fashion Galleries”, optimizing product mix and VIP services as well as strengthening staff quality to demonstrate the lifestyle of “Enriching Lives. Enhancing Character”. Looking ahead, the Group will continue to strive for providing premium services to customers. A series of strategies in aspects of operation, merchandising and marketing have been established, targeting to offer customers an unprecedented shopping experience. The Group will also establish seasonable expansion strategies in support of business development, incrementally enlarging our market share.

### **Restructure Operational Region**

In line with the Group's expansion plan, we will restructure our operational region of the China Roadmap into 3 regions, namely Central Western China Region, South Eastern China Region and Northern China Region. The regions will be divided into 9 districts in total, including Central District, Central Southern District and South Western District of Central Western China Region; Shanghai District, Eastern District and Southern District of South Eastern China Region; Northern District, North Eastern District and North Western District of Northern China Region. The optimization of operational region can further enhance the Group's operational efficiency and save regional cost as well as reinforcing the understanding towards local customers' needs.

## **Operational Strategy**

### **Establish Distinctive “Living Gallery” and “Fashion Gallery”**

In September 2009, the Group categorized all stores into “Living Gallery”, i.e. one-stop shopping department store that cater the needs of all family members; and “Fashion Gallery”, i.e. unique themed department store.

Tianjin Store, Shanghai Huaihai Branch Store, Shanghai Pujian Branch Store, Wuhan Hanyang Branch Store, Harbin Store and Beijing Liying Store successively completed their rebranding in the year under review. As of Sept 2011, about 44% of the total GFA needed to renovate has been completed. Together with the newly opened stores, there were 16 stores in total, representing about 54% of the total GFA were operated with brand new image. The Group will continue to implement the rebranding program according to the set time frame and the entire program is expected to complete by 2012.

### **Lay Solid Foundation for Business Development by Nurturing Excellent Talents**

In line with our belief of “Developing Talents with Respect, Care and Trust”, the Group will continue to promote outstanding managers and nurture talents to maintain a high standard of management and lay a solid foundation for future development.

The Group’s management team is consisting of highly experienced retail specialists, who are not only proficient with business operation, but also capable of establishing forward-looking and competitive development strategies in accordance with market changes. In addition, the Group will continue to tailor various training courses for employees to secure a continuous flow of operation and management experts at different levels for the corporation. Periodically the Group will also invite globally top ranking consulting firms to render different kind of specialized courses for different employees, such as Managing for Excellence, Team Building and Negotiation, etc, striving to provide customer with services of premium quality.

## **Merchandise Strategy**

### **Reform Product Mix and Reinforce International Brand Portfolio**

The Group will strengthen the merchandise mix by making seasonable adjustments to adapt to market changes. We will also introduce more internationally renowned brands to enhance the competitiveness of our brand portfolio and cater to the needs of local consumers. In addition, the Group will strive to introduce the hottest brands that are most popular among customers by identifying emerging brands in the market and perceiving seasonable brand developments and market trends through mechanisms including “Market Brand List”, “Presentation of New Products” and “Supplier Development”.

## **Optimize Services and Expand Lease Area**

Through establishing partnership with tenants, the Group will push forward broad cooperation between tenants and stores in each region, further enriching the complementary services of our department stores, such as restaurants, cinemas, beauty and spa centers, children's pre-school centers and game halls, to fully satisfy the needs of customers by rendering premium services that are more comprehensive and considerable.

## **Raise Gross Margin by Increasing the Ratio of Direct Sales Products**

To enhance the control of product quality, the Group will strengthen the procurement of direct-sales products by adopting a three-tier procurement structure which consists of central, regional and local. Procurement pattern of each product will be determined by its characteristics to increase flexibility in purchasing. This would ensure sufficient and steady supply of merchandise and thus increase gross profit margin and stabilize the profit structure.

## **Maintain Long-term Cooperation with Concessionaires and Suppliers**

The Group has always been endeavoring to maintain good relationship with existing concessionaires and proactively exploring potential quality supplier to provide more quality products to our customers. Through years of effort, we have established a steady portfolio of suppliers and have been continuously implementing our "Top 150 Brand Retainer Scheme" and "Strategic Partnership Program". Through the "New World Net" organized jointly by the headquarters and the regions, a series of events such as regional forums, seminars and parties have been held, creating a good interaction with suppliers.

## **Marketing Strategy**

### **Uplift Brand Value by Launching Creative Marketing Campaigns**

In furtherance of the reformation essence brought by the "Rebranding Program", the Group will continue to launch creative marketing campaigns. Utilizing "Four in One Marketing Strategy", events would be incorporated with creative themes and combined with sales promotion, public relation, marketing and club activities. This could enhance the interesting and thematic spirit of the events, thus uplifting the corporate image and brand value of the corporation.

In addition, the Group will also organize innovative activities with international vision. In September and October of this year, the Group held "Super Stars' Memorable Collections Exhibition", in which it was the first department store to introduce scarce collections of international superstars into China for exhibition, including Michael Jackson's white rhinestone glove worn in his first performance of Moonwalk in 1983, a black velvet and white taffeta gown wore by Princess Diana in 1985, an Elvis Presley signed guitar and a piece of jewelry from Marilyn Monroe.



## **Strengthen VIP Club Activities and Improve VIP Exclusive Services**

Concerning club activities, the Group will continue to strengthen the services and activities of the three clubs, i.e. the “Smart Lady Club” for young women, the “Perfect House Wife Club” targeting mothers and the “Platinum VIP Club” reserved for our platinum VIPs. We will tailor make different types of activities and services for our members, such as private shopping guide and various innovative classes to enrich the prestige and sense of belonging of our members. In the year under review, we organized over 200 club member activities, like Easter egg painting, sweet chocolate cake DIY and yoga salon, etc, receiving overwhelming responses from our VIP members.

## **Optimize VIP System and Provide Quality Member Services**

To progress with the times, the Group will further reinforce its data management system, particularly improving functions relating to VIP management and financial management. This could better support the operation, sales and promotion activities of our stores and provide the management with analytical data that are more accurate and up-to-date, enabling the management to establish seasonable operational strategies, enhancing the responsiveness towards market and precision of decision making. The Group will improve its VIP system by implementing the VIP system optimization program. The new VIP system will provide customers with upgraded services, such as online enquiry on their current bonus points, offering a convenient and more satisfying shopping experience for VIPs by being thoughtful about their needs.

## **Reinforce Collaboration with the Group’s Associated Companies and Chow Tai Fook**

To expand our VIP base and strengthen communication with various associated companies of the Group, NWDS will continue to issue co-branded card and NWDS coupon with our brother company, Chow Tai Fook, and New World China Land respectively. In addition, we will also regularly organize activities together with the other subsidiaries of New World Group, such as New World China Land, New World Hotel and K11, aiming to share VIP resources to enjoy cross-benefits, facilitate business opportunities and realize a mutual beneficial and win-win effect.

## **Enlarge Customer Base and Strengthen Cooperation with Banks**

In the year under review, we held numerous activities in cooperation with Bank of Communication and Ping An Bank. In future, we will enter into partnership with ICBC and rank among the first merchants of its “Hire Purchase Credit Card (逸貸信用卡)”, further expanding our customer base with promising consumption power. In the year reported, spending credit on our stores from Bank of Communication and Ping An Bank credit card increased 22% and 69% respectively.

## **Cooperate with Different Merchants to Offer Customers More Privileges**

In the year under review, the Group successively cooperated with Wall Street Institute and Ctrip Travel, etc, soliciting more potential customers as well as offering more privileges to our VIP. In future, we will proactively explore more opportunities to cooperate with different merchants in order to provide more tailored promotions to our VIP members.

## **Develop Social Media Platforms and Promote Corporate Culture**

To establish our brand image and introduce NWDS to more people, the Group takes efforts to develop online social media platforms by opening mini blog and creating the brand new NWDS blog, “Get Interactive with NWDS”, at the end of last year. We regularly upload the latest consumer intelligence, trend reports and event news, guiding internet surfers in their adventure of “Enriching Lives. Enhancing Character” through interaction. This enables us to successfully establish our distinctive brand image and to effectively carry out promotion taking advantage of these internet platforms, which are becoming more popular in the market. “Get Interactive with NWDS” blog and NWDS mini blog have achieved remarkable results by attracting approximately 100,000 fans. We will continue to develop the social media platforms of NWDS and carry out more promotions and communication via the internet.

## **Expansion Strategy**

### **Select Exceptional Locations and Enlarge the Retail Roadmap**

The Group plans to enlarge market share incrementally by increasing 25 self-owned stores in coming 5 years. Apart from first and second tier cities, the Group will extend its business to potential second and third tier cities. Besides developing excellent projects in existing cities, we will also enter into Yancheng and Mianyang cities in FY2012, Xian city in FY2013, Yantai and Hengyang cities in FY2014 to further enlarge the retail roadmap of the Group. In addition, the Group will strengthen its operational edge through acquiring managed stores and potential projects from third party’s. In the year under review, the Group acquired the operating rights of Beijing Store, Chengdu Store, Changsha Trendy Plaza, Chongqing Store and Beijing Trendy Store, converting from managed stores to self-owned stores to strengthen the operational advantage of the Group.

On the other hand, after prudent consideration of the local market demand and potential, the Group will also implement expansion on existing stores to maintain competitive edge. For example, the 2nd phase of Shenyang Jianqiao Road Branch Store project will be expanded on the original location, bringing a more comfortable and spacious shopping environment to customers.

Apart from opening self-owned stores, expanding existing stores and acquiring managed stores, the Group will also seek for appropriate opportunities to increase the number of potential managed stores in order to maintain a steady inflow of management fees.

### **Deploy “Multiple Presences in a Single City” and “Radiation City” Strategies**

The Group has designated a core city for development in each region and will expand the business by deploying the two major strategies of “Multiple Presences in a Single City” and “Radiation City”. In future, we will focus on the “Radiation City” strategy to enlarge the retail roadmap of the Group.

## **FINAL DIVIDEND AND SPECIAL DIVIDEND**

The Directors have resolved to recommend a final dividend of HK\$0.065 per share (2010: HK\$0.070 per share) and a special dividend of HK\$0.010 per share (2010: nil) for the year ended 30 June 2011 to shareholders whose names appear in the register of members of the Company on 30 November 2011. It is expected that the proposed final dividend and proposed special dividend will be paid on or about 30 December 2011 subject to shareholders’ approval at the forthcoming annual general meeting of the Company to be held on 21 November 2011.

## **EMPLOYEES, REMUNERATION POLICY AND PENSION SCHEME**

As at 30 June 2011, total number of employees for the Group was 6,434 (2010: 4,842). 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**

In June 2010, the Group entered into an agreement with Solar Leader Limited (“Solar Leader”) and Broad Park Limited (“Broad Park”) whereby the Group agreed to acquire from Solar Leader 100% of equity interest in Broad Park and the amount due to Solar Leader (approximately HK\$11.5 million) by Broad Park, for an aggregate consideration of RMB150.0 million (equivalent to approximately HK\$170.5 million) less the outstanding registered capital (approximately RMB54.9 million, equivalent to approximately HK\$62.4 million) as at 18 June 2010 of Beijing Yixi New World Department Store Co., Ltd., a wholly-owned subsidiary of Broad Park. The acquisition

was approved by the shareholders of the Company other than New World Development Company Limited and its associates on 27 July 2010, as defined under The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”), and completed on 1 August 2010.

In October 2010, New World Department Stores Investment (China) Co., Ltd. (“NWDSIC”), a wholly-foreign-owned enterprise established in the PRC and a wholly-owned subsidiary of the Company, acquired the entire equity interest from independent third parties, including all interest and rights, of Chengdu New World Department Store Co., Ltd., a limited liability company incorporated in the PRC and the operator of Chengdu Store, for an aggregate consideration of RMB2.0 million.

On 4 October 2010, Shenyang New World Department Store Ltd. (“Shenyang Co.”) entered into a framework agreement for sale and purchase of property with Shenyang New World Hotel Co., Ltd., a wholly-owned subsidiary of New World China Land Limited and a fellow subsidiary of the Group. 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 RMB456.5 million which is subject to the terms of the agreement for further adjustments.

On 28 December 2010, the Group entered into a sale and purchase agreement with an independent third party, whereby the Group agreed to dispose of 100% of the equity interest in Luxland Limited, a wholly-owned subsidiary of the Group, for an aggregate consideration of RMB385.0 million.

On 31 December 2010, NWDSIC acquired the entire equity interest from independent third parties, including all interest and rights, of Changsha New World Trendy Plaza Co., Ltd., a limited liability company incorporated in the PRC and the operator of Changsha Trendy Plaza, for an aggregate consideration of RMB10.0 million.

In March 2011, NWDSIC acquired 100% of the equity interest in Beijing New World Trendy Department Store Co., Ltd. (“Beijing Trendy Co.”) for a consideration of RMB5.0 million, from independent third parties. Beijing Trendy Co. is a limited liability company incorporated in the PRC and is engaged in operations of a department store in Beijing.

In April 2011, NWDSIC acquired the entire equity interest from independent third parties, including all interest and rights, of Chongqing New World Department Store Co., Ltd., a limited liability company incorporated in the PRC and the operator of Chongqing Store, for an aggregate consideration of RMB5.0 million.

On 5 July 2011, the Group entered into a sale and purchase agreement with an independent third party to dispose of its entire interest in Focus Smart Limited, a wholly-owned subsidiary of the Company and the owner of the remaining portion of property and land use right located in Wuxi City, for a consideration of RMB45.0 million. The transaction was completed on 22 September 2011.

In September 2011, NWDSIC agreed to acquire 100% of the equity interest in Lanzhou New World Department Store Co., Ltd. (“Lanzhou Co.”) for a consideration of RMB3.5 million from independent third parties. Lanzhou Co. is a limited liability company incorporated in the PRC and is engaged in operations of a department store in Lanzhou.

On 21 September 2011, the Group entered into a sale and purchase agreement with independent third parties to acquire 100% of the equity interest in Moral High Limited (“Moral High”), a limited liability company incorporated in Samoa, for an aggregate consideration of RMB1,460.0 million, which is subject to the deductions and adjustments based on the terms and conditions of the agreement. The principal activity of Moral High is the investment holding of 100% equity interest in Peak Moral High Commercial Development (Shanghai) Company Limited (“Peak”), a limited liability company established in the PRC. Peak is the property owner and operator of a shopping mall 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.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has complied with all the applicable code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules during the year ended 30 June 2011.

## **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 2011.

## 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 financial statements for the year ended 30 June 2011 and discussed the financial related matters with management.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on Monday, 21 November 2011, during which 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 office of the Company in Hong Kong, Tricor Investor Services Limited of 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong for registration no later than 4:30 pm on Friday, 18 November 2011.

The register of members of the Company will be closed from Friday, 25 November 2011 to Wednesday, 30 November 2011, 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 and proposed special 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 office of the Company in Hong Kong, Tricor Investor Services Limited of 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong for registration no later than 4:30 pm on Thursday, 24 November 2011.

For and on behalf of the Board  
**Dr. Cheng Kar-shun, Henry**  
*Chairman and Non-executive Director*

Hong Kong, 27 September 2011

*As at the date of this announcement, the non-executive Directors are Dr. Cheng Kar-shun, Henry and Mr. Au Tak-cheong; the executive Directors are Mr. Cheng Chi-kong, Adrian, Mr. Cheung Fai-yet, Philip, Mr. Lin Tsai-tan, David, Mr. Wong Kwok-kan, Kenneth and Ms. Ngan Man-ying, Lynda; and the independent non-executive Directors are Mr. Cheong Ying-chew, Henry, Mr. Chan Yiu-tong, Ivan, Mr. Tong Hang-chan, Peter and Mr. Yu Chun-fai.*