

Chairman's Statement

Year 2013 marks the 20th anniversary of New World Department Store, making it specially meaningful for the Group. In 1993, New World Group leveraged the opportunities brought by China's reform and opening-up to establish New World Department Store and opened its first outlet in Wuhan the following year. At present, the Group is operating 42 stores covering 20 major cities across the country, and has become one of the largest department store operators in Mainland China. Over the past two decades, the Group has had the honour to grow along with mainland consumers and has been a strong witness to China's growing prosperity and improving livelihood of the people.



During the year under review, the international capital markets were still enveloped by the European sovereign debt crisis, thus China's economy and exports have not showed clear signs of recovery. The complicated and ever-changing global and local economic conditions have posed opportunities as well as challenges for China's retail industry. In terms of opportunities, the total retail sales of consumer goods recorded a double-digit growth of 12.7% year-on-year in the first half of 2013 amid economic slowdown while the country's retail areas continued to expand, making domestic consumption the key driver of China's economy. In terms of challenges, as the pace of adjustment in physical retail sector accelerates, industry players are in need to optimize their operating structures and achieve a nationwide scale in order to create greater synergies and sustain a higher growth rate. Hence, the industry has reached its critical stage of elimination. To address Chinese consumers' growing demand for quality goods and services, the Group has launched the rebranding program as early as in 2009 to transform our stores into "Fashion Galleries" – thematic department stores with a focus on clothing and accessories, and "Living Galleries" – one-stop shopping department stores through restructuring our merchandise mix and introducing a series of complementary facilities including restaurants and entertainment facilities.

Except for four stores in Wuhan, the Group's rebranding exercise was mostly completed during the year under review. As at 30 June 2013, approximately 91% of the total gross floor area operated in its brand new image. After revitalization, a stronger business growth was achieved as the rebranding effects came into play, laying a solid foundation for the Group's long-term development. With outstanding performance in business development and profitability, we were accredited as the "Asia's 200 Best Under A Billion" by *Forbes* for the fifth consecutive year, in recognition of our achievements by international media and investors.

For the year ended 30 June 2013, the Group's revenue reached HK\$4,011.5 million, an increase of 14.9% from the Previous Year. Profit for the year was HK\$641.5 million. Excluding other losses/gains, changes in fair value of investment properties and one-off tax adjustment on disposal of properties situated in Wuxi, profit for the year increased by approximately 9.8% from HK\$561.3 million in the Previous Year to HK\$615.7 million in the Current Year.

During the year under review, the Group carried through the expansion strategies of "radiation city" and "multiple presences within a single city". Through increasing the number of self-owned stores by means of leasing and acquisition, complemented with store expansion and provision of store management service, we actively established our footholds throughout the entire country. In December 2012, two self-owned



"Living Galleries" commenced business in Yancheng City, Jiangsu Province and Xi'an City, Shaanxi Province with Xi'an Store acting as a strategic deployment to extend our network to North Western China. Furthermore, the Group opened two managed stores in Beilun, Ningbo City, Zhejiang Province, and Yanjiao, Sanhe City, Hebei Province, in September 2012 and April 2013 respectively, so as to enter the fast-growing suburban areas at a rapid pace. As at 30 June 2013, the Group operated a total of 36 self-owned stores and five managed stores, with a total gross floor area of about 1,513,940 sq. m.. In addition, the Group successfully completed the acquisition of Shanghai Hongxin Trendy Plaza on 30 July 2013, further reinforcing our position in Shanghai.

Diverse and innovative marketing activities are major means to boost the Group's revenue. During the year under review, the Group initiated more inter-store and thematic "nationwide collaborative activities", including the "VIP Day" and the "Blast of Joy – Celebrating the 20th Anniversary" held in November 2012 and May 2013 respectively. These activities were held in the forms of rebate, giveaway, sweepstake and interactive game, etc. jointly by our 41 stores in 20 cities across the country. Sales were impressive, with a number of stores doubling their foot traffic. The events have given full play to the Group's network advantages and have successfully extended our influence nationally. On the other hand, strategic partnerships were formed with various parties during the year to add new elements into our marketing campaigns. One of these was the "Michael Jackson's Wardrobe – Gorgeous 25 Years" exhibition tour co-organized with Ponte 16 Resort, Macau, which showcased more than 50 Michael Jackson memorable items in three mainland cities. Moreover, the Group sponsored a romance movie called "*Fall in Love*" and became the first department store in Mainland China to crossover with a film company, further strengthening our image as a thematic department store chain. In view of the growing popularity of smartphones, the Group has proactively explored new media channels in recent years to strengthen the interaction with our younger customers. During the year under review, the Group's Weibo fans in Mainland China have soared to over 3.5 million. Many of our stores also established their WeChat accounts, with the number of subscribers rose to nearly 340,000 in just a few months.

The Group has always been committed to sustainable development. Therefore, the Sustainable Development Steering Committee was established in 2012 to promote our work in the aspects of environmental protection, community services, staff benefits and development, and operating practices. During the year under review, the Group launched numerous nationwide green activities, including "Go Green with NWDS" Campaign, "Green Mid-Autumn Festival –

Moon Cake Box Recycling Campaign" and "Beauty of Water" Photography Contest. We have also participated in the "Earth Hour" for four consecutive years and encouraged our customers and employees to support the cause by taking part in these events. In terms of community services, we have been the key sponsor of the "MSF Day" for the seventh consecutive year and have raised an accumulative donation of approximately HK\$2.48 million throughout the years. We also ran the "Care for Schoolchildren" Campaign to collect school supplies from the public for under-resourced schoolchildren. In addition, to establish a unified volunteer service platform, NWDS Volunteer Team was founded in April 2013 and subsequently held the "NWDS Tutoring Program" that benefited nearly one thousand under-resourced schoolchildren, so as to spread the spirit of caring for the society. For staff benefits and development, the Group organized a number of development programs, including "Core Talents Nurturing Plan", "Operational Management Training Camp for Store Managers", "Certificate Program of Further Studies in Retail Operation and Management" and "Project Xinpeng – NWDS Management Intern Cultivation 2013" etc., to elevate our employees' work skills and nurture retail professionals in all positions. Simultaneously, through the introduction of "Supplier Code of Conduct", we shared our sustainability vision with the suppliers and invited them to support the cause with us.

Looking forward, the Group will continue to grasp the opportunities from China's economic take-off to further expand our business network. The Group plans to increase the total gross floor area of its self-owned stores to about 2 million sq. m. by FY2016. In addition, we will also adjust our operating strategies as needed to provide customers with quality merchandises and services, with a vision of improving people's livelihood in Mainland China.

Over the past 20 years, New World Department Store has received tremendous support and intendance from our shareholders, employees and stakeholders, enabling us to grow along with the rising China and to achieve the resplendent Chinese dream together. On behalf of the Board of Directors, I would like to express my sincere gratitude to all employees, whose hard work and contributions have led the Group through every substantial occasion that made us thrive. With the management and employees tied to the same vision, I believe there is an even brighter future for NWDS for years to come.

Dr. Cheng Kar-shun, Henry
Chairman

Hong Kong, 25 September 2013



Insightful Market Positioning

Building up Leading
Fashion and Living
Department Store Style



