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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)**

## **INTERIM RESULTS ANNOUNCEMENT 2014/2015**

### **HIGHLIGHTS**

Same-store sales<sup>(1)</sup> (“SSS”) declined by 9.5%.

Gross sales revenue declined by 6.3% to HK\$7,928.4 million from HK\$8,465.4 million in the same period of Previous Year.

Revenue declined by 4.1% to HK\$2,037.8 million from HK\$2,125.3 million in the same period of Previous Year.

Profit for the period decreased by approximately 41.1% to HK\$206.0 million from HK\$349.9 million in the same period of Previous Year.

Earnings per share was HK\$0.12.

Interim dividend was HK\$102.9 million.

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

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2014

The board of directors (the “Board” or “Directors”) of New World Department Store China Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (together, the “Group”) for the six months ended 31 December 2014 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited Six months ended 31 December 2014 HK\$'000	Unaudited 2013 HK\$'000
	<i>Notes</i>		
Revenue	2	2,037,826	2,125,287
Other income	3	115,714	69,963
Other gain/(loss), net	4	6,877	(1,916)
Changes in fair value of investment properties		2,254	8,447
Purchases of and changes in inventories		(324,215)	(349,391)
Employee benefit expense		(377,601)	(316,910)
Depreciation and amortisation		(171,081)	(156,352)
Operating lease rental expense		(585,524)	(488,846)
Other operating expenses, net	5	(413,070)	(429,923)
Operating profit		<u>291,180</u>	<u>460,359</u>
Finance income		34,491	25,645
Finance costs		(23,358)	(13,106)
Finance income, net		<u>11,133</u>	<u>12,539</u>
Profit before income tax		302,313	472,898
Income tax expense	6	(96,351)	(122,954)
Profit for the period		<u>205,962</u>	<u>349,944</u>
Attributable to equity holders of the Company		<u>205,962</u>	<u>349,944</u>
Dividend	7	<u>102,855</u>	<u>158,498</u>
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in HK\$ per share)			
– Basic and diluted	8	<u>0.12</u>	<u>0.21</u>

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 31 December 2014 <i>HK\$'000</i>	Unaudited 2013 <i>HK\$'000</i>
Profit for the period	205,962	349,944
<b>Other comprehensive income</b>		
<i>Items that may be reclassified subsequently to profit and loss</i>		
Release of exchange reserve upon liquidation of a subsidiary	(10,097)	–
Translation differences	67,713	88,715
Other comprehensive income for the period, net of tax	57,616	88,715
Total comprehensive income for the period	263,578	438,659
Total comprehensive income attributable to equity holders of the Company	263,578	438,659

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	<b>Unaudited As at 31 December 2014 HK\$'000</b>	<b>Audited As at 30 June 2014 HK\$'000</b>
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment		<b>2,278,211</b>	2,171,857
Investment properties		<b>4,337,695</b>	4,339,656
Land use rights		<b>915,908</b>	899,678
Goodwill		<b>1,890,877</b>	1,867,241
Other non-current assets	9	<b>313,785</b>	305,111
Long-term prepayments and rental deposits		<b>411,055</b>	442,200
Deferred income tax assets		<b>168,796</b>	179,656
		<b>10,316,327</b>	10,205,399
<b>Current assets</b>			
Inventories		<b>157,449</b>	160,617
Debtors	10	<b>138,354</b>	105,101
Prepayments, deposits and other receivables		<b>787,165</b>	678,126
Amounts due from fellow subsidiaries		<b>57,880</b>	2,161
Amounts due from related companies		<b>3</b>	24
Fixed deposits		<b>52,047</b>	630,574
Cash and cash equivalents		<b>3,167,868</b>	896,538
		<b>4,360,766</b>	2,473,141
<b>Total assets</b>		<b>14,677,093</b>	12,678,540
<b>Equity</b>			
Share capital		<b>168,615</b>	168,615
Reserves		<b>6,307,482</b>	6,146,759
Interim dividend		<b>102,855</b>	–
Proposed dividend		<b>–</b>	101,169
		<b>6,578,952</b>	6,416,543
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Long-term borrowings		<b>1,581,316</b>	696,844
Accruals		<b>596,028</b>	608,723
Deferred income tax liabilities		<b>865,691</b>	852,224
		<b>3,043,035</b>	2,157,791

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

		Unaudited As at 31 December 2014 <i>HK\$'000</i>	Audited As at 30 June 2014 <i>HK\$'000</i>
	<i>Notes</i>		
Current liabilities			
Creditors, accruals and other payables	11	4,878,329	3,959,809
Amounts due to fellow subsidiaries		10,713	24,911
Amounts due to related companies		49,054	30,809
Tax payable		117,010	88,677
		5,055,106	4,104,206
Total liabilities		8,098,141	6,261,997
Total equity and liabilities		14,677,093	12,678,540
Net current liabilities		(694,340)	(1,631,065)
Total assets less current liabilities		9,621,987	8,574,334

# NOTES

## 1 Basis of preparation

The condensed consolidated financial information of the Company for the six months ended 31 December 2014 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants.

The condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 30 June 2014, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

At 31 December 2014, the Group’s current liabilities exceeded its current assets by HK\$694,340,000 (30 June 2014: HK\$1,631,065,000). 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 condensed consolidated financial information.

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2014, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

For the six months ended 31 December 2014, the Group has adopted the following new or revised standards, amendments to existing standards and interpretation which are mandatory for the accounting period beginning on 1 July 2014:

HKAS 32 (Amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
HKAS 36 (Amendment)	Recoverable Amount Disclosures for Non-Financial Assets
HKAS 39 (Amendment)	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies
Amendments to HKAS 19 (Revised 2011)	Employee Benefits: Defined Benefit Plans – Employee Contributions
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (Revised 2011)	Investment Entities
Annual Improvements Project	Annual Improvements 2010–2012 Cycle
Annual Improvements Project	Annual Improvements 2011–2013 Cycle

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

## 1 Basis of preparation (Continued)

The following new or revised standards, amendments to existing standards and interpretation are mandatory for the accounting periods beginning on or after 1 January 2015 which the Group has not early adopted:

HKFRS 9 (2014)	Financial Instruments
HKFRS 14	Regulatory Deferral Accounts
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	Investment Entities: Applying the Consolidation Exception
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

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

## 2 Revenue and segment information

	<b>Unaudited</b> <b>Six months ended</b> <b>31 December</b> <b>2014</b> <i>HK\$'000</i>	Unaudited <b>Six months ended</b> <b>2013</b> <i>HK\$'000</i>
Commission income from concessionaire sales	<b>1,297,836</b>	1,351,399
Sales of goods – direct sales	<b>374,798</b>	410,328
Management and consultancy fees	<b>44,329</b>	41,042
Rental income	<b>320,863</b>	322,518
	<b><u>2,037,826</u></b>	<u>2,125,287</u>

The income from concessionaire sales is analysed as follows:

	<b>Unaudited</b> <b>Six months ended</b> <b>31 December</b> <b>2014</b> <i>HK\$'000</i>	Unaudited <b>Six months ended</b> <b>2013</b> <i>HK\$'000</i>
Gross revenue from concessionaire sales	<b><u>7,072,738</u></b>	<u>7,621,511</u>
Commission income from concessionaire sales	<b><u>1,297,836</u></b>	<u>1,351,399</u>

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.

## 2 Revenue and segment information (Continued)

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

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

### *Six months ended 31 December 2014*

	<b>Department store HK\$'000</b>	<b>Property investment HK\$'000</b>	<b>Consolidated HK\$'000</b>
Segment revenue	<u>1,958,240</u>	<u>79,586</u>	<u>2,037,826</u>
Segment results	248,052	41,092	289,144
Other gain, net	6,877	–	6,877
Changes in fair value of investment properties	–	2,254	2,254
Unallocated corporate expenses			<u>(7,095)</u>
Operating profit			<u>291,180</u>
Finance income			34,491
Finance costs			<u>(23,358)</u>
Finance income, net			<u>11,133</u>
Profit before income tax			302,313
Income tax expense			<u>(96,351)</u>
Profit for the period			<u>205,962</u>

### *Six months ended 31 December 2013*

Segment revenue	<u>2,030,974</u>	<u>94,313</u>	<u>2,125,287</u>
Segment results	378,612	82,243	460,855
Other loss	(1,916)	–	(1,916)
Changes in fair value of investment properties	–	8,447	8,447
Unallocated corporate expenses			<u>(7,027)</u>
Operating profit			<u>460,359</u>
Finance income			25,645
Finance costs			<u>(13,106)</u>
Finance income, net			<u>12,539</u>
Profit before income tax			472,898
Income tax expense			<u>(122,954)</u>
Profit for the period			<u>349,944</u>



## 2 Revenue and segment information (Continued)

*As at 31 December 2014*

	<b>Department store HK\$'000</b>	<b>Property investment HK\$'000</b>	<b>Consolidated HK\$'000</b>
Segment assets	9,237,262	5,242,419	14,479,681
Deferred income tax assets			168,796
Corporate assets:			
Cash and cash equivalents			28,236
Others			380
Total assets			<u>14,677,093</u>

Six months ended 31 December 2014

Additions to non-current assets ( <i>Note</i> )	215,073	5,112	220,185
Depreciation and amortisation	<u>170,482</u>	<u>599</u>	<u>171,081</u>

*As at 30 June 2014*

Segment assets	7,514,903	4,976,169	12,491,072
Deferred income tax assets			179,656
Corporate assets:			
Cash and cash equivalents			7,792
Others			20
Total assets			<u>12,678,540</u>

Six months ended 31 December 2013

Additions to non-current assets ( <i>Note</i> )	832,987	645,726	1,478,713
Depreciation and amortisation	<u>155,952</u>	<u>400</u>	<u>156,352</u>

*Note:*

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

## 3 Other income

	<b>Unaudited Six months ended 31 December 2014 HK\$'000</b>	<b>Unaudited 2013 HK\$'000</b>
Government grants	13,147	16,119
Income from suppliers	48,687	38,861
Compensation for termination of lease	26,744	–
Sundries	27,136	14,983
	<u>115,714</u>	<u>69,963</u>

#### 4 Other gain/(loss), net

	Unaudited Six months ended 31 December 2014 HK\$'000	Unaudited 2013 HK\$'000
Gain on liquidation of a subsidiary	10,097	–
Loss on disposal of property, plant and equipment ( <i>Note</i> )	(3,220)	(1,916)
	<u>6,877</u>	<u>(1,916)</u>

*Note:*

For the six months ended 31 December 2014, loss on disposal of property, plant and equipment of approximately HK\$1,759,000 is derived taking into account the compensation amount from the termination of lease.

#### 5 Other operating expenses, net

	Unaudited Six months ended 31 December 2014 HK\$'000	Unaudited 2013 HK\$'000
Water and electricity	91,116	95,731
Selling, promotion, advertising and related expenses	116,168	112,621
Cleaning, repairs and maintenance	49,924	44,274
Auditor's remuneration	3,661	3,810
Net exchange (gains)/losses	(15,365)	4,783
Other tax expenses	109,538	119,609
Others	58,028	49,095
	<u>413,070</u>	<u>429,923</u>

#### 6 Income tax expense

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

	Unaudited Six months ended 31 December 2014 HK\$'000	Unaudited 2013 HK\$'000
Current income tax		
– Mainland China taxation	86,236	88,704
Over-provision in prior years	(2,181)	(58)
Deferred income tax		
– Deferred taxation on undistributed retained earnings	(6,962)	3,797
– Other temporary differences	19,258	30,511
	<u>96,351</u>	<u>122,954</u>

## 6 Income tax expense (Continued)

Taxation has been provided at the appropriate 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 periods ended 31 December 2013 and 2014.

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

## 7 Dividend

	<b>Unaudited Six months ended 31 December 2014 HK\$'000</b>	Unaudited 2013 HK\$'000
Interim dividend of HK\$0.061 (2013: HK\$0.094) per share	<u>102,855</u>	<u>158,498</u>

## 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 period.

	<b>Unaudited Six months ended 31 December 2014</b>	Unaudited 2013
Profit attributable to the equity holders of the Company (HK\$'000)	<u>205,962</u>	<u>349,944</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>0.12</u>	<u>0.21</u>

### (b) Diluted

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

During the six months ended 31 December 2013, shares issuable upon exercise of the share options were the only potential ordinary shares. There was no dilutive effect from the share options.

During the six months ended 31 December 2014, there was no dilutive potential ordinary share.

## 9 Other non-current assets

Balance as at 31 December 2014 and 30 June 2014 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 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 31 December 2014, the balance in connection to this transaction was approximately HK\$313,785,000 (30 June 2014: HK\$305,111,000).

## 10 Debtors

	<b>Unaudited As at 31 December 2014 HK\$'000</b>	Audited As at 30 June 2014 HK\$'000
Debtors	<b><u>138,354</u></b>	<u>105,101</u>

The Group grants credit terms within 30 days in majority.

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

	<b>Unaudited As at 31 December 2014 HK\$'000</b>	Audited As at 30 June 2014 HK\$'000
Within period for		
0–30 days	<b>82,174</b>	59,113
31–60 days	<b>10,708</b>	5,224
61–90 days	<b>4,370</b>	9,112
Over 90 days	<b><u>41,102</u></b>	<u>31,652</u>
	<b><u>138,354</u></b>	<u>105,101</u>

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

Debtors included amounts due from fellow subsidiaries and a related company of approximately HK\$3,290,000 and HK\$nil (30 June 2014: HK\$6,232,000 and HK\$1,425,000) respectively which were unsecured, interest free and repayable on demand.

## 11 Creditors, accruals and other payables

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

	<b>Unaudited</b> <b>As at</b> <b>31 December</b> <b>2014</b> <i>HK\$'000</i>	Audited As at 30 June 2014 <i>HK\$'000</i>
Within period for		
0–30 days	<b>1,423,708</b>	1,012,268
31–60 days	<b>1,001,233</b>	653,098
61–90 days	<b>244,111</b>	171,437
Over 90 days	<b>437,288</b>	421,692
	<b><u>3,106,340</u></b>	<u>2,258,495</u>

Creditors included amounts due to related companies of approximately HK\$99,499,000 (30 June 2014: HK\$53,113,000) which were unsecured, interest free and repayable within 90 days.

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

## **BUSINESS REVIEW**

The Group's revenue declined by 4.1% from HK\$2,125.3 million for the six months ended 31 December 2013 (or "1HFY2014" or "the same period of Previous Year") to HK\$2,037.8 million for the six months ended 31 December 2014 (or "1HFY2015" or "the Current Period"). Profit for the Current Period was HK\$206.0 million.

### **Business Network**

During the Current Period, the Group operated 41 department stores and two shopping malls, with a total gross floor area ("GFA") of about 1,678,080 square metres ("sq.m.") and a total operating floor area ("OFA") of about 1,348,590 sq.m. Located in three operating regions, namely Northern China, South Eastern China and Central Western China, the stores covered 21 major cities in Mainland China, including Wuhan, Shenyang, Harbin, Tianjin, Ningbo, Beijing, Shanghai, Dalian, Kunming, Lanzhou, Changsha, Chongqing, Chengdu, Anshan, Nanjing, Zhengzhou, Mianyang, Yancheng, Xi'an, Yanjiao, and Yantai with 39 self-owned stores and four managed stores.

### **Revenue Contribution**

#### *By Region*

The Northern China Region contributed the most to the Group's revenue during the period under review, accounting for 50.1% of revenue, followed by the South Eastern China Region and the Central Western China Region, accounting for 30.7% and 19.2%, respectively.

#### *By Segment*

Commission income from concessionaire sales was the major source of income, accounting for 63.7% of revenue. Sales of goods for direct sales and rental income accounted for 18.4% and 15.7% respectively. Management and consultancy fees accounted for 2.2%.

### **Store Network Development**

During the period under review, the Group soft-opened its 12<sup>th</sup> self-owned store in Shanghai, Hong Kong New World Department Store – Shanghai 118 Branch Store ("Shanghai 118 Branch Store"), with a total GFA of approximately 62,600 sq.m. in which approximately 40,000 sq.m. commenced operation. It is the Group's first large-scale retail project that adopts a department store-shopping mall hybrid model, further reinforcing its market presence in Shanghai. As at 31 December 2014, the Group's total GFA was approximately 1,678,080 sq.m. The total GFA of self-owned stores was approximately 1,522,380 sq.m.

## Operations Strategies

During the period under review, China's economic growth continued to slow down. The intensified competition brought by e-commerce and shopping malls, coupled with consumers' diverse needs and rising operating expenses, deteriorated the operating environment persistently. Therefore, traditional retail companies are under great pressure for fundamental transformation, such as precise market positioning and optimized merchandise and service portfolio, in order to be on the right track for long-term development. In response to these challenges, the Group accelerated its restructuring during the period under review through widening its revenue streams to reduce reliance on commission income from concessionaire sales. The Group also revamped its operational structure from the former sole-department store model to a diversified business model comprising department store, shopping mall and direct sales businesses, strengthening its expertise in each business area so as to improve gross margin and overall competitiveness.

### *Activating Cost Control Mechanism and Looking into Store Resources Consolidation*

Amid market downturn and stagnant consumer sentiment, huge rental expenses and increasing staff expenses became the two main reasons for the Group's reduced profit during the period under review. Therefore, the Group activated its cost control mechanism during the period under review and will re-examine and consolidate its store network in an attempt to lower rental and staff expenses.

### *Nurturing Middle Class Customers with Mid- to High-end and Exclusive Merchandise*

In the highly competitive retail market in Mainland China, differentiated merchandise is the key to enhancing customers' shopping experience. Targeting China's middle class, the Group completed a brand elimination and introduction exercise in categories such as gold and jewelry and ladies' casual wear during the period under review and concurrently introduced a spectrum of world-renowned and exclusive brands to the stores in a bid to gradually increase ticket price in which Wuhan New World Department Store ("Wuhan Store") and Wuhan New World Department Store – Wuchang Branch Store ("Wuhan Wuchang Branch Store") further upgraded their jewelry counters' furnishing with more exquisite ones. To mitigate e-commerce's impact on the sales of mass apparel brands, the Group refined its merchandising strategies on ladieswear by introducing more mid- to high-end brands targeting mature ladies, such as MYTENO, Dyar and FEIZI, as well as designer brands, such as S.DEER and MOSST.

During the period under review, Lanzhou New World Department Store ("Lanzhou Store"), Beijing New World Liying Department Store ("Beijing Liying Store") and Xi'an New World Department Store ("Xi'an Store") also introduced some new-to-the-region brands, such as Mix Blu, Z11, SKINFOOD and FILA, to the stores to enhance the uniqueness of their merchandise mix. Furthermore, in-store shopping environment was further improved through the optimization of counter design and the replacement of tall island cabinets with mixed-height cabinets in the atrium to increase visual transparency.

### *Expanding Leasing Area to Create “Happy New World”*

Catering to Chinese consumers’ needs for one-stop shopping, the Group has adopted a hybrid business model since 2009. Other than operating the concessionaire business, the Group has actively introduced cinemas, beauty centers, English schools, themed restaurants, food courts and other leasing projects into the stores to increase the proportion of in-store lifestyle complementary facilities. Since dining is one of the most appealing leasing projects to customers, the Group exerted great efforts in introducing food and beverage tenants, such as STARBUCKS, BURGER KING, TAMAYAKI, Ricky Duck, Iceason and other unique dining brands, into the stores during the period under review. Beijing Shishang New World Department Store (“Beijing Shishang Store”) set up food stalls and restaurants at different parts of the premises on top of the existing designated dining floor while Hong Kong New World Department Store – Shanghai Changning Branch Store (“Shanghai Changning Branch Store”) added Hong Kong-style dim sum and dessert restaurants to compose a specialty dining floor.

On the other hand, acknowledging that children’s facilities are effective means to extend customers’ duration of stay, the Group introduced the “Happy New World” concept in June 2014 and improved its in-store children’s recreational facilities. For instance, Shanghai 118 Branch Store opened in November 2014 has a 2,000-sq.m. indoor children’s playground which consists of a beach-style amusement park, merry-go-rounds, mechanical rides and other entertainment facilities to embody the theme park concept. In addition to hardware optimization, the Group further enriched its children’s merchandise portfolio through the introduction of children brands, such as JJL, Tread Outdoor Products, Totguard and Toys“R”Us. In October 2014, 12 animal cartoons were appointed as Happy New World’s spokespersons to position the Group as a theme-park-style department store.

### *Introducing Direct Procurement and Acquisition of Brand Agents to Expand Direct Sales Business*

During the period under review, the Group established its own procurement team to develop its direct sales business through direct procurement and the acquisition of brand agents which help extend operational differentiation. During the period under review, the Group’s private label, LOL (Love•Original•Life) Concept Shop, organized branded promotional events and new product parties frequently along with esteemed customer services and exclusive shopping discounts, such as discounted flight tickets with Hong Kong Airlines, to nurture loyal customer cluster. As of now, the Group set up 13 LOL Concept Shops across the country and an online flagship store on Tmall.com, developing its LOL business with both offline and online channels.

### *Expanding Shopping Mall Business to Meet Consumers’ Diverse Needs*

Considering that retail complexes can better accommodate consumers’ diverse needs, the Group has begun to accommodate leasing projects into department stores’ premises and operate in the department store-shopping mall hybrid model since 2009. Following the acquisition of two shopping malls took place in 2011 and 2013, the Group accumulated the relevant operating experience and set up a Shopping Mall Business Department during the



period under review. The department is responsible for operating and managing the Group's shopping mall projects, namely Hong Kong New World Department Store – Shanghai Shaanxi Road Branch Store (“Shanghai Shaanxi Road Branch Store”), Shanghai Hongxin Trendy Plaza and the shopping mall session of Shanghai 118 Branch Store which is expected to be opened in 2015, in a modern shopping mall asset management model. During the period under review, Shanghai Shaanxi Road Branch Store and Shanghai Hongxin Trendy Plaza were repositioned to target young families and fashionista respectively and the latter completed an exterior renovation to enhance its overall competitiveness.

#### *Establishing Long-term Strategic Cooperation Through Head Office-Head Office Partnerships*

For brand introduction, the Group has established a dedicated task force to facilitate head-office-level communications with large brands to jointly sketch their nationwide development roadmap at New World Department Store (“NWDS”), so as to enhance resources sharing and reduce brand maintenance cost with economies of scale. During the period under review, the Group introduced some well-known musical instrument and education chains into the stores and commenced long-term strategic cooperation with some international brands.

In addition, the Group attaches great importance to its relationships with existing suppliers. The “Head office – Region – Store” three-tier supplier management system was implemented to carry out tiered relationship maintenance with a focus to strengthen partnerships with strategic brands. As leasing projects have become one of the important sources of income, the Group extended the scope of high maintenance categories to well-known food and beverage companies as well as tenants providing lifestyle and children-related services so as to foster long-term strategic partnerships.

#### *Leveraging E-commerce to Tap into O2O Market*

In this Internet era, increasing internet penetration fosters the growth of digital retail market. In view of that, on top of organizing promotional activities at physical stores, the Group actively cooperated with Tencent, Alibaba and other e-commerce platforms to leverage their resources on its O2O (Online-to-Offline) marketing campaigns, for instance, launching group-buying coupons with Baidu Nuomi.com in Shanghai's “6<sup>th</sup> Non-stop Mega Sales” and Lanzhou Store's 9<sup>th</sup> Anniversary Mega Sales, while distributing shopping vouchers and speed dating event tickets through WeChat and Mobile Taobao during the “Double Eleven” period, in order to drive online users to physical stores. Also, the Group utilized WeChat to carry out customer relationship maintenance, for instance, Beijing New World Department Store (“Beijing Store”) conducted survey and gift giveaways on WeChat as a cost-effective way to understand and bond with customers. During the period under review, total number of NWDS' Weibo and WeChat users were about 6.1 million and 1.11 million respectively. For in-store O2O fulfillment, the Group optimized its Wi-Fi facilities during the period under review to facilitate in-store mobile sales notification and reduced customers' queuing time at the cashier significantly with extra mobile POS machines during shopping seasons and promotional period, enhancing customers' shopping experience.

### *Optimizing VIP Services to Improve Members' Satisfaction*

During the period under review, the Group launched the new “Diamond N-VIP” card which has the highest application threshold to nurture high-spending customer cluster. Furthermore, the Group gradually perfected its VIP member benefits by introducing jewelry cleaning, eyebrow trimming, hand caring and other services. The Group also cooperated with brands, food and beverage and entertainment tenants to expand VIP members’ bonus points earning channels. For instance, VIP members could earn NWDS bonus points with the purchase of Ctrip travel products in the “We Pay For Your Travel” campaign. During the period under review, the total number of the Group’s VIP members was over 4 million.

### **Expansion Strategies**

During the period under review, the government’s anti-corruption policies weakened the overall consumer sentiment in Mainland China. Severely hit by online stores and shopping malls, the sales growth of physical stores slowed down significantly. In view of the overall sluggish economy and heightened competition, the Group will adopt a prudent and conservative approach and will take the operating environment, potential growth and returns of a prospective market into careful consideration in business development. Also, the Group will consider consolidating its store network according to the market conditions to control rental expenses. When selecting store location, the Group will carry through its “multiple presences within a single city” and “radiation city” strategies. Concurrently, the Group will extend its network to potential third- and fourth-tier cities in the neighborhood in a “low-risk, low-investment” manner through the provision of management and consultancy services.

During the period under review, the Group soft-opened its 12<sup>th</sup> self-owned store in Shanghai, Shanghai 118 Branch Store, with a total GFA of approximately 62,600 sq.m. in which approximately 40,000 sq.m. commenced operation. It is the Group’s first large-scale retail project that adopts a department store-shopping mall hybrid model, further reinforcing its scale advantages in Shanghai.

To further enrich consumers’ shopping experience, the Group will continue the Shenyang Nanjing Street Branch Store Phase I Redevelopment Project and the expansion of Shenyang Nanjing Street Branch Store Phase II Project. Upon the completion of these projects, the premise will become a department store with a total GFA of over 50,000 sq.m. Furthermore, the Group plans to open a managed store in Jiamusi City, Heilongjiang Province and offer consultancy services for real estate projects in third- to fourth-tier cities to boost revenue and to acquire deeper understanding of the operating environment and development potential of the local market where the managed store situates in the process.

## OUTLOOK

The “micro-stimulation” measures introduced by the Chinese government during the first half of 2014 provided transient stimulation to the sluggish economy. However, economic recovery slowed down under the shadow of overcapacity, adjustments in the real estate market and fluctuations triggered by economic restructuring. As a result, China’s economic growth in the second half of the year continued to decline. According to the National Bureau of Statistics of the People’s Republic of China, Gross Domestic Product (“GDP”) in 2014 grew 7.4% year-on-year. Total retail sales of consumer goods amounted to RMB26,239.4 billion, representing a real growth of 10.9%. Both figures showed comparative decrease from the previous year, indicating that the consumer market has entered the hard times of sluggish growth.

In 2015, although the US economy is expected to regain momentum from the improvements in employment market and increasing consumer spending, many European countries are still dealing with the aftermath of the financial crisis, adding uncertainties to the economic outlook. Besides, as China’s ongoing economic restructuring has encumbered its growth, it is expected that the domestic retail market will continue to be shrouded in haze.

In this difficult operating environment, the industry is not expected to recover in the short term. In addition to the kick-start of operating expenses control through store consolidation and staff reallocation, the Group strives to strengthen its overall competitiveness by continuing to adopt a diversified business model comprising department store, shopping mall and direct sales businesses, expand its revenue streams, and actively deploy O2O and cross-industry marketing strategies. On the other hand, the Group will adopt prudent and conservative expansion strategies to strengthen its presence in first- and second-tier cities while seizing the new prospects brought by new urbanization with the “low-risk, low-investment” approach to explore new stronghold with consumption potential, preparing itself for the upcoming growth opportunities.

## FINANCIAL REVIEW

### Revenue

Revenue of the Group was HK\$2,037.8 million in 1HFY2015 representing a decline of 4.1% from HK\$2,125.3 million in 1HFY2014.

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 6.3% to HK\$7,928.4 million in 1HFY2015 from HK\$8,465.4 million in 1HFY2014. Gross revenue from concessionaire sales decreased to HK\$7,072.7 million from HK\$7,621.5 million in the same period of Previous Year. Commission income rate increased from 17.7% in the same period of Previous Year to 18.3% in the Current Period. The increase was primarily due to drop in sales of gold and jewelry which had a lower margin as well as generally improved commission income rates for certain major categories. Sales of goods for direct sales was HK\$374.8 million in 1HFY2015 compared with HK\$410.3 million in 1HFY2014. Direct sales revenue mainly comprised sales of groceries, housewares and perishables (approximately 52.7%), cosmetic products (approximately 45.6%), as well as ladieswear, menswear,

accessories and miscellaneous items (approximately 1.7%). Gross margin of direct sales was 13.5% compared to 14.9% in the same period of Previous Year. The drop was mainly due to decrease in gross margin for cosmetic products. In 1HFY2015, ladieswear and accessories made up approximately 65.8% of gross revenue from concessionaire sales and sales of goods for direct sales. Menswear and accessories made up approximately 15.7% and sportswear, bread and snacks, electrical appliances, kidswear and personal care products largely made up the rest.

Management and consultancy fees was HK\$44.3 million in 1HFY2015 showing an increase by 8.0% from HK\$41.0 million in 1HFY2014. The increase was primarily due to Group's recognition of fees for the provision of consultancy services for some new managed store projects which were at pre-opening stage in the Current Period.

Rental income slightly decreased by 0.5% to HK\$320.9 million in 1HFY2015 due to tenant mix revision and deferred revamp in both Shanghai Hongxin Trendy Plaza and Shanghai Shaanxi Road Branch Store, as well as the closure of Wuhan New World Department Store – Qiaokou Branch Store during the Current Period.

## **Other Income**

Other income of the Group was HK\$115.7 million in 1HFY2015 compared with HK\$70.0 million of 1HFY2014. Other income in 1HFY2015 mainly comprised HK\$48.7 million of income from suppliers, HK\$13.1 million of government grants and HK\$26.7 million of compensation for termination of lease.

## **Changes in Fair Value of Investment Properties**

Changes in fair value of investment properties in the Current Period was HK\$2.3 million which related to the properties of Shanghai Shaanxi Road Branch Store, Shanghai Hongxin Trendy Plaza and Tianjin New World Department Store.

## **Other Gain/Loss, Net**

Other Gain, net of the Group in the Current Period was HK\$6.9 million which was primarily resulted from the inclusion of HK\$10.1 million gain on liquidation of a subsidiary in Wuxi City.

## **Purchases of and Changes in Inventories**

The purchases of and changes in inventories represented the cost of sales for direct sales of goods. It decreased by 7.2% to HK\$324.2 million in 1HFY2015 from HK\$349.4 million in 1HFY2014. The decrease was in line with the decrease in sales of goods for direct sales in the Current Period.

## **Employee Benefit Expense**

Employee benefit expense increased to HK\$377.6 million in 1HFY2015 from HK\$316.9 million in 1HFY2014. This increase was primarily due to the increase in wages and salaries, retirement benefit costs and other employee benefits as a result of recognising a full-period operation of Shanghai Hongxin Trendy Plaza acquired on 30 July 2013, the conversion of Hong Kong New World Department Store – Shanghai Wujiaochang Branch Store (“Shanghai Wujiaochang Branch Store”) from a managed store to a self-owned store in November 2013 and the opening of Yantai New World Department Store (“Yantai Store”) in December 2013. In addition, the newly opened Shanghai 118 Branch Store in November 2014 also contributed to the increase of employee benefit expense in the Current Period.

## **Depreciation and Amortisation**

Depreciation and amortisation expense increased from HK\$156.4 million in 1HFY2014 to HK\$171.1 million in 1HFY2015. The increase was mainly contributed by recognising a full-period operation of Shanghai Hongxin Trendy Plaza, Shanghai Wujiaochang Branch Store and Yantai Store acquired or opened in FY2014.

## **Operating Lease Rental Expense**

Operating lease rental expense increased to HK\$585.5 million in 1HFY2015 from HK\$488.8 million in 1HFY2014, primarily due to recognising a full-period operation of Shanghai Wujiaochang Branch Store and Yantai Store acquired or opened in FY2014 and the newly opened Shanghai 118 Branch Store in November 2014.

## **Other Operating Expenses, net**

Other operating expenses decreased to HK\$413.1 million in 1HFY2015 from HK\$429.9 million in 1HFY2014. The decrease was mainly due to an exchange gain of HK\$15.4 million included in other operating expenses in 1HFY2015.

## **Operating Profit**

Operating profit was HK\$291.2 million in 1HFY2015 compared with HK\$460.4 million in 1HFY2014.

## **Income Tax Expense**

Income tax expense of the Group was HK\$96.4 million in 1HFY2015 compared with HK\$123.0 million in 1HFY2014. The effective tax rate of the Group in 1HFY2015 was 31.9%.

## **Profit for the Period**

As a result of the reasons mentioned above, profit for the period decreased by 41.1% to HK\$206.0 million compared with HK\$349.9 million in the same period of Previous Year.

## **Liquidity and Financial Resources**

Cash and fixed deposits of the Group amounted to HK\$3,219.9 million as at 31 December 2014 (30 June 2014: HK\$1,527.1 million).

The Group's borrowings from banks as at 31 December 2014 was HK\$1,581.3 million (30 June 2014: HK\$696.8 million) of which HK\$506.3 million (30 June 2014: HK\$500.0 million) was secured by pledge of assets.

At 31 December 2014, the Group's current liabilities exceeded its current assets by HK\$694.3 million (30 June 2014: HK\$1,631.1 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 31 December 2014 were HK\$508.7 million, of which HK\$506.3 million were contracted but not provided for in the statement of financial position. For the contractual payment of HK\$506.3 million, approximately HK\$400.3 million is for the redevelopment project of a building in Shenyang City.

## **Pledge of Assets**

As at 31 December 2014, investment properties of HK\$1,926.6 million (30 June 2014: HK\$1,900.0 million) of the Group were pledged as securities for bank borrowings of HK\$506.3 million (30 June 2014: HK\$500.0 million).

## **Treasury Policies**

The Group mainly operates in Mainland China with most of the transactions denominated in Renminbi except for the Hong Kong dollars denominated bank borrowing. The Group is exposed to foreign exchange translation risk, arising from the exposure of Hong Kong dollars against Renminbi. The Group has not used any forward contracts to hedge its foreign exchange risk. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures.

## **Contingent Liabilities**

The Group did not have any significant contingent liabilities as at 31 December 2014.

## **INTERIM DIVIDEND**

The Directors have resolved to declare an interim dividend of HK\$0.061 per share (2013: HK\$0.094 per share) for the six months ended 31 December 2014 to shareholders whose names appear in the register of members of the Company on 16 April 2015. It is expected that the interim dividend will be paid on or about 15 May 2015.

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

As at 31 December 2014, total number of employees of the Group was 5,974 (2013: 6,645). The Group ensures that all levels of employees are paid competitively within the standard in the market and employees are rewarded on performance related basis within the framework of the Group's salary and incentives.

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

## **ACQUISITION AND DISPOSAL**

On 16 January 2015, Techwise Enterprises Limited, a wholly-owned subsidiary incorporated in the British Virgin Islands with limited liability, entered into a share purchase agreement to acquire the entire issued share capital of Well Metro Group Limited, a company incorporated in the British Virgin Islands with limited liability, for a consideration of HK\$1.0 million. Well Metro Group Limited and its subsidiaries have the franchise and distribution right in relation to fashion apparels and accessories for certain brand names in the PRC and have a network of retail operation in the PRC.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

The Company had not redeemed any of its listed securities during the six months ended 31 December 2014. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities during the six months ended 31 December 2014.

## **CORPORATE GOVERNANCE CODE**

The Company has complied with all the applicable code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the six months ended 31 December 2014.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding securities transactions by the Directors. Upon the Company's specific enquiry of each Director, all Directors confirmed that they had complied with the required standard set out in the Model Code and the code of conduct regarding Directors' securities transactions adopted by the Company during the six months ended 31 December 2014.

## AUDIT COMMITTEE

The audit committee of the Company (the “Audit Committee”) was established in accordance with requirements of the Listing Rules for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The Audit Committee consists of the four independent non-executive Directors. The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 31 December 2014 and the unaudited condensed consolidated financial information and the interim report for the six months ended 31 December 2014 and discussed the financial related matters with the management. The unaudited interim results of the Group for the six months ended 31 December 2014 have been reviewed by the Company’s auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 15 April 2015 to Thursday, 16 April 2015, both days inclusive, during which period no transfer of share of the Company will be registered. In order to establish entitlements to the interim dividend, all transfers of shares of the Company accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the branch share registrar and transfer agent of the Company in Hong Kong, Tricor Investor Services Limited of Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 14 April 2015.

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

Hong Kong, 26 February 2015

*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.*