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 2017/2018

HIGHLIGHTS

Same-store sales[1] growth for the period was 2.0%. The growth for the same period of Previous Year was flat.

Revenue for the period was HK$1,873.3 million compared with HK$1,781.5 million in the same period of Previous Year, with period-on-period growth of approximately 5.2%. Revenue for the period, after excluding the effect on the early adoption of HKFRS 15, was HK$1,905.1 million, with period-on-period growth of approximately 6.9%.

Operating profit for the period increased to HK$174.4 million from HK$156.2 million in the same period of Previous Year, with period-on-period growth of approximately 11.6%.

Profit for the period increased to HK$103.0 million from HK$92.5 million in the same period of Previous Year, with period-on-period growth of approximately 11.4%.

Earnings per share for the period was HK$0.06.

Opening balance of reserves of the Group as at 1 July 2017 was adjusted to decrease by HK$50.3 million due to the early adoption of HKFRS 15.

(1) Same-store sales calculation reflects the gross sales proceeds and the adjustment of the operational strategy for the stores in operation.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

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 2017 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited	Unaudited
		Six months ended 31 December	
		2017	2016
	Note	*HK$'000*	*HK$'000*
Revenue	*2*	**1,873,339**	1,781,451
Other income	*3*	**140,511**	76,426
Other (losses)/gains, net	*4*	**(85,610)**	1,025
Changes in fair value of investment properties		**286**	(10,471)
Purchases of and changes in inventories, net		**(461,421)**	(397,842)
Purchases of promotion items		**(27,448)**	–
Employee benefit expense		**(300,129)**	(312,397)
Depreciation and amortisation		**(121,423)**	(131,187)
Operating lease rental expense		**(587,749)**	(534,782)
Other operating expenses, net	*5*	**(256,002)**	(316,033)
Operating profit		**174,354**	156,190
Finance income		**29,390**	10,050
Finance costs		**(19,635)**	(7,037)
Finance income, net		**9,755**	3,013
		184,109	159,203
Share of results of associated companies		**(148)**	279
Profit before income tax		**183,961**	159,482
Income tax expense	*6*	**(80,973)**	(67,024)
Profit for the period		**102,988**	92,458
Attributable to:			
Shareholders of the Company		**102,932**	92,782
Non-controlling interests		**56**	(324)
		102,988	92,458
Earnings per share attributable to shareholders of the Company during the period (expressed in HK$ per share)			
– Basic and diluted	*8*	**0.06**	0.05

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	Unaudited
	Six months ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
Profit for the period	**102,988**	92,458
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Fair value loss on equity instrument at fair value through other comprehensive income	**(181)**	(16,591)
Revaluation of properties upon reclassification from property, plant and equipment and land use rights to investment properties	**–**	1,775
– Deferred income tax thereof	**–**	(444)
	(181)	(15,260)
Item that may be reclassified subsequently to profit and loss		
Translation differences	**251,456**	(264,343)
Other comprehensive income for the period, net of tax	**251,275**	(279,603)
Total comprehensive income for the period	**354,263**	(187,145)
Attributable to:		
Shareholders of the Company	**354,208**	(186,823)
Non-controlling interests	**55**	(322)
	354,263	(187,145)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**Unaudited As at 31 December 2017** *HK$'000*	Audited As at 30 June 2017 *HK$'000*
Assets			
Non-current assets			
Property, plant and equipment		**1,241,518**	1,278,071
Investment properties		**4,721,870**	4,528,348
Land use rights		**641,938**	627,466
Intangible assets		**2,247,694**	1,718,333
Interests in associated companies		**2,417**	1,619
Other non-current assets	*9*	**665,349**	627,848
Prepayments, deposits and other receivables		**280,254**	291,264
Financial asset at fair value through other comprehensive income		**21,218**	19,331
Financial asset at fair value through profit or loss		**–**	4,695
Deferred income tax assets		**151,767**	134,713
		9,974,025	9,231,688
Current assets			
Inventories		**285,684**	221,332
Debtors	*10*	**182,480**	106,053
Prepayments, deposits and other receivables		**610,296**	525,352
Amounts due from fellow subsidiaries		**6,327**	4,069
Amounts due from related companies		**8,056**	106
Fixed deposits		**310,478**	132,621
Cash and cash equivalents		**2,259,711**	2,003,676
		3,663,032	2,993,209
Total assets		**13,637,057**	12,224,897
Equity and liabilities			
Equity			
Share capital		**168,615**	168,615
Reserves		**6,063,303**	5,759,367
Shareholders' funds		**6,231,918**	5,927,982
Non-controlling interests		**7**	(48)
Total equity		**6,231,925**	5,927,934

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Note	**Unaudited As at 31 December 2017** *HK$'000*	Audited As at 30 June 2017 *HK$'000*
Liabilities			
Non-current liabilities			
Accruals and other payables		**604,130**	497,866
Obligation under finance leases		**23**	31
Borrowings		**227,545**	298,851
Deferred income tax liabilities		**883,572**	835,143
		1,715,270	1,631,891
Current liabilities			
Creditors	*11*	**2,492,276**	1,752,963
Accruals and other payables		**1,091,880**	1,319,239
Contract liabilities		**342,705**	–
Amounts due to fellow subsidiaries		**19,999**	10,733
Amounts due to related companies		**11,929**	23,611
Amounts due to associated companies		**–**	687
Obligation under finance leases		**16**	16
Borrowings		**1,627,153**	1,467,932
Financial liability at fair value through profit or loss		**–**	912
Tax payable		**103,904**	88,979
		5,689,862	4,665,072
Total liabilities		**7,405,132**	6,296,963
Total equity and liabilities		**13,637,057**	12,224,897

NOTES

1 BASIS OF PREPARATION

The condensed consolidated financial information of the Group for the six months ended 31 December 2017 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 ("HKICPA").

The condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 30 June 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

At 31 December 2017, the Group's current liabilities exceeded its current assets by approximately HK$2,026,830,000 (30 June 2017: HK$1,671,863,000). 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.

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2017, as described in those annual financial statements, except for the adoption of the amendments to existing standards effective for the accounting period beginning on 1 July 2017 and the early adoption of HKFRS 15 "Revenue from Contracts with Customers" ("HKFRS 15").

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 2017, the Group has adopted the following amendments to existing standards which are mandatory for the accounting period beginning on 1 July 2017:

Amendments to HKAS 7	Statement of Cash Flows
Amendments to HKAS 12	Income Taxes
Annual Improvements Project	Annual Improvements 2014-2016 Cycle

The adoption of the above amendments to existing standards does not have any significant effect on the results and financial position of the Group.

The Group has elected to early adopt HKFRS 15 for the accounting period beginning on 1 July 2017 because the new accounting policies provide more reliable and relevant information for users to assess the amounts, timing and uncertainty of future cash flows. The Group has also elected to apply the modified transitional provisions whereby the effects of adopting HKFRS 15 for uncompleted contracts with customers as at 30 June 2017 are adjusted at the opening balance of equity as at 1 July 2017 and prior period comparatives are not restated. The impact of the adoption of HKFRS 15 was disclosed in the condensed consolidated financial information of the Group for the six months ended 31 December 2017.

2 REVENUE AND SEGMENT INFORMATION

	Unaudited	Unaudited
	Six months ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
Commission income from concessionaire sales	**835,672**	890,069
Sales of goods – direct sales	**643,140**	551,030
Management and consultancy fees	**5,337**	7,784
Revenue from contracts with customers	**1,484,149**	1,448,883
Rental income	**389,190**	332,568
	1,873,339	1,781,451

The income from concessionaire sales is analysed as follows:

	Unaudited	Unaudited
	Six months ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
Gross revenue from concessionaire sales	**5,209,108**	5,222,033
Commission income from concessionaire sales	**835,672**	890,069

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

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

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

2 REVENUE AND SEGMENT INFORMATION (CONTINUED)

	Department store and other retail related businesses *HK$'000*	Property investment business *HK$'000*	Consolidated *HK$'000*
Six months ended 31 December 2017			
Segment revenue	**1,772,849**	**100,490**	**1,873,339**
Segment operating results	**109,043**	**130,059**	**239,102**
Other losses, net	**(85,609)**	**(1)**	**(85,610)**
Changes in fair value of investment properties	**–**	**286**	**286**
Unallocated corporate income, net			**20,576**
Operating profit			**174,354**
Finance income			**29,390**
Finance costs			**(19,635)**
Finance income, net			**9,755**
			184,109
Share of results of associated companies			**(148)**
Profit before income tax			**183,961**
Income tax expense			**(80,973)**
Profit for the period			**102,988**
Six months ended 31 December 2016			
Segment revenue	1,693,735	87,716	1,781,451
Segment operating results	101,163	67,988	169,151
Other gains, net	1,149	(124)	1,025
Changes in fair value of investment properties	–	(10,471)	(10,471)
Unallocated corporate expenses, net			(3,515)
Operating profit			156,190
Finance income			10,050
Finance costs			(7,037)
Finance income, net			3,013
			159,203
Share of results of associated companies			279
Profit before income tax			159,482
Income tax expense			(67,024)
Profit for the period			92,458

2 REVENUE AND SEGMENT INFORMATION (CONTINUED)

	Department store and other retail related businesses *HK$'000*	Property investment business *HK$'000*	Consolidated *HK$'000*
As at 31 December 2017			
Segment assets	**7,729,785**	**5,732,850**	**13,462,635**
Interests in associated companies	**2,417**	**–**	**2,417**
Deferred income tax assets	**151,767**	**–**	**151,767**
Unallocated corporate assets:			
Cash and cash equivalents			**19,965**
Others			**273**
Total assets			**13,637,057**
Six months ended 31 December 2017			
Additions to non-current assets *(Note)*	**117,399**	**3,648**	**121,047**
Depreciation and amortisation	**120,945**	**478**	**121,423**
Impairment loss on property, plant and equipment	**69,365**	**–**	**69,365**
Impairment loss on prepayments, deposits and other receivables	**7,918**	**–**	**7,918**
As at 30 June 2017			
Segment assets	6,395,670	5,658,282	12,053,952
Interests in associated companies	1,619	–	1,619
Deferred income tax assets	134,713	–	134,713
Unallocated corporate assets:			
Cash and cash equivalents			34,388
Others			225
Total assets			12,224,897
Six months ended 31 December 2016			
Additions to non-current assets *(Note)*	61,808	3,962	65,770
Depreciation and amortisation	130,344	843	131,187

Note:

Additions to non-current assets represent additions to non-current assets other than financial instruments, deferred income tax assets and interests in associated companies.

3 OTHER INCOME

	Unaudited	Unaudited
	Six months ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
Compensation from insurance claim	**69,375**	–
Government grants	**17,652**	11,970
Income from suppliers	**31,048**	32,755
Sundries	**22,436**	31,701
	140,511	76,426

4 OTHER (LOSSES)/GAINS, NET

	Unaudited	Unaudited
	Six months ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
Changes in fair value on financial asset or liability at fair value through profit or loss	**(5,455)**	1,204
Impairment loss on property, plant and equipment *(Note)*	**(69,365)**	–
Impairment loss on prepayments, deposits and other receivables *(Note)*	**(7,918)**	–
Loss on disposal of property, plant and equipment	**(2,872)**	(179)
	(85,610)	1,025

Note:

The impairment provisions were made to reflect management's latest plan for mainly two department stores (2016: Nil) in light of the latest market environment and the management's assessment on the business prospect thereof.

5 OTHER OPERATING EXPENSES, NET

	Unaudited	Unaudited
	Six months ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
Water and electricity	**37,540**	54,791
Selling, promotion, advertising and related expenses	**21,093**	76,761
Cleaning, repairs and maintenance	**38,207**	41,060
Auditor's remuneration		
– Audit services	**3,000**	3,000
– Non-audit services	**1,102**	913
Net exchange (gains)/losses *(Note)*	**(33,346)**	18,515
Other tax expenses	**85,969**	81,494
Others	**102,437**	39,499
	256,002	316,033

5 OTHER OPERATING EXPENSES, NET (CONTINUED)

Note:

The amounts excluded exchange losses arising from foreign currency borrowings capitalised to other non-current assets of HK$Nil (2016: HK$1,015,000), which represented the interest rate differential between borrowing costs that would be incurred if the Company's subsidiaries had borrowed funds in their functional currencies.

6 INCOME TAX EXPENSE

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

	Unaudited	Unaudited
	Six months ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
Current income tax		
– Mainland China taxation	**84,549**	76,169
– (Over)/under-provision in prior years	**(253)**	1,375
Deferred income tax		
– Undistributed retained earnings	**–**	(353)
– Other temporary differences	**(3,323)**	(10,167)
	80,973	67,024

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 six months ended 31 December 2017 and 2016.

Subsidiaries of the Company in Mainland China are subject to corporate income tax at a rate of 25% (2016: 25%).

7 DIVIDENDS

The Directors have resolved not to declare an interim dividend for the six months ended 31 December 2017 (2016: HK$Nil).

8 EARNINGS PER SHARE

(a) Basic

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

	Unaudited	Unaudited
	Six months ended 31 December	
	2017	2016
Profit attributable to shareholders of the Company (HK$'000)	**102,932**	92,782
Weighted average number of ordinary shares in issue (shares in thousands)	**1,686,145**	1,686,145
Basic earnings per share (HK$ per share)	**0.06**	0.05

(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 six months ended 31 December 2017 and 2016, there was no dilutive potential ordinary share.

9 OTHER NON-CURRENT ASSETS

Balances as at 31 December 2017 and 30 June 2017 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. (subsequently renamed as "Shenyang Xin Hui Properties Co., Ltd.") ("SYNWXH"), a wholly-owned subsidiary of New World Development Company Limited and a fellow subsidiary of the Company. Pursuant to the cooperation agreement, Shenyang Trendy and SYNWXH agreed to cooperate in a property redevelopment project in Shenyang City. Shenyang Trendy agreed to surrender to the local government authority the land and building where Shenyang New World Department Store – Nanjing Street Branch Store was situated for a compensation of RMB250,012,000 and to make contribution of RMB527,060,000 (subject to further adjustments) to SYNWXH 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 2017, the balance in connection to this transaction and the costs capitalised was approximately HK$665,349,000 (30 June 2017: HK$627,848,000).

10 DEBTORS

	Unaudited As at 31 December 2017 *HK$'000*	Audited As at 30 June 2017 *HK$'000*
Debtors	**204,348**	112,826
Less: loss allowance provision	**(21,868)**	(6,773)
Debtors, net	**182,480**	106,053

The Group grants credit terms within 30 days in majority. Ageing analysis of the net debtors, based on the invoice dates, is as follows:

	Unaudited As at 31 December 2017 *HK$'000*	Audited As at 30 June 2017 *HK$'000*
Within period for		
0–30 days	**164,488**	65,924
31–60 days	**15,464**	19,476
61–90 days	**823**	4,085
Over 90 days	**1,705**	16,568
	182,480	106,053

The debtors were primarily denominated in Renminbi.

11 CREDITORS

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

	Unaudited As at 31 December 2017 *HK$'000*	Audited As at 30 June 2017 *HK$'000*
Within period for		
0–30 days	**2,034,788**	1,313,017
31–60 days	**199,653**	204,890
61–90 days	**53,385**	54,055
Over 90 days	**204,450**	181,001
	2,492,276	1,752,963

Creditors included amounts due to related companies of approximately HK$107,456,000 (30 June 2017: HK$73,542,000) which were unsecured, interest free and repayable within 90 days.

The creditors were primarily denominated in Renminbi.

BUSINESS REVIEW

Business Network

As at 31 December 2017, the Group operated and managed 36 department stores and two shopping malls, with a total gross floor area of about 1,500,380 square metres. These stores are located in three operating regions in the Northern China, the Eastern China and the Central Western China, covering 20 key locations across the country, including Beijing, Tianjin, Yanjiao, Yantai, Lanzhou, Xi'an, Harbin, Shenyang, Anshan, Shanghai, Ningbo, Nanjing, Yancheng, Wuhan, Changsha, Zhengzhou, Chengdu, Chongqing, Kunming and Mianyang.

During the period under review, the Group changed the operating model of two managed stores to self-owned stores; these include Yanjiao New World Department Store ("Yanjiao Store") and Wuhan New World Department Store – Xudong Branch Store ("Wuhan Xudong Branch Store"). Following the above adjustment, the Group's retail network now comprises 37 self-owned stores and one managed store.

Revenue Breakdown

By Region

The Northern China Region continued to be the biggest contributor to the Group, accounting for 47.3% of revenue; this was followed by the Eastern China Region and the Central Western China Region, accounting for 33.3% and 19.4% respectively.

By Segment

Commission income from concessionaire sales was the major source of income, accounting for 44.6% of revenue. Sales of goods for direct sales and rental income accounted for 34.3% and 20.8% respectively. Management and consultancy fees accounted for 0.3%.

OPERATIONS OVERVIEW

Operations Strategies

Putting the Advantage of Double-line Management into Full Play; Focusing on Operational Efficiency Enhancements and Inspiring Management Innovation

Agile and responsive corporate decision-making and execution are instrumental to promoting transformation and encouraging innovation. During the period under review, the Group put its double-line management advantage into full play and promoted professional assurance and resource sharing, as well as kicked off efficiency improvement and revenue enhancement programmes. Through the professional support from the headquarters and the aligned benchmarking and self-rectification of stores, the double-line mechanism gave impetus to improved operations and enhanced management. At the same time, the Group made clear definitions on functions and division of labour and established a job duty qualifications system, further optimizing the organisation structure and allocation to complement the talent pool and talent development ladder as a way to support optimised selection and deployment of human resources. In terms of talent cultivation, the Group fostered potential development amongst its young core staff, selecting proactive, positive and quality post-85s core members to set up the "New NWDS Community". The selected group was empowered to take up challenging innovation projects and was given the mission to mentor "Xinpeng" members so as to encourage their holistic development. Besides, a trio of echelon cultivation initiatives was strategically implemented. Through recruitment, referrals, examinations and evaluations, the Group reserved talents for various levels and supported them with a cultivation and assurance mechanism to retain outstanding core staff members to ensure that roles at different levels are suitably filled with the right competence, so that efficiency could be constantly improved. In terms of motivation and innovation, the Group rolled out initiatives such as merit evaluation, sales competitions, etc. Management improvement solutions, such as an evaluation system for operations management, key performance target evaluation, new projects and store operations partners, etc. were also established. These initiatives focused on enhancing operational efficiency and unleashing team potentials on innovative management. Going forward, the Group will actively establish a "people-oriented" corporate culture, foster organisation reform and upgrade, optimise the talent structure, and strengthen the four talent cultivation and pipeline construction initiatives to offer assurance and support for the implementation of the Group's strategies.

Implementing Store Categorisation and "One Store, One Strategy"; Promoting Crafting of Stores' Ambience and Character

In face of China's new normal for consumption, the Group constantly innovated for changes and deepened its strategies of store categorisation and "One Store, One Strategy" during the period under review. As a result, "One Store, One Strategy" has become one of the important tactics for stores to quickly respond to market changes. The Group rationalised the market positioning of its stores based on their operating conditions and sorted them into four categories, namely "novel department store", "quasi-shopping mall", "neighbourhood centre" and "urban outlet". It then established the business strategies of each store based on the management model of "One Store, One Strategy", which was followed by assurance measures implemented at the headquarters to formulate a united force in order to ensure the landing of the Group's strategies. Through "One Store, One Strategy", the Group effectively motivated the stores to adopt different strategies to suit their specific markets, and to actively explore their way of innovation and engage in self-initiated business revamp for breakthroughs. As it continually deepened and optimised this strategy, the Group also ceaselessly strived for breakthroughs in innovating the shopping ambience, operational efficiency improvement, marketing innovation, and cooperation with Internet companies, etc. In terms of "One Store, One Strategy", Nanjing New World Department Store took the lead and rolled out the cultural and creative street zone "New Territories 88" in FY2017 and received acclaim from the market. The Group then began to introduce the themed street zone concept to other stores. It launched "MAX Commune", the upgraded version of "New Territories 88", at Changsha New World Trendy Plaza in July 2017, developing yet another operations model with themed food and beverage as the market differentiator. In addition to the above-mentioned themed street zones, Chongqing New World Department Store, Hong Kong New World Department Store – Shanghai Pujian Branch Store ("Shanghai Pujian Branch Store") and Zhengzhou New World Department Store ("Zhengzhou Store"), etc. completed strategic premise retrofitting and adjustments in brand portfolio. Certain floors were set up as test points to reshape the retail flow and optimise the interior layout as ways to improve the trendiness and merchandise appeal of these stores. In future, the Group will focus on crafting consumption scenarios enriched with ambience and character. Expansion and upgrading for "7 Temple Street" at Zhengzhou Store is planned, where a themed street zone integrated with nostalgia, recreation, art and culture, specialty snacks, etc. will be created. The first themed store of the Group will be introduced to Wuhan New World Department Store – Wuchang Branch Store to foster the transformation of stores into themed projects.

Accelerating Brand Renewal to Develop Competitive Categories

To respond to the young customer group characterised by ever-changing tastes, the Group expedited brand renewal, optimised its brand offerings and merchandise mix, as well as strengthened its competitive categories to lift the product appeal and competitiveness of stores. During the period under review, the Group commenced its strategic cooperation with renowned Korean cosmetics group Amore Pacific. Innisfree, the naturalistic brand of Amore Pacific, successfully landed on three NWDS' stores, and an extended scope of cooperation is being planned. Furthermore, the Group actively introduced international cosmetics brands, such as M·A·C, SK-II, FANCL, L'OCCITANE, The History of Whoo, MAKE UP FOR EVER, LANCÔME, ESTĒE LAUDER, CHANEL and GUERLAIN, etc. to some of its Shanghai stores to improve the classiness and category competitiveness of these stores. Beijing New World Department Store ("Beijing Store") stood out in terms of cosmetics sales among the stores. It recorded double-digit year-on-year growth in cosmetics sales during the period under review and took a solid third place in Beijing's cosmetics market. As a fitness craze sweeps Mainland China, the Group accelerated the upgrade and adjustment of the sports zone of Chengdu New World Department Store. The concept of "chic and dynamic" now runs through the level, converging popular sports brands such as NIKE and NIKE lifestyle store, adidas and adidas lifestyle store, PUMA, New Balance, Li-Ning, etc. to provide customers with more comprehensive product choices. Besides, Wuhan New World Trendy Plaza introduced the trendy multi-sports-brand store FOOTMARK to further strengthen the store's sports category. In future, the Group will continue to elevate its merchandise appeal and strengthen the four key categories of cosmetics, sophisticated ladieswear, sports and children's products by introducing emerging, talk-of-the-market brands so as to drive concessionaire sales of the Group.

Improving the Proportion of Interactive Experience Category; Enriching Stores with Interactive, Refined and Lifestyle-oriented Elements

In terms of the rental business, the Group constantly innovated in its business models to enrich consumers' in-store experience. During the period under review, the Group added emerging categories such as entertainment, food and beverage, children, etc. Emerging tenants such as "STELLAR INTERNATIONAL CINEPLEX", "DAYIN BOOKMALL", "Nesno", "UJI MATCHA", "Mi Home" and "HIMO" photography studio, etc. were introduced. It also began strategic cooperation with existing tenants such as "Haidilao Hotpot" and "LEFIT" by increasing the number of collaborative stores. As at 31 December 2017, rental business accounted for 36.4% of operating area in all NWDS' stores. In future, the Group will strive to introduce the up and coming interactive experience category to cover more in-demand spending categories so as to accelerate the enrichment of interactive, refined and lifestyle-oriented elements in stores.

Strengthening In-depth Operating Capabilities to Create Complete Line-ups for the N+ and LOL Private Label Series

To strengthen its brand character and differentiated operations, the Group put much effort to develop its direct sales business by employing the multi-category business composition to create complete line-ups for its private label series, apart from existing private labels such as the New World Supermarket and the designer ladieswear multi-brand store "Xin Shuo Retail Space". These series include the N+ line-up which focuses on lifestyle merchandise and the LOL (Love • Original • Life) Concept Shop ("LOL") line-up which targets at the gift and sundry goods markets.

As one of the signature labels within the Group's strategic setup of its direct sales business, the N+ line-up actively developed a range of businesses as well as developed and operated three private labels during the period under review, namely the high-end bakery brand "N+ Natural Taste Plus", the mother-and-baby themed supermarket "N+ Baby", and the first convenience store business "N+ Convenience Store". "N+ Convenience Store" and "N+ Baby" commenced operations in late November and late December 2017 respectively and have received positive market feedbacks since then. Moving forward, the Group will continue to expand the N+ line-up to cover multiple businesses including food and beverage, supermarket, lifestyle apparel, children's entertainment, etc. with the aim to establish it as a considerable-scale private label series with enriched brand contents and enhanced capabilities to fulfil consumers' diversified needs.

The LOL line-up is yet another important component in the Group's private label series. With the categorised management of black, gold and silver label stores yielding positive results, LOL actively expanded its retail network and added five new stores during the period under review. In addition to tapping into the NWDS' stores in Mianyang and Wuhan, LOL also successfully opened new stores in Wuhan K11 and Life Hub @ Jinqiao, Shanghai, further expanding outside of the Group's store network. As at 31 December 2017, LOL was operating 17 stores that spanned across five provinces and cities in Mainland China. Since August 2017, LOL vigorously expanded its OEM (Original Equipment Manufacturer) merchandise, which stimulated growth in its merchandise gross margin. Product categories were also actively renewed with 39 new brands introduced to improve its product competitiveness. During the period under review, LOL continued to implement precision marketing according to the different purchasing power of its customer base and maintained double-digit growth in same-store sales. In future, the Group will strive to strengthen LOL's brand influence and product competitiveness and build up a full line-up of LOL in a multi-category model.

On the other hand, the Group's distribution business of high-end fashion brands also saw active expansion into the high-end retail premises of many tier-one cities during the period under review, bringing its total store number to 71. Nationwide, its same-store sales achieved double-digit growth.

Marketing Strategies

Creating Market Noise with Hot Styles, Highly Sought-after Products; Implementing Innovative Marketing with Cross-industry Partners

The Group strived to innovate its marketing strategies and leveraged on buzz marketing, cross-industry collaboration and online marketing tactics to improve the reach and influence of campaigns. During the period under review, the headquarters initiated a range of nationwide inter-store marketing campaigns with very positive results. These include the "812 More than 50%-off Promotion", "An Extraordinary Double 11", "Hot & Chic Items Shopping Festival" on Double 12, anniversary celebrations, etc. Amongst these, the Group moved away from the old practice of discounting across the board and turned the spotlight on hot styles and highly sought-after products in "An Extraordinary Double 11" to drive sales with buzz marketing. The Group also joint hands with the e-commerce platform ffan.com to offer spending rebates alongside synchronized online-offline offers to create mutually stimulating sales. On top of exploring cross-industry collaboration, the Group also attempted to integrate new and playful online marketing ideas to enhance the entertaining and interactive elements of its marketing campaigns. In December 2017, Shanghai Pujian Branch Store collaborated with the mobile phone application "Lianlian" and built the "Magical Shop Window" online marketing platform. Riding on the excitement and engagement of crowdfunding, the platform triggered experiential consumption and associated sales in the young customer group and successfully drove the number of transactions and business volume of the entire store. Besides, the Group also actively engaged in cross-industry collaboration with Tencent's WeBank, China UnionPay's Mobile QuickPass, and Apple Inc.'s Apple Pay, leveraging on O2O all-channel marketing and various spending rebates to stimulate in-store sales growth.

The Group continued to strengthen its collaboration with strategic brands and made use of new product launches together with synchronized online-offline offers to drive concessionaire sales of gold and jewellery products. During the period under review, the Group co-organised two "brand day" campaigns with Chow Tai Fook, rolling out the "9.9 Chow Tai Fook Brand Day" in 32 NWDS' stores and debuted new products of the Bao Bao Family collection. Pre-event online hype building and self-media promotion were employed to stimulate offline foot traffic, creating an exciting shopping ambience. In December 2017, the global launch event of "Butterfly Invincible", a limited collection to commemorate the brand's 88th anniversary, was held at Beijing Store to coincide with the "Double 12" campaign, driving a significant increase in the sales volume of the entire store.

Looking ahead, the Group will develop innovative marketing campaigns, such as super brand days or hot styles festivals, according to the market positioning, consumption scenarios and competitive categories of its stores to drive sales with buzz marketing and elevate the effectiveness of its marketing efforts.

Cooperation Empowered by Deepened Digital Strategies; Digitisation Drove Online-Offline Integration

The Group kept abreast of the latest retail trends and increased its investment in digitising resources. On one hand, the Group unceasingly developed and introduced digitised consumer services, such as the integration of smart POS and system, as well as the close cooperation with institutions such as China UnionPay to create an expeditious services system; it also continuously enhanced its service quality. On the other hand, the Group upgraded its information technology (IT) services system, so that its Enterprise Resource Planning (ERP) System and CRM membership system could be equipped with digitised marketing support capabilities. A more user-friendly operation interface was employed to improve data utilization as well as to strengthen the ability of internal staff to embrace the digital revolution.

In terms of digitisation, the Group made use of an open platform and leveraged on the technological strengths of Internet companies to cooperate fully with businesses that are willing to share and equipped with digital capabilities. From four layers and angles, the collaborating parties joined up to integrate and develop their users through cooperation in platform, marketing, social media and services. By empowering each other in these cooperations, the Group's progress and capabilities to go digital were speeded up, enabling it to better serve its consumers. Through working with companies such as Tencent's WeBank, the Group commenced deepened cooperation from end user terminals through consumer finance terminals, providing consumers with even more interactive and convenient services. In parallel, the Group cooperated with online companies and rode on their new marketing ambience setup to jointly develop value added services for in-store visitors. The collaborating parties developed users together, so that consumers could experience the Group's new changes that advance with time.

Integrating Cross-industry Resources to Optimise Services for VIP Members; Promoting Low-cost Marketing with Support from Self-media

The Group ceaselessly enhanced its capabilities on VIP member relations maintenance and management. Riding on the integration and upgrading of the CMF customer relationship management platform ("CMF platform") and the CRM membership system, the Group integrated and rationalised its VIP member resources to better understand their consumption habits, which in turn facilitated precision marketing. On one hand, the Group actively integrated cross-industry resources to optimise benefits and privileges for VIP members, and at the same time, rolled out level upgrade for VIP members to strengthen their loyalty. On the other hand, the Group constantly optimised the CMF platform to facilitate and expedite the new member recruitment process, which helps further expand its new member resources pool. After system integration and upgrade, customers could electronically operate and record their transactions, as well as enjoy offers from close to 1,000 affiliated merchants nationwide. VIP members of Shanghai stores could even redeem electronic coupons via NWDS' WeChat official accounts. As at 31 December 2017, the Group's VIP base grew to almost five million, representing an increase of close to 5.88% as compared to 30 June 2017.

To enrich the exclusive experience for VIP members, the Group hosts featured events on a regular basis. For instance, Beijing New World Liying Department Store initiated the "Hot & Chic Items Shopping Festival VIP Day" event, during which VIP members could interact with a popular mainland boy's group via the live video broadcast in the outdoor plaza, and obtain WeChat red packets by scanning QR codes on site. The event successfully attracted participation by 800 VIP members. Besides, Hong Kong New World Department Store – Shanghai Huaihai Branch Store collaborated with "DAYIN BOOKMALL" to launch experiential lifestyle classes targeted at office workers, including make-up, tea ceremony, leather keyholder making, as well as literary events such as script-reading, music appreciation sessions, etc. Nearly 50 classes were held during the period under review, attracting participation of close to 1,500 VIP members and successfully established a vivid image of the Group as a close-to-everyday-life and culturally enriching brand.

Seeing that the huge popularity of social media in Mainland China has made it easier to absorb post-90s and post-00s young customer groups in recent years, the Group has been striving to maintain its WeChat official account and the official Weibo platform, actively interacting and communicating with fans. At present, the size of its online fan base has grown to close to four million. Leveraging on the ever-growing impact of WeChat, the Group made use of the special feature of WeChat Moments, i.e. its easiness to share and forward promotional messages, by actively pushing Wei-articles as warm-up for its marketing campaigns. The initiative did not only manage to attract online users to take an interest in the Group's business, but also strengthened the online presence of the campaigns, successfully increasing the number of WeChat fans by 183 thousand during the period under review.

In future, the Group will accelerate the progress of digitalising its VIP member system and continue to make good use of its existing online resources, strengthen its new media and self-media marketing, expand the target customer base across the country so as to achieve new marketing strategies that are low cost and highly efficient.

OUTLOOK

Throughout the second half of 2017, the global real economy has grown at an accelerated rate, turning around the sustained downturn over the past five years, in which the upward trends in Europe and Asia were particularly prominent. As trade and investment regained good momentum around the world, residents were also keener on spending, which in turn stimulated economic improvements in both developed and emerging countries. The market expects that as the U.S. tax reform finalizes, the new measures shall provide impetus to local economic activities, bringing positive impact to the U.S. and its trade partners. The growth momentum of the global economy is thus expected to strengthen further. However, the geopolitical crises on the Korean Peninsula and in the Middle East are yet to be eliminated and risks still exist in the financial markets of certain countries, which might affect global politics and economies in the long run.

As a key member amongst emerging economies, China has maintained growth resilience during the second half of 2017, exhibiting stable and sound development in its economic performance. At 6.9%, the year-on-year growth in China's Gross Domestic Product ("GDP") has exceeded market expectation in 2017. Riding on the rising trend in recent years, consumption was the biggest contributor to GDP growth. With the annual total retail sales of consumer goods rose 10.2% year-on-year, it continues to fuel the "Troika". The nationwide per capita disposable income of residents achieved a real increase of 7.3%, providing incentives for consumption growth in Mainland China. According to the research figures of the Chinese Ministry of Commerce, the performance of China's retail industry showed an overall upward trend in 2017. The physical retail sector saw good momentum in its development, demonstrating accelerated growth in sales volumes, strengthened corporate profitability, and recovery in major businesses. It is hoped that retailers would carry on the rising trend from last year's innovation and transformation, and continue to upgrade in 2018 with the continual integration of online and offline retail. This would give impetus to the recovery of the physical retail industry as well as a steady and faster pace in growth for the overall consumption market. Therefore, the Group remains cautiously optimistic about the outlook of China's retail industry.

Following the continued economic growth and rising spending levels in Mainland China, the impact of consumption on China's economic development will gradually strengthen. The post-90s and post-00s new generation, which currently represents about 25% of the total population of China, is forming the core spending force. The demographic is characterised by an ever-changing taste and an emphasis on cost-performance ratio. They look for simple and convenient modes of consumption and have a preference towards personalised, lifestyle-oriented consumption experiences. As such, retailers should have an accurate grasp of their ways of thinking and integrate resources such as the Internet and big data to establish an operating setup that features multiple businesses and integrates all channels to assume a leading position in the market. Therefore, the Group will continue to delve into its core business to build consumption scenarios with merchandise as the core, supported by lifestyle experience services, while accelerating the brand renewal rate and driving the operations and marketing of products by categories and in themed zones. It will spare no effort in building complete line-ups and ecosystems for its goods for direct sales to fortify its core competitiveness. The Group will uphold its expansion strategies of "multiple presences within a single city" and "radiation city", focusing on the Greater Beijing, Greater Shanghai and Greater South Western markets. The Group is committed to establishing signature stores with national influence and innovation capability in a setup with "novel department stores" as the main pillar and supported by the synergy of "quasi-shopping malls", "neighbourhood centres" and "urban outlets", so as to cement the Group's leading position in China's retail industry.

FINANCIAL REVIEW

Revenue and Other Income

Revenue of the Group was HK$1,873.3 million in 1HFY2018 (or the "Current Period") (1HFY2017 (or the "same period of Previous year"): HK$1,781.5 million). After excluding the effect on the early adoption of HKFRS 15, revenue of the Group was HK$1,905.1 million in the Current Period.

Gross sales revenue of the Group, as previously defined, was HK$6,387.3 million in 1HFY2018 (1HFY2017: HK$6,189.8 million). After excluding the effect on the early adoption of HKFRS 15, gross sales revenue of the Group was HK$6,419.1 million in the Current Period.

The Group's merchandise gross margin was 16.9% in the Current Period (1HFY2017: 18.1%). After excluding the effect on the early adoption of HKFRS 15, the Group's merchandise gross margin was 17.8% in the Current Period. In 1HFY2018, ladieswear and accessories made up approximately 61.9% of gross revenue from concessionaire sales and sales of goods for direct sales. Menswear and accessories made up approximately 8.7% and sportswear, bread and snacks, electrical appliances, kidswear and personal care products largely made up the rest. Direct sales revenue in the Current Period mainly comprised sales of ladieswear and menswear (approximately 40.4%), cosmetic products (approximately 31.0%), groceries, housewares and perishables (approximately 27.4%), as well as accessories and miscellaneous items (approximately 1.2%).

Rental income increased by 17.0% to HK$389.2 million in 1HFY2018 from HK$332.6 million in 1HFY2017, mainly due to increased rentable area and improved tenant mix in the Current Period and the acquisition of a group of managed stores, which included Wuhan Xudong Branch Store, Yanjiao Store and its subsidiaries in September 2017 (the "Acquired Subsidiaries"). The increase was partially offset by the reduced rental area as a result of the closure of Hong Kong New World Department Store – Shanghai Xinning Branch Store ("Shanghai Xinning Branch Store") and Ningbo New World Department Store ("Ningbo Store") in June 2017.

Management and consultancy fees was HK$5.3 million in 1HFY2018 decreased from HK$7.8 million in 1HFY2017. The decrease was primarily due to drop in Group's recognition of fees from managed stores in the Current Period.

Other income of the Group was HK$140.5 million in 1HFY2018 compared with HK$76.4 million in 1HFY2017. The increase in other income was mainly due to the inclusion of HK$69.4 million of one-off fire insurance compensation related to a property in Zhengzhou City from an independent insurance company in 1HFY2018.

Other (Losses)/Gains, Net

Net other losses of the Group in the Current Period was HK$85.6 million which was primarily resulted from HK$69.4 million of impairment loss on property, plant and equipment and HK$7.9 million of impairment loss on prepayment, deposits and other receivables for mainly two department stores in light of the latest market environment and the management's assessment on the business prospect thereof, and HK$5.2 million of loss in fair value on the indemnification in connection with the acquisition of a subsidiary.

Changes in Fair Value of Investment Properties

A gain in fair value of investment properties in the Current Period was HK$0.3 million which was related to a property in Shanghai City.

Purchases of and Changes in Inventories, Net

The purchases of and net changes in inventories primarily represented the cost of sales for direct sales of goods. It increased to HK$461.4 million in 1HFY2018 from HK$397.8 million in 1HFY2017. The increase was in line with the increase in sales of goods for direct sales in the Current Period.

Purchases of Promotion Items

The purchases of promotion items of HK$27.4 million represented the costs of promotion items transferred to the customers of concessionaire sales and direct sales upon their consumption in department stores or redemption of reward points granted under customer loyalty programme, which was reclassified from net other operating expenses due to the early adoption of HKFRS 15 in the Current Period.

Employee Benefit Expense

Employee benefit expense decreased to HK$300.1 million in 1HFY2018 from HK$312.4 million in 1HFY2017. Employee benefit expense decreased primarily due to the continuous efforts by management to carry out cost control measures as well as the closure of Ningbo Store and Shanghai Xinning Branch Store in June 2017. The decrease was partially offset by the opening of specialty shops of direct sales business in the Current Period and the acquisition of the Acquired Subsidiaries.

Depreciation and Amortisation

Depreciation and amortisation expense decreased from HK$131.2 million in 1HFY2017 to HK$121.4 million in 1HFY2018, primarily due to no depreciation provided in the Current Period for property, plant and equipment impaired for mainly three department stores in FY2017 and some stores with assets that have been fully depreciated.

Operating Lease Rental Expense

Operating lease rental expense increased to HK$587.7 million in 1HFY2018 from HK$534.8 million in 1HFY2017, primarily due to the increase on the rental rates of certain existing operating leases, the opening of specialty shops of direct sales business in the Current Period and the acquisition of the Acquired Subsidiaries.

Other Operating Expenses, Net

Net other operating expenses decreased to HK$256.0 million in 1HFY2018 from HK$316.0 million in 1HFY2017. The decrease in the Current Period was primarily resulted from the effective control of water and electricity expenses, promotion and advertising expenses by management, HK$27.4 million of the costs of promotion items reclassified to purchases of promotion items due to the early adoption of HKFRS 15 and HK$33.3 million of net exchange gains mainly arising from Renminbi against Hong Kong dollar due to the appreciation of Renminbi during 1HFY2018. However, the decrease was partially offset by HK$14.7 million of allowance provision for debtors and a total of HK$35.3 million of compensation to the suppliers and the landlord for mainly two department stores due to the fire accident and reduction of lease area respectively.

Operating Profit

Operating profit was HK$174.4 million in 1HFY2018 compared with HK$156.2 million in 1HFY2017.

Income Tax Expense

Income tax expense of the Group was HK$81.0 million in 1HFY2018 compared with HK$67.0 million in 1HFY2017.

Profit for the Period

As a result of the reasons mentioned above, profit for the period increased by approximately 11.4% to HK$103.0 million compared with HK$92.5 million in the same period of Previous Year.

Liquidity and Financial Resources

Fixed deposits and cash and cash equivalents of the Group amounted to HK$2,570.2 million as at 31 December 2017 (30 June 2017: HK$2,136.3 million).

The Group's borrowings as at 31 December 2017 were HK$1,854.7 million (30 June 2017: HK$1,766.8 million) of which HK$311.4 million (30 June 2017: HK$356.3 million) was secured by an investment property.

At 31 December 2017, the Group's current liabilities exceeded its current assets by HK$2,026.8 million (30 June 2017: HK$1,671.9 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 commitments of the Group as at 31 December 2017 were HK$110.3 million which were contracted but not provided for in the condensed consolidated statement of financial position. For the contractual payment of HK$110.3 million, approximately HK$63.1 million is for the redevelopment project of a building in Shenyang City.

Pledge of Assets

As at 31 December 2017, an investment property of HK$1,833.7 million (30 June 2017: HK$1,759.8 million) of the Group was pledged as securities for bank borrowings of HK$311.4 million (30 June 2017: HK$356.3 million).

Treasury Policies

The Group mainly operates in Mainland China with most of the transactions denominated in Renminbi. The Group is mainly exposed to foreign exchange risk arising from Hong Kong dollar, United States dollar and Euro against Renminbi and from Renminbi and Euro against Hong Kong dollar. 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 2017.

PROPOSAL FOR THE PRIVATIZATION OF THE COMPANY BY OFFEROR AND PROPOSED WITHDRAWAL OF LISTING

On 6 June 2017, the board of directors of the Company and New World Development Company Limited (the "Offeror") jointly announced that UBS AG Hong Kong Branch, on behalf of the Offeror, intended to make a voluntary conditional cash offer to acquire all the issued shares of the Company (other than those already held by the Offeror) (the "Offer"), a proposal which, if became unconditional, will result in the Company being privatized by the Offeror and the withdrawal of listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). It was a condition of the Offer that the Offeror must have received a prescribed level of acceptances by the specified closing date before the Offer can become unconditional. As such acceptance level condition was not satisfied by the specified closing date, the Offer did not become unconditional and lapsed on 28 August 2017. The shares of the Company remains listed on the Stock Exchange. Reference is made to the related announcements dated 6 June 2017, 26 June 2017, 18 July 2017, 26 July 2017, 1 August 2017, 15 August 2017 and 28 August 2017 respectively and the related composite offer and response document despatched to the shareholders of the Company on 27 June 2017.

INTERIM DIVIDEND

The Directors have resolved not to declare an interim dividend for the six months ended 31 December 2017 (2016: nil).

EMPLOYEES, REMUNERATION POLICY AND PENSION SCHEME

As at 31 December 2017, the total number of employees of the Group was 4,778 (30 June 2017: 4,964). The Group ensures that all levels of employees are paid competitively within the standard in the market and employees are rewarded on performance related basis within the framework of the Group's salary and incentives.

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

ACQUISITION AND DISPOSAL

In September 2017, Beijing New World Qianzi Department Store Co., Ltd., a wholly-owned subsidiary incorporated in Mainland China with limited liability, entered into a share purchase agreement with an independent third party, to acquire the entire issued share capital of Sanhe New World Department Store Co., Ltd. ("Sanhe Co"), a company incorporated in Mainland China with limited liability, for a consideration of RMB25.0 million. Sanhe Co and its subsidiaries are engaged in operations of department store and other retail related businesses in Mainland China.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company had not redeemed any of its listed securities during the six months ended 31 December 2017. 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 2017.

SUFFICIENCY OF PUBLIC FLOAT

Reference is made to the announcement of the Company dated 29 August 2017 and 8 September 2017 in relation to the public float of the Company. As disclosed in the mentioned announcements, upon the lapse of the Offer, the Offeror and parties acting in concert with the Offeror (within the meaning as ascribed to it under The Codes on Takeovers and Mergers and Share Buybacks), held an aggregate of 1,275,888,000 shares of the Company, representing approximately 75.67% of the issued share capital of the Company, and the minimum public float requirement of 25.0% under Rule 8.08(1)(a) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") was not satisfied upon the lapse of the Offer. An application was made by the Company to the Stock Exchange for a temporary waiver from strict compliance with Rule 8.08(1)(a) of the Listing Rules (the "Waiver"). On 7 September 2017, the Stock Exchange granted the Waiver to the Company for a period of two months from 28 August 2017 to 27 October 2017.

On 25 October 2017, the Company was informed by the Offeror, being its controlling shareholder that a wholly-owned subsidiary of the Offeror (i.e. a party acting in concert with the Offeror) which held shares in the Company had disposed of 11,376,000 shares of the Company (representing approximately 0.67% of the total issued share capital of the Company as at 31 December 2017) on the open market (the "Disposal") for the purpose of restoring the public float of the Company.

To the best knowledge, information and belief of the Board, having made all reasonable enquiries, immediately following the Disposal and as at 31 December 2017, 421,633,000 shares of the Company were held by the public, representing approximately 25.01% of the total issued share capital of the Company. Accordingly, the public float of the Company has been restored and the Company is in compliance with Rule 8.08(1)(a) of the Listing Rules.

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 Listing Rules for the time being in force during the six months ended 31 December 2017 except for the deviation from code provision E.1.2.

Code provision E.1.2 provides that the chairman of the board should attend the annual general meeting. Dr. Cheng Kar-shun, Henry, the chairman of the Board, was unable to attend the annual general meeting of the Company held on 20 November 2017 (the "AGM") due to his other engagement. Dr. Cheng Chi-kong, Adrian, executive Director who took the chair of the AGM, together with other members of the Board who attended the AGM, were of sufficient calibre for answering questions at the AGM and had answered questions at the AGM competently.

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 2017.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established in accordance with requirements of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and risk management and internal controls. The Audit Committee consists of the four independent non-executive Directors. The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 31 December 2017 and the unaudited condensed consolidated financial information and the interim report for the six months ended 31 December 2017 and discussed the financial related matters with the management. The unaudited interim results of the Group for the six months ended 31 December 2017 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.

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

Hong Kong, 26 February 2018

As at the date of this announcement, the non-executive Directors are Dr. Cheng Kar-shun, Henry, Mr. Au Tak-cheong and Mr. Cheung Fai-yet, Philip; the executive Directors are Dr. Cheng Chi-kong, Adrian and Mr. Niu Wei, David; 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.