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 2016/2017

HIGHLIGHTS

Same-store sales[(1)] was flat which indicates a significant improvement compared to -8.5% in the same period of Previous Year.

Revenue for the period was HK$1,781.5 million compared with HK$1,934.3 million in the same period of Previous Year.

Operating profit for the period increased by approximately 13.5% to HK$156.2 million from HK$137.7 million in the same period of Previous Year.

Profit for the period significantly increased by approximately 54.6% to HK$92.5 million from HK$59.8 million in the same period of Previous Year.

Earnings per share increased by 25.0% to HK$0.05 from the same period of Previous Year.

(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 2016

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 2016 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	**Unaudited**	Unaudited
		Six months ended 31 December	
		2016	2015
	Note	***HK$'000***	*HK$'000*
Revenue	*2*	**1,781,451**	1,934,290
Other income	*3*	**76,426**	86,673
Other gains, net	*4*	**1,025**	7,477
Changes in fair value of investment properties		**(10,471)**	(5,676)
Purchases of and changes in inventories, net		**(397,842)**	(390,247)
Employee benefit expense		**(312,397)**	(323,849)
Depreciation and amortisation		**(131,187)**	(155,570)
Operating lease rental expense		**(534,782)**	(603,207)
Other operating expenses, net	*5*	**(316,033)**	(412,233)
Operating profit		**156,190**	137,658
Finance income		**10,050**	41,833
Finance costs		**(7,037)**	(23,140)
Finance income, net		**3,013**	18,693
		159,203	156,351
Share of result of associated companies		**279**	–
Profit before income tax		**159,482**	156,351
Income tax expense	*6*	**(67,024)**	(96,541)
Profit for the period		**92,458**	59,810
Attributable to:			
Shareholders of the Company		**92,782**	59,810
Non-controlling interests		**(324)**	–
		92,458	59,810
Earnings per share for profit attributable to shareholders of the Company during the period (expressed in HK$ per share)			
– Basic and diluted	*8*	**0.05**	0.04

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	Unaudited
	Six months ended 31 December	
	2016	2015
	HK$'000	*HK$'000*
Profit for the period	**92,458**	59,810
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Fair value loss on financial asset at fair value through other comprehensive income	**(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)**	–
	(15,260)	–
Items that may be reclassified subsequently to profit and loss		
Fair value loss on available-for-sale financial asset	**–**	(7,267)
Translation differences	**(264,343)**	(261,525)
	(264,343)	(268,792)
Other comprehensive income for the period, net of tax	**(279,603)**	(268,792)
Total comprehensive income for the period	**(187,145)**	(208,982)
Attributable to:		
Shareholders of the Company	**(186,823)**	(208,982)
Non-controlling interests	**(322)**	–
	(187,145)	(208,982)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**Unaudited As at 31 December 2016** *HK$'000*	Audited As at 30 June 2016 *HK$'000*
Assets			
Non-current assets			
Property, plant and equipment		**1,321,686**	1,482,758
Investment properties		**4,381,642**	4,567,522
Land use rights		**620,975**	671,759
Intangible assets		**1,670,494**	1,748,725
Interests in associated companies		**890**	361
Other non-current assets	*9*	**601,063**	616,336
Prepayments, deposits and other receivables		**296,679**	332,816
Financial asset at fair value through other comprehensive income		**17,702**	–
Available-for-sale financial asset		**–**	35,893
Financial asset at fair value through profit or loss		**8,694**	9,040
Deferred income tax assets		**141,218**	150,866
		9,061,043	9,616,076
Current assets			
Inventories		**229,272**	231,117
Debtors	*10*	**152,168**	114,183
Prepayments, deposits and other receivables		**595,496**	542,733
Amounts due from fellow subsidiaries		**8,102**	2,842
Amounts due from related companies		**1**	2,210
Financial asset at fair value through profit or loss		**1,170**	–
Fixed deposits		**21,108**	39,269
Cash and cash equivalents		**1,856,475**	1,163,409
		2,863,792	2,095,763
Total assets		**11,924,835**	11,711,839
Equity and liabilities			
Equity			
Share capital		**168,615**	168,615
Reserves		**5,557,403**	5,744,224
Shareholders' funds		**5,726,018**	5,912,839
Non-controlling interests		**(52)**	(4)
Total equity		**5,725,966**	5,912,835

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Note	**Unaudited As at 31 December 2016** *HK$'000*	Audited As at 30 June 2016 *HK$'000*
Liabilities			
Non-current liabilities			
Accruals and other payables		**492,443**	527,499
Obligation under finance leases		**39**	47
Borrowings		**290,503**	385,965
Deferred income tax liabilities		**805,553**	856,502
		1,588,538	1,770,013
Current liabilities			
Creditors	*11*	**2,280,236**	1,950,241
Accruals and other payables		**1,254,070**	1,363,069
Amounts due to fellow subsidiaries		**4,353**	6,735
Amounts due to related companies		**38,829**	12,163
Amounts due to associated companies		**398**	477
Obligation under finance leases		**16**	16
Borrowings		**938,054**	609,687
Tax payable		**94,375**	86,603
		4,610,331	4,028,991
Total liabilities		**6,198,869**	5,799,004
Total equity and liabilities		**11,924,835**	11,711,839

NOTES

1 BASIS OF PREPARATION

The condensed consolidated financial information for the six months ended 31 December 2016 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 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

At 31 December 2016, the Group's current liabilities exceeded its current assets by HK$1,746,539,000 (30 June 2016: HK$1,933,228,000). 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 2016, as described in annual financial statements, except for the adoption of new or revised standards and amendments to existing standards effective for the financial period beginning on 1 July 2016 and the early adoption of HKFRS 9 (2014) "Financial Instruments".

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 2016, 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 2016:

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

The Company has elected to early adopt HKFRS 9 (2014) "Financial Instruments" because the new accounting polices provide more reliable and relevant information for users to assess the operating performance of the Group. In accordance with the transitional provisions in HKFRS 9 (2014), comparative figures have not been restated. The impact of the adoption of HKFRS 9 is disclosed in the condensed consolidated financial information of the Company for the six months ended 31 December 2016.

2 REVENUE AND SEGMENT INFORMATION

	Unaudited	Unaudited
	Six months ended 31 December	
	2016	2015
	HK$'000	*HK$'000*
Commission income from concessionaire sales	**890,069**	1,060,105
Sales of goods – direct sales	**551,030**	514,739
Rental income	**332,568**	324,763
Management and consultancy fees	**7,784**	34,683
	1,781,451	1,934,290

The income from concessionaire sales is analysed as follows:

	Unaudited	Unaudited
	Six months ended 31 December	
	2016	2015
	HK$'000	*HK$'000*
Gross revenue from concessionaire sales	**5,222,033**	5,986,284
Commission income from concessionaire sales	**890,069**	1,060,105

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 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 gains, changes in fair value of investment properties and unallocated corporate expenses. In addition, net finance income and share of result 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 related businesses *HK$'000*	Property investment *HK$'000*	Consolidated *HK$'000*
Six months ended 31 December 2016			
Segment revenue	**1,693,735**	**87,716**	**1,781,451**
Segment 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			**(3,515)**
Operating profit			**156,190**
Finance income			**10,050**
Finance costs			**(7,037)**
Finance income, net			**3,013**
			159,203
Share of result of associated companies			**279**
Profit before income tax			**159,482**
Income tax expense			**(67,024)**
Profit for the period			**92,458**
Six months ended 31 December 2015			
Segment revenue	1,852,845	81,445	1,934,290
Segment results	89,822	50,826	140,648
Other gains, net	7,477	–	7,477
Changes in fair value of investment properties	–	(5,676)	(5,676)
Unallocated corporate expenses			(4,791)
Operating profit			137,658
Finance income			41,833
Finance costs			(23,140)
Finance income, net			18,693
Profit before income tax			156,351
Income tax expense			(96,541)
Profit for the period			59,810

2 REVENUE AND SEGMENT INFORMATION (CONTINUED)

	Department store and other related businesses *HK$'000*	Property investment *HK$'000*	Consolidated *HK$'000*
As at 31 December 2016			
Segment assets	**7,044,780**	**4,725,215**	**11,769,995**
Interests in associated companies	**890**	**–**	**890**
Deferred income tax assets	**135,152**	**–**	**135,152**
Unallocated corporate assets:			
Cash and cash equivalents			**12,461**
Others			**271**
Total assets			**11,918,769**
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**
As at 30 June 2016			
Segment assets	6,108,770	5,450,310	11,559,080
Interests in associated companies	361	–	361
Deferred income tax assets	150,866	–	150,866
Unallocated corporate assets:			
Cash and cash equivalents			1,300
Others			232
Total assets			11,711,839
Six months ended 31 December 2015			
Additions to non-current assets *(Note)*	97,214	8,688	105,902
Depreciation and amortisation	154,484	1,086	155,570

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 Six months ended 31 December **2016** *HK$'000*	Unaudited Six months ended 31 December 2015 *HK$'000*
Government grants	**11,970**	14,139
Income from suppliers	**32,755**	41,520
Compensation for termination of lease	**–**	15,859
Sundries	**31,701**	15,155
	76,426	86,673

4 OTHER GAINS, NET

	Unaudited	Unaudited
	Six months ended 31 December	
	2016	2015
	HK$'000	*HK$'000*
Fair value gain on financial assets at fair value through profit or loss	**1,204**	9,256
Loss on disposal of property, plant and equipment	**(179)**	(1,779)
	1,025	7,477

5 OTHER OPERATING EXPENSES, NET

	Unaudited	Unaudited
	Six months ended 31 December	
	2016	2015
	HK$'000	*HK$'000*
Water and electricity	**54,791**	75,156
Selling, promotion, advertising and related expenses	**76,761**	95,948
Cleaning, repairs and maintenance	**41,060**	48,107
Auditor's remuneration		
– Audit services	**3,000**	3,338
– Non-audit services	**913**	1,074
Net exchange losses *(Note)*	**18,515**	53,143
Other tax expenses	**81,494**	96,842
Others	**39,499**	38,625
	316,033	412,233

Note:

The amounts excluded exchange losses arising from foreign currency borrowings capitalised to other non-current assets of HK$1,015,000 (2015: HK$Nil), which represented the interest rate differential between borrowing costs that would be incurred if the Company's subsidiaries had borrowed funds in their functional currencies.

6 INCOME TAX EXPENSE

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

	Unaudited	Unaudited
	Six months ended 31 December	
	2016	2015
	HK$'000	*HK$'000*
Current income tax		
– Mainland China taxation	**76,169**	80,635
– Under-provision in prior years	**1,375**	71
Deferred income tax		
– Undistributed retained earnings	**(353)**	–
– Other temporary differences	**(10,167)**	15,835
	67,024	96,541

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 six months ended 31 December 2016 and 2015.

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

7 DIVIDEND

The Directors have resolved not to declare an interim dividend for the six months ended 31 December 2016 (2015: 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	
	2016	2015
Profit attributable to shareholders of the Company (HK$'000)	**92,458**	59,810
Weighted average number of ordinary shares in issue (shares in thousands)	**1,686,145**	1,686,145
Basic earnings per share (HK$ per share)	**0.05**	0.04

(b) Diluted

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

During the six months ended 31 December 2016 and 2015, there was no dilutive potential ordinary share.

9 OTHER NON-CURRENT ASSETS

Balances as at 31 December 2016 and 30 June 2016 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 Xin Hui Properties Co., Ltd. (previously known as Shenyang New World Hotel Co., Ltd.) ("SYNWXH"), 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 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 2016, the balance in connection to this transaction and the costs capitalised was approximately HK$601,063,000 (30 June 2016: HK$616,336,000).

10 DEBTORS

	Unaudited As at 31 December 2016 *HK$'000*	Audited As at 30 June 2016 *HK$'000*
Debtors	**159,287**	132,521
Less: loss allowance provision	**(7,119)**	(18,338)
Debtors, net	**152,168**	114,183

The Group grants credit terms within 30 days in majority.

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

	Unaudited As at 31 December 2016 *HK$'000*	Audited As at 30 June 2016 *HK$'000*
Within period for		
0 – 30 days	**115,079**	69,384
31 – 60 days	**14,105**	16,709
61 – 90 days	**1,526**	3,736
Over 90 days	**21,458**	24,354
Debtors, net	**152,168**	114,183

The debtors are primarily denominated in Renminbi.

11 CREDITORS

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

	Unaudited As at 31 December 2016 *HK$'000*	Audited As at 30 June 2016 *HK$'000*
Within period for		
0 – 30 days	**1,429,157**	764,708
31 – 60 days	**454,425**	687,984
61 – 90 days	**155,371**	148,757
Over 90 days	**241,283**	348,792
	2,280,236	1,950,241

Creditors included amounts due to related companies of approximately HK$97,406,000 (30 June 2016: HK$78,162,000) which were unsecured, interest free and repayable within 90 days.

The creditors are primarily denominated in Renminbi.

BUSINESS REVIEW

The Group's revenue for the six months ended 31 December 2016 (or "1HFY2017" or "the Current Period") was HK$1,781.5 million (For the six months ended 31 December 2015 (or "1HFY2016" or "the same period of Previous Year"): HK$1,934.3 million). The decrease was mainly due to the devaluation of RMB against HK$ in the Current Period. In RMB terms, revenue of the Group was RMB1,549.9 million in 1HFY2017 (1HFY2016: RMB1,586.1 million). Profit for the period significantly increased by approximately 54.6% to HK$92.5 million from HK$59.8 million in the same period of Previous Year.

Business Network

During the period under review, the Group carried through its "radiation city" expansion strategy to expand its foothold in Sichuan Province by opening a brand new managed store, Yibin New World Department Store in Yibin City. With a total gross floor area ("GFA") of about 27,000 square meters ("sq.m."), the store is a trendy lifestyle store where customers can enjoy shopping, recreation and entertainment under one roof.

As at 31 December 2016, the Group operated 40 department stores and two shopping malls, with a total GFA of about 1,646,880 sq.m. Located in three operating regions, namely Northern China, Eastern China and Central Western China, the stores covered 22 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, Yantai and Yibin with 37 self-owned stores and five 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 46.1% of revenue, followed by the Eastern China Region and the Central Western China Region, accounting for 33.5% and 20.4%, respectively.

By Segment

Commission income from concessionaire sales was the major source of income, accounting for 50.0% of revenue. Sales of goods for direct sales and rental income accounted for 30.9% and 18.7% respectively. Management and consultancy fees accounted for 0.4%.

Operations Overview

Posing for Good Development with Gradual Business Improvement in 1HFY2017

Economic growth in China continued to slow down with a leveled increase of Gross Domestic Product ("GDP") at around 6.7% throughout 2016. However, thanks to favorable factors including the growth in residents' disposable income, the new urbanization policy, and the depreciation of RMB which led to a cool-down on consumption abroad, the growth of total retail sales of consumer goods saw a mild recovery of 10.4% year on year. A rebounding trend in the physical retail sector has occurred since the autumn/winter season of 2016. Against the backdrop of consumption upgrade and new consumption patterns, the Group's new management team strives to foster a consumer-centric business revamp and management innovation to create a premium and refined shopping experience for customers. During the period under review, the Group vigorously improved its operational efficiency, merchandise mix, marketing campaigns and staff motivation initiatives, all of which brought visible improvement in concessionaire sales. Concurrently, the Group made strong efforts to optimize its business structures and introduced more projects relating to experiential consumption such as food and beverage, entertainment and services to enlarge the proportion of sales of goods for direct sales and rental income so as to optimize the Group's revenue structure. Regarding cost control, the Group rationalized and optimized its management structure during the period under review. It also actively made use of a variety of highly efficient yet low cost methods – such as cross-industry collaboration with banks and technology firms, online-to-offline integrated (O2O) marketing and deep collaboration with brands – to improve its overall operational efficiency.

Operations Strategies

Optimizing Management Structure and Inspiring Staff to Innovate

To effectively energize the organization and to put the efficiency of all departments to full play, the Group rationalized and adjusted the organizational structure of the headquarters and the regions during the period under review. It clarified the roles and responsibilities of its staff, formulated a comprehensive performance assessment system, and set up nine functional committees to make collective decisions which would be employed to ensure prompt and effective implementation and execution of the Group's strategies, which in turn, helped lift NWDS' overall operational efficiency and competitiveness. In terms of staff training, the Group boldly introduced the innovative Amoeba operating model to transform the training department, NWDS Management Academy, from a mere cost center to a market-driven and profit-making center. It will also attempt to develop externally in hopes to amplify its influence in the industry. In addition, the Group rolled out staff incentives such as the store manager incentive fund, the regional manager incentive fund and the CEO award with an aim to better recognize and inspire business innovation, improve the proactiveness and job satisfaction of its staff and nurture a workforce with positive, changes-embracing, breakthroughs-seeking mindset.

Implementing the Capitalized Store Management to Construct Operating Characteristics

In response to the economic growth and the rise of the "new consumption generation" in China, the Group strengthened its efforts on brand acquisition, and product and service quality enhancement with an aim to provide "happiness-inducing" services catering consumers' social, interactive and experiential needs and to position NWDS as a new style physical retailer that can address and satisfy the demands of upgraded consumption. During the period under review, the Group put the "One Store, One Strategy" into practice to manage its stores with a capitalized approach – customizing operations strategies for each store according to its growth potentials, business model, operating conditions and other factors, so that each store can be empowered with a higher degree of autonomy, clearly-defined market positioning and elevated operating standard to better respond to and meet the requirements of local customers. When formulating the "One Store, One Strategy", the Group also supported and encouraged stores to innovate in the aspects of business structure, product categories and collaboration model with concessionaire counters to craft their own operating characteristics. During the period under review, Nanjing New World Department

Store ("Nanjing Store") successfully remodeled its relatively old premise with little traffic into a thematic street zone and repositioned itself as a "Trendy Mini Mall". The street zone fuses spotlight elements such as shopping, recreation, artistic creation, lifestyle and culture, as well as fine food and successfully brings a significant growth in foot traffic. As a highly replicable model, Nanjing Store's "New Territories 88" would be helpful for other stores to replicate and to achieve the goal of constructing themed interior designs in the future. On the other hand, Beijing New World Department Store ("Beijing Store") built a cat-themed children's zone during the period under review. By combining a children's activity area, a performance venue and cat-themed restaurants, the new zone realizes a novel operations model that well incorporates commercial and thematic elements.

Improving the Operating Capabilities of Concessionaire Counters and Optimizing Merchandise Mix

In addition to the setting of stores' overall operations strategies, the Group also places high importance on enhancing the operating capabilities of each concessionaire counter by encouraging stores to co-organize in-depth "brand day" campaigns with strategic brands. During the period under review, the Group and Chow Tai Fook joined forces and organized the "9.9 Chow Tai Fook Brand Day". During the campaign period, a collection of Disney accessories made its debut and its single-day sales broke historical high, generating coverage from over 100 media outlets across the country. Meanwhile, the Group actively responded to consumer needs and continued to optimize in-store merchandise mix, expediting the annual brand renewal rate at around 30%. Popular categories such as children's goods, sports items and cosmetics were enriched accordingly. During the period under review, Beijing Store became one of the department stores with the biggest selection of cosmetics and skincare products in the city and the preferred shopping hot spot for beauty lovers.

Expanding Experiential Business such as Food and Beverage to Boost Rental Income

On the front of business structure innovation, the Group continued to add in-store recreational facilities such as food and beverage, children's education and fitness centers during the period under review. Brands such as Hai Di Lao Hot Pot, the Michelin-nominated Hong Kong style restaurant Madam Goose, RYB Education Institution, Heng Yoga were introduced. The Group also operated two joint venture food and beverage labels, namely "Peter's Meadow" and "Aza Aza!". As a result, the proportion of rental projects was increased to about 22% of the total GFA.

Introducing "Chief Experience Officer" Project to Raise the Bar of Consumer-centric Services

Since the launch of the "Chief Experience Officer" project in August 2016, the Group has been conducting face-to-face interviews and exchanges with customers to gain insights into their specific needs and experience with an aim to provide better customer services. Over 7,000 customers were invited to these interviews. Based on the conclusion drawn from the collected information, the Group will focus on improving the quality and accessibility of services that are critical to customer experience in the future. These include improving salespersons' product knowledge, expanding the scope of use of group-buying cards, promoting smart and unified POS, accepting more quick-pay methods and offering one-stop goods refund and exchange, etc.

Adopting Market-oriented Positioning and Development to Create Quality Brands with Unique Character

To elevate brand character and uniqueness, the Group has been actively engaged in establishing private labels in recent years, which further enhanced the proportion of sales of goods for direct sales. During the period under review, both LOL (Love • Original • Life) Concept Shop ("LOL") and n+ Natural Taste Plus, two private labels targeting middle-class consumers achieved different degrees of growth. LOL opened two new stores, bringing the total to 11. Amongst them, the Shanghai Joy City Store is the first outlet operating outside of the New World Group establishment. LOL implemented categorized management for all its stores, positioning them as silver, gold or black labels to offer products that match the consumption power of their customers. To improve the brand's market presence and its interaction with customers, LOL actively operated its WeChat account and hosted an array of experiential marketing campaigns and enriched Workshop academy courses. Two VIP cards, namely the LOL Silver Card and the LOL Gold Card, were also launched. As a result, the VIP revisiting rate was as high as 95%. During the period under review, LOL's same store sales recorded double digit growth. As the high-end bakery brand of the Group, n+ Natural Taste Plus made its presence in two Shanghai "Ba Li Chun Tian" branded stores and had been well-received by consumers. In the future, n+ Natural Taste Plus will continue to adjust its product portfolio with plans to introduce new product lines such as light meals, cakes and souvenirs. An upgrade to n+ Lifestyle – an integrated cross-industry multi-brand store that combines on-trend elements such as café, light meals, boutique retail and IP peripheral merchandise – is also under consideration. On the other hand, the Group's distribution business of high-end fashion brands continued to perform with improvements in their revenue and profitability, demonstrating a good momentum of growth during the period under review.

Marketing Strategies

Employing Cross-industry and O2O Collaboration to Achieve Efficient yet Low-cost Marketing

Marketing campaigns are important means to drive sales in the retail industry. During the period under review, the Group revamped its marketing strategies by augmenting the leading efforts at the headquarters, deploying O2O all-channel marketing as well as fostering cross-industry collaboration. As a result, regionwide and nationwide inter-store marketing campaigns such as "630 Your Happiest Day in the Year", "8th Non-stop Happiness Mega Sales", "Double 11" and "Double 12", etc. all recorded sales growth. Amongst these, "630 Your Happiest Day in the Year" was the first marketing campaign spearheaded by the headquarters of the Group during the period under review. By systematically rationalizing the sales targets, campaign contents and execution from early on, stores involved achieved the impressive result of a 55% year-on-year sales growth and a 9% year-on-year foot traffic growth while the New Year's Eve campaigns kick-started 2017 with a year-on-year sales growth of 21.6%, successfully strengthening the collaborative rapport and efficiency amongst the headquarters, stores, suppliers and business partners in marketing campaigns.

Cross-industry collaboration is the new norm in the new retail era. Indeed, the Group is at the forefront of the industry. For instance, during the "Double 11" campaign period, the Group collaborated with the e-commerce platform ffan.com, implemented O2O marketing to divert online customers to physical stores and fostered a year-on-year foot traffic growth of 24%. In addition to seeking cross-industry collaboration to generate synergy, the Group also made good use of its own online resources, including its WeChat and Weibo fans of close to four million, to enhance interaction with its customers. As a result, the effectiveness of O2O marketing gradually manifested. During the "8th Non-stop Happiness Mega Sales" campaign period, all "Ba Li Chun Tian" branded stores in Shanghai rolled out a red-packet snatching game called "Heated Challenge" on WeChat. The game attracted 60,000 visits, successfully became a hot online topic and accelerated the speed of fans acquisition. On the offline front, sales grew hand-in-hand with foot traffic at stores. Furthermore, the Group rolled out the "2017 Blessing for You" H5 interactive game in the New Year's Eve campaign, in which fans across the country could snatch red packets by listening to New Year wishes in different dialects. During the campaign period, the red packets redemption rate at stores was up to 35%. On top of actively establishing online outreach and acquiring digital members, the Group also placed high importance on the management and dissemination of its marketing contents. During the period under review, a total of 34 articles were published which gained reposting by close to 150 media outlets and generated over ten million exposures.

Introducing a Novel Customer Relationship Management System to Speed Up the Acquisition of Members and Fans

To further implement targeted marketing, the Group stepped up its efforts on accelerating the progress of membership digitization during the period under review. A new CMF customer relationship management system was launched to finely group customers into three categories, namely "Customers – Members – Fans". By capturing and using real customer data relating to their personal, activity, brand and transaction attributes, the Group could precisely analyze consumer behaviors for targeted marketing to boost members' visiting frequency and transaction rates. In mid-September 2016, the CMF customer relationship management system went live and the user interfaces of more than 40 WeChat accounts operated by NWDS' stores across the country were standardized at the same time – users only need to scan a QR code or follow any WeChat account of NWDS' stores to enter the system, then key in a mainland cell phone number to register as the basic member level "Customers". Due to the opening-up of WeChat mobile registration terminals, the simple registration process and no spending requirements for registration, the number of registered "Customers" and WeChat fans gave traction to each other and surged after the CMF customer relationship management system went live. There were more than 60,000 new "Customers" registered on the system that month, representing a year-on-year growth of almost 30% while the number of new WeChat fans exceeded 100,000.

Upon any purchase, registered "Customers" would be automatically upgraded to the "Members" level. They could review their bonus points balance and enjoy various member-only privileges with their electronic membership cards. During the period under review, the Group's "Members" could enjoy "Happiness Gift Vouchers" which could be used as cash in all stores. The initiative successfully increased members' revisiting rate to 81%. Going forward, the Group will continue to make strong efforts in promoting the CMF customer relationship management system by further increasing its registration channels for its "Customers". The Group will then encourage "Customers" to spend and upgrade to "Members" by giving away electronic coupons and enabling online bonus-point-to-coupon redemption. The Group will also organize members' annual reward activities as a common marketing practice to drive foot traffic and transactions at stores.

Expansion Strategies

Carrying on "Radiation City" Strategy for Robust Business Expansion

Despite the mild rebound in China's physical retail industry by the end of 2016, the market expects the Chinese economy to linger at the bottom in 2017. Therefore, the Group will maintain a prudent and robust business development strategy and is committed to innovating and improving its operations, marketing and human resources management, etc., with the full implementation of the "One Store, One Strategy" so as to provide mainland consumers with the most fitted product and service mix in a great shopping ambience. During the period under review, the Group tapped into Yibin City of Sichuan Province and opened a managed store with a total GFA of about 27,000 sq.m. Over 100 local and international trendy brands, such as ZARA, H&M, G2000, Chow Tai Fook and Lao Miao Jewelry were introduced. Incorporating the city's largest children's product category with a rich merchandise and service portfolio, the store has been locals' favorite since its opening.

Carrying through the expansion strategy of "radiation city", the Group will ride on its footholds in Shanghai region, Beijing region, and South Western region to tap into adjacent areas to generate greater synergy. When identifying new projects in markets with development potentials, the Group will conduct an objective and comprehensive evaluation before deciding on the business district and the operating model. At present, the Group has four pipeline projects. The first one is the Jingmen Project in Hubei Province near Wuhan – an anchor department store with a total GFA of about 35,000 sq.m. in a commercial complex of 120,000 sq.m. The second one is the Chongqing Tongliang Project, a managed store with a total GFA of about 26,200 sq.m., which will be a themed department store that locates in a 120,000 square-meter commercial complex. The third and fourth ones are the Shenyang Nanjing Street Branch Store Phase I Redevelopment Project and the expansion of Shenyang Nanjing Street Branch Store Phase II Project respectively. Upon the completion of these two projects, they will combine to form a large-scale department store with a total GFA close to 52,000 sq.m.

OUTLOOK

2016 was a year of upheaval for international politics. "Black Swan" events such as the victorious Brexit referendum and the election of Donald Trump as the United States president in the second half of the year caused significant fluctuations in the global financial market. The US dollar hit its 13-year high while other currencies dropped relatively, which dampened international trade and led the world economy into a deep adjustment phase. The market expects 2017 to be a year filled with uncertainties. With general elections to be carried out in the Netherlands, France and Germany, and the imminent activation of Brexit in the United Kingdom, the pace of Europe's economic recovery could be affected. Furthermore, the protectionist policies of the Trump administration could possibly add variants to global economy, trade and politics.

Despite the instabilities in international politics and the global economy, the Chinese government has rolled out policies to ease credit and to stimulate the economy effectively. As a result, China's GDP growth held relatively steady at 6.7% in 2016. Under the premise of slowed down external trade and decelerated investment, consumption has become the critical pillar of the Chinese economy, contributing more than 60% in the "Troika", and has unquestionably given a boost to the long-term growth of the retail industry. Furthermore, factors such as RMB depreciation and reduction in sales tax have narrowed the difference between local and foreign marked prices.

As nationals' intention for consumption abroad weakens, domestic consumption power grows strong and provides a certain degree of impetus to the Chinese retail industry. The market expects consumption to maintain its top position in the "Troika" in 2017 and become the main locomotive to drive long-term economic growth in China. In addition, the economic structure in China has been gradually transforming towards consumption. As such, the Group remains cautiously optimistic about the prospects of the Chinese retail industry.

To capture the opportunities brought by consumption upgrade, the Group is committed to refocusing on the core of retailing, to listen attentively to the ideas and requirements of its consumers and to constantly deliver innovation and efficiency in its customer-centric offerings. Through merchandise upgrade and service optimization, the operational innovation of "One Store, One Strategy", and O2O targeted marketing, the Group envisions to carry forward the "NWDS' Theory of Happiness" to create an all-year-round, all-channel and all-direction new retail model to consolidate its leading position in the Chinese retail industry.

FINANCIAL REVIEW

Revenue and Other Income

Revenue of the Group was HK$1,781.5 million in 1HFY2017 (1HFY2016: HK$1,934.3 million). The decrease was mainly due to the devaluation of RMB against HK$ in the Current Period. In RMB terms, revenue of the Group was RMB1,549.9 million in 1HFY2017 (1HFY2016: RMB1,586.1 million).

Gross sales revenue, as previously defined, was HK$6,189.8 million in 1HFY2017 (1HFY2016: HK$6,947.1 million). In RMB terms, gross sales revenue was RMB5,385.2 million in 1HFY2017 (1HFY2016: RMB5,696.7 million).

The Group's merchandise gross margin was 18.1% in the Current Period (1HFY2016: 18.2%). In 1HFY2017, ladieswear and accessories made up approximately 64.5% of gross revenue from concessionaire sales and sales of goods for direct sales. Menswear and accessories made up approximately 9.3% 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 groceries, housewares and perishables (approximately 31.6%), cosmetic products (approximately 27.9%), ladieswear and menswear (approximately 32.9%), as well as accessories and miscellaneous items (approximately 7.6%).

Rental income increased by 2.4% to HK$332.6 million in 1HFY2017 from HK$324.8 million in 1HFY2016, mainly due to increased rentable area and improved tenant mix in the Current Period, which was partially offset by the reduced rentable area as a result of the closure of Beijing Shishang New World Department Store ("Beijing Shishang Store") and Ningbo New World Trendy Department Store ("Ningbo Trendy Store") in December 2015 and June 2016 respectively.

Management and consultancy fees was HK$7.8 million in 1HFY2017 decreased from HK$34.7 million in 1HFY2016. The decrease was primarily due to drop in Group's recognition of fees for the provision of consultancy services for new projects in the Current Period.

Other income of the Group was HK$76.4 million in 1HFY2017 compared with HK$86.7 million in 1HFY2016. The decrease in other income was mainly due to the inclusion of HK$15.9 million compensation from a landlord for the termination of lease of Beijing Shishang Store in 1HFY2016.

Other Gains, Net

Net other gains of the Group in the Current Period was HK$1.0 million which was primarily resulted from a fair value gain on a derivative instrument of HK$1.2 million. The derivative instrument was a forward contract to manage the foreign exchange risk on Korean Won.

Changes in Fair Value of Investment Properties

A loss in fair value of investment properties in the Current Period was HK$10.5 million which related to properties of Shenyang New World Department Store – Jianqiao Road Branch Store, Zhengzhou New World Department Store and Tianjin New World Department Store.

Purchases of and Changes in Inventories, Net

The purchases of and changes in inventories, net primarily represented the cost of sales for direct sales of goods. It increased by 1.9% to HK$397.8 million in 1HFY2017 from HK$390.2 million in 1HFY2016. The increase was in line with the increase in sales of goods for direct sales in the Current Period.

Employee Benefit Expense

Employee benefit expense decreased to HK$312.4 million in 1HFY2017 from HK$323.8 million in 1HFY2016. In RMB terms, employee benefit expense increased during the Current Period primarily due to the opening of specialty shops of direct sales business, which was partially offset by the continuous efforts by management to carry out labour cost optimisation measures.

Depreciation and Amortisation

Depreciation and amortisation expense decreased from HK$155.6 million in 1HFY2016 to HK$131.2 million in 1HFY2017, primarily due to no depreciation is provided in the Current Period for property, plant and equipment impaired for mainly one department store in 2HFY2016 and some stores with assets that have been fully depreciated, and the closure of Beijing Shishang Store in December 2015.

Operating Lease Rental Expense

Operating lease rental expense decreased to HK$534.8 million in 1HFY2017 from HK$603.2 million in 1HFY2016, primarily due to the reduction of rental rates for certain leased properties in the Current Period, the closure of Beijing Shishang Store and Ningbo Trendy Store in December 2015 and June 2016 respectively, and the effect on the conversion from business tax ("BT") to value-added tax ("VAT") since May 2016 due to China's VAT reform.

Other Operating Expenses, Net

Net other operating expenses decreased to HK$316.0 million in 1HFY2017 from HK$412.2 million in 1HFY2016. The decrease was primarily due to the effective control of water and electricity, promotion and advertising expenses by management, a decline in other tax expenses mainly due to the effect on the conversion from BT to VAT since May 2016 and a decline in exchange losses on the closing rate translation mainly due to the decrease in HK$-denominated bank borrowings at the end of reporting period.

Operating Profit

Operating profit was HK$156.2 million in 1HFY2017 compared with HK$137.7 million in 1HFY2016.

Income Tax Expense

Income tax expense of the Group was HK$67.0 million in 1HFY2017 compared with HK$96.5 million in 1HFY2016.

Profit for the Period

As a result of the reasons mentioned above, profit for the period increased by approximately 54.6% to HK$92.5 million compared with HK$59.8 million in the same period of Previous Year.

Liquidity and Financial Resources

Cash and fixed deposits of the Group amounted to HK$1,877.6 million as at 31 December 2016 (30 June 2016: HK$1,202.7 million).

The Group's borrowings from banks as at 31 December 2016 were HK$1,228.6 million (30 June 2016: HK$995.7 million) of which HK$346.4 million (30 June 2016: HK$409.4 million) was secured by pledge of asset.

At 31 December 2016, the Group's current liabilities exceeded its current assets by HK$1,746.5 million (30 June 2016: HK$1,933.2 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 2016 were HK$93.2 million, which were contracted but not provided for in the condensed consolidated statement of financial position. For the contractual payment of HK$93.2 million, approximately HK$58.9 million is for the redevelopment project of a building in Shenyang City.

Pledge of Assets

As at 31 December 2016, an investment property of HK$1,708.4 million (30 June 2016: an investment property of HK$1,784.8 million) of the Group was pledged as securities for bank borrowings and banking facilities of HK$346.4 million (30 June 2016: HK$409.4 million).

Treasury Policies

The Group mainly operates in Mainland China with most of the transactions denominated in Renminbi. The Group is exposed to foreign exchange translation risk, mainly arising from the exposure of Hong Kong dollars against Renminbi. The Group has entered a forward contract to manage its foreign exchange risk on Korean Won. 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 2016.

INTERIM DIVIDEND

The Directors have resolved not to declare an interim dividend for the six months ended 31 December 2016 (2015: nil).

EMPLOYEES, REMUNERATION POLICY AND PENSION SCHEME

As at 31 December 2016, the total number of employees of the Group was 4,820 (30 June 2016: 4,957). The Group ensures that all levels of employees are paid competitively within the standard in the market and employees are rewarded on performance related basis within the framework of the Group's salary and incentives.

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

ACQUISITION AND DISPOSAL

The Group did not have any significant acquisition and disposal during the six months ended 31 December 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company had not redeemed any of its listed securities during the six months ended 31 December 2016. 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 2016.

CORPORATE GOVERNANCE CODE

The Company has complied with all the applicable code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the time being in force during the six months ended 31 December 2016.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding securities transactions by the Directors. Upon the Company's specific enquiry of each Director, all Directors confirmed that they had complied with the required standard set out in the Model Code and the code of conduct regarding Directors' securities transactions adopted by the Company during the six months ended 31 December 2016.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established in accordance with requirements of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and risk management and internal controls. The Audit Committee consists of the four independent non-executive Directors. The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 31 December 2016 and the unaudited condensed consolidated financial information and the interim report for the six months ended 31 December 2016 and discussed the financial related matters with the management. The unaudited interim results of the Group for the six months ended 31 December 2016 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 Chi-kong, Adrian
Executive Director

Hong Kong, 21 February 2017

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.