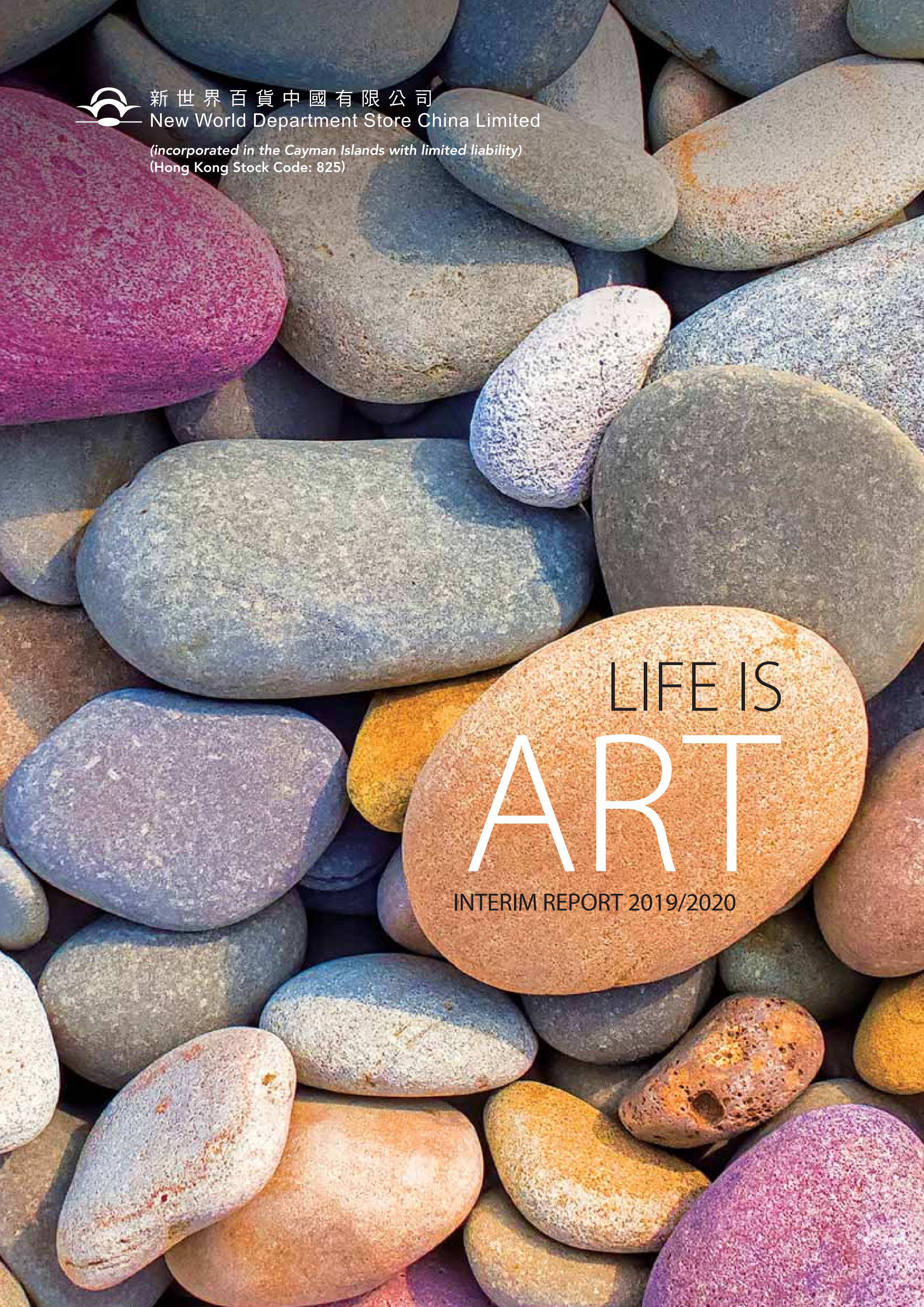

新世界百貨中國有限公司
New World Department Store China Limited

*(incorporated in the Cayman Islands with limited liability)*
(Hong Kong Stock Code: 825)

# LIFE IS ART

## INTERIM REPORT 2019/2020

# CORPORATE PROFILE

Founded in 1993, New World Department Store China Limited (Hong Kong Stock Code: 825) is the retail flagship of New World Development Company Limited (Hong Kong Stock Code: 17) and has developed itself as one of the largest owners and operators of department stores in Mainland China. The Group was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited in 2007. As at 31 December 2019, New World Development Company Limited owns 75% shares of the Group.

## RETAIL NETWORK

To orderly expand its business network across the country, the Group adopts the expansion strategies of "multiple presences within a single city" and "radiation city" with a focus on the development of the Greater Beijing, Greater Shanghai and Greater South Western Regions. As at 31 December 2019, the Group operated 22 "New World" (「新世界」) branded department stores in Mainland China and nine "Ba Li Chun Tian" (「巴黎春天」) branded department stores and shopping malls in Shanghai with a total gross floor area of about 1,251,950 square metres, covering 17 key locations in Mainland China, including Beijing, Tianjin, Yanjiao, Yantai, Lanzhou, Xi'an, Harbin, Shenyang, Shanghai, Nanjing, Wuhan, Changsha, Zhengzhou, Chengdu, Chongqing, Kunming and Mianyang.

## BUSINESS OPERATIONS

The Group actively implements categorised store management and "One Store, One Strategy" operations strategy to encourage stores to adopt different strategies to capture opportunities arisen from the consumption upgrade in Mainland China. The Group's revenue is mainly derived from: commission income from concessionaire sales, rental income, sales of goods for direct sales, and interest income from finance leases as the lessor. In addition to its core department store business, the Group has been actively expanding its direct sales business in recent years, including LOL (Love • Original • Life) Concept Shop and the N+ line-up of private labels, to strengthen its differentiated operations.

## ORGANISATION STRUCTURE

The Group owns a seasoned and innovative management team and adopts a three-tier structure for effective management, in which the headquarters centrally controls the three operating regions of the Group, and each region manages the operations of their stores. Such structure improves both resource-sharing and synergy within each region. When formulating professional strategies such as merchandising and marketing strategies, the Group implements a double-line management mechanism. Based on the positioning and direction of the Group, the headquarters formulates a macroscopic corporate strategy and deploys resources for its strategic plans, which is then adjusted and executed towards the relevant goals by stores according to their local circumstances to ensure the Group's strategy is landed.

## TALENT DEVELOPMENT

The Group regards its staff as a valuable asset. Through a series of incentive schemes, training programmes and career opportunities, the Group strives to fortify the team's proactiveness, innovative capability and sense of belonging so as to encourage, cultivate and retain its talents, who will join up to put the Group's vision and mission into actions. As at 31 December 2019, the Group had 3,303 employees.

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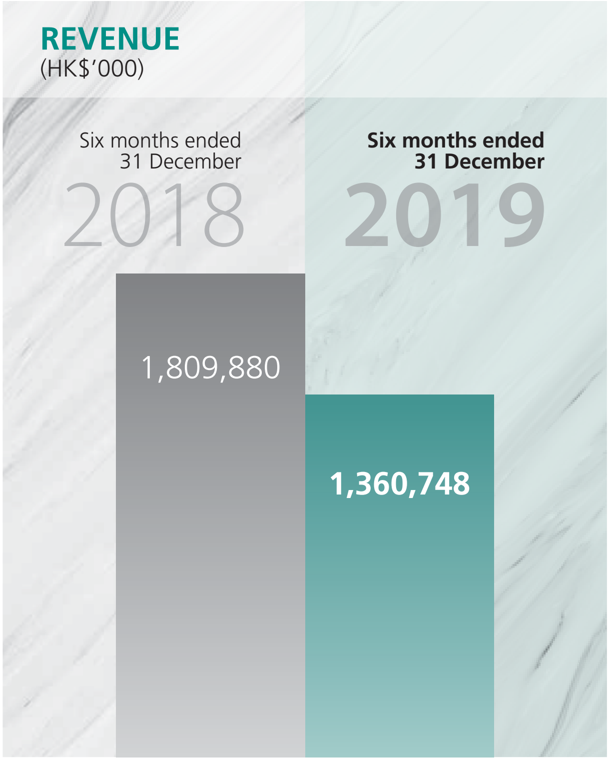
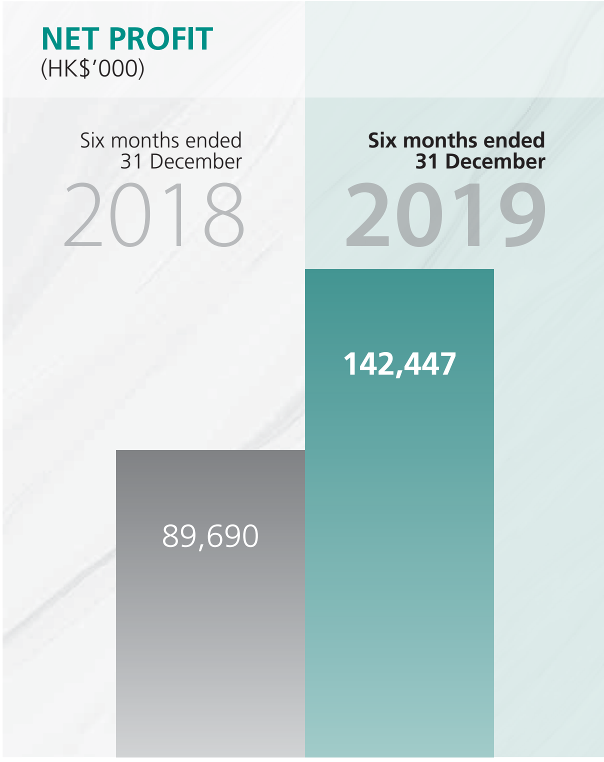
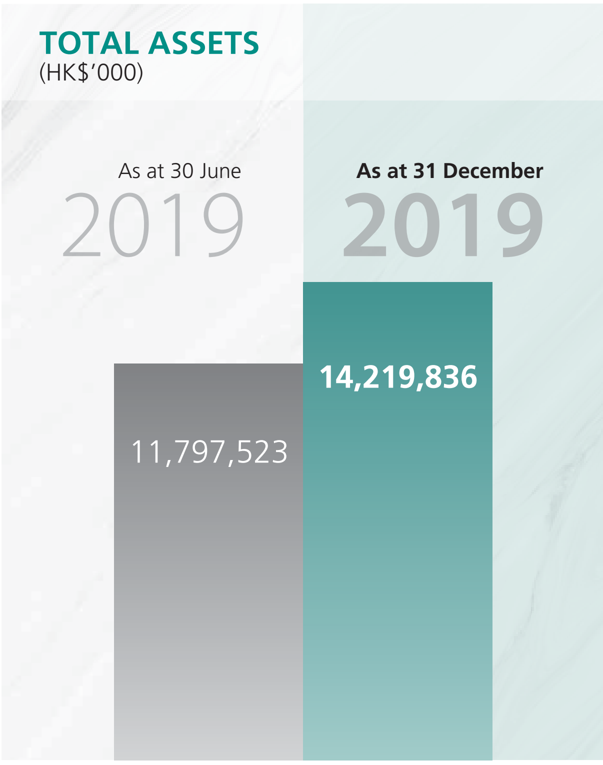
# FINANCIAL HIGHLIGHTS



| | Six months ended 31 December 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| **OPERATING RESULT** | | |
| Revenue | **1,360,748** | 1,809,880 |
| Representing: | | |
| Commission income from concessionaire sales | **600,730** | 748,207 |
| Sales of goods – direct sales | **355,031** | 642,654 |
| Rental income | **397,737** | 419,019 |
| Interest income from finance leases as the lessor | **7,250** | – |
| Operating profit | **319,192** | 192,535 |
| Profit for the period ("Net profit") | **142,447** | 89,690 |

| | As at 31 December 2019 HK$'000 | As at 30 June 2019 HK$'000 |
|---|---|---|
| **FINANCIAL POSITION** | | |
| Fixed deposits with original maturity over three months, cash and bank balances | **2,024,846** | 1,866,701 |
| Total assets | **14,219,836** | 11,797,523 |
| Total liabilities | **9,341,486** | 5,954,914 |
| Total equity | **4,878,350** | 5,842,609 |
| Net cash position | **612,091** | 238,652 |

| | 2019 | 2018 |
|---|---|---|
| **FINANCIAL RATIOS** | | |
| Merchandise gross margin | **15.7%** | 17.3% |
| Operating profit growth | **65.8%** | 10.4% |
| Net profit growth | **58.8%** | -12.9% |

# CHAIRMAN'S STATEMENT

The year of 2019 saw not only a marked decline in global economic activities, but also decelerated growth in major economies. Increased political and economic risks resulted in volatile market sentiments and a deadlock for growth in the physical economy. For the first half of 2020, uncertain prospects are expected in the global economy due to continuing disruption. The Chinese economy, in turn, will face increased downward economic pressure amidst looming external threats and ongoing domestic policy adjustments. As anticipated by the market, consumption sectors such as retail, catering, and tourism will take the brunt of the novel coronavirus outbreak and weakened domestic demands. The outlook for the physical retail sector remains challenging.

Operating under grim domestic and external economic environments, the Group focused on fortifying its presence and controlling costs to ensure steady business development. For the six months ended 31 December 2019, the Group's net profit increased to HK$142.4 million from HK$89.7 million recorded in the same period of Previous Year. Earnings per share for the period was HK$0.08. As at 31 December 2019, the Group operated 31 department stores and shopping malls with a total gross floor area of about 1,251,950 square metres, covering 17 key locations in Mainland China.

Over the past few years, the brick-and-mortar retail industry in China has been transforming at high speed. Integration of e-commerce and social media was deepened, and digitised marketing initiatives were executed with improved precision. Consumption scenarios, on the other hand, continued to be evolutionary. As consumption channels diversify, consumers are also more demanding for premium quality and personalised merchandises. Hence, the Group fostered business reforms at stores during the period, rolling out merchandise upgrading and contents enhancement to develop community style stores and to fast-track the incorporation of shopping mall elements into its stores. In particular, Xi'an City Plaza adopted a new name in mid-2018 to reinforce its positioning as a quasi-shopping mall. The pace for its transformation also continued to quicken: the lifestyle experience category was strengthened, and distinctive Xi'an elements were incorporated to enhance the cultural experience it offered. Furthermore, the Group continued to ride on its forte as a department store operator and collaborated closely with top-notch international cosmetics labels. These actions were taken to fortify the Group's position among its department store peers with the strongest line-up of cosmetics concessionaires. We are setting out to replan the overall layout of the cosmetics zone on the first floor of Beijing Chongwen Store. Unveiling of the new look is expected to take place, stage by stage, by the end of this year. Under the mega trend of new retail, the Group has been working to establish a strong online presence alongside its offline retail business. The "New Lab" online shopping platform, for example, was piloted at the end of 2017, and its functionalities and services have been continuously perfected. To better put the traffic-drawing and guided shopping capabilities of "New Lab" into full play, we have planned to launch a mini-programme of "New Lab" by the end of June this year. A suite of value-added services to improve user convenience will be added to craft an enhanced consumer experience. In future, the Group shall gradually enrich the categories and product choices on "New Lab", broaden its customer base and drive diversification in sales, so as to further actualise the integration of online and offline retail.

In response to the competition from e-commerce operators and the increasing homogeneity of products, the Group continued to introduce refined lifestyle and interactive experience categories, sparing no effort in enriching consumers' in-store experiences. During the period under review, thematic museums and art galleries were brought to a few selected stores to generate market buzzes and to earn customer recognition through interactive scenarios and immersive experiences. Meanwhile, we also continued to work closely with strategic brands to win over the landing of popular online labels.

In view of the blossoming of new retail categories in the mainland, the Group is committed to expanding its direct sales business by tapping into new categories and new labels that correspond to time and locales, so as to bring new energy and a sense of freshness to its business. Alongside such endeavour, we also placed much attention on how the strengths of the new categories could complement with those of our existing ones. The goal is to achieve synergies through differentiated operations. As for LOL Concept Shop, we made major adjustments to its merchandising and marketing strategies to forge the optimal store image and merchandise mix according to different consumer groups and store positioning, aiming to improve the efficiency of its categorised store management. We also reviewed and reformed the original VIP membership scheme of LOL and fully strengthened our work on member management, recruitment and marketing so as to effectively unleash members' consumption potential. As at 31 December 2019, LOL operated 15 stores in five cities, namely Shanghai, Beijing, Wuhan, Mianyang and Shenyang. In future, LOL shall strive to improve its operational efficiency and contribute to sales.

In terms of the N+ line-up, the Group is planning to expand its "N+ Convenience Store" business externally in response to the "night economy" policy rolled out by the People's Government of Beijing Municipality. Two new stores will be set up in Beijing during the second half of the 2020 financial year, aiming to scale up their operations subsequently. Furthermore, to cater to the strong demand for high-end cosmetics products in the mainland market, the Group has made plans to set up the first pop-up store of "N+ Beauty" at Shanghai Pujian Branch Store in June this year. The business will be grown in phases depending on market response.

Whilst the circumstances at home and abroad have been disheartening as we enter 2020, the Group remains confident that by collaborating for the common good, and by adhering to the Group's long-standing philosophy for refined management and customer-first operations, we shall be able to maintain a good pace and persevere as we go forward. The Group shall uphold its prudent and pragmatic operating strategy, build on its current business foundation and cement its multi-category operational setup to establish a firm footing for future development.

Taking this opportunity and on behalf of the Board, I would like to express my sincere gratitude to our shareholders, customers, business partners, as well as our staff. As a token of thanks to their trust and support, the Group will strive to safeguard steady business growth as always.

**Dr. Cheng Kar-shun, Henry**
*Chairman*

Hong Kong, 25 February 2020

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### Results Summary

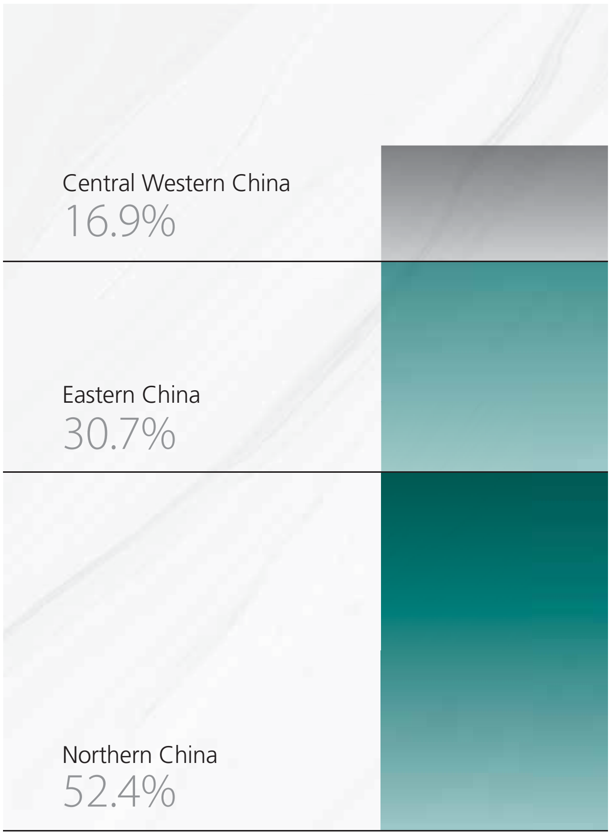
Operating under grim domestic and external economic environments, New World Department Store China Limited and its subsidiaries (together, the "Group") focused on fortifying its presence and reducing costs during the period under review to ensure steady business development.

For the six months ended 31 December 2019, the Group's revenue for the period was HK$1,360.7 million, representing a decrease of approximately 24.8% from HK$1,809.9 million in the same period of Previous Year. In terms of segment, the Group's revenue for the period was mainly derived from commission income from concessionaire sales which accounted for 44.2%. This was followed by rental income, which took up 29.2%; sales of goods for direct sales, which took up 26.1%; and interest income from finance leases as the lessor, which took up 0.5%.

Nevertheless, the Group's net profit increased to HK$142.4 million from HK$89.7 million recorded in the same period of Previous Year, representing a year-on-year growth of approximately 58.8%. The increase was primarily the result of effective cost control, net exchange gains registered during the period, as well as the reduced rental expenses accounted under the newly-adopted accounting standards. Earnings per share for the period was HK$0.08.

### Business Network

As at 31 December 2019, the Group operated 31 department stores and shopping malls, with a total gross floor area of about 1,251,950 square metres. These stores were located in three operating regions in the Northern China, the Eastern China and the Central Western China, covering 17 key locations across the country, including Beijing, Tianjin, Yanjiao, Yantai, Lanzhou, Xi'an, Harbin, Shenyang, Shanghai, Nanjing, Wuhan, Changsha, Zhengzhou, Chengdu, Chongqing, Kunming and Mianyang.




## OPERATIONS OVERVIEW

### Department Store Business

Amidst the socialised e-commerce, precise digitised marketing, diversified shopping scenarios and improved shopping convenience, mainland consumers now show a stronger preference for personalised and quality products. In view of this, the Group continued to delve deep into its core business of department store retail with the deployment of new technologies, and drove business reforms at stores so as to strengthen the uniqueness and competitiveness of each store through reformed setup and fine-tuned image positioning.

Business reform for Hong Kong New World Department Store – Shanghai Wujiaochang Branch Store completed in September 2019. A new children's wear zone was created on the seventh floor to enhance the image of the category and to create a fun environment for children, so as to draw in the peripheral family customers. Meanwhile, an array of trendy sports brands were introduced to the sixth floor to promote category upgrade and contents enhancement in order to echo with the recent fitness trend in the mainland. On the other hand, Xi'an New World City Plaza also accelerated its quasi-shopping mall transformation by adding highly popular cosmetics and household good labels while specialty food and beverage as well as complementary tourism categories were also strengthened to attract young and high-spending groups who are keen on experiential consumption.

In terms of category sales, cosmetics remained the category with stronger growth potential. In particular, sales in skincare products outperformed that in makeup products. Riding on the growth opportunity of the mainland cosmetics market in recent years, the Group drew on its forte as a department store operator and built stronger ties with top-notch international cosmetics labels. In addition to lining up a handful of high-end imported labels for Beijing New World Qianzi Department Store, the Group also kicked off the re-planning of the cosmetics zone on the first floor of Beijing New World Department Store ("Beijing Chongwen Store"). Unveiling of the new face is expected to take place, stage by stage, by the end of 2020. To cope with the earnest demand for street-facing shops from international brands, the Group shall leverage the characteristics of its own premises, and consider setting up regional and iconic flagship cosmetics stores in Hong Kong New World Department Store – Shanghai Huaihai Branch Store ("Shanghai Huaihai Branch Store") and Chongqing New World Department Store ("Chongqing Store").

By deploying a series of member management and marketing strategies, the Group successfully brought the number of its VIP members to exceed the six million mark. Since the joining of the New World Group's Good Living Plus ("GLP+") membership scheme by its nine "Ba Li Chun Tian" branded stores in Shanghai in mid-2018, the Group has played a part in actively creating the GLP+ membership ecology with other retail brands under the New World Group through double members' points and points conversion across different labels. The initiative was made to improve members' loyalty and spending frequency within the New World Group. Furthermore, by implementing distinctive marketing events and effective online promotion, a fan base of close to 4.32 million has been established for the official WeChat and Weibo accounts of the Group and its stores. The "New Lab" online shopping platform also accumulated up to 250,000 registered VIP members as at 31 December 2019. Cosmetics sales proportion took up close to 70% of the overall sales of "New Lab", with female customers forming the majority. In future, the Group shall gradually enrich the merchandise choice of "New Lab" in the categories of jewellery, apparel, footwear, and small home appliances so as to broaden its customer base and to drive sales. The upgraded "New Lab" mini-programme will be launched in late June this year to incorporate value-added services such as electronic invoicing and express delivery on top of the comprehensive suite of basic functions.

## Rental Business

As for rental business, the Group continued to grow new categories and uncover new labels to capitalise on the opportunities brought about by popular culture and trendy topics. During the period under review, the Group gradually brought in trendy experiential categories in its department stores. For instance, breakup museums and starry sky museums were set up in Changsha New World Trendy Plaza ("Changsha Trendy Plaza") and Kunming New World Department Store to create immersive experience for the five senses. At the breakup museum of Changsha Trendy Plaza, a few dozen remnants from past relationships were put together to form connected, empathetic scenarios to cater to young people's pursuit to spend according to their sentiments and their impulsive consumption pattern. The Group also rode on the worldwide superhero mania and introduced the internationally licensed "MINISO x Marvel" IP black gold stores at Beijing Chongwen Store, Chongqing Store, Shanghai Huaihai Branch Store and Yantai New World Department Store ("Yantai Store"). Co-branded products of the Marvel comic series were launched, drawing a wide Marvel following, and thus improved the overall foot traffic to the stores. Besides, the Group closely collaborated with the online-to-offline premium label "Vip.com", introducing the label's offline shops to six department stores of the Group so as to strengthen the Group's lifestyle premium category.

## Direct Sales Business

In the face of the ever-innovating retail landscape in the mainland, the Group kept a close eye on the industrial development and stayed abreast of the changes in the mindset, preference and behaviour of consumers, and at the same time, reviewed internal mechanisms to roll out new categories that correspond to time and locales. Alongside expansion into new categories, the Group also considered their links to and interaction with its existing categories and improved its efficiency in resource allocation, so that different categories can complement one another for stronger synergies.

Riding on the foundation of categorised store management, LOL (Love • Original • Life) Concept Shop ("LOL") made major adjustments to its merchandising and marketing strategies. On the merchandising front, LOL's black label flagship store positioned itself as a high-end trendsetter and strived to introduce high-quality, high-technology and high-reputation brands, importing trendy gadgets to draw in high-spending young consumers who attach much importance to quality and experience. LOL's gold label stores, on the other hand, sourced value-for-money merchandises with high functionality; and quickened the refreshing rate of its new items and visual display to forge a sense of freshness to draw the foot traffic and spending frequency of the mid-end consumer group. On the marketing front, LOL reformed its original VIP membership scheme and launched a monthly members' shopping day. Spending offers and points rewards for members were also rolled out during key festivals and holidays, so as to muster stronger effort to unleash the consumption potential of VIP members. As at 31 December 2019, LOL operated 15 stores in five mainland cities including Shanghai and Beijing; four of these stores were set up outside of the Group's store network. In future, LOL shall continue to fine-tune the positioning and merchandise mix of its stores, striving to improve operational efficiency and contribute to sales.

"N+ Convenience Store" currently owns two branches in Beijing, with the choices of cooked delicacy prepared onsite increased to 80. Lifestyle services such as payment, printing and stand-to-read corners are under planning to offer greater convenience to customers. The Group plans to expand the convenience store business to premises outside of its own network in the second half of the 2020 financial year, adding two more branches of "N+ Convenience Store" in Beijing and gradually developing scale operations.

The "N+ Baby" store at Beijing Chongwen Store was successfully transformed to a premium maternity store. Leveraging precise positioning and differentiated operations, the store provides customers with a selection of safe and quality products.

The "N+ Beauty" project in the pipeline positioned itself as a multi-label cosmetics store. To seize the market demand for trending Chinese labels and hot single items, the Group has made plans to set up the first pop-up store of "N+ Beauty" in June this year at Hong Kong New World Department Store – Shanghai Pujian Branch Store. The business will be grown in phases depending on market response.

Having operated for 20 years, "New World Supermarket" has three branches at Beijing Chongwen Store, Lanzhou New World Department Store and Yantai Store, where complementary food and beverage services and self-service checkout counters were newly added. The Group plans to reform the overall setup and merchandise mix of the "New World Supermarket" at Beijing Chongwen Store and aims to fully upgrade customers' shopping experience by enhancing the in-store visibility of merchandise and optimising customers' traffic flow through merchandise layout.

## OUTLOOK

The global economy slowed down in unison during the second half of 2019. Rising trade barriers and escalating geopolitical tensions in different countries did not only dampen market confidence but also created headwinds for investment and economic growth. While the loosened monetary policies in different countries did help stimulate consumption and investment, the same also heightened financial risks, resulting in an impasse for growth in the physical economy. As foreseen by the market, the downward trend in the global economy is set to continue in the first half of 2020. With the absence of growth drivers in major economies, uncertainties in the China-U.S. trade negotiations, and interwoven political and economic risks amongst different countries, economic prospects are filled with challenges.

Externally, China's economy suffered a blow from the decelerating global economy and the trade conflicts between China and the U.S. At home, it is undergoing a change in new and old growth drivers, as well as domestic policy adjustments. Consequently, the growth of investment, manufacturing and trade has slowed down and downward pressure has been increased for the economy. 2019 saw the year-on-year growth of China's Gross Domestic Product slowed down to 6.1% – the gentlest growth in almost 30 years. In particular, while consumption remained the major driver of China's economic development, its contribution slipped to 57.8% owing to weakened domestic demands. Nationwide residents' income grew steadily, basically synchronising with the pace of economic growth. Total retail sales of consumer goods exceeded Renminbi ("RMB") 40 trillion for the first time. The accelerated growth in consumption upgrade categories, alongside the increased weight of service consumption, suggested sustained consumption upgrading and consistent optimisation of the consumption structure. In 2020, the Chinese economy will be confronted with even more critical circumstances at home and abroad. In particular, the novel coronavirus outbreak will certainly hit the physical retail sector though the extent of its knock-on effect is still beyond prediction. The market is expecting that with the gradual roll-out of policies and measures targeted for stabilising the economy and consumption, consumer confidence will be uplifted and consumption will hopefully recover in the second half of the year and support the steady development of the economy.

The Group believes that the physical retail sector will demonstrate resilience in adversity as the momentum in China's economic upgrading and transformation continues in the long run. The Group shall remain composed in this challenging battle and focus on fortifying its business to respond to the changes in the market environment, the competitive landscape and consumption demands with prudence and pragmatism. As Internet consumption, experiential consumption and personalised consumption become more prevalent in the mainland, the Group shall leverage on new retail channels such as mini-programmes and social e-commerce to expedite the integration of online and offline retail. Concurrently, the Group shall strive to enhance the quality and contents of in-store merchandises to meet the diversified and ever-changing demands of the new generation. Furthermore, the Group shall step up on brand-building, ride on pop-up stores to test the market, fortify its convenience store business, and strengthen its private label series in order to establish the New World Department Store's ecology.

## FINANCIAL REVIEW

### Revenue and Other Income

Revenue of the Group was HK$1,360.7 million in 1HFY2020 (or the "Current Period") (1HFY2019 (or the "same period of Previous Year"): HK$1,809.9 million).

Gross sales revenue of the Group, comprising gross revenue from concessionaire sales and sales of goods for direct sales, rental income, interest income from finance leases as the lessor and other income, was HK$4,479.8 million in 1HFY2020 (1HFY2019: HK$5,732.5 million).

The Group's merchandise gross margin was 15.7% in the Current Period (1HFY2019: 17.3%). In 1HFY2020, ladieswear, menswear and accessories made up approximately 44.3% of gross revenue from concessionaire sales and sales of goods for direct sales. Gold, jewellery and watch made up approximately 24.2%, sportswear made up approximately 11.9%, cosmetic products made up approximately 10.2%, and kidswear, foodstuffs, electrical appliances, and housewares largely made up the rest. Direct sales revenue in the Current Period mainly comprised sales of cosmetic products (approximately 69.5%), supermarkets and convenience stores (approximately 28.0%), life concept shops, ladieswear, menswear and accessories as well as miscellaneous items (approximately 2.5%).

Rental income decreased by 5.1% to HK$397.7 million in 1HFY2020 from HK$419.0 million in 1HFY2019, mainly due to the impact of adoption of HKFRS 16 in relation to the sub-leases in the Current Period and the closure of certain department stores in FY2019. The decrease was partially offset by increased rentable area and improved tenant mix in the Current Period.

Interest income from finance leases as the lessor was HK$7.3 million 1HFY2020 which was resulted from the impact of adoption of HKFRS 16.

Other income of the Group was HK$59.6 million in 1HFY2020 compared with HK$100.4 million in 1HFY2019. The decrease in other income was mainly due to the inclusion of the write-back of expired stored value cards and long term payables of HK$25.1 million and HK$10.9 million respectively in 1HFY2019.

### Other Losses, Net

Net other losses of the Group in the Current Period was HK$6.9 million which was primarily resulted from HK$21.1 million of impairment loss on goodwill for mainly one department store in light of the latest market environment and the management's assessment on the business prospect thereof and HK$4.4 million of impairment loss on prepayments, deposits and other receivables. The losses was partially offset by HK$7.0 million of gain on derecognition of right-of-use assets and HK$12.4 million of gain on disposal of Well Metro Group Limited ("Well Metro Group") in July 2019.

### Changes in Fair Value of Investment Properties

Changes in fair value of investment properties in the Current Period was HK$0.2 million which was mainly related to the properties in Shenyang City and 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 decreased to HK$318.4 million in 1HFY2020 from HK$468.4 million in 1HFY2019. The decrease was in line with the decrease in sales of goods for direct sales in the Current Period.

### Purchases of Promotion Items

The purchases of promotion items 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. The purchases of promotion items was HK$8.6 million in 1HFY2020 compared with HK$21.4 million in 1HFY2019.

## Employee Benefit Expense

Employee benefit expense decreased to HK$249.0 million in 1HFY2020 from HK$333.5 million in 1HFY2019. Employee benefit expense decreased primarily due to the closures of certain department stores in FY2019 and the disposal of Well Metro Group in the Current Period.

## Depreciation and Amortisation

Depreciation and amortisation expense increased from HK$107.3 million in 1HFY2019 to HK$297.5 million in 1HFY2020, primarily due to the increase was largely attributable to the impact of adoption of HKFRS 16. The increase was partially offset by no depreciation provided in the Current Period for property, plant and equipment of certain department stores closed in FY2019 and Well Metro Group disposed in 1HFY2020.

## Rental Expense

Rental expense decreased to HK$76.8 million in 1HFY2020 from HK$496.1 million in 1HFY2019, primarily attributable to the impact of adoption of HKFRS 16 in the Current Period. Under HKFRS 16, rental expense is replaced with depreciation expense on the right-of-use assets and interest expense on the lease liabilities.

## Other Operating Expenses, Net

Net other operating expenses decreased to HK$144.3 million in 1HFY2020 from HK$262.2 million in 1HFY2019. The decrease was primarily resulted from the increase of HK$31.7 million of net exchange gains mainly arising from Renminbi against Hong Kong dollar due to the revaluation of Renminbi during 1HFY2020, a decrease in water and electricity expenses of HK$23.8 million, a decrease in selling, promotion, advertising and related expenses of HK$13.4 million, a decrease in cleaning, repairs and maintenance of HK$8.6 million, a decrease in other tax expenses of HK$17.2 million, and a decrease in other operating expenses of HK$23.4 million primarily due to the costs control, utilities charge reduction in Mainland China, the decrease in sales revenue, the disposal of Well Metro Group in the Current Period and the closure of certain department stores in FY2019.

## Operating Profit

Operating profit was HK$319.2 million in 1HFY2020 compared with HK$192.5 million in 1HFY2019.

## Finance (Costs)/Income, Net

Net finance costs was HK$104.7 million in 1HFY2020 compared with net finance income of HK$6.5 million in 1HFY2019. The decrease was mainly due to the increase in interest expense on lease liabilities as a result of the adoption of HKFRS 16.

## Income Tax Expense

Income tax expense of the Group was HK$72.0 million in 1HFY2020 compared with HK$109.5 million in 1HFY2019.

## Profit for the Period

As a result of the reasons mentioned above, profit for the period was HK$142.4 million compared with HK$89.7 million in the same period of Previous Year.

## Liquidity and Financial Resources

Fixed deposits with original maturity over three months and cash and bank balances of the Group amounted to HK$2,024.8 million as at 31 December 2019 (30 June 2019: HK$1,866.7 million).

The Group's borrowings as at 31 December 2019 were HK$1,412.8 million (30 June 2019: HK$1,628.0 million of which HK$215.9 million was secured by an investment property).

At 31 December 2019, the Group's current liabilities exceeded its current assets by HK$2,264.0 million (30 June 2019: HK$1,878.0 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 2019 were HK$43.4 million which were contracted but not provided for in the condensed consolidated statement of financial position.

## Pledge of Assets

As at 31 December 2019, the Group did not have any pledge of assets (30 June 2019: an investment property of HK$1,743.2 million was pledged as securities for bank borrowings of HK$215.9 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 against Renminbi and from Renminbi 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

In respect of one department store closed by the Group during the year ended 30 June 2019, the Group has contingent liabilities arising from potential claims from the landlords of the premises for compensation in connection with the early termination of the leases, however the amount, if any, and timing of payment could not be reliably estimated at current stage, and the final outcome of which is subject to negotiation and/or result of arbitration. The Group has taken all the necessary measures to address the potential exposure. The aggregate monthly rental expense for this closed department store was approximately HK$1.5 million prior to the closure.

# REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

羅兵咸永道

**TO THE BOARD OF DIRECTORS OF NEW WORLD DEPARTMENT STORE CHINA LIMITED**
*(incorporated in Cayman Islands with limited liability)*

## INTRODUCTION

We have reviewed the interim financial information set out on pages 14 to 46, which comprises the condensed consolidated statement of financial position of New World Department Store China Limited (the "Company") and its subsidiaries (together, the "Group") as at 31 December 2019 and the related condensed consolidated income statement, condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

We conducted our review 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. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 25 February 2020

# CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2019

| | Note | Unaudited<br>Six months ended 31 December<br>2019<br>HK$'000 | <br><br>2018<br>HK$'000 |
|---|---|---|---|
| Revenue | 6 | **1,360,748** | 1,809,880 |
| Other income | 7 | **59,639** | 100,420 |
| Other losses, net | 8 | **(6,870)** | (28,864) |
| Changes in fair value of investment properties | | **203** | 18 |
| Purchases of and changes in inventories, net | | **(318,383)** | (468,399) |
| Purchases of promotion items | | **(8,611)** | (21,419) |
| Employee benefit expense | 9 | **(248,956)** | (333,478) |
| Depreciation and amortisation | | **(297,549)** | (107,317) |
| Rental expense | | **(76,767)** | (496,086) |
| Other operating expenses, net | 10 | **(144,262)** | (262,220) |
| **Operating profit** | | **319,192** | 192,535 |
| Finance income | | **22,574** | 25,128 |
| Finance costs | | **(127,293)** | (18,582) |
| Finance (costs)/income, net | 11 | **(104,719)** | 6,546 |
| | | **214,473** | 199,081 |
| Share of results of associated companies | | **10** | 85 |
| **Profit before income tax** | | **214,483** | 199,166 |
| Income tax expense | 12 | **(72,036)** | (109,476) |
| **Profit for the period** | | **142,447** | 89,690 |
| Attributable to: | | | |
| Shareholders of the Company | | **142,447** | 89,690 |
| **Earnings per share attributable to shareholders of the Company during the period (expressed in HK$ per share)** | | | |
| – Basic and diluted | 14 | **0.08** | 0.05 |

The notes on pages 21 to 46 are an integral part of this condensed consolidated financial information.

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2019

| | Unaudited Six months ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | **HK$'000** | HK$'000 |
| Profit for the period | **142,447** | 89,690 |
| **Other comprehensive income** | | |
| *Items that will not be reclassified to profit and loss* | | |
| Revaluation of properties upon reclassification from property, plant and equipment and land use rights to investment properties | **–** | 5,782 |
| – Deferred income tax thereof | **–** | (1,445) |
| | **–** | 4,337 |
| *Items that may be reclassified subsequently to profit and loss* | | |
| Release of reserve upon disposal/deregistration of subsidiaries | **(1,481)** | (11,255) |
| Translation differences | **(160,535)** | (297,142) |
| | **(162,016)** | (308,397) |
| **Other comprehensive income for the period, net of tax** | **(162,016)** | (304,060) |
| **Total comprehensive income for the period** | **(19,569)** | (214,370) |
| Attributable to: | | |
| Shareholders of the Company | **(19,569)** | (214,370) |

The notes on pages 21 to 46 are an integral part of this condensed consolidated financial information.

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

| | Note | **Unaudited As at 31 December 2019 HK$'000** | Audited As at 30 June 2019 HK$'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | **1,084,823** | 888,044 |
| Investment properties | 16 | **4,590,266** | 4,692,081 |
| Right-of-use assets | 17 | **3,537,328** | – |
| Land use rights | | **–** | 475,071 |
| Intangible assets | 18 | **1,907,409** | 1,972,351 |
| Interests in associated companies | | **765** | 1,563 |
| Other non-current assets | 19 | **–** | 659,708 |
| Prepayments, deposits and other receivables | | **187,883** | 241,631 |
| Finance lease receivables | 28 | **223,531** | – |
| Deferred income tax assets | | **122,051** | 99,793 |
| | | **11,654,056** | 9,030,242 |
| **Current assets** | | | |
| Inventories | 20 | **110,215** | 94,450 |
| Debtors | 21 | **62,452** | 63,441 |
| Prepayments, deposits and other receivables | | **296,009** | 301,522 |
| Finance lease receivables | 28 | **70,135** | – |
| Amounts due from fellow subsidiaries | 22 | **2,121** | 2,840 |
| Amounts due from related companies | 22 | **2** | 186 |
| Fixed deposits with original maturity over three months | | **157,098** | 131,111 |
| Cash and bank balances | | **1,867,748** | 1,735,590 |
| | | **2,565,780** | 2,329,140 |
| Assets classified as held for sale | 31 | **–** | 438,141 |
| Total current assets | | **2,565,780** | 2,767,281 |
| **Total assets** | | **14,219,836** | 11,797,523 |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | 23 | **168,615** | 168,615 |
| Reserves | 24 | **4,709,735** | 5,673,994 |
| **Total equity** | | **4,878,350** | 5,842,609 |

| | Note | Unaudited As at 31 December 2019 HK$'000 | Audited As at 30 June 2019 HK$'000 |
|---|---|---|---|
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Accruals and other payables | | – | 439,132 |
| Lease liabilities | 27 | 3,648,393 | – |
| Deferred income tax liabilities | | 863,279 | 870,507 |
| | | 4,511,672 | 1,309,639 |
| **Current liabilities** | | | |
| Creditors | 26 | 1,546,949 | 1,337,492 |
| Accruals and other payables | | 978,046 | 1,051,134 |
| Lease liabilities | 27 | 602,445 | – |
| Contract liabilities | | 244,013 | 251,252 |
| Amounts due to fellow subsidiaries | 22 | 4,883 | 9,935 |
| Amounts due to related companies | 22 | 12,263 | 8,652 |
| Borrowings | 25 | 1,412,755 | 1,628,049 |
| Tax payable | | 28,460 | 20,933 |
| | | 4,829,814 | 4,307,447 |
| Liabilities directly associated with assets classified as held for sale | 31 | – | 337,828 |
| Total current liabilities | | 4,829,814 | 4,645,275 |
| **Total liabilities** | | 9,341,486 | 5,954,914 |
| **Total equity and liabilities** | | 14,219,836 | 11,797,523 |

The notes on pages 21 to 46 are an integral part of this condensed consolidated financial information.

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2019

| | Attributable to shareholders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Property revaluation reserve HK$'000 | Capital reserve HK$'000 | Statutory reserve HK$'000 | Exchange reserve HK$'000 | Retained earnings HK$'000 | Shareholders' funds HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
| As at 1 July 2018 | 168,615 | 1,826,646 | 137,428 | 391,588 | 437,299 | 322,267 | 2,835,498 | 6,119,341 | 7 | 6,119,348 |
| **Comprehensive income** | | | | | | | | | | |
| Profit for the period | – | – | – | – | – | – | 89,690 | 89,690 | – | 89,690 |
| **Other comprehensive income** | | | | | | | | | | |
| Revaluation of property upon reclassification from property, plant and equipment and land use rights to investment properties | – | – | 5,782 | – | – | – | – | 5,782 | – | 5,782 |
| – Deferred income tax thereof | – | – | (1,445) | – | – | – | – | (1,445) | – | (1,445) |
| Release of reserve upon deregistration of subsidiaries | – | – | – | – | – | (11,255) | – | (11,255) | – | (11,255) |
| Translation differences | – | – | – | – | – | (297,142) | – | (297,142) | – | (297,142) |
| **Total comprehensive income for the period ended 31 December 2018** | – | – | 4,337 | – | – | (308,397) | 89,690 | (214,370) | – | (214,370) |
| **Transactions with owners** | | | | | | | | | | |
| Transactions with non-controlling interests | – | – | – | – | – | – | – | – | (7) | (7) |
| Transfer to statutory reserve | – | – | – | – | (983) | – | 983 | – | – | – |
| **Total transactions with owners** | – | – | – | – | (983) | – | 983 | – | (7) | (7) |
| As at 31 December 2018 – Unaudited | 168,615 | 1,826,646 | 141,765 | 391,588 | 436,316 | 13,870 | 2,926,171 | 5,904,971 | – | 5,904,971 |

For the six months ended 31 December 2019

| | Attributable to shareholders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Property revaluation reserve HK$'000 | Capital reserve HK$'000 | Statutory reserve HK$'000 | Exchange reserve HK$'000 | Retained earnings HK$'000 | Shareholders' funds HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
| As at 1 July 2019 | 168,615 | 1,826,646 | 174,741 | 391,588 | 446,323 | (24,441) | 2,859,137 | 5,842,609 | – | 5,842,609 |
| Adjustment on adoption of HKFRS 16, net of tax | – | – | – | – | – | – | (944,690) | (944,690) | – | (944,690) |
| As at 1 July 2019, as adjusted | 168,615 | 1,826,646 | 174,741 | 391,588 | 446,323 | (24,441) | 1,914,447 | 4,897,919 | – | 4,897,919 |
| **Comprehensive income** | | | | | | | | | | |
| Profit for the period | – | – | – | – | – | – | 142,447 | 142,447 | – | 142,447 |
| **Other comprehensive income** | | | | | | | | | | |
| Release of reserve upon disposal/ deregistration of subsidiaries | – | – | – | – | – | (1,481) | – | (1,481) | – | (1,481) |
| Translation differences | – | – | – | – | – | (160,535) | – | (160,535) | – | (160,535) |
| **Total comprehensive income for the period ended 31 December 2019** | – | – | – | – | – | (162,016) | 142,447 | (19,569) | – | (19,569) |
| **Transactions with owners** | | | | | | | | | | |
| Transfer to statutory reserve | – | – | – | – | 9,025 | – | (9,025) | – | – | – |
| **Total transactions with owners** | – | – | – | – | 9,025 | – | (9,025) | – | – | – |
| As at 31 December 2019 – Unaudited | 168,615 | 1,826,646 | 174,741 | 391,588 | 455,348 | (186,457) | 2,047,869 | 4,878,350 | – | 4,878,350 |

The notes on pages 21 to 46 are an integral part of this condensed consolidated financial information.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2019

| | Unaudited Six months ended 31 December 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net cash from operating activities | **712,401** | 414,349 |
| **Cash flows from investing activities** | | |
| Additions to investment properties | **(2,250)** | (3,469) |
| Additions to property, plant and equipment and right-of-use assets | **(53,275)** | (68,346) |
| Increase in fixed deposits with original maturity over three months | **(28,901)** | (171,118) |
| Settlement of amount due from disposed subsidiaries | **100,000** | – |
| Net cash outflow from disposal of subsidiaries | **(45,145)** | – |
| Proceeds from disposal of associated company | **763** | – |
| Proceeds from disposal of property, plant and equipment | **29** | 2 |
| Principal portion of finance lease received as the lessor | **32,707** | – |
| Interest portion of finance lease received as the lessor | **7,250** | – |
| Interest received | **24,302** | 31,514 |
| **Net cash generated from/(used in) investing activities** | **35,480** | (211,417) |
| **Cash flows from financing activities** | | |
| Drawdown of bank borrowings | **–** | 284,205 |
| Repayment of bank borrowings | **(211,111)** | (338,765) |
| Drawdown of shareholder loan | **–** | 80,000 |
| Interest paid | **(13,141)** | (19,621) |
| Principal portion of lease payments as the lessee | **(291,927)** | – |
| Interest portion of lease payments as the lessee | **(104,676)** | – |
| **Net cash (used in)/generated from financing activities** | **(620,855)** | 5,819 |
| **Net increase in cash and cash equivalents** | **127,026** | 208,751 |
| Cash and cash equivalents as at 1 July | **1,733,642** | 1,904,904 |
| Cash and cash equivalents of disposed subsidiaries classified as held for sale as at 1 July | **46,145** | – |
| Effect of foreign exchange rate changes | **(40,970)** | (79,575) |
| **Cash and cash equivalents as at 31 December** | **1,865,843** | 2,034,080 |
| Analysis of cash and bank balances: | | |
| Cash and cash equivalents | **1,865,843** | 2,034,080 |
| Restricted cash | **1,905** | – |
| | **1,867,748** | 2,034,080 |

The notes on pages 21 to 46 are an integral part of this condensed consolidated financial information.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

## 1 GENERAL INFORMATION

New World Department Store China Limited (the "Company") was incorporated in the Cayman Islands on 25 January 2007 as an exempted company with limited liability under the Companies Law, (Cap. 22) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company and its subsidiaries (together, the "Group") are engaged in department store and other retail related businesses, and property investment operations in Mainland China.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 12 July 2007.

This condensed consolidated financial information is presented in Hong Kong dollars ("HK$"), unless otherwise stated. This condensed consolidated financial information has been approved for issue by the board of directors on 25 February 2020.

## 2 BASIS OF PREPARATION

This condensed consolidated financial information of the Group for the six months ended 31 December 2019 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").

This condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 30 June 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

As at 31 December 2019, the Group's current liabilities exceeded its current assets by approximately HK$2,264,034,000 (30 June 2019: HK$1,877,994,000). Taking into account the cash flows from operating activities, the track record of successful renewal of the existing borrowings 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.

## 3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2019, as described in those annual financial statements.

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

## 3 ACCOUNTING POLICIES (continued)

### 3.1 New and amended standards adopted by the Group

For the six months ended 31 December 2019, the Group has adopted the following amendments to existing standards which are mandatory for the accounting period beginning on 1 July 2019:

| | |
|---|---|
| HKFRS 16 | Leases |
| HK(IFRIC) – Int 23 | Uncertainty over Income Tax Treatments |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015–2017 Cycle |

Except as described below, the adoption of the above new standards and amendments to existing standards does not have any significant effect on the results and financial position of the Group.

### 3.2 Changes in accounting policies

*HKFRS 16 "Leases"*

The impacts of the adoption of HKFRS 16 Leases ("HKFRS 16") on the Group's condensed consolidated interim financial statements are detailed below and it also discloses the new accounting policies that have been applied from 1 July 2019, where they are different to those applied in prior periods.

*(a) Impact on the consolidated financial statements*

As explained below, the Group has adopted HKFRS 16 retrospectively from 1 July 2019, but has not restated comparative information for the prior reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and adjustments arising from the new leasing rules are recognised in the opening consolidated statement of financial position as at 1 July 2019.

*(b) Impact of adoption*

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 Leases ("HKAS 17"). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rates applied to the lease liabilities on 1 July 2019 were 4.9% for leases in Mainland China. While for right-of-use assets, the Group has elected to measure the right-of-use assets as if HKFRS 16 had been applied since the commencement date of a lease using the same incremental borrowing rate.

For leases previously classified as finance leases, the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application.

There were no existing contracts that were not classified as a lease under HKAS 17 but satisfy the definition of a lease under HKFRS 16.

There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

## 3 ACCOUNTING POLICIES (continued)

### 3.2 Changes in accounting policies (continued)

*HKFRS 16 "Leases" (continued)*

*(b) Impact of adoption (continued)*

The total impact on the Group's lease liabilities as at 1 July 2019 is as follows:

| | HK$'000 |
|---|---|
| Operating lease commitments disclosed as at 30 June 2019 | 5,043,154 |
| Discounted using the lessee's incremental borrowing rate as at the date of initial application | 4,488,772 |
| Less: short-term leases recognised on a straight-line basis as expense | (1,616) |
| Less: assets classified as held for sale | (85,574) |
| **Lease liabilities recognised as at 1 July 2019** | 4,401,582 |
| Of which are: | |
| Current lease liabilities | 599,639 |
| Non-current lease liabilities | 3,801,943 |
| | 4,401,582 |

The recognised right-of-use assets relate to the following types of assets:

| | As at 31 December 2019 HK$'000 | As at 1 July 2019 HK$'000 |
|---|---|---|
| Prepaid leasehold land | 837,874 | 475,071 |
| Buildings, plant and machinery and others | 2,699,454 | 2,767,963 |
| | 3,537,328 | 3,243,034 |

## 3 ACCOUNTING POLICIES (continued)

### 3.2 Changes in accounting policies (continued)

*HKFRS 16 "Leases" (continued)*

(b) *Impact of adoption (continued)*

The change in accounting policies affected the following items in the consolidated statement of financial position as at 1 July 2019:

| | As at 1 July 2019 | | |
|---|---|---|---|
| | As previously stated HK$'000 | Effects of adoption of HKFRS 16 HK$'000 | As restated HK$'000 |
| **Consolidated statement of financial position (extract)** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 888,044 | (24,487) | 863,557 |
| Land use rights | 475,071 | (475,071) | – |
| Right-of-use assets | – | 3,243,034 | 3,243,034 |
| Prepayments, deposits and other receivables | 241,631 | (12,734) | 228,897 |
| Finance lease receivables | – | 71,847 | 71,847 |
| Deferred income tax assets | 99,793 | 31,864 | 131,657 |
| **Current assets** | | | |
| Prepayments, deposits and other receivables | 301,522 | (72,329) | 229,193 |
| Finance lease receivables | – | 219,914 | 219,914 |
| Assets classified as held for sale | 438,141 | 77,351 | 515,492 |
| **Equity** | | | |
| Retained earnings | 2,859,137 | (944,690) | 1,914,447 |
| **Non-current liabilities** | | | |
| Accruals and other payables | 439,132 | (439,132) | – |
| Lease liabilities | – | 3,801,943 | 3,801,943 |
| Deferred income tax liabilities | 870,507 | 13,893 | 884,400 |
| **Current liabilities** | | | |
| Accruals and other payables | 1,051,134 | (57,838) | 993,296 |
| Lease liabilities | – | 599,639 | 599,639 |
| Liabilities classified as held for sale | 337,828 | 85,574 | 423,402 |

The adoption of HKFRS 16 resulted in changes in certain terminology used. The right-of-use assets in relation to prepaid leasehold land were previously presented as land use rights.

## 3 ACCOUNTING POLICIES (continued)

### 3.2 Changes in accounting policies (continued)

*HKFRS 16 "Leases" (continued)*

(c) *Practical expedients applied*

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend the lease.

(d) *HKFRS 16 "Leases" – Accounting policies applied from 1 July 2019*

The Group leases various properties. Rental contracts are made for a range of fixed periods but may have extension options as described in note 3.2(d)(ii) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Until the financial year ended 30 June 2019, leases were classified as either finance leases or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

## 3 ACCOUNTING POLICIES (continued)

### 3.2 Changes in accounting policies (continued)

*HKFRS 16 "Leases" (continued)*

*(d) HKFRS 16 "Leases" – Accounting policies applied from 1 July 2019 (continued)*

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

As an intermediate lessor, certain sub-leases are recognised as finance lease receivables at the present value of the minimum lease payments and the estimated unguaranteed residual value. The corresponding right-of-use assets are de-recognised. The interest income is recognised to the profit or loss over the sub-lease period.

(i) Variable lease payments

Estimation uncertainty arising from variable lease payments

Some leases contain variable payment terms that are linked to sales or net profits generated. Variable lease payments that depend on sales or net profits are recognised in the profit or loss in the period in which the condition that triggers those payments occurs. Most leases are subject to fixed payments.

(ii) Extension options

Extension options are included in a number of property leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension options held are exercisable only by the Group and not by the respective lessor.

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

## 3 ACCOUNTING POLICIES (continued)

### 3.2 Changes in accounting policies (continued)

*HKFRS 16 "Leases" (continued)*

*(d) HKFRS 16 "Leases" – Accounting policies applied from 1 July 2019 (continued)*

(iii) Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

### 3.3 Change in functional currency of a significant foreign operation

Due to the changes in operation of Happy Growth Investment Limited and its subsidiary ("Happy Growth Goup") in September 2019, the Directors considered RMB had become the currency that mainly influenced the operations and cash flow of Happy Growth Group, therefore the functional currency of these entities was designated as RMB from HK$. The determination of functional currency of these entities was applied in accordance with HKAS 21 "The Effect of Changes in Foreign Exchange Rates". If the functional currency of these entities remained HK$ throughout the period, the exchange differences arising from the Group's borrowings denominated in HK$ would be recognised in other comprehensive income and the Group's profit before income tax for the period would have been approximately HK$20,410,000 lower.

## 4 ESTIMATES

The preparation of this condensed consolidated financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's annual financial statements for the year ended 30 June 2019, except for those in relation to the adoption of HKFRS 16.

The Group applies judgement to determine the lease term for lease contracts in which it is a lessee that include renewal option. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

## 5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

### 5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks, including foreign exchange risk, credit risk, liquidity risk and interest rate risk.

This condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 30 June 2019.

There have been no changes in the risk management policies since the last financial year end.

### 5.2 Liquidity risk

The liquidity risk of the Group is managed by maintaining sufficient cash and cash equivalents, which is generated from the operating cash flows and financing cash flows.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | **Carrying amounts HK$'000** | **Total contractual undiscounted cash flow HK$'000** | **Within 1 year or on demand HK$'000** | **Over 1 year but within 5 years HK$'000** | **More than 5 years HK$'000** |
|---|---|---|---|---|---|
| As at 31 December 2019 | | | | | |
| Creditors | **1,546,949** | **1,546,949** | **1,546,949** | **–** | **–** |
| Other payables | **799,222** | **799,222** | **799,222** | **–** | **–** |
| Amounts due to fellow subsidiaries | **4,883** | **4,883** | **4,883** | **–** | **–** |
| Amounts due to related companies | **12,263** | **12,263** | **12,263** | **–** | **–** |
| Borrowings | **1,412,755** | **1,455,606** | **1,455,606** | **–** | **–** |
| Lease liabilities | **4,250,838** | **5,346,512** | **664,017** | **2,561,547** | **2,120,948** |

| | Carrying amounts HK$'000 | Total contractual undiscounted cash flow HK$'000 | Within 1 year or on demand HK$'000 | Over 1 year but within 5 years HK$'000 |
|---|---|---|---|---|
| As at 30 June 2019 | | | | |
| Creditors | 1,337,492 | 1,337,492 | 1,337,492 | – |
| Other payables | 816,035 | 816,035 | 816,035 | – |
| Amounts due to fellow subsidiaries | 9,935 | 9,935 | 9,935 | – |
| Amounts due to related companies | 8,652 | 8,652 | 8,652 | – |
| Borrowings | 1,628,049 | 1,657,512 | 1,657,512 | – |

## 5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

### 5.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The carrying amounts of the financial instruments of the Group are as follows:

(i) Listed instrument is stated at market price. The quoted market price used for financial asset held by the Group is the bid price at the end of the reporting period. It is included in level 1.

(ii) Unlisted instrument is stated at fair value which is estimated using valuation techniques when the market price is not readily available. If all significant inputs required to estimate the fair value of an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The Group has no financial instrument that is measured at fair value as at 31 December 2019.

The following table presents the Group's financial instruments that were measured at fair value as at 30 June 2019:

| | **Level 2**<br>**HK$'000** |
|---|---|
| **Assets** | |
| Financial assets at fair value through profit or loss (under assets classified as held for sale) | **856** |

There were no significant transfers of financial assets and financial liabilities between level 1, level 2 and level 3 fair value hierarchy classification.

There were no changes in valuation techniques during the period.

### 5.4 Valuation techniques used to derive level 2 fair value

As at 30 June 2019, level 2 financial instruments comprised forward currency contracts. The fair value of these forward currency contracts were determined using forward exchange rates that are quoted in an active market.

## 5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

### 5.5 Fair value of financial assets and liabilities measured at amortised cost

The fair value of the following financial assets and liabilities approximate their carrying amount, since they are expected to be recovered or settled within twelve months from the reporting date, repayable demand, or bear interest at variable rate:

- Debtors
- Deposits and other receivables
- Fixed deposits with original maturity over three months
- Cash and bank balances
- Creditors
- Other payables
- Amounts due from/to fellow subsidiaries and related companies
- Borrowings
- Lease liabilities

## 6 REVENUE AND SEGMENT INFORMATION

| | Unaudited Six months ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | **HK$'000** | HK$'000 |
| Commission income from concessionaire sales | **600,730** | 748,207 |
| Sales of goods – direct sales | **355,031** | 642,654 |
| Revenue from contracts with customers | **955,761** | 1,390,861 |
| Rental income | **397,737** | 419,019 |
| Interest income from finance leases as the lessor | **7,250** | – |
| | **1,360,748** | 1,809,880 |

The income from concessionaire sales is analysed as follows:

| | Unaudited Six months ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | **HK$'000** | HK$'000 |
| Gross revenue from concessionaire sales | **3,660,147** | 4,570,414 |
| Commission income from concessionaire sales | **600,730** | 748,207 |

## 6 REVENUE AND SEGMENT INFORMATION (continued)

The chief operating decision-maker ("CODM") has been identified as executive Directors 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, changes in fair value of investment properties and net unallocated corporate expenses or income. In addition, net finance costs or 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, assets classified as held for sale 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.

| | Department store and other retail related businesses HK$'000 | Property investment business HK$'000 | Consolidated HK$'000 |
|---|---|---|---|
| Six months ended 31 December 2019 | | | |
| Segment revenue | 1,249,858 | 110,890 | 1,360,748 |
| Segment operating results | 239,741 | 87,691 | 327,432 |
| Other losses, net | (6,870) | – | (6,870) |
| Changes in fair value of investment properties | – | 203 | 203 |
| Unallocated corporate expenses, net | | | (1,573) |
| Operating profit | | | 319,192 |
| Finance income | | | 22,574 |
| Finance costs | | | (127,293) |
| Finance costs, net | | | (104,719) |
| | | | 214,473 |
| Share of results of associated companies | | | 10 |
| Profit before income tax | | | 214,483 |
| Income tax expense | | | (72,036) |
| Profit for the period | | | 142,447 |

## 6 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 2018 | | | |
| Segment revenue | 1,700,302 | 109,578 | 1,809,880 |
| Segment operating results | 153,958 | 85,253 | 239,211 |
| Other losses, net | (28,864) | – | (28,864) |
| Changes in fair value of investment properties | – | 18 | 18 |
| Unallocated corporate expenses, net | | | (17,830) |
| Operating profit | | | 192,535 |
| Finance income | | | 25,128 |
| Finance costs | | | (18,582) |
| Finance income, net | | | 6,546 |
| | | | 199,081 |
| Share of results of associated companies | | | 85 |
| Profit before income tax | | | 199,166 |
| Income tax expense | | | (109,476) |
| Profit for the period | | | 89,690 |
| As at 31 December 2019 | | | |
| Segment assets | **9,193,122** | **4,887,035** | **14,080,157** |
| Interests in associated companies | **765** | **–** | **765** |
| Deferred income tax assets | **122,051** | **–** | **122,051** |
| Unallocated corporate assets: | | | |
| Cash and bank balances | | | **16,591** |
| Others | | | **272** |
| Total assets | | | **14,219,836** |
| Six months ended 31 December 2019 | | | |
| Additions to non-current assets (Note) | **371,636** | **2,110** | **373,746** |
| Depreciation and amortisation | **297,144** | **405** | **297,549** |
| Impairment loss on goodwill | **21,111** | **–** | **21,111** |
| Impairment loss on property, plant and equipment | **299** | **–** | **299** |
| Impairment loss on prepayments, deposits and other receivables | **4,444** | **–** | **4,444** |

## 6 REVENUE AND SEGMENT INFORMATION (continued)

| | Department store and other retail related businesses HK$'000 | Property investment business HK$'000 | Consolidated HK$'000 |
|---|---|---|---|
| As at 30 June 2019 | | | |
| Segment assets | 6,210,628 | 5,000,810 | 11,211,438 |
| Interests in associated companies | 1,563 | – | 1,563 |
| Deferred income tax assets | 99,793 | – | 99,793 |
| Assets classified as held for sale | 400,997 | 37,144 | 438,141 |
| Unallocated corporate assets: | | | |
| Cash and bank balances | | | 46,368 |
| Others | | | 220 |
| Total assets | | | 11,797,523 |
| Six months ended 31 December 2018 | | | |
| Additions to non-current assets (Note) | 76,958 | 3,973 | 80,931 |
| Depreciation and amortisation | 106,924 | 393 | 107,317 |
| Impairment loss on property, plant and equipment | 13,141 | – | 13,141 |
| Impairment loss on prepayments, deposits and other receivables | 38,698 | – | 38,698 |

Note:

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

## 7 OTHER INCOME

| | **Unaudited Six months ended 31 December 2019 HK$'000** | 2018 HK$'000 |
|---|---|---|
| Compensation from insurance claim | **–** | 3,181 |
| Government grants | **10,896** | 9,282 |
| Income from suppliers | **25,686** | 34,341 |
| Write-back of expired stored value cards | **529** | 25,104 |
| Sundries | **22,528** | 28,512 |
| | **59,639** | 100,420 |

## 8 OTHER LOSSES, NET

| | Unaudited Six months ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | **HK$'000** | HK$'000 |
| Changes in fair value on financial asset or liability at fair value through profit or loss | **–** | 15,392 |
| Gain on disposal/deregistration of subsidiaries or associated companies | **12,388** | 11,255 |
| Impairment loss on goodwill (Note) | **(21,111)** | – |
| Impairment loss on property, plant and equipment (Note) | **(299)** | (13,141) |
| Impairment loss on prepayments, deposits and other receivables (Note) | **(4,444)** | (38,698) |
| Gain/(loss) on derecognition/disposal of right-of-use assets or property, plant and equipment | **6,596** | (3,672) |
| | **(6,870)** | (28,864) |

Note:

The impairment provisions were made to reflect management's latest plan for mainly one department store (2018: four department stores) in light of the latest market environment and the management's assessment on the business prospect thereof.

## 9 EMPLOYEE BENEFIT EXPENSE

| | Unaudited Six months ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | **HK$'000** | HK$'000 |
| Wages, salaries and other benefits | **225,327** | 302,253 |
| Retirement benefit costs – defined contribution plans | **23,629** | 31,225 |
| | **248,956** | 333,478 |

## 10 OTHER OPERATING EXPENSES, NET

| | Unaudited Six months ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | **HK$'000** | HK$'000 |
| Water and electricity | **369** | 24,119 |
| Selling, promotion, advertising and related expenses | **19,404** | 32,775 |
| Cleaning, repairs and maintenance | **26,898** | 35,511 |
| Auditor's remuneration | | |
| – Audit services | **2,527** | 2,825 |
| – Non-audit services | **1,242** | 928 |
| Exchange (gains)/losses, net | **(22,181)** | 9,477 |
| Other tax expenses | **73,089** | 90,267 |
| Others | **42,914** | 66,318 |
| | **144,262** | 262,220 |

## 11 FINANCE (COSTS)/INCOME, NET

| | Unaudited Six months ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | **HK$'000** | HK$'000 |
| Interest income on bank deposits | **22,574** | 25,128 |
| Interest expense on bank loans | **(12,001)** | (20,056) |
| Interest expense on shareholder's loans | **(10,616)** | (8,574) |
| Interest expense on lease liabilities | **(104,676)** | – |
| Less: amount capitalised (Note) | **–** | 10,048 |
| | **(127,293)** | (18,582) |
| | **(104,719)** | 6,546 |

Note:

In 2018, to the extent funds are borrowed generally and used for the purpose of financing the qualifying assets, the capitalisation rate used to determine the amounts of borrowing costs eligible for the capitalisation was 3.1% per annum for the period.

## 12 INCOME TAX EXPENSE

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

| | Unaudited Six months ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | **HK$'000** | HK$'000 |
| Current income tax | | |
| – Mainland China taxation | **68,709** | 85,594 |
| – Over-provision in prior years | **(1,891)** | (1,422) |
| Deferred income tax | | |
| – Undistributed retained earnings | **–** | (1,726) |
| – Temporary differences | **5,218** | 27,030 |
| | **72,036** | 109,476 |

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 2019 and 2018.

Subsidiaries of the Company in Mainland China are subject to corporate income tax at a rate of 25% (2018: 25%).

## 13 DIVIDENDS

The Directors have resolved not to declare an interim dividend for the six months ended 31 December 2019 (2018: HK$Nil).

## 14 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 Six months ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| Profit attributable to shareholders of the Company (HK$'000) | **142,447** | 89,690 |
| Weighted average number of ordinary shares in issue (shares in thousands) | **1,686,145** | 1,686,145 |
| Basic earnings per share (HK$ per share) | **0.08** | 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 2019 and 2018, there was no dilutive potential ordinary share.

## 15 PROPERTY, PLANT AND EQUIPMENT

For the six months ended 31 December 2019, the Group had additions of property, plant and equipment of approximately HK$312,637,000 (2018: HK$63,810,000) and disposals of property, plant and equipment with net book amount of approximately HK$415,000 (2018: HK$3,674,000).

Property, plant and equipment is allocated to the Group's cash generating units ("CGUs") identified. For the purpose of impairment test as at 31 December 2019, the recoverable amount of CGUs with impairment indictor is determined based on value in use calculations, which uses cash flow projections based on financial estimates covering a period over the lease term. The key assumptions on annual gross sales revenue growth rate, gross margin ratios and discount rate used in the value in use calculations as at 31 December 2019 are based on management's best estimates and reflect specific risks relating to the relevant businesses.

During the six months ended 31 December 2019, impairment loss of approximately HK$299,000 (2018: HK$13,141,000) was recognised. For the six months ended 31 December 2019, impairment provision was made on property, plant and equipment of mainly one CGU allocated to the department store and other retail related businesses. The estimated recoverable amount of this CGU is HK$66,062,000. The impairment loss recognised for the period represented the difference between the carrying amount of property, plant and equipment of the CGUs and their estimated recoverable amount.

If the annual gross sales revenue had been 5% (2018: 3%) lower than management's current estimates, the profit before income tax for the period would have been approximately HK$42,831,000 (2018: HK$11,144,000) lower.

If the gross margin ratios had been 1% (2018: 1%) lower than management's current estimates, the profit before income tax for the period would have been approximately HK$32,200,000 (2018: HK$13,348,000) lower.

If the discount rate had been 0.5% (2018: 0.5%) higher than management's current estimates, there would be no material adverse impact (2018: no material adverse impact) to the condensed consolidated financial information.

## 16 INVESTMENT PROPERTIES

For the six months ended 31 December 2019, the Group had additions of investment properties of approximately HK$2,250,000 (2018: HK$3,469,000).

As at 30 June 2019, an investment property with carrying value of approximately HK$1,743,182,000 was pledged to secure bank loans of the Group (Note 25).

As at 31 December 2019, certain investment properties were valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, independent professional valuers. The valuations are derived using the income approach. This approach is based on the capitalisation of net income with due allowance for outgoings and reversionary income potential by adopting appropriate capitalisation rates, which are derived from analysis of rental/sale transactions and valuer's interpretation of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuation are referenced to valuers' view of recent lettings, within the subject properties and other comparable properties.

## 17 RIGHT-OF-USE ASSETS

| | Prepaid leasehold land HK$'000 | Buildings, plant and machinery and others HK$'000 | Total HK$'000 |
|---|---|---|---|
| As at 1 July 2019 | – | – | – |
| Adjustment on adoption of HKFRS 16 (Note 3) | 475,071 | 2,767,963 | 3,243,034 |
| Additions | 386,693 | 238,954 | 625,647 |
| Disposals | – | (37,058) | (37,058) |
| Depreciation | (13,333) | (208,895) | (222,228) |
| Exchange differences | (10,557) | (61,510) | (72,067) |
| As at 31 December 2019 – Unaudited | 837,874 | 2,699,454 | 3,537,328 |

## 18 INTANGIBLE ASSETS

Goodwill is allocated to the Group's CGUs identified. For the purpose of impairment test as at 31 December 2019, the recoverable amount of CGUs with impairment indicator is determined based on fair value less costs of disposal calculations, which uses cash flow projections based on financial estimates covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates.

The key assumptions on average annual gross sales revenue growth rate average, gross margin ratios, discount rate and long term growth rate used in the fair value less costs of disposal calculations as at 31 December 2019 are based on management's best estimates and reflect specific risks relating to the relevant businesses.

If the annual gross sales revenue had been 5% (2018: 3%) lower than management's current estimates, the profit before income tax for the period would have been approximately HK$139,122,000 (2018: HK$25,939,000) lower.

If the gross margin ratios had been 1% (2018: 1%) lower than management's current estimates, the profit before income tax for the period would have been approximately HK$103,735,000 (2018: HK$18,202,000) lower.

If the discount rate had been 0.5% (2018: 0.5%) higher than management's current estimates, the profit before income tax for the period would have been approximately HK$54,284,000 (2018: HK$3,767,000) lower.

## 19 OTHER NON-CURRENT ASSETS

Balance as at 30 June 2019 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 New World Xin Hui Properties Co., Ltd.") ("SYNWXH"), a wholly-owned subsidiary of New World Development Company Limited ("NWD") 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 RMB514,009,800 to SYNWXH for the related costs of demolition of the original building and design, construction and payment of any relevant land grant premium of certain portion of the redeveloped building. As at 30 June 2019, the balance in connection to this transaction and the costs capitalised was approximately HK$659,708,000. The transaction was subsequently completed in July 2019 and transferred to property, plant and equipment and land use rights included in right-of-use assets.

## 20 INVENTORIES

| | **Unaudited As at 31 December 2019 HK$'000** | Audited As at 30 June 2019 HK$'000 |
|---|---|---|
| Finished goods | **110,215** | 94,450 |

The cost of inventories recognised as expense and included in 'purchases of and changes in inventories, net' (including those reclassified as assets classified as held for sale) amounted to approximately HK$318,383,000 (2018: HK$468,399,000), which included inventory write-down, net of approximately HK$57,000 (2018: HK$3,326,000).

## 21 DEBTORS

| | **Unaudited As at 31 December 2019 HK$'000** | Audited As at 30 June 2019 HK$'000 |
|---|---|---|
| Debtors | **67,356** | 73,021 |
| Less: loss allowance provision | **(4,904)** | (9,580) |
| Debtors, net | **62,452** | 63,441 |

## 21 DEBTORS (continued)

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 2019 HK$'000** | Audited As at 30 June 2019 HK$'000 |
|---|---|---|
| Within period for | | |
| 0-30 days | **56,639** | 55,688 |
| 31-60 days | **1,805** | 2,162 |
| 61-90 days | **527** | 768 |
| Over 90 days | **3,481** | 4,823 |
| | **62,452** | 63,441 |

Debtors of approximately HK$5,653,000 (30 June 2019: HK$10,459,000) were impaired as of 31 December 2019. The amount of the loss allowance provision was approximately HK$4,904,000 (30 June 2019: HK$9,580,000) as of 31 December 2019. The individually impaired receivables mainly relate to tenants, which are in unexpectedly difficult economic situations.

The debtors were primarily denominated in RMB.

## 22 AMOUNTS DUE FROM/(TO) FELLOW SUBSIDIARIES AND RELATED COMPANIES

As at 31 December 2019 and 30 June 2019, the balances were unsecured, interest-free, repayable on demand and denominated in RMB.

The related companies represent the joint ventures of NWD, Chow Tai Fook Jewellery Group Limited and its subsidiaries ("CTFJ Group") and members of the companies controlled by Mr. Doo Wai-hoi ("Mr. Doo"), an associate of certain Directors.

## 23 SHARE CAPITAL

| | **Number of shares '000** | **Share capital HK$'000** |
|---|---|---|
| Ordinary shares of HK$0.1 each, issued and fully paid: | | |
| As at 30 June 2019 (audited) and 31 December 2019 (unaudited) | **1,686,145** | **168,615** |

## 24 RESERVES

| | Attributable to shareholders of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share premium HK$'000 | Property revaluation reserve HK$'000 | Capital reserve HK$'000 | Statutory reserve HK$'000 (Note) | Exchange reserve HK$'000 | Retained earnings HK$'000 | Total HK$'000 |
| As at 1 July 2018 | 1,826,646 | 137,428 | 391,588 | 437,299 | 322,267 | 2,835,498 | 5,950,726 |
| Profit for the period | – | – | – | – | – | 89,690 | 89,690 |
| Revaluation of property upon reclassification from property, plant and equipment and land use rights to investment properties | – | 5,782 | – | – | – | – | 5,782 |
| – Deferred income tax thereof | – | (1,445) | – | – | – | – | (1,445) |
| Release of reserve upon deregistration of subsidiaries | – | – | – | – | (11,255) | – | (11,255) |
| Translation differences | – | – | – | – | (297,142) | – | (297,142) |
| Transfer to statutory reserve | – | – | – | (983) | – | 983 | – |
| As at 31 December 2018 – Unaudited | 1,826,646 | 141,765 | 391,588 | 436,316 | 13,870 | 2,926,171 | 5,736,356 |

| | **Attributable to shareholders of the Company** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Share premium HK$'000** | **Property revaluation reserve HK$'000** | **Capital reserve HK$'000** | **Statutory reserve HK$'000 (Note)** | **Exchange reserve HK$'000** | **Retained earnings HK$'000** | **Total HK$'000** |
| As at 1 July 2019 | **1,826,646** | **174,741** | **391,588** | **446,323** | **(24,441)** | **2,859,137** | **5,673,994** |
| Adjustment on adoption of HKFRS 16, net of tax | **–** | **–** | **–** | **–** | **–** | **(944,690)** | **(944,690)** |
| As at 1 July 2019, as adjusted | **1,826,646** | **174,741** | **391,588** | **446,323** | **(24,441)** | **1,914,447** | **4,729,304** |
| Profit for the period | **–** | **–** | **–** | **–** | **–** | **142,447** | **142,447** |
| Release of reserve upon disposal/ deregistration of subsidiaries | **–** | **–** | **–** | **–** | **(1,481)** | **–** | **(1,481)** |
| Translation differences | **–** | **–** | **–** | **–** | **(160,535)** | **–** | **(160,535)** |
| Transfer to statutory reserve | **–** | **–** | **–** | **9,025** | **–** | **(9,025)** | **–** |
| As at 31 December 2019 – Unaudited | **1,826,646** | **174,741** | **391,588** | **455,348** | **(186,457)** | **2,047,869** | **4,709,735** |

Note:

Upon conversion of the Group's PRC subsidiaries into wholly-owned foreign enterprises in 2007 and pursuant to the relevant PRC Law and articles of association of the subsidiaries of the Company established in the PRC, they are required to appropriate 10% of their statutory net profit to the enterprise expansion fund. The enterprise expansion fund can only be used to increase capital of group companies or to expand their production operation upon approval by the relevant authority.

## 25 BORROWINGS

| | **Unaudited As at 31 December 2019 HK$'000** | Audited As at 30 June 2019 HK$'000 |
|---|---|---|
| Current | | |
| Secured bank loans | **–** | 215,909 |
| Unsecured bank loans | **699,755** | 699,140 |
| Shareholder loans | **713,000** | 713,000 |
| | **1,412,755** | 1,628,049 |

Shareholder loans are interest-bearing at Hong Kong Interbank Offered Rate plus 0.9% per annum, unsecured and repayable within one year.

Interest payable for shareholder loans of approximately HK$15,253,000 (30 June 2019: HK$4,637,000) was included in "accruals and other payables".

The average effective interest rates of the borrowings are analysed as follows:

| | **Unaudited As at 31 December 2019** | Audited As at 30 June 2019 |
|---|---|---|
| HK$ | **3.01%** | 2.71% |
| RMB | **4.41%** | 4.41% |

The carrying amounts of the borrowings are denominated in the following currencies:

| | **Unaudited As at 31 December 2019 HK$'000** | Audited As at 30 June 2019 HK$'000 |
|---|---|---|
| HK$ | **1,412,755** | 1,412,140 |
| RMB | **–** | 215,909 |
| | **1,412,755** | 1,628,049 |

The borrowings are repayable as follows:

| | **Unaudited As at 31 December 2019 HK$'000** | Audited As at 30 June 2019 HK$'000 |
|---|---|---|
| Within one year | **1,412,755** | 1,628,049 |

The borrowings of approximately HK$1,412,755 (30 June 2019: HK$1,628,049) are wholly repayable within one year.

## 25 BORROWINGS (continued)

The contractual repricing dates or maturity dates (whichever is earlier) of the interest-bearing borrowings are as follows:

| | **Unaudited As at 31 December 2019 HK$'000** | Audited As at 30 June 2019 HK$'000 |
|---|---|---|
| Within six months | **1,412,755** | 1,628,049 |

## 26 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 2019 HK$'000** | Audited As at 30 June 2019 HK$'000 |
|---|---|---|
| Within period for | | |
| 0-30 days | **1,306,803** | 1,012,465 |
| 31-60 days | **102,038** | 151,388 |
| 61-90 days | **28,792** | 36,728 |
| Over 90 days | **109,316** | 136,911 |
| | **1,546,949** | 1,337,492 |

The creditors were primarily denominated in RMB.

Creditors included amounts due to related companies of approximately HK$60,952,000 (30 June 2019: HK$51,119,000) which were unsecured, interest-free and repayable within 90 days.

## 27 LEASE LIABILITIES

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate at 1 July 2019, and the aggregate effect is as follows:

| | **HK$'000** |
|---|---|
| As at 1 July 2019 (upon the adoption of HKFRS 16 Leases) | **4,401,582** |
| Additions | **238,954** |
| Lease payments made during the period | **(396,603)** |
| Interest expenses on lease liabilities | **104,676** |
| Translation differences | **(97,771)** |
| As at 31 December 2019 – Unaudited | **4,250,838** |
| of which are: | |
| Current lease liabilities | **602,445** |
| Non-current lease liabilities | **3,648,393** |
| | **4,250,838** |

Lease liabilities included lease liabilities to related companies of approximately HK$438,359,000.

## 28 FINANCE LEASE RECEIVABLES

| | Unaudited As at 31 December 2019 HK$'000 | Audited As at 30 June 2019 HK$'000 |
|---|---|---|
| Finance lease receivables | 316,326 | – |
| Unguaranteed residual values | 15,206 | – |
| Gross investment in finance leases | 331,532 | – |
| Less: unearned finance income | (37,866) | – |
| Net investment in finance leases | 293,666 | – |
| Less: accumulated allowance for impairment | – | – |
| Finance lease receivables – net | 293,666 | – |
| Of which are: | | |
| Current finance lease receivables | 70,135 | – |
| Non-current finance lease receivables | 223,531 | – |
| | 293,666 | – |

The table below analyses the Group's gross investment in finance leases by relevant maturity groupings at the end of each reporting period:

| | Unaudited As at 31 December 2019 HK$'000 | Audited As at 30 June 2019 HK$'000 |
|---|---|---|
| Gross investment in finance leases | | |
| Within one year | 81,989 | – |
| In the second to fifth year | 183,839 | – |
| After the fifth year | 65,704 | – |
| | 331,532 | – |

## 29 COMMITMENTS AND CONTINGENCIES

### (a) Capital commitments

Capital commitment in respect of property, plant and equipment, investment properties, land use rights and equity instrument of the Group at the end of the reporting period are as follows:

| | Unaudited As at 31 December 2019 HK$'000 | Audited As at 30 June 2019 HK$'000 |
|---|---|---|
| Contracted but not provided for | 43,423 | 122,499 |

## 29 COMMITMENTS AND CONTINGENCIES (continued)

### (b) Contingent liabilities

In respect of one department store closed by the Group during the year ended 30 June 2019, the Group has contingent liabilities arising from potential claims from the landlords of the premises for compensation in connection with the early termination of the leases, however the amount, if any, and timing of payment could not be reliably estimated at current stage, and the final outcome of which is subject to negotiation and/or result of arbitration. The Group has taken all the necessary measures to address the potential exposure. The aggregate monthly rental expense for this closed department store was approximately HK$1,500,000 prior to the closure.

## 30 DISPOSAL OF SUBSIDIARIES

Details of the net liabilities disposed of are as follows:

| | HK$'000 |
|---|---|
| Property, plant and equipment | 33,607 |
| Investment properties | 37,144 |
| Right-of-use assets | 94,178 |
| Intangible assets | 1,328 |
| Inventories | 219,543 |
| Debtors | 36,990 |
| Prepayments, deposits and other receivables | 46,111 |
| Financial assets at fair value through profit or loss | 856 |
| Cash and cash equivalents | 46,145 |
| Creditors | (40,066) |
| Accruals and other payables | (33,322) |
| Contract liabilities | (2,057) |
| Deferred income tax liabilities | (4,320) |
| Obligation under finance leases | (16) |
| Borrowings | (256,511) |
| Amount due to fellow subsidiaries | (102,483) |
| Lease liabilities | (87,519) |
| Net liabilities | (10,392) |
| Release of reserve upon disposal | (1,114) |
| Net gain on disposal of subsidiaries | 12,506 |
| Cash consideration | 1,000 |

Analysis of the net cash outflow from the disposal was as follows:

| | HK$'000 |
|---|---|
| Cash consideration received | 1,000 |
| Cash and cash equivalents disposed of | (46,145) |
| Net cash outflow from disposal of subsidiaries | (45,145) |

## 31 ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

In July 2019, Techwise Enterprises Limited, a wholly-owned subsidiary incorporated in the British Virgin Islands with limited liability, entered into an agreement to sell the entire issued share capital of Well Metro Group Limited to K11 Sales & E-Commerce Company Limited, a fellow subsidiary of the Company, at a gross consideration of HK$1,000,000. Well Metro Group Limited is principally engaged in brand management, and the distribution and retailing of fashion apparels and accessories in the PRC. Assets and liabilities of Well Metro Group Limited were reclassified as held-for-sale as at 30 June 2019. The transaction was completed in July 2019.

## 32 RELATED PARTY TRANSACTIONS

### (a) Transactions with related parties

In addition to those disclosed elsewhere in this condensed consolidated financial information, the following is a summary of significant related party transactions entered into the ordinary course of business between the Group and its related parties during the period:

| | Note | Unaudited Six months ended 31 December 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| Fellow subsidiaries | | | |
| Rental expenses | (i) | **(15,120)** | (34,576) |
| Building management expenses | (ii) | **(6,428)** | (6,732) |
| Sale of goods, prepaid shopping cards and vouchers | (iii) | **27** | 52 |
| Payments for purchase of building and land use rights | (iv) | **(42,567)** | – |
| Management fee income | (v) | **200** | – |
| Interest expense on lease liabilities | (x) | **(3,237)** | – |
| Related companies | | | |
| Rental expenses | (i) | **(53,166)** | (84,340) |
| Building management expenses | (ii) | **(11,988)** | (12,177) |
| Sales of goods, prepaid shopping cards and vouchers | (iii) | **–** | 29 |
| Commission income from concessionaires sales | (vi) | **28,656** | 39,114 |
| Rebates on prepaid shopping cards and vouchers | (vii) | **28** | 16 |
| Rental income | (viii) | **91** | 93 |
| Other service fee expenses | (ix) | **(3)** | (4) |
| Interest expense on lease liabilities | (x) | **(7,734)** | – |
| Additions to right-of-use assets | (xi) | **(2,159)** | – |

Notes:

(i) The rental expenses are charged in accordance with respective tenancy agreements.

(ii) The building management expenses are charged at fixed monthly amounts in accordance with respective contracts.

(iii) This represents the amounts received in respect of the use of the shopping vouchers, prepaid shopping cards, the joint name vouchers or other means acceptable to the Group as payment of purchases of goods and settlement of the relevant value by the subsidiaries and joint ventures of NWD (except the Group), and the CTFJ Group.

(iv) The represents installment paid for the purchase of building and land use rights as described in note 19.

(v) The income is charged in accordance with the terms of service fee stated in respective agreement.

## 32 RELATED PARTY TRANSACTIONS (continued)

### (a) Transactions with related parties (continued)

Notes: (continued)

(vi) The income is charged in accordance with concessionaire counter agreements with CTFJ Group. The commission is mainly calculated by pre-determined percentages of gross sales value in accordance with respective agreements.

(vii) This represents rebates offered by the CTFJ Group in respect of the sales of prepaid shopping cards and vouchers issued jointly by the Group and the CTFJ Group.

(viii) The income is charged in accordance with rental agreements with members of the companies controlled by Mr. Doo.

(ix) This represents other services provided by members of the companies controlled by Mr. Doo.

(x) Interest expense on lease liabilities is charged at interest rates as specified in note 3.2 (b).

(xi) Additions to right-of-use assets are measured in accordance with respective tenancy agreement.

### (b) Related party balances

The details for balances with related parties are disclosed in notes 22, 25, 26 and 27 to this condensed consolidated financial information.

### (c) Repayment of lease liabilities to related parties

The repayment amount of lease liabilities to related parties were approximately HK$41,528,000 during the six months ended 31 December 2019.

### (d) Key management compensation

| | Unaudited Six months ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | **HK$'000** | HK$'000 |
| Basic salaries, housing allowances, other allowances and other benefits in kind | **10,901** | 13,100 |
| Discretionary bonus | **6,125** | 834 |
| Retirement benefit costs – defined contribution plans | **581** | 426 |
| | **17,607** | 14,360 |

## 33 EVENT AFTER THE REPORTING PERIOD

Subsequent to 31 December 2019 and since January 2020, there was a general outbreak of the new coronavirus which has affected the operation of the Group's stores. Management is of the view that the ultimate impact to the Group's businesses due to the virus is uncertain and beyond prediction as it is highly dependent on the future development. Management will closely and continuously monitor the situation and assess the financial impact to the Group.

## 34 ULTIMATE HOLDING COMPANY

The Directors regard NWD, a company incorporated in Hong Kong, as being the ultimate holding company of the Group.

## INTERIM DIVIDEND

The board of directors (the "Directors" or "Board") of New World Department Store China Limited (the "Company", or together with its subsidiaries, the "Group") has resolved not to declare an interim dividend for the six months ended 31 December 2019 (2018: nil).

## AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established in accordance with requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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 four independent non-executive Directors. The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 31 December 2019 and the unaudited condensed consolidated financial information and the interim report for the six months ended 31 December 2019 and discussed the financial related matters with the management. The unaudited interim results of the Group for the six months ended 31 December 2019 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.

## 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 2019 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 18 November 2019 (the "AGM") due to his other engagement. Dr. Cheng Chi-kong, Adrian, an 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 2019. Relevant employees are subject to compliance with written guidelines on no less exacting terms than the Model Code.

## EMPLOYEES, REMUNERATION POLICY AND PENSION SCHEME

As at 31 December 2019, the total number of employees of the Group was 3,303 (30 June 2019: 3,883). 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 July 2019, Techwise Enterprises Limited, a wholly-owned subsidiary incorporated in the British Virgin Islands with limited liability, entered into an agreement to sell the entire issued share capital of Well Metro Group Limited to K11 Sales & E-Commerce Company Limited, a fellow subsidiary of the Company, at a gross consideration of HK$1,000,000. Well Metro Group Limited is principally engaged in brand management, and the distribution and retailing of fashion apparels and accessories in the PRC. The transaction was completed in July 2019.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company had not redeemed any of its listed securities during the six months ended 31 December 2019. 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 2019.

## UPDATE ON DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the Directors since the date of the Company's Annual Report 2019 are set out below:

With effect from 1 February 2020, Dr. Cheng Kar-shun, Henry was re-designated from chairman and managing director to the honorary chairman of New World China Land Limited.

Dr. Cheng Chi-kong, Adrian was appointed as an executive director of NWS Holdings Limited, with effect from 11 October 2019. He was appointed as the joint chief executive officer of New World China Land Limited with effect from 1 January 2020 and then promoted as the executive chairman of New World China Land Limited with effect from 1 February 2020.

With effect from 31 December 2019, Mr. Cheong Ying-chew, Henry resigned as independent non-executive director of each of CNNC International Limited, Greenland Hong Kong Holdings Limited, Hutchison Telecommunications Hong Kong Holdings Limited and TOM Group Limited.

## DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2019, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or the Model Code were as follows:

### (a) Long positions in shares

| | Capacity | Nature of interest | Number of shares held | Total | Approximate percentage of shareholding (direct or indirect) |
|---|---|---|---|---|---|
| **New World Development Company Limited** | | | | | |
| (Ordinary shares) | | | | | |
| Dr. Cheng Chi-kong, Adrian | Beneficial owner | Personal interest | 700,000 | 700,000 | 0.01 |
| **NWS Holdings Limited** | | | | | |
| (Ordinary shares of HK$1.00 each) | | | | | |
| Dr. Cheng Kar-shun, Henry | Beneficial owner | Personal interest | 18,349,571 | 30,349,571 | 0.78 |
| | Controlled corporation | Corporate interest | 12,000,000[1] | | |

Note:

(1) These shares are beneficially owned by a company wholly-owned by Dr. Cheng Kar-shun, Henry.

## DIRECTORS' INTERESTS IN SECURITIES (continued)

### (b) Long positions in underlying shares – share options

i. *New World Development Company Limited*

Under the share option scheme of the holding company, New World Development Company Limited ("NWD"), the undermentioned Directors have personal interests in share options to subscribe for shares of NWD. Certain details of the share options of NWD held by them during the six months ended 31 December 2019 were as follows:

| | | | Number of share options held | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Name** | **Date of grant** | **Exercisable period** (Note) | **Balance as at 1 July 2019** | **Granted during the period** | **Exercised during the period** | **Adjusted during the period** | **Balance as at 31 December 2019** | **Exercise price per share** HK$ |
| Dr. Cheng Kar-shun, Henry | 10 June 2016 | (1) | 10,675,637 | – | – | – | 10,675,637 | 7.540 |
| | 3 July 2017 | (2) | 2,000,000 | – | – | – | 2,000,000 | 10.036 |
| Dr. Cheng Chi-kong, Adrian | 9 March 2016 | (3) | 3,800,000 | – | – | – | 3,800,000 | 7.200 |
| | 10 June 2016 | (1) | 3,736,471 | – | – | – | 3,736,471 | 7.540 |
| | 3 July 2017 | (2) | 2,000,000 | – | – | – | 2,000,000 | 10.036 |
| Mr. Au Tak-cheong | 10 June 2016 | (4) | 336,693 | – | (200,000) | – | 136,693 | 7.540 |
| | 3 July 2017 | (5) | 200,000 | – | (100,000) | – | 100,000 | 10.036 |
| | | | 22,748,801 | – | (300,000) | – | 22,448,801 | |

Notes:

(1) Divided into 4 tranches exercisable from 10 June 2016, 10 June 2017, 10 June 2018 and 10 June 2019 respectively to 9 June 2020.

(2) Divided into 4 tranches exercisable from 3 July 2017, 3 July 2018, 3 July 2019 and 3 July 2020 respectively to 2 July 2021.

(3) Divided into 4 tranches exercisable from 9 March 2016, 9 March 2017, 9 March 2018 and 9 March 2019 respectively to 8 March 2020.

(4) Divided into 2 tranches exercisable from 10 June 2018 and 10 June 2019 respectively to 9 June 2020.

(5) Divided into 2 tranches exercisable from 3 July 2019 and 3 July 2020 respectively to 2 July 2021.

(6) The cash consideration paid by each of the above Directors for each grant of the share options is HK$10.00.

## DIRECTORS' INTERESTS IN SECURITIES (continued)

### (b) Long positions in underlying shares – share options (continued)

ii. *NWS Holdings Limited*

Under the share option scheme of a fellow subsidiary, NWS Holdings Limited ("NWSH"), the undermentioned Director has personal interests in share options to subscribe for shares of NWSH. Certain details of the share options of NWSH held by him during the six months ended 31 December 2019 were as follows:

| | | | Number of share options held | | | | | |
|---|---|---|---|---|---|---|---|---|
| Name | Date of grant | Exercisable period (Note) | Balance as at 1 July 2019 | Granted during the period | Exercised during the period | Adjusted during the period | Balance as at 31 December 2019 | Exercise price per share HK$ |
| Dr. Cheng Kar-shun, Henry | 9 March 2015 | (1) | 7,420,739 | – | – | – | 7,420,739 | 14.120 |
| | | | 7,420,739 | – | – | – | 7,420,739 | |

Notes:

(1) 60% of the share options are exercisable from 9 May 2015 to 8 March 2020 while the remaining 40% of the share options are divided into 2 tranches exercisable from 9 March 2016 and 9 March 2017 respectively to 8 March 2020.

(2) The cash consideration paid by the above Director for each grant of the share options is HK$10.00.

Save as disclosed above, as at 31 December 2019, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or the Model Code.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2019, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO, which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

### Long positions in the shares of the Company

| Name | Capacity | Nature of interest | Number of shares held | Total | Approximate percentage of shareholding (direct or indirect) |
|---|---|---|---|---|---|
| Cheng Yu Tung Family (Holdings) Limited ("CYTFH")(1) | Controlled corporation | Corporate interest | 1,264,400,000 | 1,264,400,000 | 74.99 |
| Cheng Yu Tung Family (Holdings II) Limited ("CYTFH-II")(2) | Controlled corporation | Corporate interest | 1,264,400,000 | 1,264,400,000 | 74.99 |
| Chow Tai Fook Capital Limited ("CTFC")(3) | Controlled corporation | Corporate interest | 1,264,400,000 | 1,264,400,000 | 74.99 |
| Chow Tai Fook (Holding) Limited ("CTFH")(4) | Controlled corporation | Corporate interest | 1,264,400,000 | 1,264,400,000 | 74.99 |
| Chow Tai Fook Enterprises Limited ("CTF")(5) | Controlled corporation | Corporate interest | 1,264,400,000 | 1,264,400,000 | 74.99 |
| New World Development Company Limited ("NWD") | Controlled corporation<br>Beneficial owner | Corporate interest<br>– | 45,500,000<br>1,218,900,000 | 1,264,400,000 | 74.99 |

Notes:

(1) CYTFH holds 48.98% direct interest in CTFC and is accordingly deemed to have an interest in the shares of the Company interested by or deemed to be interested by CTFC.

(2) CYTFH-II holds 46.65% direct interest in CTFC and is accordingly deemed to have an interest in the shares of the Company interested by or deemed to be interested by CTFC.

(3) CTFC holds 81.03% direct interest in CTFH and is accordingly deemed to have an interest in the shares of the Company interested by or deemed to be interested by CTFH.

(4) CTFH holds 100% direct interest in CTF and is accordingly deemed to have an interest in the shares of the Company interested by or deemed to be interested by CTF.

(5) CTF together with its subsidiaries have interest in more than one-third of the issued shares of NWD and is accordingly deemed to have an interest in the shares of the Company interested by or deemed to be interested by NWD.

Save as disclosed above, the Company has not been notified of any other person (other than the Directors or chief executive of the Company) who, as at 31 December 2019, had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO, which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

## SHARE OPTION SCHEME

The share option scheme of the Company adopted on 12 June 2007 has expired on 12 June 2017, and no new share option scheme has been adopted thereafter.

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

**Non-executive Directors**
Dr. Cheng Kar-shun, Henry *(Chairman)*
Mr. Au Tak-cheong

**Executive Directors**
Dr. Cheng Chi-kong, Adrian
Mr. Cheung Fai-yet, Philip *(Chief Executive Officer)*

**Independent Non-executive Directors**
Mr. Cheong Ying-chew, Henry
Mr. Chan Yiu-tong, Ivan
Mr. Tong Hang-chan, Peter
Mr. Yu Chun-fai

## COMPANY SECRETARY

Miss Wu Yuk-kwai, Catherine

## AUDITOR

PricewaterhouseCoopers

## SOLICITORS

Mayer Brown
Eversheds Sutherland
Woo, Kwan, Lee & Lo

## PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road
P.O. Box 1586
Grand Cayman, KY1-1110
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER AGENT

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

## REGISTERED OFFICE

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P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

7th Floor, 88 Hing Fat Street
Causeway Bay, Hong Kong
Tel: (852) 2753 3988
Fax: (852) 2318 0884

## PRINCIPAL BANKERS

Hang Seng Bank Limited
Industrial and Commercial Bank of China Limited
Mizuho Bank

## STOCK CODE

Hong Kong Stock Exchange 825

## INVESTOR INFORMATION

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## WEBSITE

www.nwds.com.hk

**Chinese Version**

The Chinese version of this Report is available upon request from New World Department Store China Limited. If there is any inconsistency or conflict between the English and the Chinese versions, the English version shall prevail.

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)*
(Hong Kong Stock Code: 825)

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