新世界百貨中國有限公司
New World Department Store China Limited
(incorporated in the Cayman Islands with limited liability)
(Stock Code: 825)

INTERIM RESULTS ANNOUNCEMENT 2015/2016

HIGHLIGHTS

Same-store sales[(1)] ("SSS") declined by 8.5%.

Gross sale revenue declined by 12.4% to HK$6,947.1 million from HK$7,928.4 million in the same period of Previous Year.

Revenue declined by 5.1% to HK$1,934.3 million from HK$2,037.8 million in the same period of Previous Year.

Core profit for the period[(2)] decreased by approximately 36.2% to HK$124.5 million from HK$195.2 million in the same period of Previous Year.

Earnings per share was HK$0.04.

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

(2) Core profit for the period excludes net other gains, changes in fair value of investment properties and its related income tax expense and other non-core items.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2015

The board of directors (the "Board" or "Directors") of New World Department Store China Limited (the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (together, the "Group") for the six months ended 31 December 2015 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited	Unaudited
		Six months ended 31 December	
		2015	2014
	Notes	***HK$'000***	*HK$'000*
Revenue	*2*	**1,934,290**	2,037,826
Other income	*3*	**86,673**	115,714
Other gains, net	*4*	**7,477**	6,877
Changes in fair value of investment properties		**(5,676)**	2,254
Purchases of and changes in inventories		**(390,247)**	(324,215)
Employee benefit expense		**(323,849)**	(377,601)
Depreciation and amortisation		**(155,570)**	(171,081)
Operating lease rental expense		**(603,207)**	(585,524)
Other operating expenses, net	*5*	**(412,233)**	(413,070)
Operating profit		**137,658**	291,180
Finance income		**41,833**	34,491
Finance costs		**(23,140)**	(23,358)
Finance income, net		**18,693**	11,133
Profit before income tax		**156,351**	302,313
Income tax expense	*6*	**(96,541)**	(96,351)
Profit for the period		**59,810**	205,962
Profit attributable to equity holders of the Company		**59,810**	205,962
Dividend	*7*	**–**	102,855
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in HK$ per share)			
– Basic and diluted	*8*	**0.04**	0.12

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	Unaudited
	Six months ended 31 December	
	2015	2014
	HK$'000	*HK$'000*
Profit for the period	**59,810**	205,962
Other comprehensive income		
Items that may be reclassified subsequently to profit and loss		
Release of exchange reserve upon liquidation of a subsidiary	**–**	(10,097)
Fair value loss on available-for-sale financial asset	**(7,267)**	–
Translation differences	**(261,525)**	67,713
Other comprehensive income for the period, net of tax	**(268,792)**	57,616
Total comprehensive income for the period	**(208,982)**	263,578
Total comprehensive income attributable to equity holders of the Company	**(208,982)**	263,578

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**Unaudited As at 31 December 2015 HK$'000**	Audited As at 30 June 2015 HK$'000
Assets			
Non-current assets			
Property, plant and equipment		**1,667,156**	1,794,395
Investment properties		**4,522,932**	4,717,926
Land use rights		**756,739**	803,474
Intangible assets		**1,790,719**	1,869,132
Other non-current assets	*9*	**306,689**	314,707
Prepayments, deposits and other receivables		**353,451**	395,627
Available-for-sale financial asset		**32,227**	–
Financial asset at fair value through profit or loss		**9,256**	–
Deferred income tax assets		**165,256**	162,571
		9,604,425	10,057,832
Current assets			
Inventories		**254,119**	230,412
Debtors	*10*	**120,367**	98,206
Prepayments, deposits and other receivables		**634,736**	637,139
Amounts due from fellow subsidiaries		**8,323**	27,207
Amounts due from related companies		**2,264**	365
Fixed deposits		**17,060**	26,806
Cash and cash equivalents		**2,346,099**	2,089,111
		3,382,968	3,109,246
Total assets		**12,987,393**	13,167,078
Equity			
Share capital		**168,615**	168,615
Reserves		**5,884,689**	6,093,671
Proposed dividend		**–**	30,351
		6,053,304	6,292,637

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Notes	Unaudited As at 31 December 2015 *HK$'000*	Audited As at 30 June 2015 *HK$'000*
Liabilities			
Non-current liabilities			
Accruals and other payables		**554,597**	601,043
Obligation under finance leases		**54**	62
Borrowings		**1,176,585**	1,578,056
Deferred income tax liabilities		**864,658**	876,775
		2,595,894	3,055,936
Current liabilities			
Creditors, accruals and other payables	*11*	**4,044,985**	3,583,344
Amounts due to fellow subsidiaries		**7,188**	4,086
Amounts due to related companies		**14,385**	12,356
Obligation under finance leases		**16**	16
Borrowings		**166,473**	128,970
Tax payable		**105,148**	89,733
		4,338,195	3,818,505
Total liabilities		**6,934,089**	6,874,441
Total equity and liabilities		**12,987,393**	13,167,078
Net current liabilities		**(955,227)**	(709,259)
Total assets less current liabilities		**8,649,198**	9,348,573

NOTES

1 Basis of preparation

The condensed consolidated financial information of the Company for the six months ended 31 December 2015 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 30 June 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

At 31 December 2015, the Group's current liabilities exceeded its current assets by HK$955,227,000 (30 June 2015: HK$709,259,000). Taking into account the cash flows from operating activities, ability to generate additional financing and its asset backing, the Group has a reasonable expectation that it has adequate resources to meet its liabilities and commitments as and when they fall due and to continue in operational existence for the foreseeable future. Accordingly, it continues to adopt the going concern basis in preparing the condensed consolidated financial information.

The following new or revised standards and amendments to existing standards are mandatory for the accounting periods beginning on or after 1 July 2016 which the Group has not early adopted:

HKFRS 9 (2014)	Financial Instruments
HKFRS 14	Regulatory Deferral Accounts
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to HKFRS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Annual Improvements Project	Annual Improvements 2012–2014 Cycle

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

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

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2015, as described in those annual financial statements, with the exception of additional accounting policies of investments in and impairment of financial assets, as described in the condensed consolidated financial information of the Company for the six months ended 31 December 2015.

2 Revenue and segment information

	Unaudited	Unaudited
	Six months ended 31 December	
	2015	2014
	HK$'000	*HK$'000*
Commission income from concessionaire sales	**1,060,105**	1,297,836
Sales of goods – direct sales	**514,739**	374,798
Management and consultancy fees	**34,683**	44,329
Rental income	**324,763**	320,863
	1,934,290	2,037,826

The income from concessionaire sales is analysed as follows:

	Unaudited	Unaudited
	Six months ended 31 December	
	2015	2014
	HK$'000	*HK$'000*
Gross revenue from concessionaire sales	**5,986,284**	7,072,738
Commission income from concessionaire sales	**1,060,105**	1,297,836

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

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

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

2 Revenue and segment information (Continued)

	Department store and other related businesses *HK$'000*	Property investment *HK$'000*	Consolidated *HK$'000*
Six months ended 31 December 2015			
Segment revenue	**1,852,845**	**81,445**	**1,934,290**
Segment results	**89,822**	**50,826**	**140,648**
Other gains, net	**7,477**	**–**	**7,477**
Changes in fair value of investment properties	**–**	**(5,676)**	**(5,676)**
Unallocated corporate expenses			**(4,791)**
Operating profit			**137,658**
Finance income			**41,833**
Finance costs			**(23,140)**
Finance income, net			**18,693**
Profit before income tax			**156,351**
Income tax expense			**(96,541)**
Profit for the period			**59,810**
Six months ended 31 December 2014			
Segment revenue	1,958,240	79,586	2,037,826
Segment results	248,052	41,092	289,144
Other gains, net	6,877	–	6,877
Changes in fair value of investment properties	–	2,254	2,254
Unallocated corporate expenses			(7,095)
Operating profit			291,180
Finance income			34,491
Finance costs			(23,358)
Finance income, net			11,133
Profit before income tax			302,313
Income tax expense			(96,351)
Profit for the period			205,962

2 Revenue and segment information (Continued)

	Department store and other related businesses *HK$'000*	Property investment *HK$'000*	Consolidated *HK$'000*
As at 31 December 2015			
Segment assets	**7,097,644**	**5,722,371**	**12,820,015**
Deferred income tax assets			**165,256**
Unallocated corporate assets:			
Cash and cash equivalents			**2,073**
Others			**49**
Total assets			**12,987,393**
Six months ended 31 December 2015			
Additions to non-current assets *(Note)*	**97,214**	**8,688**	**105,902**
Depreciation and amortisation	**154,484**	**1,086**	**155,570**
As at 30 June 2015			
Segment assets	7,174,905	5,823,887	12,998,792
Deferred income tax assets			162,571
Unallocated corporate assets:			
Cash and cash equivalents			5,485
Others			230
Total assets			13,167,078
Six months ended 31 December 2014			
Additions to non-current assets *(Note)*	215,073	5,112	220,185
Depreciation and amortisation	170,482	599	171,081

Note:

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

3 Other income

	Unaudited	Unaudited
	Six months ended	
	31 December	
	2015	2014
	HK$'000	*HK$'000*
Government grants	**14,139**	13,147
Income from suppliers	**41,520**	48,687
Compensation for termination of lease	**15,859**	26,744
Sundries	**15,155**	27,136
	86,673	115,714

4 Other gains, net

	Unaudited	Unaudited
	Six months ended	
	31 December	
	2015	2014
	HK$'000	*HK$'000*
Fair value gain on financial asset at fair value through profit or loss	**9,256**	–
Gain on liquidation of a subsidiary	**–**	10,097
Loss on disposal of property, plant and equipment *(Note)*	**(1,779)**	(3,220)
	7,477	6,877

Note:

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

5 Other operating expenses, net

	Unaudited	Unaudited
	Six months ended 31 December	
	2015	2014
	HK$'000	*HK$'000*
Water and electricity	**75,156**	91,116
Selling, promotion, advertising and related expenses	**95,948**	142,720
Cleaning, repairs and maintenance	**48,107**	49,924
Auditor's remuneration	**3,338**	3,661
Net exchange losses/(gains)	**53,143**	(15,365)
Other tax expenses	**96,842**	109,538
Others	**39,699**	31,476
	412,233	413,070

6 Income tax expense

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

	Unaudited	Unaudited
	Six months ended 31 December	
	2015	2014
	HK$'000	*HK$'000*
Current income tax		
– Mainland China taxation	**80,635**	86,236
Under/(over)-provision in prior years	**71**	(2,181)
Deferred income tax		
– Deferred taxation on undistributed retained earnings	**–**	(6,962)
– Other temporary differences	**15,835**	19,258
	96,541	96,351

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 2015 and 2014.

Subsidiaries of the Group in Mainland China are subject to corporate income tax at a rate of 25% (2014: 25%).

7 Dividend

	Unaudited	Unaudited
	Six months ended 31 December	
	2015	2014
	HK$'000	*HK$'000*
Interim dividend of HK$Nil (2014: HK$0.061) per share	**–**	102,855

8 Earnings per share

(a) Basic

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

	Unaudited	Unaudited
	Six months ended 31 December	
	2015	2014
Profit attributable to the equity holders of the Company (HK$'000)	**59,810**	205,962
Weighted average number of ordinary shares in issue (shares in thousands)	**1,686,145**	1,686,145
Basic earnings per share (HK$ per share)	**0.04**	0.12

(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 2015 and 2014, there was no dilutive potential ordinary share.

9 Other non-current assets

Balances as at 31 December 2015 and 30 June 2015 represented the following transaction:

On 8 February 2013, Shenyang Trendy Property Company Limited ("Shenyang Trendy"), a wholly-owned subsidiary of the Company, entered into a cooperation agreement with Shenyang New World Hotel Co., Ltd. ("SYNWH"), a wholly-owned subsidiary of New World China Land Limited and a fellow subsidiary of the Company. Pursuant to the cooperation agreement, Shenyang Trendy and SYNWH agreed to cooperate in a property redevelopment project in Shenyang City. Shenyang Trendy agreed to surrender to the local government authority the land and building where Shenyang New World Department Store – Nanjing Street Branch Store was situated for a compensation of RMB250,012,000 and to make contribution of RMB527,060,000 (subject to further adjustments) to SYNWH for the related costs of demolition of the existing building and design, construction and payment of any relevant land grant premium of certain portion of the redeveloped building. As at 31 December 2015, the balance in connection to this transaction was approximately HK$306,689,000 (30 June 2015: HK$314,707,000).

10 Debtors

	Unaudited As at 31 December 2015 ***HK$'000***	Audited As at 30 June 2015 *HK$'000*
Debtors	**138,992**	121,524
Less : provision for doubtful debts	**(18,625)**	(23,318)
Debtors, net	**120,367**	98,206

The Group grants credit terms within 30 days in majority.

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

	Unaudited As at 31 December 2015 ***HK$'000***	Audited As at 30 June 2015 *HK$'000*
Within period for		
0 – 30 days	**85,528**	69,423
31 – 60 days	**10,530**	6,198
61 – 90 days	**2,282**	2,697
Over 90 days	**22,027**	19,888
Debtors, net	**120,367**	98,206

10 Debtors (Continued)

Debtors included amounts due from fellow subsidiaries of approximately HK$3,072,000 (30 June 2015: HK$9,804,000), which were unsecured, interest free and repayable on demand.

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

11 Creditors

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

	Unaudited As at 31 December 2015	Audited As at 30 June 2015
	HK$'000	*HK$'000*
Within period for		
0 – 30 days	**1,085,771**	914,025
31 – 60 days	**884,623**	567,276
61 – 90 days	**232,799**	147,174
Over 90 days	**358,771**	400,326
	2,561,964	2,028,801

Creditors included amounts due to related companies of approximately HK$84,469,000 (30 June 2015: HK$59,452,000) which were unsecured, interest free and repayable within 90 days.

The carrying amounts of creditors approximate their fair values.

BUSINESS REVIEW

The Group's revenue declined by 5.1% from HK$2,037.8 million for the six months ended 31 December 2014 (or "1HFY2015" or "the same period of Previous Year") to HK$1,934.3 million for the six months ended 31 December 2015 (or "1HFY2016" or "the Current Period"). Profit for the Current Period was HK$59.8 million.

Business Network

During the Current Period, the Group operated 41 department stores and two shopping malls, with a total gross floor area ("GFA") of about 1,667,980 square metres ("sq.m.") and a total operating floor area ("OFA") of about 1,342,130 sq.m. Located in three operating regions, namely Northern China, South Eastern China and Central Western China, the stores covered 21 major cities in Mainland China, including Wuhan, Shenyang, Harbin, Tianjin, Ningbo, Beijing, Shanghai, Dalian, Kunming, Lanzhou, Changsha, Chongqing, Chengdu, Anshan, Nanjing, Zhengzhou, Mianyang, Yancheng, Xi'an, Yanjiao, and Yantai with 39 self-owned stores and four managed stores.

Revenue Contribution

By Region

The Northern China Region contributed the most to the Group's revenue during the period under review, accounting for 50.6% of revenue, followed by the South Eastern China Region and the Central Western China Region, accounting for 31.2% and 18.2%, respectively.

By Segment

Commission income from concessionaire sales was the major source of revenue, accounting for 54.8% of revenue. Sales of goods for direct sales and rental income accounted for 26.6% and 16.8% respectively. Management and consultancy fees accounted for 1.8%.

Store Network Development

As at 31 December 2015, the Group's total GFA was approximately 1,667,980 sq.m. The total GFA of self-owned stores was approximately 1,512,280 sq.m.

Operations Strategies

During the period under review, economic growth in China slowed notably to its 25-year low. The year-on-year nominal growth for the total retail sales of consumer goods in 2015 was further down to only 10.7%. Coupled with the competition arising from online and mobile consumption, changing consumer behaviors, rising operating costs and other factors, the operating environment of the physical retail industry was very challenging. In response to the current situation, the Group gave priority to operations optimization and corporate restructuring to improve its operational efficiency, while exercising stringent cost control with the closure of Beijing Shishang New World Department Store ("Beijing Shishang Store") and the negotiations with landlords on rental reductions. Riding on the O2O ("online-to-offline") trend, the Group increased cross-industry collaborations with technology companies to draw foot traffic from various sources. Simultaneously, carrying through the Artisanal spirit, the Group expanded its direct sales business to lifestyle premiums, fashion apparel and food and beverage ("F&B") as well as developing joint-venture F&B projects and expanding leasing area for lifestyle complementary facilities, delivering more bespoke goods and services to customers with the aim of boosting sales of goods for direct sales and rental income.

Refining Management Structure and Reaching Consensus on Rental Reductions to Lower Operating Costs

Rental and staff costs usually play a big part of the operating expenses of a department store. During the period under review, the Group exercised stringent cost control through reaching agreements with landlords on rental reductions to lower its rental expense. On the other hand, the Group continually refined its management structure and streamlined its manpower establishment to improve the overall operational efficiency. The results are expected to gradually emerge in the future.

Enhancing Gold, Jewelry, Sports and Children's Merchandise Mix and Introducing Online Brands to Stores

As a forerunner of lifestyle department stores, the Group always takes consumer needs as its first priority and strives to optimize its merchandise mix continually. The Renminbi depreciation drove consumers to invest in gold and jewelry for hedging purposes. Therefore, during the period under review, the Group introduced quality brands such as TSL and Emperor Jewellery into the stores while Hong Kong New World Department Store – Shanghai Hongkou Branch Store ("Shanghai Hongkou Branch Store") and Wuhan New World Trendy Plaza ("Wuhan Trendy Plaza") expanded the operating area for jewelry. The *National Fitness Plan (2011-2015)* has prompted the popularity of sports and outdoor products among consumers. During the period under review, the Group therefore introduced ASICS, MLB, SKECHERS and other brands into the stores and expanded the operating area for sports and outdoor products. For instance, Changsha New World Trendy Plaza ("Changsha Trendy Plaza") added a trendy sports hall, while Hong Kong New World Department Store – Shanghai Changning Branch Store ("Shanghai Changning Branch Store") positioned itself as a sports outlet. Moreover, to seize the opportunities arising from the full rollout of the "two-child policy", the stores further enriched their kidswear offerings with the introduction of adidas kids, Annil, JJLKIDS and other kidswear brands. Some stores optimized the children-themed sales floor; for instance, Dalian New World Department Store ("Dalian Store") decorated the kidswear zone with soft plastic mats on passageways and colorful paintings on the entrance to enhance the overall ambience.

To attract young customers, the Group proactively sought collaboration opportunities with quality B2C ("business-to-customer") brands. During the period under review, the Group collaborated with INMAN, one of the top three online ladieswear brands and craftsmen for linen and cotton, to establish its first O2O experiential store at Hong Kong New World Department Store – Shanghai Pujian Branch Store ("Shanghai Pujian Branch Store"). This breakthrough realized real-time online and offline synchronization of product offerings and pricing which enabled the brand to enjoy dual advantages of great exposure of traditional retail channels and high cost-effectiveness and operational flexibility of e-commerce. Looking forward, the Group plans to foster the collaboration and extend the business to four cities including Wuhan, Shanghai, Beijing and Yantai.

Increasing Lifestyle Complementary Facilities and the Proportion of Leasing Area

Shopping experience is essential to consumers. During the period under review, carrying through its hybrid business model, the Group actively introduced lifestyle complementary leasing projects, such as fitness centers, restaurants and children's playgrounds to increase the proportion of leasing area in order to boost its rental income. For great customer-retaining F&B projects, the Group successfully introduced well-known restaurants into the stores, such as Kong Yiji, Ba Dou Ji, Huang Ji Huang and Sheng Le Tu South American BBQ Buffet, as well as popular Korean cuisine, such as Korean Barbecue and Gyeonggi-do Rice Cake Hot Pot, in order to attract young consumers. During the period under review, the Group keenly worked with popular and appealing F&B brands to develop joint-venture projects. They will commence operation in the second half of FY2016.

At the same time, the Group progressively implemented the "Happy New World" Project with the upgrade and revamp of in-store children's playgrounds and the addition of giant slides, synthetic ice rinks and other large-scale recreational facilities. For instance, Shanghai Pujian Branch Store added musical stairs and a rooftop vegetable garden to deliver a pleasant shopping experience to customers.

Expanding Direct Sales Business to Serve All Aspects of Life

The Group's direct sales business is committed to providing lifestyle premiums, fashion apparel and F&B for the middle- to high-income consumers who pursue quality of life. After a two-year development, LOL (Love • Original • Life) Concept Shop ("LOL"), the Group's private label, dedicated its efforts on optimizing the operations and positioning of the existing stores during the period under review. LOL currently operates a total of 14 stores as well as a flagship store on Tmall.com. The brand offers nationally exclusive and limited debuts of characterized art pieces and stylish lifestyle premiums, and plans to introduce merchandise including handmade wooden music boxes, unique essential oil and customized jewelry. In addition to merchandise offerings, LOL plans to provide coffee, light meals and snacks for customers to experience a leisure lifestyle. Well Metro Group Limited ("Well Metro Group"), a brand agent and distributor acquired by the Group in early 2015, continually expanded the sales network of the brands it represents; for instance, REDValentino opened new stores in Qingdao and Beijing while LOVE MOSCHINO opened new stores in Shanghai and Beijing during the period under review, totaling 39 specialty stores across 11 major cities in China, including Beijing, Shanghai, Hangzhou, Nanjing, Qingdao and Chengdu.

In response to consumers' pursuit of a healthy diet, the Group tapped into the bakery business during the period under review and established the "n+" brand. Upholding the Artisanal spirit and the business philosophy of "back to natural and healthy life", "n+" features European-style artisan bread that is handmade and store-baked with high-quality imported ingredients. Its first store is expected to open in the second half of FY2016, with a plan of scaling up to over 20 stores in the next three years.

Enhancing F&B Tenant Recruitment and Drawing Online Brands to Physical Stores

The Group's Commerce Department takes the lead of merchandising to strategically recruit sizeable and appealing brands into the stores to elevate its brand portfolio. During the period under review, the Group enhanced its effort on recruiting popular F&B tenants and developing joint-venture F&B projects to provide more and better F&B mix. Moreover, the Group extended its efforts to recruit outstanding online brands with potentials and helped them establish presence in physical stores, so as to enrich the Group's brand portfolio.

Launching Cross-industry Collaborations with Technology Companies to Strengthen Technology Applications in Business Aspects

In response to the "Internet Plus" initiative that advocates greater Internet applications in industries, during the period under review, the Group actively launched cross-industry collaborations with several technology companies to draw online traffic to physical stores. These collaborations included an offline activity called "NWDS Dance Seasons" co-organized with China Mobile Games and Entertainment, the developer and publisher of the well-known mobile game "Tian Tian Xuan Wu", at Beijing New World Department Store ("Beijing Store"). Game players were invited to compete at Beijing Store and the activity was broadcasted with the viewership of over 20,000. Moreover, the Group collaborated with a renowned mobile karaoke social application, Maichang, to organize mobile recording activities at Hong Kong New World Department Store – Shanghai Wujiaochang Branch Store ("Shanghai Wujiaochang Branch Store") and Hong Kong New World Department Store – Shanghai 118 Branch Store ("Shanghai 118 Branch Store"). Coupled with promotions and discounts on young fashion and apparel brands to boost customer participation, the activities received enthusiastic responses.

Furthermore, the Group strengthened the application of Internet technologies at stores to enhance service quality and sales efficiency. During the period under review, the Group further enriched the mobile payment methods available at stores and completed the infrastructure of WeChat Payment. In the meantime, the Group was establishing iBeacon platform to send location-based messages and vouchers to customers, so as to increase sales conversion rate. The service platform is expected to launch in the second half of FY2016.

Refining Membership Structure and Building Member Sharing Platform

During the period under review, the Group simplified and revamped its VIP membership structure and successfully upgraded over 70,000 members to Gold Card members. Furthermore, a new electronic membership card – N-Joy card was created to engage with young customers. In order to foster a closer communication with VIP members, the Group planned to develop a member application with its retail-related affiliated companies such as K11 and Chow Tai Fook. The application would push information relating to the store locations and promotional activities of the three companies as well as other fashion tips to members to enhance resource leveraging. The trial run of the application will be conducted at selected stores in the second half of FY2016.

Expansion Strategies

During the period under review, due to the slowdown in China's economic growth and the volatility in stock market, consumer sentiment was seriously affected. Moreover, the competition from e-commerce and outbound travel hit the sales of physical retail industry in Mainland China. The Group remained prudent and conservative amid this challenging operating environment by slowing down the expansion of its self-owned stores and focusing on improving operational efficiency, striving to strengthen its existing business. New projects are underway and are expected to complete during or after FY2017.

Benefiting from the "two-child policy", new urbanization policy as well as the stimulation on domestic consumption as a result of the Renminbi depreciation, China's retail market still has room for further development in the long run. Carrying through its expansion strategy of "radiation city", the Group plans to open self-owned stores in Shiyan City and Jingmen City, the surrounding cities of Wuhan City in Hubei Province, with a total GFA of approximately 50,000 sq.m. and 35,000 sq.m. respectively. To provide customers with a better shopping experience, Shenyang Nanjing Street Branch Store Phase I Redevelopment Project and Shenyang Nanjing Street Branch Store Phase II Expansion Project are both underway. Upon completion of the work, the two phases will form a department store with a total GFA of approximately 52,000 sq.m.

At the same time, depending on market needs and project natures, the Group will extend its network to potential third- and fourth-tier cities through the provision of management and consultancy services with the "low-risk, low-investment" approach. In the future, the Group plans to open managed stores in Yibin City in Sichuan Province and Tongliang District in Chongqing City.

OUTLOOK

Affected by the US Federal Reserve's rate hikes and continual European sovereign debt crisis, the recovery of the global economy slowed down in 2015. In the meantime, China faced further challenges relating to serious overcapacity, intensified financial risks and ageing population. The internal and external pressures slackened China's economic growth in 2015, with the growth rate of Gross Domestic Product ("GDP") dropped to its 25-year low at 6.9%. According to the National Bureau of Statistics of the People's Republic of China, despite that the total retail sales of consumer goods in 2015 amounted to RMB30,093.1 billion with the year-on-year nominal growth of 10.7%, it dropped by 1.3% compared with the previous year.

With the launching of the 13th Five-Year Plan in 2016, China is dedicated to establishing an economic model driven mainly by innovation and consumption. As the market anticipates the gradual introduction of the relevant policies, complemented with the full rollout of the "two-child policy" and new urbanization policy, they are believed to generate sustainable momentum for the growth of the retail industry. However, due to the slow recovery of the global economy, the Chinese economy is still at its critical stage and the economic landscape continues to be challenging in 2016. Therefore, the prospects of the retail industry remain uncertain.

In such austere operating environment, the Group will remain prudent and conservative and carry on exploring new sources of income and managing expenses. On one hand, the Group will expand its direct sales and leasing business by increasing the number of joint-venture F&B projects and the leasing area for lifestyle complementary facilities with the aim of exploring new revenue channels. On the other hand, the Group will streamline its operating structure and consolidate store resources to control costs and improve the overall operational efficiency, securing a reasonable return on investment for shareholders. In respect of business development, the Group will focus on stabilizing the existing businesses and slow down the expansion of self-owned stores. The Group will timely extend its network to potential third- and fourth-tier cities with the "low-risk, low-investment" approach, ensuring a long-term and stable development for the Group's business.

FINANCIAL REVIEW

Revenue

Revenue of the Group was HK$1,934.3 million in 1HFY2016 representing a decline of 5.1% from HK$2,037.8 million in 1HFY2015.

Gross sales revenue, comprising gross revenue from concessionaire sales, sales of goods for direct sales, management and consultancy fees, rental income and other income decreased by 12.4% to HK$6,947.1 million in 1HFY2016 from HK$7,928.4 million in 1HFY2015. Gross revenue from concessionaire sales decreased to HK$5,986.3 million from HK$7,072.7 million in the same period of Previous Year. Commission income rate decreased from 18.3% in the same period of Previous Year to 17.7% in the Current Period. The decrease was primarily due to proportionate increase in sales of gold and jewelry as well as sportswear which had lower margins. Sales of goods for direct sales was HK$514.7 million in 1HFY2016 compared with HK$374.8 million in 1HFY2015. Direct sales revenue mainly comprised sales of groceries, housewares and perishables (approximately 38.6%), cosmetic products (approximately 28.4%), ladieswear and menswear (approximately 27.5%), as well as accessories and miscellaneous items (approximately 5.5%). Gross margin of direct sales was 24.2% compared to 13.5% in the same period of Previous Year. The increase was mainly contributed by Well Metro Group acquired in January 2015 which had a higher gross margin. In 1HFY2016, ladieswear and accessories made up approximately 63.3% of gross revenue from concessionaire sales and sales of goods for direct sales, menswear and accessories made up approximately 9.7%, and sportswear, bread and snacks, electrical appliances, kidswear and personal care products largely made up the rest.

Management and consultancy fees was HK$34.7 million in 1HFY2016 showing a decrease by 21.8% from HK$44.3 million in 1HFY2015. The decrease was primarily due to drop in Group's recognition of fees for the provision of consultancy services for new projects in the Current Period.

Rental income increased by 1.2% to HK$324.8 million in 1HFY2016 from HK$320.9 million in 1HFY2015, mainly due to expanded rentable area and improved tenant mix, which was partially offset by the reduced rentable area as a result of the closure of Wuhan New World Department Store – Qiaokou Branch Store in November 2014 and the downsizing of Shenyang New World Department Store – Jianqiao Road Branch Store ("Shenyang Jianqiao Road Branch Store") in March 2015.

Other Income

Other income of the Group was HK$86.7 million in 1HFY2016 compared with HK$115.7 million in 1HFY2015. Other income in 1HFY2016 mainly comprised HK$41.5 million of income from suppliers, HK$14.1 million of government grants and HK$15.9 million of compensation for termination of lease of Beijing Shishang Store.

Changes in Fair Value of Investment Properties

A loss in fair value of investment properties in the Current Period was HK$5.7 million which related to a property of Shenyang Jianqiao Road Branch Store.

Other Gains, Net

Net other gains of the Group in the Current Period was HK$7.5 million which was primarily resulted from a gain on fair value of the indemnification in connection with the acquisition of Well Metro Group of HK$9.3 million.

Purchases of and Changes in Inventories

The purchases of and changes in inventories primarily represented the cost of sales for direct sales of goods. It increased by 20.4% to HK$390.2 million in 1HFY2016 from HK$324.2 million in 1HFY2015. The increase was in line with the increase in sales of goods for direct sales in the Current Period.

Employee Benefit Expense

Employee benefit expense decreased to HK$323.8 million in 1HFY2016 from HK$377.6 million in 1HFY2015. The decrease in employee benefit expense was primarily due to the continuous efforts by management to carry out cost control measures.

Depreciation and Amortisation

Depreciation and amortisation expense decreased from HK$171.1 million in 1HFY2015 to HK$155.6 million in 1HFY2016 because no depreciation is provided in the Current Period for property, plant and equipment impaired for mainly two department stores in 2HFY2015.

Operating Lease Rental Expense

Operating lease rental expense increased to HK$603.2 million in 1HFY2016 from HK$585.5 million in 1HFY2015, primarily due to recognition of a full-period rental expense of the newly opened Shanghai 118 Branch Store in November 2014 and Well Metro Group which was acquired in January 2015.

Other Operating Expenses, Net

Net other operating expenses decreased to HK$412.2 million in 1HFY2016 from HK$413.1 million in 1HFY2015. The decrease was primarily due to the effective control of water and electricity, promotion and advertising expenses by management and a decline in other tax expenses which was in line with the decline of revenue in 1HFY2016. The decrease was partially offset by the inclusion of exchange loss for HK$53.1 million mainly arising from the devaluation of Renminbi. In addition, the newly opened Shanghai 118 Branch Store in November 2014 and the acquisition of Well Metro Group in January 2015 also contributed to the increase of other operating expenses in the Current Period.

Operating Profit

Operating profit was HK$137.7 million in 1HFY2016 compared with HK$291.2 million in 1HFY2015.

Income Tax Expense

Income tax expense of the Group was HK$96.5 million in 1HFY2016 compared with HK$96.4 million in 1HFY2015. A reversal of deferred tax asset of approximately HK$16.3 million, with respect to previously recognised tax losses which were not expected to be utilised before expiry dates based on Group's latest estimate on the profitability of respective stores, was included in Current Period.

Profit for the Period

As a result of the reasons mentioned above, profit for the period decreased by approximately 71.0% to HK$59.8 million compared with HK$206.0 million in the same period of Previous Year. Core profit for the period excluding net other gains, changes in fair value of investment properties and its related income tax expense and other non-core items, decreased by approximately 36.2% to HK$124.5 million from HK$195.2 million of the same period of Previous Year.

Liquidity and Financial Resources

Cash and fixed deposits of the Group amounted to HK$2,363.2 million as at 31 December 2015 (30 June 2015: HK$2,115.9 million).

The Group's borrowings from banks as at 31 December 2015 were HK$1,343.1 million (30 June 2015: HK$1,707.0 million) of which HK$419.2 million (30 June 2015: HK$524.3 million) was secured by pledge of asset.

At 31 December 2015, the Group's current liabilities exceeded its current assets by HK$955.2 million (30 June 2015: HK$709.3 million). The Group will continue to monitor rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs and its liabilities and commitments as and when they fall due.

The capital commitment of the Group as at 31 December 2015 were HK$479.6 million, of which HK$446.1 million were contracted but not provided for in the condensed consolidated statement of financial position. For the contractual payment of HK$446.1 million, approximately HK$378.7 million is for the redevelopment project of a building in Shenyang City.

Pledge of Assets

As at 31 December 2015, an investment property of HK$1,824.0 million (30 June 2015: a property, land use rights and investment properties of HK$1,952.5 million) of the Group were pledged as securities for bank borrowings and banking facilities of HK$419.2 million (30 June 2015: HK$525.0 million).

Treasury Policies

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

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 31 December 2015.

INTERIM DIVIDEND

The Directors have resolved not to declare an interim dividend for the six months ended 31 December 2015 (2014: HK$0.061 per share).

EMPLOYEES, REMUNERATION POLICY AND PENSION SCHEME

As at 31 December 2015, the total number of employees of the Group was 5,133 (30 June 2015: 4,949). The Group ensures that all levels of employees are paid competitively within the standard in the market and employees are rewarded on performance related basis within the framework of the Group's salary and incentives.

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

ACQUISITION AND DISPOSAL

The Group did not have any significant acquisition and disposal during the six months ended 31 December 2015.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company had not redeemed any of its listed securities during the six months ended 31 December 2015. 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 2015.

CORPORATE GOVERNANCE CODE

The Company has complied with all the applicable code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the time being in force during the six months ended 31 December 2015.

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 2015.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established in accordance with requirements of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee consists of the four independent non-executive Directors. The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 31 December 2015 and the unaudited condensed consolidated financial information and the interim report for the six months ended 31 December 2015 and discussed the financial related matters with the management. The unaudited interim results of the Group for the six months ended 31 December 2015 have been reviewed by the Company's auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

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

Hong Kong, 22 February 2016

As at the date of this announcement, the non-executive Directors are Dr. Cheng Kar-shun, Henry, Mr. Au Tak-cheong and Ms. Ngan Man-ying, Lynda; the executive Directors are Dr. Cheng Chi-kong, Adrian and Mr. Cheung Fai-yet, Philip; and the independent non-executive Directors are Mr. Cheong Ying-chew, Henry, Mr. Chan Yiu-tong, Ivan, Mr. Tong Hang-chan, Peter and Mr. Yu Chun-fai.