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 2018/2019

HIGHLIGHTS

Same-store sales[(1)] growth for the period was -8.3%. The same-store sales growth for the same period of Previous Year was 2.0%.

Revenue for the period was HK$1,809.9 million compared with HK$1,873.3 million in the same period of Previous Year.

Operating profit for the period increased to HK$192.5 million from HK$174.4 million in the same period of Previous Year.

Profit for the period decreased to HK$89.7 million from HK$103.0 million in the same period of Previous Year.

Earnings per share for the period was HK$0.05.

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

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

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 2018 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	**Unaudited** Six months ended 31 December **2018** *HK$'000*	Unaudited Six months ended 31 December 2017 *HK$'000*
Revenue	*2*	**1,809,880**	1,873,339
Other income	*3*	**100,420**	140,511
Other losses, net	*4*	**(28,864)**	(85,610)
Changes in fair value of investment properties		**18**	286
Purchases of and changes in inventories, net		**(468,399)**	(461,421)
Purchases of promotion items		**(21,419)**	(27,448)
Employee benefit expense		**(333,478)**	(300,129)
Depreciation and amortisation		**(107,317)**	(121,423)
Operating lease rental expense		**(496,086)**	(587,749)
Other operating expenses, net	*5*	**(262,220)**	(256,002)
Operating profit		**192,535**	174,354
Finance income		**25,128**	29,390
Finance costs		**(18,582)**	(19,635)
Finance income, net		**6,546**	9,755
		199,081	184,109
Share of results of associated companies		**85**	(148)
Profit before income tax		**199,166**	183,961
Income tax expense	*6*	**(109,476)**	(80,973)
Profit for the period		**89,690**	102,988
Attributable to:			
Shareholders of the Company		**89,690**	102,932
Non-controlling interests		**–**	56
		89,690	102,988
Earnings per share attributable to shareholders of the Company during the period (expressed in HK$ per share)			
– Basic and diluted	*8*	**0.05**	0.06

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	Unaudited
	Six months ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
Profit for the period	**89,690**	102,988
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Fair value loss on equity instrument at fair value through other comprehensive income	**–**	(181)
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	(181)
Items that may be reclassified subsequently to profit and loss		
Release of reserve upon deregistration of subsidiaries	**(11,255)**	–
Translation differences	**(297,142)**	251,455
	(308,397)	251,455
Other comprehensive income for the period, net of tax	**(304,060)**	251,274
Total comprehensive income for the period	**(214,370)**	354,262
Attributable to:		
Shareholders of the Company	**(214,370)**	354,207
Non-controlling interests	**–**	55
	(214,370)	354,262

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**Unaudited As at 31 December 2018** *HK$'000*	Audited As at 30 June 2018 *HK$'000*
Assets			
Non-current assets			
Property, plant and equipment		**1,046,406**	1,150,257
Investment properties		**4,597,685**	4,761,907
Land use rights		**561,664**	605,343
Intangible assets		**2,042,093**	2,127,125
Interests in associated companies		**1,617**	1,595
Other non-current assets	*9*	**653,094**	669,840
Prepayments, deposits and other receivables		**286,586**	363,543
Deferred income tax assets		**104,497**	124,337
		9,293,642	9,803,947
Current assets			
Inventories		**335,476**	318,044
Debtors	*10*	**159,825**	116,697
Prepayments, deposits and other receivables		**466,128**	400,506
Amounts due from fellow subsidiaries		**5,775**	2,696
Amounts due from related companies		**2**	1
Fixed deposits		**211,860**	42,439
Cash and cash equivalents		**2,034,080**	1,904,904
		3,213,146	2,785,287
Total assets		**12,506,788**	12,589,234
Equity and liabilities			
Equity			
Share capital		**168,615**	168,615
Reserves		**5,736,356**	5,950,726
Shareholders' funds		**5,904,971**	6,119,341
Non-controlling interests		**–**	7
Total equity		**5,904,971**	6,119,348

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Note	**Unaudited As at 31 December 2018** *HK$'000*	Audited As at 30 June 2018 *HK$'000*
Liabilities			
Non-current liabilities			
Accruals and other payables		**478,032**	587,796
Obligation under finance leases		**8**	16
Borrowings		**–**	226,190
Deferred income tax liabilities		**864,359**	891,304
		1,342,399	1,705,306
Current liabilities			
Creditors	*11*	**1,949,451**	1,661,193
Accruals and other payables		**1,069,396**	1,043,546
Contract liabilities		**274,337**	332,998
Amounts due to fellow subsidiaries		**13,267**	22,213
Amounts due to related companies		**30,940**	25,389
Financial liabilities at fair value through profit or loss		**272**	–
Obligation under finance leases		**16**	16
Borrowings		**1,880,996**	1,650,519
Tax payable		**40,743**	28,706
		5,259,418	4,764,580
Total liabilities		**6,601,817**	6,469,886
Total equity and liabilities		**12,506,788**	12,589,234

NOTES

1 BASIS OF PREPARATION

The condensed consolidated financial information of the Group for the six months ended 31 December 2018 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 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

As at 31 December 2018, the Group’s current liabilities exceeded its current assets by approximately HK$2,046,272,000 (30 June 2018: HK$1,979,293,000). Taking into account the cash flows from operating activities, ability to generate additional financing and its asset backing, the Group has a reasonable expectation that it has adequate resources to meet its liabilities and commitments as and when they fall due and to continue in operational existence for the foreseeable future. Accordingly, it continues to adopt the going concern basis in preparing the condensed consolidated financial information.

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2018, as described in those annual financial statements.

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

For the six months ended 31 December 2018, the Group has adopted the following amendments to existing standards which are mandatory for the accounting period beginning on 1 July 2018:

Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Insurance Contracts
Amendments to HKAS 40	Transfers of Investment Property
HK(IFRIC) 22	Foreign Currency Transactions and Advance Consideration
Annual Improvements Project	Annual Improvements 2014-2016 Cycle

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

2 REVENUE AND SEGMENT INFORMATION

	Unaudited	Unaudited
	Six months ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
Commission income from concessionaire sales	**748,207**	835,672
Sales of goods – direct sales	**642,654**	643,140
Management and consultancy fees	**–**	5,337
Revenue from contracts with customers	**1,390,861**	1,484,149
Rental income	**419,019**	389,190
	1,809,880	1,873,339

The income from concessionaire sales is analysed as follows:

	Unaudited	Unaudited
	Six months ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
Gross revenue from concessionaire sales	**4,570,414**	5,209,108
Commission income from concessionaire sales	**748,207**	835,672

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/income. In addition, net finance income and share of results of associated companies are not allocated to segments. The measurement of segment assets excludes interests in associated companies, deferred income tax assets and unallocated corporate assets. There is no inter-segment sales.

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

2 **REVENUE AND SEGMENT INFORMATION (CONTINUED)**

	Department store and other retail related businesses *HK$'000*	Property investment business *HK$'000*	Consolidated *HK$'000*
Six months ended 31 December 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**
Six months ended 31 December 2017			
Segment revenue	1,772,849	100,490	1,873,339
Segment operating results	109,043	130,059	239,102
Other losses, net	(85,609)	(1)	(85,610)
Changes in fair value of investment properties	–	286	286
Unallocated corporate income, net			20,576
Operating profit			174,354
Finance income			29,390
Finance costs			(19,635)
Finance income, net			9,755
			184,109
Share of results of associated companies			(148)
Profit before income tax			183,961
Income tax expense			(80,973)
Profit for the period			102,988

2 REVENUE AND SEGMENT INFORMATION (CONTINUED)

	Department store and other retail related businesses *HK$'000*	Property investment business *HK$'000*	Consolidated *HK$'000*
As at 31 December 2018			
Segment assets	**7,476,233**	**4,914,089**	**12,390,322**
Interests in associated companies	**1,617**	**–**	**1,617**
Deferred income tax assets	**104,497**	**–**	**104,497**
Unallocated corporate assets:			
Cash and cash equivalents			**10,071**
Others			**281**
Total assets			**12,506,788**
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**
As at 30 June 2018			
Segment assets	6,673,903	5,779,330	12,453,233
Interests in associated companies	1,595	–	1,595
Deferred income tax assets	124,337	–	124,337
Unallocated corporate assets:			
Cash and cash equivalents			9,855
Others			214
Total assets			12,589,234
Six months ended 31 December 2017			
Additions to non-current assets *(Note)*	117,399	3,648	121,047
Depreciation and amortisation	120,945	478	121,423
Impairment loss on property, plant and equipment	69,365	–	69,365
Impairment loss on prepayments, deposits and other receivables	7,918	–	7,918

Note:

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

3 OTHER INCOME

	Unaudited	Unaudited
	Six months ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
Compensation from insurance claim	**3,181**	69,375
Government grants	**9,282**	17,652
Income from suppliers	**34,341**	31,048
Write-back of expired stored value card	**25,104**	1,286
Sundries	**28,512**	21,150
	100,420	140,511

4 OTHER LOSSES, NET

	Unaudited	Unaudited
	Six months ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
Changes in fair value on financial asset or liability at fair value through profit or loss	**15,392**	(5,455)
Gain on deregistration of subsidiaries	**11,255**	–
Impairment loss on property, plant and equipment *(Note)*	**(13,141)**	(69,365)
Impairment loss on prepayments, deposits and other receivables *(Note)*	**(38,698)**	(7,918)
Loss on disposal of property, plant and equipment	**(3,672)**	(2,872)
	(28,864)	(85,610)

Note:

The impairment provisions were made to reflect management's latest plan for mainly four department stores (2017: two department stores) in light of the latest market environment and the management's assessment on the business prospect thereof.

5 OTHER OPERATING EXPENSES, NET

	Unaudited	Unaudited
	Six months ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
Water and electricity	**24,119**	37,540
Selling, promotion, advertising and related expenses	**32,775**	21,093
Cleaning, repairs and maintenance	**35,511**	38,207
Auditor's remuneration		
– Audit services	**2,825**	3,000
– Non-audit services	**928**	1,102
Exchange losses/(gains), net	**9,477**	(33,346)
Other tax expenses	**72,799**	85,969
Others	**83,786**	102,437
	262,220	256,002

6 INCOME TAX EXPENSE

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

	Unaudited	Unaudited
	Six months ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
Current income tax		
– Mainland China taxation	**85,594**	84,549
– Over-provision in prior years	**(1,422)**	(253)
Deferred income tax		
– Undistributed retained earnings	**(1,726)**	–
– Temporary differences	**27,030**	(3,323)
	109,476	80,973

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 2018 and 2017.

Subsidiaries of the Company in Mainland China are subject to corporate income tax at a rate of 25% (2017: 25%).

7 DIVIDENDS

The Directors have resolved not to declare an interim dividend for the six months ended 31 December 2018 (2017: HK$Nil).

8 EARNINGS PER SHARE

(a) Basic

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

	Unaudited	Unaudited
	Six months ended 31 December	
	2018	2017
Profit attributable to shareholders of the Company (HK$'000)	**89,690**	102,932
Weighted average number of ordinary shares in issue (shares in thousands)	**1,686,145**	1,686,145
Basic earnings per share (HK$ per share)	**0.05**	0.06

(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 2018 and 2017, there was no dilutive potential ordinary share.

9 OTHER NON-CURRENT ASSETS

Balances as at 31 December 2018 and 30 June 2018 represented the following transaction:

On 8 February 2013, Shenyang Trendy Property Company Limited ("Shenyang Trendy"), a wholly-owned subsidiary of the Company, entered into a cooperation agreement with Shenyang New World Hotel Co., Ltd. (subsequently renamed as "Shenyang Xin Hui Properties Co., Ltd.") ("SYNWXH"), a wholly-owned subsidiary of New World Development Company Limited and a fellow subsidiary of the Company. Pursuant to the cooperation agreement, Shenyang Trendy and SYNWXH agreed to cooperate in a property redevelopment project in Shenyang City. Shenyang Trendy agreed to surrender to the local government authority the land and building where Shenyang New World Department Store — Nanjing Street Branch Store was situated for a compensation of RMB250,012,000 and to make contribution of RMB527,060,000 (subject to further adjustments) to SYNWXH for the related costs of demolition of the existing building and design, construction and payment of any relevant land grant premium of certain portion of the redeveloped building. As at 31 December 2018, the balance in connection to this transaction and the costs capitalised was approximately HK$653,094,000 (30 June 2018: HK$669,840,000).

10 DEBTORS

	Unaudited As at 31 December 2018 *HK$'000*	Audited As at 30 June 2018 *HK$'000*
Debtors	**185,748**	138,675
Less: loss allowance provision	**(25,923)**	(21,978)
Debtors, net	**159,825**	116,697

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 2018 *HK$'000*	Audited As at 30 June 2018 *HK$'000*
Within period for		
0–30 days	**141,675**	97,455
31–60 days	**11,499**	13,245
61–90 days	**2,280**	2,986
Over 90 days	**4,371**	3,011
	159,825	116,697

The debtors were primarily denominated in Renminbi.

11 CREDITORS

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

	Unaudited As at 31 December 2018 *HK$'000*	Audited As at 30 June 2018 *HK$'000*
Within period for		
0–30 days	**1,588,811**	1,263,689
31–60 days	**168,020**	163,571
61–90 days	**40,023**	91,362
Over 90 days	**152,597**	142,571
	1,949,451	1,661,193

Creditors included amounts due to related companies of approximately HK$77,230,000 (30 June 2018: HK$78,464,000) which were unsecured, interest free and repayable within 90 days.

The creditors were primarily denominated in Renminbi.

BUSINESS REVIEW

Business Network

As at 31 December 2018, the Group operated 32 department stores and two shopping malls, with a total gross floor area of about 1,358,480 square metres. These stores are located in three operating regions in the Northern China, the Eastern China and the Central Western China, covering 18 key locations across the country, including Beijing, Tianjin, Yanjiao, Yantai, Lanzhou, Xi'an, Harbin, Shenyang, Anshan, Shanghai, Nanjing, Wuhan, Changsha, Zhengzhou, Chengdu, Chongqing, Kunming and Mianyang.

During the period under review, the Group effectively closed three stores, namely Yancheng New World Department Store, Wuhan New World Department Store — Hanyang Branch Store ("Wuhan Hanyang Branch Store") and Shenyang New World Department Store — Zhonghua Road Branch Store ("Shenyang Zhonghua Road Branch Store") respectively. Amongst them, the Group early terminated the lease of Wuhan Hanyang Branch Store and Shenyang Zhonghua Road Branch Store to consolidate and focus the Group's resources on performing stores.

Revenue Breakdown

By region

The Northern China Region continued to contribute the most to the Group, accounting for 51.2% of revenue; this was followed by the Eastern China Region and the Central Western China Region, which accounted for 32.8% and 16.0% of revenue respectively.

By segment

Commission income from concessionaire sales was the major source of income, accounting for 41.3% of revenue. Sales of goods for direct sales and rental income accounted for 35.5% and 23.2% of revenue respectively.

OPERATIONS OVERVIEW

Department Store Business

In the face of continuously increasing number of commercial projects and accelerated integration of online and offline retail in the mainland, the Group deepened categorised management of its stores and continued to foster its operations strategy of "One Store, One Strategy". Based on the location, scale and merchandise appeal, etc. of each store, targeted strategies were formulated to craft the corporate brand character and to improve operating efficiency.

During the period under review, the Group completed large scale business reform in a number of its stores. Amongst them, Hong Kong New World Department Store — Shanghai Huaihai Branch Store successfully repositioned to focus on young office ladies. Designer brands for ladieswear, staff-less cashiers and similar technology enablers were introduced to optimise the consumer experience and to stimulate foot traffic. Chengdu New World Department Store, on the other hand, crafted thematic spaces highlighting the concepts of "atmospheric ambience" and "immersive experience" to recreate the store's space and to renew the brands it carries. The store's unique and diverse character was lifted to attract young consumers. Apart from these, three brand-new thematic street zones began operating in the fourth quarter of 2018, following "New Territories 88" in Nanjing and "MAX Commune" in Changsha. They are "2/30 Different Day" on the second floor of Zhengzhou New World Department Store, "Old City Town" on the fourth floor of Tianjin New World Department Store, and "M Institute" on the fourth floor of Wuhan New World Department Store — Wuchang Branch Store. Responding to local consumers, the positioning and tenant mix of these street zones were refined to strengthen the in-store ambience and experience, which in turn boosted the customer appeal of related stores.

In terms of category sales, the Group expedited brand renewal rate, strengthened brand line-ups and merchandise mix to enhance four major product categories, namely cosmetics, personalised ladieswear, sports and children's products during the period under review. To embrace the big trend of consumption upgrade, the Group enriched the product contents of the cosmetic category in three directions: raising the level of brand positions, upgrading the look and feel of concessionaire counters and diversifying product lines according to the needs of its stores. Trendy cosmetic brands were introduced as a means to stay close to market trends.

In future, the Group will set its objectives in fortifying its presence and expanding growth points for reshaping and fine-tuning its business. It will uphold the strategies of "multiple presences within a single city" and "radiation city" to reinforce the markets in the Greater Beijing, Greater Shanghai, and Greater South Western Regions. Furthermore, the Group will continue to work deep into its core business of offline retail, speed up the transformation of product marketing from category-oriented to category-plus-thematic-zone-oriented, so as to form integrated ambiences that respond to consumption demands. In parallel, the function and service of the "New Lab" online shopping module will be upgraded at full throttle. New features such as mini-programmes, nationwide promotion, and enrichment of the marketing module, etc. will be better employed to draw foot traffic to stores.

Rental Business

As for the rental business, the Group continued to enrich and strengthen the diversity and functionality of its in-store business composition, introducing mainstream brands timely to meet the demand of trendy shoppers. During the period under review, the Group added highly popular businesses, including food and beverage, entertainment experiences and complementary facilities. Internet-hit brands with relatively high reputation and popularity were also introduced. As at 31 December 2018, rental business accounted for about 36.4% of operating area in all NWDS' stores. In future, the Group will strive to introduce more in-demand consumption projects to accelerate the enrichment of refined and lifestyle-oriented elements in its in-store businesses.

Direct Sales Business

To enhance its vertical operating capabilities and to actualise differentiated operations, the Group actively expanded the N+ line-up and LOL (Love • Original • Life) Concept Shop ("LOL") to set up its multi-brand and multi-category direct sales business, and to develop the brand character of the Group in terms of market positioning and product contents.

To date, there are various private labels in the N+ line-up, covering the categories of convenience store, household goods, and maternity and infant products. Amongst these, "N+ Convenience Store" successfully expanded outside of Beijing New World Department Store and landed in Beijing New World Trendy Department Store; it also actively adjusted its product portfolio to attract office workers in the vicinity. "N+ Quality Goods", on the other hand, broadened its product categories, accelerated the refreshing rate of new items to stay close to the latest consumption trends. In future, the Group will clearly define the brand position of the N+ line-up, strengthen the brand's promotion efforts, fine-tune its product portfolio, enrich the larger product categories and employ WeChat official accounts to enhance online marketing and to improve traffic to the offline stores.

As at 31 December 2018, LOL operated 17 stores, which were mainly located in the three large cities of Shanghai, Beijing and Wuhan. Amongst these stores, six were set up outside of the Group's store network. During the period under review, a number of LOL stores were renovated and reopened, continuing to develop goods for direct sales to uplift brand image and to enhance customers' affinity. In future, LOL will continue to raise the proportion of import products, sourcing trendy and hot items from overseas to satisfy consumer demands and to enrich its product lines. The positioning of black, gold and silver label stores will be further fortified, and the development plans of various stores will be refined for clarity in development direction and to promote sales growth.

On the other hand, the Group further expanded the retail network and brand line-up for its distribution business of high-end fashion brands. During the period under review, the Group became the official sole agent for the Italian contemporary ladieswear brand TWINSET and the street fashion brand GCDS in China and Hong Kong regions. The first TWINSET directly operating store was opened in Shanghai K11 Art Mall. In addition, the Group set up the SERGIO ROSSI directly operating stores in four key cities, namely Shanghai, Guangzhou, Shenyang and Chongqing. As at 31 December 2018, the Group had 83 directly operating stores in 18 cities in Mainland China, which covered seven high-end fashion brands. The Tmall flagship stores of MOSCHINO and DSQUARED2 set up by the Group also officially went live online, striving to provide consumers with integrated online and offline shopping experience. In future, the Group will take the lead in introducing newly-incorporated brands into the Hong Kong market and strengthen its collaboration with mainland artistes and marketing efforts so as to raise brand recognition.

OUTLOOK

Global economic recovery gradually lost momentum in the second half of 2018. A number of uncertainties emerged, including widespread economic and trade conflicts brought about by the rise of trade protectionism in various countries; global financial fluctuations triggered by the tightened monetary policy in the U.S.; as well as economic downturns in some emerging markets as a result of a crunch in international investment. Expansion of the global economy has begun to lose its balance, and growth in major economies approached their peaks. The market expects a slowdown in the growth of the global economy.

The Chinese economy has been affected by significant changes in the domestic and external environments and is faced with augmented downward pressure. Externally, the China-U.S. trade war has continued to bring uncertainties that directly affect stability in trade and the financial market. At home, the slowed down growth in infrastructure investment, the tightening of financial regulation and other factors have also constituted downward pressure for the Chinese economy. China is now undergoing a major adjustment period – a time that different domestic policies are being tuned and old growth drivers are being replaced with new ones. As time is needed for the adjustment, the overall economic performance would remain steady but be on a slowing path. In 2018, the growth of China's Gross Domestic Product has decelerated to 6.6% year-on-year. Consumption contributed about 76.2% to China's economic growth, further cementing its role as a major driver. The nationwide residents' income saw steady growth, and the consumer price index increased moderately. Although the total retail sales of consumer goods registered a significant drop in growth rate, the overall performance remained steady. In particular, the evident growth in consumption upgrade categories and service categories reflects nationals' sustained interest to consume. Backed by policies to drive consumption, it is hoped that the consumption potential of residents can be stimulated.

As the development trends of the global and mainland economies become more complicated, the Chinese retail sector is also faced with challenges in the industry from multiple directions: consumers now favour high quality merchandise, and their consumption habits are turning more sensible. The newly-built commercial complexes which comprise retail, food and beverage, and entertainment experiences are growing dramatically, leading to more heated business competition. To achieve breakthroughs, retailers should seize every market opportunity and respond to the changes in the sector. In future, the Group will continue to delve deep into its core business and prudently layout its strategies so as to create consumer-oriented and personalised consumption ambiences and strive to achieve differentiation advantages. In parallel, the Group will integrate and perfect its private label series to develop a multi-category and cross-disciplinary business setup. The management team shall embrace changes and opportunities with a prudent and pragmatic attitude to seek steady development for the Group.

FINANCIAL REVIEW

Revenue and Other Income

Revenue of the Group was HK$1,809.9 million in 1HFY2019 (or the "Current Period") (1HFY2018 (or the "same period of Previous Year"): HK$1,873.3 million).

Gross sales revenue of the Group, as previously defined, was HK$5,732.5 million in 1HFY2019 (1HFY2018: HK$6,387.3 million).

The Group's merchandise gross margin was 17.3% in the Current Period (1HFY2018: 16.9%). In 1HFY2019, ladieswear and accessories made up approximately 62.7% of gross revenue from concessionaire sales and sales of goods for direct sales. Menswear and accessories made up approximately 7.7% and sportswear, bread and snacks, electrical appliances, kidswear and personal care products largely made up the rest. Direct sales revenue in the Current Period mainly comprised sales of ladieswear and menswear (approximately 41.8%), cosmetic products (approximately 33.8%), groceries, housewares and perishables (approximately 22.4%), as well as accessories and miscellaneous items (approximately 2.0%).

Rental income increased by 7.7% to HK$419.0 million in 1HFY2019 from HK$389.2 million in 1HFY2018, mainly due to increased rentable area and improved tenant mix in the Current Period, and the recognition of a full period's operation from the acquisition of a group of managed stores, which included Wuhan New World Department Store — Xudong Branch Store, Yanjiao New World Department Store and its subsidiaries in September 2017 (the "Acquired Subsidiaries").

Management and consultancy fees was HK$Nil in 1HFY2019 decreased from HK$5.3 million in 1HFY2018. The decrease was primarily due to no management and consultancy service was provided in the Current Period.

Other income of the Group was HK$100.4 million in 1HFY2019 compared with HK$140.5 million in 1HFY2018. The decrease in other income was mainly due to the inclusion of HK$69.4 million of one-off fire insurance compensation related to a property in Zhengzhou City from an independent insurance company in 1HFY2018. The decrease was partially offset by the write-back of expired stored value cards and long term payables of HK$25.1 million and HK$10.9 million respectively in the Current Period.

Other Losses, Net

Net other losses of the Group in the Current Period was HK$28.9 million which was primarily resulted from HK$13.1 million of impairment loss on property, plant and equipment and HK$38.7 million of impairment loss on prepayments, deposits and other receivables for mainly four department stores in light of the latest market environment and the management's assessment on the business prospect thereof. The losses was partially offset by HK$15.7 million of gain in fair value on the indemnification in connection with the acquisition of a subsidiary and HK$11.3 million of gain on deregistration of subsidiaries.

Changes in Fair Value of Investment Properties

A gain in fair value of investment properties in the Current Period was HK$18,000 which was related to a property in Shanghai City.

Purchases of and Changes in Inventories, Net

The purchases of and net changes in inventories primarily represented the cost of sales for direct sales of goods. It increased to HK$468.4 million in 1HFY2019 from HK$461.4 million in 1HFY2018, mainly due to the increase in provision for inventories of HK$4.5 million 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$21.4 million in 1HFY2019 compared with HK$27.4 million in 1HFY2018.

Employee Benefit Expense

Employee benefit expense increased to HK$333.5 million in 1HFY2019 from HK$300.1 million in 1HFY2018. Employee benefit expense increased primarily due to the opening of specialty shops of direct sales business, the recognition of a full period's operation of the Acquired Subsidiaries and a total of HK$13.3 million compensation to the employees for closures of mainly two department stores in the Current Period.

Depreciation and Amortisation

Depreciation and amortisation expense decreased from HK$121.4 million in 1HFY2018 to HK$107.3 million in 1HFY2019, primarily due to no depreciation provided in the Current Period for property, plant and equipment impaired for mainly one department store in FY2018 and some stores with assets that have been fully depreciated.

Operating Lease Rental Expense

Operating lease rental expense decreased to HK$496.1 million in 1HFY2019 from HK$587.7 million in 1HFY2018, primarily due to a total of HK$110.0 million reversal of accruals of effective rental adjustments triggered by early termination of leases of mainly two department stores in the Current Period. However, the decrease was partially offset by the renewal of certain existing operating leases, the opening of specialty shops of direct sales business and the recognition of a full period's operation of the Acquired Subsidiaries.

Other Operating Expenses, Net

Net other operating expenses increased to HK$262.2 million in 1HFY2019 from HK$256.0 million in 1HFY2018. The increase was primarily resulted from a total of HK$40.0 million of compensation to the affected parties for early termination of leases of mainly three department stores and HK$9.5 million of net exchange losses mainly arising from Renminbi against Hong Kong dollar and Euro due to the devaluation of Renminbi during 1HFY2019. The increase was partially offset by effective control of water and electricity expenses of HK$13.4 million, decrease in other tax expenses of HK$13.2 million and decrease in net provision for receivables of HK$16.8 million in the Current Period.

Operating Profit

Operating profit was HK$192.5 million in 1HFY2019 compared with HK$174.4 million in 1HFY2018.

Income Tax Expense

Income tax expense of the Group was HK$109.5 million in 1HFY2019 compared with HK$81.0 million in 1HFY2018.

Profit for the Period

As a result of the reasons mentioned above, profit for the period was HK$89.7 million compared with HK$103.0 million in the same period of Previous Year.

Liquidity and Financial Resources

Fixed deposits and cash and cash equivalents of the Group amounted to HK$2,245.9 million as at 31 December 2018 (30 June 2018: HK$1,947.3 million).

The Group's borrowings as at 31 December 2018 were HK$1,881.0 million (30 June 2018: HK$1,876.7 million) of which HK$217.1 million (30 June 2018: HK$309.5 million) was secured by an investment property.

As at 31 December 2018, the Group's current liabilities exceeded its current assets by HK$2,046.3 million (30 June 2018: HK$1,979.3 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 commitments of the Group as at 31 December 2018 were HK$125.6 million which were contracted but not provided for in the condensed consolidated statement of financial position. For the contractual payment of HK$125.6 million, approximately HK$43.8 million is for the redevelopment project of a building in Shenyang City.

Pledge of Assets

As at 31 December 2018, an investment property of HK$1,752.0 million (30 June 2018: HK$1,824.5 million) of the Group was pledged as securities for bank borrowings of HK$217.1 million (30 June 2018: HK$309.5 million).

Treasury Policies

The Group mainly operates in Mainland China with most of the transactions denominated in Renminbi. The Group is mainly exposed to foreign exchange risk arising from Hong Kong dollar, United States dollar and Euro against Renminbi and from Renminbi and Euro against Hong Kong dollar. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 31 December 2018.

INTERIM DIVIDEND

The Directors have resolved not to declare an interim dividend for the six months ended 31 December 2018 (2017: nil).

EMPLOYEES, REMUNERATION POLICY AND PENSION SCHEME

As at 31 December 2018, the total number of employees of the Group was 4,293 (30 June 2018: 4,598). 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 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company had not redeemed any of its listed securities during the six months ended 31 December 2018. 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 2018.

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 2018.

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 2018. Relevant employees are subject to compliance with written guidelines on no less exacting terms than the Model Code.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established in accordance with requirements of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and risk management and internal controls. The Audit Committee consists of the four independent non-executive Directors. The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 31 December 2018 and the unaudited condensed consolidated financial information and the interim report for the six months ended 31 December 2018 and discussed the financial related matters with the management. The unaudited interim results of the Group for the six months ended 31 December 2018 have been reviewed by the Company's auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

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

Hong Kong, 26 February 2019

As at the date of this announcement, the non-executive Directors are Dr. Cheng Kar-shun, Henry and Mr. Au Tak-cheong; 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.