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 2011/2012

HIGHLIGHTS

Same store sales[1] ("SSS") growth of 17.0%.

Revenue improved by 32.9% to HK$1,705.9 million from HK$1,283.9 million of the same period of Previous Year.

Operating profit increased by 15.5% to HK$436.7 million from HK$378.1 million of the same period of Previous Year.

Profit for the period increased by 12.1% to HK$330.0 million from HK$294.5 million of the same period of Previous Year.

Profit for the period excluding other gains, net and changes in fair value of investment properties increased by approximately 8.0% to HK$284.0 million from HK$263.3 million of the same period of Previous Year.

Earnings per share was HK$0.20.

Interim dividend was HK$165.2 million.

(1) *Same store sales growth represents change in total gross sales proceeds and rental income for stores in operation throughout the comparable periods.*

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2011

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 2011 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited	Unaudited
		Six months ended 31 December	
		2011	2010
	Note	***HK$'000***	*HK$'000*
Revenue	*2*	**1,705,872**	1,283,880
Other income	*3*	**62,391**	97,836
Other gains, net	*4*	**46,006**	16,533
Changes in fair value of investment properties		**–**	14,684
Purchases of and changes in inventories		**(263,944)**	(215,584)
Employee benefit expense		**(263,940)**	(187,524)
Depreciation and amortisation		**(141,054)**	(129,228)
Operating lease rental expense		**(415,143)**	(309,909)
Other operating expenses, net	*5*	**(293,442)**	(192,545)
Operating profit		**436,746**	378,143
Finance income		**24,415**	23,462
Finance costs		**(6,572)**	–
Finance income, net		**17,843**	23,462
Profit before income tax		**454,589**	401,605
Income tax expense	*6*	**(124,541)**	(107,066)
Profit for the period		**330,048**	294,539
Attributable to equity holders of the Company		**330,048**	294,539
Dividend	*7*	**165,242**	143,322
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*	**0.20**	0.17

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	Unaudited
	Six months ended 31 December	
	2011	2010
	HK$'000	*HK$'000*
Profit for the period	**330,048**	294,539
Fair value loss on available-for-sale financial assets	**–**	(6,987)
Revaluation of property upon reclassification from property, plant and equipment to investment properties	**–**	2,424
– Deferred tax thereof	**–**	(606)
Release of investment revaluation reserve upon disposal of available-for-sale financial assets	**–**	(22,803)
Translation differences	**55,632**	71,583
Other comprehensive income for the period, net of tax	**55,632**	43,611
Total comprehensive income for the period	**385,680**	338,150
Total comprehensive income attributable to equity holders of the Company	**385,680**	338,150

There was no tax impact relating to the components of other comprehensive income for the period ended 31 December 2011.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**Unaudited As at 31 December 2011 *HK$'000***	Audited As at 30 June 2011 *HK$'000*
Assets			
Non-current assets			
Property, plant and equipment		**2,165,483**	2,083,104
Investment properties		**2,058,105**	274,220
Land use rights		**895,322**	898,898
Goodwill		**1,216,496**	785,137
Other non-current assets	*9*	**462,448**	352,301
Long-term prepaid rent and rental deposits		**277,473**	244,644
Deferred income tax assets		**138,367**	125,939
		7,213,694	4,764,243
Current assets			
Inventories		**158,314**	144,682
Debtors	*10*	**91,676**	29,685
Prepayments, deposits and other receivables		**763,668**	572,497
Amounts due from fellow subsidiaries		**2,644**	2,251
Fixed deposits		**366,390**	1,205,463
Cash and cash equivalents		**3,883,770**	2,947,574
		5,266,462	4,902,152
Non-current assets classified as assets held for sale		**–**	7,117
		5,266,462	4,909,269
Total assets		**12,480,156**	9,673,512
Equity			
Share capital		**168,615**	168,615
Reserves		**5,500,072**	5,277,352
Interim dividend		**165,242**	–
Proposed dividend		**–**	126,461
		5,833,929	5,572,428

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Note	**Unaudited As at 31 December 2011** *HK$'000*	Audited As at 30 June 2011 *HK$'000*
Liabilities			
Non-current liabilities			
Long-term borrowings		**996,069**	–
Accruals		**609,297**	564,095
Deferred income tax liabilities		**488,611**	184,304
		2,093,977	748,399
Current liabilities			
Creditors, accruals and other payables	*11*	**4,374,902**	2,979,653
Amounts due to fellow subsidiaries		**5,411**	225,186
Amounts due to related companies		**40,569**	57,156
Tax payable		**125,270**	90,690
Current portion of long-term borrowings		**6,098**	–
		4,552,250	3,352,685
Total liabilities		**6,646,227**	4,101,084
Total equity and liabilities		**12,480,156**	9,673,512
Net current assets		**714,212**	1,556,584
Total assets less current liabilities		**7,927,906**	6,320,827

NOTES

1 Basis of preparation

The condensed consolidated financial information of the Company for the six months ended 31 December 2011 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 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2011, 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 2011, the Group has adopted the following revised standards, amendments to existing standards and interpretation which are mandatory for the accounting period beginning on 1 July 2011:

HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 (Amendment)	Disclosures – Transfer of Financial Assets
HKAS 24 (Revised)	Related Party Disclosures
HKAS 34 (Amendment)	Interim Financial Reporting
HK(IFRIC) – Int 14 Amendment	Prepayments of a Minimum Funding Requirement
HKFRSs Amendments	Improvements to HKFRSs 2010

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

The following new or revised standards, amendments to existing standards and interpretations are mandatory for the accounting periods beginning on or after 1 January 2012 which the Group has not early adopted:

HKFRS 9	Financial Instruments
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurements
HKAS 1 (Amendment)	Presentation of Financial Statements
HKAS 19 (revised 2011)	Employee Benefits
HKAS 27 (revised 2011)	Separate Financial Statements
HKAS 28 (revised 2011)	Associates and Joint ventures
HKAS 32 (Amendment) and HKFRS 7 (Amendment)	Presentation – Offsetting Financial Assets and Financial Liabilities and Disclosures – Offsetting Financial Assets and Financial Liabilities
HK (IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine

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

Change in accounting estimate

During the period ended 31 December 2011, a review of useful lives of the leasehold improvements for the department store operations was conducted. With effect from 1 July 2011, the estimated useful lives of certain categories of leasehold improvements have been revised from 10 years to 15 years. This represents a change in accounting estimate and is accounted for prospectively. As a result of this change, the depreciation charge of the Group for the six months ended 31 December 2011 have been decreased by approximately HK$21,331,000. Such effect is expected to recur over the remaining lives of the relevant assets.

2 Revenue and segment information

	Unaudited	Unaudited
	Six months ended 31 December	
	2011	2010
	HK$'000	*HK$'000*
Commission income from concessionaire sales	**1,194,966**	879,115
Sales of goods – direct sales	**316,114**	260,649
Management fees	**16,022**	48,386
Rental income	**178,770**	95,730
	1,705,872	1,283,880

The income from concessionaire sales is analysed as follows:

	Unaudited	Unaudited
	Six months ended 31 December	
	2011	2010
	HK$'000	*HK$'000*
Gross revenue from concessionaire sales	**6,485,410**	4,727,607
Commission income from concessionaire sales	**1,194,966**	879,115

The chief operating decision-maker has been identified as the board of directors ("CODM"). 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 property investment business. The CODM assesses the performance of the operating segments based on their revenue and operating result. The measurement of segment operating result excludes the effect of changes in fair value of investment properties, gain on disposal of available-for-sale financial assets and unallocated corporate expenses. In addition, finance income, net are not allocated to segments. There is no inter-segment sales.

All revenue is generated in Mainland China and all significant operating assets are in Mainland China.

For the six months ended 31 December 2011

	Department store HK$'000	Property investment HK$'000	Consolidated HK$'000
Segment revenue	**1,678,670**	**27,202**	**1,705,872**
Segment results	**422,348**	**22,685**	**445,033**
Unallocated corporate expenses			**(8,287)**
Operating profit			**436,746**
Finance income			**24,415**
Finance costs			**(6,572)**
Finance income, net			**17,843**
Profit before income tax			**454,589**
Income tax expense			**(124,541)**
Profit for the period			**330,048**
As at 31 December 2011			
Segment assets	**9,953,183**	**2,383,325**	**12,336,508**
Deferred income tax assets			**138,367**
Cash and cash equivalents			**5,226**
Other corporate assets			**55**
Total assets			**12,480,156**
For the six months ended 31 December 2011			
Additions to non-current assets *(Note)*	**416,334**	**2,094,823**	**2,511,157**
Depreciation and amortisation	**141,054**	**–**	**141,054**

For the six months ended 31 December 2010

	Department store *HK$'000*	Property investment *HK$'000*	Consolidated *HK$'000*
Segment revenue	1,283,880	–	1,283,880
Segment results	353,712	(551)	353,161
Changes in fair value of investment properties			14,684
Gain on disposal of available-for-sale financial assets			17,471
Unallocated corporate expenses			(7,173)
Operating profit			378,143
Finance income			23,462
Finance costs			–
Finance income, net			23,462
Profit before income tax			401,605
Income tax expense			(107,066)
Profit for the period			294,539
As at 30 June 2011			
Segment assets	8,914,276	274,899	9,189,175
Deferred income tax assets			125,939
Cash and cash equivalents			358,276
Other corporate assets			122
Total assets			9,673,512
For the six months ended 31 December 2010			
Additions to non-current assets *(Note)*	1,022,883	170,860	1,193,743
Depreciation and amortisation	129,228	–	129,228

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 Six months ended 31 December **2011** ***HK$'000***	Unaudited 2010 *HK$'000*
Government grants	**3,894**	6,596
Income from suppliers	**23,975**	16,729
Write-back of other payables	**24,146**	59,678
Sundries	**10,376**	14,833
	62,391	97,836

4 Other gains, net

	Unaudited Six months ended 31 December 2011 HK$'000	Unaudited 2010 HK$'000
Loss on disposal of property, plant and equipment	**(1,093)**	(938)
Gain on disposal of assets held for sale *(Note)*	**47,099**	–
Gain on disposal of available-for-sale financial assets	**–**	17,471
	46,006	16,533

Note: The amount represented gain on disposal of entire equity interest in Focus Smart Limited, a wholly-owned subsidiary of the Group, which is also the owner of a portion of the property and land use rights situated in Wuxi City.

5 Other operating expenses, net

	Unaudited Six months ended 31 December 2011 HK$'000	Unaudited 2010 HK$'000
Water and electricity	**104,787**	83,819
Promotion, advertising and related expenses	**98,264**	61,133
Net exchange losses	**2,087**	6,363
Share-based payments	**333**	1,002
Auditor's remuneration	**2,791**	2,114
Others	**85,180**	38,114
	293,442	192,545

6 Income tax expense

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

	Unaudited Six months ended 31 December 2011 HK$'000	Unaudited 2010 HK$'000
Current income tax		
– Mainland China taxation	**102,551**	83,068
Over-provision in prior years	**(1,090)**	(908)
Deferred income tax		
– Deferred taxation on undistributed dividends	**5,541**	(816)
– Other temporary differences	**17,539**	25,722
	124,541	107,066

Taxation has been provided at the appropriate tax rates prevailing in the tax jurisdictions in which the members of the Group are domiciled and operate. No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profit in Hong Kong for the period ended 31 December 2010 and 2011.

Subsidiaries of the Group in Mainland China are subject to corporate income tax at a rate of 25% (2010: 25%).

7 Dividend

	Unaudited	Unaudited
	Six months ended 31 December	
	2011	2010
	HK$'000	*HK$'000*
Interim dividend of HK$0.098 (2010: HK$0.085) per share	**165,242**	143,322

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	
	2011	2010
Profit attributable to the equity holders of the Company (HK$'000)	**330,048**	294,539
Weighted average number of ordinary shares in issue (shares in thousands)	**1,686,145**	1,686,145
Basic earnings per share (HK$ per share)	**0.20**	0.17

(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 2010 and 2011, shares issuable upon exercise of the share options are the only dilutive ordinary shares. There was no potential dilutive effect from the share options.

9 Other non-current assets

Balance as at 31 December 2011 mainly represents the following transaction:

On 4 October 2010, Shenyang New World Department Store Ltd. ("Shenyang Co") entered into agreements with Shenyang New World Hotel Co., Ltd., a wholly-owned subsidiary of New World China Land Limited ("NWCL") and a fellow subsidiary of the Company. Shenyang Co agreed to acquire the building ownership right, land use right of certain exclusive and common-use areas of the building, located in Shenyang City, and right of use of certain areas of the equipment and facility room, the outer wall, the facilities, the electrical and mechanical systems, for a consideration of approximately RMB456,534,000 which is subject to the terms of the agreements for further adjustments. As at 31 December 2011, the Group has made progress payment of approximately HK$435,280,000 (30 June 2011: HK$110,008,000) and paid direct costs of approximately HK$22,549,000 (30 June 2011: HK$22,277,000) in connection with such acquisition. As at 31 December 2011, the capital commitment in respect of investment properties, property, plant and equipment and land use rights of the Group in relation to this acquisition is approximately HK$101,231,000 (30 June 2011: HK$220,016,000).

10 Debtors

	Unaudited As at 31 December 2011	Audited As at 30 June 2011
	HK$'000	*HK$'000*
Trade receivables	**91,676**	29,685

The Group grants credit terms within 30 days in majority, based on the invoice date.

Aging analysis of the debtors is as follows:

	Unaudited As at 31 December 2011	Audited As at 30 June 2011
	HK$'000	*HK$'000*
Within period for		
0-30 days	**81,132**	27,837
31-60 days	**4,970**	185
61-90 days	**4,736**	185
Over 90 days	**838**	1,478
	91,676	29,685

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

11 Creditors, accruals and other payables

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

	Unaudited As at 31 December 2011 *HK$'000*	Audited As at 30 June 2011 *HK$'000*
Within period for		
0-30 days	**1,634,914**	803,572
31-60 days	**675,601**	556,777
61-90 days	**200,602**	170,103
Over 90 days	**333,676**	302,164
	2,844,793	1,832,616

Creditors included amounts due to related companies of HK$121,361,000 (30 June 2011: HK$88,050,000) which are unsecured, interest free and repayable within 90 days.

The carrying amounts of creditors and other payables approximate their fair values.

BUSINESS REVIEW

The Group's revenue increased by 32.9% from HK$1,283.9 million for the six months ended 31 December 2010 (or "1HFY2011" or "the same period of Previous Year") to HK$1,705.9 million for the six months ended 31 December 2011 (or "1HFY2012" or "the Current Period"). Profit for the period grew 12.1% from HK$294.5 million in 1HFY2011 to HK$330.0 million in 1HFY2012.

Business Network

In 1HFY2012, the Group operated 39 department stores, with a total gross floor area ("GFA") of about 1,353,670 square metres and a total operating floor area ("OFA") of about 1,012,800 square metres. Located in three operational regions, namely Northern China Region, South Eastern China Region and Central Western China Region, the stores covered 18 major cities in the PRC. These included Wuhan, Shenyang, Harbin, Tianjin, Ningbo, Beijing, Shanghai, Dalian, Kunming, Lanzhou, Changsha, Chongqing, Chengdu, Anshan, Nanjing, Taizhou, Zhengzhou and Mianyang. Our business network comprised 35 self-owned stores and 4 managed stores.

Revenue Contribution

By region

The Northern China Region contributed the most to the Group's revenue during the period under review, accounting for 46.9% of total revenue, followed by the Central Western China Region and the South Eastern China Region, accounting for 29.2% and 23.9%, respectively.

By segment

Commission income from concessionaire sales was the major type of income, accounting for 70.1% of total revenue. Proceeds from direct sales and rental income accounted for 18.5% and 10.5%, respectively. Management fees accounted for 0.9%.

Growth in Nationwide VIP Membership

During the period under review, the membership for both VIP card and platinum VIP card maintained a continual rise. Total combined VIP membership nationwide registered a 22.6% increase year-on-year, numbering in excess of 2.39 million. VIP sales accounted for about 51% of total sales. During the period under review, the Group added a new "Crystal High Heels Club" on top of the three existing VIP clubs, namely "Smart Lady Club", "Perfect House Wife Club" and "Platinum Style Club". The Group has 4 VIP clubs at present with total membership increased to 960,000 in the Current Period, representing a year-on-year growth of 47.7%.

Store Network Development

In the period under review, the Group opened a self-owned store, Mianyang New World Department Store ("Mianyang Store") in Mianyang city. In addition, the Group successfully acquired the property and operating rights of Channel 1 Shopping Mall ("Shanghai Channel 1") located in Shanghai Putuo District in November 2011, whilst Lanzhou New World Department Store ("Lanzhou Store") was converted from the Group's managed store to self-owned store at the same month.

Therefore, as of 31 December 2011, the Group's total GFA was approximately 1,353,670 square metres, up 10.6% from the same period of Previous Year. The total GFA of self-owned stores reached 1,193,970 square metres, representing a year-on-year increase of 28.5%.

Operational Strategies

The Group readjusted its operating structure during the period reported in order to cater for future expansion & development strategies, to improve its operational efficiency and to lower the overall operational costs. The Group divided its national network into three major operational regions, with a total of nine districts under the three regions. These included the Northern China Region covering the Northern District, the North Eastern District and the North Western District, the Central Western China Region with the Central District, the Central Southern District and the South Western District as well as the South Eastern China Region with the Shanghai District, the Eastern District and the Southern District.

Under the new operational structure, the Group continued to actively implement the two major operating concepts of "Fashion" and "Living", emphasizing the essence of "Enriching Lives • Enhancing Character" throughout the rebranding program. The rebranding program made satisfactory progress during the period under review. As of the end of December 2011, we had completed about 59% of the store floor areas requiring rebranding and interior decorations, including stores in the cities of Shenyang, Harbin, Tianjin, Beijing, Lanzhou and Shanghai, bringing a new shopping experience for customers.

"Fashion", "Living" thematic Merchandising Strategy

In terms of brand strategy, the Group actively established and consolidated its category killers, developed more exclusive brands and enhanced efforts in promoting its private labels during the period under review. The Group also strengthened its brand marketing strategies. It promoted the number of repeated purchases and increased the times of consumption among customers by means of cross merchandising and brand mix display in line with consumer preferences and habits, so as to achieve greater sales turnover. In addition, the Group adopted different strategies of brand enhancement for its "Fashion Gallery" and "Living Gallery". In view of the emphasis of the "Fashion Gallery" on "style" and "personality", brand analysis and research were actively conducted in the period reported in order to accurately understand consumer preferences, so as to cater for their demands for trendy and quality products. For the "Living Gallery", efforts were made to further enrich and improve the complementary facilities of department stores, providing customers with the fun of carefree shopping, thus attracting families of all ages to the store.

Diversified means of communication with suppliers

In order to enhance the Group's cooperation with concessionaires and suppliers, we not only continued to conduct the "Top 150 Brand Retainer Scheme", the "Strategic Partnership Scheme" and made good use of the "New World Net" communication platform, but also carried out numerous activities to consolidate the relations with concessionaires and suppliers of our stores nationwide during the period under review. With diversified means of communication and exchanges, we managed to integrate the information and resources of our stores and suppliers in a more extensive and effective manner, thus realizing comprehensive cooperation in terms of visual merchandising, marketing and interaction.

Creative and thematic promotional activities

The Group actively carried out a number of creative marketing activities during the period under review, so as to increase the sales volumes and traffic flows of its stores nationwide. The Group continued to organize activities and decorations with unified themes during major traditional festivals, so as to foster the customers' anticipation of the Group's annual activities and cultivate their buying habits, greatly stimulating customers' desire of spending in the Group's stores during the traditional festivals. The Group also made good use of non-traditional but popular festivals nowadays to create purchase desires for customers and to increase their frequency of visits to the stores. By providing quality commodities and fabulous options for consumers in their cultural life, we successfully attracted different types of customers to spend in the stores on newly welcomed festivals and increased the traffic flows on non-traditional festive seasons. In addition, the Group held a number of large-scale and exciting sales promotion activities timely on non-holidays, providing customers with a leisure shopping spot on non-festive days.

Expand the VIP base

The Group focused on consolidating the loyalty of VIP members during the period under review by arranging a series of special themed activities especially for its members. Different kind of exclusive activities were also organized for members of the three VIP clubs, including the Smart Lady Club, the Perfect House Wife Club and the Platinum Style Club. Those activities provided VIP customers with more privileged shopping experiences, effectively increasing their number of store visits and repeated spending. At the same time, in order to offer a wider selection of clubs and to cater for female consumers' fancy habit of buying shoes, the Group added a new "Crystal High Heels Club" during the period under review, providing potential VIP members with one more option as well as strengthening the overall VIP membership system. In addition, the Group held the "7 Moods of a Week – NWDS VIP Card Design Competition" especially for young consumers, in which customers became VIP card designer for the first time. The activity, catering for young customers' fondness of creation and interaction, was intended to extend the Group's customer base and to draw the attention of more consumers to the Group, thus successfully attracting different kind of customers to the stores during the period under review.

New media promotion strategy

The growing popularity of online platforms and interactive new media has made them an important channel to communicate with customers. To enable the Group's closer contacts with consumers, we made great efforts in the period reported to promote NWDS's products and spread marketing message via the extensive use of different social entertainment websites, videos, microblogs and mobile phone platforms, enhancing the Group's interaction and exchanges with netizens in Hong Kong and various Mainland cities.

Expansion Strategies

The Group has always been active and prudent in developing business expansion strategies on a comprehensive and long-term basis, together with adjustments in line with the policy guidance of the Chinese government, the actual operating situation of various regions as well as the market development trends. In the next five years, the Group is planning to add self-owned stores with a total GFA of about one million square meters. We will continue to expand our business presence in China's department store roadmap through the opening of new stores, the acquisition of existing managed stores and potential department stores, as well as the development of greenfield projects. In terms of our store network, the Group will extend its footholds from first and second tier cities to second and third tier ones with great potentials, and will carry through the two major strategies of business expansion, i.e., "multiple presences within a single city" and "radiation city". To gradually expand our business from core cities to peripheral ones, we will focus on and strengthen the "radiation city" strategy in future for regional business expansion. The Group has formulated different development plans for the three re-divided operational regions during the review period.

In Central Western China Region, for example, with gradual implementation of the "Western Development" programme by the Chinese Central Government, the Group has radiated its foothold from Chengdu City to Mianyang City, opening the fourth store in South Western District to further expand the business in the region. With a GFA of about 35,000 square metres, Mianyang Store is located on the east of Linyuan Road of the city, which is the heart of new business centre. The new store commenced operation in December 2011. Besides, we have opened a store in Changsha as early as 2006 in view of the excellent development potential of Hunan Province, where the city is located. To further expand our market influence in Hunan, we plan to open a new self-owned store in Hengyang, another city in the province in FY2014, with a GFA of about 42,200 square metres.

In Northern China Region, Xi'an is one of the kernel cities in China's seven regions and the provincial capital of Shaanxi with the greatest spending power in the province. Over the years, the Group has established an extensive store network in surrounding provinces and cities of Shaanxi, including Lanzhou, Chengdu, Chongqing, Wuhan, Zhengzhou and Changsha, which has resulted in the advantage of agglomerative economy. In FY2013, the Group will open a new store with a GFA of about 58,500 square metres in Xi'an City, expecting to play a significant strategic role in the Group's future expansion of North Western China. In addition, the Group also plans to extend its presence to Yantai, the third largest city in Shandong Province in FY2013, by opening a self-owned store with a GFA of about 55,000 square metres.

In South Eastern China Region, the Group targets at Yancheng, the largest provincial city in Jiangsu Province where a new store will be opened in FY2013. The Yancheng project, featuring a one-stop living gallery with a GFA of about 54,000 square metres, will certainly initiate synergy effects in the region among different cities in Jiangsu.

In the meantime, the Group will continue to deploy the expansion strategy of "multiple presences in a single city", designating regional core cities including Shenyang and Beijing in Northern China Region, Shanghai in South Eastern China Region, Wuhan and Chengdu in Central Western China Region, for the sake of greater market shares and enjoy cost-effectiveness.

In addition to opening new self-owned stores, the Group will also continue to acquire currently managed stores and/or other potential projects. In November 2011, the Group acquired the property and operating rights of "Shanghai Channel 1" in Putuo District, Shanghai. Lanzhou Store was converted from a managed store to a self-owned store at the same month. Besides, Beijing New World Liying Department Store ("Beijing Liying Store"), which was previously a managed store, has also become one of the Group's self-owned stores in January 2012. In the future, the Group also plans to expand the areas of its existing stores to cater for the consumers' needs, including the expansion plan of Shenyang Jianqiao Road Branch Store in FY2012, with its GFA to be increased from the current 34,000 square metres to about 68,000 square metres, as well as the expansion for Phase II of Shenyang Nanjing Street Branch Store in FY2014, with about 25,400 square metres to add to its GFA.

Furthermore, we will also add managed stores/shopping mall at opportune moments. In FY2013, the Group will open a new managed store in Ningbo, with a GFA of about 60,000 square metres. In FY2014, we will also manage a shopping mall with a GFA of about 46,000 square metres in Yantai. On the one hand, this provides steady income from management fees for the Group, and on the other hand, enabling further expansion of our store network.

OUTLOOK

In 2011, the European debt crisis triggered economic slowdown or recession in Europe and the United States, while dealing a blow to China's economic development and investor confidence. Uncertainties in the external economic environment also affected consumer confidence and purchasing power in China's retail sector in 2011. Nevertheless, figures released by China's National Bureau of Statistics show that the nation recorded a GDP of RMB26,578.83 billion for the second half of 2011, with a year-on-year increase of 17.3%. And China's total retail sales of consumer goods exceeded RMB18.1 trillion in 2011, with a year-on-year growth of 17.1%, reflecting steady growth in the Mainland's consumption and predicting the potential of sustainable development of China's retail sector.

The Chinese government has made it clear in the "12th Five-Year Plan" to encourage consumer spending as a strategic focus to boost domestic demands. In December 2011, the Central Economic Work Conference reaffirmed the importance of expanding consumption growth. At the same time, the Chinese Ministry of Commerce revealed an average annual growth of about 15% in the total retail sales of consumer goods during the "12th Five-Year Plan" period as well as predicting an increase of over 14% in that aspect in 2012. According to government statistics, the per capita disposable annual income in urban areas stood at RMB21,810 in 2011, with an increase of 14.1% over the previous year. Those figures all indicate the gradual rise in the purchasing and spending powers of Chinese consumers in the future.

Looking ahead to 2012, it is especially important to maintain the steady growth of China's economy by expanding consumption against the threatened prospect of decelerating exportation and investment due to the European debt crisis. It is expected that, with the support of related government policies, consumption in second and third tier cities will be continuously boosted by the constant improvement of people's livelihood, growth of residents' incomes as well as great expansion of public services. In the future, the Group will seize the opportunity and adapt itself to market changes in formulating strategies conducive to its development planning and interests, striving to stand out in the highly competitive sector of department store in China.

FINANCIAL REVIEW

Revenue

Revenue of the Group was HK$1,705.9 million in 1HFY2012 representing an increase of 32.9% from HK$1,283.9 million in 1HFY2011. The growth was primarily contributed from commission from concessionaire sales, sales of goods for direct sales and rental income.

Gross sales revenue, comprising gross revenue from concessionaire sales and sales of goods for direct sales, increased by 36.3% to HK$6,801.5 million in 1HFY2012 from HK$4,988.3 million in 1HFY2011. Gross revenue from concessionaire sales increased to HK$6,485.4 million from HK$4,727.6 million in the same period of Previous Year. Commission income rate was 18.4% in the Current Period compared with 18.6% in the same period of Previous Year. Sales of goods for direct sales was HK$316.1 million in 1HFY2012 compared with HK$260.6 million in 1HFY2011. Direct sales turnover was mainly comprised of cosmetic products (approximately 44.1%), groceries, housewares and perishables (approximately 42.3%), ladieswear and menswear (approximately 6.3%), accessories, handbags and underwears (approximately 6.0%). Gross margin of direct sales was 16.5% compared to 17.3% in the same period of Previous Year. In 1HFY2012, ladieswear and accessories made up approximately 61.2% of gross sales revenue. Menswear and accessories made up approximately 21.4% and sportswear, bread and snacks, electrical appliances, kidswear and personal care products largely made up the rest of gross sales revenue.

Management fees was HK$16.0 million in 1HFY2012 showing a decrease from HK$48.4 million in 1HFY2011. The decrease was primarily due to the conversion of Beijing Store, Chengdu Store, Changsha Trendy Plaza, Beijing Trendy Store, Chongqing Store and Lanzhou Store from managed stores to self-owned stores in August, October and December 2010, March, April and November 2011 respectively, as compared with there was one month and three months contribution from Beijing Store and Chengdu Store respectively and a full period contribution from Changsha Trendy Plaza, Beijing Trendy Store, Chongqing Store and Lanzhou Store in the same period of Previous Year.

Rental income increased by 86.8% to HK$178.8 million in 1HFY2012 mainly due to increased leasing area from firstly, recognising a full period's operation of Beijing Store, Chengdu Store, Changsha Trendy Plaza, Beijing Trendy Store and Chongqing Store acquired in August, October and December 2010, March and April 2011 respectively, and Beijing Qianzi Store, Zhengzhou Store and Shenyang Jianqiao Road Branch Store opened in September 2010, April and May 2011 respectively; secondly, the completed acquisition of Shanghai Channel 1 in November 2011; thirdly, the conversion of Lanzhou Store from a managed store to a self-owned store in November 2011 and fourthly, the opening of newly self-owned Mianyang Store in December 2011.

Other income

Other income of the Group was decreased from HK$97.8 million in 1HFY2011 to HK$62.4 million in 1HFY2012. The decrease was mainly due to the decrease of write-back of other payables in the course of operating in 1HFY2012.

Other gains, net

Other gains, net of the Group was HK$46.0 million in the Current Period compared with HK$16.5 million in the same period of the Previous Year. Other gains in the Current Period primarily comprised a gain of HK$47.1 million on the disposal of entire equity interest in Focus Smart Limited, a wholly-owned subsidiary of the Group which is also the owner of a portion of the property and land use rights situated in Wuxi City.

Changes in fair value of investment properties

In the Current Period, there was no changes in fair value of investment properties of the Group.

Purchases of and changes in inventories

The purchases of and changes in inventories represented the cost of sales for direct sales of goods. It increased by 22.4% to HK$263.9 million in 1HFY2012 from HK$215.6 million in 1HFY2011. The percentage of increase was approximately in line with the increase in sales of goods for direct sales.

Employee benefit expense

Employee benefit expense increased to HK$263.9 million in 1HFY2012 from HK$187.5 million in 1HFY2011. This increase was primarily due to the increase in wages and salaries, retirement benefit costs and other employee benefits as a result of recognising a full period's operation of Beijing Store, Chengdu Store, Changsha Trendy Plaza, Beijing Trendy Store, Chongqing Store, Beijing Qianzi Store, Zhengzhou Store and Shenyang Jianqiao Road Branch Store acquired and opened in FY2011; the newly acquired Lanzhou Store and Shanghai Channel 1 in November 2011 and the newly opened Mianyang Store in December 2011.

Depreciation and amortisation

Depreciation and amortisation expense increased from HK$129.2 million in 1HFY2011 to HK$141.1 million in 1HFY2012. This was primarily due to recognising a full period's operation of Beijing Store, Chengdu Store, Changsha Trendy Plaza, Beijing Trendy Store, Chongqing Store, Beijing Qianzi Store, Zhengzhou Store and Shenyang Jianqiao Road Branch Store acquired and opened in FY2011; the conversion of Lanzhou Store from a managed store to a self-owned store and the newly acquired Shanghai Channel 1 in November 2011 and the newly opened Mianyang Store in December 2011.

Operating lease rental expense

Operating lease rental expense increased to HK$415.1 million in 1HFY2012 from HK$309.9 million in 1HFY2011, primarily due to recognising a full period's operation of Beijing Store, Chengdu Store, Changsha Trendy Plaza, Beijing Trendy Store and Chongqing Store acquired in August, October and December 2010, March and April 2011 respectively and Beijing Qianzi Store opened in September 2010. In addition, the newly opened Mianyang Store in December 2011 and the conversion of Lanzhou Store from a managed store to a self-owned store in November 2011 also contributed to the increase of operating lease rental expense in the Current Period.

Other operating expenses, net

Other operating expenses increased to HK$293.4 million in 1HFY2012 from HK$192.5 million in 1HFY2011. The increase in other operating expenses as a result of recognising a full period's operation of Beijing Store, Chengdu Store, Changsha Trendy Plaza, Beijing Trendy Store, Chongqing Store, Beijing Qianzi Store, Zhengzhou Store and Shenyang Jianqiao Road Branch Store acquired and opened in FY2011. Moreover, the increase was also due to the newly acquired Lanzhou Store and Shanghai Channel 1 in November 2011 and the newly opened Mianyang Store in December 2011.

Operating profit

Operating profit was HK$436.7 million in 1HFY2012 compared with HK$378.1 million of 1HFY2011.

Income tax expense

Income tax expense increased to HK$124.5 million in 1HFY2012 from HK$107.1 million in 1HFY2011, primarily as a result of the increase in profit before income tax.

Profit for the period

As a result of the reasons mentioned above, profit for the Current Period was HK$330.0 million compared with HK$294.5 million in the same period of Previous Year.

Liquidity and financial resources

Cash and fixed deposits of the Group amounted to HK$4,250.2 million as at 31 December 2011 (30 June 2011: HK$4,153.0 million).

The Group's borrowings from banks as at 31 December 2011 was HK$1,002.2 million (30 June 2011: Nil) of which HK$707.3 million were secured by pledge of assets.

The capital commitment of the Group as at 31 December 2011 was HK$169.0 million, of which HK$168.9 million was contracted but not provided for in the statement of financial position. For the contractual payment of HK$168.9 million, approximately HK$101.2 million was related to the acquisition of building ownership right, land use right and right of use of the equipment and facility room, the outer wall, the facilities, the electrical and mechanical systems for certain exclusive and common-use areas of a building, located in Shenyang City.

Pledge of assets

As at 31 December 2011, investment properties of HK$1,780.5 million (30 June 2011: Nil) of the Group were pledged as securities for bank borrowings.

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, 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 2011.

INTERIM DIVIDEND

The Directors has resolved to declare an interim dividend of HK$0.098 per share (2010: HK$0.085 per share) for the six months ended 31 December 2011 to shareholders whose names appear in the register of members of the Company on 17 April 2012. It is expected that the interim dividend will be paid on or about 18 May 2012.

EMPLOYEES, REMUNERATION POLICY AND PENSION SCHEME

As at 31 December 2011, total number of employees for the Group was 6,935 (2010: 5,989). 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, unemployment, work related injury and maternity insurance. Such arrangements are in compliance with relevant laws and regulations.

ACQUISITION AND DISPOSAL

On 5 July 2011, Skybird International Limited ("Skybird"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party to dispose of its entire interest in Focus Smart Limited, a wholly-owned subsidiary of Skybird, which is also the owner of a portion of the property and land use rights situated in Wuxi City, for a consideration of RMB45.0 million. The transaction was completed on 22 September 2011.

On 21 September 2011, Skybird entered into a sale and purchase agreement with independent third parties to acquire 100% of the equity interest in Moral High Limited ("Moral High"), a limited liability company incorporated in Samoa, for an aggregate consideration of RMB1,460.0 million, which is subject to the deductions and adjustments based on the terms and conditions of the agreement. The principal activity of Moral High is the investment holding of 100% equity interest in Peak Moral High Commercial Development (Shanghai) Company Limited ("Peak"), a limited liability company established in the PRC. Peak is a property owner and operator of a shopping mall in Shanghai. The acquisition was completed on 17 November 2011.

In November 2011, the Group acquired 100% of the equity interest in Lanzhou New World Department Store Co., Ltd. ("Lanzhou Co.") for a consideration of RMB3.5 million from independent third parties. Lanzhou Co. is a limited liability company incorporated in the PRC and is engaged in operations of a department store in Lanzhou.

In January 2012, the Group acquired 100% of the equity interest in Beijing New World Liying Department Store Co., Ltd. ("Beijing Liying Co.") for a consideration of RMB5.0 million from independent third parties. Beijing Liying Co. is a limited liability company incorporated in the PRC and is engaged in operations of a department store in Beijing.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company had not redeemed any of its listed securities during the six months ended 31 December 2011. 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 2011.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the applicable code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the six months ended 31 December 2011.

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 2011.

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 condensed consolidated financial information and the interim report for the six months ended 31 December 2011 and discussed the financial related matters with the management. The unaudited interim results of the Group for the six months ended 31 December 2011 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 HKICPA.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 12 April 2012 to Tuesday, 17 April 2012, both days inclusive, during which period no transfer of share of the Company will be registered. In order to establish entitlements to the interim dividend, all transfers of shares of the Company accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 pm on Wednesday, 11 April 2012.

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

Hong Kong, 28 February 2012

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 Mr. Cheng Chi-kong, Adrian, Mr. Cheung Fai-yet, Philip, Mr. Lin Tsai-tan, David, Mr. Wong Kwok-kan, Kenneth and Ms. Ngan Man-ying, Lynda; 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.