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 2013/2014

HIGHLIGHTS

Same-store sales[(1)] ("SSS") growth of 0.4%.

Revenue improved by 4.8% to HK$2,125.3 million from HK$2,028.6 million of the same period of Previous Year.

Operating profit, excluding other loss and changes in fair value of investment properties, increased by approximately 11.3% to HK$453.8 million from HK$407.7 million of the same period of Previous Year.

Profit for the period, excluding other loss and changes in fair value of investment properties and its related income tax expenses, increased by approximately 14.5% to HK$345.5 million from HK$301.7 million of the same period of Previous Year.

Earnings per share was HK$0.21.

Interim dividend was HK$158.5 million.

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

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

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 2013 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited	Unaudited
		Six months ended 31 December	
		2013	2012
	Notes	***HK$'000***	*HK$'000*
Revenue	*2*	**2,125,287**	2,028,611
Other income	*3*	**69,963**	77,535
Other loss	*4*	**(1,916)**	(32,193)
Changes in fair value of investment properties		**8,447**	46,778
Purchases of and changes in inventories		**(349,391)**	(368,405)
Employee benefit expense		**(316,910)**	(282,823)
Depreciation and amortisation		**(156,352)**	(154,737)
Operating lease rental expense		**(488,846)**	(493,072)
Other operating expenses, net	*5*	**(429,923)**	(399,456)
Operating profit		**460,359**	422,238
Finance income		**25,645**	40,831
Finance costs		**(13,106)**	(28,389)
Finance income, net		**12,539**	12,442
Profit before income tax		**472,898**	434,680
Income tax expense	*6*	**(122,954)**	(103,066)
Profit for the period		**349,944**	331,614
Attributable to equity holders of the Company		**349,944**	331,614
Dividend	*7*	**158,498**	165,242
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*	**0.21**	0.20

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	Unaudited
	Six months ended 31 December	
	2013	2012
	HK$'000	*HK$'000*
Profit for the period	**349,944**	331,614
Other comprehensive income		
Item that will not be reclassified to profit and loss		
Revaluation of property upon reclassification from property, plant and equipment to investment properties	**–**	89,177
– Deferred tax thereof	**–**	(22,294)
	–	66,883
Item that may be reclassified subsequently to profit and loss		
Translation differences	**88,715**	157,189
Other comprehensive income for the period, net of tax	**88,715**	224,072
Total comprehensive income for the period	**438,659**	555,686
Total comprehensive income attributable to equity holders of the Company	**438,659**	555,686

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**Unaudited As at 31 December 2013** *HK$'000*	Audited As at 30 June 2013 *HK$'000*
Assets			
Non-current assets			
Property, plant and equipment		**2,053,134**	2,036,213
Investment properties		**4,398,795**	2,431,611
Land use rights		**620,125**	622,831
Goodwill		**1,917,973**	1,332,947
Other non-current assets	*9*	**799,333**	1,965,009
Long-term prepaid rent and rental deposits		**513,123**	488,231
Deferred income tax assets		**150,927**	141,463
		10,453,410	9,018,305
Current assets			
Inventories		**186,340**	152,269
Debtors	*10*	**152,940**	98,365
Prepayments, deposits and other receivables		**807,105**	605,098
Amounts due from fellow subsidiaries		**12,469**	455
Amounts due from related companies		**–**	303
Fixed deposits		**244,339**	485,518
Cash and cash equivalents		**2,926,763**	2,473,952
		4,329,956	3,815,960
Total assets		**14,783,366**	12,834,265
Equity			
Share capital		**168,615**	168,615
Reserves		**6,582,077**	6,301,916
Interim dividend		**158,498**	–
Proposed dividend		**–**	155,125
		6,909,190	6,625,656
Liabilities			
Non-current liabilities			
Long-term borrowings		**602,564**	608,993
Accruals		**652,174**	581,942
Deferred income tax liabilities		**859,740**	511,751
		2,114,478	1,702,686

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Notes	**Unaudited As at 31 December 2013** *HK$'000*	Audited As at 30 June 2013 *HK$'000*
Current liabilities			
Creditors, accruals and other payables	*11*	**5,497,499**	4,292,484
Amounts due to fellow subsidiaries		**3,389**	8,766
Amounts due to related companies		**79,371**	14,131
Current portion of long-term borrowings		**62,057**	50,304
Tax payable		**117,382**	140,238
		5,759,698	4,505,923
Total liabilities		**7,874,176**	6,208,609
Total equity and liabilities		**14,783,366**	12,834,265
Net current liabilities		**(1,429,742)**	(689,963)
Total assets less current liabilities		**9,023,668**	8,328,342

NOTES

1 Basis of preparation

The condensed consolidated financial information of the Company for the six months ended 31 December 2013 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.

The condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 30 June 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

At 31 December 2013, the Group's current liabilities exceeded its current assets by HK$1,429,742,000 (30 June 2013: HK$689,963,000). 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.

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2013, 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 2013, the Group has adopted the following new or revised standards, amendments to existing standards and interpretation which are mandatory for the accounting period beginning on 1 July 2013:

HKFRS 1 (Amendment)	Government Loans
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurements
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKAS 19 (Revised 2011)	Employee Benefits
HKAS 27 (Revised 2011)	Separate Financial Statements
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine
Annual Improvements Project	Annual Improvements 2009-2011 Cycle

The adoption of the new or revised standards, amendments to existing standards and interpretation does not have any effect on the results and financial position of the Group except for certain disclosures in respect of HKFRS 12 and HKFRS 13.

1 Basis of preparation (Continued)

The following new or revised standards, amendments to existing standards and interpretation are mandatory for the accounting periods beginning on or after 1 January 2014 which the Group has not early adopted:

HKFRS 9	Financial Instruments
HKFRS 7 and HKFRS 9 (Amendments)	Financial Instruments: Disclosures – Mandatory Effective Date of HKFRS 9 and Transition Disclosures
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (Revised 2011)	Investment Entities
HKAS 19 (Amendment)	Employee Benefits: Defined Benefit Plans – Employees Contributions
HKAS 32 (Amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
HKAS 36 (Amendment)	Recoverable Amount Disclosures for Non-financial Assets
HKAS 39 (Amendment)	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies
Annual Improvements Project	Annual Improvements 2010-2012 Cycle
Annual Improvements Project	Annual Improvements 2011-2013 Cycle

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

2 Revenue and segment information

	Unaudited	Unaudited
	Six months ended 31 December	
	2013	2012
	HK$'000	*HK$'000*
Commission income from concessionaire sales	**1,351,399**	1,331,066
Sales of goods – direct sales	**410,328**	436,323
Management and consultancy fees	**41,042**	13,996
Rental income	**322,518**	247,226
	2,125,287	2,028,611

The income from concessionaire sales is analysed as follows:

	Unaudited	Unaudited
	Six months ended 31 December	
	2013	2012
	HK$'000	*HK$'000*
Gross revenue from concessionaire sales	**7,621,511**	7,487,713
Commission income from concessionaire sales	**1,351,399**	1,331,066

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.

2 Revenue and segment information (Continued)

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 results. The measurement of segment operating results excludes the effect of other loss, changes in fair value of investment properties and unallocated corporate expenses. In addition, finance income, net is not allocated to segments. There is no inter-segment sales.

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

Six months ended 31 December 2013

	Department store *HK$'000*	**Property investment** *HK$'000*	**Consolidated** *HK$'000*
Segment revenue	**2,030,974**	**94,313**	**2,125,287**
Segment results	**378,612**	**82,243**	**460,855**
Other loss	**(1,916)**	**–**	**(1,916)**
Changes in fair value of investment properties	**–**	**8,447**	**8,447**
Unallocated corporate expenses			**(7,027)**
Operating profit			**460,359**
Finance income			**25,645**
Finance costs			**(13,106)**
Finance income, net			**12,539**
Profit before income tax			**472,898**
Income tax expense			**(122,954)**
Profit for the period			**349,944**

Six months ended 31 December 2012

	Department store	Property investment	Consolidated
Segment revenue	1,971,569	57,042	2,028,611
Segment results	368,555	46,240	414,795
Other loss	(32,193)	–	(32,193)
Changes in fair value of investment properties	–	46,778	46,778
Unallocated corporate expenses			(7,142)
Operating profit			422,238
Finance income			40,831
Finance costs			(28,389)
Finance income, net			12,442
Profit before income tax			434,680
Income tax expense			(103,066)
Profit for the period			331,614

2 Revenue and segment information (Continued)

As at 31 December 2013

	Department store *HK$'000*	Property investment *HK$'000*	Consolidated *HK$'000*
Segment assets	**9,450,221**	**5,179,855**	**14,630,076**
Deferred income tax assets			**150,927**
Corporate assets:			
Cash and cash equivalents			**2,363**
Total assets			**14,783,366**
Six months ended 31 December 2013			
Additions to non-current assets *(Note)*	**832,987**	**645,726**	**1,478,713**
Depreciation and amortisation	**155,952**	**400**	**156,352**

As at 30 June 2013

	Department store *HK$'000*	Property investment *HK$'000*	Consolidated *HK$'000*
Segment assets	8,122,060	4,566,680	12,688,740
Deferred income tax assets			141,463
Corporate assets:			
Cash and cash equivalents			4,037
Others			25
Total assets			12,834,265
Six months ended 31 December 2012			
Additions to non-current assets *(Note)*	104,389	3,596	107,985
Depreciation and amortisation	154,457	280	154,737

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 **2013** *HK$'000*	Unaudited Six months ended 31 December 2012 *HK$'000*
Government grants	**16,119**	9,758
Income from suppliers	**38,861**	49,132
Sundries	**14,983**	18,645
	69,963	77,535

4 Other loss

	Unaudited	Unaudited
	Six months ended 31 December	
	2013	2012
	HK$'000	*HK$'000*
Loss on disposal of property, plant and equipment	**1,916**	32,193

5 Other operating expenses, net

	Unaudited	Unaudited
	Six months ended 31 December	
	2013	2012
	HK$'000	*HK$'000*
Water and electricity	**95,731**	91,180
Selling, promotion, advertising and related expenses	**112,621**	125,769
Cleaning, repairs and maintenance	**44,274**	41,408
Auditor's remuneration	**3,810**	3,611
Share-based payments	**–**	67
Net exchange losses	**4,783**	8,141
Other tax expenses	**105,040**	90,570
Others	**63,664**	38,710
	429,923	399,456

6 Income tax expense

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

	Unaudited	Unaudited
	Six months ended 31 December	
	2013	2012
	HK$'000	*HK$'000*
Current income tax		
– Mainland China taxation	**88,704**	82,151
Over-provision in prior years	**(58)**	(18,966)
Deferred income tax		
– Deferred taxation on undistributed retained earnings	**3,797**	4,333
– Other temporary differences	**30,511**	35,548
	122,954	103,066

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 periods ended 31 December 2012 and 2013.

Subsidiaries of the Group in Mainland China are subject to corporate income tax at a rate of 25% (2012: 25%).

7 Dividend

	Unaudited	Unaudited
	Six months ended 31 December	
	2013	2012
	HK$'000	*HK$'000*
Interim dividend of HK$0.094 (2012: HK$0.098) per share	**158,498**	165,242

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	
	2013	2012
Profit attributable to the equity holders of the Company (HK$'000)	**349,944**	331,614
Weighted average number of ordinary shares in issue (shares in thousands)	**1,686,145**	1,686,145
Basic earnings per share (HK$ per share)	**0.21**	0.20

(b) Diluted

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

During the six months ended 31 December 2012 and 2013, 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 2013 represents the following transactions:

(a) On 4 October 2010, Shenyang New World Department Store Ltd. ("Shenyang Co") entered into agreements 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. 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 2013, the balance in connection with this acquisition was approximately HK$481,307,000 (30 June 2013: HK$475,214,000).

9 Other non-current assets (Continued)

(b) On 8 February 2013, Shenyang Trendy Property Company Limited ("Shenyang Trendy"), a wholly-owned subsidiary of the Company, entered into a cooperation agreement with SYNWH. 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 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 2013, the balance in connection with this transaction was approximately HK$318,026,000 (30 June 2013: HK$222,074,000).

Balance as at 30 June 2013 also included the following transaction:

On 27 May 2013, New World Department Stores Investment (China) Co., Ltd. ("NWDSI"), a wholly-owned subsidiary of the Company, entered into an agreement with independent third parties to acquire the entire equity interest in Shanghai Hongxin Properties Company Limited ("Hongxin Co"), a limited liability company incorporated in the PRC, for a gross consideration of RMB1,250,000,000 (subject to further adjustments). As at 30 June 2013, the Group has made payment of approximately HK$1,217,088,000 and recognised progress payable of approximately HK$50,633,000 in connection with such acquisition. The acquisition was completed on 30 July 2013.

10 Debtors

	Unaudited As at 31 December 2013 *HK$'000*	Audited As at 30 June 2013 *HK$'000*
Trade receivables	**152,940**	98,365

The Group grants credit terms within 30 days in majority.

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

	Unaudited As at 31 December 2013 *HK$'000*	Audited As at 30 June 2013 *HK$'000*
Within period for		
0-30 days	**107,623**	78,098
31-60 days	**13,994**	1,728
61-90 days	**8,915**	821
Over 90 days	**22,408**	17,718
	152,940	98,365

The carrying amounts of debtors approximate their fair values. The 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 dates, is as follows:

	Unaudited As at 31 December 2013 *HK$'000*	Audited As at 30 June 2013 *HK$'000*
Within period for		
0-30 days	**1,784,447**	1,114,797
31-60 days	**1,043,973**	971,181
61-90 days	**279,609**	213,937
Over 90 days	**392,625**	398,570
	3,500,654	2,698,485

Creditors included amounts due to related companies of HK$133,500,000 (30 June 2013: HK$108,903,000) 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 4.8% from HK$2,028.6 million for the six months ended 31 December 2012 (or "1HFY2013" or "the same period of Previous Year") to HK$2,125.3 million for the six months ended 31 December 2013 (or "1HFY2014" or "the Current Period"). Profit for the Current Period, excluding other loss, changes in fair value of investment properties and its related income tax expenses, increased by approximately 14.5% to HK$345.5 million from HK$301.7 million of the same period of Previous Year.

Business Network

In 1HFY2014, the Group operated 43 department stores, with a total gross floor area ("GFA") of about 1,630,790 square meters (sq.m.) and a total operating floor area ("OFA") of about 1,319,200 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. These included 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 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 50.2% of revenue, followed by the South Eastern China Region and the Central Western China Region, accounting for 26.7% and 23.1% respectively.

By Segment

Commission income from concessionaire sales was the major source of income, accounting for 63.6% of revenue. Sales of goods for direct sales and rental income accounted for 19.3% and 15.2% respectively. Management and consultancy fees accounted for 1.9%.

Stores Network Development

During the period under review, the Group completed the acquisition of Shanghai Hongxin Trendy Plaza and Hong Kong New World Department Store – Shanghai Wujiaochang Branch Store ("Shanghai Wujiaochang Branch Store"), which further strengthened its market position in Shanghai. In addition, the Group continued to expand its business scale in the Northern China Region. A new self-owned store in Yantai City, Shandong Province, Yantai New World Department Store ("Yantai Store"), was set up.

As at 31 December 2013, the Group's total GFA was approximately 1,630,790 sq.m., representing an increase of 9.5% year-on-year. Self-owned stores accounted for 1,493,590 sq.m., which marked a 10.8% growth year-on-year.

Operations Strategies

During the period under review, the rapid emergence of e-commerce and changes in consumer behavior posed challenges to traditional retailers. To meet customers' growing need for experiential consumption, the Group has been implementing a forward-looking "rebranding program" to revamp our merchandise mix and enrich our in-store complementary facilities in a responsive manner. To celebrate the Group's 20th anniversary, the operating philosophy of "Something New Everyday" was introduced along with a number of revolutionary measures, such as strengthening private label business, fostering cross-industry collaboration and adopting O2O (Online-to-Offline) marketing model. All of these initiatives have further reinforced and created competitive edge for the Group's business development in the long run.

"Rebranding Program" Heading to Harvest

The Group's "rebranding program" has come to its final stage since its launch in 2009 and has brought a sustainable and steady growth for our business over the years. As at 31 December 2013, taking the newly opened stores into account, about 95% of the total GFA was operating under the rebranded image.

Introducing Private Labels to Improve Gross Profit Margin

The Group set up its first LOL (Love • Original • Life) speciality store in Hong Kong New World Department Store-Shanghai Pujian Branch Store ("Shanghai Pujian Branch Store") in FY2013. During the period under review, three more LOL speciality stores were opened in Shanghai K11, Beijing New World Department Store ("Beijing Store") and Wuhan New World Department Store ("Wuhan Store") respectively to offer trendy and unique private label products procured and sold directly by the Group to increase the gross profit margin of goods from direct sales. The inventory risk is relatively low due to the non-seasonal properties of these merchandises.

Optimizing Merchandise Mix to Enhance Differentiation Advantages

As usual, females continue to be the dominated customer group in the consumer market, therefore the Group continued to carefully maintain the female-oriented category killers, including ladies' formal wear, young ladies' fashion, ladies' footwear, etc. In view of customers' growing consciousness on work-life balance, outdoor recreation merchandises have become a new engine of sales growth. During the period under review, Wuhan New World Trendy Plaza ("Wuhan Trendy Plaza") introduced numerous sports and casual wear brands, such as New Balance, Levi's and Giordano, into the store while Shanghai Pujian Branch Store upgraded its sports area by setting up the first adidas concept store in the district and revamping Nike and FILA concessionaire counters. In addition, a number of stores continued to carry out business revamp by adjusting their merchandise mix and sales area in accordance with their domestic consumer markets to cater for the local needs. Targeting at the middle- and high-end consumers, Shanghai Pujian Branch Store brought in more internationally renowned brands, namely Tissot, Mido, Max Factor, etc. to elevate store's profile and ticket price, further expanding the Group's differentiation advantages.

Strengthening Strategic Partnership with Suppliers

Suppliers have always been the vital business partners to the Group. During the period under review, the Group continued to consolidate and optimize the "Head Office – Region – Store" three-tier supplier management system to maintain partnerships with brands by tiers. Through adopting the "Strategic Brand Management Approach", the Group broadened and deepened the collaboration with core brands to seek greater syneries proactively. On the other hand, the Group facilitated the sharing of suppliers' resources among stores to drive the overall cost on brand maintenance down. To enhance the Group's merchandising capabilities in order to draw more renowned brands into our stores, a national merchandising team and a business planning and management team were set up as the central units to oversee and manage stores' leasing and restructuring projects.

Hybrid Model to Boost Rental Income and Operating Efficiency

The Group has consistently adjusted the ratio of concessionaire and leasing business with the aim to achieve higher operating efficiency. During the period under review, in view of the thriving leasing market, the Group progressively expanded stores' leasing area to capture stable rental income. Shenyang New World Department Store-Zhonghua Road Branch Store ("Shenyang Zhonghua Road Branch Store"), for instance, revamped its sixth floor from offering home furnishing and bedding products to catering area; Yancheng New World Department Store ("Yancheng Store") opened a huge children's playground on the third floor and carried out massive restructuring on its fourth and fifth floors to accommodate catering facilities. Enriched complementary facilities successfully increased foot traffic, lengthened customers' duration of stay, and further stimulated merchandise sales.

Thorough Marketing Reforms to Create Surprises Everyday

Riding on the Group's 20th anniversary in Year 2013, the Group revolutionarily launched a new marketing strategy called "Something New Everyday" and invited famous singer Jam Hsiao to perform NWDS theme song as the curtain raiser for the upcoming marketing activities, showcasing the Group's dedication to deliver a brand new shopping and leisure experience to customers.

During the period under review, the Group achieved a number of cross-industry collaboration with industry leaders from different sectors to present customers a unique shopping experience. During the Christmas and New Year period, the Group launched its first cooperation with the global entertainment giant, Warner Bros., to introduce Tom & Jerry themed festive decorations and activities to the stores. Beijing New World Liying Department Store ("Beijing Liying Store") invited Real Madrid Legends from Spain to stage a performance to showcase their football skills, resulting in over 2,000 onlookers on-site and a substantial sales increase. To foster our stores' artistic and fashion ambience, Beijing Liying Store partnered with the Central Academy of Fine Arts to hold several art exhibitions and charity sales which attracted more than 3,500 visitors in total, while Changsha New World Trendy Plaza ("Changsha Trendy Plaza") co-organized the "Style Hong Kong Show" with the Hong Kong Trade Development Council and transformed the store into a lifestyle hotspot. In addition, the Group launched "Enjoy Extraordinary Property Courtesy" shopping vouchers and "More Fortune" marketing campaign with New World China Land and Chow Tai Fook respectively, strengthening the partnerships with affiliated companies.

Adopting O2O Marketing Model, Opening up New Media Channels

During the period under review, the Group made a remarkable move towards O2O. In October 2013, the Group and Tencent's Tenpay jointly launched NWDS "T-VIP Card", making the Group the first department store chain to put this technology in use. "T-VIP Card" integrates membership card, bonus point earning card and prepaid card into one, so that users can enjoy a truly convenient shopping experience without having to bring the physical card or cash along. The card is currently operational in Shanghai Pujian Branch Store and will be rolled out in other stores subsequently. In addition, the Group upgraded its traditional VIP card to "N-VIP" card in December 2013 to incorporate prepaid function and to enable VIP members to redeem gifts on the Internet and at in-store gift redemption vending machines.

The Group has actively extended new media channels and strived to leverage social entertainment portals, video sharing websites, Weibo and WeChat for promotional purposes. During the period under review, all stores set up their Weibo and WeChat accounts to facilitate online promotions and organized online activities like "Follow with Prizes" and "Share with Rewards" to recruit more followers. For example, forwarding official feeds on "Tailored Feast for You" activity page made users eligible to redeem gifts at our stores to draw online fans to visit our physical stores. As at 31 December 2013, the total number of NWDS' Weibo and WeChat fans reached about 5.8 million and 790,000 respectively. Furthermore, the Group gradually strengthened its in-store Wi-Fi infrastructures while digital walls and touchscreen directories will be installed to provide customers with a more convenient shopping environment.

Optimizing VIP Structure to Engage with High-End Customers

During the period under review, the Group optimized its existing VIP membership structure through VIP database enhancement to help thoroughly analyze their spending frequency, amount, satisfaction level, etc., in order to maintain the top-tier VIP members with special care. Harbin New World Department Store ("Harbin Store"), Beijing New World Trendy Department Store ("Beijing Trendy Store") and Beijing Liying Store respectively organized Russian oil painting appreciation, wine tasting and salmon tasting events exclusively for Platinum VIP members to be in line with their privileged lifestyle. Hong Kong New World Department Store-Shanghai Shaanxi Road Branch Store ("Shanghai Shaanxi Road Branch Store") invited "Perfect House Wife Club" members and their children to English class and Halloween dress-up party to enjoy precious moments with families. As at 31 December 2013, the number of VIP members in Mainland China exceeded 3.9 million, representing a growth of about 12% year-on-year.

Expansion Strategies

The new urbanization has long been identified as the key factor of China's economic transformation and is considered as the major driving force for the future economic growth and the most powerful engine for boosting domestic consumption. The State Council of People's Republic of China published the *China's Urbanization Plan 2012-2020* in June 2013, revealing the government's dedication to push forward the new urbanization policy and accelerate the urbanization process in third-tier and fourth-tier cities. To be in line with the relevant policies, the Group has devised the forward-looking expansion strategies of "radiation city" and "multiple presences within a single city" in early years. In addition to seeking potential projects in core cities, including Beijing, Shanghai, Wuhan, Shenyang and Chengdu, to further strengthen our regional advantages, the Group has also actively extended our presence in third-tier and fourth-tier cities through providing store management services to speed up the expansion of our nationwide store network. Looking forward, the Group plans to increase the total GFA to approximately 2 million sq.m. by FY2016.

In terms of self-owned stores, the Group will continue to increase the number of stores by means of leasing and acquisition. The close relationship with leading property developers and our extensive business network enable us to enjoy competitive and long-term leasing agreements to alleviate operating cost. Besides, intensified industry competition gives rise to elimination. By leveraging our financial strength, the Group has the option to convert managed stores to self-owned stores through acquisition and source high-potential projects for acquisition to gain quick access to strategic locations.

During the period under review, the Group opened a new self-owned store in Yantai City, Shandong Province. Yantai Store is a large-scale "Living Gallery" that adopts a hybrid operation model with a GFA of approximately 55,000 sq.m. to cater for the needs of people from all walks of life. Furthermore, during the period under review, the Group completed two major acquisitions, namely, Shanghai Hongxin Trendy Plaza in July 2013 with a GFA of approximately 43,000 sq.m., and Shanghai Wujiaochang Branch Store in late-November 2013, and converted them to self-owned stores, further extending the Group's presence in Shanghai.

Shanghai 118 Project in Putuo District, Shanghai, with a GFA of approximately 62,600 sq.m., is also expected to commence operation in FY2015. Putuo District will be developed as the fourth largest sub-center in Shanghai with huge development potential. The new store is expected to create greater economies of scale for the Group in Shanghai. Striving to capture the development potential of Hunan Province where is considered as the economic center of Southern China, the Group plans to open another "Living Gallery" with a GFA of approximately 42,200 sq.m. in Hengyang City in FY2015, in addition to the existing Changsha Trendy Plaza.

In terms of managed stores, benefiting from the increasing supply of commercial properties in Mainland China and our decade-long experience in managing third-party department stores, many developers have attempted to recruit us into their premises with the provision of excellent collaborative terms as a means to elevate the attractiveness of their property projects. Regarding the location of managed stores, to act in line with the policy directions of new urbanization and incubating new consumption hotspots, the Group plans to speed up our penetration into emerging cities through increasing the provision of store management services. Adopting this expansion strategy, the Group can bear no store start-up cost while receiving stable management fees at the same time.

In FY2015, the Group's Yantai Shopping Mall Project in Shandong Province is expected to commence operation, with a GFA of approximately 46,000 sq.m., offering a comprehensive shopping experience to local customers alongside with Yantai Store. In FY2016, the Group plans to open a managed store in Keqiao District, Shaoxing City, one of the most economically vibrant areas in Zhejiang Province, with a GFA of approximately 42,300 sq.m. In the same year, the Group will further expand our presence in the Northern China Region and plans to open a managed store with a GFA of approximately 40,000 sq.m. in Jiamusi City, the economic hub in the eastern part of Heilongjiang Province. Furthermore, the Group plans to open two managed stores in Xiangyang City and Xianning City, Hubei Province, with GFA of about 40,000 sq.m. and 25,000 sq.m. respectively, on top of our existing Wuhan store network. Both places are chosen as pilots of "Smart Cities" by the government and are believed to have great development potential. The Group also plans to open a managed store in Nanyang City, Henan Province, with a GFA of approximately 40,000 sq.m., to enlarge the scale advantage with Zhengzhou New World Department Store ("Zhengzhou Store").

In addition to increasing the number of stores, the Group is simultaneously expanding its operating area to present a more comfortable shopping environment to customers. The Phase II Expansion Project of Shenyang Nanjing Street Branch Store is expected to complete in FY2015, with a GFA of approximately 25,400 sq.m. while Shenyang Nanjing Street Branch Store Phase I is currently undergoing redevelopment and will re-open in FY2017, with a GFA of approximately 26,300 sq.m.

OUTLOOK

Despite the uncertain prospect of the global economy, China's economy started to show signs of recovery in the second half of 2013. In response to the external environment, the Chinese government clearly mapped out the route and directions for the national reforms in the Third Plenary Session of the Eighteenth Communist Party of China Central Committee. Besides indicating the needs for economic transformation, the government stressed that the expansion of domestic consumption will become a leading driver of China's economic growth and will exert extended efforts to incubate new consumption hotspots. According to the National Bureau of Statistics of China, the country's Gross Domestic Product ("GDP") maintained a stable growth of 7.7% year-on-year in 2013; the total retail sales of consumer goods exceeded RMB23,438 billion, reporting a real growth of 11.5% year-on-year; the per capita disposable income of urban households achieved a real growth of 7.0%, reflecting the steady development of the consumer market.

Looking forward to 2014, export and consumption growth are expected to improve further while the economy will grow steadily amid the accelerating economic transformation. With a basket of favorable factors, such as the expansion of China's economy, the doubling efforts of promoting new urbanization, the increasing urban and rural household income, the rising middle-class consumption and the unleashed purchasing power of baby-boomers, it is believed that the consumer market will further expand and provide a sustainable growth momentum to the retail industry.

Therefore, the Group is prudent but optimistic about the prospect of the industry and will leverage our innovative mindset to devise comprehensive development strategies in a responsive manner. At the same time, in order to grasp the opportunities arising from the state policy of new urbanization and new consumption hotspots, the Group will carry through the expansion strategies of "radiation city" and "multiple presences within a single city" to extend our presence in third-tier and fourth-tier cities surrounding our existing footholds, and reinforce our leading position in China's department store sector.

FINANCIAL REVIEW

Revenue

Revenue of the Group was HK$2,125.3 million in 1HFY2014 representing an increase of 4.8% from HK$2,028.6 million in 1HFY2013. The growth was primarily contributed from commission from concessionaire sales, management and consultancy fee income and rental income.

Gross sales revenue, comprising gross revenue from concessionaire sales, sales of goods for direct sales, management and consultancy fees, rental income and other income increased by 2.5% to HK$8,465.4 million in 1HFY2014 from HK$8,262.8 million in 1HFY2013. Gross revenue from concessionaire sales increased to HK$7,621.5 million from HK$7,487.7 million in the same period of Previous Year. Commission income rate was slightly declined from 17.8% in the same period of Previous Year to 17.7% in the Current Period. The decline was primarily due to the lower commission rates recorded by new stores and the sales growth of jewelry and gold with lower commission rate. Sales of goods for direct sales was HK$410.3 million in 1HFY2014 compared with HK$436.3 million in 1HFY2013. Direct sales turnover mainly comprised of groceries, housewares and perishables (approximately 55.1%), cosmetic products (approximately 40.4%), ladieswear and menswear (approximately 2.7%), accessories, handbags and underwears (approximately 0.7%). Gross margin of direct sales was 14.9% compared to 15.6% in the same period of Previous Year. The drop was mainly due to the increase in sales contribution from supermarkets which had a lower margin. In 1HFY2014, ladieswear and accessories made up approximately 65.3% of gross revenue from concessionaire sales and sales of goods for direct sales. Menswear and accessories made up approximately 16.7% and sportswear, bread and snacks, electrical appliances, kidswear and personal care products largely made up the rest.

Management and consultancy fees was HK$41.0 million in 1HFY2014 showing an increase by 192.9% from HK$14.0 million in 1HFY2013. The increase was primarily due to the Group received fees for the provision of consultancy services for some new managed store projects which were at pre-opening stage in the Current Period.

Rental income increased by 30.5% to HK$322.5 million in 1HFY2014 mainly due to increased leasing area from firstly, recognising a full-period operation of Yancheng Store and Xi'an Store opened in December 2012; secondly, the newly acquired Shanghai Hongxin Trendy Plaza in July 2013; thirdly, a more efficient use of the leasing area of the existing stores.

Other Income

Other income of the Group was HK$70.0 million in 1HFY2014 compared with HK$77.5 million of 1HFY2013. Other income in 1HFY2014 mainly comprised HK$38.9 million of income from suppliers and HK$16.1 million of government grants.

Other Loss

Loss on disposal of property, plant and equipment of the Group in the Current Period was HK$1.9 million (1HFY2013: HK$32.2 million).

Changes in Fair Value of Investment Properties

Changes in fair value of investment properties in the Current Period was HK$8.4 million mainly related to the properties of Shanghai Hongxin Trendy Plaza and Tianjin New World Department Store.

Purchases of and Changes in Inventories

The purchases of and changes in inventories represented the cost of sales for direct sales of goods. It decreased by 5.2% to HK$349.4 million in 1HFY2014 from HK$368.4 million in 1HFY2013. The percentage of decrease was approximately in line with the change in sales of goods for direct sales.

Employee Benefit Expense

Employee benefit expense increased to HK$316.9 million in 1HFY2014 from HK$282.8 million in 1HFY2013. 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 operation of Yancheng Store and Xi'an Store opened in 1HFY2013 and the newly opened Yantai Store in December 2013. In addition, the newly acquired Shanghai Hongxin Trendy Plaza in July 2013 and the conversion of Shanghai Wujiaochang Branch Store from a managed store to a self-owned store in November 2013 also contributed to the increase of employee benefit expense in the Current Period.

Depreciation and Amortisation

Depreciation and amortisation expense increased from HK$154.7 million in 1HFY2013 to HK$156.4 million in 1HFY2014. This increase was primarily due to a result of recognising a full-period operation of Yancheng Store and Xi'an Store opened in 1HFY2013.

Operating Lease Rental Expense

Operating lease rental expense decreased to HK$488.8 million in 1HFY2014 from HK$493.1 million in 1HFY2013. The operating lease rental expense to gross sale revenue ratio has been improved in the Current Period.

Other Operating Expenses, net

Other operating expenses increased to HK$429.9 million in 1HFY2014 from HK$399.5 million in 1HFY2013. The increase in other operating expenses was primarily due to recognising a full-period operation of Yancheng Store and Xi'an Store opened in 1HFY2013. Moreover, the increase was also due to the newly acquired Shanghai Hongxin Trendy Plaza and Shanghai Wujiaochang Branch Store in July 2013 and November 2013 respectively and the newly opened Yantai Store in December 2013.

Through control of expenses, selling, promotion, advertising and related expenses decreased from HK$125.8 million in 1HFY2013 to HK$112.6 million in 1HFY2014. An increase in other tax expenses from HK$90.6 million in 1HFY2013 to HK$105.0 million in 1HFY2014 was mainly due to the increase of consumption tax arising from sales of gold related products.

Operating Profit

Operating profit was HK$460.4 million in 1HFY2014 compared with HK$422.2 million in 1HFY2013. Operating profit, excluding other loss and changes in fair value of investment properties, increased by approximately 11.3% to HK$453.8 million from HK$407.7 million in the same period of Previous Year.

Income Tax Expense

Income tax expense of the Group was HK$123.0 million in 1HFY2014 compared with HK$103.1 million in 1HFY2013. The effective tax rate of the Group in 1HFY2014 was 26.0%.

Profit for the Period

As a result of the reasons mentioned above, profit for the period was HK$349.9 million compared with HK$331.6 million in the same period of Previous Year. Profit for the period, excluding other loss and changes in fair value of investment properties and its related income tax expense, increased by approximately 14.5% to HK$345.5 million from HK$301.7 million in the same period of Previous Year.

Liquidity and Financial Resources

Cash and fixed deposits of the Group amounted to HK$3,171.1 million as at 31 December 2013 (30 June 2013: HK$2,959.5 million).

The Group's borrowings from banks as at 31 December 2013 was HK$664.6 million (30 June 2013: HK$659.3 million) of which HK$641.2 million (30 June 2013: HK$632.9 million) was secured by pledge of assets.

At 31 December 2013, the Group's current liabilities exceeded its current assets by HK$1,429.7 million (30 June 2013: HK$690.0 million). The Group will continue to monitor rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs and its liabilities and commitments as and when they fall due.

The capital commitment of the Group as at 31 December 2013 were HK$601.0 million, of which HK$600.7 million were contracted but not provided for in the statement of financial position. For the contractual payment of HK$600.7 million, approximately HK$106.4 million was related to the acquisition of land and building located in Shenyang City and approximately HK$405.4 million for the property redevelopment project in Shenyang City.

Pledge of Assets

As at 31 December 2013, investment properties of HK$1,944.6 million (30 June 2013: HK$1,913.9 million) of the Group were pledged as securities for bank borrowings of HK$641.2 million (30 June 2013: HK$632.9 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, 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 2013.

INTERIM DIVIDEND

The Directors have resolved to declare an interim dividend of HK$0.094 per share (2012: HK$0.098 per share) for the six months ended 31 December 2013 to shareholders whose names appear in the register of members of the Company on 14 April 2014. It is expected that the interim dividend will be paid on or about 16 May 2014.

EMPLOYEES, REMUNERATION POLICY AND PENSION SCHEME

As at 31 December 2013, total number of employees for the Group was 6,645 (2012: 7,071). 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 27 May 2013, NWDSI entered into an agreement with independent third parties to acquire the entire equity interest in Hongxin Co, for a gross consideration of RMB1,250.0 million (subject to further adjustments) which includes RMB540.0 million of cash paid for the repayment of a principal amount of the outstanding bank borrowings of Hongxin Co. Hongxin Co owns and operates a shopping mall in Shanghai. The acquisition was completed on 30 July 2013.

In November 2013, Shenyang Co acquired 100% of the equity interest in Shanghai New World Huizi Department Store Co., Ltd. ("Shanghai Huizi Co") for a consideration of RMB280.0 million from independent third parties. Shanghai Huizi Co is a limited liability company incorporated in the PRC and is engaged in the operations of a department store in Shanghai.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company had not redeemed any of its listed securities during the six months ended 31 December 2013. 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 2013.

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 2013.

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 2013.

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 2013 and discussed the financial related matters with the management. The unaudited interim results of the Group for the six months ended 31 December 2013 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 Friday, 11 April 2014 to Monday, 14 April 2014, 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 agent 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 p.m. on Thursday, 10 April 2014.

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, 25 February 2014

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 Mr. Cheng Chi-kong, Adrian, Mr. Cheung Fai-yet, Philip and Mr. Wong Kwok-kan, Kenneth; 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.