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INTERIM RESULTS ANNOUNCEMENT 2021/2022

HIGHLIGHTS

Same-store sales⁽¹⁾ growth for the period was -10.7%. The growth for the same period of Previous Year was -15.3%.

Revenue for the period was HK\$1,084.6 million compared with HK\$1,130.8 million in the same period of Previous Year.

Operating profit for the period was HK\$207.3 million, as compared to operating loss for the period of HK\$42.3 million in the same period of Previous Year.

Profit for the period was HK\$41.0 million, as compared to loss for the period of HK\$203.9 million in the same period of Previous Year.

Earnings per share for the period was HK\$0.02.

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

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2021

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 2021 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited Six months ended 31 December 2021	Unaudited 31 December 2020
	<i>Note</i>	HK\$'000	HK\$'000
Revenue	2	1,084,559	1,130,834
Other income	3	38,453	38,280
Other gains/(losses), net	4	72,149	(326,234)
Changes in fair value of investment properties		(2,965)	619
Purchases of and changes in inventories, net		(261,480)	(309,982)
Purchases of promotion items		(11,418)	(7,237)
Employee benefit expense		(219,658)	(210,315)
Depreciation		(279,187)	(301,156)
Rental expense		(65,088)	(65,112)
Other operating (expenses)/income, net	5	(148,084)	8,019
Operating profit/(loss)		207,281	(42,284)
Finance income		17,205	18,792
Finance costs		(129,211)	(115,932)
Finance costs, net	6	(112,006)	(97,140)
Share of results of associated companies		95,275	(139,424)
		–	(148)
Profit/(loss) before income tax		95,275	(139,572)
Income tax expense	7	(54,273)	(64,310)
Profit/(loss) for the period		41,002	(203,882)
Earnings/(loss) per share attributable to shareholders of the Company during the period (expressed in HK\$ per share)			
– Basic and diluted	9	0.02	(0.12)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 31 December 2021 <i>HK\$'000</i>	Unaudited 2020 <i>HK\$'000</i>
Profit/(loss) for the period	41,002	(203,882)
Other comprehensive income		
<i>Items that will not be reclassified to profit or loss</i>		
Revaluation of properties upon reclassification from property, plant and equipment and right-of-use assets to investment properties	869	–
– Deferred income tax thereof	(217)	–
	652	–
<i>Items that may be reclassified subsequently to profit or loss</i>		
Translation differences	83,680	347,407
Other comprehensive income for the period, net of tax	84,332	347,407
Total comprehensive income for the period	125,334	143,525

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited As at 31 December 2021 <i>HK\$'000</i>	Audited As at 30 June 2021 <i>HK\$'000</i>
Assets			
Non-current assets			
Property, plant and equipment		850,913	869,599
Investment properties		5,547,973	5,255,795
Right-of-use assets		3,426,917	4,019,142
Intangible assets		1,307,896	1,353,451
Interests in associated companies		302	296
Prepayments, deposits and other receivables		225,298	206,850
Finance lease receivables		423,409	335,006
Financial asset at fair value through profit or loss		31,200	–
Deferred income tax assets		<u>112,323</u>	<u>121,662</u>
		<u>11,926,231</u>	<u>12,161,801</u>
Current assets			
Inventories		119,521	89,428
Debtors	10	45,903	34,137
Prepayments, deposits and other receivables		277,084	252,465
Finance lease receivables		75,614	68,524
Amounts due from fellow subsidiaries		4,451	1,861
Amounts due from related companies		47	1
Fixed deposits with original maturity over three months		741,943	728,669
Cash and bank balances		<u>808,368</u>	<u>840,752</u>
		<u>2,072,931</u>	<u>2,015,837</u>
Total assets		<u>13,999,162</u>	<u>14,177,638</u>
Equity and liabilities			
Equity			
Share capital		168,615	168,615
Reserves		<u>4,425,046</u>	<u>4,299,712</u>
Total equity		<u>4,593,661</u>	<u>4,468,327</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(CONTINUED)**

		Unaudited	Audited
		As at	As at
		31 December	30 June
		2021	2021
	<i>Note</i>	HK\$'000	HK\$'000
Liabilities			
Non-current liabilities			
Lease liabilities		3,865,407	4,354,394
Deferred income tax liabilities		<u>990,538</u>	<u>971,246</u>
		<u>4,855,945</u>	<u>5,325,640</u>
Current liabilities			
Creditors	<i>11</i>	1,086,299	993,805
Accruals and other payables		1,121,732	1,032,527
Lease liabilities		616,897	660,400
Contract liabilities		238,984	238,363
Amounts due to fellow subsidiaries		9,746	7,758
Amounts due to related companies		7,602	15,596
Amounts due to ultimate holding company		31,513	–
Borrowings		1,412,797	1,412,275
Tax payable		<u>23,986</u>	<u>22,947</u>
		<u>4,549,556</u>	<u>4,383,671</u>
Total liabilities		<u>9,405,501</u>	<u>9,709,311</u>
Total equity and liabilities		<u>13,999,162</u>	<u>14,177,638</u>

NOTES

1 BASIS OF PREPARATION

The condensed consolidated financial information of the Group for the six months ended 31 December 2021 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 2021, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

As at 31 December 2021, the Group’s current liabilities exceeded its current assets by approximately HK\$2,476,625,000 (30 June 2021: HK\$2,367,834,000). Taking into account the cash flows from operating activities, the track record of successful renewal and refinancing of the borrowings and 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 2021.

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 2021, the Group has adopted the following amendments to existing standards which are mandatory for the accounting period beginning on 1 July 2021:

HKFRS 16 (Amendments)	COVID-19 Related Rent Concessions beyond 30 June 2021
HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS16 (Amendments)	Interest Rate Benchmark Reform – Phase 2

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

2 REVENUE AND SEGMENT INFORMATION

	Unaudited	Unaudited
	Six months ended 31 December	2020
	2021	2020
	HK\$'000	HK\$'000
Commission income from concessionaire sales	398,311	457,741
Sales of goods – direct sales	281,779	334,078
Revenue from contracts with customers	680,090	791,819
Rental income	393,373	332,056
Interest income from finance leases as the lessor	11,096	6,959
	1,084,559	1,130,834

The income from concessionaire sales is analysed as follows:

	Unaudited	Unaudited
	Six months ended 31 December	2020
	2021	2020
	HK\$'000	HK\$'000
Gross revenue from concessionaire sales	2,816,883	3,043,195
Commission income from concessionaire sales	398,311	457,741

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

The CODM considers that the Group has department store and property investment businesses. 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 gains/(losses), net, changes in fair value of investment properties and net unallocated corporate income. In addition, net finance costs and share of results of associated companies are not allocated to segments. The measurement of segment assets excludes interests in associated companies, deferred income tax assets and unallocated corporate assets. There is no inter-segment sales.

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

2 REVENUE AND SEGMENT INFORMATION (CONTINUED)

	Department store business <i>HK\$'000</i>	Property investment business <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<i>Six months ended 31 December 2021</i>			
Segment revenue	<u>950,431</u>	<u>134,128</u>	<u>1,084,559</u>
Segment operating results	56,778	73,999	130,777
Other gains, net	70,365	1,784	72,149
Changes in fair value of investment properties	–	(2,965)	(2,965)
Unallocated corporate income, net			<u>7,320</u>
Operating profit			----- <u>207,281</u>
Finance income			17,205
Finance costs			<u>(129,211)</u>
Finance costs, net			----- <u>(112,006)</u>
			95,275
Share of results of associated companies			<u>–</u>
Profit before income tax			95,275
Income tax expense			<u>(54,273)</u>
Profit for the period			<u>41,002</u>
<i>Six months ended 31 December 2020</i>			
Segment revenue	<u>1,032,619</u>	<u>98,215</u>	<u>1,130,834</u>
Segment operating results	111,040	81,015	192,055
Other losses, net	(326,236)	2	(326,234)
Changes in fair value of investment properties	–	619	619
Unallocated corporate income, net			<u>91,276</u>
Operating loss			----- <u>(42,284)</u>
Finance income			18,792
Finance costs			<u>(115,932)</u>
Finance costs, net			----- <u>(97,140)</u>
			(139,424)
Share of results of associated companies			<u>(148)</u>
Loss before income tax			(139,572)
Income tax expense			<u>(64,310)</u>
Loss for the period			<u>(203,882)</u>

2 REVENUE AND SEGMENT INFORMATION (CONTINUED)

	Department store business HK\$'000	Property investment business HK\$'000	Consolidated HK\$'000
<i>As at 31 December 2021</i>			
Segment assets	7,815,115	6,037,742	13,852,857
Interests in associated companies	302	–	302
Deferred income tax assets	111,078	1,245	112,323
Unallocated corporate assets:			
Cash and bank balances			2,219
Others			<u>31,461</u>
Total assets			<u>13,999,162</u>
<i>Six months ended 31 December 2021</i>			
Additions to non-current assets (Note 1)	100,302	4,890	105,192
Depreciation	277,083	2,104	279,187
Impairment loss on goodwill	69,611	–	69,611
Impairment loss on property, plant and equipment and right-of-use assets	64,107	–	64,107
Loss allowance of deposits and receivables	6,522	–	6,522
Gain on derecognition of lease liabilities and right-of-use assets, net (Note 2)	(201,865)	–	(201,865)
Gain on derecognition of right-of-use assets, net	(38,726)	–	(38,726)
Loss on derecognition and lease modification of finance lease receivables, net	<u>25,748</u>	<u>–</u>	<u>25,748</u>
<i>As at 30 June 2021</i>			
Segment assets	8,483,684	5,550,681	14,034,365
Interests in associated companies	296	–	296
Deferred income tax assets	121,662	–	121,662
Unallocated corporate assets:			
Cash and bank balances			21,066
Others			<u>249</u>
Total assets			<u>14,177,638</u>
<i>Six months ended 31 December 2020</i>			
Additions to non-current assets (Note 1)	27,282	963	28,245
Depreciation	300,785	371	301,156
Impairment loss on goodwill	194,253	–	194,253
Impairment loss on property, plant and equipment and right-of-use assets	151,811	–	151,811
Reversal of loss allowance of receivables	(9,426)	(1,761)	(11,187)
Loss on derecognition of right-of-use assets, net	3,767	–	3,767
Loss on derecognition and lease modification of finance lease receivables, net	<u>5,201</u>	<u>–</u>	<u>5,201</u>

Notes:

- (1) Additions to non-current assets represent additions to non-current assets other than financial instruments, interests in associated companies and deferred income tax assets.
- (2) Gain on derecognition of lease liabilities and right-of-use assets, net was due to downsizing and closure of certain department stores during the six months ended 31 December 2021.

3 OTHER INCOME

	Unaudited Six months ended 31 December 2021 HK\$'000	Unaudited 2020 HK\$'000
Government grants	6,763	6,848
Income from suppliers	17,107	11,338
Service fee income	545	988
Carpark income	5,029	4,897
Other compensation income	7,717	11,995
Sundries	1,292	2,214
	<u>38,453</u>	<u>38,280</u>

4 OTHER GAINS/(LOSSES), NET

	Unaudited Six months ended 31 December 2021 HK\$'000	Unaudited 2020 HK\$'000
Loss on deregistration of a subsidiary	(1,707)	–
Impairment loss on goodwill (<i>Note 1</i>)	(69,611)	(194,253)
Impairment loss on property, plant and equipment and right-of-use assets (<i>Note 1</i>)	(64,107)	(151,811)
Impairment loss on prepayments, deposits and other receivables	(1,810)	–
Gain on derecognition of lease liabilities and right-of-use assets, net (<i>Note 2</i>)	201,865	–
Gain/(loss) on disposal of property, plant and equipment and derecognition of right-of-use assets, net	30,661	(5,506)
Loss on derecognition of finance lease receivables, net	(25,946)	(5,528)
Gain on lease modification of finance lease receivables	198	327
Rent concessions (<i>Note 3</i>)	2,606	30,537
	<u>72,149</u>	<u>(326,234)</u>

Notes:

- (1) The impairment provisions were made to reflect management's latest plan for mainly two department stores (2020: six department stores) in light of the latest market environment and the management's assessment on the business prospect thereof.
- (2) Gain on derecognition of lease liabilities and right-of-use assets, net was due to downsizing and closure of certain department stores during the six months ended 31 December 2021.
- (3) Rent concessions represent the change in lease payment directly related to COVID-19. The Group has applied the practical expedient to all rent concessions that meet the conditions in the amendments to HKFRS16.

5 OTHER OPERATING (EXPENSES)/INCOME, NET

	Unaudited Six months ended 31 December 2021 HK\$'000	Unaudited 2020 HK\$'000
Selling, promotion, advertising and related expenses	(16,708)	(18,951)
Cleaning, repairs and maintenance	(29,310)	(27,815)
Auditor's remuneration		
– Audit services	(1,788)	(1,788)
– Non-audit services	(733)	(702)
Net exchange gains	25,774	109,086
Other tax expenses	(72,405)	(64,776)
(Loss allowance)/reversal of loss allowance of receivables	(4,712)	11,187
Compensation expenses (<i>Note</i>)	(40,485)	–
Others	(7,717)	1,778
	<u>(148,084)</u>	<u>8,019</u>

Note:

Compensation expenses represent the compensation to the affected parties related to the early termination of the operation of certain department stores.

6 FINANCE COSTS, NET

	Unaudited Six months ended 31 December 2021 HK\$'000	Unaudited 2020 HK\$'000
Interest income on bank deposits	(17,205)	(18,792)
Interest expense on bank loans	4,175	5,177
Interest expense on shareholder's loans	4,279	4,500
Interest expense on lease liabilities	120,757	106,255
	<u>129,211</u>	<u>115,932</u>
	<u>112,006</u>	<u>97,140</u>

7 INCOME TAX EXPENSE

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

	Unaudited Six months ended 31 December 2021 <i>HK\$'000</i>	Unaudited 2020 <i>HK\$'000</i>
Current income tax		
– Mainland China taxation	41,818	45,213
– Over-provision in prior years	(165)	(69)
Deferred income tax		
– Temporary differences	<u>12,620</u>	<u>19,166</u>
	<u>54,273</u>	<u>64,310</u>

Taxation has been provided at the tax rates prevailing in the tax jurisdictions in which the members of the Group operate. No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profit in Hong Kong for the six months ended 31 December 2021 and 2020.

Subsidiaries of the Company in Mainland China are subject to corporate income tax at a rate of 25% (2020: 25%).

8 DIVIDENDS

The Directors have resolved not to recommend an interim dividend for the six months ended 31 December 2021 (2020: HK\$Nil).

9 EARNINGS/(LOSS) PER SHARE

(a) Basic

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

	Unaudited Six months ended 31 December 2021	Unaudited 2020
Profit/(loss) attributable to shareholders of the Company (HK\$'000)	<u>41,002</u>	<u>(203,882)</u>
Weighted average number of ordinary shares in issue (shares in thousands)	<u>1,686,145</u>	<u>1,686,145</u>
Basic earnings/(loss) per share (HK\$ per share)	<u>0.02</u>	<u>(0.12)</u>

9 EARNINGS/(LOSS) PER SHARE (CONTINUED)

(b) Diluted

Diluted earnings/(loss) per share for the six months ended 31 December 2021 and 2020 are equal to basic earnings/(loss) per share as there was no dilutive potential ordinary share in issue.

10 DEBTORS

	Unaudited As at 31 December 2021 <i>HK\$'000</i>	Audited As at 30 June 2021 <i>HK\$'000</i>
Debtors	52,814	42,756
Less: loss allowance	<u>(6,911)</u>	<u>(8,619)</u>
Debtors, net	<u>45,903</u>	<u>34,137</u>

The Group grants credit terms within 30 days in majority. Ageing analysis of the net debtors, based on the invoice dates, is as follows:

	Unaudited As at 31 December 2021 <i>HK\$'000</i>	Audited As at 30 June 2021 <i>HK\$'000</i>
Within period for		
0–30 days	41,732	29,242
31–60 days	2,057	969
61–90 days	976	831
Over 90 days	<u>1,138</u>	<u>3,095</u>
	<u>45,903</u>	<u>34,137</u>

The debtors were primarily denominated in Renminbi.

11 CREDITORS

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

	Unaudited	Audited
	As at	As at
	31 December	30 June
	2021	2021
	HK\$'000	HK\$'000
Within period for		
0–30 days	927,831	832,947
31–60 days	46,164	38,687
61–90 days	13,698	14,438
Over 90 days	98,606	107,733
	1,086,299	993,805

The creditors were primarily denominated in Renminbi.

Creditors included amounts due to related companies of approximately HK\$58,561,000 (30 June 2021: HK\$58,600,000) which were unsecured, interest free and repayable within 90 days.

12 EVENT AFTER THE REPORTING PERIOD

In January 2022, the management of the Group decided to close the Chengdu New World Department Store in the first quarter of 2022. Based on the management's best estimate, the closure will not have a material adverse effect on the financial results for the year ending 30 June 2022.

BUSINESS REVIEW

Results Summary

With the continuous improvement of the domestic business environment, the steady growth of residents' disposable income has laid the foundation for consumption upgrade. The merchandise retail sector continues to play a key role in promoting consumption upgrade and high-quality economic development. Propelled by consumption upgrading, the retail industry has been presenting such development trends of industry chain digitalisation and channel diversification. To adapt to the changing consumer demands, the Group keeps innovating its business pattern, improving service quality and revisiting the nature of retail. Meanwhile, new categories of operation and models are constantly emerging and gain extensive popularity amongst consumers. Ongoing expansion of online retail and enhanced online-offline integration have driven the retail sector towards development of intelligence and digitalisation.

For the six months ended 31 December 2021, the Group's revenue for the period was HK\$1,084.6 million, compared with HK\$1,130.8 million in the same period of the previous year. In terms of segment, the Group's revenue for the period was mainly derived from commission income from concessionaire sales which accounted for 36.7%. This was followed by rental income which took up 36.3%, sales of goods for direct sales which took up 26.0%, and interest income from finance leases as the lessor, which took up 1.0%. The Group's profit for the period was HK\$41.0 million. Earnings per share for the period was HK\$0.02.

Normalisation and recurrence of the pandemic with the fast-changing competitive external business environment remain to be the challenges for the Group and other industry peers. The Group has been actively implementing an array of measures to promote its operation and development, including deeper execution of strong internal control for cost and efficiency enhancement, continuous optimisation of store operation models, strengthened capability of product selection and sales as well as quicker expansion of online business operation and marketing, all in an effort to further bolster our core competitiveness, explore the innovation and upgrade of retail business models, and accelerate the development of principal operations.

Business Network

As at 31 December 2021, the Group operated 27 department stores and shopping malls in Mainland China, covering 16 key locations across the country which included Beijing, Shanghai, Chongqing, Chengdu, Wuhan, Nanjing, Tianjin, Changsha, Zhengzhou, Xi'an, Yantai, Shenyang, Kunming, Lanzhou, Yanjiao and Mianyang. The total gross floor area was about 1,080,200 square metres.

To consolidate and optimise its resource allocation, the Group closed two stores during the period under review, namely Harbin Store and Shanghai Qibao Branch Store.

OPERATIONS OVERVIEW

At present, COVID-19 still obviously impacts the domestic retail industry and other real economies, the traditional physical retail industry is still under pressure. Yet, it also accelerates the trend of consumption upgrading and the digital transformation of retail formats.

The Company still focuses on merchandise appeal as its business priority, with the Group's taking a host of measures to grow such appeal, including deeper cooperation with brands, more direct sales categories, exploration of private labels, enhanced brand updates, development of collection retailers, and application of digital platforms.

Meanwhile, with the Group's growing membership volume, membership marketing will focus on strategic subdivision of members, improvement of member privileges and experience, high-end membership service and Omni-channel member access.

As such, we are more proactive in embracing digital transformation. "K Dollar reward system" of New World Development Company Limited Group (the "NWD Group") has broken down business barriers amongst subsidiaries, together with the Group's "New Lab Mini Program", increased consumption scenarios for one another, and stimulated the inception of our consumption ecosystem.

Commercial Complex Business

Department Store and Shopping Mall Business

As a traditional retail operator, in the post-pandemic era, the Group has been keeping a close eye on the changing consumption trends and continuing to target at its goal of transforming and upgrading its business this year. As at 31 December 2021, we owned 27 department stores and shopping malls in Mainland China.

At present, consumption preference has gradually shifted from merely "function-oriented" to platforms that provide in-depth services for consumers. The objective environment affected by the pandemic has not only led to surging public demand for online consumption, but also provided more impetus for consumption upgrade. Accordingly, the Group rode on the trend by promoting the "Dual Upgrading" of its business. It kept integrating digital upgrade into its business and service, with more input in online innovation and business transformation, as well as designated upgrades and adjustments of its product mix and services to drive business expansion. Whilst satisfying the latest consumption needs of consumers, the Group has established its exclusive multi-faceted business integration platform.

In the second half of 2021, the Group carried out successive business reforms and upgrades in various dimensions, which extended beyond improvement and adjustment of shopping space into such aspects as brand upgrade, scenario development and digital reform as the dominant themes during the period.

In the first half of the financial year, we intensified our efforts to upgrade the brand image of our physical stores, which revolved around such elements as “Fashion”, “Sociality” and “Convenience” to optimize the brand, product and service mixes of our shopping malls. We actively explored premium commodity resources, timely adjusted our product portfolio and sales capabilities, and introduced Must-visit Internet Celebrity stores, trendy brands as well as regional first stores further enhanced the overall optimisation of our brands. Meanwhile, we emphasised on adjusting the structure of our apparel merchandises, intensifying the introduction of emerging trendy ladieswear brands, and strengthening our operation management in such respects as products, services and VIP members maintenance, to further tap into sales probability. Through systematic integration of brands and product resources, our brand operation has revolved from scale to professionalism, refinement and quality.

During the period under review, the Group centred on consumer preferences and interests to work on scenario development, and boosted service efficiency via digital technology to enable closer integration of online and offline consumption scenarios. During the period, the Group capitalised on the prevailing popularity of interest-driven e-commerce to develop IP economy, which ramped up its interaction with young customer groups and enabled in-depth collaboration with brands and other industries. For instance, we leveraged on the IP effect of POP MART by launching a special program for the first domestic exhibition of ViViCat, from which a series of extended events took place such as “Baseball Youth” (潮棒青年), “Check In for Gifts” (打卡有禮) and “Trendy Domestic Toys” (國潮國玩). These activities leveraged on the topicality of their own IPs, namely theme and centralised channel traffic, to deliver new immersive scenario-based shopping experience set in multiple online and offline scenarios with high efficiency, which facilitated sales conversion and improvement.

The Group has built its digital membership ecosystem at a faster pace, with deep integration of its online shopping platform “New Lab Mini Program” and offline stores, realising online-offline interconnectivity. The Group has also launched “K Dollar reward system” from the NWD Group, a new membership program that allows membership points to offset prices, thus expanding consumption scenarios and increasing the use of membership points. Since the launch, various events have been carried out on such points and benefits, where approaches such as multiplied points, points for coupons or gifts and membership classes are employed to actively draw traffic to the Group’s different business scenarios and offline physical stores, to boost sales and repeat patronage by members.

In the first half of the financial year, “New Lab” completed a major breakthrough in overall sales, ranking first in the percentage of sales of cosmetics categories which were dominated by female consumers, and recording an evident year-on-year uptick in online cosmetics sales. As at 31 December 2021, “New Lab” had an excess of one million registered members. For the first half of the year, the Group saw a year-on-year increase of 6.7% in the total number of VIP members across all business lines, exceeding six million.

Rental Business

During the period under review, the Group introduced pubs, well-known caterers and other popular brands as new business tenants, as well as fashion operations with fixed consumer groups, such as first stores of a product category and themed blocks. Emphasis was laid on developing experience-oriented operations, breaking through traditional thinking of business introduction, and taking new consumption trends into account by actively presenting consumption experience with social characteristics such as children entertainment, eSports stadiums, live theatres, escape rooms, live action role playing (LARP) games, yoga, and other new feature brands as attractions. Among them are the first stores in their business circles, with trendy images and adequate topics to effectively raise the popularity of shopping malls. By actively introducing diversified consumption scenarios, we managed to extend the time that customers spent in our stores. By incorporating life scenarios and lifestyles, we enhanced the effect of customer concentration and bolstered our sales.

Affected by the recent “Double-Reduction” education policy implemented by the government, our stores saw the operation of their education stores suffer a major blow. As a result, the education stores took the initiative to pursue transformation and switch their subject tutorials to sinology, music and sports training. Our shopping malls also introduced high-end professional sinology for youth such as “Qin Han Hutong” (秦漢胡同) and sports training providers such as “East Star” (東方啟明星).

In terms of services, the Group collaborated with a well-established internet software service system (SAAS system) in the market, to provide tenants with strong support in such areas as membership service and marketing.

Private Label Business

Supermarket and Convenience Store Business

As at 31 December 2021, the Group operated four “New World Supermarket” in Beijing, Lanzhou, Yantai and Wuhan respectively, and one boutique “N+ Convenience Store” in our Beijing Chongwen Store.

Given the successive impact of multiple factors such as pandemic relapse, new lease standards and community group purchase, the overall market performance of hypermarkets remained under pressure. The Group focused on business transformation mainly through internet-based digital marketing and management system upgrade.

During the period under review, the Group actively pressed forward with the transformation of its supermarket business through the adoption of smart equipment and systems. Our supermarkets launched an online home delivery system to speed up online business expansion. More categories of quality lifestyle products were introduced to replace traditional supermarket offerings, such as boosting the introduction and delivery efficiency of fresh products and the ability to gain more footfall in our supermarkets.

Omni-channel digital management system has been placed in our four supermarkets, which will offer stronger support to the Group's supermarket business in such segments as product management, membership operation and marketing activities, and will help the supermarket business attain higher efficiency, lower costs and sales growth in online channel sales. Our physical supermarket stores have also added a number of mobile payment methods and self-service checkout systems to bring more convenient and efficient shopping experience to customers.

Direct Sales Business

As at 31 December 2021, the Group operated nine LOL (Love • Original • Life) (“LOL”) private concept shops. Among them, five are located in Shanghai and four are located in Beijing.

New consumer behaviours that emphasize personalisation, niche and refinement are emerging as the new consumption trend of young people who constitute the main driving force for consumption. LOL integrates the concept of quality lifestyle with a meticulous selection of premium products to enhance customer experience. Meanwhile, respecting nature and sustainable development have been constant aspirations for the Group. As part of our direct sales business, LOL actively responds to environmental protection initiatives from product selection, packaging and sales to consumer use, launching a variety of product introduction models and conveying the concept of a green, environmentally friendly and sustainable lifestyle.

During the period under review, LOL placed the emphasis of its layout on the products of its operating stores.

In terms of merchandising, LOL black label stores worked mostly on introducing well-known quality brands, to meet the demand for quality products and innovative experience among consumer groups. Meanwhile, unique, niche and exquisite products were introduced that aligned with the pursuit of well-heeled young consumer groups, thus driving sales growth and future consumption potential. For LOL gold label stores, efforts were made to phase out products with low orders from customers and increase the purchase of quality products with large orders, to cater to mid-to-high-end consumer groups, bolster repeat patronage and help achieve sales targets.

At the same time, our development and investment on seasonal direct sales merchandises were strengthened during the first half of the financial year, with early planning of festive gifts and more categories of gift boxes. This not only lifted the gross profit margin of our merchandises, but also improved the characteristics of our LOL gift stores.

In respect of operation, our WeChat mini program “LOL Concept Shop” has undergone continuous optimisation since its launch. During the period under review, the mini program saw a steady increase in views and a drastic year-on-year rise in online sales, which raised its share in total sales.

OUTLOOK

Looking ahead, with the pandemic evolving as a normality in the post-pandemic era, volatility and uncertainty will maintain their dominance. Undoubtedly, adapting to changes, seizing opportunities and actively responding to changes will be the primary strategy.

For us, our priority is to properly work on the integration of consumption upgrading with consumer experience. Whether in business category transformation or the upgrade of experience in touch-point scenarios and product appeal, we should closely centre on the consumer perspective, and attract target groups through brand upgrade and better touch-point experience.

In tandem with that, digital transformation and operation should take place in sync, integrate and protect each other. The effect of digitisation largely hinges on refined operation, whilst operational obstacles or difficulties also require digitalisation for solutions, thus truly realising online-offline integration and smart decision-making.

FINANCIAL REVIEW

Revenue and Other Income

Revenue of the Group was HK\$1,084.6 million in 1HFY2022 (or the “Current Period”) (1HFY2021 (or the “same period of Previous Year”): HK\$1,130.8 million). In RMB terms, revenue of the Group was RMB894.8 million in 1HFY2022 (1HFY2021: RMB983.8 million). The drop was primarily due to the continuous impact of the COVID-19 outbreak in Mainland China and the operation of retail business in some regions has been adversely affected and are under greater operational pressure.

Gross sales revenue of the Group, comprising gross revenue from concessionaire sales and sales of goods for direct sales, rental income, interest income from finance leases as the lessor and other income, was HK\$3,541.6 million in 1HFY2022 (1HFY2021: HK\$3,754.6 million).

The Group's merchandise gross margin was 13.1% in the Current Period (1HFY2021: 14.1%). In 1HFY2022, ladieswear, menswear and accessories made up approximately 36.5% of gross revenue from concessionaire sales and sales of goods for direct sales. Gold, jewellery and watch made up approximately 33.5%, sportswear made up approximately 10.2%, cosmetic products made up approximately 10.4%, and kidswear, foodstuffs, electrical appliances, and housewares largely made up the rest. Direct sales revenue in the Current Period mainly comprised sales of cosmetic products (approximately 78.3%), supermarkets and convenience stores (approximately 20.6%), life concept shops, ladieswear, menswear and accessories as well as miscellaneous items (approximately 1.1%).

Rental income increased by 18.5% to HK\$393.4 million in 1HFY2022 from HK\$332.1 million in 1HFY2021, mainly due to expanded rentable area and improved tenant mix in the Current Period.

Interest income from finance leases as the lessor was HK\$11.1 million in 1HFY2022 compared with HK\$7.0 million in 1HFY2021.

Other income of the Group was HK\$38.5 million in 1HFY2022 compared with HK\$38.3 million in 1HFY2021. The slightly increase was primarily due to an increase in income from suppliers of HK\$5.8M in the Current Period. The increase was partially offset by the decrease in other compensation income of HK\$4.3 million and sundries of HK\$0.9 million.

Other Gains/(Losses), Net

Net other gains of the Group in the Current Period was HK\$72.1 million which was primarily resulted from HK\$201.9 million net gain on derecognition of lease liabilities and right-of-use assets due to downsizing of Tianjin New World Department Store and closure for Harbin New World Department Store and Hong Kong New World Department Store – Shanghai Qibao Branch Store in 1HFY2022, HK\$30.7 million net gain on disposal of property, plant and equipment and derecognition of right-of-use assets, and HK\$2.6 million rent concessions granted from certain landlords as a result of the COVID-19 pandemic. The gains were partially offset by HK\$69.6 million of impairment loss on goodwill, HK\$64.1 million of impairment loss on property, plant and equipment and right-of-use assets for mainly two other department stores in light of the latest market environment and the management's assessment on the business prospect thereof, and HK\$25.9 million net loss on derecognition of finance lease receivables in the Current Period.

Changes in Fair Value of Investment Properties

Changes in fair value of investment properties in the Current Period was HK\$3.0 million which was mainly related to properties in Shanghai City, Zhengzhou City and Shenyang City.

Purchases of and Changes in Inventories, Net

The purchases of and net changes in inventories primarily represented the cost of sales for direct sales of goods. It decreased to HK\$261.5 million in 1HFY2022 from HK\$310.0 million in 1HFY2021. The decrease was in line with the decrease in sales of goods for direct sales in the Current Period.

Purchases of Promotion Items

The purchases of promotion items represented the costs of promotion items transferred to the customers of concessionaire sales and direct sales upon their consumption in department stores or redemption of reward points granted under customer loyalty programme. The purchases of promotion items was HK\$11.4 million in 1HFY2022 compared with HK\$7.2 million in 1HFY2021.

Employee Benefit Expense

Employee benefit expense increased to HK\$219.7 million in 1HFY2022 from HK\$210.3 million in 1HFY2021. In RMB terms, employee benefit expense decreased from RMB183.0 million in 1HFY2021 to RMB181.2 million in 1HFY2022, primarily due to the continuous efforts by management to carry out cost control measures as well as the Group's effort in optimisation of human resources to lower the staff costs. The decrease was partially offset by the compensation to the employees of HK\$20.1 million due to downsizing and closure of certain department stores in the Current Period.

Depreciation

Depreciation expense decreased from HK\$301.2 million in 1HFY2021 to HK\$279.2 million in 1HFY2022. The decrease was primarily due to no depreciation charged in the Current Period for property, plant and equipment and right-of-use assets impaired or derecognized in FY2021 and some stores with assets that have been derecognized or fully depreciated in 1HFY2022.

Rental Expense

Rental expense was HK\$65.1 million in 1HFY2022 and 1HFY2021. In RMB terms, rental expense decreased from RMB56.6 million in 1HFY2021 to RMB53.7 million in 1HFY2022, primarily due to the decrease in turnover rent in line with the decrease in sales revenue in the Current Period.

Other Operating (Expenses)/Income, Net

Net other operating expenses was HK\$148.1 million in 1HFY2022, as compared to net other operating income of HK\$8.0 million in 1HFY2021. The decrease was primarily resulted from the decrease of HK\$83.3 million of net exchange gains mainly arising from the

changes on Hong Kong dollar against Renminbi during 1HFY2022, an increase in other tax expenses of HK\$7.6 million, loss allowance of receivables of HK\$4.7 million compared with reversal of loss allowance of receivables of HK\$11.2 million in 1HFY2021, a total of HK\$40.5 million of compensation to the affected parties for downsizing and closure of certain department stores, and an increase in net provision for doubtful debts of HK\$7.8 million in the Current Period.

Operating Profit/(Loss)

Operating profit was HK\$207.3 million in 1HFY2022, as compared to operating loss of HK\$42.3 million in 1HFY2021.

Finance Costs, Net

Net finance costs was HK\$112.0 million in 1HFY2022 compared with HK\$97.1 million in 1HFY2021. The increase was mainly due to an increase in interest expense on lease liabilities of HK\$14.5 million in the Current Period.

Income Tax Expense

Income tax expense of the Group was HK\$54.3 million in 1HFY2022 compared with HK\$64.3 million in 1HFY2021.

Profit/(Loss) for the period

As a result of the reasons mentioned above, profit for the period was HK\$41.0 million, as compared to loss for the period of HK\$203.9 million in the same period of Previous Year.

Liquidity and Financial Resources

Fixed deposits with original maturity over three months and cash and bank balances of the Group amounted to HK\$1,550.3 million as at 31 December 2021 (30 June 2021: HK\$1,569.4 million).

The Group's borrowings as at 31 December 2021 were HK\$1,412.8 million (30 June 2021: HK\$1,412.3 million).

As at 31 December 2021, the Group's was in net cash position of HK\$137.5 million (30 June 2021: HK\$157.1 million).

At 31 December 2021, the Group's current liabilities exceeded its current assets by HK\$2,476.6 million (30 June 2021: HK\$2,367.8 million). The Group will continue to monitor rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs and its liabilities and commitments as and when they fall due.

The capital commitments of the Group as at 31 December 2021 were HK\$48.0 million which were contracted but not provided for in the condensed consolidated statement of financial position.

Pledge of Assets

As at 31 December 2021, the Group did not have any pledge of assets (30 June 2021: Nil).

Treasury Policies

The Group mainly operates in Mainland China with most of the transactions denominated in Renminbi. The Group is mainly exposed to foreign exchange risk arising from Hong Kong dollar against Renminbi. 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 2021.

INTERIM DIVIDEND

The Directors have resolved not to declare an interim dividend for the six months ended 31 December 2021 (2020: nil).

EMPLOYEES, REMUNERATION POLICY AND PENSION SCHEME

As at 31 December 2021, the total number of employees of the Group was 2,689 (31 December 2020: 2,922). The Group ensures that all levels of employees are paid competitively within the standard in the market and employees are rewarded on performance related basis within the framework of the Group's salary and incentives.

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

ACQUISITION AND DISPOSAL

The Group did not have any significant acquisition and disposal during the six months ended 31 December 2021.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company had not redeemed any of its listed securities during the six months ended 31 December 2021. 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 2021.

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 2021.

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 2021. Relevant employees are subject to compliance with written guidelines on no less exacting terms than the Model Code.

AUDIT COMMITTEE

The audit committee of the Company (the “Audit Committee”) was established in accordance with requirements of the Listing Rules for the purposes of reviewing and providing supervision over the Group’s financial reporting process and risk management and internal controls. The Audit Committee consists of the four independent non-executive Directors. The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 31 December 2021 and the unaudited condensed consolidated financial information and the interim report for the six months ended 31 December 2021 and discussed the financial related matters with the management. The unaudited interim results of the Group for the six months ended 31 December 2021 have been reviewed by the Company’s auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

By order of the board of
New World Department Store China Limited
Dr. Cheng Chi-kong, Adrian
Chairman

Hong Kong, 24 February 2022

As at the date of this announcement, the non-executive Directors are Dr. Cheng Chi-kong, Adrian and Ms. Chiu Wai-han, Jenny; the executive Directors are Mr. Cheung Fai-yet, Philip and Ms. Xie Hui-fang, Mandy; 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.