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 2010/2011

HIGHLIGHTS

Same store sales[1] ("SSS") growth of 11.9%.

Revenue improved by 29.9% to HK$1,283.9 million from HK$988.6 million of the same period of Previous Year.

Operating profit increased by 13.9% to HK$401.6 million from HK$352.7 million of the same period of Previous Year.

Profit for the period increased by 8.3% to HK$294.5 million from HK$272.0 million of the same period of Previous Year.

Earnings per share of HK$0.17.

Interim dividend of HK$0.085 per share.

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

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2010

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 2010 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited	Unaudited
		Six months ended 31 December	
		2010	2009
	Note	***HK$'000***	*HK$'000*
Revenue	*3*	**1,283,880**	988,581
Other income	*4*	**99,589**	28,621
Other gains/(losses), net	*5*	**16,533**	(789)
Changes in fair value of investment properties		**14,684**	–
Purchases of and changes in inventories		**(215,584)**	(198,034)
Employee benefit expense		**(187,524)**	(112,466)
Depreciation and amortisation		**(129,228)**	(93,457)
Operating lease rental expense		**(309,909)**	(166,844)
Other operating expenses, net	*6*	**(170,836)**	(92,910)
Operating profit		**401,605**	352,702
Share of loss of an associated company		**–**	(203)
Profit before income tax		**401,605**	352,499
Income tax expense	*7*	**(107,066)**	(80,485)
Profit for the period		**294,539**	272,014
Attributable to equity holders of the Company		**294,539**	272,014
Dividend	*8*	**143,322**	134,892
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in HK$ per share)			
– Basic and diluted	*9*	**0.17**	0.16

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	Unaudited
	Six months ended 31 December	
	2010	2009
	HK$'000	*HK$'000*
Profit for the period	**294,539**	272,014
Fair value (loss)/gain on available-for-sale financial assets	**(6,987)**	10,214
Revaluation of property upon reclassification from property, plant and equipment to investment properties	**2,424**	–
– Deferred tax thereof	**(606)**	–
Release of investment revaluation reserve upon disposal of available-for-sale financial assets	**(22,803)**	–
Translation differences	**71,583**	42
Other comprehensive income for the period, net of tax	**43,611**	10,256
Total comprehensive income for the period	**338,150**	282,270
Total comprehensive income attributable to equity holders of the Company	**338,150**	282,270

There was no tax impact relating to the components of other comprehensive income for the period ended 31 December 2009.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**Unaudited As at 31 December 2010** *HK$'000*	Audited As at 30 June 2010 *HK$'000*
Assets			
Non-current assets			
Property, plant and equipment		**1,946,681**	1,579,406
Investment properties		**245,218**	–
Land use rights		**910,586**	858,711
Goodwill		**620,783**	228,710
Other non-current assets	*10*	**74,585**	206,640
Long-term prepaid rent and rental deposits		**95,051**	153,266
Available-for-sale financial assets		**29,668**	110,998
Deferred income tax assets		**75,917**	44,247
		3,998,489	3,181,978
Current assets			
Inventories		**159,206**	78,501
Debtors	*11*	**62,477**	19,612
Prepayments, deposits and other receivables		**608,653**	362,213
Amounts due from fellow subsidiaries		**1,157**	32,991
Fixed deposits		**1,123,398**	1,272,033
Cash and cash equivalents		**3,162,867**	2,324,666
		5,117,758	4,090,016
Total assets		**9,116,247**	7,271,994
Equity			
Share capital		**168,615**	168,615
Reserves		**4,681,828**	4,482,548
Interim dividend		**143,322**	–
Proposed final dividend		**–**	118,030
		4,993,765	4,769,193
Liabilities			
Non-current liabilities			
Accruals and deferred income		**434,487**	312,305
Deferred income tax liabilities		**164,846**	151,552
		599,333	463,857

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Note	**Unaudited As at 31 December 2010 *HK$'000***	Audited As at 30 June 2010 *HK$'000*
Current liabilities			
Creditors, accruals and other payables	*12*	**3,411,663**	1,934,855
Amounts due to fellow subsidiaries		**32,282**	19,551
Amounts due to related companies		**12,831**	–
Tax payable		**66,373**	84,538
		3,523,149	2,038,944
Total liabilities		**4,122,482**	2,502,801
Total equity and liabilities		**9,116,247**	7,271,994
Net current assets		**1,594,609**	2,051,072
Total assets less current liabilities		**5,593,098**	5,233,050

NOTES

1 General information

The Company was incorporated in the Cayman Islands on 25 January 2007 as an exempted company with limited liability under the Companies Law, (Cap. 22) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Group is engaged in department store operations in Mainland China.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 July 2007.

The condensed consolidated financial information are presented in Hong Kong dollar, unless otherwise stated. The condensed consolidated financial information has been approved for issue by the Board on 23 February 2011.

2 Basis of preparation

The condensed consolidated financial information for the six months ended 31 December 2010 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 2010, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2010, 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 2010, the Group has adopted the following amendments to existing standards and interpretations which are mandatory for the accounting period beginning on 1 July 2010:

HKFRS 1 Amendment	Additional Exemptions for First-time Adopters
HKFRS 1 Amendment	Limited Exemption for Comparative HKFRS 7 Disclosures for First-time Adopters
HKFRS 2 Amendment	Group Cash-settled Share-based Payment Transactions
HK(IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments
HKFRSs Amendment	Improvements to 2009 HKFRSs

The Group adopted Hong Kong Interpretation 5 "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause" effective on 29 November 2010.

In addition, the Group has early adopted HKAS 12 Amendment "Deferred Tax: Recovery of Underlying Assets" for the period ended 31 December 2010.

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

The following new or revised standards, amendments to existing standards and interpretation are mandatory for the accounting periods beginning on or after 1 January 2011 which the Group has not early adopted:

HKFRS 7 Amendment	Disclosures – Transfer of Financial Assets
HKFRS 9	Financial Instruments
HKAS 24 (Revised)	Related Party Disclosures
HK(IFRIC) - Int 14 Amendment	Prepayments of a Minimum Funding Requirement
HKFRSs Amendment	Improvements to 2010 HKFRSs

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.

3 Revenue and segment information

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

The CODM considers that the Group has a single operating and reporting segment which is the operation and management of department stores. CODM assesses the performance of this single segment based on a measure of revenue and operating result before income tax. All revenue is generated in Mainland China and all significant operating assets are in Mainland China.

Revenue includes commission income from concessionaire sales, sales of goods – direct sales, management fees and rental income.

	Unaudited	Unaudited
	Six months ended 31 December	
	2010	2009
	HK$'000	*HK$'000*
Commission income from concessionaire sales	**879,115**	575,787
Sales of goods – direct sales	**260,649**	271,757
Management fees	**48,386**	82,804
Rental income	**95,730**	58,233
	1,283,880	988,581

The income from concessionaire sales is analysed as follows:

	Unaudited	Unaudited
	Six months ended 31 December	
	2010	2009
	HK$'000	*HK$'000*
Gross revenue from concessionaire sales	**4,727,607**	2,966,763
Commission income from concessionaire sales	**879,115**	575,787

4 **Other income**

	Unaudited	Unaudited
	Six months ended	
	31 December	
	2010	2009
	HK$'000	*HK$'000*
Interest income on bank deposits	**23,462**	18,108
Government grants	**6,596**	2,532
Other commission income	**9,812**	2,066
Write-back of other payable	**41,840**	–
Sundries	**17,879**	5,915
	99,589	28,621

5 **Other gains/(losses), net**

	Unaudited	Unaudited
	Six months ended	
	31 December	
	2010	2009
	HK$'000	*HK$'000*
Loss on disposal of property, plant and equipment	**(938)**	(789)
Gain on disposal of available-for-sale financial assets	**17,471**	–
	16,533	(789)

6 **Other operating expenses, net**

	Unaudited	Unaudited
	Six months ended	
	31 December	
	2010	2009
	HK$'000	*HK$'000*
Water and electricity	**83,819**	56,850
Promotion, advertising and related expenses	**61,133**	27,681
Net exchange losses	**6,363**	975
Share-based payments	**1,002**	1,966
Auditor's remuneration	**2,114**	2,027
Others	**16,405**	3,411
	170,836	92,910

7 Income tax expense

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

	Unaudited	Unaudited
	Six months ended 31 December	
	2010	2009
	HK$'000	*HK$'000*
Current income tax		
– Mainland China taxation	**83,068**	82,925
(Over)/under-provision in prior years	**(908)**	208
Deferred income tax	**24,906**	(2,648)
	107,066	80,485

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 profit tax has been made as the Group has no estimated assessable profit in Hong Kong for the period ended 31 December 2009 and 2010.

Subsidiaries of the Group in Mainland China are subject to corporate income tax at a rate of 25% (2009: 25%).

8 Dividend

	Unaudited	Unaudited
	Six months ended 31 December	
	2010	2009
	HK$'000	*HK$'000*
Interim dividend of HK$0.085 (2009: HK$0.080) per share	**143,322**	134,892

9 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	
	2010	2009
Profit attributable to the equity holders of the Company (HK$'000)	**294,539**	272,014
Weighted average number of ordinary shares in issue (shares in thousands)	**1,686,145**	1,686,145
Basic earnings per share (HK$ per share)	**0.17**	0.16

(b) *Diluted*

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

During the six months ended 31 December 2009 and 2010, shares issuable upon exercise of the share options are the only dilutive ordinary shares. There was no potential dilutive effect from the share options.

10 Other non-current assets

On 25 July 2008, Shenyang New World Department Store Ltd. ("Shenyang Co."), a wholly-owned subsidiary of the Company, entered into agreements with a third party to acquire a building, land use right and right of use of carpark located in Shenyang City. Up to the date of completion of the acquisition, the Group has made progress payment of approximately HK$332,386,000 (30 June 2010: HK$194,473,000) and paid direct costs of approximately HK$15,586,000 (30 June 2010: HK$12,167,000) in connection with such acquisition. Upon the completion of the transaction in September 2010, the carrying amounts of these other non-current assets were transferred to investment properties, property, plant and equipment and land use rights, where appropriate.

Balance as at 31 December 2010 represents the following transaction:

On 4 October 2010, Shenyang Co. entered into an agreement with Shenyang New World Hotel Co., Ltd., 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 2010, the Group has made progress payment of approximately HK$53,085,000 and paid direct costs of approximately HK$21,500,000 in connection with such acquisition. As at 31 December 2010, the capital commitment in respect of investment properties, property, plant and equipment and land use rights of the Group in relation to this acquisition is approximately HK$477,768,000.

11 Debtors

	Unaudited As at 31 December 2010 *HK$'000*	Audited As at 30 June 2010 *HK$'000*
Trade receivables	**62,477**	19,612

The Group grants credit terms within 30 to 60 days in majority, based on the invoice date.

Aging analysis of the debtors is as follows:

	Unaudited As at 31 December 2010 *HK$'000*	Audited As at 30 June 2010 *HK$'000*
Within period for		
0 -30 days	**57,432**	17,187
31-60 days	**4,034**	1,501
61-90 days	**240**	866
Over 90 days	**771**	58
	62,477	19,612

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

12 Creditors, accruals and other payables

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

	Unaudited As at 31 December 2010 *HK$'000*	Audited As at 30 June 2010 *HK$'000*
Within period for		
0 -30 days	**1,127,869**	440,938
31-60 days	**546,961**	370,643
61-90 days	**151,854**	93,480
Over 90 days	**260,045**	191,997
	2,086,729	1,097,058

Creditors included amounts due to related companies of HK$31,639,000 (30 June 2010: HK$18,935,000) which were unsecured, interest free and repayable within 90 days.

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

BUSINESS REVIEW

The Group's revenue increased by 29.9% from HK$988.6 million for the six months ended 31 December 2009 (or "1HFY2010" or "the same period of Previous Year") to HK$1,283.9 million for the six months ended 31 December 2010 (or "1HFY2011" or "the Current Period"). Profit for the period grew 8.3% from HK$272.0 million in 1HFY2010 to HK$294.5 million in 1HFY2011.

Business Network

In 1HFY2011, the Group operated 36 department stores, with a total gross floor area ("GFA") of about 1,224,420 square metres and a total operating floor area ("OFA") of about 947,400 square metres. Located in five operational regions, namely Northeastern China, Northern China, Eastern China, Central China and Southwestern China, the stores covered 17 major cities in the PRC. These included Wuhan, Shenyang, Wuxi, Harbin, Tianjin, Ningbo, Beijing, Shanghai, Dalian, Kunming, Lanzhou, Changsha, Chongqing, Chengdu, Anshan, Nanjing and Taizhou. Our business network comprised 28 self-owned stores and 8 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 31.7% of total revenue, followed by the Eastern China Region and the Central China Region, accounting for 26.9% and 25.2%, respectively.

By segment

Commission income from concessionaire sales was the major type of income, accounting for 68.4% of total revenue. Proceeds from direct sales and rental income accounted for 20.3% and 7.5%, respectively. Management fees accounted for 3.8%.

Growth in Nationwide VIP Membership

During the period under review, the membership for both VIP card and platinum VIP card maintained a continual rise. Total combined VIP membership nationwide registered a 15% increase year-on-year, numbering in excess of 1.95 million. VIP sales accounted for about 46% of total sales. Total membership of our three exclusive VIP clubs, namely "Smart Lady Club", "Perfect House Wife Club" and "Platinum Style Club", increased to 650,000 in the Current Period, representing a year-on-year growth of 223%.

Store Network Development

In the period under review, the Group opened one new self-owned store: Beijing New World Qianzi Department Store ("Beijing Qianzi Store"). In addition, Beijing New World Department Store ("Beijing Store") and Chengdu New World Department Store ("Chengdu Store") were converted from the Group's managed stores to self-owned stores in August 2010 and October 2010 respectively, whilst Changsha New World Trendy Plaza ("Changsha Trendy Plaza") was also converted from the Group's managed store to self-owned store since January 2011.

Therefore, as of 31 December 2010, the Group's total GFA was approximately 1,224,420 square metres, up 14.6% from the same period of Previous Year. The total GFA of self-owned stores reached 929,320 square metres, representing an increase of 53.7% when compared with the same period of Previous Year.

Operational Strategy

During the period under review, the rebranding program continued to play a major role in the Group's operational strategy. Endeavoring to revamp all stores into "Fashion Gallery" and "Living Gallery", stores are presented in a shopping ambience that fully demonstrates the essence of "Enriching lives • Enhancing character" by optimizing the merchandise mix and refurnishing the store decoration. Moreover, facing the rapid change of China's retail market, the Group had formulated a series of timely and appropriate operational strategies to deal with the circumstance, in order to boost the Group's competitiveness, to expand our market share as well as to maintain a sound gross profit level for our merchandise.

Our rebranding program pioneered the department store industry with the operational mode of "Fashion style" and "Living style", all stores will gradually be revamped into either "Fashion Gallery" or "Living Gallery". Tianjin New World Department Store ("Tianjin Store"), Shanghai – Hong Kong New World Department Store – Huaihai Branch Store ("Shanghai Huaihai Branch Store"), Shanghai – Hong Kong New World Department Store – Pujian Branch Store ("Shanghai Pujian Branch Store"), Wuhan New World Department Store – Hanyang Branch Store ("Wuhan Hanyang Branch Store"), Harbin New World Department Store ("Harbin Store"), Beijing New World Liying Department Store ("Beijing Liying Store") have all completed the rebranding and store renovation in the period under review. As at the end of December 2010, about 42% of the total GFA of stores that needed renovation and rebranding has been completed. In the Current Period, both the traffic flow and same-store-sales growth of rebranded stores showed improvement, reflecting the positive effect of the rebranding program towards uplifting the edge of store.

In terms of brand strategy, the Group continues its efforts on establishing and consolidating its category killers. In accordance to the consumer needs in specific geographic location, the Group established its category killers by bringing new potential brands in that particular category, building a more tailored brand mix and thus resulted in enhancement of store competitiveness. Besides, the extensive promotion of N-only symbol with the exclusive brand strategy carried on through the channels of e-catalogue, store activities and extra bonus scheme etc. Not only did it strengthen our exclusive brand's recognition, but also drawing in customers on a regular basis to buy trendy clothing and accessories that match their personal styles, which in turn boost sales.

In recent years, the Group strives to enlarge the proportion of direct-sales goods. Followed by the launch of "one-price shop" selling direct-sales products in various stores, we launched a new menswear private label, XII, this year. This was a response to the growing demand of brand products among Chinese consumers with menswear as a product category of promising potential. All these factors brought forth the launch of this private label by New World Department Store. The birth of XII signifies the Group's continuous efforts on direct-sales goods development, taking the effect of profit structure optimization.

Concurrently, the Group maintained sound relationship with suppliers through the platforms of "Top 150 Brands Retainer Scheme", "Strategic Partnership Scheme" and "New World Net". To further strengthen the collaboration with key suppliers, in the Current Period, the Group endeavored to set cooperative targets with these suppliers and to raise the feasibility of greater collaboration based on market and sales data analysis. In addition, we also conducted in-depth analysis on brand structure in terms of its contribution to "sales volume", "profit margin" and "brand awareness". By categorizing brands precisely with its features, it helps improve the Group's retainment and systematic management of concessionaire brands. Apart from brand structure analysis, the Group utilized constant market research to set "Bestselling Brand Chart", ensuring our stores are updated with all the hot brands in market.

For the long-established New World Net of the Group, new featured activities were organized during the period under review to deepen the interaction between store management and our suppliers, fostering a long-term relationship with our suppliers.

Regarding the marketing strategy, the Group acted proactively in the Current Period to boost store traffic flow, retain VIP membership, stimulate VIP's active consumption in stores and enlarge the proportion of VIP sales contribution. To boost store traffic flow, each stores within the Group utilized their innovative spirit to organize various large-scale themed activities. The activities with novel theme drew immediate media coverage and became hot gossips that attracted potential customers to our stores. Taking the advantage of "multiple presences in a single city", the Group launched a number of joint promotions in the period reported that proved effective in raising traffic flow.

Besides, one of the Group's key visual marketing strategies is to carry out thematic store decoration in major festivals each year. During the Christmas period of 2010, the Group launched the Christmas decoration in unified theme of "Fantastic Crown, Dreams Come True" in stores of the Group's six major operating cities. The decoration was accompanied by related themed activity that successfully boosted store traffic and prolonged customers' hour of stay at store.

Targeting to raise the activeness of VIP members, the Group introduced different programs during the period reported, for example, establishing VIP day gradually at most stores in the Current Period, VIP were offered with shopping discounts, welcome-back gift at designated day each month etc.. These programs nurtured the VIPs' habit of shopping at our stores regularly. On the other hand, the Group also offered attractive appeal like gift-redemption stamps upon purchase at certain amount etc. to stimulate VIPs' continuous consumption at our stores within a specific period. In order to magnify our VIP's prestige, the Group distinguished mass customers, VIP and platinum VIP customers with different shopping privileges, for instance, VIP can enjoy multiple bonus and extra shopping benefits whereas platinum VIP may enjoy luxurious prizes as well as immediate rebate. These special privileges greatly enhanced VIP members' loyalty toward New World Department Store and help enlarge the VIP sales contribution.

During the period under review, the Group especially hosted prestigious programs for platinum VIP with extremely high spending power, such as a super platinum VIP gathering co-hosted with the Group's associated companies including Chow Tai Fook, New World China Land. These programs not only served to retain this group of high-spending platinum VIP's loyalty, but also allured top-tier customers from associated companies to become our Group's VIP, beneficial to our VIP membership expansion.

Social networking websites have become increasingly popular, the Group therefore embraced the benefits of online platforms such as mini-blog and blog to promote New World Department Store. In October 2010, the Group first launched its corporate mini-blog of NWDS. In November 2010, we also launched "Get Interactive with NWDS" blog. With these online platforms, we expect to communicate and interact with audience in Hong Kong and the PRC actively, targeting to build brand awareness of New World Department Store among more people.

Expansion Strategy

The Group has been expanding its business network in China by opening new stores, acquiring existing managed stores and other potential department stores as well as developing greenfield projects.

With steady business growth in mainland China, the Group will continue to stick to its expansion strategy by opening 2 to 3 new self-owned stores, contributing about 100,000-120,000 square metres GFA in total per fiscal year. While selecting location for the new stores, the Group will expand our business network from first-tier and second-tier cities to the potential second-tier and third-tier cities as well as continue developing our business by pursuing "Multiple Presences in a Single City" and "Radiation City" strategies, in which we will strengthen the implementation of "Radiation City" strategy by extending our business from cities where have strong presence to the nearby cities, further expanding our regional business network.

Taking Central China Region as an example, we will spread our business from Wuhan, the capital of Hubei Province, to Zhengzhou of Henan Province, the surrounded potential radiation city, by opening Zhengzhou New World Department Store ("Zhengzhou Store"), strengthening the operational edge of our department store in Central China Region. The new store is expected to commence operation in 2011 with a GFA of about 35,500 square metres.

In Southwestern China Region, following the "Western China Development" rolled out by the Central government, the Group will extend its foothold to Mianyang, the radiation city on the periphery of Chengdu, by opening the forth stores in Southwestern China Region, further expanding the business in the region. The new store is located in the east of Lin Yuan Road in Mianyang, where is the heart of new business center. Providing approximately GFA of 35,000 square metres, the new store is scheduled for opening in 2012. Capitalizing on "Radiation City" strategy can minimize the risks associated with entering new markets, achieving intra-regional synergy.

In the meantime, the Group will continue to deploy "Multiple Presences in a Single City" strategy, designating regional core cities including Shenyang in Northeastern China Region, Beijing in Northern China Region, Shanghai in Eastern China Region, Wuhan in Central China Region and Chengdu in Southwestern China Region to enlarge market share as well as achieving cost-effectiveness.

Taking Beijing in Northern China Region as an example, the Group entered the prosperous Chongwen District by opening Beijing Store in 1998 and subsequently opened another store, Beijing Shishang New World Department Store ("Beijing Shishang Store"), in Chongwen District in May 2010. The two stores are positioned as "Living Gallery" and "Fashion Gallery" of differentiated operation to expand customer base as well as gaining greater market share. Moreover, the Group has been setting up a number of stores in other main districts and commercial circles in Beijing outside Chongwen District. Located in Shunyi District, a new community zone, Beijing Qianzi Store is the fifth store in Beijing opened by the Group in September 2010. With a GFA of about 40,000 square metres, the store is positioned as a one-stop shopping "Living Gallery".

After establishing a stronghold in Taiyuen Street business district in Shenyang, the core city of Northeastern China Region, the Group will enter Zhong Street, another prosperous business circle in the city, by opening a new store named Shenyang New World Department Store – Jianqiao Road Branch Store ("Shenyang Jianqiao Road Branch Store"). Themed as a "Living Gallery", the new store is scheduled for opening in 2011 with a GFA of about 34,000 square metres, providing customers with comprehensive shopping experience.

To further expand the Group's retail roadmap, we will also consider to enter the new potential cities, for instance, Xi'an, Capital of Shaanxi Province as well as Shandong Province.

Apart from adding new self-owned stores, the Group also plans to acquire 2–3 stores from existing managed stores and/or other potential projects from third party per fiscal year. The Group acquired the operating rights of Shanghai Pujian Branch Store and Beijing Store in January 2010 and August 2010 respectively. In addition, considering Chengdu city's rapid development and growth potential, the Group acquired the managed Chengdu Store, which is located at Yanshikou business area, in October 2010 and it was then converted to a self-owned store. As the "Rising Strategy of Central China" is gradually rolled out by the Central government, both living and floating population in the cities of Central China will be driven an influx in future, bringing a favorable environment for the development of retail market in the region. Thus, the Group acquired the operating right of Changsha Trendy Plaza, further consolidating the development edge of Central China Region. The Group also agreed to acquire the operating rights of Beijing New World Trendy Department Store ("Beijing Trendy Store") and Chongqing New World Department Store ("Chongqing Store") in January 2011; the two stores will be converted from managed to self-owned.

In addition to acquiring the existing managed stores, the Group will also seek acquisitions in the second-tier and third-tier cities in China that are of splendid growth prospect. The Group will assess the potential targets based on their location, financial position and market reputation. Meanwhile, the Group will also explore the opportunity of pursuing joint Greenfield projects with other developers as well as participating in project planning to develop the department store in line with the Group's operational strategies.

OUTLOOK

According to data from National Bureau of Statistics of China, China's annual gross domestic product ("GDP") recorded 10.3% year-on-year growth for 2010. It is expected that retail and department store sector in China will continue to benefit from its economic development and policy in the next few years. In light of the International Monetary Fund's anticipation, China's GDP is expected to sustain for more than 9% growth per annum during 2011 to 2015; The World Bank Group also forecasted that there will be more than 8% growth per annum on China's GDP in the next 2 years. The figures indicate the economy of China will keep improving and the favourable economic environment will prevail in the coming few years. Meanwhile, China's economic growth driver will gradually steer to domestic demand from export, together with rapid urbanization, demands for consumer goods from domestic customers will rise further, offering opportunities for development in retail and department store sector. Given the Chinese market will continue to benefit from the China's overall positive economic development, amidst the unstable factors of the appreciation of Renminbi and inflation, the Group is optimistic about the development of the industry.

Along the marco-economic development, per capita income in China will continue to improve. According to statistics from National Bureau of Statistics of China, disposable income per capita of urban population in 2010 increased 7.8% to that of previous year; in addition to the "twelfth five-year plan", the purchasing power of urban population is expected to further liberate. The demand for the consumer is expected to increase subsequently. As such, the Group will keep an eye on the development trend and consumption pattern of China's retail market, then to formulate suitable strategy for the time being, so as to strive for a more stable and sustainable business growth in long run.

FINANCIAL REVIEW

Revenue

Revenue of the Group was HK$1,283.9 million in 1HFY2011 representing an increase of 29.9% from HK$988.6 million in 1HFY2010. The growth was primarily contributed from commission income from concessionaire sales and rental income.

Gross sales revenue, comprising gross revenue from concessionaire sales and sales of goods for direct sales, increased by 54.0% to HK$4,988.3 million in 1HFY2011 from HK$3,238.5 million in 1HFY2010. Gross revenue from concessionaire sales increased to HK$4,727.6 million from HK$2,966.8 million in the same period of Previous Year. Commission income rate was 18.6% in the Current Period compared with 19.4% in the same period of Previous Year. Sales of goods for direct sales was HK$260.6 million in 1HFY2011 compared with HK$271.8 million in 1HFY2010. Direct sales turnover was mainly comprised of cosmetic products (approximately 45.2%), groceries, housewares and perishables (approximately 37.0%), accessories, handbags and underwears (approximately 8.4%), ladieswear and menswear (approximately 7.7%). Gross margin of direct sales was 17.3% compared to 27.1% in the same period of Previous Year. In 1HFY2011, ladieswear and accessories made up approximately 58.8% of gross sales revenue. Menswear and accessories made up approximately 23.0% and kidswear, sportswear, watches, gifts and stationery largely made up the rest of gross sales revenue. The above incorporated the results of Beijing Store which was converted into self-owned store in August 2010.

Management fees was HK$48.4 million in 1HFY2011 showing a decrease from HK$82.8 million in 1HFY2010. The decrease was primarily due to the conversion of Shanghai Pujian Branch Store, Beijing Store and Chengdu Store from managed stores to self-owned stores in January, August and October 2010 respectively and there was nil, one month and three months contribution from Shanghai Pujian Branch Store, Beijing Store and Chengdu Store to the management fees in the Current Period respectively as compared with the management fees for full period in the same period of Previous Year.

Rental income increased by 64.4% to HK$95.7 million in 1HFY2011 mainly due to increased leasing area from firstly, the opening of new self-owned Beijing Qianzi Store in September 2010; secondly, the conversion of Beijing Store and Chengdu Store from managed stores to self-owned stores in August and October 2010 respectively and thirdly, recognising a full period's operation of self-owned stores acquired and opened in FY2010. Those stores include Shanghai Pujian Branch Store, Shanghai Baoshan Branch Store, Shanghai Chengshan Branch Store and Beijing Shishang Store.

Other income

Other income of the Group increased from HK$28.6 million in 1HFY2010 to HK$99.6 million in 1HFY2011. The increase was primarily due to a write-back of other payable of HK$41.8 million in the course of operation and the conversion of Beijing Store and Chengdu Store to self-owned stores in August and October 2010 respectively.

Other gains/(losses), net

Other gains, net of the Group was HK$16.5 million and primarily comprised a gain of HK$17.5 million from the disposal of investment in Renhe Commercial Holdings Company Limited.

Changes in fair value of investment properties

Changes in fair value of investment properties in the Current Period was HK$14.7 million related to a property located in Shenyang City.

Purchases of and changes in inventories

The purchases of and changes in inventories represented the cost of sales for direct sales of goods. It increased by 8.9% to HK$215.6 million in 1HFY2011 from HK$198.0 million in 1HFY2010. Gross margin of direct sales in the Current Period was 17.3% reflecting the contributed effect made by direct sales of supermarket of Beijing Store converted from managed store to self-owned store in the Current Period.

Employee benefit expense

Employee benefit expense increased to HK$187.5 million in 1HFY2011 from HK$112.5 million in 1HFY2010. This increase was primarily due to the increase in wages and salaries, retirement benefit costs and other employee benefits as a result of recognising a full period's operation of Shanghai Pujian Branch Store acquired in January 2010, Shanghai Baoshan Branch Store, Shanghai Chengshan Branch Store, Beijing Shishang Store opened in January, April, May 2010 respectively and the newly opened Beijing Qianzi Store in September 2010. In addition, the conversion of Beijing Store and Chengdu Store from managed stores to self-owned stores also contributed to the increase of employee benefit expense in the Current Period.

Depreciation and amortisation

Depreciation and amortisation expense increased from HK$93.5 million in 1HFY2010 to HK$129.2 million in 1HFY2011. This was primarily due to the conversion of Beijing Store and Chengdu Store from managed stores to self-owned stores in August and October 2010 respectively, the recognition of a full period's operation of Shanghai Pujian Branch Store acquired in January 2010, Shanghai Baoshan Branch Store, Shanghai Chengshan Branch Store, Beijing Shishang Store opened in January, April, May 2010 respectively and newly opened Beijing Qianzi Store in September 2010. Moreover, the completion of acquisition of properties and land use rights in Zhengzhou City and Shenyang City in April and September 2010 respectively also contributed to the increase of depreciation and amortisation in the Current Period .

Operating lease rental expense

Operating lease rental expense increased to HK$309.9 million in 1HFY2011 from HK$166.8 million in 1HFY2010, primarily due to the conversion of Beijing Store and Chengdu Store from managed stores to self-owned stores in August and October 2010 respectively, the effect of recognising a full period's operation of Shanghai Pujian Branch Store acquired in January 2010, Shanghai Baoshan Branch Store, Shanghai Chengshan Branch Store, Beijing Shishang Store opened in January, April, May 2010 respectively and the opening of new self-owned Beijing Qianzi Store in September 2010.

Other operating expenses, net

Other operating expenses increased to HK$170.8 million in 1HFY2011 from HK$92.9 million in 1HFY2010. The increase in other operating expenses was mainly due to the conversion of Beijing Store and Chengdu Store from managed stores to self-owned stores in August and October 2010 respectively. Moreover, the increase was due to the effect of recognising a full period's operation of Shanghai Pujian Branch Store acquired in January 2010 and Shanghai Baoshan Branch Store, Shanghai Chengshan Branch Store, Beijing Shishang Store opened in January, April, May 2010 respectively. In addition, the newly opened Beijing Qianzi Store in September 2010 also contributed to the increase of relevant expenses.

Operating profit

Operating profit was HK$401.6 million in 1HFY2011 compared with HK$352.7 million of 1HFY2010.

Income tax expense

Income tax expense increased to HK$107.1 million in 1HFY2011 from HK$80.5 million in 1HFY2010, primarily as a result of the increase in profit before income tax. The current income tax rate in the Current Period was 20.7% compared with 23.5% in the same period of Previous Year. Deferred income tax expense in 1HFY2011 was HK$24.9 million represented the temporary differences resulted in liabilities or assets to be payable or recoverable in the foreseeable future.

Profit for the period

As a result of the reasons mentioned above, profit for the Current Period was HK$294.5 million compared with HK$272.0 million for the same period of Previous Year.

Liquidity and financial resources

Cash and fixed deposits of the Group amounted to HK$4,286.3 million as at 31 December 2010 (30 June 2010: HK$3,596.7 million). The financial resources are sufficient for the operation and development of the Group.

The Group had no borrowings as at 31 December 2010.

The capital commitment of the Group as at 31 December 2010 were HK$576.4 million, of which HK$568.0 million were contracted but not provided for in the statement of financial position. For the contractual payment of HK$568.0 million, approximately HK$477.8 million was related to the acquisition of 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.

Pledge of assets

Assets of the Group were not pledged as at 31 December 2010.

Treasury policies

The Group mainly operates in Mainland China with most of the transactions denominated in Renminbi. The Group is exposed to foreign exchange risk, arising from the exposure of Hong Kong dollars against Renminbi. The Group has not used any forward contracts or currency borrowings 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 2010.

INTERIM DIVIDEND

The Directors has resolved to declare an interim dividend of HK$0.085 per share (2009: HK$0.08 per share) for the six months ended 31 December 2010 to shareholders whose names appear in the register of members of the Company on 15 April 2011. It is expected that the interim dividend will be paid on or about 18 May 2011.

EMPLOYEES, REMUNERATION POLICY AND PENSION SCHEME

As at 31 December 2010, total number of employees for the Group was 5,989 (2009: 3,918). 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

In June 2010, the Group entered into an agreement with Solar Leader Limited ("Solar Leader") and Broad Park Limited ("Broad Park") whereby the Group agreed to acquire from Solar Leader 100% of equity interest in Broad Park and the amount due to Solar Leader (approximately HK$11.5 million) by Broad Park, for an aggregate consideration of RMB150.0 million (equivalent to approximately HK$170.5 million) less the outstanding registered capital (approximately RMB54.9 million, equivalent to approximately HK$62.4 million) as at 18 June 2010 of Beijing Yixi New World Department Store Co., Ltd., a wholly-owned subsidiary of Broad Park. The acquisition was approved by the shareholders of the Company other than New World Development Company Limited and its associates on 27 July 2010, as defined under The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), and completed on 1 August 2010.

In October 2010, New World Department Stores Investment (China) Co., Ltd. ("NWDSIC"), a wholly-foreign-owned enterprise established in the PRC and a wholly-owned subsidiary of the Company, acquired the entire equity interest from independent third parties, including all interest and rights, of Chengdu New World Department Store Co., Ltd., a limited liability company incorporated in the PRC and the operator of Chengdu Store, for an aggregate consideration of RMB2.0 million.

On 4 October 2010, Shenyang New World Department Store Ltd. ("Shenyang Co.") entered into a framework agreement for sale and purchase of property with Shenyang New World Hotel Co., Ltd., a wholly-owned subsidiary of New World China Land Limited and a fellow subsidiary of the Group. 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 RMB456.5 million which is subject to the terms of the agreements for further adjustments.

On 28 December 2010, the Group entered into a sale and purchase agreement with an independent third party, whereby the Group agreed to dispose of 100% of the equity interest in Luxland Limited, a wholly-owned subsidiary of the Group, for an aggregate consideration of RMB385.0 million.

On 31 December 2010, NWDSIC acquired the entire equity interest from independent third parties, including all interest and rights, of Changsha New World Trendy Plaza Co., Ltd., a limited liability company incorporated in the PRC and the operator of Changsha Trendy Plaza, for an aggregate consideration of RMB10.0 million.

In January 2011, the Group agreed to acquire 100% of the equity interest in Beijing New World Trendy Department Store Co., Ltd. ("Beijing Trendy Co.") and Chongqing New World Department Store Co., Ltd. ("Chongqing Co.") for a consideration of RMB5.0 million each, from certain independent parties. Beijing Trendy Co. and Chongqing Co. are engaged in operations of a department store in Beijing and Chongqing respectively.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company had not redeemed any of its listed securities during the six months ended 31 December 2010. 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 2010.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the applicable code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules during the six months ended 31 December 2010.

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 2010.

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 2010 and discussed the financial related matters with the management. The unaudited interim results of the Group for the six months ended 31 December 2010 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 Tuesday, 12 April 2011 to Friday, 15 April 2011, both days inclusive, during which period no transfer of share of the Company will be registered. In order to establish entitlements to the interim dividend, all transfers of shares of the Company accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 pm on Monday, 11 April 2011

For and on behalf of the Board
Dr. Cheng Kar-shun, Henry
Chairman and Non-executive Director

Hong Kong, 23 February 2011

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