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## **INTERIM RESULTS ANNOUNCEMENT 2020/2021**

### **HIGHLIGHTS**

Same-store sales<sup>(1)</sup> growth for the period was -15.3%. The growth for the same period of Previous Year was -12.4%.

Revenue for the period was HK\$1,130.8 million compared with HK\$1,360.7 million in the same period of Previous Year.

Operating loss for the period was HK\$42.3 million, as compared to operating profit for the period of HK\$319.2 million in the same period of Previous Year.

Loss for the period was HK\$203.9 million, as compared to profit for the period of HK\$142.4 million in the same period of Previous Year.

Loss per share for the period was HK\$0.12.

<sup>(1)</sup> 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 2020

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 2020 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>Unaudited Six months ended 31 December 2020</b>	<b>Unaudited 31 December 2019</b>
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
Revenue	2	<b>1,130,834</b>	1,360,748
Other income	3	<b>38,280</b>	59,639
Other losses, net	4	<b>(326,234)</b>	(6,870)
Changes in fair value of investment properties		<b>619</b>	203
Purchases of and changes in inventories, net		<b>(309,982)</b>	(318,383)
Purchases of promotion items		<b>(7,237)</b>	(8,611)
Employee benefit expense		<b>(210,315)</b>	(248,956)
Depreciation		<b>(301,156)</b>	(297,549)
Rental expense		<b>(65,112)</b>	(76,767)
Other operating income/(expenses), net	5	<b>8,019</b>	(144,262)
Operating (loss)/profit		<b>(42,284)</b>	319,192
Finance income		<b>18,792</b>	22,574
Finance costs		<b>(115,932)</b>	(127,293)
Finance costs, net	6	<b>(97,140)</b>	(104,719)
Share of results of associated companies		<b>(139,424)</b>	214,473
		<b>(148)</b>	10
(Loss)/profit before income tax		<b>(139,572)</b>	214,483
Income tax expense	7	<b>(64,310)</b>	(72,036)
(Loss)/profit for the period		<b>(203,882)</b>	142,447
(Loss)/earnings per share attributable to shareholders of the Company during the period (expressed in HK\$ per share)			
– Basic and diluted	9	<b>(0.12)</b>	0.08

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>Unaudited</b>	Unaudited
	<b>Six months ended 31 December</b>	<b>2019</b>
	<b>2020</b>	<b>2019</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
(Loss)/profit for the period	<u>(203,882)</u>	<u>142,447</u>
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Release of reserve upon disposal/deregistration of subsidiaries	–	(1,481)
Translation differences	<u>347,407</u>	<u>(160,535)</u>
Other comprehensive income for the period, net of tax	<u>347,407</u>	<u>(162,016)</u>
Total comprehensive income for the period	<u>143,525</u>	<u>(19,569)</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited As at 31 December 2020 <i>HK\$'000</i>	Audited As at 30 June 2020 <i>HK\$'000</i>
	<i>Note</i>		
Assets			
Non-current assets			
Property, plant and equipment		1,003,603	1,004,982
Investment properties		4,904,918	4,526,518
Right-of-use assets		3,477,292	3,644,746
Intangible assets		1,373,053	1,453,148
Interests in associated companies		293	412
Prepayments, deposits and other receivables		205,790	192,510
Finance lease receivables		293,948	217,855
Deferred income tax assets		<u>133,218</u>	<u>129,203</u>
		<u>11,392,115</u>	<u>11,169,374</u>
Current assets			
Inventories		106,142	95,035
Debtors	10	46,064	40,193
Prepayments, deposits and other receivables		315,068	256,832
Finance lease receivables		56,029	41,294
Amounts due from fellow subsidiaries		2,076	2,484
Amounts due from related companies		2	1
Fixed deposits with original maturity over three months		834,282	153,735
Cash and bank balances		<u>1,005,190</u>	<u>1,360,328</u>
Total current assets		<u>2,364,853</u>	<u>1,949,902</u>
Total assets		<u>13,756,968</u>	<u>13,119,276</u>
Equity and liabilities			
Equity			
Share capital		168,615	168,615
Reserves		<u>4,184,231</u>	<u>4,040,706</u>
Total equity		<u>4,352,846</u>	<u>4,209,321</u>

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

		<b>Unaudited</b>	Audited
		<b>As at</b>	As at
		<b>31 December</b>	30 June
		<b>2020</b>	2020
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
Liabilities			
Non-current liabilities			
Lease liabilities		<b>3,748,459</b>	3,765,923
Deferred income tax liabilities		<u><b>930,002</b></u>	<u>846,372</u>
		<u><b>4,678,461</b></u>	<u>4,612,295</u>
Current liabilities			
Creditors	<i>11</i>	<b>1,297,633</b>	878,364
Accruals and other payables		<b>984,339</b>	913,725
Lease liabilities		<b>707,881</b>	698,671
Contract liabilities		<b>264,512</b>	275,924
Amounts due to fellow subsidiaries		<b>7,243</b>	7,650
Amounts due to related companies		<b>25,651</b>	26,986
Borrowings		<b>1,412,745</b>	1,486,222
Tax payable		<u><b>25,657</b></u>	<u>10,118</u>
Total current liabilities		<u><b>4,725,661</b></u>	<u>4,297,660</u>
Total liabilities		<u><b>9,404,122</b></u>	<u>8,909,955</u>
Total equity and liabilities		<u><b>13,756,968</b></u>	<u>13,119,276</u>

## NOTES

### 1 BASIS OF PREPARATION

The condensed consolidated financial information of the Group for the six months ended 31 December 2020 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 2020, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

As at 31 December 2020, the Group’s current liabilities exceeded its current assets by approximately HK\$2,360,808,000 (30 June 2020: HK\$2,347,758,000). 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 2020.

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 2020, the Group has adopted the following amendments to existing standards which are mandatory for the accounting period beginning on 1 July 2020:

Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Hedge Accounting

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

	<b>Unaudited</b>	Unaudited
	<b>Six months ended 31 December</b>	<b>2019</b>
	<b>2020</b>	<b>2019</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Commission income from concessionaire sales	<b>457,741</b>	600,730
Sales of goods – direct sales	<b>334,078</b>	355,031
	<hr/>	<hr/>
Revenue from contracts with customers	<b>791,819</b>	955,761
Rental income	<b>332,056</b>	397,737
Interest income from finance leases as the lessor	<b>6,959</b>	7,250
	<hr/>	<hr/>
	<b>1,130,834</b>	1,360,748
	<hr/>	<hr/>

The income from concessionaire sales is analysed as follows:

	<b>Unaudited</b>	Unaudited
	<b>Six months ended 31 December</b>	<b>2019</b>
	<b>2020</b>	<b>2019</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Gross revenue from concessionaire sales	<b>3,043,195</b>	3,660,147
	<hr/>	<hr/>
Commission income from concessionaire sales	<b>457,741</b>	600,730
	<hr/>	<hr/>

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 losses, net, changes in fair value of investment properties and net unallocated corporate income or expenses. 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 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			----- (42,284)
Finance income			18,792
Finance costs			<u>(115,932)</u>
Finance costs, net			----- (97,140)
Share of results of associated companies			(139,424) <u>(148)</u>
Loss before income tax			(139,572)
Income tax expense			<u>(64,310)</u>
Loss for the period			<u>(203,882)</u>
<i>Six months ended 31 December 2019</i>			
Segment revenue	<u>1,249,858</u>	<u>110,890</u>	<u>1,360,748</u>
Segment operating results	239,741	87,691	327,432
Other losses, net	(6,870)	–	(6,870)
Changes in fair value of investment properties	–	203	203
Unallocated corporate expenses, net			<u>(1,573)</u>
Operating profit			----- 319,192
Finance income			22,574
Finance costs			<u>(127,293)</u>
Finance costs, net			----- (104,719)
Share of results of associated companies			214,473 <u>10</u>
Profit before income tax			214,483
Income tax expense			<u>(72,036)</u>
Profit for the period			<u>142,447</u>



## 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>As at 31 December 2020</i>			
Segment assets	8,415,189	5,203,719	13,618,908
Interests in associated companies	293	–	293
Deferred income tax assets	133,218	–	133,218
Unallocated corporate assets:			
Cash and bank balances			4,299
Others			250
Total assets			<u>13,756,968</u>
<i>Six months ended 31 December 2020</i>			
Additions to non-current assets ( <i>Note</i> )	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	5,201	–	5,201
	<u>5,201</u>	<u>–</u>	<u>5,201</u>
<i>As at 30 June 2020</i>			
Segment assets	8,146,316	4,820,614	12,966,930
Interests in associated companies	412	–	412
Deferred income tax assets	129,203	–	129,203
Unallocated corporate assets:			
Cash and bank balances			22,499
Others			232
Total assets			<u>13,119,276</u>
<i>Six months ended 31 December 2019</i>			
Additions to non-current assets ( <i>Note</i> )	371,636	2,110	373,746
Depreciation	297,144	405	297,549
Impairment loss on goodwill	21,111	–	21,111
Impairment loss on property, plant and equipment	299	–	299
Impairment loss on prepayments and receivables	5,023	–	5,023
	<u>5,023</u>	<u>–</u>	<u>5,023</u>

*Note:*

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

### 3 OTHER INCOME

	Unaudited Six months ended 31 December 2020 HK\$'000	Unaudited 2019 HK\$'000
Government grants	6,848	10,896
Income from suppliers	11,338	25,686
Service fee income	988	2,417
Carpark income	4,897	4,558
Other compensation income	11,995	13,193
Sundries	2,214	2,889
	<u>38,280</u>	<u>59,639</u>

### 4 OTHER LOSSES, NET

	Unaudited Six months ended 31 December 2020 HK\$'000	Unaudited 2019 HK\$'000
Gain on disposal/deregistration of subsidiaries or associated companies	–	(12,388)
Impairment loss on goodwill ( <i>Note 1</i> )	194,253	21,111
Impairment loss on property, plant and equipment and right-of-use assets ( <i>Note 1</i> )	151,811	299
Impairment loss on prepayments, deposits and other receivables	–	4,444
Loss/(gain) on disposal of property, plant and equipment and derecognition of right-of-use assets, net	5,506	(6,596)
Loss on derecognition of finance lease receivables, net	5,528	–
Gain on lease modification of finance lease receivables	(327)	–
Rent concessions ( <i>Note 2</i> )	(30,537)	–
	<u>326,234</u>	<u>6,870</u>

*Notes:*

- (1) The impairment provisions were made to reflect management's latest plan for mainly six department stores (2019: one department store) in light of the latest market environment and the management's assessment on the business prospect thereof.
- (2) Rent concessions represent the change in lease payment directly related to COVID-19.

## 5 OTHER OPERATING INCOME/(EXPENSES), NET

	Unaudited Six months ended 31 December 2020 HK\$'000	Unaudited 2019 HK\$'000
Selling, promotion, advertising and related expenses	(18,951)	(19,404)
Cleaning, repairs and maintenance	(27,815)	(26,898)
Auditors' remuneration		
– Audit services	(1,788)	(2,527)
– Non-audit services	(702)	(1,242)
Net exchange gains	109,086	22,181
Other tax expenses	(64,776)	(73,089)
Reversal of loss allowance/(loss allowance) of receivables	11,187	(579)
Compensation expenses ( <i>Note</i> )	–	(37,088)
Others	<u>1,778</u>	<u>(5,616)</u>
	<u><b>8,019</b></u>	<u>(144,262)</u>

*Note:*

Compensation expenses represent the compensation to the affected parties related to the early closed department stores.

## 6 FINANCE COSTS, NET

	Unaudited Six months ended 31 December 2020 HK\$'000	Unaudited 2019 HK\$'000
Interest income on bank deposits	----- (18,792) -----	----- (22,574) -----
Interest expense on bank loans	5,177	12,001
Interest expense on shareholder's loans	4,500	10,616
Interest expense on lease liabilities	<u>106,255</u>	<u>104,676</u>
	<u><b>115,932</b></u>	<u>127,293</u>
	<u><b>97,140</b></u>	<u>104,719</u>

## 7 INCOME TAX EXPENSE

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

	<b>Unaudited</b> <b>Six months ended 31 December</b> <b>2020</b> <b>HK\$'000</b>	Unaudited <b>31 December</b> <b>2019</b> <b>HK\$'000</b>
Current income tax		
– Mainland China taxation	45,213	68,709
– Over-provision in prior years	(69)	(1,891)
Deferred income tax		
– Temporary differences	<u>19,166</u>	<u>5,218</u>
	<u><b>64,310</b></u>	<u><b>72,036</b></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 2020 and 2019.

Subsidiaries of the Company in Mainland China are subject to corporate income tax at a rate of 25% (2019: 25%).

## 8 DIVIDENDS

The Directors have resolved not to recommend an interim dividend for the six months ended 31 December 2020 (2019: HK\$Nil).

## 9 (LOSS)/EARNINGS PER SHARE

### (a) Basic

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

	<b>Unaudited</b> <b>Six months ended 31 December</b> <b>2020</b>	Unaudited <b>31 December</b> <b>2019</b>
(Loss)/profit attributable to shareholders of the Company (HK\$'000)	<u>(203,882)</u>	<u>142,447</u>
Weighted average number of ordinary shares in issue (shares in thousands)	<u>1,686,145</u>	<u>1,686,145</u>
Basic (loss)/earnings per share (HK\$ per share)	<u>(0.12)</u>	<u>0.08</u>

## 9 (LOSS)/EARNINGS PER SHARE (CONTINUED)

### (b) Diluted

Diluted (loss)/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 2020 and 2019, there was no dilutive potential ordinary share.

## 10 DEBTORS

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2020</b>	2020
	<b>HK\$'000</b>	HK\$'000
Debtors	<b>60,357</b>	64,187
Less: loss allowance	<u><b>(14,293)</b></u>	<u>(23,994)</u>
Debtors, net	<u><b>46,064</b></u>	<u>40,193</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:

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2020</b>	2020
	<b>HK\$'000</b>	HK\$'000
Within period for		
0–30 days	<b>45,546</b>	35,125
31–60 days	<b>97</b>	729
61–90 days	<b>13</b>	587
Over 90 days	<u><b>408</b></u>	<u>3,752</u>
	<u><b>46,064</b></u>	<u>40,193</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:

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2020</b>	2020
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Within period for		
0–30 days	<b>1,052,610</b>	701,666
31–60 days	<b>102,527</b>	69,007
61–90 days	<b>37,675</b>	2,809
Over 90 days	<b><u>104,821</u></b>	<u>104,882</u>
	<b><u>1,297,633</u></b>	<u>878,364</u>

The creditors were primarily denominated in Renminbi.

Creditors included amounts due to related companies of approximately HK\$70,465,000 (30 June 2020: HK\$50,812,000) which were unsecured, interest free and repayable within 90 days.

## **BUSINESS REVIEW**

### **Results Summary**

Operating under grim domestic and external environments, the Group focused on reducing costs and enhancing operational efficiency to ensure steady business development.

For the six months ended 31 December 2020, the Group's revenue for the period was HK\$1,130.8 million, compared with HK\$1,360.7 million in the same period of 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 40.5%. This was followed by sales of goods for direct sales, which took up 29.5%; rental income, which took up 29.4%; and interest income from finance leases as the lessor, which took up 0.6%.

The Group's loss for the period was HK\$203.9 million. Loss per share for the period was HK\$0.12.

### **Business Network**

To consolidate and focus its resources, the Group closed one store during the period under review, namely Wuhan New World Trendy Plaza (“Wuhan Trendy Plaza”).

As at 31 December 2020, the Group operated 29 department stores and shopping malls, with a total gross floor area of about 1,209,350 square metres. These stores were located in two operating regions in the Northern China and the Southern China, covering 17 key locations across the country. The Northern China Region covers Beijing, Changsha, Harbin, Lanzhou, Shenyang, Tianjin, Wuhan, Xi'an, Yanjiao, Yantai and Zhengzhou; the Southern China Region covers Chengdu, Chongqing, Kunming, Mianyang, Nanjing and Shanghai.

## **OPERATIONS OVERVIEW**

### **Department Store Business**

During the second half of 2020, the pandemic situation remained unstable at home and abroad, and economic conditions were poor. Consumers in the mainland became more prudent with managing and spending their money. As a result, customer traffic to stores plummeted and sales were unsatisfactory. The impact sustained by COVID-19 also led to greater operational pressure in the retail business for some regions, which in turn affected the overall performance of the Group during the period under review.

Alongside implementing proper pandemic control measures and stabilising its operations, the Group continued to put forward digitised upgrade and transformation, as well as the integrated operation of online and offline retail against the backdrop of constant changes in the external environment. In terms of its online setup, the Group expedited the upgrade of its “New Lab” online shopping platform, riding on a WeChat mini-programme to materialise the “one store, one e-shop” construction. A select shop was also meticulously curated to converge the premium resources of all stores and to interface with logistics and carriers, in hopes that consumers across the country could be more conveniently served. As at 31 December 2020, the number of registered VIP members on “New Lab” soared to nearly 680,000. Female customers dominated its online customer base, and cosmetics sales took up a high proportion of over 70%. During the same period, the official WeChat and Weibo accounts of the Group and its stores accumulated close to 4.26 million fans.

While the public was not as keen on spending during the pandemic, the Group still capitalised on the consumption atmosphere at major festivals and holidays and leveraged live-streaming platforms for crossover campaigns with brands. It also strengthened the maintenance and operation of the private domain community, as well as the forming of a members’ ecology. In addition, the Group looked for cross-industry collaborations with online banks and other partners to enrich the group-buying format and to enhance members’ affinity. During the period under review, the Group effectively vitalised the existing membership and drew in new members through a series of membership management and innovative marketing strategies, successfully boosting the VIP membership to more than 6.24 million.

To address the trend of personalised consumption in the mainland, the Group considered the attributes of target markets and rolled out business reform initiatives in some of its stores. Diversified retail and complementing services were introduced to amplify the social experience and integrated services in these stores. Amongst them, Beijing New World Trendy Department Store focused on adjusting its fourth to sixth floors, which developed a core that features social entertainment, recreational experience and business amenities. Japanese-style izakaya (pub), Sichuan-style spicy hotpot, fitness gym, snooker club and other night economy businesses were introduced to craft an all-direction lifestyle space for the young, white-collar customer group. Lanzhou New World Department Store, on the other



hand, responded to the consumption demand of Generation Z by raising the proportion of its female consumption categories such as cosmetics, ladieswear and accessories, with an upgraded brand mix. Meanwhile, the footwear zone on the first floor was fully upgraded to a higher-end image to highlight the stylishness of the store. Mianyang New World Department Store, as yet another example, improved its customer traffic by upscaling its cosmetics zone on the first floor. Hair salon, fitness and sports businesses were introduced to its fifth floor to enrich the store with more day-to-day necessities to meet the demand of family customers.

### **Rental Business**

As pandemic control measures became normalised, the Group's rental business suffered a double blow from its business pressure and tenants' operation. Businesses in food and beverage, cinema, and children's education were subject to the control policies imposed by local governments; they were forced to suspend operation on multiple occasions during the period under review. In view of this, the Group rolled out a series of measures to support tenants and to stabilise their operation. The pace for recruiting new tenants for stores across the country was also accelerated. On the one hand, the Group engaged in active communication with food and beverage brands that had grown in spite of adverse market conditions, so as to actualise the landing of popular brands. On the other hand, interactive experiences that are highly popular amongst young people — escape rooms, scripted murder mystery games, dance training, etc. — were boldly introduced into the stores in hopes of attracting more young consumers.

### **Supermarket and Convenience Store Businesses**

The Group continued to fortify its day-to-day essential businesses such as supermarkets and convenience stores as part of its effort to stabilise its multi-business setup. In particular, the Group kick-started the makeover of the “New World Supermarket” in Beijing to strengthen its product categories and differentiated operation. Elements such as preparing and selling on site, dine-in food and beverage services, etc. were added to highlight the store's image as a boutique supermarket. In addition, the supermarket collaborated with “New Lab” and third-party partnering platforms to give traction to online sales and to enhance effectiveness. Besides, the Group also upgraded the store image of another three supermarkets, raising their customer appeal and improving the in-store experience. These supermarkets were encouraged to connect their online and offline retail channels to achieve omni-marketing, so as to better serve the everyday needs of the public and to put their key function as a one-stop lifestyle station to full play. The “N+ Convenience Store” continued to focus on cooked delicacies prepared on site, which was complemented by other everyday services for customers' convenience. As at 31 December 2020, the Group owned four “New World Supermarkets”, which were located in Beijing, Lanzhou, Yantai and Wuhan. There were also two “N+ Convenience Stores” within Beijing.

## OUTLOOK

As COVID-19 continued to spread rampantly around the globe during the second half of 2020, countries worked actively to confine the pandemic and strived to reinvigorate their economies. Work and production resumed in some countries when the outbreak slightly calmed down. As heavyweight relief measures took effect, the global economy began to head back up after hitting rock bottom. However, the pandemic situation has been highly volatile, and the number of confirmed cases resurged in some countries. As nations took time to recuperate from the pandemic's impact and trauma on their employment, production and consumption, the global economy had lost much steam in its recovery amidst a long list of challenges.

In the face of grave circumstances, China has effectively controlled the spread of the coronavirus and has steadily resumed work, production, commerce and market activities. Benefitting from this alongside the support of macro-economic policies, the country has seen a quarter-to-quarter rebound in its major economic indicators in its manufacturing and service sectors, investment and consumption. In 2020, China's Gross Domestic Product expanded by 2.3% year-on-year to Renminbi ("RMB") 101.6 trillion; it became the first country to report positive economic growth. Investment, in particular, regained upward momentum as a result of faster recovery in infrastructure and real estates. This proved to be critical in promoting recovery in the mainland's economy. Growth in nationwide residents' income was basically synchronised with economic growth. While consumer confidence is moderately restored, consumers tend to be more prudent with their spending during the current pandemic. Total retail sales of consumer goods dropped 3.9% year-on-year, indicating a stronger force is needed to drive consumption demand.

Looking into 2021, the COVID-19 situation in different countries and the external environment remain highly uncertain. The basis for China's economic recovery is yet to be called solid. As policies to stabilise employment, expand domestic demand and promote consumption continue to be effective in China, the Group hopes to see an extension of the upward trend in the mainland's consumption market. In future, the Group will deepen its multi-platform online setup, promote digitised upgrade and transformation, and accelerate its online-offline integration. At the same time, it will consolidate its multi-category business operations and strengthen its community-focused department stores, supermarkets and convenience stores with complementing services so as to create even better experience and value for its consumers. The Group shall uphold its prudent and pragmatic attitude as it pursues long-term and steady growth.

## FINANCIAL REVIEW

### Revenue and Other Income

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, revenue of the Group was HK\$1,130.8 million in 1HFY2021 (or the “Current Period”) (1HFY2020 (or the “same period of Previous Year”): HK\$1,360.7 million).

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\$3,754.6 million in 1HFY2021 (1HFY2020: HK\$4,479.8 million).

The Group’s merchandise gross margin was 14.1% in the Current Period (1HFY2020: 15.7%). In 1HFY2021, ladieswear, menswear and accessories made up approximately 40.9% of gross revenue from concessionaire sales and sales of goods for direct sales. Gold, jewellery and watch made up approximately 26.2%, sportswear made up approximately 12.3%, cosmetic products made up approximately 10.9%, 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 75.0%), supermarkets and convenience stores (approximately 23.5%), life concept shops, ladieswear, menswear and accessories as well as miscellaneous items (approximately 1.5%).

Rental income decreased by 16.5% to HK\$332.1 million in 1HFY2021 from HK\$397.7 million in 1HFY2020, mainly due to the continuous impact of the COVID-19 outbreak in Mainland China and the closure of Hong Kong New World Department Store – Shanghai Hongkou Branch Store and Wuhan Trendy Plaza in April 2020 and July 2020 respectively.

Interest income from finance leases as the lessor was HK\$7.0 million in 1HFY2021 compared with HK\$7.3 million in 1HFY2020.

Other income of the Group was HK\$38.3 million in 1HFY2021 compared with HK\$59.6 million in 1HFY2020. The decrease in other income was primarily due to a decrease in government grants of HK\$4.0 million in the Current Period and a decrease in income from suppliers of HK\$14.3 million mainly due to the inclusion of the write-back of long term payables of HK\$11.2 million in 1HFY2020.

## **Other Losses, Net**

Net other losses of the Group in the Current Period was HK\$326.2 million which was primarily resulted from HK\$194.3 million of impairment loss on goodwill and HK\$151.8 million of impairment loss on property, plant and equipment and right-of-use assets for mainly six department stores in light of the latest market environment and the management's assessment on the business prospect thereof, HK\$5.5 million net loss on disposal of property, plant and equipment and derecognition of right-of-use assets, and HK\$5.5 million net loss on derecognition of finance lease receivables. The losses was partially offset by HK\$30.5 million of the rent concessions granted from certain landlords as a result of the COVID-19 pandemic.

## **Changes in Fair Value of Investment Properties**

Changes in fair value of investment properties in the Current Period was HK\$0.6 million which was mainly related to properties in Shanghai City.

## **Purchases of and Changes in Inventories, Net**

The purchases of and net changes in inventories primarily represented the cost of sales for direct sales of goods. It decreased to HK\$310.0 million in 1HFY2021 from HK\$318.4 million in 1HFY2020. 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\$7.2 million in 1HFY2021 compared with HK\$8.6 million in 1HFY2020.

## **Employee Benefit Expense**

Employee benefit expense decreased to HK\$210.3 million in 1HFY2021 from HK\$249.0 million in 1HFY2020. Employee benefit expense decreased 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, and the closure of two department stores in FY2020 and 1HFY2021 respectively.

## **Depreciation**

Depreciation expense increased from HK\$297.5 million in 1HFY2020 to HK\$301.2 million in 1HFY2021. In RMB terms, depreciation expense decreased from RMB267.8 million in 1HFY2020 to RMB262.0 million in 1HFY2021, primarily due to no depreciation charged in the Current Period for property, plant and equipment of two department stores closed in FY2020 and 1HFY2021 respectively and some stores with assets that have been fully depreciated.

## **Rental Expense**

Rental expense decreased to HK\$65.1 million in 1HFY2021 from HK\$76.8 million in 1HFY2020, primarily due to the decrease in turnover rent in line with the decrease in sales revenue in the Current Period.

## **Other Operating Income/(Expenses), Net**

Net other operating income was HK\$8.0 million in 1HFY2021 as compared to net other operating expenses of HK\$144.3 million in 1HFY2020. The increase was primarily resulted from the increase of HK\$86.9 million of net exchange gains mainly arising from the changes on Hong Kong dollar against Renminbi during 1HFY2021, the reversal of loss allowance of receivables of HK\$11.2 million, a decrease in other operating expenses of HK\$7.4 million due to the costs control and the closure of two department stores in FY2020 and 1HFY2021 respectively.

## **Operating (Loss)/Profit**

Operating loss was HK\$42.3 million in 1HFY2021, as compared to operating profit of HK\$319.2 million in 1HFY2020.

## **Finance Costs, Net**

Net finance costs was HK\$97.1 million in 1HFY2021 compared with HK\$104.7 million in 1HFY2020. The decrease was mainly because the drop in Hong Kong Interbank Offered Rate has reduced the average borrowing costs.

## **Income Tax Expense**

Income tax expense of the Group was HK\$64.3 million in 1HFY2021 compared with HK\$72.0 million in 1HFY2020.

## **(Loss)/Profit for the Period**

As a result of the reasons mentioned above, loss for the period was HK\$203.9 million, as compared to profit for the period of HK\$142.4 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\$1,839.5 million as at 31 December 2020 (30 June 2020: HK\$1,514.1 million).

The Group's borrowings as at 31 December 2020 were HK\$1,412.7 million (30 June 2020: HK\$1,486.2 million).

As at 31 December 2020, the Group's was in net cash position of HK\$426.8 million (30 June 2020: HK\$27.9 million).

At 31 December 2020, the Group's current liabilities exceeded its current assets by HK\$2,360.8 million (30 June 2020: HK\$2,347.8 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 2020 were HK\$43.0 million which were contracted but not provided for in the condensed consolidated statement of financial position.

## **Pledge of Assets**

As at 31 December 2020, the Group did not have any pledge of assets (30 June 2020: 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**

In respect of certain department stores closed by the Group in the previous years, the Group has contingent liabilities arising from the potential claims from the landlords of the premises for compensation in connection with the early termination of the leases. However the compensation amounts in respect of the potential claims arising from these closed department stores, if any, and timing of payment could not be reliably estimated at the current stage, and the final outcome of which is subject to actions of the landlords, negotiation and/or result of legal proceeding. The Group has taken necessary measures to address the potential exposure. The aggregate monthly rental expense for these closed department stores was approximately HK\$9.0 million prior to the closure.

## **INTERIM DIVIDEND**

The Directors have resolved not to declare an interim dividend for the six months ended 31 December 2020 (2019: nil).

## **EMPLOYEES, REMUNERATION POLICY AND PENSION SCHEME**

As at 31 December 2020, the total number of employees of the Group was 2,922 (30 June 2020: 3,060). 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 2020.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

The Company had not redeemed any of its listed securities during the six months ended 31 December 2020. 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 2020.

## **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 2020 except for the deviation from code provision E.1.2.

Code provision E.1.2 provides that the chairman of the board should attend the annual general meeting. Dr. Cheng Kar-shun, Henry, the chairman of the Board, was unable to attend the annual general meeting of the Company held on 25 November 2020 (the "AGM") due to his other engagement. Mr. Cheung Fai-yet, Philip, the chief executive officer of the Company and an executive Director who took the chair of the AGM, together with other members of the Board who attended the AGM, were of sufficient calibre for answering questions at the AGM and had answered questions at the AGM competently.

## **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 2020. 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 four independent non-executive Directors. The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 31 December 2020 and the unaudited condensed consolidated financial information and the interim report for the six months ended 31 December 2020 and discussed the financial related matters with the management. The unaudited interim results of the Group for the six months ended 31 December 2020 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 Kar-shun, Henry**  
*Chairman*

Hong Kong, 25 February 2021

*As at the date of this announcement, the non-executive Director is Dr. Cheng Kar-shun, Henry; the executive Directors are Dr. Cheng Chi-kong, Adrian and Mr. Cheung Fai-yet, Philip; and the independent non-executive Directors are Mr. Cheong Ying-chew, Henry, Mr. Chan Yiu-tong, Ivan, Mr. Tong Hang-chan, Peter and Mr. Yu Chun-fai.*