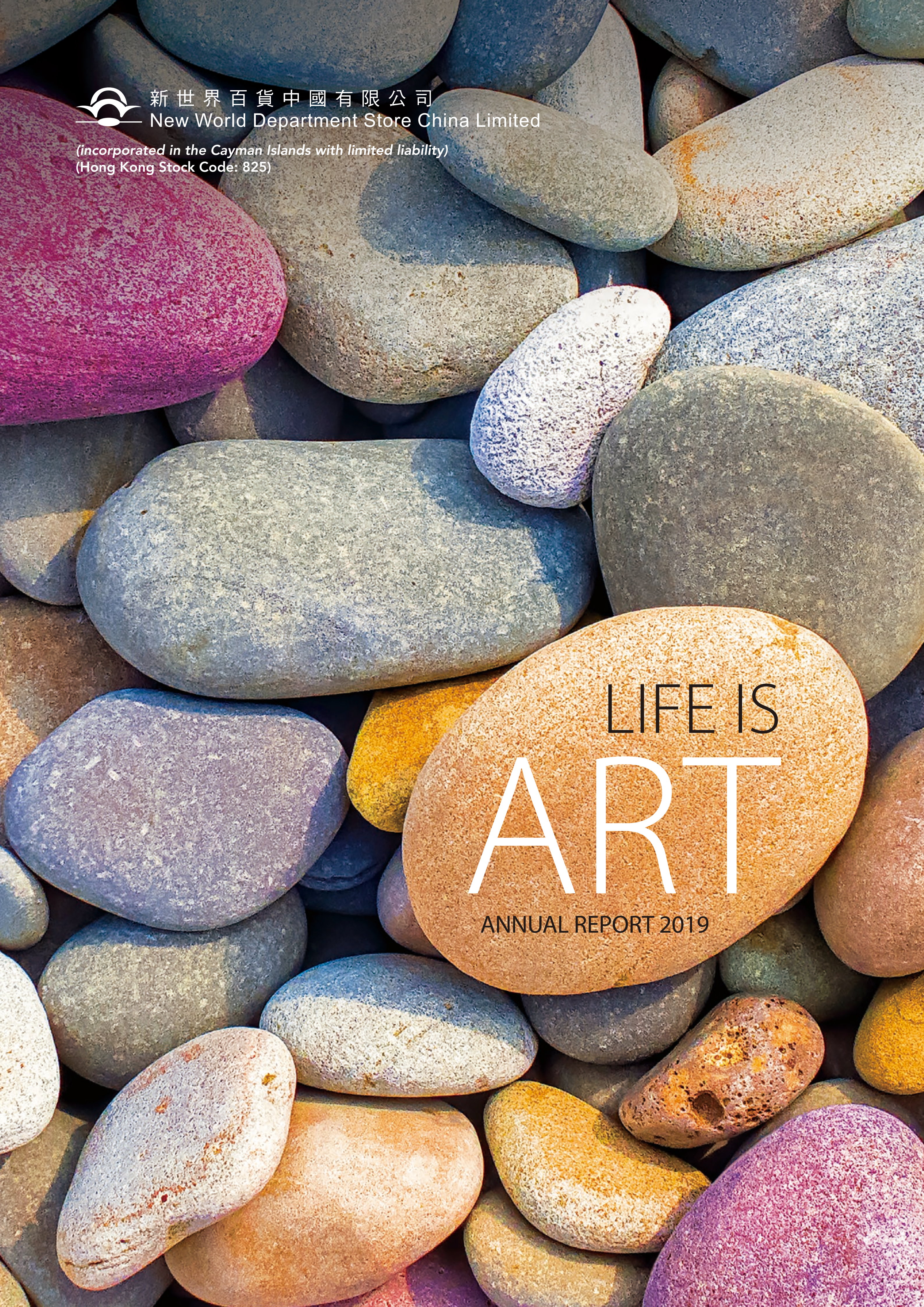
新世界百貨中國有限公司
New World Department Store China Limited

(incorporated in the Cayman Islands with limited liability)
(Hong Kong Stock Code: 825)

LIFE IS ART

ANNUAL REPORT 2019



CORPORATE PROFILE

Founded in 1993, New World Department Store China Limited (Hong Kong Stock Code: 825) is the retail flagship of New World Development Company Limited (Hong Kong Stock Code: 17) and has developed itself as one of the largest owners and operators of department stores in Mainland China. The Group was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited in 2007. As at 30 June 2019, New World Development Company Limited owns 75% shares of the Group.

RETAIL NETWORK

To orderly expand its business network across the country, the Group adopts the expansion strategies of "multiple presences within a single city" and "radiation city" with a focus on the development of the Greater Beijing, Greater Shanghai and Greater South Western Regions. As at 30 June 2019, the Group operated 22 "New World" (「新世界」) branded department stores in Mainland China and nine "Ba Li Chun Tian" (「巴黎春天」) branded department stores and shopping malls in Shanghai with a total gross floor area of about 1,251,950 square metres, covering 17 key locations in Mainland China, including Beijing, Tianjin, Yanjiao, Yantai, Lanzhou, Xi'an, Harbin, Shenyang, Shanghai, Nanjing, Wuhan, Changsha, Zhengzhou, Chengdu, Chongqing, Kunming and Mianyang.

BUSINESS OPERATIONS

The Group actively implements categorised store management and "One Store, One Strategy" operations strategy to encourage stores to adopt different strategies to capture opportunities arisen from the consumption upgrade in Mainland China. The Group's revenue is mainly derived from: commission income from concessionaire sales, sales of goods for direct sales, and rental income. In addition to its core department store business, the Group has been actively expanding its direct sales business in recent years, including LOL (Love • Original • Life) Concept Shop and the N+ line-up of private labels, to strengthen its differentiated operations.

ORGANISATION STRUCTURE

The Group owns a seasoned and innovative management team and adopts a three-tier structure for effective management, in which the headquarters centrally controls the three operating regions of the Group, and each region manages the operations of their stores. Such structure improves both resource-sharing and synergy within each region. When formulating professional strategies such as merchandising and marketing strategies, the Group implements a double-line management mechanism. Based on the positioning and direction of the Group, the headquarters formulates a macroscopic corporate strategy and deploys resources for its strategic plans, which is then adjusted and executed towards the relevant goals by stores according to their local circumstances to ensure the Group's strategy is landed.

TALENT DEVELOPMENT

The Group regards its staff as a valuable asset. Through a series of incentive schemes, training programmes and career opportunities, the Group strives to fortify the team's proactiveness, innovative capability and sense of belonging so as to encourage, cultivate and retain its talents, who will join up to put the Group's vision and mission into actions. As at 30 June 2019, the Group had 3,883 employees.

CONTENTS

GOAL

To be the most influential and most efficient department store chain operator in China.

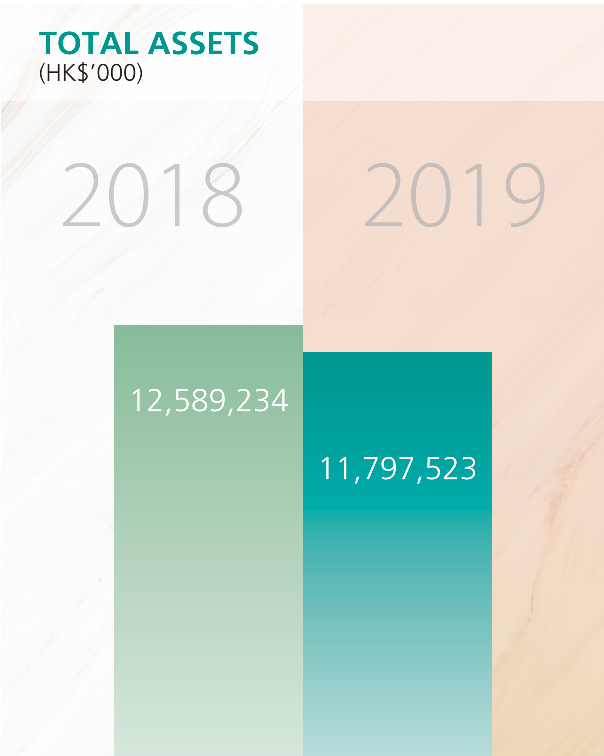
MISSION

To create a modern, metropolitan lifestyle with creativity, foresight and efficiency.

CONVICTION

To embrace 'innovation, foresight, integrity, prudence and respect' in our core values, which would lay a promising development path for NWDS.

FINANCIAL HIGHLIGHTS



	2019 HK$'000	2018 HK$'000
OPERATING RESULT		
Revenue	**3,519,017**	3,821,120
Representing:		
Commission income from concessionaire sales	**1,420,205**	1,681,128
Sales of goods – direct sales	**1,251,515**	1,322,607
Rental income	**847,297**	811,883
Management and consultancy fees	**–**	5,502
Operating profit	**204,602**	185,353
Profit for the year ("Net profit")	**32,663**	11,085

	As at 30 June 2019 HK$'000	As at 30 June 2018 HK$'000
FINANCIAL POSITION		
Fixed deposits with original maturity over three months, cash and bank balances	**1,866,701**	1,947,343
Total assets	**11,797,523**	12,589,234
Total liabilities	**5,954,914**	6,469,886
Total equity	**5,842,609**	6,119,348
Net cash position	**238,652**	70,634

	2019	2018
FINANCIAL RATIOS		
Merchandise gross margin	**17.5%**	17.3%
Operating profit growth	**10.4%**	-33.3%
Net profit growth	**194.7%**	-91.4%

CHAIRMAN'S STATEMENT

The global economy has experienced sluggish growth during the first half of 2019. China-US trade disputes and the festering of no-deal Brexit have both weakened market confidence. Added with the economic slowdown in major European and American economies, downside risk for the world economy heightened and overall performance was below expectation as a result. The Chinese economy is not only facing gloomy external factors, but also undergoing a critical period of domestic policy fine-tuning and a shift from old growth drivers to new ones. The current economy, therefore, has turned downwards. Although consumption is still exerting impact as a major driver, its contribution to China's economic growth has significantly shrunken. The physical retail sector must overcome the unfavourable external uncertainties and at the same time, respond to challenges from encircling e-commerce operators, the surge in commercial complex supply, and the transformation of the consumer market. Looking ahead, retailers shall stay prudent and stand against fears in their operations.

In recent years, the Group has made an effort to consolidate its store network and to drive flexible deployment of resources across regions. The closure of six stores and the implementation of effective cost control measures during the year under review helped improve the Group's profit for the year. For the year ended 30 June 2019, the Group's profit for the year rose from HK$11.1 million in the Previous Year to HK$32.7 million, representing a year-on-year growth of approximately 194.7%. Earnings per share for the year were HK$0.02. As at 30 June 2019, the Group operated 31 department stores and shopping malls with a total gross floor area of about 1,251,950 square metres, covering 17 key locations in Mainland China.

Amidst depressing domestic and external economic circumstances and heated competition within the retail industry, the Group remained composed and continued to delve deep into its core business of offline department store retail, while leveraging on new enabling technologies and constantly seeking innovations and breakthroughs. During the year under review, we actively promoted the transformation of traditional concessionaires to experiential rental projects to expedite the incorporation of shopping mall elements into our stores. The categorised store management strategy we rolled out in recent years is gradually demonstrating its effectiveness. In future, the strategy will serve as a basis on which we strive to set up benchmark stores in our three operating regions, so as to form a strategic setup with synergised development across multiple stores. In driving concessionaire sales, the Group rode on the increasing popularity of the fitness and sport trend in the mainland to lift the overall competitiveness of its sports business: it actively augmented the collaboration between its stores and sports brands, utilising tactics such as the setup of flagship stores. Furthermore, the Group also seized the opportunities arising from favourable factors such as consumption upgrade to create the strongest line-up of cosmetics concessionaires in various stores. These strategies successfully drove the relatively-evident year-on-year growth in sales of sports and cosmetics categories.

As for our rental business, the Group continued to increase the business proportion of food and beverage, entertainment experiences and complementary services to improve the stores' ability to draw foot traffic and to increase customer affinity. As at 30 June 2019, rental business accounted for about 53.3% of operating area in all NWDS' stores. In future, the Group shall explore the best mix of retail and rental businesses based on the positioning of the stores and in alignment with the targeted strategies for the cities and business clusters where the stores operate, so as to formulate the optimal operating model.

In terms of direct sales business, the Group further uncovered the growth potential of its private labels and continued to invest in this area. During the year under review, we strengthened the operational management of LOL Concept Shop as well as optimised its brand positioning and product appeal. As at 30 June 2019, LOL operated 17 stores in five cities, namely Shanghai, Beijing, Wuhan, Mianyang and Shenyang; five of these stores were set up outside of the Group's store network. "N+ Convenience Store", on the other hand, currently owns two stores in Beijing and its operating characteristics have started to take shape with positive market response. With the policy rolled out by the People's Government of Beijing Municipality to encourage the night economy, the Group will further study the feasibility of expanding its convenience store business within Beijing. In future, the Group will ride on the strength of its cosmetics business team and set up a multi-label cosmetics store "N+ Beauty" which differentiates from LOL. Aiming to attract female customer groups who offer stronger purchasing power, seek premium quality and are eager to try out new items, the new label is well-poised to address the market's demand for cosmetics.

Going forward, while unpredictable factors exist in the domestic and external environments, we firmly believe that we will stay strong on our competitive edge and remain committed to continuous improvement and innovation with our concerted efforts and entrepreneurial spirit. We are confident that we will maintain our resilience in the raging current of time and persevere in the path ahead. The Group shall uphold its sincere attitude to create the finest shopping experience for its consumers and be prudent in its actions to aim for long-term and steady development.

Taking this opportunity and on behalf of the Board, I would like to express my heartfelt gratitude to our shareholders, customers, business partners, as well as our staff. As a token of thanks to their support and trust, the Group will strive to safeguard stable and healthy business growth, as well as to improve and excel.

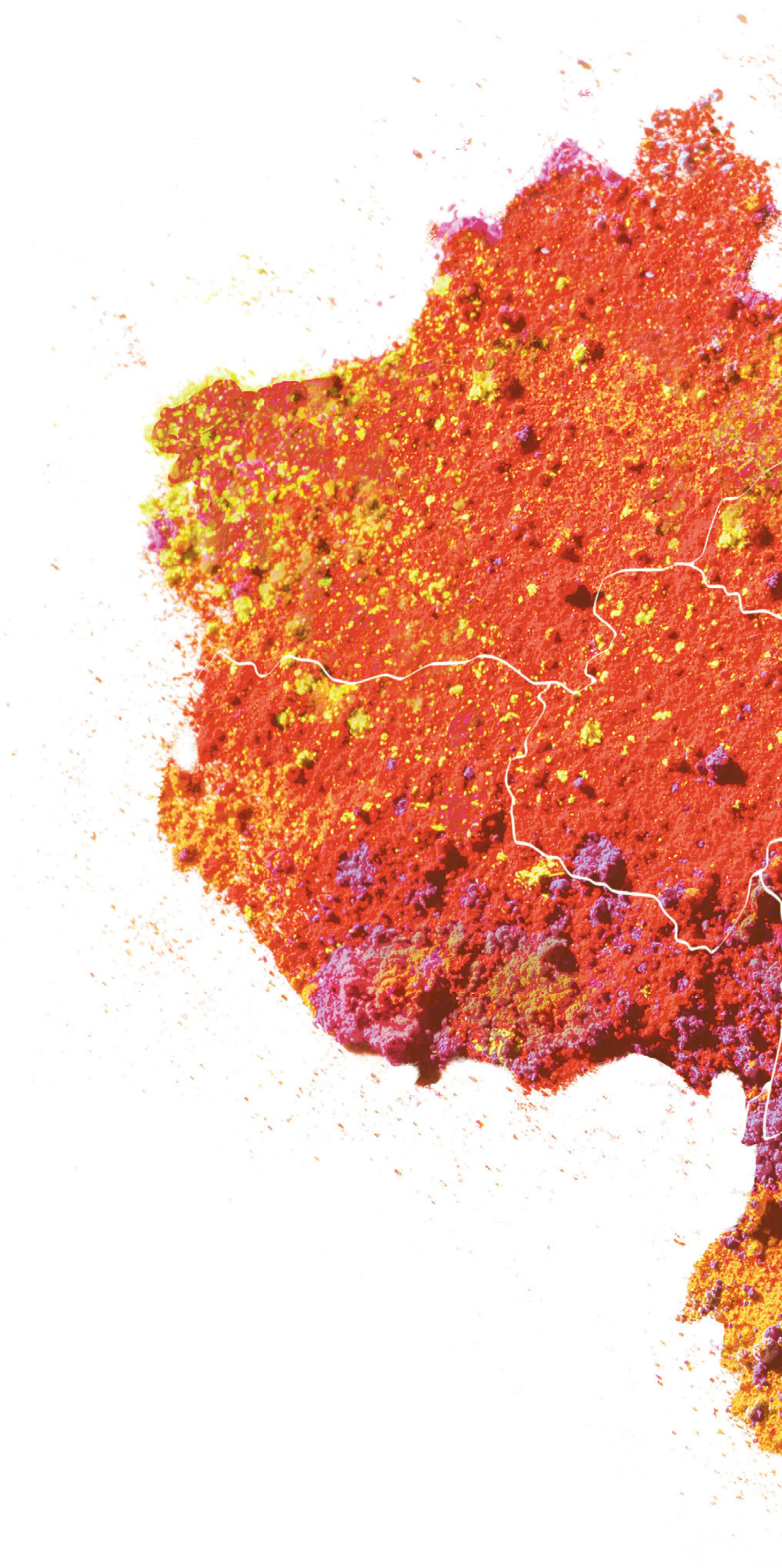
Dr. Cheng Kar-shun, Henry
Chairman

Hong Kong, 24 September 2019

RETAIL NETWORK

31
STRATEGIC FOOTHOLDS IN

17
MAJOR LOCATIONS



NORTHERN CHINA REGION

Beijing	4
Tianjin	1
Yanjiao	1
Yantai	1
Lanzhou	1
Xi'an	1
Harbin	1
Shenyang	1

CENTRAL WESTERN CHINA REGION

Wuhan	4
Changsha	1
Zhengzhou	1
Chengdu	1
Chongqing	1
Kunming	1
Mianyang	1

EASTERN CHINA REGION

Shanghai	9
Nanjing	1

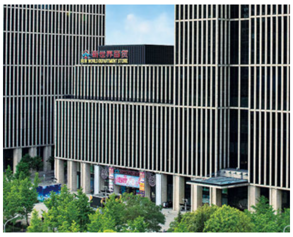

Harbin
Shenyang
Beijing
Yanjiao
Tianjin
Yantai
Lanzhou
Xi'an
Zhengzhou
Nanjing
Shanghai
Mianyang
Chengdu
Wuhan
Chongqing
Changsha
Kunming

NORTHERN CHINA REGION

571,800 sq.m.

BEIJING CHONGWEN STORE

July 1998
117,200 sq.m.
L



BEIJING TRENDY STORE

March 2007
31,200 sq.m.
F

YANTAI STORE

December 2013
55,600 sq.m.
L

LANZHOU STORE

September 2005
28,500 sq.m.
F

XI'AN CITY PLAZA

December 2012
58,700 sq.m.
L

HARBIN STORE

November 1996
50,000 sq.m.
L

SHANGHAI HONGKOU BRANCH STORE

October 2003
19,600 sq.m.
F

SHANGHAI QIBAO BRANCH STORE

December 2005
36,550 sq.m.
L

SHANGHAI WUJIAOCHANG BRANCH STORE

December 2006
44,000 sq.m.
L

SHANGHAI PUJIAN BRANCH STORE

September 2007
46,000 sq.m.
L

NANJING STORE

November 2007
41,200 sq.m.
F

CENTRAL WESTERN CHINA REGION

308,300 sq.m.

WUHAN JIANSHE STORE

November 1994
42,000 sq.m.
L

ZHENGZHOU STORE

April 2011
35,500 sq.m.
L

CHENGDU STORE

December 2006
30,000 sq.m.
F

CHONGQING STORE

September 2006
42,000 sq.m.
F

KUNMING STORE

June 2004
12,600 sq.m.
F

BEIJING LIYING STORE

September 2008
52,000 sq.m.
L

BEIJING QIANZI STORE

September 2010
55,600 sq.m.
L

TIANJIN STORE

October 1997
57,000 sq.m.
L

YANJIAO STORE

April 2013
32,000 sq.m.
L

SHENYANG JIANQIAO ROAD BRANCH STORE

May 2011
34,000 sq.m.
L

EASTERN CHINA REGION

371,850 sq.m.

SHANGHAI HUAIHAI BRANCH STORE

December 2001
22,500 sq.m.
F

SHANGHAI BAOSHAN BRANCH STORE

January 2010
39,000 sq.m.
L

SHANGHAI CHENGSHAN BRANCH STORE

April 2010
38,000 sq.m.
L

SHANGHAI SHAANXI ROAD BRANCH STORE

November 2011
42,000 sq.m.
L

SHANGHAI TIANSHAN ROAD BRANCH STORE

August 2013
43,000 sq.m.
L

WUHAN TRENDY PLAZA

December 2001
23,000 sq.m.
F

WUHAN WUCHANG BRANCH STORE

October 2005
24,000 sq.m.
F

WUHAN XUDONG BRANCH STORE

January 2008
29,200 sq.m.
F

CHANGSHA TRENDY PLAZA

September 2006
35,000 sq.m.
F

MIANYANG STORE

December 2011
35,000 sq.m.
L

L Living Gallery

F Fashion Gallery

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Business Network

As at 30 June 2019, New World Department Store China Limited and its subsidiaries (together, the "Group") operated 31 department stores and shopping malls, with a total gross floor area of about 1,251,950 square metres. These stores were located in three operating regions in the Northern China, the Eastern China and the Central Western China, covering 17 key locations across the country, including Beijing, Tianjin, Yanjiao, Yantai, Lanzhou, Xi'an, Harbin, Shenyang, Shanghai, Nanjing, Wuhan, Changsha, Zhengzhou, Chengdu, Chongqing, Kunming and Mianyang.

To consolidate and focus its resources, the Group closed six stores during the year under review, namely Yancheng New World Department Store, Wuhan New World Department Store – Hanyang Branch Store ("Wuhan Hanyang Branch Store"), Shenyang New World Department Store – Zhonghua Road Branch Store ("Shenyang Zhonghua Road Branch Store"), Hong Kong New World Department Store – Shanghai 118 Branch Store ("Shanghai 118 Branch Store"), Hong Kong New World Department Store – Shanghai Changning Branch Store, and Anshan New World Department Store ("Anshan Store") in chronological order.

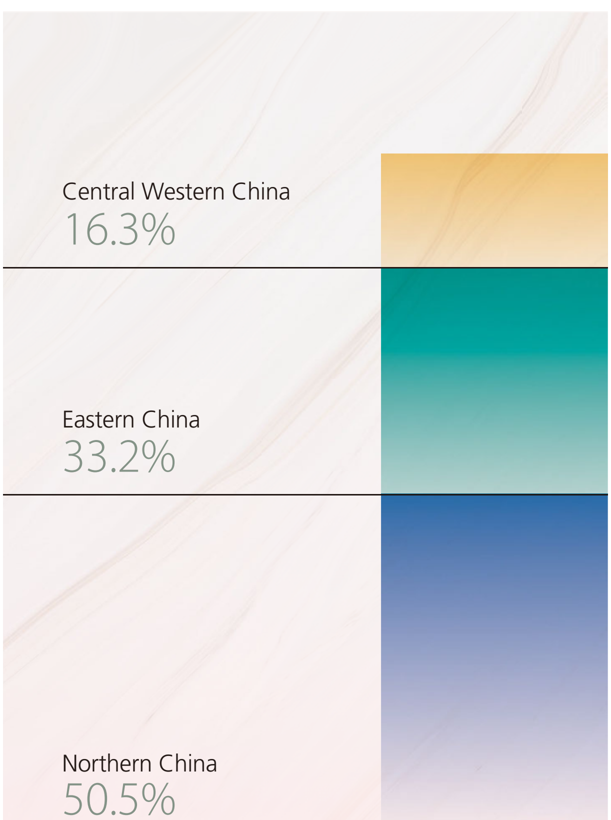
Revenue Breakdown

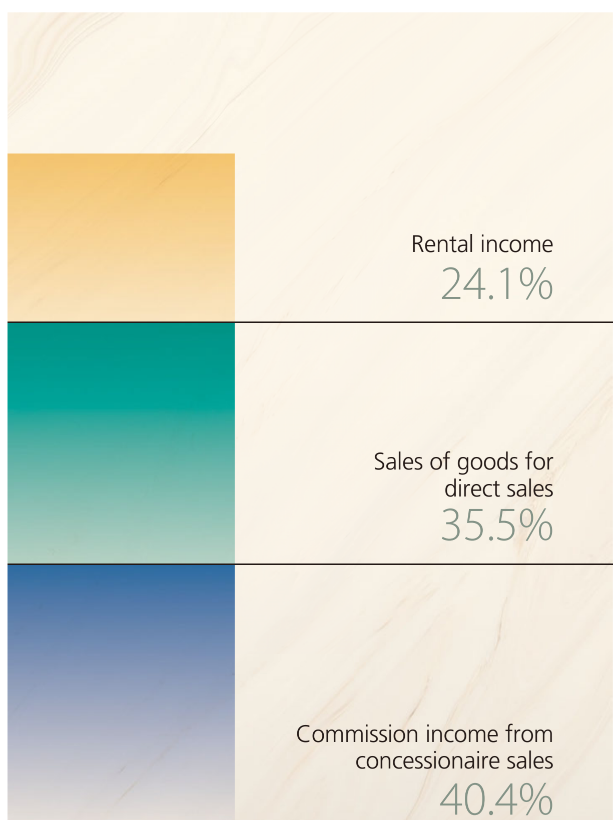
By region

The Northern China Region continued to contribute the most to the Group, accounting for 50.5% of revenue. Revenue contribution made by the Eastern China Region was 33.2%, while that of the Central Western China Region was 16.3%.

By segment

Commission income from concessionaire sales continued to be the major source of income for the Group, accounting for 40.4% of revenue. This was followed by sales of goods for direct sales, which accounted for 35.5% and rental income, which accounted for 24.1%.





OPERATIONS OVERVIEW

Department Store Business

Amidst economic uncertainties at home and abroad, and as competition in the mainland's retail sector intensified, the Group delved deep into its core business of offline department store retail, empowered it with new technologies and continued to seek innovations and breakthroughs along the path of diversification and towards stereoscopic experiences. In terms of operating model, the Group quickened the transformation of traditional concessionaires to experiential rental projects, striving to craft heart-warming and differentiated consumption scenarios.

During the year under review, the Group actively drove business reshaping and store network adjustment. The relevant work was largely completed. In particular, a store-wide makeover of Hong Kong New World Department Store – Shanghai Pujian Branch Store ("Shanghai Pujian Branch Store") was unveiled in June 2019. In addition to multi-dimensional reforms such as spatial reorganisation and experience upgrading, pilot fairs and sales that featured high potential labels were also hosted to test actual customer demands before committing to the landing of a label. The objective was to obtain more accurate intelligence of market trends. An array of top-notch international cosmetic brands and mainstream popular jewellery labels were introduced to the store, where diversified cuisine choices were housed to effectively elevate the overall image, the positioning and the sense of multiple experiences of the store. In future, the Group will adhere to its proven and effective capitalised store management principles and establish benchmark stores in its three operating regions, so as to drive resource integration in the regions and to form a strategic setup with synergised development across multiple stores.

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03

01 *The management toasting to the new look of Shanghai Pujian Branch Store at its grand re-opening ceremony in late June 2019*

02 *Shanghai Pujian Branch Store is home to a wide array of top-notch cosmetics brands after its reshaping and upgrading*

03 *A model walking the red carpet runway at the grand re-opening ceremony of Shanghai Pujian Branch Store*

In terms of category sales, year-on-year growth was more evident in sports and cosmetics categories. With the call in the mainland to promote mass participation in sports going stronger by the day, the Group actively strengthened the collaboration between its stores and sports brands through the sale of limited-edition items, buzz marketing and the setup of flagship stores to seize market opportunities. The growing trend of consumption upgrade gave momentum to the growth of the premium imported cosmetic products category. Anti-aging skincare brands, in particular, demonstrated remarkable growth and fuelled the prosperous development of the overall cosmetics market. In the light of this, the Group set up a cosmetics business team in October 2018 to conduct precision research and to accelerate the landing of premium imported cosmetic brands in its stores so as to maintain market competitiveness in terms of its product offerings and popularity appeal.

As for membership maintenance, the Group successfully engaged existing members and attracted new ones through effective membership management and member-oriented marketing strategies. The Group's VIP member population grew 8.5% year-on-year to nearly 5.85 million. The official WeChat and Weibo accounts of the Group and its stores, on the other hand, built a fan base of about 4.18 million, which grew 9.7% year-on-year. Besides, the "New Lab" online shopping platform rolled out by the Group as early as November 2017 also accumulated more than 180,000 registered VIP members, with female customers forming the majority. Cosmetics sales proportion took up over 60% of the overall sales of the online platform. The Group plans to launch the upgraded version of the "New Lab" mini-programme by the end of June 2020. In future, express delivery and goods dispatch will be implemented in the upgraded version, which will offer enhanced promotion functions to facilitate guided shopping and distribution by salespersons and to propel effective integration of online and offline marketing.

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01 *Adidas flagship store at Wuhan Wuchang Branch Store*

02 *Customers queuing up for promotional coupons in celebration of the 12th Anniversary of Chengdu Store*

03 *Beijing Chongwen Store staged an outdoor variety show to bring joy to kids on Children's Day*

Rental Business

To support its transformation of operating model and to fast-track the incorporation of shopping mall elements into its stores, the Group continued to bring in other business categories, including food and beverage, entertainment experiences and complementary services to its stores. Emerging categories such as escape rooms and street dance academies were also introduced to improve the stores' ability to draw foot traffic and to increase customer affinity. On the food and beverage front, "Haidilao Hotpot" – a strategic partner of the Group – landed in Wuhan New World Department Store ("Wuhan Jianshe Store") and Hong Kong New World Department Store – Shanghai Qibao Branch Store, etc. Internet-hit tea-drink brands "Heytea" and "Nayuki" landed in stores such as Wuhan Jianshe Store and Xi'an New World City Plaza. Besides, the Group also began its cooperation with trendy brands such as "Duozoulu", "M&G Shop", "JD Home", "KK Guan" and the offline shop of "Vip.com" to enrich the category of complementary retail. As at 30 June 2019, rental business accounted for about 53.3% of operating area in all NWDS' stores.

Direct Sales Business

The Group has been committed to lifting its vertical operating capabilities and to actualising differentiated operations over the years. To this end, active efforts have been put on expanding its private label series with an aim to construct a multi-brand, multi-category direct sales business setup that demonstrates the Group's brand character and uniqueness.


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01 *A boy band performing music for the 5.17 love confession party at Yantai Store*

02 *The newly-landed M&G Shop at Xi'an City Plaza*

03 *Customers enjoying Chinese dumplings in a restaurant at Shanghai Baoshan Branch Store*

A comprehensive exercise of store image upgrade was implemented to the six-year-old LOL (Love • Original • Life) Concept Shop ("LOL"). A "one store, two styles" model was piloted at Shanghai Pujian Branch Store. The first floor of the shop is positioned as a gold label flagship store that features high-end and fashionable merchandises. The second floor, on the other hand, is positioned as a silver label store to stay in line with the entire floor and to focus on the categories of family and children, ladies' accessories and fashionable lifestyle goods. Besides, LOL also strengthened the management of its operational details by conducting in-depth analysis on the sales of stores across the country so as to categorise stores according to their stock replenishment needs and to step up the fine-tuning and stocking of marketable merchandises. As at 30 June 2019, LOL operated 17 stores in five cities, namely Shanghai, Beijing, Wuhan, Mianyang and Shenyang. Five of the stores were set up outside of the Group's store network. In future, the Group will join hands with brand owners to develop joint-name merchandises for LOL and promote sales through roadshows to speed up the development process for LOL's direct sales merchandises. An overall planning for product positioning and management of operational details for individual stores will be in place to uplift the sales contribution of LOL.

As a member of the N+ line-up, the "N+ Convenience Store" now operates two stores at Beijing New World Department Store and Beijing New World Trendy Department Store respectively. The label has gradually formulated its own operating characteristics. The two stores are currently focused on cooked food prepared on site. The food consumption area is enlarged, and the supply of goods from associated categories is increased. In future, the Group will continue to improve the management level and operational standards of the existing "N+ Convenience Store" and look into the market potentials and feasibility of expanding the convenience store business within Beijing.

01

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01 *LOL upgraded its first floor store at Shanghai Pujian Branch Store to a gold label flagship store that features high-end and fashionable merchandises*

02 *LOL newly-introduced a silver label store to the second floor of Shanghai Pujian Branch Store, which targets at the mass market to tie-in with the positioning of the entire floor*

03 *"N+ Convenience Store" at Beijing Chongwen Store put on a summer-themed décor*

The Group will further enrich the private label offerings under its N+ line-up by establishing a new multi-label cosmetics store "N+ Beauty". The market launch of "N+ Beauty" – in the form of a pop-up store – has been scheduled for March 2020 at Shanghai Pujian Branch Store. A concessionaire will then be officially opened at Hong Kong New World Department Store – Shanghai Huaihai Branch Store in the second half of 2020.

OUTLOOK

Global economic growth remained in the doldrums and international trade and investments further slackened during the first half of 2019, resulting in an overall performance which was below market expectations. Market confidence was dampened by a series of incidents, including the escalating trade and technology tensions between China and the US; the ongoing uncertainties of Brexit, as well as geopolitical conflicts. Trade was weakened and investments were facing headwinds. Added with the decelerated growth of the US and European economies, the pressure for downside risks is heightened for the global economy.

Surrounded by the complexity and severity in the domestic and external economic situations, China's economic growth showed a downward trend amidst stability. On the external front, apart from the decelerating global economic growth, uncertainties in the trade conflicts between China and the US as well as the gradually-surfacing material impact from the tariffs imposed on each other by both countries led to the rapid decline in the growth in exports and investments. At home, the Chinese economy is still in the critical stage of domestic policy adjustment with old growth drivers converting into new ones. All these factors have resulted in the downturn for this economic cycle. The first half of 2019 saw the year-on-year growth of China's Gross Domestic Product slowed down to 6.3% – the slowest growth for almost the past 30 years. In particular, while consumption remains the major driver of China's economic development, its contribution to economic growth has significantly dropped to 60.1%. Nationwide residents' income grew slightly faster than that of the economy, and consumer price index recorded moderate increase. Total retail sales of consumer goods sustained stable growth, among which the consumption upgrade categories and the services categories grew relatively fast, suggesting that nationals had maintained a certain level of interest to consume. Backed by policies to stabilise consumption, it is hoped that residents' consumption demand will be further released and the consumption market will continue to maintain steady growth.

Dark clouds have been looming over the external environment, and the Chinese retail sector is facing multiple challenges including keen competition from e-commerce operators, a surge in the number of commercial complexes, and consumption upgrade and transformation. Retailers should actively innovate to drive development in order to seize opportunities in the market. In future, the Group will focus on fortifying its presence, while consistently implementing the strategies of "multiple presences within a single city" and "radiation city" to reinforce the Greater Beijing, Greater Shanghai, Greater South Western markets. The Group will continue to delve deep into its core business of offline retail, and facilitate integration and enrichment of brand resources within the Group in the hope to strengthen its supply chain influence so as to establish an ecosystem which is unique to NWDS.

FINANCIAL REVIEW

Revenue and Other Income

Revenue of the Group was HK$3,519.0 million in FY2019 (or the "Current Year") (FY2018 (or the "Previous Year"): HK$3,821.1 million).

Gross sales revenue of the Group, as previously defined, was HK$10,897.3 million in FY2019 (FY2018: HK$12,637.3 million).

The Group's merchandise gross margin was 17.5% in the Current Year (FY2018: 17.3%). In FY2019, ladieswear and accessories made up approximately 62.7% of gross revenue from concessionaire sales and sales of goods for direct sales. Menswear and accessories made up approximately 7.3% and sportswear, bread and snacks, electrical appliances, kidswear and personal care products largely made up the rest. Direct sales revenue in the Current Year mainly comprised sales of ladieswear and menswear (approximately 42.0%), cosmetic products (approximately 36.2%), groceries, housewares and perishables (approximately 20.6%), as well as accessories and miscellaneous items (approximately 1.2%).

Rental income increased by 4.4% to HK$847.3 million in FY2019 from HK$811.9 million in FY2018, mainly due to increased rentable area and improved tenant mix in the Current Year, and the recognition of a full period's operation from the acquisition of a group of managed stores, which included Wuhan New World Department Store — Xudong Branch Store, Yanjiao New World Department Store and its subsidiaries in September 2017 (the "Acquired Subsidiaries").

Management and consultancy fees was HK$Nil in FY2019 decreased from HK$5.5 million in FY2018. The decrease was primarily due to no management and consultancy service was provided in the Current Year.

Other income of the Group was HK$150.3 million in FY2019 compared with HK$196.9 million in FY2018. The decrease in other income was mainly due to the inclusion of HK$71.0 million of one-off fire insurance compensation related to a property in Zhengzhou City from an independent insurance company in FY2018. The decrease was partially offset by the write-back of expired stored value cards and long term payables of HK$21.9 million and HK$14.3 million respectively in the Current Year.

Other Losses, Net

Net other losses of the Group in the Current Year was HK$147.4 million which was primarily resulted from (i) HK$57.5 million of impairment loss on goodwill, HK$13.4 million of impairment loss on property, plant and equipment and HK$77.9 million of impairment loss on prepayments, deposits and other receivables for mainly four department stores closed in the Current Year, which were Shenyang Zhonghua Road Branch Store, Wuhan Hanyang Branch Store, Shanghai 118 Branch Store and Anshan Store and for mainly three other department stores in light of the latest market environment and the management's assessment on the business prospect thereof, and (ii) HK$9.1 million of loss on disposal of property, plant and equipment mainly due to the renovation of some department stores and specialty shops of direct sales business. The losses was partially offset by HK$11.8 million of gain on deregistration of subsidiaries.

Changes in Fair Value of Investment Properties

A loss in fair value of investment properties in the Current Year was HK$20,000 which was a net loss primarily related to the decrease in the fair value of the properties in Zhengzhou City and Shenyang City, partially offset by the increase in the fair value of 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$912.3 million in FY2019 from HK$940.6 million in FY2018. The decrease was in line with the decrease in sales of goods for direct sales in the Current Year.

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$28.3 million in FY2019 compared with HK$47.1 million in FY2018.

Employee Benefit Expense

Employee benefit expense increased to HK$651.4 million in FY2019 from HK$640.9 million in FY2018. The increase in employee benefit expense was primarily due to the opening of specialty shops of direct sales business, the recognition of a full period's operation of the Acquired Subsidiaries and a total of HK$23.2 million compensation to the employees due to the closure of certain department stores in the Current Year.

Depreciation and Amortisation

Depreciation and amortisation expense decreased from HK$246.4 million in FY2018 to HK$209.7 million in FY2019, primarily due to the closure of certain department stores in the Current Year, no depreciation provided in the Current Year for property, plant and equipment impaired for mainly one department store in FY2018 and some stores with assets that have been fully depreciated.

Operating Lease Rental Expense

Operating lease rental expense decreased to HK$1,057.9 million in FY2019 from HK$1,228.3 million in FY2018, primarily due to the closure of certain department stores in the Current Year. However, the decrease was partially offset by the renewal of certain existing operating leases, the opening of specialty shops of direct sales business, and the recognition of a full period's operation of the Acquired Subsidiaries.

Other Operating Expenses, Net

Net other operating expenses decreased to HK$457.8 million in FY2019 from HK$531.7 million in FY2018. The decrease was primarily resulted from a decrease in water and electricity expenses of HK$31.7 million, a decrease in cleaning, repairs and maintenance of HK$9.0 million, a decrease in other tax expenses of HK$26.6 million, a decrease in net provision for doubtful debts of HK$10.6 million, and a decrease in other operating expenses of HK$35.9 million primarily due to the effective control, the decrease in sales revenue and the closure of certain department stores in the Current Year. The decrease was partially offset by a total of HK$54.3 million of compensation to the affected parties for the early termination of leases of mainly four department stores in FY2019 compared with a total of HK$44.6 million of compensation in FY2018, and the increase of HK$27.2 million net exchange losses mainly arising from Renminbi against Hong Kong dollar and Euro due to the devaluation of Renminbi during FY2019.

Operating Profit

Operating profit was HK$204.6 million in FY2019 compared with HK$185.4 million in FY2018.

Income Tax Expense

Income tax expense of the Group was HK$188.2 million in FY2019 compared with HK$197.5 million in FY2018.

Profit for the Year

As a result of the reasons mentioned above, profit for the year was HK$32.7 million compared with HK$11.1 million in the 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$1,866.7 million as at 30 June 2019 (30 June 2018: HK$1,947.3 million).

The Group's borrowings as at 30 June 2019 were HK$1,628.0 million (30 June 2018: HK$1,876.7 million) of which HK$215.9 million (30 June 2018: HK$309.5 million) was secured by an investment property.

As at 30 June 2019, the Group's current liabilities exceeded its current assets by HK$1,878.0 million (30 June 2018: HK$1,979.3 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 30 June 2019 were HK$122.5 million which were contracted but not provided for in the consolidated statement of financial position. For the contractual payment of HK$122.5 million, approximately HK$45.1 million is for the redevelopment project of a building in Shenyang City.

Pledge of Assets

As at 30 June 2019, an investment property of HK$1,743.2 million (30 June 2018: HK$1,824.5 million) of the Group was pledged as securities for bank borrowings of HK$215.9 million (30 June 2018: HK$309.5 million).

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, United States dollar and Euro against Renminbi and from Renminbi and Euro against Hong Kong dollar. 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 during the year, the Group has contingent liabilities arising from lodged/potential claims from the landlords of the premises for compensation in connection with the early termination of the leases, however the amount, if any, and timing of payment could not be reliably estimated at current stage, and the final outcome of which is subject to negotiation and/or result of arbitration. The Group has taken all the 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.


BALANCE IS KEY

DIRECTORS' PROFILE

Chairman and
Non-executive Director

DR. CHENG KAR-SHUN, HENRY, *GBM, GBS*
Aged 72

has been the Chairman and a non-executive Director since June 2007. Dr. Cheng is also a director of a number of the subsidiaries of the Company. He is responsible for the overall planning, strategic development and major policy making of the Group. Dr. Cheng holds offices in various listed public companies, including being the chairman and an executive director of New World Development Company Limited, a substantial shareholder of the Company, the chairman and an executive director of NWS Holdings Limited and Chow Tai Fook Jewellery Group Limited, the chairman and a non-executive director of FSE Services Group Limited, the vice-chairman and non-executive director of i-CABLE Communications Limited and a non-executive director of DTXS Silk Road Investment Holdings Company Limited, all being listed public companies in Hong Kong. He is the chairman and the managing director of New World China Land Limited. He was the chairman and a non-executive director of Newton Resources Ltd until his resignation on 9 April 2018, a non-executive director of SJM Holdings Limited up to his retirement on 11 June 2019, an independent non-executive director of HKR International Limited and Hang Seng Bank Limited until his resignation on 31 March 2018 and retirement on 10 May 2018 respectively, and the chairman and an executive director of International Entertainment Corporation up to his resignation on 10 June 2017, all being listed public companies in Hong Kong. Dr. Cheng is also the chairman of New World Hotels (Holdings) Limited. He is also a director of Cheng Yu Tung Family (Holdings) Limited, Cheng Yu Tung Family (Holdings II) Limited, Chow Tai Fook Capital Limited, Chow Tai Fook (Holding) Limited and Chow Tai Fook Enterprises Limited, all of which are substantial shareholders of the Company. He acts as the chairman of the Advisory Council for The Better Hong Kong Foundation. He was a Standing Committee Member of the Twelfth Chinese People's Political Consultative Conference of the People's Republic of China. Dr. Cheng was awarded the Gold Bauhinia Star and Grand Bauhinia Medal by the Government of the Hong Kong Special Administrative Region in 2001 and 2017 respectively. Dr. Cheng is the father of Dr. Cheng Chi-kong, Adrian, an executive Director.

Executive Director

DR. CHENG CHI-KONG, ADRIAN, *JP*
Aged 39

has been an executive Director since June 2007. He is also the chairman of the executive committee, and a member of the remuneration committee and the nomination committee of the Company. Dr. Cheng joined the Group in 2007 and is responsible for overseeing the corporate affairs of the Group. He is an executive vice-chairman and general manager and executive director of New World Development Company Limited, a substantial shareholder of the company, an executive director of Chow Tai Fook Jewellery Group Limited and a non-executive director of each of Giordano International Limited and New Century Healthcare Holding Co. Limited, all being listed public companies in Hong Kong. He is an executive director of New World China Land Limited. He was an executive director of International Entertainment Corporation up to his resignation on 10 June 2017, a non-executive vice-chairman of Modern Media Holdings Limited up to his resignation on 26 August 2017 and non-executive director of i-CABLE Communications Limited up to his resignation on 2 July 2019. Dr. Cheng is also a director of Chow Tai Fook (Holding) Limited and Chow Tai Fook Enterprises Limited, both of which are substantial shareholders of the Company. He is also the chairman of New World Group Charity Foundation Limited. Dr. Cheng is the vice-chairman of All-China Youth Federation, a member of the Tianjin Municipal Committee of The Chinese People's Political Consultative Conference, the chairman of China Young Leaders Foundation, the honorary chairman of K11 Art Foundation. He was acknowledged by Fortune as one of "40 Under 40" global business stars in 2012, a "Young Global Leader" by the World Economic Forum in 2012. In 2016, he was appointed as the Justice of Peace by the Government of the Hong Kong Special Administrative Region and was made an Officier in the Ordre des Arts et des Lettres by the French Government in 2017. He worked in a major international bank prior to joining New World Development Company Limited and has substantial experience in corporate finance. Dr. Cheng holds a Bachelor of Arts Degree *(Cum Laude)* from Harvard University and was conferred the Honorary Doctorate of Humanities by the Savannah College of Art and Design. Dr. Cheng is the son of Dr. Cheng Kar-shun, Henry, Chairman.

Executive Director

MR. CHEUNG FAI-YET, PHILIP

Aged 64

had been an executive Director in June 2007 and became a non-executive Director in February 2018. Mr. Cheung has been re-designated as an executive Director since August 2018 and became a member of the executive committee and the remuneration committee of the Board. Mr. Cheung is also a director of a number of the subsidiaries of the Company. He was the managing director of the Company up to his resignation from such office on 17 March 2017. Mr. Cheung joined the Group in 1993 and has been responsible for the overall management of the Group. He has over 40 years of experience in the retail industry and possesses extensive experience in managing retailing stores in the PRC, Hong Kong and Taiwan. Prior to joining the Group, Mr. Cheung has held various senior management positions in large retail groups in Hong Kong and Taiwan including working as a general manager in a large Japanese department store and as a general manager in the retail division of a UK based conglomerate in Hong Kong and as a general manager in a large pharmaceutical retail company in Taiwan.

Non-executive Director

MR. AU TAK-CHEONG

Aged 67

has been a non-executive Director since June 2007 and is responsible for overseeing compliance of policy and procedures in relation to accounting matters of the Group. Mr. Au is also an executive director and the Head of the Finance and Accounts and senior management of New World Development Company Limited. He is a director of certain subsidiaries of New World Development Company Limited and possesses over 40 years of experience in finance and accounting and treasury.

Independent non-executive Director

MR. CHEONG YING-CHEW, HENRY

Aged 71

has been an independent non-executive Director since June 2007. He is also a member of the audit committee and the remuneration committee of the Company. Mr. Cheong has over 40 years' experience in the securities industry. He has been a director of the Worldsec Group of companies which he founded in 1991 together with The Bank of Tokyo-Mitsubishi UFJ, Ltd. in Japan. Mr. Cheong currently serves as an executive director and the deputy chairman of Worldsec Limited, a company listed on the London Stock Exchange. Prior to setting up the Worldsec Group in 1991, he was a director of James Capel (Far East) Limited for 5 years with overall responsibility of Far East sales. His earlier professional experience includes 11 years with Vickers da Costa Limited in Hong Kong, latterly as managing director. Mr. Cheong holds a Bachelor of Science (Mathematics) Degree from Chelsea College, University of London and a Master of Science (Operational Research and Management) Degree from Imperial College, University of London.

Mr. Cheong is an independent non-executive director of each of CK Infrastructure Holdings Limited, CK Asset Holdings Limited, CNNC International Limited, Greenland Hong Kong Holdings Limited, Hutchison Telecommunications Hong Kong Holdings Limited, Skyworth Group Limited and TOM Group Limited. He is also an independent director of BTS Group Holdings Public Company Limited, a company listed on the Stock Exchange of Thailand.

Independent non-executive Director

MR. CHAN YIU-TONG, IVAN

Aged 65

has been an independent non-executive Director since June 2007. He is also the chairman of the audit committee of the Company and a member of the remuneration committee of the Company. Mr. Chan has more than 20 years of audit and consulting experience with multinational and PRC corporations. He was the audit engagement partner for many of the B-share and H-share listings in the early 90s. In addition, Mr. Chan had been with a leading British merchant bank and an international accounting firm, specializing in mergers and acquisitions in the PRC. Mr. Chan graduated from the London School of Economics with a Bachelor of Science Degree in Economics.

Independent non-executive Director

MR. TONG HANG-CHAN, PETER
Aged 74

has been an independent non-executive Director since June 2007. He is also the chairman of the remuneration committee of the Company and a member of the audit committee and the nomination committee of the Company. Mr. Tong is currently the managing director of Global Corporate Services Limited and a director of World Link Management Advisory Services Ltd. He has more than 50 years of management experience with leading international retail chains and high-tech companies in Hong Kong and South East Asia, specializing in high-fashion and accessories brand management as well as in establishing sales and distribution networks through joint ventures and franchises. Mr. Tong was the chief operating officer of Mongolia Energy Corporation Limited, an executive director of Sa Sa International Holdings Limited, a vice president of Tiger Enterprises Limited and the president of Giordano Japan Limited (both subsidiaries of Giordano International Limited), the managing director of Longchamp Company Limited, an executive director of Dickson Development Company Limited, and the managing director of Christabel Trading Company Limited and Verwin Company Limited (both affiliates of The Swank Shop). Mr. Tong has been appointed as the chairman of Staff Panel, a vice chairman of Scout Supply Services Committee, a member of Scout Council and Executive Committee of Scout Association of Hong Kong.

Independent non-executive Director

MR. YU CHUN-FAI
Aged 57

has been an independent non-executive Director since June 2007. He is also the chairman of the nomination committee of the Company and a member of the audit committee and the remuneration committee of the Company. He has over 30 years of experience in the financial industry. Mr. Yu was the chairman, chief executive officer and an executive director of Oriental Payment Group Holdings Limited until his retirement on 30 July 2019. Mr. Yu was also an independent non-executive director of Power Financial Group Limited. He is the founder, and was the chairman and an executive director of China Smartpay Group Holdings Limited (formerly known as "Oriental City Group Holdings Limited"), all companies are being listed on The Stock Exchange of Hong Kong Limited. Prior to establishing Oriental City Group, Mr. Yu worked for Morgan Stanley, AIG Asset Management (Asia) Ltd, and Allianz Dresdner Asset Management.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The board of directors (the "Directors" or the "Board") of New World Department Store China Limited (the "Company"), together with its subsidiaries (the "Group"), recognises the importance of corporate governance practices to a listed company. The Company is committed to ensuring high standards of corporate governance in the interest of the shareholders (the "Shareholders") and stakeholders of the Company.

The Company has been making an effort to enhance the corporate governance standard of the Company by reference to the code provisions and recommended best practices set out in the Corporate Governance Code (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). During the year ended 30 June 2019, the Company has applied and complied with all the code provisions set out in the Code.

The Board will continually review and improve the corporate governance practices and standards of the Company to ensure that business and decision making processes are regulated in a proper and prudent manner.

DIRECTORS' SECURITIES TRANSACTIONS

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 year ended 30 June 2019.

EMPLOYEES' SECURITIES TRANSACTIONS

The Code provision A.6.4 provides that there should be written guidelines on no less exacting terms than the Model Code for the relevant employees in respect of their dealing in the securities of the Company.

The Company has established guidelines for employees as required under the Code provision.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises two non-executive Directors, two executive Directors and four independent non-executive Directors. Their names, biographical details and respective relationships with other Directors are set out on pages 20 to 23 of this annual report.

The Board regulates the directions of the Group, monitors its overall performance and maintains effective supervision over the management running the Group through relevant committees of the Board in a sound and efficient manner. The executive committee of the Company (the "Executive Committee") and the management are delegated the authority and responsibilities by the Board for the routine management and operation of the Company.

The Board will have at least four regular meetings a year at approximately quarterly intervals and will meet at other times as and when required to review business strategies and financial and operating performance. During the year ended 30 June 2019, the Company held four regular meetings of the Board and the independent non-executive Directors had a meeting with the chairman of the Company (the "Chairman") once without the presence of other executive and non-executive Directors.

All Directors are subject to retirement by rotation and re-election, if eligible, in accordance with the articles of association of the Company (the "Articles").

During the year, the Directors' attendance at the Board meetings and general meeting is set out as follows:

Name	Number of meetings attended/held Board Meetings	Annual General Meeting
Non-executive Directors		
Dr. Cheng Kar-shun, Henry *(Chairman)*	4/4	1/1
Mr. Au Tak-cheong	4/4	1/1
Executive Directors		
Dr. Cheng Chi-kong, Adrian	4/4	1/1
Mr. Cheung Fai-yet, Philip(1) *(Chief Executive Officer)*	4/4	1/1
Mr. Niu Wei(2)	0/0	0/0
Independent non-executive Directors		
Mr. Cheong Ying-chew, Henry	4/4	1/1
Mr. Chan Yiu-tong, Ivan	4/4	1/1
Mr. Tong Hang-chan, Peter	4/4	1/1
Mr. Yu Chun-fai	4/4	1/1

Notes:

(1) Mr. Cheung Fai-yet, Philip has been redesignated as an executive Director from a non-executive Director with effect from 1 August 2018 and was appointed as the Chief Executive Officer with effect from 15 August 2019.

(2) Mr. Niu Wei resigned as an executive Director on 1 August 2018.

The roles of the Chairman and Chief Executive Officer

Dr. Cheng Kar-shun, Henry, the Chairman, is responsible for the leadership and effective running of the Board, ensuring that all material issues are decided by the Board in a constructive manner. Following with Mr. Niu Wei ceased as chief executive officer of the Company (the "Chief Executive Officer") on 1 August 2018, the function of the Chief Executive Officer, including the responsibility for running the Group's business and the timely implementation of the approved strategies of the Group, is divided between the remaining executive Directors until the appointment of Mr. Ho Kwok-leung, Ivan ("Mr. Ho") as the Chief Executive Officer with effect from 1 January 2019.

With effect from 15 August 2019, Mr. Ho has resigned as the Chief Executive Officer and Mr. Cheung Fai-yet, Philip has been appointed as the Chief Executive Officer.

Non-executive Directors

Non-executive Directors (including the independent non-executive Directors) serve the relevant function of bringing independent judgement on the development, performance and risk management and internal control of the Group. The non-executive Directors have been appointed for a specific term of services and are subject to retirement by rotation and re-election, if eligible, in accordance with the Articles.

During the year, the Company has complied with Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules regarding the appointment of sufficient number of independent non-executive Directors and is having independent non-executive Directors with relevant professional qualifications or accounting or relating financial management expertise. The Company has received annual confirmation of independence from each of the independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Board is of the view that all the independent non-executive Directors are independent in accordance with the Listing Rules.

Executive Committee

The Executive Committee serves as an executive arm of the Board with authority and responsibility for delegating certain operating functions to the management to handle the day-to-day businesses of the Company, while reserving certain key matters including the declaration of interim dividend, making recommendation of final dividend or other distributions for the approval by the Board. The Executive Committee comprises Dr. Cheng Chi-kong, Adrian and Mr. Cheung Fai-yet, Philip. Dr. Cheng Chi-kong, Adrian is the chairman of the Executive Committee. The Executive Committee meets as when necessary.

Audit Committee

The audit committee of the Company (the "Audit Committee") has been established with written terms of reference setting out duties, responsibilities and authorities delegated to them by the Board. The Audit Committee comprises four independent non-executive Directors, namely Mr. Chan Yiu-tong, Ivan, Mr. Cheong Ying-chew, Henry, Mr. Tong Hang-chan, Peter and Mr. Yu Chun-fai. Mr. Chan Yiu-tong, Ivan is the chairman of the Audit Committee and possesses financial management expertise. The Audit Committee meeting will be held at least twice a year.

The major duties and responsibilities of the Audit Committee include review of the effectiveness of the Group's financial reporting processes, risk management and internal control systems. The duties of the Audit Committee also include review of the scope and nature of the audit carried out by the Company's auditors. The Audit Committee will meet with external auditor at least twice a year to discuss any issues from the audit and any matters the external auditor may wish to raise.

During the year, the Audit Committee reviewed with auditor of the Company the audited consolidated financial statements for the year ended 30 June 2018 and the unaudited interim financial information for the six months ended 31 December 2018 as well as risk management and internal control systems of the Company, including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget with recommendations to the Board for approval. The Audit Committee also reviewed the consolidated financial statements for the year ended 30 June 2019 and internal audit report, including the effectiveness of the risk management and internal control systems, with recommendations to the Board for approval. The Audit Committee met two times during the year ended 30 June 2019.

The corporate management services department of the Group (the "Corporate Management Services Department") has conducted audits of the Company and its subsidiaries. The Corporate Management Services Department performs risk-based audits to review the effectiveness of the Group's material internal controls so as to provide assurance that key businesses and operational risks are identified and managed. The work carried out by the Corporate Management Services Department will ensure the risk management and internal controls, including the process used to resolve material internal control defects for any significant problems, are carried out appropriately and functioning as intended. The Corporate Management Services Department shall report its findings and make recommendations to improve and to plan the risk management and internal control of the Group. The Company has written policy and manual for the handling and dissemination of inside information.

During the year, the members' attendance of the meetings of the Audit Committee is set out as follows:

Name	Number of meetings of the Audit Committee attended/held
Mr. Chan Yiu-tong, Ivan	2/2
Mr. Cheong Ying-chew, Henry	2/2
Mr. Tong Hang-chan, Peter	2/2
Mr. Yu Chun-fai	2/2

Remuneration Committee

The remuneration committee of the Company (the "Remuneration Committee") has been established with written terms of reference setting out duties, responsibilities and authorities delegated to them by the Board. The Remuneration Committee comprises Dr. Cheng Chi-kong, Adrian, Mr. Tong Hang-chan, Peter, Mr. Cheung Fai-yet, Philip, Mr. Cheong Ying-chew, Henry, Mr. Chan Yiu-tong, Ivan and Mr. Yu Chun-fai. Mr. Tong Hang-chan, Peter is the chairman of the Remuneration Committee. The Remuneration Committee meeting will be held at least once a year.

During the year ended 30 June 2019, the Remuneration Committee met three times to review the remuneration policy for Directors and the Group, assessing performance of executive Directors and approving terms of executive Directors' service contracts. The Remuneration Committee is to determine, with delegated responsibility, and to make recommendations on the remuneration packages of individual executive Directors and the management. This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment. The Remuneration Committee is also to make recommendations to the Board on the remuneration of non-executive Directors and to ensure that no Directors or any of their associates are involved in deciding their own remuneration.

Details of the amount of emoluments of Directors for the year ended 30 June 2019 are set out in note 11 to the consolidated financial statements.

During the year, the members' attendance of the meetings of the Remuneration Committee is set out as follows:

Name	Number of meetings of the Remuneration Committee attended/held
Mr. Tong Hang-chan, Peter	3/3
Dr. Cheng Chi-kong, Adrian	2/3
Mr. Cheung Fai-yet, Philip(1)	3/3
Mr. Cheong Ying-chew, Henry	3/3
Mr. Chan Yiu-tong, Ivan	3/3
Mr. Yu Chun-fai	3/3
Mr. Niu Wei(2)	0/0

Notes:

(1) Mr. Cheung Fai-yet, Philip has been appointed as a member of the Executive Committee and the Remuneration Committee on 1 August 2018.

(2) Mr. Niu Wei ceased to be a member of the Executive Committee and the Remuneration Committee on 1 August 2018.

Nomination Committee

The nomination committee of the Company (the"Nomination Committee") has been established on 1 April 2012 with written terms of reference setting out duties, responsibilities and authorities delegated to them by the Board, the Nomination Committee comprises Dr. Cheng Chi-kong, Adrian, Mr. Yu Chun-fai and Mr. Tong Hang-chan, Peter. Mr. Yu Chun-fai is the chairman of the Nomination Committee. The Nomination Committee meeting will be held at least once a year. The primary duties of the Nomination Committee include review the structure, size and composition of the Board, make recommendations on any proposed changes to the Board, and to assess the independence of the independent non-executive Directors. The Nomination Committee is also to determine the policy and to adopt the nomination procedures and the process and criteria, such as experience and independence, to select and recommend candidates for directorship. During the year ended 30 June 2019, the Nomination Committee met once. Taking into account of the Company's own operation model and specific needs, the members of the Nomination Committee considered that the experience and diversity of perspectives of the Board appropriate to the requirements of the Company's business.

During the year, the members' attendance of the meeting of the Nomination Committee is set out as follows:

Name	Number of meeting of the Nomination Committee attended/held
Mr. Yu Chun-fai	1/1
Dr. Cheng Chi-kong, Adrian	1/1
Mr. Tong Hang-chan, Peter	1/1

Nomination Policy

The Board adopted a nomination policy with effect from 1 January 2019.

The nomination policy sets out the criteria and procedures to be adopted when considering candidates to be appointed or re-elected as Directors. It provides guidance to the Nomination Committee and the Board on nomination of Board members so as to ensure the appointment to the Board of a candidate who will be beneficial to the balance of skills, experience and diversity of perspectives suitable to the business requirements of the Company.

Nomination Criteria

The Nomination Committee shall consider the following criteria in evaluating and selecting candidates for directorship:

(1) Board diversity policy (the "Policy") and any measurable objectives adopted for achieving diversity on the Board including gender, age, skills, knowledge, experience, expertise, professional and educational qualifications, background;

(2) Reputation for integrity;

(3) Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;

(4) Willingness to devote adequate time to discharge duties as a member of the Board;

(5) Requirement for the Board to have independent directors in accordance with the Listing Rules applicable to the Company and whether the candidates would be considered independent with reference to the independence guidelines set out in the Listing Rules;

(6) Potential conflicts of interest with the Company; and

(7) Such other perspectives appropriate to the Company's business or as suggested by the Board.

Nomination Process

(1) When it is necessary to fill a causal vacancy or appoint an additional director, the Nomination Committee identifies or selects candidates pursuant to the criteria set out above;

(2) When it is necessary to re-appoint an existing director, the Nomination Committee reviews overall contribution and service of the retiring director to the Company and determine whether the retiring director continues to meet the criteria as set out above;

(3) The Nomination Committee shall hold a physical meeting instead of deciding by written resolution to consider the matter unless it is impractical to hold a physical meeting;

(4) The Nomination Committee makes recommendation to the Board; and

(5) The Board deliberates and decides on the appointment based upon the recommendation of the Nomination Committee.

Nomination by shareholders

(1) The Shareholders may also propose a person for election as a director, details of which are set out in the "Procedures for a shareholder to propose a person for election as director of the Company" of the Company; and

(2) The Nomination Committee shall evaluate such candidate based on the criteria as set out in section headed "Nomination Criteria" above to determine whether such candidate is qualified for directorship and where appropriate, the Nomination Committee and/or the Board shall make recommendation to shareholders in respect of the proposed election of director at the general meeting.

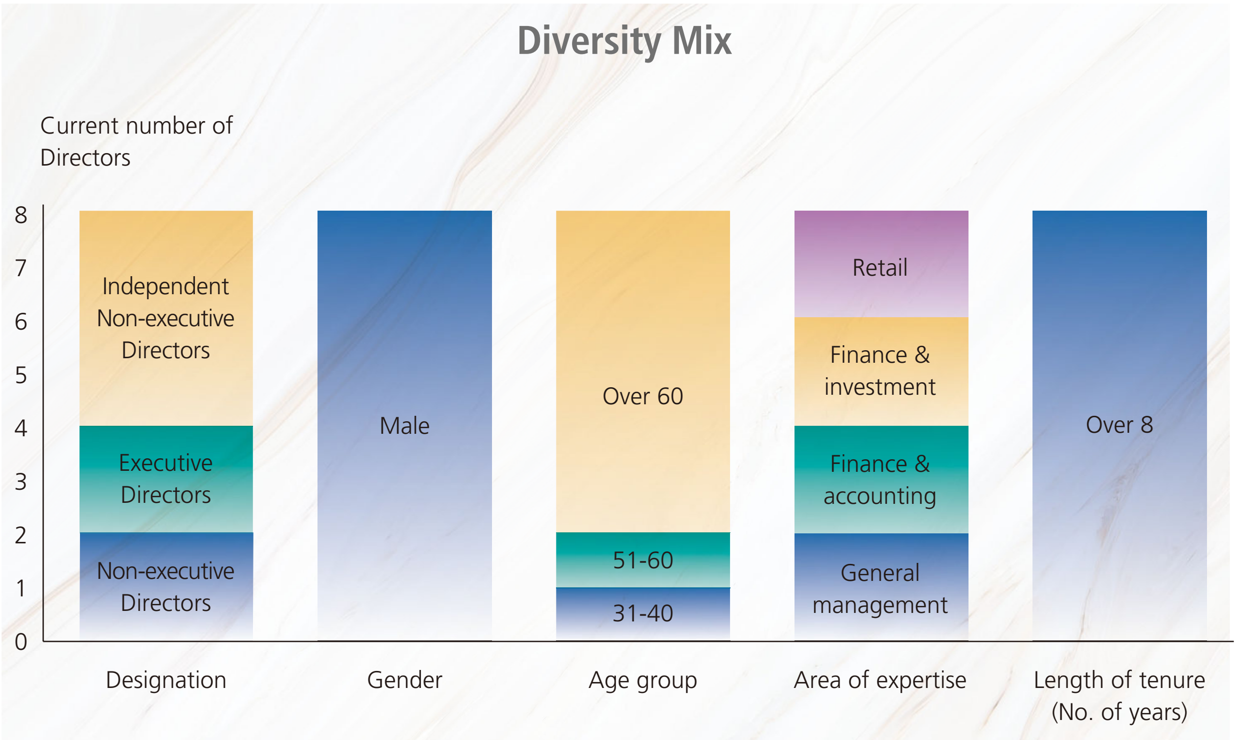
Review of the Policy

The Nomination Committee and/or the Board will review the Policy, as appropriate to ensure the effectiveness of the Policy.

Board Diversity Policy

The Company has adopted the Policy which sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board. Pursuant to the Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of service and by taking account of the Company's own business model and specific needs.

The Board will consider to set measurable objectives to implement the Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. The Nomination Committee will review the Policy from time to time to ensure its continued effectiveness.



Corporate Governance Functions

The Board is to perform the corporate governance duties with written terms of reference which include the applicable code provisions as set out in the Code. The Board has reviewed the compliance with the Code and disclosure of the Company in this corporate governance report and determine the policy for corporate governance of the Company and duties performed by the Board.

Directors' Training

All Directors are kept informed on a timely basis of major changes that may have affected the Group's business, including relevant rules and regulations and are able to make further enquiries and they may seek independent professional advice and consultation when necessary. To enhance proper and up-to-date understanding of the Company's operations and business, legal and other regulatory requirements and appropriate emphasis on the roles, functions and duties of Directors, the Company has arranged seminars and provided reading materials as professional development programs to the Directors. During the year, all Directors have participated in continuous professional development to develop and refresh their knowledge and skills. The Company has received training records of the Directors as below:

Name	Training records received by the Company
Non-executive Directors	
Dr. Cheng Kar-shun, Henry *(Chairman)*	✔
Mr. Au Tak-cheong	✔
Executive Directors	
Dr. Cheng Chi-kong, Adrian	✔
Mr. Cheung Fai-yet, Philip [(1)] *(Chief Executive Officer)*	✔
Independent non-executive Directors	
Mr. Cheong Ying-chew, Henry	✔
Mr. Chan Yiu-tong, Ivan	✔
Mr. Tong Hang-chan, Peter	✔
Mr. Yu Chun-fai	✔

Note:

(1) Mr. Cheung Fai-yet, Philip has been re-designated as an executive Director from a non-executive Director with effect from 1 August 2018 and was appointed as the Chief Executive Officer with effect from 15 August 2019.

Remuneration of Directors

The remuneration of the directors is determined with reference to the performance and responsibilities of individuals, performance of the Group and prevailing market conditions. By providing remuneration at competitive industry levels, the Company seeks to attract, motivate and retain key executives essential to its future development and growth. In addition, all Directors are covered by appropriate insurance on Directors' liabilities from their risk exposure arising from the management of the Group.

FINANCIAL REPORTING, RISK MANAGEMENT AND INTERNAL CONTROL

The annual and interim results of the Company were respectively published in a timely manner during the year. The Directors acknowledge their responsibility for the preparation of the annual report and financial statements of the Company to ensure that the consolidated financial statements give a presentation in accordance with the applicable laws and accounting standards. The Directors consider that in preparing the consolidated financial statements, the Group has made judgments that are reasonable and prudent, in accordance with the applicable accounting standards.

The reporting responsibilities of PricewaterhouseCoopers, the Company's external auditor, are stated in the Independent Auditor's Report on pages 48 to 53 of this annual report.

The Board has overall responsibility for the Group's systems of risk management and internal control and for reviewing its effectiveness and procedures. The procedures have been designed for safeguarding assets against unauthorised user or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance of applicable laws, rules and regulations. The procedures provide reasonable assurance against material errors, losses or fraud and are to identify key risks. The Board, through the Audit Committee, conducted review regarding accounting, risk management and internal control systems of the Group on an on-going basis. In the year under review, the Audit Committee and the Board had also reviewed the Group's financial and operational aspects to ensure that effective and reasonable measures were in place.

The Audit Committee also considers the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, as well as their training programmes and budgets.

DISSEMINATION OF INSIDE INFORMATION

The Company is committed to a consistent practice of timely, accurate and sufficiently detailed disclosure of material information about the Group. The Company has adopted continuous disclosure policy which sets out the obligations, guidelines and procedures for handling and dissemination of inside information. With those guidelines and procedures, the Group has management controls in place to ensure that potential inside information can be promptly identified, assessed and escalated for the attention of the Board to decide about the need for disclosure. The procedures are briefly as follows:

(1) As soon as staff members become aware of actual or potential inside information, they must provide to their respective divisional disclosure officers the relevant details.

(2) Divisional disclosure officers shall then conduct preliminary assessment of the information received based on internal guidelines promulgated by the Board or the disclosure committee of the Company (the "Disclosure Committee"). In case of doubt, the matter shall be referred to the Disclosure Committee for determination.

(3) Upon notification of potentially inside information, the Disclosure Committee reviews and decides whether the information must be disclosed, as well as when and how the information shall be released.

(4) All staff must ensure that inside information is not communicated to any external parties unless with approval from the Disclosure Committee. As such, staff shall not respond to market speculation and rumours unless authorized. Also, all external presentation materials or publications must be pre-vetted before release.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors acknowledge their responsibilities for keeping proper accounting records and preparing financial statements of each financial period, giving a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 30 June 2019, the Directors had:

(1) approved the adoption of all applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants;

(2) selected and applied consistently appropriate accounting policies; and

(3) prepared the financial statements on a going concern basis.

COMPANY SECRETARY

The company secretary of the Company (the "Company Secretary") is an employee of the Company. Her responsibilities include advising the board on governance matters. The Board has access to the advice and services of the Company Secretary at all times. During the year ended 30 June 2019, the Company Secretary has taken no less than 15 hours of relevant professional training.

COMMUNICATION WITH SHAREHOLDERS

The chairman of the Board, the chairmen of the Board committees, members of the Board and external auditor will attend the annual general meeting of the Company at which the Directors will answer questions raised by the Shareholders on the performance of the Group. To ensure the general meetings are conducted in a fair and transparent manner, each of the resolutions considered at the general meetings held in the past year has been voted by poll and the branch share registrar and transfer agent of the Company in Hong Kong was appointed as the scrutineers to count the votes and explain to the Shareholders at the meetings the procedures for voting by poll. The poll results and other corporate communications were posted on and can also be downloaded from the websites of the Company (www.nwds.com.hk) and the Stock Exchange (www.hkexnews.hk) respectively.

SHAREHOLDERS' RIGHTS

According to the Articles, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board and to put forward proposals specified in such requisition by the procedures below:

The Shareholder shall deposit a requisition in writing to require an extraordinary general meeting and to put forward proposals at the Company's head office at 7th Floor, 88 Hing Fat Street, Causeway Bay, Hong Kong (attention to: Company Secretary) or the branch share registrar and transfer agent of the Company in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (attention to: Mr. Ricky Lee).

The requisition must include the business to be transacted at the required extraordinary general meeting and must be signed by the Shareholder concerned. If the requisition is confirmed as proper and valid, an extraordinary general meeting shall be held within two months after the deposit of such requisition subject to the requirements of the relevant Articles and the Listing Rules. In case an extraordinary general meeting could not be convened upon the request, the Company will inform the Shareholder accordingly.

If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

There are no provisions under the Articles or the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands regarding procedures for Shareholders to put forward proposals at general meetings other than a proposal of a person for election as directors. Shareholders may follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition.

For enquiries to the Board, the Shareholder shall contact the Corporate Affairs Department at the head office of the Company at 7th Floor, 88 Hing Fat Street, Causeway Bay, Hong Kong or by e-mail to nwdscad@nwds.com.hk. The Company will endeavor to respond to their queries in a timely manner.

DIVIDEND POLICY

The Company will distribute to all Shareholders funds surplus to the operating needs of the Group, but subject always to:

(1) any restrictions under the Companies Law of Cayman Islands or other rules and regulations which are applicable to the Company;

(2) any banking or other funding covenants by which the Company is bound from time to time;

(3) the capital expenditure and operating requirements of the Group; and

(4) the external economic and market situation.

Declaration and recommendation of payment of dividends of the Company are also subject to the approval of the Directors and Shareholders, where applicable and depending on the distributable annual profit for that financial year, results of operations, working capital, financial position, future prospects, and capital requirements, as well as any other factors which the Directors may consider relevant from time to time. The Company does not have a fixed dividend payout ratio and currently intends to retain most of our available funds and future earnings to operate and develop our business.

The Board has made an effort to maintain a balance between meeting shareholders' expectations and prudent capital management with a sustainable dividend policy.

The Board will continually review this dividend policy and update, amend and modify this dividend policy from time to time and there can be no assurance that dividend will be paid in any particular amount for any given period.

CONSTITUTIONAL DOCUMENTS

There is no significant change in the Company's constitutional documents during the year.

INVESTOR RELATIONS

The management believes that effective and timely communication with the investment community is essential. Since the Group's listing on the Main Board of the Stock Exchange in 2007, an Investor Relations team has been set up to provide investors and the capital market with the necessary information and data so as to keep them abreast of the Group's business and development.

During the year under review, the team actively engaged local and overseas institutional investors and analysts through face-to-face meetings, teleconferences and store visits. The team also attended large-scale investor conferences at home and abroad, including Morgan Stanley Seventeenth Annual Asia Pacific Summit, J.P. Morgan Global China Summit 2019, and Daiwa Consumer and Gaming Conference 2019.

The Group recognises the importance of fair and transparent disclosure of information and its corporate website (www.nwds.com.hk) plays an important role in the Group's compliance with regulatory requirements in this regard. The Group's announcements, results presentations, financial reports, sustainability reports and press releases are made available in the "Investors", "Corporate Sustainability" and "Media" sections on the website so that capital market participants can better understand the Group's financial and operational performance.

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group values the development for talents and the mutual growth of staff. The Group strictly complies with the requirements of the law of the PRC and the labour legislation of Hong Kong, and abides by the open and fair principles while providing employment opportunities, remuneration, leave, benefits and so on. All of the labour standards and recruitment procedures are conducted in strict compliance with the relevant labour laws of the PRC and Hong Kong.

The Group also understands the importance of training and development for the employees. Starting from the employment of new staff members, induction courses on corporate culture, business operation, regulations and so on are provided. Staff members are further provided with different training to enhance the comprehensive capabilities to solve their problems encountered at work.

The Group strives to take care of the interests of customers and maintain a desirable shopping environment. The Group would operate in compliance with the regulations and requirements of regulatory authorities.

In addition, the Group maintained good and stable working relationship with the major suppliers.

AUDITORS' REMUNERATION

Fees for auditing services amounted to approximately HK$5,790,000 and fees for non-auditing services, including mainly interim review, tax advisory and other related services, amounted to approximately HK$1,348,000.

GROUP HONOURS

CORPORATE GOVERNANCE & TALENT CULTIVATION

- Gold Award in the category of "Environmental, Social and Governance" in "*The Asset* Corporate Awards 2018" by *The Asset*
- "Innovation Practice Award" in the "2018 CCFA Excellent Corporate University" by the China Chain Store and Franchise Association
- "Best Operation and Management Award" in the "2019 CCFA Outstanding Enterprise University" by the China Chain Store and Franchise Association
- "Happy Company" logo in the "Happiness at Work Promotional Scheme 2019" by the Promoting Happiness Index Foundation and Hong Kong Productivity Council

SERVICE EXCELLENCE

- "2018 Retail Innovation Top Ranking - Shopping Mall Category" in the "2018 Wise Retail Summit" by 36Kr
- "2018 Jinding Cup Shanghai City Single Purpose Prepaid Card Trustworthy Operations Model Enterprise" by the Shanghai Chain Enterprise Association and Shanghai Single Purpose Prepaid Card Association

COMMUNITY SERVICES

- "5 Years Plus Caring Company" logo in the 2018/19 "Caring Company" Scheme by the Hong Kong Council of Social Service
- "Corporate Citizenship" logo in the categories of "Enterprise" and "Volunteer" in the "9th Hong Kong Outstanding Corporate Citizenship Award"
- "Bronze Award for Volunteer Service (Organization)" in the "2017 Volunteer Movement" and "2018 Volunteer Movement" by the Social Welfare Department
- "Hong Kong Community Volunteers (Corporate Member) Certificate of Appreciation" by the Agency for Volunteer Service

ENVIRONMENTAL PROTECTION

- "Basic Level" Energywi$e Certificate, "Excellence Level" Wastewi$e Certificate, "Carbon Reduction Certificate" and "Hong Kong Green Organisation" in the "Hong Kong Green Organisation Certification" by the Environmental Campaign Committee
- "Green Office" and "Eco-Healthy Workplace" labels in the "Green Office and Eco-Healthy Workplace Awards Labelling Scheme" by the World Green Organisation

CONTENTS

FINANCIAL SECTION

REPORT OF THE DIRECTORS

The Board is pleased to present the annual report of the Company together with the audited consolidated financial statements of the Group for the year ended 30 June 2019.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is engaged in department store and other related businesses, and property investment operations in the PRC. The principal activities of its principal subsidiaries are set out in note 40 to the consolidated financial statements of the Group.

RESULTS

The results of the Group for the year ended 30 June 2019 are set out in the consolidated income statement on page 54 of this annual report.

BUSINESS REVIEW

A review of the business of the Group during the year, a discussion on the Group's future business development and description of possible risks and uncertainties that the Group may be facing are provided in the Chairman's Statement, Management Discussion and Analysis, Corporate Governance Report, Report of Directors and Risk Factors sections of this annual report. Also, the financial risk management objectives and policies of the Group can be found in note 3 to the consolidated financial statements. An analysis of the Group's performance during the year using financial key performance indicators is provided in the Management Discussion and Analysis section on pages 10 to 17 of this annual report. In addition, discussion on the Group's environmental policies and performance, relationships with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are set out in "Sustainability Report 2019" (a standalone report) to be published around December 2019.

FINAL DIVIDEND

The Directors have resolved not to recommend a final dividend for the year ended 30 June 2019 (2018: nil).

SHARES OR DEBENTURES ISSUED

During the year, no shares or debentures were issued by the Company.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Group during the year or subsisted at the end of the year.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 30 June 2019, calculated under the laws of the Cayman Islands, amounted to HK$1,892.5 million (2018: HK$2,072.3 million).

FIVE-YEAR FINANCIAL SUMMARY

Financial summary for the years ended 30 June 2015 to 2019 are set out on page 125 of this annual report.

PRINCIPAL INVESTMENT PROPERTIES

Details of the principal properties held for investment purposes are set out on page 126 of this annual report.

CHARITABLE DONATIONS

Charitable donations, in form of money and materials, made by the Group during the year costed approximately HK$179,000 (2018: approximately HK$1,289,000).

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the laws of the Cayman Islands.

DIRECTORS

The Directors during the year and up to the date of this report are:

Non-executive Directors

Dr. Cheng Kar-shun, Henry *(Chairman)*
Mr. Au Tak-cheong

Executive Directors

Dr. Cheng Chi-kong, Adrian
Mr. Cheung Fai-yet, Philip[(1)] *(Chief Executive Officer)*
Mr. Niu Wei[(2)]

Independent Non-executive Directors

Mr. Cheong Ying-chew, Henry
Mr. Chan Yiu-tong, Ivan
Mr. Tong Hang-chan, Peter
Mr. Yu Chun-fai

Notes:

(1) Mr. Cheung Fai-yet, Philip has been re-designated as an executive Director from a non-executive Director with effect from 1 August 2018 and appointed as the Chief Executive Officer with effect from 15 August 2019.

(2) Mr. Niu Wei resigned as the Chief Executive Officer and an executive Director on 1 August 2018.

In accordance with articles 87(1) and 87(2) of the Articles, Dr. Cheng Kar-shun, Henry, Dr. Cheng Chi-kong, Adrian and Mr. Yu Chun-fai will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Mr. Niu Wei resigned as the Chief Executive Officer and an executive Director on 1 August 2018. Mr. Niu has confirmed that he has no disagreement with the Board and there are no matters in respect of his resignation that need to be brought to the attention of the Shareholders.

AUDIT COMMITTEE

The Audit Committee was established in accordance with the 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 control. The Audit Committee consists of the four independent non-executive Directors. The Audit Committee has reviewed the systems of risk management and internal control and the annual results and the consolidated financial statements for the year ended 30 June 2019 and discussed those related matters with the management.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation other than statutory compensation.

Non-executive Directors

Dr. Cheng Kar-shun, Henry and Mr. Au Tak-cheong have respectively renewed a service contract with the Company for a fixed term from 1 July 2019 to 30 June 2022, unless terminated by either party by one month prior written notice or any other period mutually agreed with the Board provided that such mutually agreed period shall not exceed 12 months or automatically terminated immediately upon ceasing to be a Director in accordance with (i) the Articles; (ii) the Companies Ordinance (Cap. 622, the Laws of Hong Kong); or (iii) any laws, requirements, rules, regulations, practices and/or directions under the Listing Rules. They are subject to retirement by rotation in accordance with the Articles.

Executive Directors

Dr. Cheng Chi-kong, Adrian has renewed a service contract with the Company for a fixed term from 1 July 2017 to 30 June 2020, whereas Mr. Cheung Fai-yet, Philip has entered into a service contract with the Company for a fixed term from 1 August 2018 to 30 June 2021 for his re-designation as an executive Director, unless terminated by either party by one month prior written notice or any other period mutually agreed with the Board provided that such mutually agreed period shall not exceed 12 months or automatically terminated immediately upon ceasing to be a Director in accordance with (i) the Articles; (ii) the Companies Ordinance (Cap. 622, the Laws of Hong Kong); or (iii) any laws, requirements, rules, regulations, practices and/or directions under the Listing Rules. They are subject to retirement by rotation in accordance with the Articles.

Independent Non-executive Directors

Mr. Cheong Ying-chew, Henry, Mr. Chan Yiu-tong, Ivan, Mr. Tong Hang-chan, Peter and Mr. Yu Chun-fai have respectively renewed a service contract with the Company for a fixed term from 1 July 2019 to 30 June 2022 unless terminated by either party by one month prior written notice or any other period mutually agreed with the Board provided that such mutually agreed period shall not exceed 12 months or automatically terminated immediately upon ceasing to be a Director in accordance with (i) the Articles; (ii) the Companies Ordinance (Cap. 622, the Laws of Hong Kong); or (iii) any laws, requirements, rules, regulations, practices and/or directions under the Listing Rules. They are subject to retirement by rotation in accordance with the Articles.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts of significance to which the Company, its parent company or any of its subsidiaries or its fellow subsidiaries was a party and in which any Director had a material interest, whether directly or indirectly, subsisted as at 30 June 2019 or at any time during the year.

PERMITTED INDEMNITY PROVISION

The Articles provide that every Director is entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto.

The Company has taken out and maintained directors' liability insurance throughout the year, which provides appropriate cover for the Directors and directors of the subsidiaries of the Company.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year, the following Directors have interests in the following businesses which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group according to the Listing Rules:

	Businesses which are considered to compete or likely to compete with the businesses of the Group		
Name of Director	**Name of entity**	**Description of business**	**Nature of interest of the Director in the entity**
Dr. Cheng Kar-shun, Henry	New World Development Company Limited	Property investment	Director
	Chow Tai Fook Enterprises Limited ("CTF") group of companies	Property investment	Director
	Supreme Harvest Development Limited group of companies	Property investment	Director
	Silver City International Limited group of companies	Property investment	Director
	Sunshine Dragon Group Limited group of companies	Property investment	Director
Dr. Cheng Chi-kong, Adrian	New World Development Company Limited	Property investment	Director
	Cheung Hung Development (Holdings) Limited	Property investment	Director
	CTF group of companies	Property investment	Director
Mr. Au Tak-cheong	New World Development Company Limited	Property investment	Director

DEED OF NON-COMPETITION

Under the deed of non-competition dated 22 June 2007 given by New World Development Company Limited ("NWD", or together with its subsidiaries, the "NWD Group") in favour of the Company (the "Deed"), details of which were stated in the prospectus of the Company dated 28 June 2007, NWD has undertaken not to engage or carry on (including through any associate, subsidiary, body corporate or other contractual arrangement) the following business(es) ("Restricted Business(es)") in the PRC:

(a) department stores;

(b) supermarkets;

(c) hypermarkets;

(d) convenience stores;

(e) specialty merchandise stores; and

(f) supercentres.

If there is any disagreement between the Company and NWD as to whether an activity of the NWD Group constitutes a Restricted Business, the matter shall be determined by the majority of the independent non-executive Directors whose decision shall be binding.

The independent non-executive Directors have reviewed the annual confirmation from NWD that NWD has not breached and has complied with the terms of the Deed.

CONNECTED TRANSACTIONS

The Company has entered into the following continuing connected transactions which are subject to disclosure requirement in the annual report under the Listing Rules:

A. Master leasing agreement

On 11 April 2014, the Company and NWD entered into a master leasing agreement (the "Master Leasing Agreement") in relation to all existing and future transactions between members of the Group and members of the NWD Group regarding the leasing of premises by members of the Group from members of the NWD Group and vice versa (the "Leasing Transactions"). Subject to compliance with, including the Listing Rules, upon expiration of the initial term or subsequent renewal term, the Master Leasing Agreement will be automatically renewed for a successive period of three years thereafter. The Master Leasing Agreement was renewed for three years commencing on 1 July 2017 and subject to the annual caps not exceeding RMB355,660,000, RMB373,178,000 and RMB384,374,000, respectively (the "Leasing Annual Caps"). The renewal of the Master Leasing Agreement, the relevant transactions and the Leasing Annual Caps were approved at an extraordinary general meeting of the Company held on 25 May 2017.

The aggregate consideration under the Master Leasing Agreement was approximately RMB235,559,000 (2018: approximately RMB242,489,000) during the year.

As NWD is a substantial Shareholder and is therefore a connected person of the Company under the Listing Rules, the transactions contemplated under the Master Leasing Agreement constitute continuing connected transactions of the Company under the Listing Rules.

CONNECTED TRANSACTIONS (continued)

B. Master concessionaire counter agreement

On 22 March 2012, the Company and Chow Tai Fook Jewellery Group Limited ("CTFJ" and its subsidiaries "CTFJ Group") entered into a master concessionaire counter agreement (the "Master Concessionaire Counter Agreement") in relation to all existing and future transactions between members of the Group and members of the CTFJ Group arising from the concessionaire arrangements or rental agreements in respect of retailing counters for the sale of jewellery products and watches by the CTFJ Group at properties in the PRC owned by, or leased to, the Group or at which the Group operates its business, as contemplated under the Master Concessionaire Counter Agreement. Subject to the compliance with, including the Listing Rules, upon expiration of the initial term or subsequent renewal term, the Master Concessionaire Counter Agreement will be automatically renewed for a successive period of three years thereafter. The Master Concessionaire Counter Agreement was renewed for a further term of three years commencing on 1 July 2017 and subject to the annual caps not exceeding RMB129,551,000, RMB135,912,000 and RMB159,902,000 respectively (the "Concessionaire Annual Caps"). The renewal of the Master Concessionaire Counter Agreement, the relevant transactions and the Concessionaire Annual Caps were approved at an extraordinary general meeting of the Company held on 25 May 2017.

The aggregate consideration under the Master Concessionaire Counter Agreement was approximately RMB64,405,000 (2018: approximately RMB65,593,000) during the year.

NWD is a substantial Shareholder and hence a connected person of the Company. CTFJ is a fellow subsidiary of Chow Tai Fook Enterprises Limited ("CTF") which is a substantial shareholder of NWD. CTFJ is therefore a connected person of NWD and also considered to be a connected person of the Company and the transactions contemplated under the Master Concessionaire Counter Agreement constitute continuing connected transactions of the Company under the Listing Rules.

C. Master services agreement

On 10 April 2017, Mr. Doo Wai-hoi ("Mr. Doo") and the Company entered into the master services agreement (the "Master Services Agreement") in respect of all existing and future transactions between members of the Group and members of Mr. Doo's controlled companies (the "Services Group") regarding the provision of contracting services, cleaning and landscaping services, property management and rental services and such other types of services as the parties may agree upon from time to time in writing (collectively, the "Services") by members of the Services Group to members of the Group, and vice versa contemplated under the Master Services Agreement. The Master Services Agreement is commencing on 1 July 2017 up to and including 30 June 2020 and subject to the annual caps for each of the three financial years commencing on 1 July 2017 not exceeding RMB60,458,000, RMB80,401,000 and RMB80,470,000 respectively.

The aggregate consideration under the Master Services Agreement was approximately RMB174,000 (2018: approximately RMB4,124,000) during the year.

As Mr. Doo is an associate of certain Directors and hence a connected person of the Company under the Listing Rules. Accordingly, the transactions under the Master Services Agreement constitute continuing connected transactions of the Company under the Listing Rules.

CONNECTED TRANSACTIONS (continued)

D. Sale and purchase agreement

On 19 July 2019, Techwise Enterprises Limited (the "Vendor"), a wholly-owned subsidiary of the Company, and K11 Sales & E-Commerce Company Limited (the "Purchaser"), a wholly-owned subsidiary of NWD entered into the sale and purchase agreement (the "Sale and Purchase Agreement"), pursuant to which the Vendor agreed to sell, and the Purchaser agreed to purchase the 14,001 ordinary shares of US$1.00 each in Well Metro Group Limited (the "Target Company") at the consideration of HK$1,000,000. The Target Company and its subsidiaries are principally engaged in brand management, and the distribution and retailing of fashion apparels and accessories in the PRC. In view of the current market conditions, the management of the Company came to the decision on the sale of the entire issued share capital of the Target Company by the Vendor to the Purchaser pursuant to the terms of the Sale and Purchase Agreement to facilitate the Group to focus resources on its core department store businesses.

NWD is a substantial shareholder of the Company and the Purchaser is a wholly-owned subsidiary of NWD, the Purchaser is therefore a connected person of the Company. The transaction contemplated under the Sale and Purchase Agreement constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

E. Annual review of the continuing connected transactions

The price and terms of the continuing connected transactions mentioned in (i) Master Leasing Agreement (paragraph A above); (ii) Master Concessionaire Counter Agreement (paragraph B above); and (iii) Master Services Agreement (paragraph C above) were determined in accordance with the pricing policies and guidelines as set out in the relevant announcements and circular of the Company, the independent non-executive Directors had reviewed such continuing connected transactions during the year and confirmed that the transactions were:

i in the ordinary and usual course of business of the Group;

ii on normal commercial terms; and

iii in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor of the Company has issued an unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with paragraph 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Save as disclosed above, the significant related party transactions that did not constitute connected transactions made under the Listing Rules during the year were disclosed in note 38 to the consolidated financial statements.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section headed "Directors' interests in securities" below, at no time during the year was the Company, its subsidiaries, its fellow subsidiaries or its holding company, a party to any arrangement to enable the Directors or chief executives or any of their spouse or children under the age of 18 to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2019, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or the Model Code were as follows:

(a) Long positions in shares

	Capacity	Nature of interest	Number of shares held	Total	Approximate percentage of shareholding (direct or indirect)
New World Development Company Limited					
(Ordinary shares)					
Dr. Cheng Chi-kong, Adrian	Beneficial owner	Personal interest	700,000	700,000	0.01
NWS Holdings Limited					
(Ordinary shares of HK$1.00 each)					
Dr. Cheng Kar-shun, Henry	Beneficial owner	Personal interest	18,349,571	30,349,571	0.78
	Controlled corporation	Corporate interest	12,000,000 (1)		

Note:

(1) These shares are beneficially owned by a company wholly-owned by Dr. Cheng Kar-shun, Henry.

DIRECTORS' INTERESTS IN SECURITIES (continued)

(b) Long positions in underlying shares – share options

i. New World Development Company Limited

Under the share option scheme of the holding company, NWD, the undermentioned Directors have personal interests in share options to subscribe for shares of NWD. Certain details of the share options of NWD held by them during the year were as follows:

			Number of share options held					
Name	**Date of grant**	**Exercisable period** (Notes)	**Balance as at 1 July 2018**	**Granted during the year**	**Exercised during the year**	**Adjusted during the year**	**Balance as at 30 June 2019**	**Exercise price per share** HK$
Dr. Cheng Kar-shun, Henry	10 June 2016	(1)	10,675,637	–	–	–	10,675,637	7.540
	3 July 2017	(2)	2,000,000	–	–	–	2,000,000	10.036
Dr. Cheng Chi-kong, Adrian	9 March 2016	(3)	3,800,000	–	–	–	3,800,000	7.200
	10 June 2016	(1)	3,736,471	–	–	–	3,736,471	7.540
	3 July 2017	(2)	2,000,000	–	–	–	2,000,000	10.036
Mr. Au Tak-cheong	10 June 2016	(4)	866,693	–	(530,000)	–	336,693	7.540
	3 July 2017	(5)	300,000	–	(100,000)	–	200,000	10.036
			23,378,801	–	(630,000)	–	22,748,801	

Notes:

(1) Divided into 4 tranches exercisable from 10 June 2016, 10 June 2017, 10 June 2018 and 10 June 2019 respectively to 9 June 2020.

(2) Divided into 4 tranches exercisable from 3 July 2017, 3 July 2018, 3 July 2019 and 3 July 2020 respectively to 2 July 2021.

(3) Divided into 4 tranches exercisable from 9 March 2016, 9 March 2017, 9 March 2018 and 9 March 2019 respectively to 8 March 2020.

(4) Divided into 3 tranches exercisable from 10 June 2017, 10 June 2018 and 10 June 2019 respectively to 9 June 2020.

(5) Divided into 3 tranches exercisable from 3 July 2018, 3 July 2019 and 3 July 2020 respectively to 2 July 2021.

(6) The cash consideration paid by each of the above Directors for each grant of the share options is HK$10.00.

DIRECTORS' INTERESTS IN SECURITIES (continued)

(b) Long positions in underlying shares – share options (continued)

ii. NWS Holdings Limited

Under the share option scheme of a fellow subsidiary, NWS Holdings Limited ("NWSH"), the undermentioned Director has personal interests in share options to subscribe for shares of NWSH. Certain details of the share options of NWSH held by him during the year were as follows:

			Number of share options held					
Name	Date of grant	Exercisable period (Note)	Balance as at 1 July 2018	Granted during the year	Exercised during the year	Adjusted during the year	Balance as at 30 June 2019	Exercise price per share HK$
Dr. Cheng Kar-shun, Henry	9 March 2015	(1)	7,420,739	–	–	–	7,420,739	14.120
			7,420,739	–	–	–	7,420,739	

Notes:

(1) 60% of the share options are exercisable from 9 May 2015 to 8 March 2020 while the remaining 40% of the share options are divided into 2 tranches exercisable from 9 March 2016 and 9 March 2017 respectively to 8 March 2020.

(2) The cash consideration paid by the above Director for each grant of the share options is HK$10.00.

Save as disclosed above, as at 30 June 2019, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30 June 2019, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO, which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Long positions in the shares of the Company

Name	Capacity	Nature of interest	Number of shares held	Total	Approximate percentage of shareholding (direct or indirect)
Cheng Yu Tung Family (Holdings) Limited ("CYTFH") (1)	Controlled corporation	Corporate interest	1,264,400,000	1,264,400,000	74.99
Cheng Yu Tung Family (Holdings II) Limited ("CYTFH-II") (2)	Controlled corporation	Corporate interest	1,264,400,000	1,264,400,000	74.99
Chow Tai Fook Capital Limited ("CTFC") (3)	Controlled corporation	Corporate interest	1,264,400,000	1,264,400,000	74.99
Chow Tai Fook (Holding) Limited ("CTFH") (4)	Controlled corporation	Corporate interest	1,264,400,000	1,264,400,000	74.99
Chow Tai Fook Enterprises Limited ("CTF") (5)	Controlled corporation	Corporate interest	1,264,400,000	1,264,400,000	74.99
New World Development Company Limited ("NWD")	Controlled corporation Beneficial owner	Corporate interest –	45,500,000 1,218,900,000	1,264,400,000	74.99

Notes:

(1) CYTFH holds 48.98% direct interest in CTFC and is accordingly deemed to have an interest in the shares of the Company interested by or deemed to be interested by CTFC.

(2) CYTFH-II holds 46.65% direct interest in CTFC and is accordingly deemed to have an interest in the shares of the Company interested by or deemed to be interested by CTFC.

(3) CTFC holds 81.03% direct interest in CTFH and is accordingly deemed to have an interest in the shares of the Company interested by or deemed to be interested by CTFH.

(4) CTFH holds 100% direct interest in CTF and is accordingly deemed to have an interest in the shares of the Company interested by or deemed to be interested by CTF.

(5) CTF together with its subsidiaries have interest in more than one-third of the issued shares of NWD and is accordingly deemed to have an interest in the shares of the Company interested by or deemed to be interested by NWD.

Save as disclosed above, the Company has not been notified of any other person (other than the Directors or chief executive of the Company) who, as at 30 June 2019, had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO, which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

The share option scheme of the Company adopted on 12 June 2007 has expired on 12 June 2017, and no new share option scheme has been adopted thereafter.

EMPLOYEES, REMUNERATION POLICY AND PENSION SCHEME

As at 30 June 2019, the total number of employees of the Group was 3,883 (31 December 2018: 4,293). 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 year ended 30 June 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company had not redeemed any of its listed securities during the year. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, less than 30% of the Group's revenue were attributed by the Group's five largest customers and approximately 2% of the Group's revenue was attributed by the Group's largest customer and less than 45% of the Group's total purchases were attributed by the Group's five largest direct sales suppliers and approximately 13% of the Group's total purchases were attributed by the Group's largest supplier. To the knowledge of the Directors, none of the Directors or shareholders who owned 5% or more of the total number of issued shares of the Company as at 30 June 2019 or any of their respective associates held any interest in any of the five largest customers or suppliers of the Group.

AUDITOR

The consolidated financial statements of the Company have been audited by PricewaterhouseCoopers, who retire and, being eligible, offer themselves for re-appointment as auditor of the Company.

On behalf of the Board

Cheng Kar-shun, Henry
Chairman

Hong Kong, 24 September 2019

INDEPENDENT AUDITOR'S REPORT

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羅兵咸永道

TO THE SHAREHOLDERS OF NEW WORLD DEPARTMENT STORE CHINA LIMITED
(incorporated in Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of New World Department Store China Limited (the "Company") and its subsidiaries (the "Group") set out on pages 54 to 124, which comprise:

- the consolidated statement of financial position as at 30 June 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 June 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

羅兵咸永道

TO THE SHAREHOLDERS OF NEW WORLD DEPARTMENT STORE CHINA LIMITED (continued)
(incorporated in Cayman Islands with limited liability)

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Impairment of property, plant and equipment and goodwill
- Valuation of investment properties

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of property, plant and equipment and goodwill	
Refer to note 4, note 7, note 15, note 18 and note 35 to the consolidated financial statements. As at 30 June 2019, the Group had property, plant and equipment of HK$921 million and goodwill of HK$1,723 million allocated to cash generating units of the department store and other retail related businesses including those reclassified as assets classified as held for sale. Impairment losses of goodwill and property, plant and equipment of HK$57 million and HK$13 million respectively were accounted for under "Other losses, net" in the consolidated income statement. Management has performed an impairment assessment of property, plant and equipment and goodwill allocated to cash generating units of the department store and other retail related businesses. We focus on this area because the assessment required significant management judgement and estimates with respect to annual gross sales revenue growth rates and gross margin ratios within the forecast period, long term growth rate and discount rate applied to the cash flow forecasts.	Our procedures in relation to management's impairment assessment of property, plant and equipment and goodwill allocated to cash generating units of the department store and other retail related businesses included: • Obtaining management's analysis of the indications of impairment and understanding management's rationale for the analysis; • Assessing management's analysis by comparing the financial performance of certain entities against their business plan; • Assessing the discounted cash flow valuation methodology used by management to estimate recoverable amount; • Evaluating the process by which management's future cash flow forecasts were prepared; • Comparing historical actual results to those budgeted to assess the quality of management's forecast; • Reconciling input data to the budgets approved by management; • Evaluating the key assumptions used in the calculations, comprising annual gross sales revenue growth rates, gross margin ratios, long term growth rate and discount rate based on knowledge of the business and industry; and

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TO THE SHAREHOLDERS OF NEW WORLD DEPARTMENT STORE CHINA LIMITED (continued)
(incorporated in Cayman Islands with limited liability)

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of property, plant and equipment and goodwill (continued)	• Evaluating management's sensitivity analysis on the key assumptions to assess the potential impact of possible changes in individual assumption. We found the impairment assessment of property, plant and equipment and goodwill to be supportable based on the available evidence.
Valuation of investment properties Refer to note 4, note 16 and note 35 to the consolidated financial statements. The Group's investment properties including those reclassified as assets classified as held for sale amounted to HK$4,729 million as at 30 June 2019. A fair value loss on investment properties of HK$20,000 was accounted for under "Changes in fair value of investment properties" in the consolidated income statement. Management engaged an independent external valuer who adopted the income approach to estimate the fair value of the Group's investment properties. The valuation of investment properties is an area of our audit focus as the valuation involves significant estimate including capitalisation rates and rental rates used by the external valuer and management.	Our procedures in relation to management's valuation of investment properties included: • Assessing the competence, capabilities and objectivity of management's external valuer; • Assessing the valuation methodologies used by the external valuer and management to estimate the fair value of investment properties; • Evaluating the key assumptions used in the valuation, particularly the capitalisation rates and rental rates by comparing prevailing market rents adopted by the external valuer to recent lettings of the underlying investment properties or other comparable properties; and • Sample testing the accuracy of the input data used by the external valuer by agreeing the input data such as rental income and lease terms to the relevant contracts and correspondence held by the Group. We found the methodology and key assumptions used by management in the valuation of investment properties to be supportable based on available evidence.

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TO THE SHAREHOLDERS OF NEW WORLD DEPARTMENT STORE CHINA LIMITED (continued)
(incorporated in Cayman Islands with limited liability)

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Audit Committee are responsible for overseeing the Group's financial reporting process.

羅兵咸永道

TO THE SHAREHOLDERS OF NEW WORLD DEPARTMENT STORE CHINA LIMITED (continued)
(incorporated in Cayman Islands with limited liability)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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羅兵咸永道

TO THE SHAREHOLDERS OF NEW WORLD DEPARTMENT STORE CHINA LIMITED (continued)
(incorporated in Cayman Islands with limited liability)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

We communicate with Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chu Ho Kwan, Raphael.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 September 2019

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2019

	Note	2019 HK$'000	2018 HK$'000
Revenue	5	**3,519,017**	3,821,120
Other income	6	**150,251**	196,902
Other losses, net	7	**(147,360)**	(198,137)
Changes in fair value of investment properties	16	**(20)**	482
Purchases of and changes in inventories, net		**(912,331)**	(940,552)
Purchases of promotion items		**(28,285)**	(47,144)
Employee benefit expense	10	**(651,358)**	(640,890)
Depreciation and amortisation		**(209,653)**	(246,406)
Operating lease rental expense		**(1,057,897)**	(1,228,302)
Other operating expenses, net	8	**(457,762)**	(531,720)
Operating profit		**204,602**	185,353
Finance income		**51,964**	61,783
Finance costs		**(35,782)**	(37,994)
Finance income, net	9	**16,182**	23,789
		220,784	209,142
Share of results of associated companies	19	**40**	(560)
Profit before income tax		**220,824**	208,582
Income tax expense	12	**(188,161)**	(197,497)
Profit for the year		**32,663**	11,085
Attributable to:			
Shareholders of the Company		**32,663**	11,028
Non-controlling interests		**–**	57
		32,663	11,085
Earnings per share attributable to shareholders of the Company for the year (expressed in HK$ per share)			
– Basic and diluted	14	**0.02**	0.01

The notes on pages 62 to 124 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2019

	2019 HK$'000	2018 HK$'000
Profit for the year	**32,663**	11,085
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Fair value gain on equity instrument at fair value through other comprehensive income	–	9,643
Revaluation of properties upon reclassification from property, plant and equipment and land use rights to investment properties	**49,751**	15,899
– Deferred income tax thereof	**(12,438)**	(3,975)
	37,313	21,567
Items that may be reclassified subsequently to profit or loss		
Release of reserve upon deregistration of subsidiaries	**(11,805)**	–
Translation differences	**(334,903)**	209,033
	(346,708)	209,033
Other comprehensive income for the year, net of tax	**(309,395)**	230,600
Total comprehensive income for the year	**(276,732)**	241,685
Attributable to:		
Shareholders of the Company	**(276,732)**	241,630
Non-controlling interests	–	55
	(276,732)	241,685

The notes on pages 62 to 124 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Note	2019 HK$'000	2018 HK$'000
Assets			
Non-current assets			
Property, plant and equipment	15	**888,044**	1,150,257
Investment properties	16	**4,692,081**	4,761,907
Land use rights	17	**475,071**	605,343
Intangible assets	18	**1,972,351**	2,127,125
Interests in associated companies	19	**1,563**	1,595
Other non-current assets	20	**659,708**	669,840
Prepayments, deposits and other receivables	21	**241,631**	363,543
Deferred income tax assets	31	**99,793**	124,337
		9,030,242	9,803,947
Current assets			
Inventories	22	**94,450**	318,044
Debtors	23	**63,441**	116,697
Prepayments, deposits and other receivables	21	**301,522**	400,506
Amounts due from fellow subsidiaries	24	**2,840**	2,696
Amounts due from related companies	24	**186**	1
Fixed deposits with original maturity over three months	25	**131,111**	42,439
Cash and bank balances	26	**1,735,590**	1,904,904
		2,329,140	2,785,287
Assets classified as held for sale	35	**438,141**	–
Total current assets		**2,767,281**	2,785,287
Total assets		**11,797,523**	12,589,234
Equity and liabilities			
Equity			
Share capital	27	**168,615**	168,615
Reserves	28	**5,673,994**	5,950,726
Shareholders' funds		**5,842,609**	6,119,341
Non-controlling interests		**–**	7
Total equity		**5,842,609**	6,119,348

	Note	2019 HK$'000	2018 HK$'000
Liabilities			
Non-current liabilities			
Accruals and other payables	32	**439,132**	587,796
Obligation under finance leases	29	**–**	16
Borrowings	30	**–**	226,190
Deferred income tax liabilities	31	**870,507**	891,304
		1,309,639	1,705,306
Current liabilities			
Creditors	32	**1,337,492**	1,661,193
Accruals and other payables	32	**1,051,134**	1,043,546
Contract liabilities	33	**251,252**	332,998
Amounts due to fellow subsidiaries	24	**9,935**	22,213
Amounts due to related companies	24	**8,652**	25,389
Obligation under finance leases	29	**–**	16
Borrowings	30	**1,628,049**	1,650,519
Tax payable		**20,933**	28,706
		4,307,447	4,764,580
Liabilities directly associated with assets classified as held for sale	35	**337,828**	–
Total current liabilities		**4,645,275**	4,764,580
Total liabilities		**5,954,914**	6,469,886
Total equity and liabilities		**11,797,523**	12,589,234

The consolidated financial statements on pages 54 to 124 were approved by the Board of Directors on 24 September 2019 and were signed on its behalf

Dr. Cheng Kar-shun, Henry	**Mr. Cheung Fai-yet, Philip**
Director	Director

The notes on pages 62 to 124 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2019

	Attributable to shareholders of the Company									
	Share capital HK$'000	Share premium HK$'000	Property revaluation reserve HK$'000	Capital reserve HK$'000	Statutory reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Shareholders' funds HK$'000	Non-controlling interests HK$'000	Total HK$'000
As at 1 July 2018	168,615	1,826,646	137,428	391,588	437,299	322,267	2,835,498	6,119,341	7	6,119,348
Comprehensive income										
Profit for the year	–	–	–	–	–	–	32,663	32,663	–	32,663
Other comprehensive income										
Revaluation of property upon reclassification from property, plant and equipment and land use rights to investment properties	–	–	49,751	–	–	–	–	49,751	–	49,751
– Deferred income tax thereof	–	–	(12,438)	–	–	–	–	(12,438)	–	(12,438)
Release of reserve upon deregistration of subsidiaries	–	–	–	–	–	(11,805)	–	(11,805)	–	(11,805)
Translation differences	–	–	–	–	–	(334,903)	–	(334,903)	–	(334,903)
Total comprehensive income for the year ended 30 June 2019	–	–	37,313	–	–	(346,708)	32,663	(276,732)	–	(276,732)
Transactions with owners										
Transaction with non-controlling interests	–	–	–	–	–	–	–	–	(7)	(7)
Transfer to statutory reserve	–	–	–	–	9,024	–	(9,024)	–	–	–
Total transactions with owners	–	–	–	–	9,024	–	(9,024)	–	(7)	(7)
As at 30 June 2019	168,615	1,826,646	174,741	391,588	446,323	(24,441)	2,859,137	5,842,609	–	5,842,609

	Attributable to shareholders of the Company										
	Share capital HK$'000	Share premium HK$'000	Property revaluation reserve HK$'000	Capital reserve HK$'000	Statutory reserve HK$'000	Fair value through other comprehensive income reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Shareholders' funds HK$'000	Non-controlling interests HK$'000	Total HK$'000
As at 1 July 2017	168,615	1,826,646	125,504	391,588	412,606	(20,775)	113,232	2,910,566	5,927,982	(48)	5,927,934
Adjustment on adoption of HKFRS 15, net of tax	–	–	–	–	–	–	–	(50,271)	(50,271)	–	(50,271)
As at 1 July 2017, as adjusted	168,615	1,826,646	125,504	391,588	412,606	(20,775)	113,232	2,860,295	5,877,711	(48)	5,877,663
Comprehensive income											
Profit for the year	–	–	–	–	–	–	–	11,028	11,028	57	11,085
Other comprehensive income											
Revaluation of property upon reclassification from property, plant and equipment and land use rights to investment properties	–	–	15,899	–	–	–	–	–	15,899	–	15,899
– Deferred income tax thereof	–	–	(3,975)	–	–	–	–	–	(3,975)	–	(3,975)
Fair value gain on equity instrument at fair value through other comprehensive income	–	–	–	–	–	9,643	–	–	9,643	–	9,643
Translation differences	–	–	–	–	–	–	209,035	–	209,035	(2)	209,033
Total comprehensive income for the year ended 30 June 2018	–	–	11,924	–	–	9,643	209,035	11,028	241,630	55	241,685
Transfer of reserves											
Transfer of loss on disposal of equity instrument at fair value through other comprehensive income to retained earnings	–	–	–	–	–	11,132	–	(11,132)	–	–	–
Transactions with owners											
Transfer to statutory reserve	–	–	–	–	24,693	–	–	(24,693)	–	–	–
As at 30 June 2018	168,615	1,826,646	137,428	391,588	437,299	–	322,267	2,835,498	6,119,341	7	6,119,348

The notes on pages 62 to 124 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2019

	Note	2019 HK$'000	2018 HK$'000
Cash flows from operating activities			
Profit before income tax		**220,824**	208,582
Adjustments for:			
– Dividend income		**–**	(274)
– Finance income		**(51,964)**	(61,783)
– Finance costs		**35,782**	37,994
– Amortisation of land use rights		**21,584**	23,800
– Depreciation of property, plant and equipment		**188,069**	222,606
– Changes in fair value of investment properties		**20**	(482)
– Loss on disposal of property, plant and equipment		**9,124**	3,909
– Gain on disposal of an associated company		**–**	(503)
– Gain on deregistration of subsidiaries		**(11,805)**	–
– Impairment loss on goodwill		**57,471**	108,490
– Impairment loss on property, plant and equipment		**13,445**	72,671
– Impairment loss on prepayments, deposits and other receivables		**77,886**	24,963
– Inventory write-down, net/(reversal of inventory write-down, net)		**9,315**	(623)
– Provision for doubtful debts, net		**5,725**	16,350
– Fair value loss on financial asset or liability at fair value through profit or loss		**1,239**	5,462
– Share of results of associated companies		**(40)**	560
– Net foreign exchange difference		**4,766**	(27,200)
Operating profit before working capital changes		**581,441**	634,522
Changes in:			
Inventories		**(19,839)**	(85,527)
Debtors		**5,362**	(21,008)
Prepayments, deposits and other receivables		**61,973**	120,126
Creditors		**(210,519)**	(245,400)
Accruals and other payables		**(19,860)**	(146,783)
Contract liabilities		**(65,294)**	(36,254)
Amounts due (to)/from fellow subsidiaries		**(11,669)**	12,767
Amounts due (to)/from related companies		**(15,949)**	1,056
Amounts due to associated companies		**–**	(720)
Cash generated from operations		**305,646**	232,779
Mainland China tax paid		**(158,229)**	(225,572)
Net cash from operating activities		**147,417**	7,207

	Note	2019 HK$'000	2018 HK$'000
Cash flows from investing activities			
Net cash outflow from acquisition of a subsidiary	36	–	(3,215)
Settlement of non-operating liabilities of the acquired subsidiary		–	(222,743)
Additions to investment properties		(8,585)	(5,554)
Additions to property, plant and equipment		(107,092)	(142,001)
Additions to interest in an associated company		–	(886)
Settlement of financial liability at fair value through profit or loss		(2,104)	(1,247)
Proceeds from disposal of an associated company		–	904
Proceeds from disposal of equity instrument		–	29,906
Proceeds from disposal of property, plant and equipment		3,448	767
(Increase)/decrease in fixed deposits with original maturity over three months		(91,642)	96,061
Increase in restricted cash	26	(1,948)	–
Dividend received		–	274
Interest received		58,299	60,806
Net cash used in investing activities		(149,624)	(186,928)
Cash flows from financing activities			
Drawdown of bank borrowings	37	545,723	820,065
Repayment of bank borrowings and finance lease	37	(601,204)	(889,841)
Drawdown of shareholder loan	37	80,000	133,000
Finance costs paid	37	(62,417)	(47,787)
Net cash (used in)/from financing activities		(37,898)	15,437
Net decrease in cash and cash equivalents		(40,105)	(164,284)
Cash and cash equivalents at beginning of the year		1,904,904	2,003,676
Effect of foreign exchange rate changes		(85,012)	65,512
Less: cash and cash equivalents included in assets classified as held for sale	35	(46,145)	–
Cash and cash equivalents at end of the year	26	1,733,642	1,904,904

The notes on pages 62 to 124 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

New World Department Store China Limited (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 Company and its subsidiaries (together, the "Group") are engaged in department store and other retail related businesses, and property investment operations in Mainland China.

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

These consolidated financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 24 September 2019.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

These consolidated financial statements of the Company for the year ended 30 June 2019 have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. These consolidated financial statements have been prepared on a historical cost basis, except for investment properties which are measured at fair value and assets classified as held for sale which are measured at the fair value less costs of disposal.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

The assets and liabilities of a disposal group classified as held for sale are presented separately from other assets and liabilities in the consolidated statement of financial position. Details of the major classes of assets and liabilities classified as held for sale are separately disclosed in Note 35.

As at 30 June 2019, the Group's current liabilities exceeded its current assets by approximately HK$1,877,994,000 (2018: HK$1,979,293,000). Taking into account the cash flows from operating activities, the track record of successful renewal of the existing 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 consolidated financial statements.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

In the current year, the Group has adopted the following interpretation and amendments to existing standards, if applicable, which are mandatory for the financial year ended 30 June 2019:

Amendments to HKAS 40	Transfers of Investment Property
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 "Financial Instruments" with HKFRS 4 "Insurance Contracts"
HK (IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Annual Improvements Project	Annual Improvements 2014–2016 Cycle

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

The following new or revised standards and interpretation and amendments to existing standards are mandatory for the accounting periods beginning on or after 1 July 2019 which the Group has not early adopted:

Effective for the year ending 30 June 2020:

HKFRS 16	Leases
Amendments to HKAS 19	Employee Benefits
Amendments to HKAS 28	Long-term Interest in Associates and Joint Ventures
HK (IFRIC) 23	Uncertainty over Income Tax Treatments
Annual Improvements Project	Annual Improvements 2015–2017 Cycle

Effective for the year ending 30 June 2021:

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

Effective for the year ending 30 June 2022:

HKFRS 17	Insurance Contracts

Effective date to be determined:

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

HKFRS 16 "Leases"

HKFRS 16 addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from HKFRS 16 is that most operating leases will be accounted for on the consolidated statement of financial position for lessees. The Group is a lessee of certain premises and properties which are currently classified as operating leases. HKFRS 16 provides a new provision for the accounting treatment of leases when the Group is the lessee, almost all leases should be recognised in the form of an asset for the right-of-use and a financial liability at the present value of lease payments that are not paid at the recognition date. The lease payments shall be discounted using either the interest rate implicit in the lease or the lessee's incremental borrowing rate. Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in assets and financial liabilities in the consolidated statement of financial position. As for the financial performance impact in the consolidated income statement, straight-line depreciation expense on the right-of-use asset and the interest expenses on the financial liability are recognised and no rental expenses will be recognised. The combination of a straight-line depreciation of the right-of-use asset and the effective interest method applied to the financial liability will result in a higher total charge to consolidated income statement in the initial years of the lease, and decreasing expenses during the latter part of the lease term. The Group will classify cash payment on the lease liability into a principal portion and an interest portion and will present them in the consolidated statement of cash flows.

The Group is considering to elect the modified retrospective approach upon the initial adoption. Under the modified retrospective approach, comparative information for prior periods is not restated and the Group will recognise the cumulative effect of initially applying the guidance as an adjustment to the opening balance of the consolidated statement of financial position in the year of adoption commencing on 1 July 2019.

As at 30 June 2019, the Group has non-cancellable operating lease commitments for leases of premises and properties in relation to the Group's various businesses as set out in Note 34(b). It is expected that a substantial portion of the lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

The Group's activities as a lessor does not expect any significant impact on the consolidated financial statements.

2.2 Subsidiaries

(i) Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset acquired or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

(i) Consolidation (continued)

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKFRS 9 in consolidated income statement. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests is the equity in a subsidiary which is not attributable, directly or indirectly, to a parent.

(ii) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

2.3 Associated companies

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Interest in an associated company is accounted for using the equity method of accounting. Under the equity method, the interest is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

The Group's share of post-acquisition profit or loss is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of result in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associated company.

The Group determines at each reporting date whether there is any objective evidence that the interest in the associated company is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associated company and its carrying value and recognises the amount adjacent to 'share of results of associated companies' in the consolidated income statement.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Associated companies (continued)

Profits and losses resulting from upstream and downstream transactions between the Group and its associated company are recognised in the Group's financial statements only to the extent of unrelated investor's interest in the associated company. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. For equity accounting purpose, accounting policies of the associated company have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive Directors of the Company that makes strategic decisions.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	20 to 40 years
Plant and machinery	5 years
Motor vehicles	5 years
Leasehold improvements	Shorter of remaining lease term or useful life of 2 to 15 years
Furniture and fixtures	3 to 5 years
Office equipment	2 to 5 years
Computer	2 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Assets under construction represents buildings or leasehold improvements on which construction work has not been completed and computer under installation. It is carried at cost which includes construction expenditures and other direct costs less any impairment losses. On completion, assets under construction is transferred to the appropriate categories of property, plant and equipment at cost less accumulated impairment losses. No depreciation is provided for assets until they are ready and available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amounts and are recognised within 'other losses, net' in the consolidated income statement.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.6 Investment properties

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the consolidated income statement.

If a property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this property at the date of transfer is recognised in equity as a revaluation of property, plant and equipment. However, if the fair value of the property at the date of transfer which results in a reversal of the previous impairment loss, the write-back is recognised in the consolidated income statement.

2.7 Land use rights

All lands in Mainland China are state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the right to use certain land. The premiums paid for such right are treated as prepayment for operating lease and recorded as land use rights except for those accounted as investment properties, which are amortised over the lease periods using the straight-line method.

2.8 Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity in the acquiree over the fair value of the identifiable net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(ii) Operating rights

Operating right primarily resulted from the acquisition of right to operate distribution and retailing of fashion apparels and accessories business. Separately acquired operating rights are shown at historical cost. Operating rights acquired in a business combination are recognised at fair value at the acquisition date. Operating rights have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of operating rights over their estimated useful lives.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.9 Impairment of investments in subsidiaries, interests in associated companies and non-financial assets

Intangible assets that have an indefinite useful life, for example goodwill, or have not yet been available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset is greater than its estimated recoverable amount. An impairment loss is recognised in the consolidated income statement for the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of its fair value less costs of disposal and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Impairment testing of the investments in subsidiaries or interests in associated companies is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or an associated company in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.10 Investments and other financial assets

(a) Classification

Debt instruments

HKFRS 9 has three financial asset classification categories for investments in debt instruments:

- those to be measured at amortised cost;
- Fair value through other comprehensive income ("FVOCI"); and
- Fair value through profit or loss ("FVPL")

Classification is driven by the entity's business model for managing the debt instrument and the debt instrument's contractual cash flow characteristics.

The Group classifies its financial assets as at amortised cost only if both of the following criteria are met:

- the asset is held within a business model with the objective of collecting the contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.10 Investments and other financial assets (continued)

(a) Classification (continued)

Debt instruments (continued)

The Group classifies its financial assets as at FVOCI only if both of the following criteria are met:

- the objective of the Group's business model is to hold the asset to collect the contractual cash flows and to sell financial assets; and

- the contractual terms of the debt instrument give rise to cash flows that are solely payments of principal and interest on the principal outstanding.

Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL.

Debtors, deposits and other receivables, amounts due from fellow subsidiaries and related companies, fixed deposits with original maturity over three months, cash and bank balances are classified as at amortised cost.

Equity instruments

Investment in equity instruments are always measured at fair value. Equity instruments that are held for trading are measured at FVPL.

The Group has made an irrevocable election at initial recognition to designate the equity instruments which are not held for trading to be measured at fair value through other comprehensive income rather than profit or loss.

(b) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in consolidated income statement.

Financial assets measured at amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a financial asset that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in consolidated income statement when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

Equity investments classified as FVOCI

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss. Equity investments that are elected by the Group's management to be classified as FVOCI do not report impairment losses (and reversal of impairment losses) separately from other changes in fair value. Dividends from such investments continue to be recognised in consolidated income statement as 'other income' when the Group's right to receive payments is established.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.10 Investments and other financial assets (continued)

(b) Measurement (continued)

Financial assets at FVPL

Changes in the fair value on financial assets at FVPL are recognised in consolidated income statement as 'other losses, net' as applicable.

2.11 Impairment of financial assets

The Group assesses on a forward looking basis the expected credit losses associated with its assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1(b) details how the Group determines whether there has been a significant increase in credit risk.

For financial assets measured at amortised cost that are considered to be of low credit risk, it is assumed that no significant increase in credit risk have occurred. Thus, the impairment provision recognised during the year was limited to 12-month expected losses.

For debtors only, the Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9. Management considers the debtors do not contain a significant financing component. Thus, the impairment provision recognised during the year was equal to the lifetime expected losses.

2.12 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value to profit or loss.

2.13 Debtors and other receivables

Debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of debtors and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Debtors and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.14 Inventories

Inventories comprise finished goods and are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.15 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.16 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Creditors and other payables

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Creditors and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Creditors and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

2.19 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

Borrowing costs include interest expense, finance charges in respect of finance lease and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on forward currency rates at the inception of the borrowings.

When the construction of the qualifying assets takes more than one accounting period, the amount of foreign exchange differences eligible for capitalisation is determined for each annual period and are limited to the difference between the hypothetical interest amount for the functional currency borrowings and the actual interest incurred for foreign currency borrowings. Foreign exchange differences that did not meet the criteria for capitalisation in previous years should not be capitalised in subsequent years.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.20 Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company, its subsidiaries and associated companies operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that sufficient future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associated companies, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(iii) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.21 Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leaves are recognised when they accrue to employees. Provisions are made for the estimated liability for annual leaves as a result of services rendered by employees up to the end of the reporting period.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.21 Employee benefits (continued)

(ii) Pension obligations

The Group makes contributions to defined contribution retirement schemes under the Mandatory Provident Fund Schemes Ordinance and the Occupational Retirement Scheme Ordinance in Hong Kong, the assets of which are generally held in separate trustee administered funds. The pension plans are generally funded by payments from employees and by the Group. The Group's contributions to the defined contribution retirement schemes are expensed as incurred. Contributions are reduced by contribution forfeited by those employees who leave the schemes prior to vesting fully in the contributions, where applicable.

The Group also contributes to employee retirement schemes established by municipal governments in Mainland China. The municipal governments undertake to assume the retirement benefit obligations of all existing and future retired employees of the Group. Contributions to these schemes are charged to the consolidated income statement as incurred.

(iii) Bonus plans

Provisions for bonus plan due wholly within twelve months after the end of the reporting period are recognised where contractually obliged or where there is a past practice that has created a constructive obligation.

(iv) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates:

(a) when the Group can no longer withdraw the offer of those benefits; and

(b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits.

2.22 Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.22 Provisions, contingent liabilities and contingent assets (continued)

A contingent liability, other than that assumed in a business combination, is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

2.23 Revenue and income recognition

Revenue is recognised when or as the control of the good or service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good or service may be transferred over time or at a point in time. Control of the good or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the good or service transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the good or service.

The progress towards complete satisfaction of the performance obligation is measured based on one of the following methods that best depict the Group's performance in satisfying the performance obligation:

- direct measurements of the value transferred by the Group to the customer relative to the remaining goods or services promised under the contract; or
- the Group's efforts or inputs to the satisfaction of the performance obligation relative to the total expected inputs.

Commission income from concessionaire sales is recognised upon sales of goods by the relevant stores.

Revenue from sales of goods to retail customers is recognised when the product is transferred to the customers upon sale. The Group also sells goods to wholesalers. Revenue from sales of goods to wholesalers is recognised when control of the products has transferred, being when the products are delivered to the wholesalers. Payment of the transaction price is due immediately when the customers purchase the good. The payment is usually settled in cash, using credit cards or by means of electronic payments. It is the Group's policy to sell its products to the customers with a right of return within a reasonable period.

Revenue from management and consultancy fees is recognised when management and advisory services are rendered.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.23 Revenue and income recognition (continued)

Rental income is recognised on a straight-line accrual basis over the terms of lease agreements.

Interest income is recognised on a time proportion basis using effective interest method.

Dividend income is recognised when the right to receive payment is established.

Payments received in advance that are related to sales of goods not yet delivered are deferred in contract liabilities in the consolidated statement of financial position. Revenue is recognised when goods are delivered to the customers. After expiry of prepaid stored value cards, the corresponding receipts in advance are normally recognised as income based on the Group's previous experience in forfeiture of prepaid stored value cards by customers.

2.24 Government grants

Government grants are recognised at their fair values where the grant has been received and all attaching conditions have been complied with. Government grants received are not intended to compensate any specific costs of the Group and are recognised within 'other income' in the consolidated income statement.

2.25 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company is Renminbi ("RMB"). The consolidated financial statements are presented in HK$, the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement or capitalised as cost of qualifying assets, as applicable (Note 2.19).

Translation differences on financial assets and liabilities held at FVPL is reported as part of the fair value gain or loss. Translation difference on equity instruments at FVOCI is included in equity.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(c) all resulting currency translation differences are recognised in other comprehensive income.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.25 Foreign currency translation (continued)

(iii) Group companies (continued)

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

(iv) Determination of functional currency

Due to the changes in operation of China Sincere Limited during the year ended 30 June 2019, the Directors considered HK$ was the currency that mainly influenced the operations and cash flow of China Sincere Limited (and certain subsidiaries of the Company which took up the operations of China Sincere Limited during the year), therefore the functional currency of these entities has been designated as HK$. The determination of functional currency of these entities was applied in accordance with HKAS 21 "The Effect of Changes in Foreign Exchange Rates". If the functional currency of these entities was RMB, the exchange differences arising from the borrowings denominated in HK$ would have been recognised in profit and loss and the Group's profit before income tax for the year ended 30 June 2019 would have been approximately HK$58,043,000 lower.

2.26 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Receipts or payments made under operating leases (net of any incentives paid to lessee or received from the lessor) are recognised as income or expense in the consolidated income statement on a straight-line basis over the periods of the lease.

The Group leases certain equipment. Leases of equipment where the Group has substantially retained all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each finance lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in liabilities. The interest element of the finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2.27 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or Directors, where appropriate.

2.28 Disposal groups held for sale

Disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amounts and fair value less costs of disposal, except for financial assets and investment properties that are carried at fair value.

An impairment loss is recognised for any initial or subsequent write-down of the assets of a disposal group to fair value less costs of disposal. A gain is recognised for any subsequent increases in fair value less costs of disposal of the assets of a disposal group, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the assets of a disposal group is recognised at the date of derecognition.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.28 Disposal groups held for sale (continued)

The assets of a disposal group are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

The assets of a disposal group classified as held for sale are presented separately from the other assets in the consolidated statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the consolidated statement of financial position.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks, including foreign exchange risk, credit risk, liquidity risk and interest rate risk.

(a) Foreign exchange risk

The Group is mainly exposed to foreign exchange risk arising from HK$, United States dollar ("USD") and Euro ("EUR") against RMB, and from RMB and EUR against HK$. This foreign exchange risk arises from future commercial transactions or recognised assets and liabilities denominated in a currency that is not the functional currencies of the Company and each of the subsidiaries. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures.

As at 30 June 2019, if HK$, EUR and USD had strengthened/weakened by 5% (2018: 5%) against the RMB with all other variables held constant, profit before income tax for the year would have been approximately HK$1,023,000 (2018: HK$70,000,000) lower/higher mainly as a result of foreign exchange differences on translation of HK$-denominated, EUR-denominated and USD-denominated bank balances, other receivables and payables, borrowings and balances with group companies of the Group's entities of which functional currency is RMB.

As at 30 June 2019, if RMB and EUR had strengthened/weakened by 5% (2018: 5%) against the HK$ with all other variables held constant, profit before income tax for the year would have been approximately HK$4,690,000 (2018: HK$4,458,000) lower/higher mainly as a result of foreign exchange differences on translation of RMB-denominated and EUR-denominated bank balances, other receivables and payables and borrowings of the Group's entities of which functional currency is HK$. Under the Linked Exchange Rate System in Hong Kong, HK$ is pegged to USD that there are no significant foreign exchange risk with respect to the USD.

Foreign exchange risk as defined by HKFRS 7 arise on account of monetary assets and liabilities being denominated in a currency that is not the functional currency, differences resulting from the translation of financial statements into the Group's presentation currency are not taken into consideration.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

The credit risk of the Group mainly arises from debtors, deposits and other receivables, amounts due from fellow subsidiaries and related companies, fixed deposits with original maturity over three months and cash and bank balances. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group considers the probability of default upon initial recognition of assets and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the assets as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward looking information. Especially the following indicators are incorporated:

- external credit rating (as far as available)
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the counterparties' ability to meet its obligations
- actual or expected significant changes in the operating results of the counterparties
- significant expected changes in the performance and behaviour of the counterparties, including changes in the payment status of counterparties in the group and changes in the operating results of the counterparties

A default on a financial asset is when the counterparties fail to make contractual payments when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery.

Fixed deposits with original maturity over three months and cash and bank balances placed in renowned or high credit-rated financial institutions are considered to be of low credit risk as they have an investment credit rating with at least one major agency. No impairment had been provided under 12-month expected credit loss assessment.

For amounts due from fellow subsidiaries and related companies, management consider they do not have significant credit risk due to the past payment history and also taking into account of the sound financial performance and position of their holding companies/significant shareholders to meet contractual cash flow obligations in the near term. No impairment had been provided under 12-month expected credit loss assessment.

For deposits and other receivables, the balances mainly comprise of rental deposits and other tax recoverable. Management considers rental deposits do not have significant credit risk since the deposits are refundable from landlords upon end of lease term or recoverable by the Group through using the leased property. Other tax recoverable from the tax authority of the PRC government is considered to be of low credit risk. No impairment had been provided under 12-month expected credit loss assessment.

For debtors related to retail sales, which are settled by credit/debit cards and guaranteed by the card issuers, or by major means of electronic payment, no significant impairment allowance had been provided under life-time expected credit loss assessment. Management considered there was no history of default of the card issuers and financial institutions, and also took into account of Group's view of current and forecast economic conditions that may affect the ability of the debtors to settle receivables. No single customer accounted for more than 3% (2018: 3%) of the Group's total revenue during the year.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

For debtors related to rental income, the Group carries out regular review on these balances and follow-up action on any overdue amounts to minimise exposures to credit risk. The Group measures the lifetime expected credit losses based on the outstanding balances with debtors offset with the deposit placed to the Group by the debtors and the assets of the debtors frozen by the court for confiscation, and historical credit loss experience adjusted to reflect the Group's view of current and forecast economic conditions that may affect the ability of the debtors to settle receivables.

No significant changes to the estimation techniques or significant assumptions were made during the year.

(c) Liquidity risk

The liquidity risk of the Group is managed by maintaining sufficient cash and cash equivalents, which is generated from the operating cash flow and financing cash flows.

As at 30 June 2019, the Group's current liabilities exceeded its current assets by approximately HK$1,877,994,000 (2018: HK$1,979,293,000). The Group will continue to monitor rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet its operational needs and to fulfil its liabilities and commitments as and when they fall due.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Carrying amounts HK$'000	**Total contractual undiscounted cash flow HK$'000**	**Within 1 year or on demand HK$'000**	**Over 1 year but within 5 years HK$'000**
As at 30 June 2019				
Creditors	**1,337,492**	**1,337,492**	**1,337,492**	**–**
Other payables	**816,035**	**816,035**	**816,035**	**–**
Amounts due to fellow subsidiaries	**9,935**	**9,935**	**9,935**	**–**
Amounts due to related companies	**8,652**	**8,652**	**8,652**	**–**
Borrowings	**1,628,049**	**1,657,512**	**1,657,512**	**–**

	Carrying amounts HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	Over 1 year but within 5 years HK$'000
As at 30 June 2018				
Creditors	1,661,193	1,661,193	1,661,193	–
Other payables	824,082	824,082	824,082	–
Amounts due to fellow subsidiaries	22,213	22,213	22,213	–
Amounts due to related companies	25,389	25,389	25,389	–
Obligation under finance leases	32	32	16	16
Borrowings	1,876,709	1,931,311	1,695,146	236,165

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(d) Interest rate risk

Except for the fixed deposits with original maturity over three months and short-term bank deposits as at 30 June 2019 of approximately HK$131,111,000 (2018: HK$42,439,000) and approximately HK$474,376,000 (2018: HK$1,145,641,000) respectively, which are held at interest rates of ranging from 1.35% to 3.80% (2018: 0.25% to 5.00%) per annum, the Group has no significant interest-bearing assets. The Group's interest rate risk arises from borrowings. Borrowings (including those reclassified as liabilities classified as held for sale) obtained at variable rates of approximately HK$1,884,560,000 (2018: HK$1,876,709,000) expose the Group to cash flow interest rate risk which is partially offset by fixed deposits with original maturity over three months and short-term bank deposits. The Group's income and operating cash flows are substantially independent of changes in market interest rates. At the reporting date, management does not anticipate significant impact resulted from the changes in interest rates.

As at 30 June 2019, if interest rates on fixed deposits with original maturity over three months, short-term bank deposits and borrowings subject to variable rate had been 100 (2018: 100) basis points higher/lower with all other variables held constant, the Group's profit before income tax for the year would have been approximately HK$12,791,000 (2018: HK$6,886,000) lower/higher. The sensitivity analysis has been determined assuming that the change in interest rates had occurred at the end of the reporting period.

3.2 Capital risk management

The Group's objectives on managing capital are to finance its operations with its owned capital and to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

With regard to the maintenance and enhancement of capital structure, the Group regularly reviews and manages its capital structure and makes adjustments to it taking into consideration of changes in economic and market conditions, future capital requirements of the Group, prevailing and projected profitability and operating cash flows, projected capital expenditures and projected investment opportunities.

The Group's strategy is to maintain a capital base competitive to industry's average to support the operations and development of its business.

The Group was in net cash position as at 30 June 2019 and 2018, taking into accounts its borrowings, cash and bank balances and fixed deposits with original maturity over three months.

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

The carrying amounts of the financial instruments of the Group are as follows:

(i) Listed instrument is stated at market price. The quoted market price used for financial asset held by the Group is the bid price at the end of the reporting period. It is included in level 1.

(ii) Unlisted instrument is stated at fair value which is estimated using valuation techniques when the market price is not readily available. If all significant inputs required to estimate the fair value of an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The following table presents the Group's financial instruments that are measured at fair value as at 30 June 2019:

	Level 2 HK$'000
Assets	
Financial assets at fair value through profit or loss (under assets classified as held for sale)	**856**

The Group has no significant financial instrument that is measured at fair value as at 30 June 2018.

There were no significant transfer of financial assets and financial liability between level 1, level 2 and level 3 fair value hierarchy classification.

There were no changes in valuation techniques during the year.

3.4 Valuation techniques used to derive level 2 fair value

As at 30 June 2019, level 2 financial instruments comprise forward currency contracts. The fair value of these forward currency contracts were determined using forward exchange rates that are quoted in an active market.

3.5 Fair value of financial assets and liabilities measured at amortised cost

The fair value of the following financial assets and liabilities approximate their carrying amounts, since they are expected to be recovered or settled within twelve months from the reporting date, repayable demand, or bear interest at variable rate:

- Debtors
- Deposits and other receivables
- Fixed deposits with original maturity over three months
- Cash and bank balances
- Creditors
- Other payables
- Amounts due from/to fellow subsidiaries and related companies
- Borrowings

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimated useful lives and impairment of property, plant and equipment

Property, plant and equipment are long-lived but may be subject to technical obsolescence. The annual depreciation charges are affected by the estimated useful lives that the Group allocates to each type of property, plant and equipment. Management performs annual reviews to assess the appropriateness of the estimated useful lives. Such reviews take into account the technological changes, prospective economic utilisation and physical condition of the assets concerned.

Management also regularly reviews whether there are any indications of impairment and will recognise an impairment loss if the carrying amount of cash-generating unit is higher than its recoverable amount. The recoverable amount of cash-generating units is determined based on value in use calculation. In determining the value in use, management assesses the present value of the estimated future cash flows expected to arise from the continuing use of the assets and from its disposal at the end of its useful life. Estimates and judgements are applied in determining these future cash flows and the discount rate. Management estimates the future cash flows based on certain assumptions, such as market competition and development and the expected growth in business. The details are set out in Note 15.

(b) Valuation of investment properties

The fair value of each investment property is individually determined at the end of each reporting period by independent valuers based on a market value assessment. The valuers have relied on the income approach. These methodologies are based upon estimates of future results and a set of assumptions specific to each property to reflect its tenancy and cashflow profile. The fair value of each investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. The details are set out in Note 16.

(c) Provision for inventories

In determining the amount of allowance required for obsolete and slow-moving inventories, the Group would evaluate ageing analysis of inventories and compare the carrying value of inventories to their respective net realisable value. A considerable amount of judgement is required in determining such allowance. If conditions which have impact on the net realisable value of inventories deteriorate, additional allowances may be required. The details are set out in Note 22.

(d) Provision for impairment of debtors

The Group makes provision for impairment of debtors based on an assessment of the recoverability of these receivables. Provisions are applied to debtors where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of debtors requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and provision for impairment losses in the period in which such estimate has been changed. The details are set out in Note 23.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(e) Impairment of goodwill

The Group tests annually and whenever there is an indication that the unit may be impaired whether goodwill has suffered any impairment according to their recoverable amounts determined by the cash-generating units based on fair value less costs of disposal calculations. These calculations require the use of estimates which are subject to change of economic environment in future. The details are set out in Note 18.

(f) Recognition of deferred income tax assets

Deferred income tax assets recognised on unused tax losses of The People's Republic of China ("PRC") subsidiaries and other deductible temporary differences involve business assumptions and projections in determining the estimated future taxable profits available against which tax losses and other deductible temporary differences can be utilised before they expire, if applicable. Where the final tax outcome of these profits different from the amounts that were initially recorded, such differences will impact the deferred income tax assets in the period in which such determination is made. The details are set out in Note 31.

(g) Provision for compensation

The Group exercises judgement in measuring and recognising provisions and exposures to contingent liabilities in connection with compensation for the early termination of certain department stores, the settlement of which is subject to negotiation, mediation and/or arbitration. Judgement is required to assess the likelihood that a liability will arise and a settlement will be required, and to quantify the possible range of the settlement. Because of the inherent uncertainty in this assessment process, actual outflow may be different from the originally estimated amount.

5 REVENUE AND SEGMENT INFORMATION

	2019 HK$'000	2018 HK$'000
Commission income from concessionaire sales	1,420,205	1,681,128
Sales of goods – direct sales	1,251,515	1,322,607
Management and consultancy fees	–	5,502
Revenue from contracts with customers	2,671,720	3,009,237
Rental income	847,297	811,883
	3,519,017	3,821,120

The income from concessionaire sales is analysed as follows:

	2019 HK$'000	2018 HK$'000
Gross revenue from concessionaire sales	8,648,209	10,300,440
Commission income from concessionaire sales	1,420,205	1,681,128

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.

5 REVENUE AND SEGMENT INFORMATION (continued)

The CODM considers that the Group has department store and other retail related businesses, and property investment business. The CODM assesses the performance of the operating segments based on their revenue and operating results. The measurement of segment operating results excludes the effect of net other losses, changes in fair value of investment properties and net unallocated corporate expenses or income. In addition, net finance income 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, assets classified as held for sale 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.

	Department store and other retail related businesses HK$'000	Property investment business HK$'000	Consolidated HK$'000
For the year ended 30 June 2019			
Segment revenue	3,299,494	219,523	3,519,017
Segment operating results	219,686	170,261	389,947
Other losses, net	(147,372)	12	(147,360)
Changes in fair value of investment properties	–	(20)	(20)
Unallocated corporate expenses, net			(37,965)
Operating profit			204,602
Finance income			51,964
Finance costs			(35,782)
Finance income, net			16,182
			220,784
Share of results of associated companies			40
Profit before income tax			220,824
Income tax expense			(188,161)
Profit for the year			32,663

5 REVENUE AND SEGMENT INFORMATION (continued)

	Department store and other retail related businesses HK$'000	Property investment business HK$'000	Consolidated HK$'000
For the year ended 30 June 2018			
Segment revenue	3,613,547	207,573	3,821,120
Segment operating results	230,646	152,080	382,726
Other losses, net	(198,150)	13	(198,137)
Changes in fair value of investment properties	–	482	482
Unallocated corporate income, net			282
Operating profit			185,353
Finance income			61,783
Finance costs			(37,994)
Finance income, net			23,789
			209,142
Share of results of associated companies			(560)
Profit before income tax			208,582
Income tax expense			(197,497)
Profit for the year			11,085

5 REVENUE AND SEGMENT INFORMATION (continued)

	Department store and other retail related businesses HK$'000	Property investment business HK$'000	Consolidated HK$'000
As at 30 June 2019			
Segment assets	**6,210,628**	**5,000,810**	**11,211,438**
Interests in associated companies	**1,563**	**–**	**1,563**
Deferred income tax assets	**99,793**	**–**	**99,793**
Assets classified as held for sale	**400,997**	**37,144**	**438,141**
Unallocated corporate assets:			
Cash and bank balances			**46,368**
Others			**220**
Total assets			**11,797,523**
For the year ended 30 June 2019			
Additions to non-current assets (Note)	**119,620**	**9,414**	**129,034**
Depreciation and amortisation	**208,868**	**785**	**209,653**
Impairment loss on goodwill	**57,471**	**–**	**57,471**
Impairment loss on property, plant and equipment	**13,445**	**–**	**13,445**
Impairment loss on prepayments, deposits and other receivables	**77,886**	**–**	**77,886**
As at 30 June 2018			
Segment assets	6,673,903	5,779,330	12,453,233
Interests in associated companies	1,595	–	1,595
Deferred income tax assets	124,337	–	124,337
Unallocated corporate assets:			
Cash and bank balances			9,855
Others			214
Total assets			12,589,234
For the year ended 30 June 2018			
Additions to non-current assets (Note)	642,220	5,815	648,035
Depreciation and amortisation	245,507	899	246,406
Impairment loss on goodwill	108,490	–	108,490
Impairment loss on property, plant and equipment	72,671	–	72,671
Impairment loss on prepayments, deposits and other receivables	8,108	–	8,108

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.

6 OTHER INCOME

	2019 HK$'000	2018 HK$'000
Compensation from insurance claim	3,199	71,046
Government grants	22,881	33,562
Income from suppliers	58,583	57,759
Write-back/(write-off) of expired stored value cards	21,933	(194)
Sundries	43,655	34,729
	150,251	196,902

7 OTHER LOSSES, NET

	2019 HK$'000	2018 HK$'000
Changes in fair value on financial asset or liability at fair value through profit or loss	1,239	5,462
Gain on deregistration of subsidiaries	(11,805)	–
Gain on disposal of an associated company	–	(503)
Impairment loss on goodwill (Note)	57,471	108,490
Impairment loss on property, plant and equipment (Note)	13,445	72,671
Impairment loss on prepayments, deposits and other receivables (Note)	77,886	8,108
Loss on disposal of property, plant and equipment	9,124	3,909
	147,360	198,137

Note:

The impairment provisions were made (i) for mainly four department stores (2018: Nil) closed during the year ended 30 June 2019, and (ii) to reflect management's latest plan for mainly three other department stores (2018: four department stores) in light of the latest market environment and the management's assessment on the business prospect thereof.

8 OTHER OPERATING EXPENSES, NET

	2019 HK$'000	2018 HK$'000
Water and electricity	30,370	62,095
Selling, promotion, advertising and related expenses	60,762	57,497
Cleaning, repairs and maintenance	70,563	79,523
Auditors' remuneration		
– Audit services	5,790	5,640
– Non-audit services	1,348	1,962
Net exchange losses/(gains)	6,908	(20,309)
Other tax expenses	170,518	197,077
Provision for doubtful debts, net	5,725	16,350
Others	105,778	131,885
	457,762	531,720

9 FINANCE INCOME, NET

	2019 HK$'000	2018 HK$'000
Interest income on bank deposits	**51,964**	61,783
Interest expense on bank loans	**(38,726)**	(48,120)
Interest expense on shareholder's loan	**(17,605)**	(10,585)
Less: amount capitalised (Note)	**20,549**	20,711
	(35,782)	(37,994)
	16,182	23,789

Note:

To the extent funds are borrowed generally and used for the purpose of financing the qualifying assets, the capitalisation rate used to determine the amounts of borrowing costs eligible for the capitalisation, is 3.0% (2018: 3.2%) for the year.

10 EMPLOYEE BENEFIT EXPENSE

	2019 HK$'000	2018 HK$'000
Wages, salaries and other benefits	**591,209**	578,088
Retirement benefit costs – defined contribution plans	**60,149**	62,802
	651,358	640,890

Employee benefit expense includes emoluments of Directors and chief executive (Note 11).

11 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The remuneration of Directors and chief executive for the year ended 30 June 2019 is set out below:

Name of Directors and chief executive	As Director (Note (i)) HK$'000	As management (Note (ii)) HK$'000	Total HK$'000
Non-executive Directors			
Dr. Cheng Kar-shun, Henry	100	–	100
Mr. Au Tak-cheong	100	–	100
Mr. Cheung Fai-yet, Philip (Note (iv))	8	–	8
Executive Directors			
Dr. Cheng Chi-kong, Adrian	150	–	150
Mr. Cheung Fai-yet, Philip (Note (iv))	138	7,040	7,178
Mr. Niu Wei, David (Note (v))	13	527	540
Independent non-executive Directors			
Mr. Cheong Ying-chew, Henry	200	–	200
Mr. Chan Yiu-tong, Ivan	200	–	200
Mr. Tong Hang-chan, Peter	200	–	200
Mr. Yu Chun-fai	200	–	200
Chief executive			
Mr. Ho Kwok Leung, Ivan (Note (vi))	–	2,522	2,522
	1,309	10,089	11,398

11 BENEFITS AND INTERESTS OF DIRECTORS (continued)

(a) Directors' and chief executive's emoluments (continued)

The remuneration of Directors for the year ended 30 June 2018 is set out below:

Name of Directors	As Director (Note (i)) HK$'000	As management (Note (ii)) HK$'000	Total HK$'000
Non-executive Directors			
Dr. Cheng Kar-shun, Henry	100	–	100
Mr. Au Tak-cheong	100	–	100
Ms. Ngan Man-ying, Lynda (Note (iii))	58	–	58
Mr. Cheung Fai-yet, Philip (Note (iv))	38	–	38
Executive Directors			
Dr. Cheng Chi-kong, Adrian	150	–	150
Mr. Cheung Fai-yet, Philip (Note (iv))	94	3,377	3,471
Mr. Niu Wei, David (Note (v))	56	9,213	9,269
Independent non-executive Directors			
Mr. Cheong Ying-chew, Henry	200	–	200
Mr. Chan Yiu-tong, Ivan	200	–	200
Mr. Tong Hang-chan, Peter	200	–	200
Mr. Yu Chun-fai	200	–	200
	1,396	12,590	13,986

Notes:

(i) The amounts represented directors' fees paid or receivable in respect of a person's services as a Director, whether of the Company or its subsidiary undertakings.

(ii) The amounts represented emoluments paid or receivable in respect of a person's other services in connection with the management of the affairs of the Company or its subsidiary undertakings and included basic salaries, discretionary bonus, employer's contributions to retirement benefit schemes and other allowances.

(iii) Ms. Ngan Man-ying, Lynda resigned as a non-executive Director with effect from 1 February 2018.

(iv) Mr. Cheung Fai-yet, Philip had been re-designated as a non-executive Director with effect from 15 February 2018, has been re-designated as an executive Director with effect from 1 August 2018 and appointed as the Chief Executive Officer with effect from 15 August 2019. For the year ended 30 June 2019, approximately HK$7,040,000 (2018: HK$3,377,000) of the remuneration was paid in respect of the services as management.

(v) Mr. Niu Wei, David had been appointed as an executive Director with effect from 15 February 2018 and resigned as an executive Director with effect from 1 August 2018. For the year ended 30 June 2019, approximately HK$527,000 (2018: HK$9,213,000) of the remuneration was paid in respect of the services as management.

(vi) Mr. Ho Kwok-leung, Ivan had been appointed as the Chief Executive Officer with effect from 1 January 2019 and resigned as the Chief Executive Officer with effect from 15 August 2019.

(vii) No Director waived or agreed to waive any emoluments during the years ended 30 June 2019 and 2018.

11 BENEFITS AND INTERESTS OF DIRECTORS (continued)

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group includes one (2018: two) Director and one chief executive for the year ended 30 June 2019, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2018: three) individuals during the year are as follows:

	2019 HK$'000	2018 HK$'000
Basic salaries, housing allowances, other allowances and other benefits in kind	7,256	6,134
Discretionary bonus	941	648
Retirement benefit costs – defined contribution plans	141	107
	8,338	6,889

The emoluments fell within the following bands:

	Number of individuals 2019	2018
Emolument bands		
HK$2,000,001 – HK$2,500,000	1	3
HK$2,500,001 – HK$3,000,000	1	–
HK$3,000,001 – HK$3,500,000	1	–
	3	3

12 INCOME TAX EXPENSE

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

	2019 HK$'000	2018 HK$'000
Current income tax		
– Mainland China taxation	153,256	165,271
– Over-provision in prior years	(827)	(295)
Deferred income tax (Note 31)		
– Undistributed retained earnings	(1,736)	–
– Other temporary differences	37,468	32,521
	188,161	197,497

12 INCOME TAX EXPENSE (continued)

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 years ended 30 June 2019 and 2018.

Subsidiaries of the Company in Mainland China are subject to corporate income tax at a rate of 25% (2018: 25%).

The taxation of the Group's profit before income tax differs from the theoretical amount that would arise using the applicable tax rate, being the weighted average tax rates prevailing in the territories in which the Group operates, as follows:

	2019 HK$'000	2018 HK$'000
Profit before income tax and share of results of associated companies	**220,784**	209,142
Tax calculated at applicable tax rate	**55,196**	52,285
Expenses not deductible for taxation purpose	**61,546**	73,012
Income not subject to taxation	**(4,554)**	(20,018)
Effect of income charged on deemed basis	**–**	(9)
Utilisation of previously unrecognised tax losses and other temporary differences	**(15,309)**	(23,373)
Reversal of previously recognised tax losses and other temporary differences	**2,214**	24,532
Recognition of previously unrecognised temporary differences	**(6,001)**	–
Tax losses and other temporary differences not recognised	**97,622**	86,649
Over-provision in prior years	**(827)**	(295)
PRC withholding income taxes	**(1,726)**	4,714
Income tax expense	**188,161**	197,497

	2019	2018
Weighted average domestic applicable tax rates	**25%**	25%

13 DIVIDENDS

The Directors have resolved not to recommend a final dividend for the year ended 30 June 2019 (2018: HK$Nil).

14 EARNINGS PER SHARE

(a) Basic

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

	2019	2018
Profit attributable to shareholders of the Company (HK$'000)	**32,663**	11,028
Weighted average number of ordinary shares in issue (shares in thousands)	**1,686,145**	1,686,145
Basic earnings per share (HK$ per share)	**0.02**	0.01

(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 years ended 30 June 2019 and 2018, there was no dilutive potential ordinary share.

15 PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Computer HK$'000	Assets under construction HK$'000	Total HK$'000
Cost									
As at 1 July 2018	634,008	64,725	10,149	2,801,668	43,806	14,182	287,552	22,874	3,878,964
Translation differences	(27,921)	(2,937)	(453)	(123,509)	(1,890)	(629)	(12,902)	(1,081)	(171,322)
Additions	–	695	–	81,051	1,532	501	8,322	3,617	95,718
Disposals	–	(1,156)	(735)	(292,445)	(8,619)	(1,848)	(20,847)	–	(325,650)
Reclassification	–	–	–	2,664	–	–	–	(2,664)	–
Transfer to investment properties	(78,947)	–	–	(19,562)	–	–	–	–	(98,509)
Transfer to assets classified as held for sale	(15,522)	–	–	(72,406)	(5,191)	–	(6,208)	–	(99,327)
As at 30 June 2019	511,618	61,327	8,961	2,377,461	29,638	12,206	255,917	22,746	3,279,874
Accumulated depreciation and impairment									
As at 1 July 2018	163,424	60,855	9,131	2,215,990	35,168	12,871	231,268	–	2,728,707
Translation differences	(7,274)	(2,777)	(412)	(99,837)	(1,542)	(573)	(10,485)	–	(122,900)
Charge for the year	16,839	1,586	501	142,357	4,237	648	21,901	–	188,069
Written back on disposals	–	(647)	(735)	(282,341)	(7,707)	(1,711)	(19,937)	–	(313,078)
Impairment	–	–	–	13,445	–	–	–	–	13,445
Transfer to investment properties	(30,457)	–	–	(6,236)	–	–	–	–	(36,693)
Transfer to assets classified as held for sale	(6,950)	–	–	(52,135)	(3,438)	–	(3,197)	–	(65,720)
As at 30 June 2019	135,582	59,017	8,485	1,931,243	26,718	11,235	219,550	–	2,391,830
Net book amount									
As at 30 June 2019	376,036	2,310	476	446,218	2,920	971	36,367	22,746	888,044

15 PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Computer HK$'000	Assets under construction HK$'000	Total HK$'000
Cost									
As at 1 July 2017	606,737	57,861	9,638	2,490,329	40,176	11,879	254,430	35,579	3,506,629
Translation differences	56,107	6,203	1,089	225,077	7,669	2,586	32,670	1,312	332,713
Additions	–	1,173	–	102,363	3,930	338	6,604	4,936	119,344
Disposals	–	(518)	(759)	(53,385)	(8,084)	(662)	(6,633)	–	(70,041)
Reclassification	–	–	–	21,624	–	–	–	(21,624)	–
Transfer to investment properties	(28,836)	–	–	(12,877)	–	–	–	–	(41,713)
Acquisition of subsidiaries (Note 36)	–	6	181	28,537	115	41	481	2,671	32,032
As at 30 June 2018	634,008	64,725	10,149	2,801,668	43,806	14,182	287,552	22,874	3,878,964
Accumulated depreciation and impairment									
As at 1 July 2017	114,792	53,197	8,113	1,830,090	30,021	10,063	182,282	–	2,228,558
Translation differences	38,314	6,014	1,023	198,190	7,253	2,509	29,757	–	283,060
Charge for the year	18,697	1,817	754	169,347	5,351	949	25,691	–	222,606
Written back on disposals	–	(173)	(759)	(49,862)	(7,457)	(650)	(6,462)	–	(65,363)
Impairment	–	–	–	72,671	–	–	–	–	72,671
Transfer to investment properties	(8,379)	–	–	(4,446)	–	–	–	–	(12,825)
As at 30 June 2018	163,424	60,855	9,131	2,215,990	35,168	12,871	231,268	–	2,728,707
Net book amount									
As at 30 June 2018	470,584	3,870	1,018	585,678	8,638	1,311	56,284	22,874	1,150,257

Computer includes the following amounts where the Group is a lessee under a finance lease:

	2019 HK$'000	2018 HK$'000
Capitalised finance lease		
Cost	**78**	78
Less: accumulated amortisation	**(62)**	(46)
Transfer to assets classified as held for sale	**(16)**	–
Carrying amount	**–**	32

The Group leases the computer under non-cancellable finance lease agreement. The lease term is 5 years, and ownership of the asset lies within the Group.

15 PROPERTY, PLANT AND EQUIPMENT (continued)

Impairment tests for property, plant and equipment

Property, plant and equipment is allocated to the Group's CGUs identified. For the purpose of impairment test, the recoverable amount of CGUs is determined based on value in use calculations, which uses cash flow projections based on financial estimates covering a period over the lease term, and an average pre-tax discount rate of 14.8% (2018: 22.8%) or the equivalent of a post-tax discount rate of 12.4% (2018: 12.4%).

For each of the CGUs with significant amount of property, plant and equipment, the key assumptions on annual gross sales revenue growth rate, gross margin ratios and discount rate used in the value in use calculations as at 30 June 2019 and 2018 are based on management's best estimates and reflect specific risks relating to the relevant businesses.

During the year ended 30 June 2019, impairment loss of approximately HK$13,445,000 (2018: HK$72,671,000) was recognised. For the year ended 30 June 2019, impairment provision was made on property, plant and equipment for mainly Anshan Store closed during the year and to reflect management's latest plan for mainly one other department store. The estimated recoverable amount of these department stores was HK$Nil. The impairment loss recognised for the year represented the difference between the carrying amount of property, plant and equipment of the CGUs and their estimated recoverable amount.

If the annual gross sales revenue had been 5% (2018: 3%) lower than management's current estimates, the profit before income tax for the year would have been approximately HK$23,248,000 (2018: HK$5,388,000) lower.

If either the gross margin ratios had been 1% (2018: 1%) lower than management's current estimates or the discount rate had been 0.5% (2018: 0.5%) higher than management's current estimates, there is no material adverse impact to the consolidated financial statements.

16 INVESTMENT PROPERTIES

	2019 **HK$'000**	2018 HK$'000
At beginning of the year	**4,761,907**	4,528,348
Translation differences	**(218,562)**	161,720
Additions	**8,585**	5,554
Transfer from property, plant and equipment	**73,924**	34,630
Transfer from land use rights	**103,391**	31,173
Changes in fair value charged to consolidated income statement	**(20)**	482
Transfer to assets classified as held for sale	**(37,144)**	–
At end of the year	**4,692,081**	4,761,907

16 INVESTMENT PROPERTIES (continued)

Amounts transferred from property, plant and equipment and land use rights to investment properties are as follows:

	2019 HK$'000	2018 HK$'000
Net book value at the date of transfer of:		
– Property, plant and equipment (Note 15)	**61,816**	28,888
– Land use rights (Note 17)	**65,748**	21,016
Revaluation gain recognised in other comprehensive income	**49,751**	15,899
	177,315	65,803
Representing fair value of investment properties transferred from:		
– Property, plant and equipment	**73,924**	34,630
– Land use rights	**103,391**	31,173
	177,315	65,803

Amounts recognised in the consolidated income statement for investment properties (including those reclassified as assets classified as held for sale) are as follows:

	2019 HK$'000	2018 HK$'000
Rental income	**219,523**	207,573
Direct operating expenses from properties that generated rental income	**(49,249)**	(55,420)
	170,274	152,153

As at 30 June 2019, investment properties with carrying value of approximately HK$1,743,182,000 (2018: HK$1,824,512,000) is pledged to secure bank loans of the Group (Note 30).

Valuation processes of the Group

Investment properties have been revalued as at 30 June 2019 and 30 June 2018 by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, independent professional valuer. The fair value of the investment properties was determined based on, amongst other thing, comparable market transactions, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The Group's finance team review the valuations performed by the independent valuers for financial reporting purposes. This team reports directly to the senior management. Discussions of valuation processes and results are held between the management and valuer at least twice a year.

At each reporting period the finance team:

– Verifies all major inputs to the independent valuation report;

– Assesses property valuations movements when compared to the prior period valuation report; and

– Holds discussions with the independent valuer.

16 INVESTMENT PROPERTIES (continued)

Fair value measurements using significant unobservable inputs

The fair value measurement of the Group's investment properties is categorised into level 3 in the fair value hierarchy based on the inputs to valuation techniques used.

There were no transfers between levels 1, 2 and 3 during the year. The Group's policy is to recognise transfers into/out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

The valuations are derived using the income approach. This approach is based on the capitalisation of net income with due allowance for outgoings and reversionary income potential by adopting appropriate capitalisation rates, which are derived from analysis of rental/sale transactions and valuer's interpretation of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuation are referenced to valuers' view of recent lettings, within the subject properties and other comparable properties.

Information about fair value measurements using significant unobservable inputs:

As at 30 June 2019

Valuation technique	**Range of significant unobservable inputs**	
Income approach	**Rental rates** **HK$3.9 to HK$13.4 per sq.m. per day**	**Capitalisation rate** **5.0% to 7.5%**

As at 30 June 2018

Valuation technique	Range of significant unobservable inputs	
Income approach	Rental rates HK$4.0 to HK$13.9 per sq.m. per day	Capitalisation rate 5.0% to 7.0%

For rental rate, the higher the rental rate is, the higher the fair value will be. For capitalisation rate, the lower the capitalisation rate is, the higher the fair value will be.

As at 30 June 2019, if the market value of investment properties had been 5% (2018: 5%) higher/lower with all other variables held constant, the carrying value of the Group's investment properties would have been approximately HK$234,604,000 (2018: HK$238,095,000) higher/lower.

17 LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments and their net book amounts are analysed as follows:

	2019 **HK$'000**	2018 HK$'000
At beginning of the year	**605,343**	627,466
Translation differences	**(26,523)**	22,693
Transfer to investment properties	**(65,748)**	(21,016)
Amortisation	**(21,584)**	(23,800)
Transfer to assets classified as held for sale	**(16,417)**	–
At end of the year	**475,071**	605,343

18 INTANGIBLE ASSETS

	Goodwill HK$'000
Cost	
As at 1 July 2018	**2,234,323**
Translation differences	**(101,500)**
Transfer to assets classified as held for sale	**(1,328)**
As at 30 June 2019	**2,131,495**
Accumulated amortisation and impairment	
As at 1 July 2018	**107,198**
Translation differences	**(5,525)**
Impairment	**57,471**
As at 30 June 2019	**159,144**
Net book amount	
As at 30 June 2019	**1,972,351**

	Goodwill HK$'000	Operating rights HK$'000	Total HK$'000
Cost			
As at 1 July 2017	1,718,333	668	1,719,001
Translation differences	68,252	–	68,252
Acquisition of subsidiaries (Note 36)	447,738	–	447,738
Disposals	–	(668)	(668)
As at 30 June 2018	2,234,323	–	2,234,323
Accumulated amortisation and impairment			
As at 1 July 2017	–	668	668
Translation differences	(1,292)	–	(1,292)
Impairment	108,490	–	108,490
Disposals	–	(668)	(668)
As at 30 June 2018	107,198	–	107,198
Net book amount			
As at 30 June 2018	2,127,125	–	2,127,125

18 INTANGIBLE ASSETS (continued)

Impairment tests for goodwill

Goodwill is allocated to the Group's CGUs identified. The following is a summary of goodwill allocation for each CGU with significant amount of goodwill:

	2019 HK$'000	2018 HK$'000
Shanghai Wujiaochang Branch Store	493,407	516,902
Yanjiao Store	274,129	287,183
Shanghai Shaanxi Road Branch Store	243,582	255,181
Beijing Chongwen Store	235,814	247,044
Wuhan Jianshe Store	81,526	144,932

As at 30 June 2019, goodwill allocated to CGUs of the department store and other retail related businesses and CGUs of the property investment business was approximately HK$1,721,308,000 (2018: HK$1,864,127,000) and approximately HK$251,043,000 (2018: HK$262,998,000) respectively. For the purpose of impairment test, the recoverable amount of each CGU is determined based on fair value less costs of disposal calculations. The fair value less costs of disposal of CGUs of the department store and other retail related businesses and CGUs of the property investment business is measured using the discounted cash flow projections and the fair value of underlying properties respectively.

The cash flow projections are based on financial estimates covering a five-year period and a post-tax discount rate. Cash flows beyond the five-year period are extrapolated using the estimated growth rates. The fair value estimation is included in level 3 fair value hierarchy.

During the year ended 30 June 2019, impairment loss of approximately HK$57,471,000 (2018: HK$108,490,000) was recognised. For the year ended 30 June 2019, impairment provision was made on goodwill of one CGU allocated to the department store and other retail related businesses primarily due to the performance of Wuhan Jianshe Store following the business reform which was below the management's expectation. The estimated recoverable amount of the CGU was approximately HK$401,137,000. The impairment loss recognised for the year represented the difference between the carrying amount of the CGU including goodwill and its estimated recoverable amount. The Group reassessed all classes of asset of the CGU, no asset other than goodwill was impaired as at 30 June 2019.

For each of the CGUs with significant amount of goodwill, the key assumptions used in the cash flow projections, namely average annual gross sales revenue growth rate being not more than 10% for both financial years, average gross margin ratios ranging from 11.3% to 19.0% (2018: from 12.0% to 19.5%), are determined by considering both internal and external factors relating to the businesses of each CGUs; the long term growth rate of 3% (2018: 5%) is consistent with the forecast of the businesses and the discount rate of 12.4% (2018: 12.4%) is post-tax and reflects specific risks relating to the relevant businesses.

If the annual gross sales revenue had been 5% (2018: 3%) lower than management's current estimates, the profit before income tax for the year would have been approximately HK$145,000,000 (2018: HK$28,000,000) lower.

If the gross margin ratios had been 1% (2018: 1%) lower than management's current estimates, the profit before income tax for the year would have been approximately HK$99,000,000 (2018: HK$35,000,000) lower.

If the discount rate had been 0.5% (2018: 0.5%) lower than management's current estimates, the profit before income tax for the year would have been approximately HK$12,000,000 (2018: HK$19,000,000) lower.

19 INTERESTS IN ASSOCIATED COMPANIES

	2019 HK$'000	2018 HK$'000
The Group's share of net assets, unlisted	1,563	1,595

There is no associated company that is individually material to the Group. The Group's share of results of associated companies is as follows:

	2019 HK$'000	2018 HK$'000
For the year ended 30 June		
Profit/(loss) for the year	40	(560)

The Group's share of revenue, results, assets and liabilities of the associated companies are as follows:

	2019 HK$'000	2018 HK$'000
Revenue	2,027	4,015
Profit/(loss) for the year	40	(570)
Non-current assets	1,492	1,589
Current assets	2,337	2,891
Current liabilities	(11,673)	(12,739)
Net liabilities	(7,844)	(8,259)

The Group has not recognised losses amounting to HK$Nil (2018: approximately HK$10,000) for Taizhou New World Department Store Co., Ltd. for the year ended 30 June 2019. The accumulated losses not recognised were approximately HK$9,960,000 (2018: HK$9,960,000) as at 30 June 2019.

Details of the principal associated companies are as follows:

Name	Place of establishment	Principal activity	Registered capital	Attributable interest (%)
Shanghai Yijie Trading Co., Ltd.	Mainland China	Catering	RMB1,500,000	49
Shanghai Xinqi Catering Management Co., Ltd.	Mainland China	Catering	RMB850,000	49
Taizhou New World Department Store Co., Ltd.	Mainland China	Inactive	RMB8,000,000	25

20 OTHER NON-CURRENT ASSETS

Balances as at 30 June 2019 and 2018 represented the following transaction:

On 8 February 2013, Shenyang Trendy Property Company Limited ("Shenyang Trendy"), a wholly-owned subsidiary of the Company, entered into a cooperation agreement with Shenyang New World Hotel Co., Ltd. (subsequently renamed as "Shenyang New World Xin Hui Properties Co., Ltd.") ("SYNWXH"), a wholly-owned subsidiary of New World Development Company Limited ("NWD") and a fellow subsidiary of the Company. Pursuant to the cooperation agreement, Shenyang Trendy and SYNWXH agreed to cooperate in a property redevelopment project in Shenyang City. Shenyang Trendy agreed to surrender to the local government authority the land and building where Shenyang New World Department Store – Nanjing Street Branch Store was situated for a compensation of RMB250,012,000 and to make contribution of RMB514,009,800 to SYNWXH for the related costs of demolition of the original building and design, construction and payment of any relevant land grant premium of certain portion of the redeveloped building. As at 30 June 2019, the balance in connection to this transaction and the costs capitalised was approximately HK$659,708,000 (2018: HK$669,840,000). The transaction was subsequently completed in July 2019.

21 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000
Prepaid rent and rental deposits	222,819	370,661
Other tax recoverable	107,394	141,483
Prepaid expenses	31,970	47,151
Deposits placed for issuance of stored value cards	–	469
Others	180,970	204,285
	543,153	764,049
Less: non-current prepayments, deposits and other receivables	(241,631)	(363,543)
	301,522	400,506

The carrying amounts of deposits and other receivables approximate their fair values. The balances were mainly denominated in RMB.

22 INVENTORIES

	2019 HK$'000	2018 HK$'000
Finished goods	94,450	318,044

The cost of inventories recognised as expense and included in 'purchases of and changes in inventories, net' (including those reclassified as assets classified as held for sale) amounted to approximately HK$912,331,000 (2018: HK$940,552,000), which included inventory write-down, net of approximately HK$9,315,000 (2018: reversal of inventory write-down, net of approximately HK$623,000).

23 DEBTORS

	2019 HK$'000	2018 HK$'000
Debtors	**73,021**	138,675
Less: loss allowance provision	**(9,580)**	(21,978)
Debtors, net	**63,441**	116,697

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

	2019 HK$'000	2018 HK$'000
Within period for		
0-30 days	**55,688**	97,455
31-60 days	**2,162**	13,245
61-90 days	**768**	2,986
Over 90 days	**4,823**	3,011
	63,441	116,697

Debtors of approximately HK$10,459,000 (2018: HK$22,304,000) were impaired as of 30 June 2019. The amount of the loss allowance provision was approximately HK$9,580,000 (2018: HK$21,978,000) as of 30 June 2019. The individually impaired receivables mainly relate to tenants, which are in unexpectedly difficult economic situations.

Movements on the Group's loss allowance provision of debtors are as follows:

	2019 HK$'000	2018 HK$'000
At beginning of the year	**21,978**	6,773
Translation differences	**(850)**	47
Provision for doubtful debts	**7,043**	16,942
Reversal of provision for doubtful debt	**(1,318)**	(592)
Amount written off	**(17,273)**	(1,192)
At end of the year	**9,580**	21,978

The carrying amounts of debtors approximate their fair values. The debtors were primarily denominated in RMB.

The maximum exposure to credit risk at the reporting date is the carrying amounts of debtors mentioned above. If default, the Group can set off the receivable balance to the extent of the relevant rental deposits held.

24 AMOUNTS DUE FROM/(TO) FELLOW SUBSIDIARIES AND RELATED COMPANIES

As at 30 June 2019 and 2018, the balances were unsecured, interest free, repayable on demand and denominated in RMB.

The carrying amounts of amounts due from/(to) fellow subsidiaries and related companies approximate their fair values.

The related companies represent the joint ventures of NWD, Chow Tai Fook Jewellery Group Limited and its subsidiaries ("CTFJ Group") and members of the companies controlled by Mr. Doo Wai-hoi ("Mr. Doo"), an associate of certain Directors.

25 FIXED DEPOSITS WITH ORIGINAL MATURITY OVER THREE MONTHS

Fixed deposits with original maturity over three months were denominated in RMB.

The interest rates on fixed deposits with original maturity over three months ranged from 1.75% to 2.78% (2018: 1.75% to 2.75%) per annum. These deposits have remaining maturities ranging from 50 to 365 days (2018: 74 to 365 days).

26 CASH AND BANK BALANCES

	2019 HK$'000	2018 HK$'000
Cash and cash equivalents (Note)	**1,733,642**	1,904,904
Restricted cash	**1,948**	–
	1,735,590	1,904,904

Note:

Cash and cash equivalents comprised cash at bank and in hand of HK$1,259,266,000 (2018: HK$759,263,000) and short-term bank deposits of HK$474,376,000 (2018: HK$1,145,641,000) with original maturity of three months or less.

Cash and bank balances were denominated in the following currencies:

	2019 HK$'000	2018 HK$'000
HK$	**51,816**	68,878
RMB	**1,683,554**	1,822,086
Others	**220**	13,940
	1,735,590	1,904,904

The interest rates on short-term bank deposits ranged from 1.35% to 3.80% (2018: 0.25% to 5.00%) per annum. These deposits have remaining maturities ranging from 4 to 70 days (2018: 2 to 64 days).

The Group's cash and bank balances are deposited with banks in Hong Kong and Mainland China. Cash at bank earns interest at floating rates based on daily bank deposit rates.

RMB is currently not a freely convertible currency in the international market. The conversion of RMB into foreign currencies and remittance of RMB out of Mainland China are subject to the rules and regulations of the foreign exchange control promulgated by Mainland China government.

27 SHARE CAPITAL

	Number of shares '000	Share capital HK$'000
Ordinary shares of HK$0.1 each, issued and fully paid:		
As at 1 July 2017, 30 June 2018 and 2019	**1,686,145**	**168,615**

28 RESERVES

	Attributable to shareholders of the Company						
	Share premium HK$'000	**Property revaluation reserve HK$'000**	**Capital reserve HK$'000**	**Statutory reserve HK$'000 (Note)**	**Exchange reserve HK$'000**	**Retained earnings HK$'000**	**Total HK$'000**
As at 1 July 2018	**1,826,646**	**137,428**	**391,588**	**437,299**	**322,267**	**2,835,498**	**5,950,726**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**32,663**	**32,663**
Revaluation of property upon reclassification from property, plant and equipment and land use rights to investment properties, net of tax	**–**	**37,313**	**–**	**–**	**–**	**–**	**37,313**
Release of reserve upon deregistration of subsidiaries	**–**	**–**	**–**	**–**	**(11,805)**	**–**	**(11,805)**
Translation differences	**–**	**–**	**–**	**–**	**(334,903)**	**–**	**(334,903)**
Transfer to statutory reserve	**–**	**–**	**–**	**9,024**	**–**	**(9,024)**	**–**
As at 30 June 2019	**1,826,646**	**174,741**	**391,588**	**446,323**	**(24,441)**	**2,859,137**	**5,673,994**

	Attributable to shareholders of the Company							
	Share premium HK$'000	Property revaluation reserve HK$'000	Capital reserve HK$'000	Statutory reserve HK$'000 (Note)	Fair value through other comprehensive income reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000
As at 1 July 2017	1,826,646	125,504	391,588	412,606	(20,775)	113,232	2,860,295	5,709,096
Profit for the year	–	–	–	–	–	–	11,028	11,028
Revaluation of property upon reclassification from property, plant and equipment and land use rights to investment properties, net of tax	–	11,924	–	–	–	–	–	11,924
Fair value gain on equity instrument at fair value through other comprehensive income	–	–	–	–	9,643	–	–	9,643
Translation differences	–	–	–	–	–	209,035	–	209,035
Transfer of loss on disposal of equity instrument at fair value through other comprehensive income to retained earnings	–	–	–	–	11,132	–	(11,132)	–
Transfer to statutory reserve	–	–	–	24,693	–	–	(24,693)	–
As at 30 June 2018	1,826,646	137,428	391,588	437,299	–	322,267	2,835,498	5,950,726

28 RESERVES (continued)

Note:

Upon conversion of the Group's PRC subsidiaries into wholly-owned foreign enterprises in 2007 and pursuant to the relevant PRC Law and articles of association of the subsidiaries of the Company established in the PRC, they are required to appropriate 10% of their statutory net profit to the enterprise expansion fund. The enterprise expansion fund can only be used to increase capital of group companies or to expand their production operation upon approval by the relevant authority.

29 OBLIGATION UNDER FINANCE LEASES

As at 30 June 2018, the Group has leased a computer under finance lease, with a lease term of five years. None of the lease includes contingent rentals. Finance lease liabilities are effectively secured by the underlying asset as the rights to the leased asset would be reverted to the lessor in the event of default by repayment by the Group.

	2019 **HK$'000**	2018 HK$'000
Gross and present value of finance lease liabilities – minimum lease payments		
No later than 1 year	–	16
Later than 1 year and no later than 5 years	–	16
	–	32

As at 30 June 2018, the finance lease of the Group carries an insignificant amount of future finance charges.

30 BORROWINGS

	2019 **HK$'000**	2018 HK$'000
Non-current		
Secured bank loan	–	226,190
Current		
Secured bank loan	**215,909**	83,334
Unsecured bank loans	**699,140**	934,185
Shareholder loan	**713,000**	633,000
	1,628,049	1,650,519
	1,628,049	1,876,709

Shareholder loan from ultimate holding company is interest-bearing at Hong Kong Interbank Offered Rate plus 0.9% (2018: 0.9%) per annum, unsecured and repayable within one year.

The average effective interest rates of the borrowings are analysed as follows:

	2019	2018
HK$	**2.71%**	1.51%
RMB	**4.41%**	5.39%
USD	–	4.07%
EUR	–	2.62%

30 BORROWINGS (continued)

The carrying amounts of the borrowings are denominated in the following currencies:

	2019 HK$'000	2018 HK$'000
HK$	1,412,140	1,394,957
RMB	215,909	315,476
USD	–	18,653
EUR	–	147,623
	1,628,049	1,876,709

The borrowings are repayable as follows:

	2019 HK$'000	2018 HK$'000
Within one year	1,628,049	1,650,519
In the second year	–	226,190
	1,628,049	1,876,709

The contractual repricing dates or maturity dates (whichever is earlier) of the interest-bearing borrowings are as follows:

	2019 HK$'000	2018 HK$'000
Within six months	1,628,049	1,567,185
In the seventh month to one year	–	309,524
	1,628,049	1,876,709

As at 30 June 2019, the bank loans of approximately HK$215,909,000 (2018: HK$309,524,000) was secured by an investment property of approximately HK$1,743,182,000 (2018: HK$1,824,512,000).

As at 30 June 2019, the Group has undrawn shareholder loan of approximately HK$17,000,000 (2018: undrawn bank borrowing facilities and undrawn shareholder loan in aggregate of approximately HK$71,403,000), which carry interest at floating rates and are expiring within one year.

31 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The net amounts are as follows:

	2019 HK$'000	2018 HK$'000
Deferred income tax assets	**99,793**	124,337
Deferred income tax liabilities	**(870,507)**	(891,304)
	(770,714)	(766,967)

The movement of net deferred income tax liabilities account is as follows:

	2019 HK$'000	2018 HK$'000
At beginning of the year	**(766,967)**	(700,430)
Translation differences	**38,567**	(24,711)
Taxation charged directly to equity	**(12,438)**	(3,975)
Charged to consolidated income statement (Note 12)	**(35,732)**	(32,521)
Acquisition of subsidiaries	**–**	(5,330)
Transfer to liabilities directly associated with assets classified as held for sale	**5,856**	–
At end of the year	**(770,714)**	(766,967)

The movements in deferred income tax assets and liabilities without taking into consideration the offsetting of balances within the same tax jurisdiction are as follows:

Deferred income tax assets:

	Tax losses HK$'000	**Accrued expenses HK$'000**	**Pre-operating expenses HK$'000**	**Tax depreciation HK$'000**	**Total HK$'000**
As at 1 July 2017	81,859	129,541	9,237	1,421	222,058
Translation differences	3,491	4,656	312	371	8,830
(Charged)/credited to consolidated income statement	(47,652)	(5,992)	1,487	136	(52,021)
As at 30 June 2018	**37,698**	**128,205**	**11,036**	**1,928**	**178,867**
Translation differences	**(1,638)**	**(2,927)**	**(515)**	**(196)**	**(5,276)**
(Charged)/credited to consolidated income statement	**(6,628)**	**(26,421)**	**1,204**	**(498)**	**(32,343)**
As at 30 June 2019	**29,432**	**98,857**	**11,725**	**1,234**	**141,248**

31 DEFERRED INCOME TAX (continued)

Deferred income tax liabilities:

	Tax depreciation HK$'000	Fair value adjustment on business combination HK$'000	Revaluation of properties HK$'000	Undistributed profits of subsidiaries HK$'000	Others HK$'000	Total HK$'000
As at 1 July 2017	241,161	602,818	56,517	1,736	20,256	922,488
Translation differences	8,666	21,580	1,887	62	1,346	33,541
Acquisition of subsidiaries	3,284	–	–	–	2,046	5,330
Taxation charged directly to equity	–	–	3,975	–	–	3,975
Charged/(credited) to consolidated income statement	(15,247)	(1,495)	120	–	(2,878)	(19,500)
As at 30 June 2018	**237,864**	**622,903**	**62,499**	**1,798**	**20,770**	**945,834**
Translation differences	**(10,906)**	**(28,329)**	**(2,921)**	**(62)**	**(1,625)**	**(43,843)**
Taxation charged directly to equity	**–**	**–**	**12,438**	**–**	**–**	**12,438**
Charged/(credited) to consolidated income statement	**6,326**	**(1,426)**	**(5)**	**(1,736)**	**230**	**3,389**
Transfer to liabilities directly associated with assets classified as held for sale	**(337)**	**(5,199)**	**(320)**	**–**	**–**	**(5,856)**
As at 30 June 2019	**232,947**	**587,949**	**71,691**	**–**	**19,375**	**911,962**

Pursuant to the Corporate Income Tax Law with effect from 1 January 2008, withholding tax at rates of 10% is levied on dividends distributed to foreign investors by the foreign investment enterprises established in Mainland China.

As at 30 June 2019, the aggregate amount of temporary differences associated with investments in subsidiaries for which deferred income tax liabilities have not been recognised totaled approximately HK$276,580,000 (2018: HK$256,648,000), as the Directors consider that the timing of reversal of the related temporary differences can be controlled and the temporary differences will not be reversed in the foreseeable future.

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of approximately HK$386,936,000 (2018: HK$443,277,000) in respect of accumulated losses and deductible temporary differences amounting to approximately HK$1,547,745,000 (2018: HK$1,773,110,000). The accumulated losses can be carried forward against future taxable profit with expiry date of five years or indefinitely.

As at 30 June 2019, if the estimated future taxable profits had been 10% (2018: 10%) lower with all other variables held constant, there is no material adverse impact to the deferred income tax assets recognised on unused tax losses and other deductible temporary differences of the Group.

32 CREDITORS, ACCRUALS AND OTHER PAYABLES

	2019 HK$'000	2018 HK$'000
Creditors	**1,337,492**	1,661,193
Accruals and other payables	**1,490,266**	1,631,342
	2,827,758	3,292,535
Less: non-current accruals and other payables	**(439,132)**	(587,796)
	2,388,626	2,704,739

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

	2019 HK$'000	2018 HK$'000
Within period for		
0-30 days	**1,012,465**	1,263,689
31-60 days	**151,388**	163,571
61-90 days	**36,728**	91,362
Over 90 days	**136,911**	142,571
	1,337,492	1,661,193

Creditors included amounts due to related companies of approximately HK$51,119,000 (2018: HK$78,464,000) which were unsecured, interest free and repayable within 90 days.

Accruals and other payables included interest payable of shareholder loan of approximately HK$4,637,000 (2018: HK$13,373,000).

The carrying amounts of the creditors, accruals and other payables were denominated in the following currencies:

	2019 HK$'000	2018 HK$'000
RMB	**2,811,124**	3,194,424
HK$	**16,634**	37,951
USD	**–**	6,116
EUR	**–**	54,044
	2,827,758	3,292,535

32 CREDITORS, ACCRUALS AND OTHER PAYABLES (continued)

Nature of accruals and other payables are as follows:

	2019 HK$'000	2018 HK$'000
Rental accruals and payables	**558,387**	679,158
Deposits from concessionaire suppliers	**437,684**	431,587
Interest payable	**5,658**	14,779
Payables for capital expenditures	**31,613**	41,879
Accruals and payables for staff costs	**75,609**	90,291
Valued-added taxes and other taxes payables	**61,593**	67,358
Utilities payables	**11,650**	13,628
Receipts in advance	**119,303**	91,813
Others	**188,769**	200,849
	1,490,266	1,631,342

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

33 CONTRACT LIABILITIES

The Group has recognised the following revenue-related contract liabilities:

	2019 HK$'000	2018 HK$'000
Contract liabilities in relation to prepayment from customers	**200,562**	274,643
Contract liabilities in relation to customer loyalty programme	**50,690**	56,841
Others	**–**	1,514
Total contract liabilities	**251,252**	332,998

The contract liabilities represented the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied as of the end of the reporting period. The Group expects the transaction price allocated to the unsatisfied performance obligations will be recognised as revenue when the Group transfers goods or services to the customer.

The following table shows the revenue recognised in the current reporting period related to carried-forward contract liabilities:

	2019 HK$'000	2018 HK$'000
For the year ended 30 June		
Revenue recognised that was included in the contract liability balance at the beginning of the year		
– Direct sales and gross revenue from concessionaire sales	**158,962**	191,374
	158,962	191,374

33 CONTRACT LIABILITIES (continued)

The following table shows unsatisfied performance obligations resulting from direct sales and gross revenue from concessionaire sales:

	2019 HK$'000	2018 HK$'000
At end of the year		
Expected to be recognised within one year	142,776	181,965
Expected to be recognised after one year	108,476	151,033
	251,252	332,998

34 COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

Capital commitment in respect of investment properties, property, plant and equipment, land use rights and equity instrument of the Group at the end of the reporting period are as follows:

	2019 HK$'000	2018 HK$'000
Contracted but not provided for	122,499	125,728

(b) Operating lease commitments

The Group's future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

	2019 HK$'000	2018 HK$'000
Within one year	805,982	1,068,363
In the second to fifth year	2,521,933	3,852,209
After the fifth year	1,715,239	3,305,386
	5,043,154	8,225,958

The above lease commitment only include commitments for basic rentals, and do not include commitment for rental payable of contingent rents, if any, which are to be determined generally by applying pre-determined percentages to future sales less the basic rentals of the respective leases, as it is not possible to determine in advance the amount of such contingent rents. The contingent operating lease rental expenses of the Group for the year ended 30 June 2019 were approximately HK$218,242,000 (2018: HK$225,273,000).

34 COMMITMENTS AND CONTINGENCIES (continued)

(c) Operating lease receivable

The future minimum payments receivable by the Group under non-cancellable leases are as follows:

	2019 HK$'000	2018 HK$'000
Within one year	**650,374**	615,482
In the second to fifth year	**1,078,448**	1,160,997
After the fifth year	**243,022**	242,807
	1,971,844	2,019,286

The contingent operating lease rental income of the Group for the year ended 30 June 2019 were approximately HK$39,684,000 (2018: HK$47,261,000).

(d) Contingent liabilities

In respect of certain department stores closed by the Group during the year, the Group has contingent liabilities arising from lodged/potential claims from the landlords of the premises for compensation in connection with the early termination of the leases, however the amount, if any, and timing of payment could not be reliably estimated at current stage, and the final outcome of which is subject to negotiation and/or result of arbitration. The Group has taken all the necessary measures to address the potential exposure. The aggregate monthly rental expense for these closed department stores was approximately HK$9,000,000 prior to the closure.

35 ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

The following assets and liabilities were reclassified as held for sale as at 30 June 2019 in relation to Well Metro Group Limited and its subsidiaries (the "Disposal Group" or collectively "Well Metro Group"), which the disposal was completed in July 2019 (Note 41):

	Note	2019 HK$'000
Assets		
Non-current assets		
Property, plant and equipment		**33,607**
Investment properties	i	**37,144**
Land use rights		**16,417**
Intangible assets	ii	**1,328**
Prepayments, deposits and other receivables	iii	**12,941**
		101,437
Current assets		
Inventories		**219,543**
Debtors	iv	**36,990**
Prepayments, deposits and other receivables	iii	**33,170**
Financial assets at fair value through profit or loss	v	**856**
Cash and bank balances	vi	**46,145**
		336,704
Assets classified as held for sale		**438,141**
Liabilities		
Non-current liabilities		
Deferred income tax liabilities		**5,856**
Current liabilities		
Creditors	vii	**40,066**
Accruals and other payables		**33,322**
Obligation under finance leases		**16**
Borrowings	viii	**256,511**
Contract liabilities		**2,057**
Amounts due to fellow subsidiaries	ix	**102,483**
		434,455
Total liabilities (before intra-group elimination)		**440,311**
Less: Intra-group elimination	x	**(102,483)**
Liabilities directly associated with assets classified as held for sale		**337,828**
Net assets directly associated with the Disposal Group		**100,313**

35 ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE (continued)

Notes:

(i) Information about fair value measurements using significant unobservable inputs:

Valuation technique	Range of significant unobservable inputs	
Income approach	**Rental rates** **HK$4.98 per sq.m. per day**	**Capitalisation rate** **5.0%**

As at 30 June 2019, if the market value of investment properties had been 5% higher/lower with all other variables held constant, the carrying value of the Disposal Group's investment properties would have been approximately HK$1,857,000 higher/lower.

(ii) The key assumptions used in the cash flow projections, namely average annual gross sales revenue growth rate being not more than 10%, average gross margin ratios approximate to 55%, are determined by considering both internal and external factors relating to the businesses; the long term growth rate of 3% is consistent with the forecast of the businesses and the discount rate of 12.4% is post-tax and reflects specific risks relating to the relevant businesses.

(iii) The balances were mainly denominated in RMB.

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

	2019 **HK$'000**
Within period for	
0-30 days	**32,729**
31-60 days	**4,117**
61-90 days	**–**
Over 90 days	**144**
	36,990

The debtors were primarily denominated in RMB.

(v) Financial assets at fair value through profit or loss comprises the forward currency contracts which were entered with creditworthy banks with no recent history of default to manage the foreign exchange risk on RMB. The notional principal amount of the outstanding forward currency contracts at a forward contract rate RMB7.81-RMB7.86 to EUR1 as at 30 June 2019 was RMB31,921,000.

(vi) Cash and bank balances were denominated in HK$, RMB, USD and EUR which amount of HK$15,220,000, HK$19,326,000, HK$1,319,000 and HK$10,280,000 respectively.

Cash at bank earns interest at floating rates based on daily bank deposit rates.

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

	2019 **HK$'000**
Within period for	
0-30 days	**36,996**
31-60 days	**40**
61-90 days	**1,072**
Over 90 days	**1,958**
	40,066

The creditors were primarily denominated in RMB.

35 ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE (continued)

Notes: (continued)

(viii) The average effective interest rates of the borrowings are analysed as follows:

	2019
HK$	4.51%
RMB	5.20%
USD	5.02%
EUR	2.53%

The carrying amounts of the borrowings were denominated in HK$, RMB, USD and EUR which amount of HK$70,000,000, HK$60,460,000, HK$2,790,000 and HK$123,261,000 respectively.

The borrowings are repayable within one year and the contractual repricing dates or maturity dates (whichever is earlier) of the interest-bearing borrowings are within six months.

As at 30 June 2019, the Disposal Group has undrawn bank borrowing facilities of approximately HK$224,840,000 which carry interest at floating rates and are expiring within one year.

(ix) The balances are unsecure, interest free, repayable on demand and dominated in RMB.

(x) Prior to the completion of the transaction, the balance has been settled.

36 BUSINESS COMBINATION

In September 2017, Beijing New World Qianzi Department Store Co., Ltd., a wholly-owned subsidiary incorporated in Mainland China with limited liability, entered into a share purchase agreement to acquire the entire issued share capital of Sanhe New World Department Store Co., Ltd. ("Sanhe Co"), a company incorporated in Mainland China with limited liability, from an independent third party, for a gross consideration of RMB25,000,000 (equivalent to approximately HK$29,308,000). Sanhe Co and its subsidiaries ("Sanhe Group") are engaged in the operations of department store and other retail related businesses in Mainland China. The acquisition was completed on 25 September 2017.

The acquired business contributed revenue of HK$108,532,000 and profit of HK$3,309,000 to the Group for the period from 26 September 2017 to 30 June 2018. If the acquisition had occurred on 1 July 2017, consolidated revenue and consolidated loss for the year ended 30 June 2018 would have been HK$3,853,305,000 and HK$89,938,000 respectively. These amounts have been calculated using the Group's accounting policies.

Details of net identifiable liabilities acquired and goodwill were as follows:

	HK$'000
Purchase consideration	
– Cash paid	29,308
Fair value of net identifiable liabilities acquired – shown as below	418,430
Goodwill	447,738

36 BUSINESS COMBINATION (continued)

The identifiable assets and liabilities arising from the acquisition were as follows:

	HK$'000
Property, plant and equipment	32,032
Inventories	3,728
Debtors	1,525
Prepayment, deposits and other receivables	65,252
Cash and bank balances	26,093
Creditors	(89,164)
Accruals and other payables	(452,566)
Deferred income tax liabilities	(5,330)
Net identifiable liabilities acquired	(418,430)

Analysis of the net cash outflow from the acquisition was as follows:

	HK$'000
Purchase consideration settled in cash	(29,308)
Cash and bank balances in the subsidiary acquired	26,093
Net cash outflow from acquisition of a subsidiary	(3,215)

As at acquisition date, the net identifiable liabilities acquired of Sanhe Group included approximately HK$222,743,000 which was subsequently settled by the Group.

37 CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

The reconciliation of liabilities arising from financing activities is as follows:

	Bank borrowings HK$'000	Interest payable HK$'000	Finance lease HK$'000	Shareholder loan HK$'000	Total HK$'000
As at 1 July 2018	1,243,709	14,779	32	633,000	1,891,520
Changes from cash flows					
Drawdown of bank borrowings	545,723	–	–	–	545,723
Repayment of bank borrowings and finance lease	(601,188)	–	(16)	–	(601,204)
Drawdown of shareholder loan	–	–	–	80,000	80,000
Finance costs paid	–	(62,417)	–	–	(62,417)
Other changes					
Exchange differences	(17,884)	(589)	–	–	(18,473)
Interest expenses	1,200	55,131	–	–	56,331
Transfer to liabilities directly associated with assets classified as held for sale	(256,511)	(1,246)	(16)	–	(257,773)
As at 30 June 2019	915,049	5,658	–	713,000	1,633,707

37 CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES (continued)

The reconciliation of liabilities arising from financing activities is as follows:

	Bank borrowings HK$'000	Interest payable HK$'000	Finance lease HK$'000	Shareholder loan HK$'000	Total HK$'000
As at 1 July 2017	1,266,783	5,100	47	500,000	1,771,930
Changes from cash flows					
Drawdown of bank borrowings	820,065	–	–	–	820,065
Repayment of bank borrowings and finance lease	(889,826)	–	(15)	–	(889,841)
Drawdown of shareholder loan				133,000	133,000
Finance costs paid	–	(47,787)	–	–	(47,787)
Other changes					
Exchange differences	45,381	67	–	–	45,448
Interest expenses	1,306	57,399	–	–	58,705
As at 30 June 2018	1,243,709	14,779	32	633,000	1,891,520

38 RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

Save as those disclosed elsewhere in these consolidated financial statements, the following is a summary of significant related party transactions during the year carried out by the Group in the normal course of its business:

	Note	**2019 HK$'000**	2018 HK$'000
Fellow subsidiaries			
Operating lease rental expenses	(i)	**(66,982)**	(74,743)
Building management expenses	(ii)	**(13,400)**	(13,848)
Sales of goods, prepaid shopping cards and vouchers	(iii)	**281**	485

	Note	**2019 HK$'000**	2018 HK$'000
Related companies			
Commission income from concessionaires sales	(v)	**74,028**	79,027
Operating lease rental expenses	(i)	**(165,882)**	(177,890)
Building management expenses	(ii)	**(24,494)**	(25,675)
Sales of goods, prepaid shopping cards and vouchers	(iii)	**29**	41
Purchase of goods	(iv)	**(9)**	(3)
Rebates on prepaid shopping cards and vouchers	(vi)	**26**	75
Purchase of leasehold improvement	(vii)	**–**	(4,719)
Rental income	(viii)	**187**	186
Other service fee expenses	(ix)	**(13)**	(7)

38 RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Notes:

(i) The operating lease rental expenses are charged in accordance with respective tenancy agreements and accounted for in accordance with accounting policy of operating leases as disclosed in Note 2.26.

(ii) The building management expenses are charged at fixed monthly amounts in accordance with respective contracts.

(iii) This represents the amounts received in respect of the use of the shopping vouchers, the prepaid shopping cards, the joint name vouchers or other means acceptable to the Group as payment of purchase of goods and settlement of the relevant value by the subsidiaries and joint ventures of NWD (except the Group), and the CTFJ Group.

(iv) This represents the amount paid in respect of the sale of goods by the subsidiaries and joint ventures of NWD (except the Group), and the CTFJ Group.

(v) The income is charged in accordance with concessionaire counter agreements with the CTFJ Group. The commission is mainly calculated by pre-determined percentages of gross sales value in accordance with respective agreements.

(vi) This represents rebates offered by the CTFJ Group in respect of the sales of prepaid shopping cards and vouchers issued jointly by the Group and the CTFJ Group.

(vii) This represents the purchase of leasehold improvement in respect of certain department stores. Such fees were charged in accordance with the terms of respective contracts.

(viii) The income is charged in accordance with rental agreements with members of the companies controlled by Mr. Doo.

(ix) This represents other services provided by members of the companies controlled by Mr. Doo.

(b) Related party balances

The details for balances with related parties are disclosed in Notes 24, 30 and 32 to the consolidated financial statements.

(c) Key management compensation

All Directors and one chief executive are considered as key management and their emoluments have been disclosed in Note 11(a) to the consolidated financial statements. The emoluments payable to other key management are as follows:

	2019 **HK$'000**	2018 HK$'000
Basic salaries, housing allowances, other allowances and other benefits in kind	**15,826**	15,309
Discretionary bonus	**1,573**	1,217
Retirement benefit costs – defined contribution plans	**254**	253
	17,653	16,779

39 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2019 HK$'000	2018 HK$'000
Assets		
Non-current asset		
Investments in subsidiaries	**1,963,172**	2,098,994
Current assets		
Prepayments and deposits	**220**	215
Amounts due from subsidiaries	**2,133,472**	2,090,471
Cash and bank balances	**46,368**	9,855
	2,180,060	2,100,541
Total assets	**4,143,232**	4,199,535
Equity and liabilities		
Equity		
Share capital	**168,615**	168,615
Reserves (Note)	**2,360,753**	2,667,388
Total equity	**2,529,368**	2,836,003
Liabilities		
Current liabilities		
Borrowings	**–**	773,000
Accruals and other payables	**5,628**	20,222
Amounts due to subsidiaries	**1,608,236**	570,310
Total liabilities	**1,613,864**	1,363,532
Total equity and liabilities	**4,143,232**	4,199,535

The statement of financial position of the Company was approved by the Board of Directors on 24 September 2019 and was signed on its behalf

Dr. Cheng Kar-shun, Henry
Director

Mr. Cheung Fai-yet, Philip
Director

39 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

Reserves

	Share premium HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000
As at 1 July 2018	**1,826,646**	**73,486**	**595,134**	**172,122**	**2,667,388**
Profit for the year	**–**	**–**	**–**	**(179,769)**	**(179,769)**
Translation differences	**–**	**–**	**(126,866)**	**–**	**(126,866)**
As at 30 June 2019	**1,826,646**	**73,486**	**468,268**	**(7,647)**	**2,360,753**
As at 1 July 2017	1,826,646	73,486	501,802	75,076	2,477,010
Profit for the year	–	–	–	97,046	97,046
Translation differences	–	–	93,332	–	93,332
As at 30 June 2018	1,826,646	73,486	595,134	172,122	2,667,388

40 PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company as at 30 June 2019 are as follows:

Name	Place of incorporation/ establishment	Principal activities and place of operation	Issued and paid up share capital	Percentage of equity interests held directly	Percentage of equity interests held indirectly
Constar Investment Limited	The British Virgin Islands	Financing/Hong Kong	USD1	–	100
Happy Growth Investment Limited	Hong Kong	Investment holding and provision of management services/Hong Kong	HK$1	100	–
New World Department Store (Investment) Limited	Hong Kong	Investment holding/Hong Kong	HK$410,045,794	100	–
New World Department Stores Limited	Hong Kong	Provision of management services to department stores/Hong Kong	HK$2	100	–
Jiangsu New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB16,000,000[W]	100	–
New World Department Store (China) Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB50,000,000[W]	100	–
New World Department Stores Investment (China) Co., Ltd.	Mainland China	Investment holding/Mainland China	USD150,000,000[W]	100	–
Shanghai New World Caizi Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB50,000,000[W]	100	–

40 PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment	Principal activities and place of operation	Issued and paid up share capital	Percentage of equity interests held	
				directly	indirectly
Tianjin New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	USD5,000,000[W]	100	–
Wuhan New World Trendy Department Store Co., Ltd	Mainland China	Department store operation/ Mainland China	RMB80,000,000[W]	100	–
Beijing New World Liying Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB18,000,000[W]	–	100
Beijing New World Qianzi Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	HK$60,000,000[W]	–	100
Beijing New World Trendy Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB25,000,000[W]	–	100
Beijing Wanya Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB100,000[α]	–	100
Beijing Yixi New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB65,000,000[W]	–	100
Beijing Xinpeng Enjia Business Management Co., Ltd.	Mainland China	Convenience store operation/ Mainland China	RMB1,000,000[α]	–	100
Beijing Enjia Youpin Business Management Co., Ltd.	Mainland China	Household goods shop operation/ Mainland China	RMB1,000,000[W]	–	100
Changsha New World Trendy Plaza Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB60,000,000[W]	–	100
Chengdu New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB70,000,000[W]	–	100
Chongqing New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB100,000,000[W]	–	100
Harbin New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB126,000,000[W]	–	100
Lanzhou New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB30,000,000[W]	–	100

40 PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment	Principal activities and place of operation	Issued and paid up share capital	Percentage of equity interests held directly	Percentage of equity interests held indirectly
Mianyang New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB14,000,000[W]	–	100
Miaogou (Beijing) Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB1,000,000[α]	–	100
Peak Moral High Commercial Development (Shanghai) Co., Ltd.	Mainland China	Property investment and shopping mall operation/Mainland China	USD40,000,000[W]	–	100
Sanhe New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB2,000,000[W]	–	100
Shanghai New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB18,000,000[W]	–	100
Shanghai New World Huiya Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB240,000,000[W]	–	100
Shanghai New World Huiyan Department Store Co., Ltd.	Mainland China	Property investment and shopping mall operation/Mainland China	RMB85,000,000[W]	–	100
Shanghai New World Huiying Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB93,970,000[W]	–	100
Shanghai New World Huizi Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB5,000,000[W]	–	100
Shanghai New World Xinying Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	HK$100,000,000[W]	–	100
Shanghai Nplus Catering Management Co., Ltd.	Mainland China	Catering/Mainland China	RMB16,000,000[α]	–	100
Shenyang New World Department Store Ltd.	Mainland China	Property investment and department store operation/Mainland China	RMB30,000,000[W]	–	100
Shenyang Trendy Property Company Limited	Mainland China	Property investment/Mainland China	RMB27,880,000[W]	–	100
Tianjin New World Trendy Plaza Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB30,000,000[W]	–	100
Wuhan New World Department Store Co., Ltd.	Mainland China	Property investment and Department store operation/Mainland China	USD15,630,000[W]	–	100

40 PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment	Principal activities and place of operation	Issued and paid up share capital	Percentage of equity interests held directly	Percentage of equity interests held indirectly
Wuhan New World Qianzi Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB500,000[α]	–	100
Wuhan New World Trendy Plaza Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB50,000,000[W]	–	100
Xi'an New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB40,000,000[W]	–	100
Yantai New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB80,000,000[W]	–	100
Yunnan New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB10,000,000[W]	–	100
Zhengzhou New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB50,000,000[W]	–	100
Scienward Fashion and Luxury (Shanghai) Co., Ltd.	Mainland China	Fashion retailing and trading/ Mainland China	USD6,460,000[W]	–	100
Scienward Fashion and Luxury Limited	Hong Kong	Investment holding and fashion trading/Hong Kong	HK$10,000	–	100
Scienward Sports and Casual Limited	Hong Kong	Provision of management services/ Hong Kong	HK$100	–	100
Shanghai Luxba Trading Ltd.	Mainland China	Properties investment and fashion trading/Mainland China	USD7,150,000[W]	–	100
Well Metro Group Limited	The British Virgin Islands	Investment holding/Hong Kong	USD14,001	–	100

α The Group indirectly holds equity interest in these subsidiaries through its wholly owned subsidiaries, and has control over each of these subsidiaries

W Registered as wholly foreign owned enterprise under PRC law

41 EVENT AFTER THE REPORTING PERIOD

In July 2019, Techwise Enterprises Limited, a wholly-owned subsidiary incorporated in the British Virgin Islands with limited liability, entered into an agreement to sell the entire issued share capital of Well Metro Group to K11 Sales & E-Commerce Company Limited, a fellow subsidiary of the Company, at a gross consideration of HK$1,000,000. Well Metro Group is principally engaged in brand management, and the distribution and retailing of fashion apparels and accessories in the PRC. The transaction was completed in July 2019.

42 ULTIMATE HOLDING COMPANY

The Directors regard NWD, a company incorporated in Hong Kong and listed on the Main Board of The Stock Exchange of Hong Kong Limited, as being the ultimate holding company of the Company.

FIVE-YEAR FINANCIAL SUMMARY

	For the year ended 30 June				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Revenue	**3,519,017**	3,821,120	3,484,322	3,659,896	4,029,351
Operating profit	**204,602**	185,353	277,841	209,700	230,862
Profit for the year	**32,663**	11,085	128,289	45,398	69,741
Profit/(loss) attributable to non-controlling interests	**–**	57	(322)	(245)	–
Profit attributable to shareholders of the Company	**32,663**	11,028	128,611	45,643	69,741

	As at 30 June				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets, liabilities and equity					
Total assets	**11,797,523**	12,589,234	12,224,897	11,711,839	13,167,078
Total liabilities	**5,954,914**	6,469,886	6,296,963	5,799,004	6,874,441
Total equity	**5,842,609**	6,119,348	5,927,934	5,912,835	6,292,637

PRINCIPAL INVESTMENT PROPERTIES SUMMARY

MAJOR COMPLETED INVESTMENT PROPERTIES IN MAINLAND CHINA

No.	Address of Investment Properties	GFA (sq.m.)	Use	Land Lease Expiry
1	Levels 1 to 6 of a commercial complex located at Nos. 1347, 1351, 1355, 1359, 1363, 1367, 1371, 1375, 1379 and 1383 North Shaanxi Road, the Ground Level located at No. 175 Changshou Road, the Ground Level located at No. 179 Changshou Road, Levels 1 t o 4 located at No. 155 Changshou Road, Level 5 located at No. 157 Changshou Road and Level 6 located at No. 159 Changshou Road, Putuo District, Shanghai City — Hong Kong New World Department Store — Shanghai Shaanxi Road Branch Store	41,090	Commercial	2045
2	One commercial complex located at No. 762 Tianshan Road, Changning District, Shanghai City — Hong Kong New World Department Store — Shanghai Tianshan Road Branch Store	43,016	Commercial	2053
3	A portion of Levels 1 to 3 and Level 4 of a commercial/ residential complex located at No. 57 Zijingshan Road, Guancheng District, Zhengzhou City — Zhengzhou New World Department Store	22,331	Commercial	2046
		106,437		

RISK FACTORS

1. MACROSCOPIC ECONOMIC GROWTH SLOWED DOWN AMIDST DOWNWARD PRESSURE

- In 2018, the growth in the total retail sales of consumer goods in China slowed down by 1.2% from 2017. However, total retail sales of consumer goods in shops above designated size grew 5.7%. The faster growth in the consumption upgrade category called for constant product optimization in the retail sector.

- As the disputes between China and the U.S. continued to escalate, commercial and trade conflicts may lead to decline in foreign trade and export. Companies in the electronic communications, electrical machinery, timber processing, chemical products and other sectors would be more affected. As far as consumers are concerned, commodity prices would continue to rise, resulting in rising cost of living and declining purchasing power.

2. URGENT TRANSFORMATION IN TRADITIONAL DEPARTMENT STORES INEVITABLE AMIDST GRADUAL DIVERSIFICATION IN THE DOMESTIC RETAIL MARKET

- In 2018, real estate development investment across the country grew 9.5% year-on-year, while sales of commercial properties rose 0.7%; the growth in overall sales slowed down. Overall, the commercial property market has slowly become a stock market, further intensifying the difficulties in the competition of business resources and in attracting investment for brick-and-mortar businesses.

- In 2018, more than 530 new shopping complexes (about 30 more than in 2017) were opened across the country. The average individual size of the complexes, as well as the number of large projects, have both reduced. Less than 60%, or 54%, of new businesses are actually operating in these complexes. Calculating on the basis of such data, new businesses in about 38 million sqm of commercial floor area are postponed for opening in recent years.

- Reshuffling in the department store industry accelerated – stores were opened, closed, transformed, acquired, etc. Many world-renowned department stores exited the Chinese market, and a number of title transfers amongst sizeable department stores took place.

3. INTENSIFYING UNIFIED COMPETITION BETWEEN ONLINE AND OFFLINE RETAIL

- Different e-commerce platforms have speeded up their transformation in integrating the online and offline business models. In 2018, companies of various industrial backgrounds set up brick-and-mortar shops after constructing high-traffic online platforms. Competition for the physical retail business is becoming more and more heated.

- In 2018, internet moguls have focused on the "To B" domain. For example, a company with renowned e-commerce background published a number of cross-industrial internet platforms, riding on big data, cloud computing, the Internet of Things to facilitate the reform of the manufacturing sector. This could result in an even stronger pressure on the competition of business resources for brick-and-mortar businesses.

4. CHANGES IN CONSUMPTION TRENDS: THE POST-90S GENERATION IS GRADUALLY BECOMING THE PILLAR OF CONSUMPTION

- The consumption demands of the post-90s generation have resulted in a shift in the marketing model. As the pillar of consumption, the post-90s generation is more concerned about socializing and trending consumption experiences. Retailers have begun to create interactions with the users of the post-90s generation by launching marketing efforts through various social media platforms. If physical retailers are not adjusting their product offerings and marketing models in a timely manner, it is highly likely for them to lose the post-90s generation consumer segment, which is worth up to RMB190 million.

- Users born during the 1980s and 1990s have rather different demands for products. The post-80s and post-90s generations have now become the major consumption force, representing more than 70% of total sales. These two user groups differ much in terms of consumption habits and consumption demands. The post-80s generation has a stronger focus on meeting family needs, while the post-90s generation prefers products that could upgrade their quality of living. These circumstances have posed challenges to the merchandise mix in the traditional department store industry.

5. ACCELERATED UPDATES IN SMART BUSINESS TECHNOLOGIES

- Facing the rapidly changing consumption market, brick-and-mortar retailers must place a stronger focus on members' experience and on updating the application of member technologies. Members are no longer easily satisfied with merchandise discounts and loyalty points. Instead, they expect more added values in their benefits.

- Various e-commerce platforms are capitalizing on different smart devices to create new retail scenarios and experiences as an important instrument to capture market resources. Some examples are the broad application of AR/VR technologies, as well as "facial recognition", "virtual changing room", etc.

- In the era of omnichannel marketing 4.0, brick-and-mortar stores are faced with three main barriers: technology, the internet mindset, as well as bilateral communication.

6. FOREIGN EXCHANGE RISK

- The Group is mainly exposed to foreign exchange risk arising from HK$, USD and EUR against RMB, and from RMB and EUR against HK$. This foreign exchange risk arises from future commercial transactions or recognized assets and liabilities denominated in a currency that is not the functional currencies of the Company and each of the subsidiaries. The functional currency of the Company and most of its subsidiaries is RMB. Therefore, any currency fluctuations may have an impact on the Group's financial condition and results of operations.

GLOSSARY OF TERMS

GENERAL TERMS

EUR	:	Euro, the official currency of Eurozone
FY	:	Financial year, 1 July to 30 June
GFA	:	Gross floor area
Group	:	New World Department Store China Limited and its subsidiaries
HK	:	Hong Kong
HK$	:	Hong Kong dollar(s), the lawful currency of Hong Kong
Listing Rules	:	Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
LOL	:	LOL (Love • Original • Life) Concept Shop
Mainland China	:	The People's Republic of China, excluding Hong Kong, Macau and Taiwan (for the purposes of this annual report only)
NWD	:	New World Development Company Limited
NWD Group	:	New World Development Company Limited and its subsidiaries
NWDS or Company	:	New World Department Store China Limited (新世界百貨中國有限公司)
NWSH	:	NWS Holdings Limited
PRC	:	The People's Republic of China
RMB	:	Renminbi, the lawful currency of the People's Republic of China
sq.m.	:	square metre
Stock Exchange	:	The Stock Exchange of Hong Kong Limited
US	:	The United States of America
US$ or USD	:	United States dollar(s), the lawful currency of the United States of America
Well Metro Group	:	Well Metro Group Limited and its subsidiaries

FINANCIAL TERMS

Merchandise gross margin :

$$\frac{\text{Commission income from concessionaire sales + Sales of goods — direct sales – Purchases of and changes in inventories, net – Purchases of promotion items}}{\text{Gross revenue from concessionaire sales + Sales of goods — direct sales}} \times 100\%$$

Earnings per share or EPS :

$$\frac{\text{Profit attributable to shareholders of the Company}}{\text{Weighted average number of ordinary shares in issue}}$$

Net cash position : Fixed deposits with original maturity over three months + Cash and bank balances – Borrowings

CORPORATE INFORMATION

BOARD OF DIRECTORS

Non-executive Directors

Dr. Cheng Kar-shun, Henry *(Chairman)*
Mr. Au Tak-cheong

Executive Directors

Dr. Cheng Chi-kong, Adrian
Mr. Cheung Fai-yet, Philip *(Chief Executive Officer)*

Independent Non-executive Directors

Mr. Cheong Ying-chew, Henry
Mr. Chan Yiu-tong, Ivan
Mr. Tong Hang-chan, Peter
Mr. Yu Chun-fai

COMPANY SECRETARY

Miss Wu Yuk-kwai, Catherine

AUDITOR

PricewaterhouseCoopers

SOLICITORS

Mayer Brown
Eversheds Sutherland
Woo, Kwan, Lee & Lo

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
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Grand Cayman, KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER AGENT

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PRINCIPAL BANKERS

Hang Seng Bank Limited
Industrial and Commercial Bank of China Limited
Mizuho Bank

STOCK CODE

Hong Kong Stock Exchange 825

INVESTOR INFORMATION

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WEBSITE

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Chinese Version

The Chinese version of this Annual Report is available on request from New World Department Store China Limited.

Where the English and the Chinese texts conflict, the English text prevails.

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)
(Hong Kong Stock Code: 825)

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