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)

colour the new chapter

annual report 2018

時新尚個生性活
Enriching Lives Enhancing Character

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 2018, New World Development Company Limited owns 74.99% 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 2018, the Group operated 26 "New World" (「新世界」) branded department stores in Mainland China and 11 "Ba Li Chun Tian" (「巴黎春天」) branded department stores and shopping malls in Shanghai with a total gross floor area of about 1,455,780 square metres, covering 19 key locations in Mainland China, including Beijing, Tianjin, Yianjiao, Yantai, Lanzhou, Xi'an, Harbin, Shenyang, Anshan, Shanghai, Nanjing, Yancheng, 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, rental income, and management and consultancy fees. In addition to its core department store business, the Group has been actively expanding its direct sales business in recent years, including the N+ line-up of private labels, LOL (Love • Original • Life) Concept Shop, and distribution business of high-end fashion brands, etc. 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 2018, the Group had 4,598 employees.

contents

goal

to be China's most influential department store chain operator with the highest efficiency

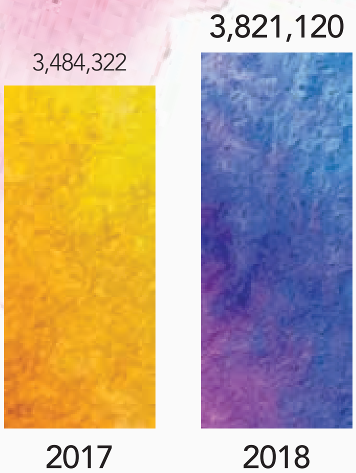
mission

to create a modern, metropolitan lifestyle with creativity, foresight and efficiency in China

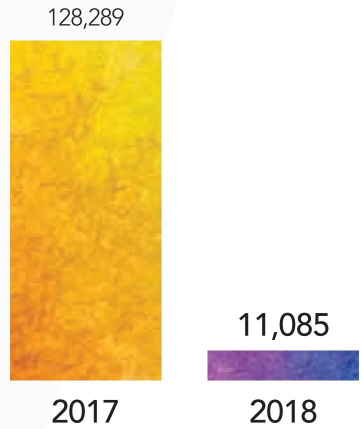
conviction

embracing "innovation, foresight, integrity, prudence and respect" in our core values lays a promising development path for NWDS in future

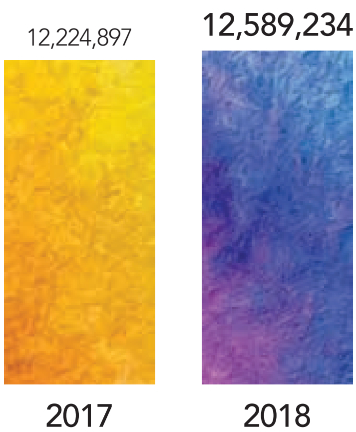
financial highlights



revenue
(HK$'000)



net profit
(HK$'000)



total assets
(HK$'000)

	2018 HK$'000	2017 HK$'000

Operating Result

Revenue	**3,821,120**	3,484,322
Representing:		
Commission income from concessionaire sales	**1,681,128**	1,695,959
Sales of goods – direct sales	**1,322,607**	1,108,232
Rental income	**811,883**	666,694
Management and consultancy fees	**5,502**	13,437
Operating profit	**185,353**	277,841
Profit for the year ("Net profit")	**11,085**	128,289

	As at 30 June 2018 HK$'000	As at 30 June 2017 HK$'000

Financial Position

Fixed deposits, cash and cash equivalents	**1,947,343**	2,136,297
Total assets	**12,589,234**	12,224,897
Total liabilities	**6,469,886**	6,296,963
Total equity	**6,119,348**	5,927,934
Net cash position	**70,634**	369,514

	2018	2017

Financial Ratios

Merchandise gross margin	**17.3%**	18.2%
Operating profit growth	**-33.3%**	32.5%
Net profit growth	**-91.4%**	182.6%

chairman's statement

Dr. Cheng Kar-shun, Henry
Chairman

Twenty-five years ago, NWDS started out in Wuhan and opened the curtains to its development in Mainland China. As one of the first Hong Kong-funded enterprises tapping into the Chinese retail market, we are a witness to the change of times, to urban development and to prosperity in the commercial sectors. In the 1990s, we capitalised on the opportunities made available by the takeoff of the Chinese economy and deployed meticulously to build our department store business characterised by a trendy and close-to-everyday-life image. Subsequently, we landed on a number of first- and second-tier cities, focusing on the Greater Shanghai, Greater Beijing and Greater South Western Regions and radiating our influence onto surrounding areas. Concurrently, we kept optimising and fine-tuning our organisation structure, operations management and marketing strategies. These efforts successfully earned us support from consumers and won us a leading position as a premium retailer in the mainland. We rode on our core values and progressed with time. We adapted to changes in the retail industry in recent years and launched the innovative "One Store, One Strategy" operations strategy, targeting different markets and fine-tuning with precision to rise above the rest in the homogenous environment. By steadily growing our direct sales business, we have established our own brand character and value. As we developed our business, we have not forgotten about delivering our responsibilities as a corporate citizen. By mobilising NWDS Volunteer Team and organising nationwide or region-wide sustainability campaigns, we helped the underprivileged and gave back to society, striving to create better and added values in various aspects.

As we celebrate the Group's silver jubilee, we have also looked far ahead and laid a sound and solid foundation for the next 25 years. We truly believe that keeping our minds open, seeking constant innovation and upholding the eagerness to change are the only ways to maintain the vibrant vitality of the company and to make substantial progress in the long run. As such, we took the initiative to reform our organisation structure and to build our talent pipeline. In terms of organisation structure, we were committed to constructing an empowered organisation, and to introducing a motivation mechanism that generates values and encourages sharing. Individuals, teams, as well as regions were encouraged to drive innovative development and to launch projects that stimulate creativity within the organisation. These in turn helped generate more revenue and achieve higher efficiency, providing stronger support to the implementation of our operating strategy. Responding to our needs in business development, we also adjusted the structure of our functional departments. For example, we expanded the Commodity Department and refined its functions and responsibilities. The division of labour amongst different teams was refined with growth initiatives targeted at different businesses. Meanwhile, the Innovation Committee was set up to formulate the direction for our innovation strategy and to implement various projects. In terms of echelon cultivation, we rode on the foundation of our trio of career advancement initiatives and supported post-85s young core personnels to form the "New NWDS Community", which was empowered to initiate innovation projects and to serve as mentors to "Xinpeng" members, preparing a talent pool of future leaders for various levels. The Group will continue to review and to optimise its internal structure and motivation mechanism to create favourable conditions for the company's innovative development, as well as strengthen training for management successors to actualise organisational empowerment and to generate even bigger business value.

In response to the mainland's consumption upgrade and accelerated transformation of its retail market, the Group has also reshaped its business plans and operations strategies in a timely manner to improve its core competitiveness and market agility. At present, the Group's retail network spans across 19 key locations in the mainland. Day-to-day operations of the 37 stores are spearheaded by three operating regions for improving overall operational efficiency and for creating synergy within the region. During the year under review, we continued to deepen categorised management of our stores, formulating targeted strategies and empowering stores to innovate and create breakthroughs in ambiences, operations and marketing to remain distinguished in the homogenised market. On the department store business front, we capitalised on the development trends in the market and began strategic cooperation with multinationals to expedite the landing of international brands in our stores so as to drive concessionaire sales. In future, we will focus on fortifying and expanding our five competitive categories, namely gold and jewellery, young ladieswear, ladies' footwear, sports, and cosmetics. We will continually optimise our merchandise mix and strengthen our brand competitiveness in order to satisfy consumers' needs for quality products. In addition to the retailing of goods, we also strived to craft consumption scenarios with unique ambience and character. During the year under review, we further augmented the proportion of the in-store food and beverage, entertainment experiences and lifestyle complementary facilities with an aim to cover more in-demand consumption projects so as to provide consumers with more lifestyle-oriented, refined and interactive shopping experiences.

To showcase the brand character and value of the Group, we actively expanded our private label series. We rode on the foundation of the New World Supermarket and created the complete line-ups for N+ and LOL, precisely laying out the Group's direct sales business with a multiple business model. During the year under review, the N+ line-up which started off with its high-end bakery brand "N+ Natural Taste Plus" already nurtured three new brands, namely "N+ Baby" – a mother-and-baby themed supermarket; "N+ Convenience Store" – the Group's first convenience store, and the household goods brand "N+ Quality Goods". With these new additions, the Group's direct sales business has grown to a larger scale and towards the direction of full collections. LOL, which has been operating for five years, also grew at a high speed. As at 30 June 2018, there are 20 LOL stores, six of which are set up outside of the Group's store network. As categorised management gradually demonstrated success, LOL actively introduced trendy products that fit the positioning of its stores. The Group will continue to focus on first-tier cities in the mainland as it expands its direct sales business and will adopt vertical expansion strategies to develop its private label series with depth so as to enjoy the benefits of differentiated operations.

The Chinese economy has grown expeditiously with consumption power strengthening amongst nationals, and a solid foundation has been built for the mainland's retail industry ever since China's reform and opening-up began. Up til recent years, the popularisation of the Internet and upgrades in digital technologies prompted the emergence of the new model of online retailing. With the rise of e-commerce, business innovation and cross-industry integration, significant changes took place in the layout of the entire retail industry. The online and offline channels, for example, evolved from growing in parallel to becoming a new normal with an omni-channel approach and deepened integration, giving birth to "new retail". To seize the existing opportunities arisen from "new retail", retailers have to leverage on the Internet and big data to respond to the need for consumption upgrade in the mainland and create consumer-oriented experiential consumption scenarios, which is to be combined with reforms in organisational and operating models, as well as analytics system optimisation to cement the foundation for business innovation and development and to fortify market strengths. In future, the Group will continue to delve deep into its core business, expanding prudently and be market-oriented in upgrading its business development. The Group is committed to building a cross-discipline and synergised business model with multiple businesses in its pursuit of long-term and steady growth.

The era has changed as time passes. The Group is indebted to the staunch support from all of you over the past 25 years, without which we could not have advanced and grown so steadily throughout our development journey. 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. The Group shall stay true to its core in retailing and continue to innovate and reform. We are committed to adding more vibrant colours on our future milestones, and to leaving an even more glorious mark in our next chapter.

Dr. Cheng Kar-shun, Henry
Chairman

Hong Kong, 19 September 2018

insightful market positioning

building up leading fashion and living department store style

25-year milestones

1993 - 1994

June, 1993

- NWDS officially established in Hong Kong, with an office set up in Central

January, 1994

- Officially adopted the logo that symbolises "spreading wings to soar", which has remained in use ever since

November, 1994

- Opened the first NWDS store in the mainland – Wuhan Store, and anchored at six Chinese cities, namely Shenyang, Wuxi, Harbin, Tianjin, Ningbo and Beijing over the next four years

2001

July, 2001

- The mainland office was relocated from Guangzhou to Shanghai

December, 2001

- The first "Ba Li Chun Tian" branded store opened in Shanghai, marking the Group's official landing onto the Shanghai market

1998 - 1999

July, 1998

- The Group's 70,000 sq.m. flagship store – Beijing Store opened

August, 1998

- The mainland office was set up in Guangzhou

April, 1999

- Hong Kong New World Department Store opened in Tsim Sha Tsui; the official website www.nwds.com.hk went live in the same month

2002 - 2003

January, 2002

- Established the suppliers' club "New World Net"; luncheon meetings or tea receptions were held in six Chinese cities in July

December, 2002

- Launched the all new VIP-IC card in the mainland, which enabled customers to accumulate bonus points and redeem premiums across different stores

August, 2003

- Joined hands with Industrial and Commercial Bank of China and launched the "Peony New World Credit Card" – the very first co-branded credit card rolled out by a department store chain in the mainland – to offer shopping privileges and credit functions on a single card

2004 - 2005

September, 2004

- Beijing Store celebrated its sixth anniversary and organised the “60-hour Non-stop Mega Sales” campaign, which created the record of the longest operating hours in the industry at the time

May, 2005

- Founded NWDS Management Academy to offer professional training to staff members at various levels

2007 - 2009

July, 2007

- The Group was listed on the Main Board of the Stock Exchange under the stock code of 825, and raised net proceeds of about HK$2.6 billion

November, 2007

- Jointly initiated the charity campaign “Bright Future Action—A New World for Amblyopic Children” with China Children and Teenagers’ Fund, and held a kick-off ceremony at Beijing’s Great Hall of the People

June, 2009

- Launched the nationwide rebranding programme and introduced the new operations modes of “Fashion Gallery” and “Living Gallery” with the precise positioning of “Enriching Lives · Enhancing Character” to bring mainland consumers a novel shopping experience

2006

July, 2006

- Qualified as an authorised Olympic retailer by the Beijing Organising Committee for the Olympic and set up official licensed product retail outlets in ten NWDS stores

October, 2006

- Shanghai Huaihai Branch Store garnered the title of “Jing Ding Specialty Department Store” by the Chinese Ministry of Commerce, and became one of the top 14 superior department stores of China

2010 - 2011

February, 2010

- Established NWDS Environmental Committee to formulate the overall green policies and directions

June, 2010

- Concluded the nationwide “NWDS Spokesperson” contest; the two winners were entrusted with promoting the Group’s new image at different stores across the country

September, 2011

- Held the “Super Stars’ Memorable Collections Exhibition” to showcase over a hundred items of Hollywood superstars in NWDS stores in five Chinese cities

25-year milestones

March, 2012

- Rolled out the all new VIP system and the VIP members' website; new functions included spending record checking, card-free bonus point accumulation, as well as online card application and renewal, etc.

October, 2012

- The Group clinched the honour of "Citation for Excellence in Mainland Marketing" in the "HKMA/TVB Awards for Marketing Excellence" for the second consecutive year

December, 2012

- The Group was named "Asia's 200 Best Under A Billion" by *Forbes* for the fifth consecutive year

October, 2014

- Launched NWDS' WeChat official account to work side by side with the official Weibo platform to promote online marketing

December, 2014

- Published the first standalone sustainability report, acting as a forerunner amongst the department store chain operators in the mainland

2012

2014

2013

March, 2013

- Founded the private label LOL Concept Shop and opened the first LOL outlet in Shanghai

April, 2013

- Founded NWDS Volunteer Team and organised the first nationwide thematic volunteering activity – "NWDS Tutoring Programme"

July, 2013

- Rolled out "@Dream Sustainable Development Programme" to help over 7,000 under-resourced children to improve their talents in music and sports
- Supported "7.7 MSF Day" as the key sponsor for the seventh year in a row and raised a total of over HK$2.48 million over the years

December, 2013

- "Project Feipeng – Core Talents Nurturing Plan" organised by NWDS Management Academy won the title of "Top 20 China Corporate Training Programme"

November, 2015

- Title-sponsored the "Sowers Action Challenging 12 Hours Charity Marathon" for the second year in a row, making a charitable donation of HK$0.9 million in total over two years' time

2015

June, 2017

- Received the accolade of "Best Investor Relations Company (Hong Kong)" from *Corporate Governance Asia* for the fourth year in a row

August, 2017

- Shortlisted quality post-85s core staff to form "New NWDS Community" to perfect the Group's talent cultivation system

November, 2017

- Rolled out "New Lab" on NWDS' WeChat official account with Beijing and Shanghai stores as pilots to launch limited edition items during "Double 11"

December, 2017

- Garnered the fourth Gold Award in the category of "Environmental, Social and Corporate Governance" at "*The Asset* Corporate Awards"
- NWDS Management Academy was accredited as "China's Best Corporate University" for the fifth consecutive year by the Overseas Education College, Shanghai Jiao Tong University; and listed as "CCFA Top 10 Corporate Universities" by China Chain Store and Franchise Association for the third year in a row

2017

2016

May, 2016

- Founded the private label "N+ Natural Taste Plus", opening the first bakery in Shanghai

September, 2016

- Reformed the VIP member card system by re-categorising VIP members into four levels; integrated cross-industry resources to optimise their privileges and rolled out level upgrade mechanism

November, 2016

- Introduced the "New Territories 88" street zone to Nanjing Store to realise the "One Store, One Strategy" operations strategy; the store won the title of "Best Stores in China 2016"

March, 2018

- Received the "Caring Company" logo from The Hong Kong Council of Social Service for the tenth time

5 years+ 商界展關懷 caringcompany
Awarded by The Hong Kong Council of Social Service 香港社會服務聯會頒發

2018

April, 2018

- To celebrate the Group's 25th anniversary, marketing campaigns themed "immense love for customers" were rolled out in all NWDS stores

June, 2018

- A total of 1,156 talents were trained under the Group's trio of career advancement initiatives over the years

retail network

37 strategic footholds in 19 major locations

Beijing	4
Tianjin	1
Yanjiao	1
Xi'an	1
Yantai	1
Lanzhou	1
Harbin	1
Anshan	1
Shenyang	2

Shanghai	11
Nanjing	1
Yancheng	1

Chengdu	1
Chongqing	1
Mianyang	1
Kunming	1
Wuhan	5
Zhengzhou	1
Changsha	1


Northern China Region
Eastern China Region
Central Western China Region
Harbin
Shenyang
Anshan
Yanjiao
Beijing
Tianjin
Yantai
Lanzhou
Zhengzhou
Xi'an
Yancheng
Nanjing
Shanghai
Mianyang
Chengdu
Wuhan
Chongqing
Changsha
Kunming

northern china region

Approx. Gross Floor Area

653,050 sq.m.

Beijing Store

Date of Opening
July 1998

Approx. GFA
117,200 sq.m.

Beijing Trendy Store

Date of Opening
March 2007

Approx. GFA
31,200 sq.m.

Beijing Liying Store

Date of Opening
September 2008

Approx. GFA
52,000 sq.m.

Beijing Qianzi Store

Date of Opening
September 2010

Approx. GFA
55,600 sq.m.

Tianjin Store

Date of Opening
October 1997

Approx. GFA
57,000 sq.m.

Yanjiao Store

Date of Opening
April 2013

Approx. GFA
32,000 sq.m.

Yantai Store

Date of Opening
December 2013

Approx. GFA
55,600 sq.m.

Lanzhou Store

Date of Opening
September 2005

Approx. GFA
28,500 sq.m.

Xi’an City Plaza

Date of Opening
December 2012

Approx. GFA
58,700 sq.m.

Harbin Store

Date of Opening
November 1996

Approx. GFA
50,000 sq.m.

Harbin Liangjiang Branch Store

Date of Opening
December 2008

Approx. GFA
48,600 sq.m.

Harbin Zhenhua Branch Store

Date of Opening
June 2009

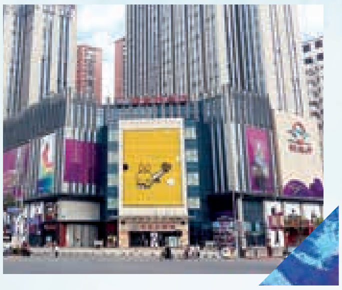
Approx. GFA
19,200 sq.m.

Shenyang Zhonghua Road Branch Store

Date of Opening
December 2005

Approx. GFA
44,000 sq.m.

Shenyang Jianqiao Road Branch Store



Date of Opening
May 2011

Approx. GFA
34,000 sq.m.

Anshan Store

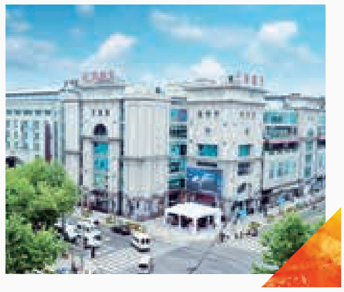
Date of Opening
October 2007

Approx. GFA
37,250 sq.m.

eastern china region

Approx. Gross Floor Area
441,430 sq.m.

Shanghai Huaihai Branch Store



Date of Opening
December 2001

Approx. GFA
22,500 sq.m.

Shanghai Hongkou Branch Store

Date of Opening
October 2003

Approx. GFA
19,600 sq.m.

Shanghai Changning Branch Store

Date of Opening
September 2004

Approx. GFA
6,680 sq.m.

Shanghai Qibao Branch Store

Date of Opening
December 2005

Approx. GFA
36,550 sq.m.

Shanghai Wujiaochang Branch Store

Date of Opening
December 2006

Approx. GFA
44,000 sq.m.

Shanghai Pujian Branch Store

Date of Opening
September 2007

Approx. GFA
46,000 sq.m.

Shanghai Baoshan Branch Store

Date of Opening
January 2010

Approx. GFA
39,000 sq.m.

Shanghai Chengshan Branch Store

Date of Opening
April 2010

Approx. GFA
38,000 sq.m.

Shanghai Shaanxi Road Branch Store

Date of Opening
November 2011

Approx. GFA
42,000 sq.m.

Shanghai Tianshan Road Branch Store

Date of Opening
August 2013

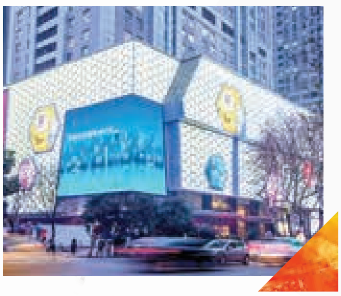
Approx. GFA
43,000 sq.m.

Shanghai 118 Branch Store

Date of Opening
November 2014

Approx. GFA
62,600 sq.m.

Nanjing Store



Date of Opening
November 2007

Approx. GFA
41,200 sq.m.

Yancheng Store

Date of Opening
December 2012

Approx. GFA
300 sq.m.

central western china region

Approx. Gross Floor Area
361,300 sq.m.

Wuhan Store

Date of Opening
November 1994

Approx. GFA
42,000 sq.m.

Wuhan Trendy Plaza

Date of Opening
December 2001

Approx. GFA
23,000 sq.m.

Wuhan Wuchang Branch Store

Date of Opening
October 2005

Approx. GFA
24,000 sq.m.

Wuhan Xudong Branch Store

Date of Opening
January 2008

Approx. GFA
29,200 sq.m.

Wuhan Hanyang Branch Store

Date of Opening
November 2008

Approx. GFA
53,000 sq.m.

Changsha Trendy Plaza

Date of Opening
September 2006

Approx. GFA
35,000 sq.m.

Zhengzhou Store

Date of Opening
April 2011

Approx. GFA
35,500 sq.m.

Chengdu Store

Date of Opening
December 2006

Approx. GFA
30,000 sq.m.

Chongqing Store

Date of Opening
September 2006

Approx. GFA
42,000 sq.m.

Kunming Store

Date of Opening
June 2004

Approx. GFA
12,600 sq.m.

Mianyang Store

Date of Opening
December 2011

Approx. GFA
35,000 sq.m.

Living Gallery

Fashion Gallery

management discussion and analysis

Business Review

Business Network

As at 30 June 2018, New World Department Store China Limited and its subsidiaries (together, the "Group") operated 35 department stores and two shopping malls, with a total gross floor area of about 1,455,780 square metres. These stores are located in three operating regions in the Northern China, the Eastern China and the Central Western China, covering 19 key locations across the country, including Beijing, Tianjin, Yanjiao, Yantai, Lanzhou, Xi'an, Harbin, Shenyang, Anshan, Shanghai, Nanjing, Yancheng, Wuhan, Changsha, Zhengzhou, Chengdu, Chongqing, Kunming and Mianyang.

In financial year 2018 ("FY2018" or the "Current Year"), the Group converted two managed stores into self-owned stores; these include Yanjiao New World Department Store ("Yanjiao Store") and Wuhan New World Department Store — Xudong Branch Store ("Wuhan Xudong Branch Store"). Following the above adjustment, the Group's retail network now comprises self-owned stores only.

Revenue Breakdown

By region

The Northern China Region continued to contribute the most to the Group, accounting for 48.0% of revenue; this was followed by the Eastern China Region and the Central Western China Region, which accounted for 32.5% and 19.5% of revenue respectively.

By segment

Commission income from concessionaire sales was the major source of income, accounting for 44.0% of revenue. Sales of goods for direct sales and rental income accounted for 34.6% and 21.3% of revenue respectively. Management and consultancy fees accounted for 0.1% of revenue.

Operations Overview

Human Resources Strategies

Empowerment and motivation propelled long term development of organisation

Empowering the organisation and motivating innovation and reforms are fundamental to a company's adaptability to market competition and long-term development. During the year under review, the Group actively consolidated its competitive resources and established innovation platforms to continuously develop employees' potentials. Individuals, and the organisation as a whole, were activated, preliminarily setting up an empowered organisation. The Group attempted to break down boundaries in the organisation and to establish an open and cooperative personnel structure, and fully exerted the strengths of converging smaller modular organisations for flexibility and high efficiency, and for stimulating the creation of individuals' values. At the same time, the Group constructed a motivation mechanism for sharing improved efficiency that motivates regions and stores to generate more revenue and to create higher efficiency, which facilitated the sharing of operational achievements with the company and supported the implementation of the Group's operating strategy.

In terms of echelon cultivation and people empowerment, the Group made enriched platform resources and practise opportunities available for key persons. Eighty talents were selected to join the trio of career advancement initiatives to participate in job rotation, such that they could delve deep into management from multiple angles and broaden their professionalism. Among them, seven store supervisor trainees took part in a project-based talent grooming and empowerment programme to fast-track their path for becoming core management personnels. Under the guidance of senior executive mentors, 59 young core persons of the "New NWDS Community" and "Xinpeng" schemes incubated innovative projects and received comprehensive experiences. The "Thousand Minds" and "Hundred Minds" specialist's training programme was initiated to develop a mindset for innovative online marketing and business expansion, so as to drive business innovation and optimisation.

In future, the Group will continue to establish platforms that are conducive to innovative development, strengthen the nurturing and development of successors to middle to senior executives in order to actualise organisational empowerment.

01 *NWDS Annual Management Meeting 2018 was held in Yantai and themed around "passionately passing on the legacy for a new beginning"*

02 *With three Directors leading the way, executives kicked off the team building activity with cycling*

03 *Executives flew kites in groups on the beach to convey the message "let NWDS soar and grow in yet another new chapter"*

management discussion and analysis

business review

Operations Strategies

Fortifying in-store ambiences and experiences to enhance department store competitiveness

In the face of ever-changing consumption trends and the accelerated transformation of the market, the Group deepened categorised management of its stores during the year under review. Based on the categories of "novel department store", "quasi-shopping mall", "industry-benchmark store" and "urban outlet", the Group further categorised its stores into four types, namely competitive, breakthrough, strengthened and turnaround resolutions, depending on the location, scale and merchandise appeal of stores, etc. Targeted strategies were then formulated to improve operating efficiency. The Group also continued to foster its operations strategy of "One Store, One Strategy", starting from sound protection measures developed by the headquarters, to ensure the implementation of the Group's strategies. Through multi-dimensional categorised operations and targeted marketing strategies, the Group effectively motivated stores to explore their way of innovation and at the same time, seek breakthroughs in ambience innovation, operations efficiency enhancement, innovative marketing, and Internet strategies, etc.

During the year under review, Chongqing New World Department Store first renovated the fourth level to create a stage-like retail space with enhanced spaciousness and branding ambience. Hong Kong New World Department Store — Shanghai Pujian Branch Store, as a demonstrative "quasi-shopping mall", upgraded the image of the third and the fourth levels in Phase 1 to improve on its personalised ambience and the comfort level of shopping. A good number of power brands were introduced to replace traditional ones that were past their prime. As a breakthrough type of "urban outlet", Hong Kong New World Department Store — Shanghai Qibao Branch Store developed the essential character of an outlet after upscaling the brands and adjusting the categories it carried.

In future, the Group plans to introduce the thematic street zone "New Territories 88" into three department stores located in Zhengzhou, Tianjin and Wuhan and to enrich the in-store ambience and experience so as to accelerate the introduction of themed projects in stores.

01 *The ultra-modern new façade of Nanjing Store*

02 *The atmospheric ambiance at Chongqing Store*

Driving sales through strategic cooperation with international brands and growth of competitive categories

In terms of sales performance of different categories in the Current Year, the five competitive categories of the Group are gold and jewellery, young ladieswear, ladies' footwear, sports, and cosmetics. Amongst them, the year-on-year growth in sales was more evident in gold and jewellery as well as cosmetics. To speed up the landing of international cosmetics brands in its stores, the Group entered into strategic cooperation with multi-national companies such as the renowned U.S. consumer goods company Procter & Gamble and Korean cosmetics group Amore Pacific, etc. during the year under review. In particular, cosmetics sales of Beijing New World Department Store stood out. The scale and the number of brands it carried ranked the top three in the Beijing market. In the ladies' footwear category, sales from more than half of ladies' footwear concessionaires in Hong Kong New World Department Store — Shanghai Wujiaochang Branch Store topped the list of Shanghai during the year under review. In future, the Group will continue to fortify and expand existing competitive categories and to capitalise on the latest development trends in the market, with a focus on building the cosmetics, sports and leisure, and children's products categories to strengthen its brand competitiveness and to give traction to the Group's concessionaire sales.

01 *Gold and jewellery*

02 *Young ladieswear*

03 *Ladies' footwear*

04 *Sports*

05 *Cosmetics*

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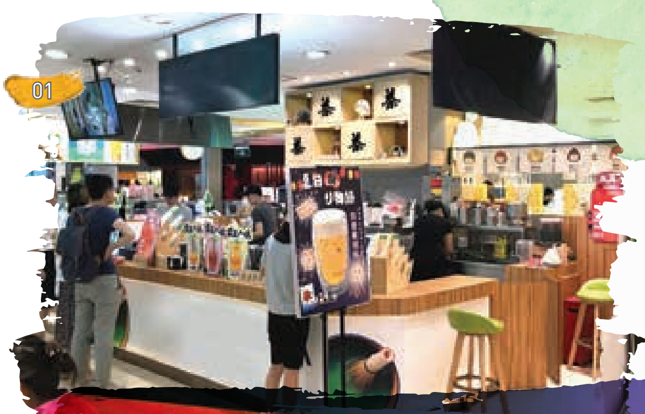
Strengthening experiential businesses to enrich stores with interactive, refined and lifestyle-oriented elements

As for the rental business, the Group stayed close to the trends in the mainland and was committed to crafting consumption scenarios with commodities as the core and lifestyle experiences as the underlying philosophy, and accelerating brand renewal to address the fast-changing tastes of the young consumer group. During the year under review, the Group added in-store businesses of the food and beverage, entertainment experiences and complementary facilities categories. Emerging trendy tenants such as "Uji Matcha", "CouCou Hotpot", "Mi Home" and "Stellar International Cineplex" were introduced, while cooperation was deepened with strategic brands "Haidilao Hotpot", "LEFIT" and "Sanfu Easy Fashion Easy Life" by increasing the number of collaborative stores. As at 30 June 2018, rental business accounted for about 39% of operating area in all NWDS' stores. In future, the Group will strive to introduce more in-demand consumption projects so as to accelerate the enrichment of interactive, refined and lifestyle-oriented elements in its in-store businesses.

Refining the setup, strengthening the brand character and realising differentiated operations



01 *"Uji Matcha"*

02 *"LEFIT"*

Vertical expansion of private label series to enhance product marketability

To enhance its vertical operating capabilities and to actualise differentiated operations, the Group rode on the foundation of the New World Supermarket and actively expanded the N+ line-up and LOL (Love • Original • Life) Concept Shop ("LOL") to diversify the composition in direct sales business.

To date, there are four private labels in the N+ line-up, including the high-end bakery brand "N+ Natural Taste Plus" with three outlets, the newly-introduced mother-and-baby themed supermarket "N+ Baby", the Group's first convenience store "N+ Convenience Store" and "N+ Quality Goods" which offers a variety of household goods. The Group's brand character was gradually established in terms of contents and products. In future, the Group will continue to fortify and to perfect the N+ line-up, fostering the scaleable development of a multi-brand and multi-category private label series that lives up to new consumption trends.

01 *The first outlet of "N+ Quality Goods", a household goods brand, landed on Beijing Store*

02 *"N+ Natural Taste Plus" is now a three-store chain*

03 *"N+ Convenience Store" opened in Beijing Store at the end of 2017*

04 *"N+ Baby" offers a nursing and baby care room, a childcare zone, as well as other value-added services*

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Having operated for five years, LOL picked up its pace in store opening by adding eight new stores during the year under review. As at 30 June 2018, LOL operated 20 stores, six of which are set up outside of the Group's store network. The six stores are opened in the K11 Art Malls in Shanghai, Wuhan and Shenyang; Shanghai Joy City; Life Hub @ Jinqiao, Shanghai; and Chongqing IF Plaza. As categorised management yielded results in its stores, LOL further enriched its categories during the year under review by introducing trendy products that fit the different positioning of stores. LOL also developed its products for direct sales, focusing on trendiness and coolness to uplift the brand image of and customers' affinity to the brand. In future, LOL will extend its expansion strategy in first-tier cities and consider tapping into mature commercial lots in second-tier cities with high spending power in the periphery of Shanghai. Internally, LOL will rationalise the positioning and style of certain existing stores to create refreshed and upgraded experience for customers.

Furthermore, the Group's distribution business of high-end fashion brands saw steady growth during the year under review. The line-up of brands grew stronger with the addition of the made-in-Italy luxury footwear brand SERGIO ROSSI as the Group won its exclusive distributing rights in Mainland China in early 2018. As at 30 June 2018, the Group had 77 directly operating stores in 19 cities in Mainland China, covering its five high-end fashion brands which include MOSCHINO, LOVE MOSCHINO, RED VALENTINO, DSQUARED2 and YVES SALOMON.

01 *LOL outlet in K11 Shenyang Art Mall*

02 *LOL outlet in Shanghai Qibao Branch Store*

03 *MOSCHINO outlet in SKP Beijing*

Marketing Strategies

Capturing consumers' preference for sharing trendy experiences, crafting unconventional image through new media

With new retail growing vigorously, the Group initiated a number of experiential marketing campaigns during the year under review, riding on consumers' preference for sharing trendy experiences and their pursuit of values recognition. The Group's 25th anniversary campaign, for example, was built around the theme of "immense love for customers". From 20 April to 1 May 2018, a 10-day event was rolled out in all NWDS' stores. Four stores in Beijing kicked off the talent hunt programme "Idol Wooha!", which was followed by an open audition to generate noise and to draw foot traffic to stores. Eleven stores in Shanghai jointly organised the "25th Anniversary Ba Li Chun Tian Music Children's Vocal Competition", introducing a grand family experience event into department stores for the very first time. Complemented by a pre-event online voting segment, traffic was created online and offline to actualise experiential marketing.

The Group also actively made use of new media such as the music video platform TikTok, WeChat Moments mini-videos, Jie Pai, etc. to carry out highly effective marketing with unconventional and intriguing videos. A noteworthy example came from the headquarters, which initiated the event "Labour Pain Experience for Men", a Mother's Day collaboration between stores and local hospitals. A labour pain simulator was used such that male customers could experience child birth. With event videos going viral on TikTok, Weibo and other platforms and successfully generating a hot topic throughout the country within a short time, the initiative crafted an innovative and unconventional image for the Group.

01 *To celebrate the Group's 25th anniversary, Chongqing Store held a grand outdoor music performance to create market noise and to draw foot traffic to the store*

02 *Mianyang Store held the marketing campaign "Queen's Day", joining hands with the cosmetics category for themed promotions*

03 *Shanghai Wujiaochang Branch Store rolled out a fun and interactive event known as "Goddess Festival: High-heel Queen Contest" to highlight its focus on ladies' footwear*

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Injecting recreation and social elements in consumption scenarios, leveraging experiential marketing to draw foot traffic from online and offline

The Group actively engaged itself in cross-industry collaboration with WeBank, Apple Pay and online ambience crafter “cn.dface” and “imiaoj.com”. Innovative technologies were employed to create a novel entertaining retail experience. During the year under review, the Group worked with “cn.dface” to launch interactive WeChat H5 games integrated with online marketing. “Best Two out of Three” allowed 31 store general managers to interact and compete with customers online. In “What’s the Price?” and “Shopping Mall Monopoly”, price guessing games excited users and generated consumption. “Magic Gift Truck”, on the other hand, used an interactive smart window display to demonstrate how to mix and match different fashion brands, attracting in-store foot traffic with an entertaining experience. On top of these, customers could obtain game point rebates through the inter-connected membership systems of “cn.dface” and the Group. The initiative helped drive repeated sales in the physical stores and coupon conversion, boosting number of transactions and sales volumes.

During the year under review, the Group continued to carry forward the progress of membership digitisation. In addition to upgrading the electronic membership system to implement digitised member identification and online interactive channels, it also leveraged cross-industry resources to enhance the benefits for VIP members with an upgrading mechanism to improve member loyalty. As at 30 June 2018, the Group had about 5.39 million VIP members. Meanwhile, the Group also actively maintained its existing online resources and accumulated about 4.13 million fans on the WeChat and Weibo platforms, representing an 8% growth year-on-year.

01 *Shanghai Pujian Branch Store joined up with “cn.dface” to organise the “Magic Box” game, in which customers could enter a lucky draw by scanning a QR code on WeChat*

02 *Shoppers at Shanghai Wujiaochang Branch Store were rather interested in the “What’s the Price?” game*

03 *Beijing Qianzi Store threw a birthday party with a cake-DIY experience for its VIP members*

04 *Beijing Trendy Store hosted a family VIP event during the World Cup period, with parents and their children painting on T-shirts on the lawn*

Digitisation upgrading in full throttle, breaking new grounds with cross-industry retail

The Group actively promoted digitisation upgrades, joining up with different industries and empowering cooperations to facilitate the integration of online and offline. Riding on the foundation of WeChat electronic membership and electronic cards and vouchers, the Group strengthened its cooperation with WeBank to launch a number of electronic services during the year under review. "Social Gift Cards" not only allow customers to give gifts online but also make social marketing possible within the WeChat ecology. With the "Social Joint-name Cards", customers can quickly become a member after completing WeChat payments and activate essential member functions, including financial accounts, spending rebates, electronic cards and vouchers, etc. Leveraging the big data capabilities of WeBank, consumer preferences were gathered to materialise targeted online marketing and increase member conversion rates and loyalty. Furthermore, the Group piloted the "New Lab" online shopping module in Beijing, where hot styles and discounted items were offered to attract customers' scrambling, actualising online ordering and offline pick-up. Customers were brought to the stores to promote associated spending.

Internally, the Group successfully rolled out system upgrades in its information technology (IT) services during the year under review, ensuring that the Enterprise Resource Planning (ERP) system and CRM membership system are equipped with the necessary functions to support digitised marketing. A more user-friendly operation interface was also introduced to improve the efficiency of data processing. At the same time, the Group launched the mobile applications of "Business Intelligence (BI)" and "Office Automation (OA)" to improve the efficiency in corporate decision making and approval. The "24-hour Online Academy", on the other hand, enables the staff to learn with their smart phones across geographies and at any time, helping to create a knowledge-based organisation. In future, the Group will continue to optimise internal operations with new digital technologies, and introduce new media technologies, using digitisation to propel business growth. The goal is to promote online and offline integration to meet the current needs of consumers.

01

02

01 *The Group worked with WeBank, offering WeChat users spending rebates during the period of "An Extraordinary Double 11"*

02 *Through WeChat Pay, customers can enjoy instant shopping privileges*

management discussion and analysis

Outlook

In 2017, the global economy has steered away from the negative impact and relevant hindrance arisen from the global financial crisis and the subsequent European sovereign debt issues since 2008. Thanks to the rebound in trade and the improved investment environment, the economy recorded a growth of 3.8%, the fastest since 2011. Certain economies have demonstrated stronger growth. China alone, for example, has contributed about one-third of the global growth. However, risks still exist in the global economy, including the escalating trade dispute between China and the U.S., the worsening tension in global trade, the economies of certain developing countries which are faced with variables, and the more heightened tensions seen in the geopolitical situation. These factors are affecting the stability for economic growth and could linger in the long run.

While uncertainties are present in international trade, the financial market and the geopolitical situation, the Chinese economy has continued to remain stable and solid, as supported by the continued recovery of the global economy. In the first half of 2018, China's Gross Domestic Product grew 6.8% year-on-year, in line with market expectations. In particular, the contribution made by consumption to economic growth rose to 78.5% and has continued to give major traction to the "Troika". During the same period, the total retail sales of consumer goods maintained a year-on-year growth at 9.4%; there were also a mild increase in the consumer price index and a steady rise in residents' disposable income. These factors imply that the Chinese retail market is vast and stable. However, in the short term, the Chinese economy will face quite many challenges. Externally, it will be affected by factors such as the trade dispute with the U.S. In addition, domestic factors like debt pressures in China's local governments, and policy changes in second- and third-tier cities triggered by soaring property prices have both added weight to the downward move of the Chinese economy in the second half of the year. China's economy is expected to slow down mildly from last year in the second half of and throughout 2018. Despite so, in the scope of consumption, the consumer confidence index is standing tall, coupled with the launch of favourable policies, accelerated upgrade of consumption structure and faster growth in service consumption, the momentum in steady expansion is expected to continue.

With the rapid development of the mainland economy and the increased nationals' income level in recent years, people's ability and desire to consume have been continuously increasing. Amongst them, the post-80s, post-90s and post-00s new generations are expected to become the main driving force in the consumption market. Retailers have to thoroughly understand their lifestyle habits and consumption patterns, and make broader use of the Internet and big data to create a diversified set up with multiple businesses, ambience marketing and smart retail in order to accelerate the upgrading of traditional retail businesses and respond to market needs. The Group will continue to prudently set up its businesses with precise positioning. By propelling brand renewal and introducing fast moving brands, it strives to establish core competitive categories, to optimise and reform stores, and to create iconic ambiences as the means for constant upgrade of the business so as to strengthen its core competitiveness. The Group will also actively develop its private labels and build on a cross-discipline and synergised business model with multiple businesses. At the same time, the Group will uphold the expansion strategies of "multiple presences within a single city" and "radiation city", delving deep into the core business to further cement its position in the Chinese retail market.

Financial Review

Revenue and Other Income

Revenue of the Group was HK$3,821.1 million in FY2018 (FY2017 (or the "Previous Year"): HK$3,484.3 million). In Renminbi ("RMB") terms, revenue of the Group was RMB3,171.5 million in FY2018 (FY2017: RMB3,066.2 million).

Gross sales revenue, as previously defined, was HK$12,637.3 million in FY2018 (FY2017: HK$11,936.7 million). In RMB terms, gross sales revenue was RMB10,489.0 million in FY2018 (FY2017: RMB10,504.3 million).

The Group's merchandise gross margin was 17.3% in the Current Year (FY2017: 18.2%). In FY2018, ladieswear and accessories made up approximately 62.0% of gross revenue from concessionaire sales and sales of goods for direct sales. Menswear and accessories made up approximately 8.3% 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 41.4%), cosmetic products (approximately 31.2%), groceries, housewares and perishables (approximately 26.7%), as well as accessories and miscellaneous items (approximately 0.7%).

Rental income increased by 21.8% to HK$811.9 million in FY2018 from HK$666.7 million in FY2017, mainly due to increased rentable area and improved tenant mix in the Current Year and the acquisition of a group of managed stores, which included Wuhan Xudong Branch Store, Yanjiao Store and its subsidiaries in September 2017 (the "Acquired Subsidiaries"). The increase was partially offset by the reduced rental area as a result of the closure of Hong Kong New World Department Store — Shanghai Xinning Branch Store ("Shanghai Xinning Branch Store") and Ningbo New World Department Store ("Ningbo Store") in June 2017.

Management and consultancy fees was HK$5.5 million in FY2018 decreased from HK$13.4 million in FY2017. The decrease was primarily due to drop in Group's recognition of fees from managed stores in the Current Year.

Other income of the Group was HK$196.9 million in FY2018 compared with HK$192.8 million in FY2017. The increase 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 compared with the inclusion of HK$43.2 million of compensation from a landlord for the early termination of lease of Shanghai Xinning Branch Store in FY2017.

Other Losses, Net

Net other losses of the Group in the Current Year was HK$198.1 million which was primarily resulted from HK$108.5 million of impairment loss on goodwill, HK$72.7 million of impairment loss on property, plant and equipment and HK$8.1 million of impairment loss on prepayment, deposits and other receivables for mainly four department stores in light of the latest market environment and the management's assessment on the business prospect thereof, and HK$5.2 million of loss in fair value on the indemnification in connection with the acquisition of a subsidiary.

Changes in Fair Value of Investment Properties

A gain in fair value of investment properties in the Current Year was HK$0.5 million which was primarily related to a property in Shanghai City.

financial review

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 increased to HK$940.6 million in FY2018 from HK$788.3 million in FY2017. The increase was in line with the increase in sales of goods for direct sales in the Current Year.

Purchases of Promotion Items

The purchases of promotion items of HK$47.1 million 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, which was reclassified from net other operating expenses due to the early adoption of HKFRS 15 in the Current Year.

Employee Benefit Expense

Employee benefit expense increased to HK$640.9 million in FY2018 from HK$623.2 million in FY2017. In RMB terms, employee benefit expense decreased from RMB548.4 million in FY2017 to RMB531.9 million in FY2018, primarily due to the continuous efforts by management to carry out cost control measures as well as the closure of Ningbo Store and Shanghai Xinning Branch Store in June 2017. The decrease was partially offset by the opening of specialty shops of direct sales business in the Current Year and the acquisition of the Acquired Subsidiaries.

Depreciation and Amortisation

Depreciation and amortisation expense decreased from HK$261.5 million in FY2017 to HK$246.4 million in FY2018, primarily due to no depreciation provided in the Current Year for property, plant and equipment impaired for three department stores in FY2017 and some stores with assets that have been fully depreciated.

Operating Lease Rental Expense

Operating lease rental expense increased to HK$1,228.3 million in FY2018 from HK$1,051.9 million in FY2017, primarily due to the renewal of certain existing operating leases, the opening of specialty shops of direct sales business and the acquisition of the Acquired Subsidiaries in the Current Year.

Other Operating Expenses, Net

Net other operating expenses decreased to HK$531.7 million in FY2018 from HK$590.8 million in FY2017. The decrease in the Current Year was primarily resulted from the effective control of water and electricity expenses, promotion and advertising expenses by management, HK$47.1 million of the costs of promotion items reclassified to purchases of promotion items due to the early adoption of HKFRS 15 and HK$20.3 million of net exchange gains mainly due to the appreciation of Renminbi during FY2018. However, the decrease was partially offset by HK$16.4 million of net provision for debtors and a total of HK$44.6 million of compensation to the affected parties for mainly three department stores due to the fire accident or reduction of leased area.

Operating Profit

Operating profit was HK$185.4 million in FY2018 compared with HK$277.8 million in FY2017.

Income Tax Expense

Income tax expense of the Group was HK$197.5 million in FY2018 compared with HK$162.3 million in FY2017. A reversal of deferred income tax asset previously recognised of approximately HK$24.5 million, which were not utilised or not expected to be utilised before expiry dates based on Group's latest estimate on the profitability of respective stores, was included in the Current Year.

Profit for the Year

As a result of the reasons mentioned above, profit for the year decreased by approximately 91.4% to HK$11.1 million compared with HK$128.3 million in the Previous Year.

Liquidity and Financial Resources

Fixed deposits and cash and cash equivalents of the Group amounted to HK$1,947.3 million as at 30 June 2018 (30 June 2017: HK$2,136.3 million).

The Group's borrowings as at 30 June 2018 were HK$1,876.7 million (30 June 2017: HK$1,766.8 million) of which HK$309.5 million (30 June 2017: HK$356.3 million) was secured by pledge of an investment property.

As at 30 June 2018, the Group's current liabilities exceeded its current assets by HK$1,979.3 million (30 June 2017: HK$1,671.9 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 2018 were HK$125.7 million which were contracted but not provided for in the consolidated statement of financial position. For the contractual payment of HK$125.7 million, approximately HK$62.7 million is for the redevelopment project of a building in Shenyang City.

Pledge of Assets

As at 30 June 2018, an investment property of HK$1,824.5 million (30 June 2017: HK$1,759.8 million) of the Group was pledged as securities for bank borrowings of HK$309.5 million (30 June 2017: HK$356.3 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

The Group did not have any significant contingent liabilities as at 30 June 2018.

directors' profile

Chairman and
Non-executive Director

Dr. Cheng Kar-shun, Henry, *GBM, GBS*

Aged 71

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 (formerly known as FSE Engineering Holdings Limited), the vice-chairman and non-executive director of i-CABLE Communications Limited and a non-executive director of SJM Holdings Limited, all being listed public companies in Hong Kong. He is the chairman and the managing director of New World China Land Limited, a listed public company in Hong Kong, until its delisting on 4 August 2016. He was the chairman and a non-executive director of Newton Resources Ltd, a listed public company in Hong Kong until his resignation on 9 April 2018, 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. 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 38

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 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, i-CABLE Communications 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, a listed public company in Hong Kong until its delisting on 4 August 2016. He was an executive director of International Entertainment Corporation up to his resignation on 10 June 2017 and a non-executive vice-chairman of Modern Media Holdings Limited up to his resignation on 26 August 2017. 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 and a member of Board of the West Kowloon Cultural District Authority. He has substantial experience in corporate finance and worked in a major international bank prior to joining New World Development Company Limited. 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, the Chairman.

Executive Director

Mr. Cheung Fai-yet, Philip
Aged 63

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 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 66

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 70

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 (formerly known as "The Mitsubishi Bank"). 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 Digital Holdings 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 64

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 73

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 (formerly known as "New World CyberBase 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 56

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 also an independent non-executive director of Power Financial Group Limited (formerly known as "Jun Yang Financial Holdings Limited"). He is the founder, and was the chairman and executive director of China Smartpay Group Holdings Limited (formerly known as "Oriental City Group Holdings Limited"), a company listed on the Stock Exchange of Hong Kong. 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 2018, the Company has applied and complied with all the code provisions set out in the Code except for the deviation from code provision E.1.2.

Code provision E.1.2 provides, among other things, that the chairman of the board should attend the annual general meeting. Dr. Cheng Kar-shun, Henry, the chairman of the Board (the "Chairman") and a non-executive Director, was unable to attend the annual general meeting of the Company held on 20 November 2017 (the "AGM") due to his other engagement. Dr. Cheng Chi-kong, Adrian, an executive Director who took the chair of the AGM, together with other members of the Board who attended the AGM, were of sufficient calibre for answering questions at the AGM and had answered questions at the AGM competently.

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 2018.

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 30 to 33 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 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. The Board met four times during the year ended 30 June 2018.

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 meetings is set out as follows:

	Number of meetings attended/held	
Name	Board Meeting	Annual General Meeting
Non-executive Directors		
Dr. Cheng Kar-shun, Henry *(Chairman)*	3/4	0/1
Mr. Au Tak-cheong	3/4	1/1
Ms. Ngan Man-ying, Lynda [(1)]	0/1	0/1
Executive Directors		
Dr. Cheng Chi-kong, Adrian	4/4	1/1
Mr. Cheung Fai-yet, Philip [(2)]	3/4	1/1
Mr. Niu Wei [(3)]	2/2	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) Ms. Ngan Man-ying, Lynda resigned as a non-executive Director on 1 February 2018.

(2) Mr. Cheung Fai-yet, Philip had been re-designated as a non-executive Director on 15 February 2018, and has been re-designated as an executive Director on 1 August 2018.

(3) Mr. Niu Wei had been appointed as an executive Director on 15 February 2018 and 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. 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.

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 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 system. 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 2017 and the unaudited interim financial information for the six months ended 31 December 2017 as well as internal control system 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 2018 and internal audit report, including the effectiveness of the internal control system, with recommendation to the Board for approval. The Audit Committee met three times during the year ended 30 June 2018.

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 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	3/3
Mr. Cheong Ying-chew, Henry	3/3
Mr. Tong Hang-chan, Peter	3/3
Mr. Yu Chun-fai	3/3

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 2018, the Remuneration Committee met two 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 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 2018 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	2/2
Dr. Cheng Chi-kong, Adrian	2/2
Mr. Cheung Fai-yet, Philip (1)	1/2
Mr. Cheong Ying-chew, Henry	2/2
Mr. Chan Yiu-tong, Ivan	2/2
Mr. Yu Chun-fai	2/2
Mr. Niu Wei (2)	0/0

Notes:

(1) Mr. Cheung Fai-yet, Philip ceased to be a member of the Remuneration Committee on 15 February 2018 and has been appointed as a member of the Remuneration Committee on1 August 2018.

(2) Mr. Niu Wei had been appointed as a member of the Remuneration Committee on 15 February 2018 and ceased to be a member of 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 2018, 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.

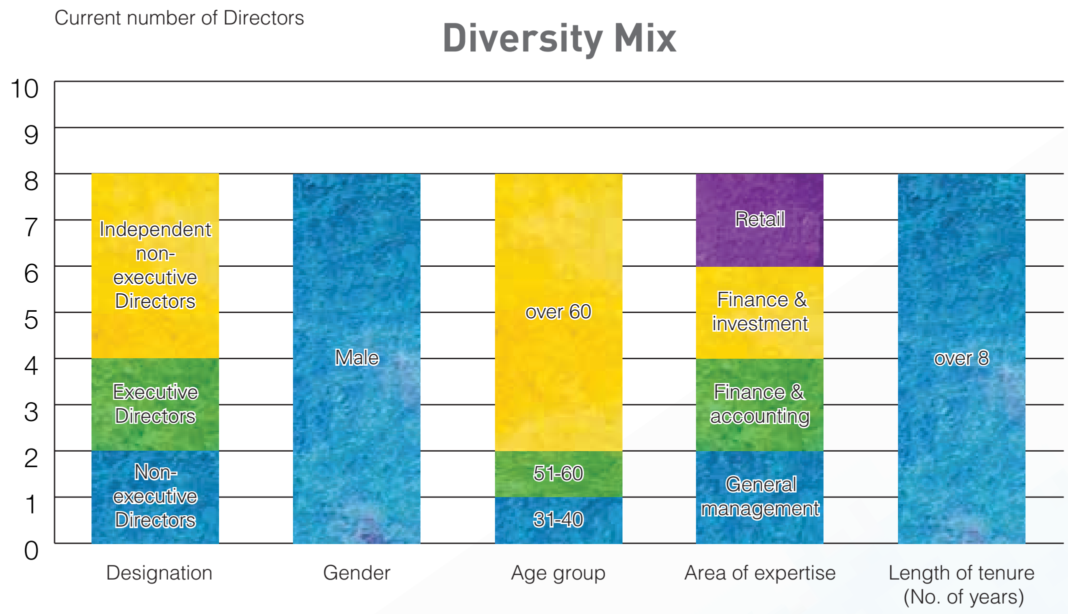
During the year, the members' attendance of the meetings of the Nomination Committee is set out as follows:

Name	Number of meetings 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

Board diversity policy

The Company has adopted a board diversity policy (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)	✔
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	✔

Note:

(1) Mr. Cheung Fai-yet, Philip had been re-designated as a non-executive Director on 15 February 2018, and has been re-designated as an executive Director on 1 August 2018.

(2) Mr. Niu Wei had been appointed as an executive Director on 15 February 2018 and resigned as an executive Director on 1 August 2018.

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.

corporate governance report

The reporting responsibilities of PricewaterhouseCoopers, the Company's external auditor, are stated in the Independent Auditor's Report on pages 60 to 65 of this annual report.

The Board has overall responsibility for the Group's system 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 system 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.

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 2018, 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 2018, 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 22, 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.

Constitutional documents

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

Investor relations

NWDS recognises the importance of maintaining effective communication with Shareholders and investors. The Group is committed to fostering its communication with existing and prospect investors through effective investor relations management, so as to deepen their understanding of the Group's operations, to concretely protect their legal rights, and to establish a positive image of the Group in the capital market.

corporate governance report

Since the Group's listing on the Main Board of the Stock Exchange in July 2007, the Investor Relations team formed by senior management executives has been actively engaging local and overseas institutional investors and analysts on the Group's latest developments through face-to-face meetings, teleconferences, store visits as well as investor conferences. During the year under review, the Group took part in up to 52 relevant investor meetings and events, including Daiwa Investment Conference Hong Kong 2017, Morgan Stanley Sixteenth Annual Asia Pacific Summit, Morgan Stanley Eighth Annual Hong Kong Investor Summit, Fourteenth Annual J.P. Morgan Global China Summit and Morgan Stanley Fourth Annual China Summit.

The Group attaches great importance to maintaining corporate transparency. As such, it set up the Information Disclosure Committee in 2012 and formulated internal procedures to disclose the Group's information in a fair manner. To ensure that Shareholders and investors have timely access to the Group's information, the Group set up "Investors" and "Corporate Sustainability" sections on its corporate website www.nwds.com.hk, where the latest announcements, circulars, presentations, financial reports and sustainability reports are available to provide a fuller picture regarding the Group's financial and operational conditions.

Going forward, the Group will uphold its long-standing vision and commitment to create long-term values for the Shareholders in a wide spectrum. The Group's Investor Relations team will continue to act in accordance with the best interests of the Shareholders and to promote seamless communication with Shareholders and investors to win the trust and confidence of market participants.

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$5,640,000 and fees for non-auditing services, including primarily interim review, accounting, tax advisory and other related services, amounted to approximately HK$1,962,000.

group honours

Since listed on the Main Board of the Stock Exchange in 2007, the Group has been striving to keep its stakeholders well-informed of its financial condition, business performance and sustainability progress by publishing quality reports with innovative design and transparent disclosure. During the year under review, the Group's annual reports and sustainability reports made widely-recognised achievements and garnered 13 international and industry awards.

FY2016 and FY2017 Annual Reports

2017 HKMA Best Annual Reports Awards

- Citation for Design

Mercury 2017/2018 Excellence Awards

- Annual Reports — Cover Design: Abstract/ Graphics
  Honors Award

LACP 2016/17 Vision Awards Annual Report Competition

- Annual Report: Retailing — Multi-line Retail
  Platinum Award
- Annual Report: Best Agency Report Worldwide
- Top 100 Annual Reports Worldwide

Astrid 2018 Awards

- Annual Reports — Covers: Graphics & Text
  Bronze Award

2018 International ARC Awards

- Traditional Annual Report: Retail: Convenience & Dept. Stores
  Honors Award

FY2016 and FY2017 Sustainability Reports

2017 Galaxy Awards

- Public Relations: Sustainability Project
  Silver Award
- Annual Reports — Print: Retail — Department Store
  Honors Award

LACP 2016/17 Vision Awards Sustainability Report Competition

- Sustainability Reports: Retailing — Multi-line Retail
  Platinum Award
- Sustainability Reports: Most Creative Report Worldwide
- Top 100 Sustainability Reports Worldwide

Astrid 2018 Awards

- Annual Reports — Specialized: Sustainability Report
  Gold Award

group honours

In addition to the report-related awards, the Group has made persistent efforts on corporate governance, investor relations, community services, environmental protection, and staff benefits and development to ensure its balanced development, so as to live up to Shareholders' and society's expectations. During the year under review, the Group received 11 honours in recognition of its outstanding performance in the above-mentioned fields.

Corporate Governance & Investor Relations

- "*CAPITAL* Outstanding Chinese Department Store Enterprise" in "The 12th *CAPITAL* Outstanding China Enterprise Awards" by the *CAPITAL*
- Gold Award in the category of "Environmental, Social and Corporate Governance" in "*The Asset* Corporate Awards 2017" by *The Asset*
- "Certificate of Excellence" in "The HKIRA 4th Investor Relations Awards" by the Hong Kong Investor Relations Association

Environmental Protection

- "Green Office" Label and "Eco-Healthy Workplace" Label in the "Green Office and Eco-Healthy Workplace Awards Labelling Scheme" by the World Green Organisation
- "Excellence Level" Wastewi$e Certificate in the "Wastewi$e Certificate" scheme under the "Hong Kong Green Organisation Certification" by the Environmental Campaign Committee
- "Certificate of Participation" in the "Sustainable Consumption Enterprise Award" by the Business Environment Council

Community Services

- "5 Years Plus Caring Company Logo" in 2017/18 "Caring Company" Scheme by The Hong Kong Council of Social Service
- "Business for Sustainability Logo" in 2017/18 "Business for Sustainability" Scheme by The Hong Kong Council of Social Service
- "Hong Kong Community Volunteers (Corporate Member) Certificate of Appreciation" by the Agency for Volunteer Service

Staff Benefits and Development

- "2017 China's Best Corporate University" in the Awards Ceremony of the "Chinese Corporate University Rankings" by the Overseas Education College of Shanghai Jiao Tong University
- "2017 CCFA Top 10 Corporate Universities" in the "CCFA Top 10 Corporate Universities" by the China Chain Store and Franchise Association

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 2018.

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 41 to the consolidated financial statements of the Group.

Results

The results of the Group for the year ended 30 June 2018 are set out in the consolidated income statement on page 66 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 16 to 29 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 2018" (a standalone report) to be published around December 2018.

Proposal for the privatization of the company by offeror and proposed withdrawal of listing

On 6 June 2017, the board of directors of the Company and New World Development Company Limited (the "Offeror") jointly announced that UBS AG Hong Kong Branch, on behalf of the Offeror, intended to make a voluntary conditional cash offer to acquire all the issued shares of the Company (other than those already held by the Offeror) (the "Offer"), a proposal which, if became unconditional, would result in the Company being privatized by the Offeror and the withdrawal of listing of the Company's shares on the Stock Exchange. It was a condition of the Offer that the Offeror must have received a prescribed level of acceptances by the specified closing date before the Offer can become unconditional. As such acceptance level condition was not satisfied by the specified closing date, the Offer did not become unconditional and lapsed on 28 August 2017. The shares of the Company remains listed on the Stock Exchange. Reference is made to the related announcements dated 6 June 2017, 26 June 2017, 18 July 2017, 26 July 2017, 1 August 2017, 15 August 2017 and 28 August 2017 respectively and the related composite offer and response document despatched to the Shareholders on 27 June 2017.

Final dividend

The Directors have resolved not to recommend a final dividend for the year ended 30 June 2018 (2017: 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 2018, calculated under the laws of the Cayman Islands, amounted to HK$2,072.3 million (2017: HK$1,975.2 million).

Five-year financial summary

Financial summary for the years ended 30 June 2014 to 2018 are set out on page 140 of this annual report.

Principal properties

Details of the principal properties held for investment purposes are set out on page 141 of this annual report.

Charitable donations

Charitable donations, in form of money and materials, made by the Group during the year costed approximately HK$1,289,000 (2017: approximately HK$138,000).

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
Ms. Ngan Man-ying, Lynda (1)

Executive directors

Dr. Cheng Chi-kong, Adrian
Mr. Cheung Fai-yet, Philip (2)
Mr. Niu Wei (3)

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) Ms. Ngan Man-ying, Lynda resigned as a non-executive Director on 1 February 2018.

(2) Mr. Cheung Fai-yet, Philip had been re-designated as a non-executive Director on 15 February 2018, and has been re-designated as an executive Director on 1 August 2018.

(3) Mr. Niu Wei had been appointed as an executive Director on 15 February 2018 and resigned as an executive Director on 1 August 2018.

In accordance with articles 87(1) and 87(2) of the Articles, Mr. Au Tak-cheong, Mr. Cheong Ying-chew, Henry and Mr. Chan Yiu-tong, Ivan will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Mr. Niu Wei resigned as an executive Director on 1 August 2018 and Ms. Ngan Man-ying, Lynda resigned as a non-executive Director on 1 February 2018. Mr. Niu and Ms. Ngan have confirmed that they have no disagreement with the Board and there are no matters in respect of their resignation that need to be brought to the attention of the Shareholders.

Audit committee

The Audit Committee was established in accordance with requirements of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and risk management and internal controls. The Audit Committee consists of the four independent non-executive Directors. The Audit Committee has reviewed the systems of risk management and internal control and the annual results and the consolidated financial statements for the year ended 30 June 2018 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 2016 to 30 June 2019, whereas Ms. Ngan Man-ying, Lynda has renewed a service contract with the Company for a fixed term from 1 July 2017 to 30 June 2020, the service contract of Ms. Ngan Man-ying, Lynda has been automatically terminated due to her resignation as a non-executive Director on 1 February 2018, 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 2016 to 30 June 2019 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 2018 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 business 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
	Grandhope Properties Limited	Property investment	Director and shareholder

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 RMB242,489,000 (2017: approximately RMB249,243,000) 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 RMB65,593,000 (2017: approximately RMB59,327,000) 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 RMB4,124,000 (2017: approximately RMB4,547,000) 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. Equity transfer agreement

On 11 May 2018, 新世界百貨(中國)有限公司 (New World Department Store (China) Co., Ltd.), an indirect wholly-owned subsidiary of the Company ("NWDS China") entered into the equity transfer agreement (the "Equity Transfer Agreement") with K11 Retail & Corporate Sales Company Limited, a direct wholly-owned subsidiary of NWD ("K11 RC"), pursuant to which NWDS China agreed to purchase from K11 RC 40% of the equity interests in 開士怡化妝品(上海)有限公司 (Kaishiyi Cosmetics (Shanghai) Co., Ltd.) (the "Target Company"). Upon the completion date, the Target Company will be owned as to 60% and 40% by K11 RC and NWDS China, respectively.

Pursuant to the Equity Transfer Agreement, within one year of the completion date, K11 RC and NWDS China are required to fulfil their obligation to pay up the registered capital of the Target Company, and therefore, each of K11 RC and NWDS China will further inject RMB14,000,000 and RMB16,000,000 into the Target Company as its paid-up capital respectively, pursuant to the articles of association of the Target Company. After such capital injection, the registered capital of the Target Company will be fully paid-up.

NWD is a substantial shareholder of the Company and K11 RC is a direct wholly-owned subsidiary of NWD. Therefore, K11 RC is a connected person of the Company. The transaction contemplated under the Equity Transfer Agreement constitutes a connected transaction of the Company under 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 39 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 executive 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 2018, 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 2017**	**Granted during the year**	**Exercised during the year**	**Adjusted during the year**	**Balance as at 30 June 2018**	**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)	4,500,000	–	(700,000)	–	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	22 January 2014	(4)	532,982	–	(532,982)	–	–	9.756
	10 June 2016	(1)	1,016,693	–	(150,000)	–	866,693	7.540
	3 July 2017	(2)	–	400,000	(100,000)	–	300,000	10.036
			20,461,783	4,400,000	(1,482,982)	–	23,378,801	

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 4 tranches exercisable from 22 January 2014, 22 January 2015, 22 January 2016 and 22 January 2017 respectively to 21 January 2018.

(5) 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 2017	Granted during the year	Exercised during the year	Adjusted during the year	Balance as at 30 June 2018	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 2018, 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 2018, 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 2018, 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 2018, the total number of employees of the Group was 4,598 (31 December 2017: 4,778). 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

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 with an independent third party, 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, for a consideration of RMB25,000,000. Sanhe Co and its subsidiaries are engaged in operations of department store and other retail related businesses in Mainland China.

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.

Sufficiency of public float

Reference is made to the announcements of the Company dated 29 August 2017 and 8 September 2017 in relation to the public float of the Company. As disclosed in the mentioned announcements, upon the lapse of the Offer, the Offeror and parties acting in concert with the Offeror (within the meaning as ascribed to it under The Codes on Takeovers and Mergers and Share Buy-backs), held an aggregate of 1,275,888,000 shares of the Company, representing approximately 75.67% of the issued share capital of the Company, and the minimum public float requirement of 25.0% under Rule 8.08(1)(a) of the Listing Rules was not satisfied upon the lapse of the Offer. An application was made by the Company to the Stock Exchange for a temporary waiver from strict compliance with Rule 8.08(1)(a) of the Listing Rules (the ''Waiver''). On 7 September 2017, the Stock Exchange granted the Waiver to the Company for a period of two months from 28 August 2017 to 27 October 2017.

On 25 October 2017, the Company was informed by the Offeror, being its controlling Shareholder that a wholly-owned subsidiary of the Offeror (i.e. a party acting in concert with the Offeror) which held shares in the Company had disposed of 11,376,000 shares of the Company (representing approximately 0.67% of the total issued share capital of the Company as at 8 October 2018, the latest practicable date prior to the issue of this annual report) on the open market (the "Disposal") for the purpose of restoring the public float of the Company.

To the best knowledge, information and belief of the Board, having made all reasonable enquiries, immediately following the Disposal and as at 8 October 2018, the latest practicable date prior to the issue of this annual report, the percentage of the Company's shares which were held by the public exceeds 25% of the total issued share capital of the Company. Accordingly, the public float of the Company has been restored and the Company is in compliance with Rule 8.08(1)(a) of the Listing Rules.

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 3% of the Group's revenue was attributed by the Group's largest customer and less than 40% of the Group's total purchases were attributed by the Group's five largest direct sales suppliers and approximately 15% 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 2018 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, 19 September 2018

independent auditor's report

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 66 to 139, which comprise:

- the consolidated statement of financial position as at 30 June 2018;
- 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 2018, 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.

pwc

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 and note 18 to the consolidated financial statements. As at 30 June 2018, the Group had property, plant and equipment of HK$1,150 million and goodwill of HK$1,864 million allocated to cash generating units of the department store and other retail related businesses. Impairment losses of goodwill and property, plant and equipment of HK$108 million and HK$73 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 cash generating units 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 • 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.

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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
Valuation of investment properties Refer to note 4 and note 16 to the consolidated financial statements. The Group's investment properties amounted to HK$4,762 million as at 30 June 2018. A fair value gain on investment properties of HK$0.5 million 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.

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.

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, 19 September 2018

consolidated income statement

For the year ended 30 June 2018

	Note	2018 HK$'000	2017 HK$'000
Revenue	5	**3,821,120**	3,484,322
Other income	6	**196,902**	192,758
Other losses, net	7	**(198,137)**	(76,920)
Changes in fair value of investment properties	16	**482**	(6,591)
Purchases of and changes in inventories, net		**(940,552)**	(788,333)
Purchases of promotion items		**(47,144)**	–
Employee benefit expense	10	**(640,890)**	(623,154)
Depreciation and amortisation		**(246,406)**	(261,492)
Operating lease rental expense		**(1,228,302)**	(1,051,935)
Other operating expenses, net	8	**(531,720)**	(590,814)
Operating profit		**185,353**	277,841
Finance income		**61,783**	36,364
Finance costs		**(37,994)**	(24,069)
Finance income, net	9	**23,789**	12,295
		209,142	290,136
Share of results of associated companies	19	**(560)**	416
Profit before income tax		**208,582**	290,552
Income tax expense	12	**(197,497)**	(162,263)
Profit for the year		**11,085**	128,289
Attributable to:			
Shareholders of the Company		**11,028**	128,611
Non-controlling interests		**57**	(322)
		11,085	128,289
Earnings per share attributable to shareholders of the Company for the year (expressed in HK$ per share)			
– Basic and diluted	14	**0.01**	0.08

The notes on pages 74 to 139 are an integral part of these consolidated financial statements.

consolidated statement of comprehensive income

For the year ended 30 June 2018

	2018 HK$'000	2017 HK$'000
Profit for the year	**11,085**	128,289
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Revaluation of properties upon reclassification from property, plant and equipment and land use rights to investment properties	**15,899**	1,826
– Deferred income tax thereof	**(3,975)**	(456)
Fair value gain/(loss) on equity instrument at fair value through other comprehensive income	**9,643**	(16,376)
	21,567	(15,006)
Item that may be reclassified subsequently to profit or loss		
Translation differences	**209,033**	(98,462)
Other comprehensive income for the year, net of tax	**230,600**	(113,468)
Total comprehensive income for the year	**241,685**	14,821
Attributable to:		
Shareholders of the Company	**241,630**	15,147
Non-controlling interests	**55**	(326)
	241,685	14,821

The notes on pages 74 to 139 are an integral part of these consolidated financial statements.

consolidated statement of financial position

As at 30 June 2018

	Note	2018 HK$'000	2017 HK$'000
Assets			
Non-current assets			
Property, plant and equipment	15	**1,150,257**	1,278,071
Investment properties	16	**4,761,907**	4,528,348
Land use rights	17	**605,343**	627,466
Intangible assets	18	**2,127,125**	1,718,333
Interests in associated companies	19	**1,595**	1,619
Other non-current assets	20	**669,840**	627,848
Prepayments, deposits and other receivables	21	**363,543**	291,264
Financial asset at fair value through other comprehensive income	22	**–**	19,331
Financial asset at fair value through profit or loss	23	**–**	4,695
Deferred income tax assets	33	**124,337**	134,713
		9,803,947	9,231,688
Current assets			
Inventories	24	**318,044**	221,332
Debtors	25	**116,697**	106,053
Prepayments, deposits and other receivables	21	**400,506**	525,352
Amounts due from fellow subsidiaries	26	**2,696**	4,069
Amounts due from related companies	26	**1**	106
Fixed deposits	27	**42,439**	132,621
Cash and cash equivalents	28	**1,904,904**	2,003,676
		2,785,287	2,993,209
Total assets		**12,589,234**	12,224,897
Equity and liabilities			
Equity			
Share capital	29	**168,615**	168,615
Reserves	30	**5,950,726**	5,759,367
Shareholders' funds		**6,119,341**	5,927,982
Non-controlling interests		**7**	(48)
Total equity		**6,119,348**	5,927,934

	Note	2018 HK$'000	2017 HK$'000
Liabilities			
Non-current liabilities			
Accruals and other payables	34	**587,796**	497,866
Obligation under finance leases	31	**16**	31
Borrowings	32	**226,190**	298,851
Deferred income tax liabilities	33	**891,304**	835,143
		1,705,306	1,631,891
Current liabilities			
Creditors	34	**1,661,193**	1,752,963
Accruals and other payables	34	**1,043,546**	1,319,239
Contract liabilities	35	**332,998**	–
Amounts due to fellow subsidiaries	26	**22,213**	10,733
Amounts due to related companies	26	**25,389**	23,611
Amounts due to associated companies	26	**–**	687
Obligation under finance leases	31	**16**	16
Borrowings	32	**1,650,519**	1,467,932
Financial liability at fair value through profit or loss	23	**–**	912
Tax payable		**28,706**	88,979
		4,764,580	4,665,072
Total liabilities		**6,469,886**	6,296,963
Total equity and liabilities		**12,589,234**	12,224,897

The consolidated financial statements on pages 66 to 139 were approved by the Board of Directors on 19 September 2018 and were signed on its behalf

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

The notes on pages 74 to 139 are an integral part of these consolidated financial statements.

consolidated statement of changes in equity

For the year ended 30 June 2018

	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 (note 2.2)	–	–	–	–	–	–	–	(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

	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 2016	168,615	1,826,646	124,134	391,588	389,224	(4,399)	211,694	2,805,337	5,912,839	(4)	5,912,835
Comprehensive income											
Profit for the year	–	–	–	–	–	–	–	128,611	128,611	(322)	128,289
Other comprehensive income											
Revaluation of property upon reclassification from property, plant and equipment and land use rights to investment properties	–	–	1,826	–	–	–	–	–	1,826	–	1,826
– Deferred income tax thereof	–	–	(456)	–	–	–	–	–	(456)	–	(456)
Fair value loss on equity instrument at fair value through other comprehensive income	–	–	–	–	–	(16,376)	–	–	(16,376)	–	(16,376)
Translation differences	–	–	–	–	–	–	(98,462)	–	(98,462)	(4)	(98,466)
Total comprehensive income for the year ended 30 June 2017	–	–	1,370	–	–	(16,376)	(98,462)	128,611	15,143	(326)	14,817
Transactions with owners											
Contributions from non-controlling interests	–	–	–	–	–	–	–	–	–	282	282
Transfer to statutory reserve	–	–	–	–	23,382	–	–	(23,382)	–	–	–
Total transactions with owners	–	–	–	–	23,382	–	–	(23,382)	–	282	282
As at 30 June 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

The notes on pages 74 to 139 are an integral part of these consolidated financial statements.

consolidated statement of cash flows

For the year ended 30 June 2018

	Note	2018 HK$'000	2017 HK$'000
Cash flows from operating activities			
Profit before income tax		208,582	290,552
Adjustments for:			
– Dividend income		(274)	–
– Finance income		(61,783)	(36,364)
– Finance costs		37,994	24,069
– Amortisation of operating rights		–	266
– Amortisation of land use rights		23,800	22,521
– Depreciation of property, plant and equipment		222,606	238,705
– Changes in fair value of investment properties		(482)	6,591
– Loss on disposal of property, plant and equipment		3,909	2,417
– Gain on disposal of an associated company		(503)	–
– Impairment loss on goodwill		108,490	–
– Impairment loss on property, plant and equipment		72,671	49,808
– Impairment loss on prepayments, deposits and other receivables		24,963	19,653
– Reversal of inventory write-down, net		(623)	(8,596)
– Provision for doubtful debts, net		16,350	6,591
– Fair value loss on financial asset or liability at fair value through profit or loss		5,462	5,042
– Share of results of associated companies		560	(416)
– Net foreign exchange difference		(27,200)	24,168
Operating profit before working capital changes		634,522	645,007
Changes in:			
Inventories		(85,527)	14,331
Debtors		(21,008)	(500)
Prepayments, deposits and other receivables		120,126	21,218
Creditors		(245,400)	(161,793)
Accruals and other payables		(146,783)	(44,240)
Contract liabilities		(36,254)	–
Amounts due from/to fellow subsidiaries		12,767	(2,207)
Amounts due from related companies		1,056	18,581
Amounts due to associated companies		(720)	(636)
Cash generated from operations		232,779	489,761
Mainland China tax paid		(225,572)	(159,950)
Net cash from operating activities		7,207	329,811

	Note	2018 HK$'000	2017 HK$'000
Cash flows from investing activities			
Net cash outflow from acquisition of a subsidiary	37	**(3,215)**	–
Settlement of non-operating liabilities of the acquired subsidiary		**(222,743)**	–
Additions to investment properties		**(5,554)**	(21,029)
Additions to property, plant and equipment		**(142,001)**	(148,984)
Payment for interest in an associated company		**(886)**	–
Settlement of financial liability at fair value through profit or loss		**(1,247)**	–
Net proceeds on disposal of an associated company		**904**	–
Net proceeds on disposal of equity instrument		**29,906**	–
Net proceeds on disposal of property, plant and equipment		**767**	16,970
Decrease/(increase) in fixed deposits		**96,061**	(92,960)
Dividend received		**274**	–
Interest received		**60,806**	35,132
Net cash used in investing activities		**(186,928)**	(210,871)
Cash flows from financing activities			
Drawdown of bank borrowings		**820,065**	993,962
Repayment of bank borrowings and finance lease		**(889,841)**	(720,941)
Drawdown of shareholder loan		**133,000**	500,000
Finance costs paid		**(47,787)**	(38,290)
Net cash from financing activities		**15,437**	734,731
Net (decrease)/increase in cash and cash equivalents		**(164,284)**	853,671
Cash and cash equivalents at beginning of the year		**2,003,676**	1,163,409
Effect of foreign exchange rate changes		**65,512**	(13,404)
Cash and cash equivalents at end of the year	28	**1,904,904**	2,003,676

The notes on pages 74 to 139 are an integral part of these consolidated financial statements.

notes to the 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 19 September 2018.

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 2018 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 under the historical cost convention, as modified by the revaluation of investment properties, financial asset at fair value through other comprehensive income and financial asset and liability at fair value through profit or loss, which are carried at fair value.

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.

As at 30 June 2018, the Group's current liabilities exceeded its current assets by approximately HK$1,979,293,000 (2017: HK$1,671,863,000). Taking into account the cash flows from operating activities, ability to generate additional financing and its asset backing, the Group has a reasonable expectation that it has adequate resources to meet its liabilities and commitments as and when they fall due and to continue in operational existence for the foreseeable future. Accordingly, it continues to adopt the going concern basis in preparing the consolidated financial statements.

In the current year, the Group has adopted the following amendments to existing standards, if applicable, which are mandatory for the financial year ended 30 June 2018:

Amendments to HKAS 7	Statement of Cash Flows
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements Project	Annual Improvements 2014 – 2016 Cycle

The adoption of the above amendments to existing standards does not have any significant effect on the results and financial position of the Group. The reconciliation of liabilities arising from financing activities as required by amendments to HKAS 7 is disclosed in Note 38.

2 Summary of principal accounting policies (continued)

2.1 Basis of preparation (continued)

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 2017 which the Group has not early adopted:

Effective for the year ending 30 June 2019:

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

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
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
HK (IFRIC) 23	Uncertainty over Income Tax Treatments
Annual Improvements Project	Annual Improvements 2015 – 2017 Cycle

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.

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 statements 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 (for the payment obligation). 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 statements 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 lease 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 rate method applied to the lease 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.

2 Summary of principal accounting policies (continued)

2.1 Basis of preparation (continued)

HKFRS 16 "Leases" (continued)

The Group conducted preliminary assessment and estimated that the adoption of HKFRS 16 would result in recognition of lease assets and lease liabilities primarily arising from leases of premises and properties in relation to the Group's various businesses. The Group will continue to assess the impact in more details.

The Group has already commenced an assessment of the impact of other new standards, amendments to standards and interpretations, certain of which may be relevant to the Group's operations and may give rise to changes in accounting policies, changes in disclosures and remeasurement of certain items in the consolidated financial statements.

2.2 Change in accounting policies

HKFRS 15 "Revenue from Contracts with Customers" as issued by the HKICPA is effective for the accounting period beginning or after 1 January 2018.

The Group however has elected to early adopt HKFRS 15 for the financial year beginning on 1 July 2017 because the new accounting policies provide more reliable and relevant information for users to assess the amounts, timing and uncertainty of future cash flows.

The Group has also elected to apply the modified transitional provisions whereby the effects of adopting HKFRS 15 for uncompleted contracts with customers as at 30 June 2017 are adjusted at the opening balance of equity as at 1 July 2017 and comparatives figures are not restated. The effects of the adoption of HKFRS 15 are set out below.

HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (i) identify the contract(s) with customer; (ii) identify separate performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations; and (v) recognise revenue when a performance obligation is satisfied. The core principle is that a company should recognise revenue when control of a good or service transfers to a customer.

From 1 July 2017 onwards, the Group has adopted the following accounting policies on revenues.

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.

2 Summary of principal accounting policies (continued)

2.2 Change in accounting policies (continued)

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.

The Group sells goods directly to retail customers within department stores. Revenue from sales of goods to retail customers is recognised when the product is transferred to the customers upon sale. 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. Contract liability and right to the returned goods are recognised based on accumulated experience.

The Group 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 and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products.

The Group grants counter suppliers the right to operate business within department stores under a concession. The Group recognises commission income from concessionaire sales upon sales of goods or provisions of services by counter suppliers. The Group receives the gross proceeds of concessionaire sales from retail customers on behalf of the counter suppliers and subsequently transfers the proceeds to the counter suppliers after deducting the commission income, out of pocket expenses, expenses in relation to the promotional activities and other administrative expenses according to the terms of the relevant concessionaire agreements.

The Group provides management services to department store operators. Revenue from management fees is recognised when management services are rendered according to the terms of management service agreements.

The Group grants the department store operators the right to use the brand of the Company. Revenue from royalty fees is recognised on a straight line basis over the period that the department store operators are entitled to use the patent as stated in royalty agreements.

Payments received in advance that are related to sales of goods or provisions of services not yet delivered to customers are deferred and recognised as contract liabilities. Revenues are recognised when goods or services are delivered to customers. The outstanding receipts in advance after expiry of prepaid stored value cards are recognised as income based on the Group's previous experience in forfeiture of prepaid stored value cards by retail customers.

The Group operates a loyalty programme where retail customers accumulate points for purchases made which entitle them to redeem award points for gifts and cash coupons in the future. The transaction price is allocated to the product and the award points on a relative stand-alone selling price basis. Revenue from the award points is recognised when the award points are redeemed. Contract liabilities are recognised until the award points are redeemed. The cost of those gifts is recognised as 'purchases of promotion items'.

2 Summary of principal accounting policies (continued)

2.2 Change in accounting policies (continued)

The Group makes marketing or promotional offer to retail customers at the time of the sales of goods. The transaction price is allocated to the product and the promotion item on a relative stand-alone selling price basis. Revenue from the promotion items is recognised when the Group delivers the promotion items to the customers. The cost of those promotion items is recognised as 'purchases of promotion items'.

Discounts, coupons, vouchers and other cash incentives to customers are accounted for as reduction of the transaction prices.

The Group does not expect to have any contracts with a significant financing component where the period between the transfer of the promised good or service to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the effects of the time value of money.

The impact of the adoption of HKFRS 15 is shown as follows.

(a) Presentation of contract liabilities

The Group has changed the presentation of certain amounts in the consolidated statement of financial position to reflect terminology of HKFRS 15:

- Contract liabilities in relation to prepayments from customers were previously included in 'accruals and other payables';
- Contract liabilities in relation to customer loyalty programme were previously included in 'accruals and other payables';
- Contract liabilities in relation to sales returns were previously included in 'accruals and other payables'.

(b) Accounting for contracts for a bundle of goods or services

In previous reporting periods, the Group considered customer loyalty programme and promotion items transferred to retail customers to be marketing incentives and recognised the cost of customer loyalty programme and those promotion items as selling, promotion, advertising and related expenses in 'other operating expenses, net' without allocating consideration for purposes of revenue recognition.

Under HKFRS 15, marketing or promotional offer made to customers at the time of the sales of goods is a separate performance obligation, and the likelihood of settlement of the outstanding performance obligation must be estimated and allocated to the consideration received on a relative stand-alone selling price basis. Contract liabilities are recognised until the promotion items are transferred to retail customers. As a consequence, the consideration received from the sales of goods is allocated to the inventories sold and the promotion items, and contract liabilities of HK$50,271,000 was recognised as of 1 July 2017 (date of initial adoption) with a corresponding adjustment in retained earnings. The cost of those promotion items is recognised as 'purchases of promotion items'.

2 Summary of principal accounting policies (continued)

2.2 Change in accounting policies (continued)

The impact on the Group's financial position by the application of HKFRS 15 as compared to HKAS 18 that was previously in effect before the adoption of HKFRS 15 is as follows:

		As at 1 July 2017	
	As previously stated HK$'000	Effects of the early adoption of HKFRS 15 HK$'000	Restated HK$'000
Consolidated statement of financial position (extract)			
Accruals and other payables	1,817,105	(279,956)	1,537,149
Contract liabilities	–	330,227	330,227
Retained earnings	2,910,566	(50,271)	2,860,295

The amount by each financial statements line item affected in the current period and period to date by the application of HKFRS 15 as compared to HKAS 18 that was previously in effect before the adoption of HKFRS 15 is as follows:

		As at 30 June 2018	
	Results without the early adoption of HKFRS 15 HK$'000	**Effects of the early adoption of HKFRS 15 HK$'000**	**Results as reported HK$'000**
Consolidated statement of financial position (extract)			
Accruals and other payables	**1,907,499**	**(276,157)**	**1,631,342**
Contract liabilities	**–**	**332,998**	**332,998**
Retained earnings	**2,890,601**	**(55,103)**	**2,835,498**
Exchange reserve	**324,005**	**(1,738)**	**322,267**

2 Summary of principal accounting policies (continued)

2.2 Change in accounting policies (continued)

	For the year ended 30 June 2018		
	Results without the early adoption of HKFRS 15 HK$'000	Effects of the early adoption of HKFRS 15 HK$'000	Results as reported HK$'000
Consolidated income statement (extract)			
Revenue	3,896,560	(75,440)	3,821,120
Purchases of promotion items	–	(47,144)	(47,144)
Other operating expenses, net	(649,472)	117,752	(531,720)
Consolidated statement of cash flows (extract)			
Cash flows from operating activities			
– Profit before income tax	213,414	(4,832)	208,582
Changes in working capital			
– Accruals and other payables	(187,869)	41,086	(146,783)
– Contract liabilities	–	(36,254)	(36,254)

2.3 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.

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.

2 Summary of principal accounting policies (continued)

2.3 Subsidiaries (continued)

(i) Consolidation (continued)

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.

2.4 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 the 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.

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 Summary of principal accounting policies (continued)

2.5 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.

2.6 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 2.10).

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

2.7 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.

2.8 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.

2.9 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)

2.10 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 the 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.

2.11 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.

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.

2 Summary of principal accounting policies (continued)

2.11 Investments and other financial assets (continued)

(a) Classification (continued)

Debt instruments (continued)

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, cash and cash equivalents 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.

Other financial assets

Indemnification in connection with the acquisition of a subsidiary is classified as at FVPL.

(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.

Financial assets at FVPL

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

2 Summary of principal accounting policies (continued)

2.12 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.

2.13 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.

2.14 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.

2.15 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.

2.16 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term, highly liquid investments with original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.17 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 Summary of principal accounting policies (continued)

2.18 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.

2.19 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.

2.20 Borrowings 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 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)

2.21 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's 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.

2.22 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.

2.22 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.

2.23 Provisions

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 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 Summary of principal accounting policies (continued)

2.24 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sales of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates, discounts and amounts collected on behalf of third parties after elimination of sales within the Group. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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

Revenue from direct sales of goods is recognised when a Group entity sells a product to the customer.

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

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.

2.25 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.

2.26 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 2.20).

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.

2 Summary of principal accounting policies (continued)

2.26 Foreign currency translation (continued)

(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.

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.

2.27 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.

2.28 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.

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.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(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 2018, if HK$, EUR and USD had strengthened/weakened by 5% (2017: 5%) against the RMB with all other variables held constant, profit before income tax and capitalisation of borrowing costs for the year would have been approximately HK$70,000,000 (2017: HK$43,138,000) lower/higher mainly as a result of foreign exchange differences on translation of HK$-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 2018, if RMB and EUR had strengthened/weakened by 5% (2017: 5%) against the HK$ with all other variables held constant, profit before income tax and capitalisation of borrowing costs for the year would have been approximately HK$4,458,000 (2017: HK$3,119,000) lower/higher mainly as a result of foreign exchange differences on translation of RMB-denominated and EUR-denominated bank balances, other receivables and payables and borrowings of the Group's entities of which functional currency is HK$. 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.

In addition, the conversion of RMB into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by Mainland China government.

(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 and cash and cash equivalents. 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 counterparty's ability to meet its obligations

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

- actual or expected significant changes in the operating results of the counterparty

- significant expected changes in the performance and behaviour of the counterparty, including changes in the payment status of counterparties in the group and changes in the operating results of the counterparty

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

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

Fixed deposits and cash and cash equivalents 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 guaranteed by the card issuers or by means of electronic payments, 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 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% (2017: 3%) of the Group's total revenue during the year.

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 held by the debtors expected to be 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.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk

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

As at 30 June 2018, the Group's current liabilities exceeded its current assets by approximately HK$1,979,293,000 (2017: HK$1,671,863,000). 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 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**

	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 2017				
Creditors	1,752,963	1,752,963	1,752,963	–
Other payables	859,466	859,466	859,466	–
Amounts due to fellow subsidiaries	10,733	10,733	10,733	–
Amounts due to related companies	23,611	23,611	23,611	–
Amounts due to associated companies	687	687	687	–
Obligation under finance leases	47	47	16	31
Borrowings	1,766,783	1,845,398	1,523,737	321,661
Financial liability at fair value through profit or loss	912	912	912	–

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(d) Interest rate risk

Except for the fixed deposits and short-term bank deposits as at 30 June 2018 of approximately HK$42,439,000 (2017: HK$132,621,000) and approximately HK$1,145,641,000 (2017: HK$1,333,752,000) respectively, which are held at interest rates of ranging from 0.25% to 5.00% (2017: 0.25% to 4.60%) per annum, the Group has no significant interest-bearing assets. The Group's interest rate risk arises from borrowings. Borrowings obtained at variable rates of approximately HK$1,876,709,000 (2017: HK$1,348,963,000) expose the Group to cash flow interest rate risk which is partially offset by fixed deposits 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 2018, if interest rates on fixed deposits, short-term bank deposits and borrowings subject to variable rate had been 100 (2017: 100) basis points higher/lower with all other variables held constant, the Group's profit before income tax and capitalisation of borrowings cost for the year would have been approximately HK$6,886,000 (2017: HK$3,004,000) 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 2018 and 2017, taking into accounts its borrowings, cash and cash equivalents and fixed deposits.

3 Financial risk management (continued)

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).

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

The following table presents the Group's financial instruments that are measured at fair value as as at 30 June 2017:

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Financial asset at fair value through other comprehensive income	19,331	–	–	19,331
Financial asset at fair value through profit or loss	–	–	4,695	4,695
	19,331	–	4,695	24,026
Liability				
Financial liability at fair value through profit or loss	–	912	–	912

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 Financial risk management (continued)

3.4 Valuation techniques used to derive level 2 fair value

As at 30 June 2017, level 2 financial instrument comprises a forward currency contract. This forward currency contract has been fair valued using forward exchange rates that are quoted in an active market.

3.5 Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 financial instrument for the year ended 30 June 2017 and 2018:

	Indemnification in connection with the acquisition of a subsidiary HK$'000
As at 1 July 2016	9,040
Change in fair value recognised in the consolidated income statement	(4,142)
Translation difference	(203)
As at 30 June 2017 and 1 July 2017	**4,695**
Change in fair value recognised in the consolidated income statement	**(5,171)**
Translation difference	**476**
As at 30 June 2018	**–**

3.6 Group's valuation processes

The Group prepares and updates detailed forecasts on the business on a semi-annual basis as part of its normal operating processes. These forecasts use external market forecasts, management's evaluation of the revenue, costs and expected margins, based on past experiences, and are subject to detailed review at entity and group level.

The key unobservable assumptions used in the valuation include the projected cumulative loss under the indemnification clause in connection with the acquisition of a subsidiary and discount rate.

The projected cumulative loss is based on financial estimates of the subsidiary. The average gross margin ratio of direct sales used to estimate the fair value is 54.6% (2017: 55.3%). The higher the projected cumulative loss is, the higher the fair value will be.

For the year ended 30 June 2017, the discount rate used to compute the fair value was 30%. The lower the discount rate was, the higher the fair value would be.

3 Financial risk management (continued)

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

The fair value of the following financial assets and liabilities approximate their carrying amount, 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
- Cash and cash equivalents
- Creditors
- Other payables
- Contract liabilities
- Amounts due from/to fellow subsidiaries, related companies and associated 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 asset 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.

4 Critical accounting estimates and judgements (continued)

(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 24.

(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 25.

(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 33.

5 Revenue and segment information

	2018 HK$'000	2017 HK$'000
Commission income from concessionaire sales	**1,681,128**	1,695,959
Sales of goods – direct sales	**1,322,607**	1,108,232
Management and consultancy fees	**5,502**	13,437
Revenue from contract with customers	**3,009,237**	2,817,628
Rental income	**811,883**	666,694
	3,821,120	3,484,322

The income from concessionaire sales is analysed as follows:

	2018 HK$'000	2017 HK$'000
Gross revenue from concessionaire sales	**10,300,440**	9,955,619
Commission income from concessionaire sales	**1,681,128**	1,695,959

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

The CODM considers that the Group has department store and 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 income/expenses. 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 and unallocated corporate assets. There is no inter-segment sales.

5 Revenue and segment information (continued)

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 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
For the year ended 30 June 2017			
Segment revenue	3,316,907	167,415	3,484,322
Segment operating results	249,170	115,814	364,984
Other losses, net	(76,794)	(126)	(76,920)
Changes in fair value of investment properties	–	(6,591)	(6,591)
Unallocated corporate expenses, net			(3,632)
Operating profit			277,841
Finance income			36,364
Finance costs			(24,069)
Finance income, net			12,295
			290,136
Share of results of associated companies			416
Profit before income tax			290,552
Income tax expense			(162,263)
Profit for the year			128,289

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 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 cash equivalents			**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**
As at 30 June 2017			
Segment assets	6,395,670	5,658,282	12,053,952
Interests in associated companies	1,619	–	1,619
Deferred income tax assets	134,713	–	134,713
Unallocated corporate assets:			
Cash and cash equivalents			34,388
Others			225
Total assets			12,224,897
For the year ended 30 June 2017			
Additions to non-current assets (Note)	170,677	21,224	191,901
Depreciation and amortisation	260,048	1,444	261,492
Impairment loss on property, plant and equipment	49,808	–	49,808
Impairment loss on prepayments, deposits and other receivables	19,653	–	19,653

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

	2018 HK$'000	2017 HK$'000
Compensation from insurance claim	71,046	–
Compensation for termination of lease (Note 39(a)(v))	–	43,182
Government grants	33,562	18,111
Income from suppliers	57,759	58,227
Sundries	34,535	73,238
	196,902	192,758

7 Other losses, net

	2018 HK$'000	2017 HK$'000
Changes in fair value on financial asset or liability at fair value through profit or loss	(5,462)	(5,042)
Gain on disposal of an associated company	503	–
Impairment loss on goodwill (Note)	(108,490)	–
Impairment loss on property, plant and equipment (Note)	(72,671)	(49,808)
Impairment loss on prepayments, deposits and other receivables (Note)	(8,108)	(19,653)
Loss on disposal of property, plant and equipment	(3,909)	(2,417)
	(198,137)	(76,920)

Note: The impairment provision was made to reflect management's latest plan for mainly four department stores (2017: 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

	2018 HK$'000	2017 HK$'000
Water and electricity	62,095	83,038
Selling, promotion, advertising and related expenses	57,497	132,987
Cleaning, repairs and maintenance	79,523	83,365
Auditors' remuneration		
– Audit services	5,640	5,640
– Non-audit services (Note (i))	1,962	1,902
Net exchange (gains)/losses (Note (ii))	(20,309)	14,059
Other tax expenses	160,645	146,352
Provision for doubtful debts, net	16,350	6,591
Others	168,317	116,880
	531,720	590,814

8 Other operating expenses, net (continued)

Notes:

(i) For the year ended 30 June 2017, the amount excluded professional fees capitalised to property, plant and equipment of approximately HK$276,000.

(ii) For the year ended 30 June 2017, the amount excluded exchange losses arising from foreign currency borrowings capitalised to other non-current assets of approximately HK$1,003,000, which represented the interest rate differential between borrowing costs that would be incurred if the Company's subsidiaries had borrowed funds in their functional currencies.

9 Finance income, net

	2018 HK$'000	2017 HK$'000
Interest income on bank deposits	**61,783**	36,364
Interest expense on bank loans	**(48,120)**	(42,171)
Interest expense on shareholder's loan	**(10,585)**	(2,782)
Less: amount capitalised (Note)	**20,711**	20,884
	(37,994)	(24,069)
	23,789	12,295

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, including the effect of capitalisation of exchange differences (Note 8), is 3.2% (2017: 3.5%) for the year.

10 Employee benefit expense

	2018 HK$'000	2017 HK$'000
Wages, salaries and other benefits	**578,088**	565,476
Retirement benefit costs – defined contribution plans	**62,802**	57,678
	640,890	623,154

Employee benefit expense includes Directors' emoluments (Note 11).

11 Benefits and interests of Directors

(a) Directors' emoluments

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 (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**

The remuneration of Directors for the year ended 30 June 2017 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	100	–	100
Executive Directors			
Dr. Cheng Chi-kong, Adrian	150	–	150
Mr. Cheung Fai-yet, Philip	150	4,513	4,663
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
	1,400	4,513	5,913

(a) Directors' emoluments (continued)

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 on 1 February 2018.

(iv) Mr. Cheung Fai-yet, Philip had been re-designated as a non-executive Director on 15 February 2018 and has been re-designated as an executive Director on 1 August 2018.

(v) Mr. Niu Wei had been appointed as an executive Director on 15 February 2018 and resigned as an executive Director on 1 August 2018. For the year ended 30 June 2018, approximately HK$9,213,000 of the remuneration was paid in respect of his other services in connection with the management of the affairs.

(vi) No Director waived or agreed to waive any emoluments during the years ended 30 June 2018 and 2017.

(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 two Directors (2017: one Director) for the year ended 30 June 2018, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2017: four) individuals during the year are as follows:

	2018 **HK$'000**	2017 HK$'000
Basic salaries, housing allowances, other allowances and other benefits in kind	**6,134**	9,981
Discretionary bonus	**648**	1,179
Retirement benefit costs – defined contribution plans	**107**	173
	6,889	11,333

The emoluments fell within the following bands:

	Number of individuals	
	2018	2017
Emolument bands		
HK$2,000,001 – HK$2,500,000	**3**	3
HK$4,500,001 – HK$5,000,000	**–**	1
	3	4

12 Income tax expense

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

	2018 HK$'000	2017 HK$'000
Current income tax		
– Mainland China taxation	165,271	152,696
– (Over)/under-provision in prior years	(295)	2,465
Deferred income tax (Note 33)		
– Undistributed retained earnings	–	(349)
– Other temporary differences	32,521	7,451
	197,497	162,263

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 2018 and 2017.

Subsidiaries of the Company in Mainland China are subject to corporate income tax at a rate of 25% (2017: 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:

	2018 HK$'000	2017 HK$'000
Profit before income tax and share of results of associated companies	209,142	290,136
Tax calculated at applicable tax rate	52,285	72,534
Expenses not deductible for taxation purpose	73,012	34,833
Income not subject to taxation	(20,018)	(10,859)
Effect of income charged on deemed basis	(9)	(67)
Utilisation of previously unrecognised tax losses	(23,373)	(2,622)
Reversal of previously recognised tax losses and other temporary differences/ (recognition of previously unrecognised tax losses)	24,532	(5,114)
Tax losses not recognised	86,649	71,442
(Over)/under-provision in prior years	(295)	2,465
PRC withholding income taxes	4,714	(349)
Income tax expense	197,497	162,263

	2018	2017
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 2018 (2017: 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.

	2018	2017
Profit attributable to shareholders of the Company (HK$'000)	11,028	128,611
Weighted average number of ordinary shares in issue (shares in thousands)	1,686,145	1,686,145
Basic earnings per share (HK$ per share)	0.01	0.08

(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 2018 and 2017, 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 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 37)	–	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

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 2016	628,817	57,189	10,822	2,491,921	37,656	13,398	254,630	31,076	3,525,509
Translation differences	(10,215)	(653)	(139)	(25,176)	(495)	(73)	(2,537)	(536)	(39,824)
Additions	–	2,247	8	103,135	5,584	418	21,184	20,391	152,967
Disposals	(974)	(922)	(1,053)	(80,125)	(2,569)	(1,864)	(28,651)	(23)	(116,181)
Reclassification	–	–	–	5,525	–	–	9,804	(15,329)	–
Transfer to investment properties	(10,891)	–	–	(4,951)	–	–	–	–	(15,842)
As at 30 June 2017	606,737	57,861	9,638	2,490,329	40,176	11,879	254,430	35,579	3,506,629
Accumulated depreciation and impairment									
As at 1 July 2016	99,144	52,282	8,196	1,672,910	26,821	10,817	172,581	–	2,042,751
Translation differences	(879)	(547)	(74)	(1,020)	(52)	(16)	(940)	–	(3,528)
Charge for the year	17,748	1,779	1,044	182,537	5,743	1,096	28,758	–	238,705
Written back on disposals	(177)	(317)	(1,053)	(72,804)	(2,491)	(1,834)	(18,117)	–	(96,793)
Impairment	–	–	–	49,808	–	–	–	–	49,808
Transfer to investment properties	(1,044)	–	–	(1,341)	–	–	–	–	(2,385)
As at 30 June 2017	114,792	53,197	8,113	1,830,090	30,021	10,063	182,282	–	2,228,558
Net book amount									
As at 30 June 2017	491,945	4,664	1,525	660,239	10,155	1,816	72,148	35,579	1,278,071

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

	2018 HK$'000	2017 HK$'000
Leased equipment		
Cost	**78**	78
Less: accumulated depreciation	**(46)**	(31)
Net book amount	**32**	47

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 22.8% (2017: 16.7%) or the equivalent of a post-tax discount rate of 12.4% (2017: 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 2018 and 2017 are based on management's best estimates and reflect specific risks relating to the relevant businesses.

During the year ended 30 June 2018, impairment loss of approximately HK$72,671,000 (2017: HK$49,808,000) was recognised. For the year ended 30 June 2018, impairment provision was made on property, plant and equipment of three CGUs allocated to the department store and other retail related businesses primarily due to the change of business plan of Shanghai 118 Branch Store. The estimated recoverable amount of these three CGUs was HK$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 either the annual gross sales revenue had been 3% (2017: 3%) lower than management's current estimates or the discount rate had been 0.5% (2017: 0.5%) higher than management's current estimates, there is no material adverse impact to the consolidated financial statements.

If the gross margin ratios had been 1% (2017: 1%) lower than management's current estimates, the profit before income tax for the year would have been approximately HK$9,276,000 (2017: HK$18,334,000) lower.

16 Investment properties

	2018 HK$'000	2017 HK$'000
At beginning of the year	4,528,348	4,567,522
Translation differences	161,720	(78,826)
Additions	5,554	21,029
Transfer from property, plant and equipment	34,630	12,902
Transfer from land use rights	31,173	12,312
Changes in fair value charged to consolidated income statement	482	(6,591)
At end of the year	4,761,907	4,528,348

16 Investment properties (continued)

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

	2018 HK$'000	2017 HK$'000
Net book amount at the date of transfer of:		
– Property, plant and equipment (Note 15)	**28,888**	13,457
– Land use rights (Note 17)	**21,016**	9,931
Revaluation gain recognised in other comprehensive income	**15,899**	1,826
	65,803	25,214
Representing fair value of investment properties transferred from:		
– Property, plant and equipment	**34,630**	12,902
– Land use rights	**31,173**	12,312
	65,803	25,214

Amounts recognised in the consolidated income statement for investment properties are as follows:

	2018 HK$'000	2017 HK$'000
Rental income	**207,573**	167,415
Direct operating expenses from properties that generated rental income	**(55,420)**	(51,696)
	152,153	115,719

As at 30 June 2018, investment properties with carrying value of approximately HK$1,824,512,000 (2017: HK$1,759,770,000) is pledged to secure bank loans of the Group (Note 32).

Valuation processes of the Group

Investment properties have been revalued as at 30 June 2018 and 30 June 2017 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 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%**

As at 30 June 2017

Valuation technique	Range of significant unobservable inputs	
Income approach	Rental rates HK$3.7 to HK$13.1 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.

At 30 June 2018, if the market value of investment properties had been 5% (2017: 5%) higher/lower with all other variables held constant, the carrying value of the Group's investment properties would have been approximately HK$238,095,000 (2017: HK$226,417,000) 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:

	2018 **HK$'000**	2017 HK$'000
At beginning of the year	**627,466**	671,759
Translation differences	**22,693**	(11,841)
Transfer to investment properties	**(21,016)**	(9,931)
Amortisation	**(23,800)**	(22,521)
At end of the year	**605,343**	627,466

18 Intangible assets

	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 37)	**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**
Cost			
As at 1 July 2016	1,748,456	675	1,749,131
Translation differences	(30,123)	(7)	(30,130)
As at 30 June 2017	1,718,333	668	1,719,001
Accumulated amortisation			
As at 1 July 2016	–	406	406
Translation differences	–	(4)	(4)
Amortisation	–	266	266
As at 30 June 2017	–	668	668
Net book amount			
As at 30 June 2017	1,718,333	–	1,718,333

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 CGUs with significant amount of goodwill:

	2018 HK$'000	2017 HK$'000
Shanghai Wujiaochang Branch Store	**516,902**	499,078
Yanjiao Store	**287,183**	–
Shanghai Shaanxi Road Branch Store	**255,181**	246,381
Beijing Store	**247,044**	238,525
Wuhan Store	**144,932**	174,417

As at 30 June 2018, goodwill allocated to CGUs of the department store and other retail related businesses and CGUs of the property investment business was approximately HK$1,864,127,000 (2017: HK$1,464,404,000) and approximately HK$262,998,000 (2017: HK$253,929,000) 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 business 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 2018, impairment loss of approximately HK$108,490,000 (2017: HK$Nil) was recognised. For the year ended 30 June 2018, impairment provision was made on goodwill of two CGUs allocated to the department store and other retail related businesses primarily due to the performance of Wuhan Store and Changsha Trendy Plaza following the business reform which was below the management's expectation. The estimated recoverable amount of these two CGUs was approximately HK$382,000,000. The impairment loss recognised for the year represented the difference between the carrying amount of the CGUs including goodwill and their estimated recoverable amount. The Group reassessed all classes of asset of these two CGUs, no asset other than goodwill was impaired as at 30 June 2018.

For each of the CGUs with significant amount of goodwill, the key assumptions used in the cash flow projections, namely gross margin ratios ranging from 12.0% to 19.5% (2017: from 14.2% to 21.1%), are determined by considering both internal and external factors relating to the businesses of each CGUs; the long term growth rate of 5% (2017: 5%) is consistent with the forecast of the businesses and the discount rate of 12.4% (2017: 12.4%) is post-tax and reflects specific risks relating to the relevant businesses.

If the annual gross sales revenue had been 3% (2017: 3%) lower than management's current estimates, the profit before income tax for the year would have been approximately HK$28,000,000 (2017: HK$Nil) lower.

If the gross margin ratios had been 1% (2017: 1%) lower than management's current estimates, the profit before income tax for the year would have been approximately HK$35,000,000 (2017: HK$Nil) lower.

If the discount rate had been 0.5% (2017: 0.5%) higher than management's current estimates, the profit before income tax for the year would have been approximately HK$19,000,000 (2017: HK$Nil) lower.

19 Interests in associated companies

	2018 HK$'000	2017 HK$'000
The Group's share of net assets, unlisted	**1,595**	1,619

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

	2018 HK$'000	2017 HK$'000
For the year ended 30 June		
(Loss)/profit for the year	**(560)**	416

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

	2018 HK$'000	2017 HK$'000
Revenue	**4,015**	3,456
(Loss)/profit for the year	**(570)**	406
Non-current assets	**1,589**	1,481
Current assets	**2,891**	2,566
Current liabilities	**(12,739)**	(11,931)
Net liabilities	**(8,259)**	(7,884)

The Group has not recognised losses amounting to approximately HK$10,000 (2017: HK$10,000) for Taizhou New World Department Store Co., Ltd. for the year ended 30 June 2018. The accumulated losses not recognised were approximately HK$9,960,000 (2017: HK$9,950,000).

Details of the principal associated companies are as follows:

Name	Place of establishment	Principal activity	Registered capital	Attributable interest (%)
Shanghai Yijie Trading Co., Ltd. (Note)	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

Note: The associated company was incorporated during the year ended 30 June 2018.

20 Other non-current assets

Balances as at 30 June 2018 and 2017 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 RMB527,060,000 (subject to further adjustments) to SYNWXH for the related costs of demolition of the existing building and design, construction and payment of any relevant land grant premium of certain portion of the redeveloped building. As at 30 June 2018, the balance in connection to this transaction and the costs capitalised was approximately HK$669,840,000 (2017: HK$627,848,000).

21 Prepayments, deposits and other receivables

	2018 **HK$'000**	2017 HK$'000
Prepaid rent and rental deposits	**370,661**	428,158
Other tax recoverable	**141,483**	151,552
Prepaid expenses	**47,151**	49,333
Management fee receivables	**–**	5,956
Deposits placed for issuance of stored value cards	**469**	199
Others	**204,285**	181,418
	764,049	816,616
Less: non-current prepayments, deposits and other receivables	**(363,543)**	(291,264)
	400,506	525,352

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

22 Financial asset at fair value through other comprehensive income

	2018 HK$'000	2017 HK$'000
Listed securities, at fair value		
Equity securities – Korea		
– Financial asset at fair value through other comprehensive income	–	19,331

Dividends recognised during the year were of approximately HK$274,000 (2017: HK$305,000).

The financial asset was denominated in Korean Won ("WON").

The fair value of equity securities is based on their bid prices in an active market at the end of reporting period. All equity securities in the financial asset at fair value through other comprehensive income were sold in an active market in February 2018.

23 Financial asset/liability at fair value through profit or loss

	2018 HK$'000	2017 HK$'000
Asset		
Indemnification in connection with the acquisition of a subsidiary	–	4,695
Liability		
Forward currency contract	–	912

The indemnification in connection with the acquisition of a subsidiary was denominated in RMB.

The forward currency contract was entered with creditworthy banks with no recent history of default to manage the foreign exchange risk on WON. The notional principal amount of the outstanding forward currency contracts at a forward contract rate WON1,170 to USD1 as at 30 June 2017 was WON6,000,000,000.

24 Inventories

	2018 HK$'000	2017 HK$'000
Finished goods	318,044	221,332

The cost of inventories recognised as expense and included in 'purchases of and changes in inventories, net' amounted to approximately HK$940,552,000 (2017: HK$788,333,000), which included reversal of inventory write-down, net of approximately HK$623,000 (2017: HK$8,596,000).

25 Debtors

	2018 HK$'000	2017 HK$'000
Debtors	**138,675**	112,826
Less: loss allowance provision	**(21,978)**	(6,773)
Debtors, net	**116,697**	106,053

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

	2018 HK$'000	2017 HK$'000
Within period for		
0 – 30 days	**97,455**	65,924
31 – 60 days	**13,245**	19,476
61 – 90 days	**2,986**	4,085
Over 90 days	**3,011**	16,568
	116,697	106,053

As at 30 June 2018, debtors of approximately HK$97,455,000 (2017: HK$65,924,000) were fully performing.

Debtors of approximately HK$18,916,000 (2017: HK$39,074,000) were past due but not impaired. The total amount includes approximately HK$13,245,000 (2017: HK$19,476,000) of less than 30 days past due, approximately HK$2,986,000 (2017: HK$4,085,000) of 31-60 days past due and approximately HK$2,685,000 (2017: HK$15,513,000) of over 60 days past due. These relate to companies for whom there is no recent history of default.

Debtors of approximately HK$22,304,000 (2017: HK$7,828,000) were impaired. The amount of the loss allowance provision was approximately HK$21,978,000 (2017: HK$6,773,000) as of 30 June 2018. The individually impaired receivables mainly relate to tenants, which are in unexpectedly difficult economic situations. Ageing analysis of these debtors is as follows:

	2018 HK$'000	2017 HK$'000
Within period for		
0 – 30 days	**1,261**	644
31 – 60 days	**205**	605
61 – 90 days	**1,323**	16
Over 90 days	**19,189**	5,508
	21,978	6,773

25 Debtors (continued)

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

	2018 HK$'000	2017 HK$'000
At beginning of the year	**6,773**	18,338
Translation differences	**47**	(236)
Provision for doubtful debts	**16,942**	6,639
Reversal of provision for doubtful debt	**(592)**	(48)
Amount written off	**(1,192)**	(17,920)
At end of the year	**21,978**	6,773

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 amount of debtors mentioned above. If default, the Group can set off the receivable balance to the extent of the relevant rental deposits held.

26 Amounts due from/(to) fellow subsidiaries, related companies and associated companies

As at 30 June 2018 and 30 June 2017, the balances were unsecured, interest free, repayable on demand and denominated in RMB.

The carrying amounts of amounts due from/(to) fellow subsidiaries, related companies and associated 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.

27 Fixed deposits

Fixed deposits were denominated in RMB.

The interest rates on fixed bank deposits were ranging from 1.75% to 2.75% (2017: 1.75% to 2.30%) per annum. These deposits have maturities ranging from 74 to 365 days (2017: 96 to 365 days).

28 Cash and cash equivalents

	2018 HK$'000	2017 HK$'000
Short-term bank deposits	**1,145,641**	1,333,752
Cash at bank and in hand	**759,263**	669,924
	1,904,904	2,003,676

Cash and cash equivalents were denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
HK$	**68,878**	52,384
RMB	**1,822,086**	1,948,018
Others	**13,940**	3,274
	1,904,904	2,003,676

The interest rates on short-term bank deposits was ranging from 0.25% to 5.00% (2017: 0.25% to 4.60%) per annum. These deposits have maturities ranging from 2 to 64 days (2017: 7 to 92 days).

The Group's cash and cash equivalents 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.

29 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 2016, 30 June 2017 and 2018	**1,686,145**	**168,615**

30 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)	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**	**2,910,566**	**5,759,367**
Adjustment on adoption of HKFRS 15, net of tax (note 2.2)	**–**	**–**	**–**	**–**	**–**	**–**	**(50,271)**	**(50,271)**
As at 1 July 2017, as adjusted	**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**

	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 2016	1,826,646	124,134	391,588	389,224	(4,399)	211,694	2,805,337	5,744,224
Profit for the year	–	–	–	–	–	–	128,611	128,611
Revaluation of property upon reclassification from property, plant and equipment and land use rights to investment properties, net of tax	–	1,370	–	–	–	–	–	1,370
Fair value loss on equity instrument at fair value through other comprehensive income	–	–	–	–	(16,376)	–	–	(16,376)
Translation differences	–	–	–	–	–	(98,462)	–	(98,462)
Transfer to statutory reserve	–	–	–	23,382	–	–	(23,382)	–
As at 30 June 2017	1,826,646	125,504	391,588	412,606	(20,775)	113,232	2,910,566	5,759,367

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.

31 Obligation under finance leases

As at 30 June 2018 and 2017, 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.

	2018 HK$'000	2017 HK$'000
Gross and present value of finance lease liabilities – minimum lease payments		
No later than 1 year	16	16
Later than 1 year and no later than 5 years	16	31
	32	47

As at 30 June 2018 and 2017, the finance lease of the Group carries an insignificant amount of future finance charges.

32 Borrowings

	2018 HK$'000	2017 HK$'000
Non-current		
Secured bank loan	226,190	298,851
Current		
Secured bank loan	83,334	57,471
Unsecured bank loans	934,185	910,461
Shareholder loan	633,000	500,000
	1,650,519	1,467,932
	1,876,709	1,766,783

Shareholder loan from ultimate holding company is interest-bearing at Hong Kong Interbank Offered Rate plus 0.90% per annum, unsecured and repayable within one year.

32 Borrowings (continued)

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

	2018	2017
HK$	**1.51%**	2.02%
RMB	**5.39%**	5.29%
USD	**4.07%**	2.23%
EUR	**2.62%**	2.57%

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

	2018 HK$'000	2017 HK$'000
HK$	**1,394,957**	852,800
RMB	**315,476**	774,142
USD	**18,653**	5,093
EUR	**147,623**	134,748
	1,876,709	1,766,783

The borrowings are repayable as follows:

	2018 HK$'000	2017 HK$'000
Within one year	**1,650,519**	1,467,932
In the second year	**226,190**	80,460
In the third to fifth year	**–**	218,391
	1,876,709	1,766,783

The borrowings of approximately HK$1,876,709,000 (2017: HK$1,766,783,000) are wholly repayable within five years.

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

	2018 HK$'000	2017 HK$'000
Within six months	**1,567,185**	1,410,461
In the seventh month to one year	**309,524**	356,322
	1,876,709	1,766,783

As at 30 June 2018, the bank loans of approximately HK$309,524,000 (2017: HK$356,322,000) was secured by an investment property of approximately HK$1,824,512,000 (2017: HK$1,759,770,000).

As at 30 June 2018, the Group has undrawn bank borrowing facilities and undrawn shareholder loan in aggregate of approximately HK$71,403,000 (2017: HK$218,705,000).

33 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:

	2018 HK$'000	2017 HK$'000
Deferred income tax assets	124,337	134,713
Deferred income tax liabilities	(891,304)	(835,143)
	(766,967)	(700,430)

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

	2018 HK$'000	2017 HK$'000
At beginning of the year	(700,430)	(705,636)
Translation differences	(24,711)	12,764
Taxation charged directly to equity	(3,975)	(456)
Charged to consolidated income statement (Note 12)	(32,521)	(7,102)
Acquisition of subsidiaries	(5,330)	–
At end of the year	(766,967)	(700,430)

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 2016	70,047	148,767	7,996	1,114	227,924
Translation differences	(3,594)	(3,802)	(123)	(238)	(7,757)
(Charged)/credited to consolidated income statement	15,406	(15,424)	1,364	545	1,891
As at 30 June 2017 and 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

33 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 2016	237,740	614,845	59,838	2,093	19,044	933,560
Translation differences	(8,527)	(10,617)	(982)	(8)	(387)	(20,521)
Recognised in equity	–	–	456	–	–	456
Charged/(credited) to consolidated income statement	11,948	(1,410)	(2,795)	(349)	1,599	8,993
As at 30 June 2017 and 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**
Recognised in 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**

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

As at 30 June 2018, the aggregate amount of temporary differences associated with investments in subsidiaries for which deferred income tax liabilities have not been recognised totaled approximately HK$233,800,000 (2017: HK$219,058,000), 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$443,277,000 (2017: HK$358,839,000) in respect of accumulated losses and deductible temporary differences amounting to approximately HK$1,773,110,000 (2017: HK$1,435,356,000). The accumulated losses can be carried forward against future taxable profit with expiry date of five years or indefinitely.

As at 30 June 2018, if the estimated future taxable profits had been 10% (2017: 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.

34 Creditors, accruals and other payables

	2018 HK$'000	2017 HK$'000
Creditors	1,661,193	1,752,963
Accruals and other payables	1,631,342	1,817,105
	3,292,535	3,570,068
Less: non-current accruals and other payables	(587,796)	(497,866)
	2,704,739	3,072,202

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

	2018 HK$'000	2017 HK$'000
Within period for		
0 – 30 days	1,263,689	1,313,017
31 – 60 days	163,571	204,890
61 – 90 days	91,362	54,055
Over 90 days	142,571	181,001
	1,661,193	1,752,963

Creditors included amounts due to related companies of approximately HK$78,464,000 (2017: HK$73,542,000) which were unsecured, interest free and repayable within 90 days.

Accruals and other payables included interest payable of shareholder loan of approximately HK$13,373,000 (2017: HK$2,814,000).

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

	2018 HK$'000	2017 HK$'000
RMB	3,194,424	3,490,932
HK$	37,951	35,936
USD	6,116	9,396
EUR	54,044	33,804
	3,292,535	3,570,068

34 Creditors, accruals and other payables (continued)

Nature of accruals and other payables are as follows:

	2018 HK$'000	2017 HK$'000
Rental accruals and payables	**679,158**	667,353
Deposits from concessionaire suppliers	**431,587**	383,863
Interest payable	**14,779**	5,100
Payables for capital expenditures	**41,879**	62,590
Accruals and payables for staff costs	**90,291**	96,107
Valued-added taxes and other taxes payables	**67,358**	63,671
Utilities payables	**13,628**	13,745
Receipts in advance	**91,813**	288,800
Others	**200,849**	235,876
	1,631,342	1,817,105

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

35 Contract liabilities

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

	2018 HK$'000	2017 HK$'000
Contract liabilities in relation to prepayment from customers	**274,643**	N/A
Contract liabilities in relation to customer loyalty programme	**56,841**	N/A
Contract liabilities in relation to sales returns	**1,514**	N/A
Total contract liabilities	**332,998**	N/A

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 good or service to the customer.

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

	2018 HK$'000	2017 HK$'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	**191,374**	N/A
	191,374	N/A

35 Contract liabilities (continued)

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

	2018 HK$'000	2017 HK$'000
At end of the year		
Expected to be recognised within one year	**181,965**	N/A
Expected to be recognised after one year	**151,033**	N/A
	332,998	N/A

36 Commitments and contingencies

(a) Capital commitments

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

	2018 HK$'000	2017 HK$'000
Contracted but not provided for	**125,728**	104,421

(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:

	2018 HK$'000	2017 HK$'000
Within one year	**1,068,363**	818,590
In the second to fifth year	**3,852,209**	3,295,351
After the fifth year	**3,305,386**	3,037,324
	8,225,958	7,151,265

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 2018 were approximately HK$225,273,000 (2017: HK$218,727,000).

36 Commitments and contingencies (continued)

(c) Operating lease receivable

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

	2018 HK$'000	2017 HK$'000
Within one year	**615,482**	539,482
In the second to fifth year	**1,160,997**	1,021,177
After the fifth year	**242,807**	188,939
	2,019,286	1,749,598

The contingent operating lease rental income of the Group for the year ended 30 June 2018 were approximately HK$47,261,000 (2017: HK$45,140,000).

37 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**

37 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 cash equivalents	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 cash equivalents 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 non-operating liabilities which was subsequently settled by the Group.

38 Changes in liabilities arising from financing activities

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

	Bank Borrowings HK$'000	Finance Lease HK$'000	Shareholder loan HK$'000	Total HK$'000
As at 1 July 2017	1,266,783	47	500,000	1,766,830
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
	(69,761)	(15)	133,000	63,224
Other changes				
Exchange differences	45,381	–	–	45,381
Amortisation of front-end fee	1,306	–	–	1,306
As at 30 June 2018	1,243,709	32	633,000	1,876,741

39 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	2018 HK$'000	2017 HK$'000
Fellow subsidiaries			
Operating lease rental expenses	(i)	**(74,743)**	(45,544)
Building management expenses	(ii)	**(13,848)**	(14,146)
Sales of goods, prepaid shopping cards and vouchers	(iii)	**485**	1,858
Purchase of goods	(iv)	**–**	(20)
Compensation for termination of leases and the refurbishment and enhancement work	(v)	**–**	43,182

	Note	2018 HK$'000	2017 HK$'000
Related companies			
Commission income from concessionaires sales	(vi)	**79,027**	67,417
Operating lease rental expenses	(i)	**(177,890)**	(198,841)
Building management expenses	(ii)	**(25,675)**	(24,700)
Sales of goods, prepaid shopping cards and vouchers	(iii)	**41**	736
Purchase of goods	(iv)	**(3)**	(8)
Rebates on prepaid shopping cards and vouchers	(vii)	**75**	149
Purchase of leasehold improvement	(viii)	**(4,719)**	(5,057)
Rental income	(ix)	**186**	160
Other service fee expenses	(x)	**(7)**	(7)

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 2.27.

(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.

39 Related party transactions (continued)

(a) Transactions with related parties (continued)

Notes: (continued)

(v) The compensation for the year ended 30 June 2017 represents the aggregate amount of compensation received from a wholly-owned subsidiary of NWD in accordance with a termination agreement dated 2 May 2017 in connection with the early termination of the lease of the store in Shanghai, compensating the Group for the related payments and the refurbishment and enhancement work made to the property in Shanghai of approximately HK$43,182,000.

(vi) 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.

(vii) 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.

(viii) 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.

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

(x) 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 26, 32 and 34 to the consolidated financial statements.

(c) Key management compensation

All Directors 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:

	2018 HK$'000	2017 HK$'000
Basic salaries, housing allowances, other allowances and other benefits in kind	15,309	17,099
Discretionary bonus	1,217	1,495
Retirement benefit costs – defined contribution plans	253	274
	16,779	18,868

40 Statement of financial position of the Company

	2018 HK$'000	2017 HK$'000
Assets		
Non-current asset		
Investments in subsidiaries	2,098,994	2,026,615
Current assets		
Prepayments and deposits	215	226
Amounts due from subsidiaries	2,090,471	2,024,473
Cash and cash equivalents	9,855	34,388
	2,100,541	2,059,087
Total assets	4,199,535	4,085,702
Equity and liabilities		
Equity		
Share capital	168,615	168,615
Reserves (Note)	2,667,388	2,477,010
Total equity	2,836,003	2,645,625
Liabilities		
Current liabilities		
Borrowings	773,000	640,000
Accruals and other payables	20,222	15,449
Amounts due to subsidiaries	570,310	784,628
Total liabilities	1,363,532	1,440,077
Total equity and liabilities	4,199,535	4,085,702

The statement of financial position of the Company was approved by the Board of Directors on 19 September 2018 and was signed on its behalf

Dr. Cheng Kar-shun, Henry
Director

Mr. Cheung Fai-yet, Philip
Director

40 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 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**
As at 1 July 2016	1,826,646	73,486	549,026	102,738	2,551,896
Loss for the year	–	–	–	(27,662)	(27,662)
Translation differences	–	–	(47,224)	–	(47,224)
As at 30 June 2017	1,826,646	73,486	501,802	75,076	2,477,010

41 Principal subsidiaries

Particulars of the principal subsidiaries of the Company as at 30 June 2018 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
China Sincere Limited	The British Virgin Islands	Financing/Hong Kong	US$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 company/ Mainland China	US$150,000,000[W]	100	–

41 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
Shanghai New World Caizi Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB50,000,000[W]	100	–
Tianjin New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	US$5,000,000[W]	100	–
Wuhan New World Trendy Department Store Co., Ltd	Mainland China	Department store operation/ Mainland China	RMB80,000,000[W]	100	–
Anshan New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB25,000,000[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
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

41 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
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
Ningbo Firm Success Consulting Development Co., Ltd.	Mainland China	Investment holding and provision of consultancy services/Mainland China	US$5,000,000[W]	–	100
Peak Moral High Commercial Development (Shanghai) Co., Ltd.	Mainland China	Property investment and shopping mall operation/ Mainland China	US$40,000,000[W]	–	100
Sanhe New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB2,000,000[α]	–	100
Shanghai New World Caixuan Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB30,000,000[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 Huizi Department Store 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 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

41 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
Shanghai Yanjie Trading Co., Ltd.	Mainland China	Catering and fashion retailing/ Mainland China	RMB3,300,000[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
Silver Grow Investment Limited	Hong Kong	Investment holding/ Hong Kong	HK$1	–	100
Tianjin New World Trendy Plaza Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB30,000,000[W]	–	100
Wuhan New World Caixuan Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB75,000,000[W]	–	100
Wuhan New World Department Store Co., Ltd.	Mainland China	Property investment and Department store operation/ Mainland China	US$15,630,000[W]	–	100
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

41 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
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	US$6,460,000[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	US$7,150,000[w]	–	100
Well Metro Group Limited	The British Virgin Islands	Investment holding/ Hong Kong	US$14,000	–	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

42 Event after the reporting period

In September 2018, the management of the Group decided to early terminate the lease of Shenyang New World Department Store — Zhonghua Road Branch Store with effect from 1 January 2019. Based on the management's best estimate, the early termination will not have a material adverse effect on the financial results of the year ended 30 June 2019.

43 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				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Revenue	**3,821,120**	3,484,322	3,659,896	4,029,351	4,136,206
Operating profit	**185,353**	277,841	209,700	230,862	677,209
Profit for the year	**11,085**	128,289	45,398	69,741	520,525
Profit/(loss) attributable to non-controlling interests	**57**	(322)	(245)	–	–
Profit attributable to shareholders of the Company	**11,028**	128,611	45,643	69,741	520,525

	As at 30 June				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets, liabilities and equity					
Total assets	**12,589,234**	12,224,897	11,711,839	13,167,078	12,678,540
Total liabilities	**6,469,886**	6,296,963	5,799,004	6,874,441	6,261,997
Total equity	**6,119,348**	5,927,934	5,912,835	6,292,637	6,416,543

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 to 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

The Group conducts its operations mainly in the PRC and accordingly is subject to specific considerations and certain risks. These include the following risks:

Macro-economic growth slows down. The year-on-year growth rate of GDP of 2017 was 6.7%, being the lowest in the last 26 years. That indicates the China economy has entered the “new norm” of maintaining steady growth against economic slowdown. Due to a relatively well-developed retail market in China, a single-digit growth rate will continue in the next few years, or even in the next decade.

Consumer demands become complicated. At present, the main consumer base in the China retail market is getting younger. Nearly one third of the PRC population were born during the 1980s and 90s. Becoming a major consumption force, they are noted for attitude of risk-taking, fondness towards consumption, preference over themed interior designs, and love for experience. These are manifested in consumption needs having emphasis on individuality and experience. As the consumption market becomes more complicated, retailers, facing bigger challenges in fund attraction, operation and innovation, are also driven to invest more to satisfy customers’ expectation for experience.

New supply of retail properties in the overall Chinese retail market is expected to grow further, intensifying homogenous competition. The 2018 market will be embracing approximately 8 million square meters of newly launched projects. Amongst which, about 29% of the total supply will be accounted for by the four first-tier cities, namely Beijing, Shanghai, Guangzhou and Shenzhen, while other second-tier cities will take up about 71%. Four second-tier cities in the Mid-west, being Chengdu, Chongqing, Wuhan, and Changsha, will face the test of withstanding continuous and significant increase in property supply over the next three years.

The “high-cost era” has arrived quietly. First of all, the demographic dividend of China has already disappeared, going forward, labor costs will rise significantly. Secondly, rental costs will go up further as a direct result of the soaring property prices during the past two years. Thirdly, the cheap raw materials and energy that have supported the accelerated growth of China in the past three decades are almost completely depleted. The increase in raw material costs will directly affect expenses incurred by department stores, such as energy consumption. Fourthly, amid the government’s growing attention to social security and the environment, the social costs and environmental costs for corporations will also go up in the future.

As the online dividend of e-commerce disappears, e-commerce giants direct their attention to the offline and convenient store markets. By integrating online and offline operations, they are proactively establishing their presence in the offline retail market. In the future, versatile enterprises being capable of operating online or offline and satisfying consumers’ diversified demands can easily become the big winners. Strong alliance forged through strong online and offline players will have a direct impact on the traditional retail market, as evidenced by Alibaba’s investment in Intime Retail and Suning Commerce and its acquisition of Sanjiang Shopping, as well as in JD’s investment on Yonghui Superstores and its collaboration with Walmart.

Retail is a labor-intensive industry and it is now becoming more and more technology-intensive. Technology is playing an increasingly important part in the survivability of the retail sector. New retail technologies introduced may substantially be categorised into two aspects. The first one involves technologies that improve service convenience and consumption experience, such as mobile payment, artificial intelligence, augmented reality/virtual reality experience, etc. The lack or delayed implementation of those technologies would impair consumer experience. The second category is applied to lift the operation and management efficiency at the corporate level, to facilitate upgrading of the supply chain, and to streamline management including mobile office, information-based application, big data, etc. Without such technologies, corporations would find it very difficult to adapt to and compete in the new landscape. The traditional retailers must thoroughly consider the premise of cost effectiveness when they adopt new technologies to meet market demands and to protect themselves from rapid market elimination.

glossary of terms

General terms

Approx.	:	Approximately
Company or NWDS	:	New World Department Store China Limited
FY	:	Fiscal 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
China, PRC or Mainland China	:	The People's Republic of China
RMB	:	Renminbi, the lawful currency of the People's Republic of China
NWD	:	New World Development Company Limited
sq.m. or m^2	:	Square metre
CBD	:	Central Business District

Financial terms

Merchandise gross margin :

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

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 + Cash and cash equivalents – 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

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 JSM
Eversheds Sutherland
Woo, Kwan, Lee & Lo

Principal share registrar and transfer agent

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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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Level 22, Hopewell Centre
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Hong Kong

Registered office

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Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong

7th Floor, 88 Hing Fat Street
Causeway Bay, Hong Kong
Tel: (852) 2753 3988
Fax: (852) 2318 0884

Principal bankers

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

Stock code

Hong Kong Stock Exchange 825

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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.

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(Hong Kong Stock Code: 825)

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