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)

ANNUAL REPORT 2020

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 2020, New World Development Company Limited owns 75% shares of the Group.

RETAIL NETWORK

To orderly expand its business network across the country, the Group adopts the expansion strategies of "multiple presences within a single city" and "radiation city" with a focus on the development of the Greater Beijing, Greater Shanghai and Greater South Western Regions. As at 30 June 2020, the Group operated 22 "New World" (「新世界」) branded department stores in Mainland China and eight "Ba Li Chun Tian" (「巴黎春天」) branded department stores and shopping malls in Shanghai with a total gross floor area of about 1,232,350 square metres, covering 17 key locations in Mainland China, including Beijing, Tianjin, Yanjiao, Yantai, Lanzhou, Xi'an, Harbin, Shenyang, Shanghai, Nanjing, Wuhan, Changsha, Zhengzhou, Chengdu, Chongqing, Kunming and Mianyang.

BUSINESS OPERATIONS

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

ORGANISATION STRUCTURE

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

TALENT DEVELOPMENT

The Group regards its staff as a valuable asset. Through a series of incentive schemes, training programmes and career opportunities, the Group strives to fortify the team's proactiveness, innovative capability and sense of belonging so as to encourage, cultivate and retain its talents, who will join up to put the Group's vision and mission into actions. As at 30 June 2020, the Group had 3,060 employees.

CONTENTS

GOAL

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

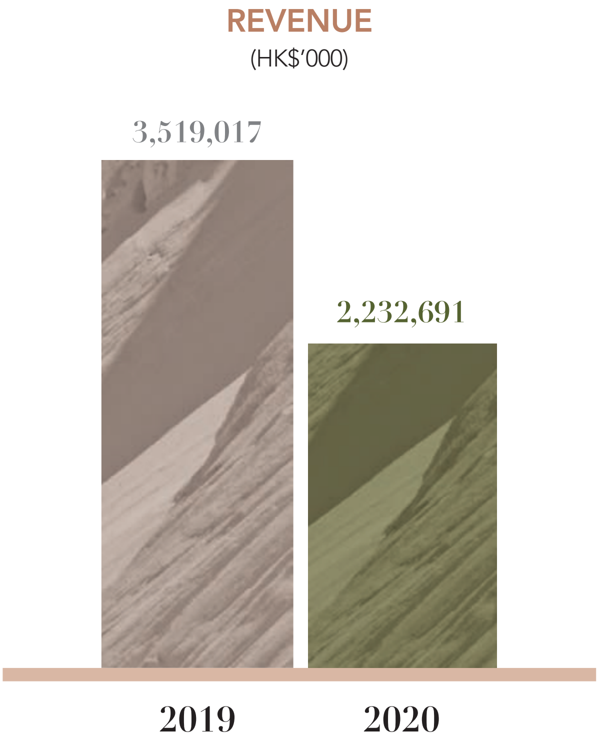
MISSION

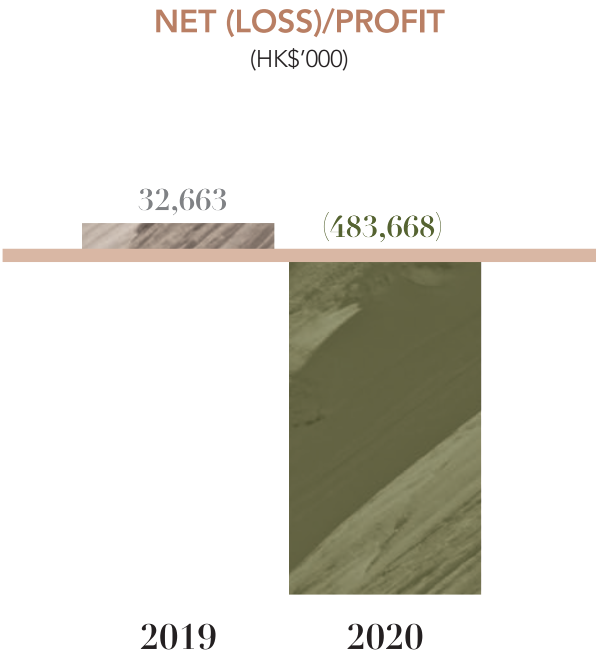
To create a modern, metropolitan lifestyle with creativity, foresight and efficiency.

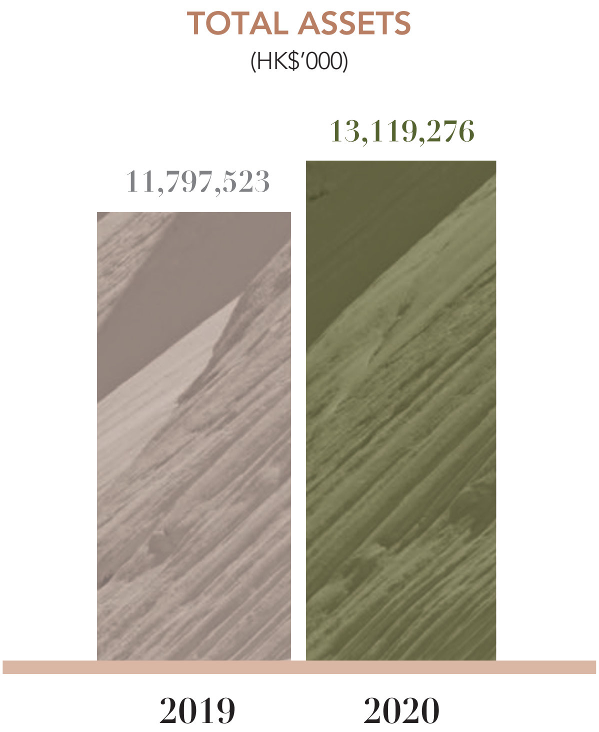
CONVICTION

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

FINANCIAL HIGHLIGHTS







FINANCIAL HIGHLIGHTS

	2020 HK$'000	2019 HK$'000
OPERATING RESULT		
Revenue	**2,232,691**	3,519,017
Representing:		
Commission income from concessionaire sales	**886,861**	1,420,205
Sales of goods – direct sales	**605,540**	1,251,515
Rental income	**727,834**	847,297
Interest income from finance leases as the lessor	**12,456**	–
Operating (loss)/profit	**(197,960)**	204,602
(Loss)/profit for the year ("Net (loss)/profit")	**(483,668)**	32,663

	As at 30 June 2020 HK$'000	As at 30 June 2019 HK$'000
FINANCIAL POSITION		
Fixed deposits with original maturity over three months, cash and bank balances	**1,514,063**	1,866,701
Total assets	**13,119,276**	11,797,523
Total liabilities	**8,909,955**	5,954,914
Total equity	**4,209,321**	5,842,609
Net cash position	**27,841**	238,652

CHAIRMAN'S STATEMENT

The first half of 2020 saw COVID-19 plaguing the entire world and bringing economic, trade and production activities to a worldwide halt, the global economy was thus plunged into a recession. The uncertainties of the pandemic have led to slow economic reboots in major economies. Complicated by escalating political and economic risks, the weakened state of the economy is expected to continue in the second half of the year. China's economy was equally affected by the pandemic and external factors. Since consumption took time to recover and domestic demand remained sluggish, China recorded an overall negative growth in its Gross Domestic Product for the first half of the year. The market foresees that China's pace for economic recovery may be hindered in the second half, owing to possible rebounds of the pandemic, geopolitical risks and potential economic troubles at home. It is hoped that the government's strategic directions to stabilise employment, to ensure people's livelihoods, and to invigorate consumption, etc. could lead to a continual mild consumption recovery, which could in turn steer the economy back to its normal trajectory.

In view of the pandemic-driven economic downturn, the Group assessed the situation and adhered to the principles of reducing costs and enhancing operational efficiency. We hoped these strategies could help us weather through difficulties and support our long-term growth. For the year ended 30 June 2020, the Group's revenue for the year was HK$2,232.7 million compared with HK$3,519.0 million in the Previous Year. The Group's loss for the year was HK$483.7 million. Loss per share for the year was HK$0.29. As at 30 June 2020, the Group operated 30 department stores and shopping malls with a total gross floor area of about 1,232,350 square metres, covering 17 key locations in Mainland China.

CHAIRMAN'S STATEMENT

While the attack of the pandemic had affected the Group's original business and market plans, we adhered to our core values and continued to serve our wide consumer base, as always, and quickly devised new solutions and new responses that stay true to our pragmatism, experience and competence. The focus of our efforts was diverted to the online model so as to accelerate our digitised transformation and to drive the full implementation of our omni-channel strategy. In terms of our department store business, we seized the opportunities arising from the new normal in consumption amidst the pandemic and fully upgraded "New Lab", the Group's own e-commerce platform. By incorporating new marketing functions and through the introduction of nationwide home delivery service, the online-offline retail circuit was perfected. The Group also actively promoted online community marketing to build private domain traffic. The increasingly popular public domain resources, such as live-streaming media channels, were also leveraged to attract and convert traffic and to achieve cross-platform sales. The Group shall continue to connect "New Lab" with our different business segments and our brick-and-mortar stores as a way to enhance the synergy amongst the Group's establishments.

As opposed to the intensive businesses in the department store sector, the convenience store and supermarket businesses developed by the Group in early years have been making new breakthroughs during the pandemic. By strengthening the upstream and downstream supply chains of our "N+ Convenience Store" and "New World Supermarket", the Group stabilised the supply and pricing of our merchandise during the year under review, thus, protected the daily needs of the public. In the first half of 2020, the Group continued to establish a strong foothold for "N+ Convenience Store" in Beijing by expanding its network in the Dongcheng and Chaoyang districts to form a setup of four branches in two districts. Complementary food and beverage services were introduced to the "New World Supermarket" in Beijing Chongwen Store; we also collaborated with online takeaway platforms to launch food delivery service to establish the supermarket as a community-serving one-stop shop. In future, the Group shall gradually complete the interfacing and integration of "New World Supermarket" and "New Lab" so as to fortify the crossover operations of multiple businesses and to amplify the impact of the online shopping platform.

The Group believes that the consumption and economy in the mainland will gradually recover as the pandemic calms down. The new normal in consumption derived from COVID-19, on the other hand, will change the operating principles and landscape of the retail industry in the long run. To maintain the freshness of our businesses, we will remain vigilant at all times, stay close to market trends and timely adjust our operating model. Although the year to come might be tough and rugged, the Group is confident that our concerted efforts, our consistent focus on our merchandise appeal, as well as our persistence in our customer-oriented approach will help us overcome hurdles and pave new ways for growth. The Group shall uphold its prudent and pragmatic operations strategy to cement its current business foundation. We will also embrace turbulences with a multi-business operational setup to open up a bright new path for future development.

Taking this opportunity and on behalf of the Board, I would like to express my heartfelt gratitude to our shareholders, customers, business partners, as well as our staff for their continued support. As a token of thanks to their faith and trust, the Group will work even harder and strive to safeguard its steady business growth in the long run.

Dr. Cheng Kar-shun, Henry
Chairman

Hong Kong, 29 September 2020

RETAIL NETWORK

30 Strategic Footholds

17 Major Locations

	Date of Opening	Approximate GFA (sq.m.)
Northern China Region		**571,800**
Beijing Chongwen Store	July 1998	117,200
Beijing Trendy Store	March 2007	31,200
Beijing Liying Store	September 2008	52,000
Beijing Qianzi Store	September 2010	55,600
Tianjin Store	October 1997	57,000
Yanjiao Store	April 2013	32,000
Yantai Store	December 2013	55,600
Lanzhou Store	September 2005	28,500
Xi'an Trendy Plaza	December 2012	58,700
Harbin Store	November 1996	50,000
Shenyang Jianqiao Road Branch Store	May 2011	34,000
Eastern China Region		**352,250**
Shanghai Huaihai Branch Store	December 2001	22,500
Shanghai Qibao Branch Store	December 2005	36,550
Shanghai Wujiaochang Branch Store	December 2006	44,000
Shanghai Pujian Branch Store	September 2007	46,000
Shanghai Baoshan Branch Store	January 2010	39,000
Shanghai Chengshan Branch Store	April 2010	38,000
Shanghai Shaanxi Road Branch Store	November 2011	42,000
Shanghai Tianshan Road Branch Store	August 2013	43,000
Nanjing Store	November 2007	41,200
Central Western China Region		**308,300**
Wuhan Jianshe Store	November 1994	42,000
Wuhan Trendy Plaza	December 2001	23,000
Wuhan Wuchang Branch Store	October 2005	24,000
Wuhan Xudong Branch Store	January 2008	29,200
Changsha Trendy Plaza	September 2006	35,000
Zhengzhou Store	April 2011	35,500
Chengdu Store	December 2006	30,000
Chongqing Store	September 2006	42,000
Kunming Store	June 2004	12,600
Mianyang Store	December 2011	35,000
TOTAL GROSS FLOOR AREA		**1,232,350**


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

We Believe

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Results Summary

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

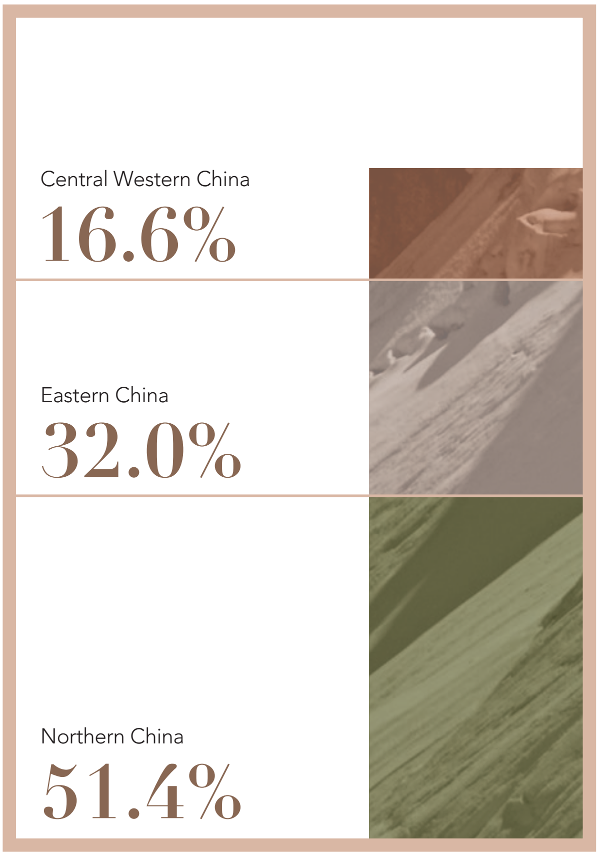
For the year ended 30 June 2020, the Group's revenue for the year was HK$2,232.7 million, compared with HK$3,519.0 million in the Previous Year. In terms of segment, the Group's revenue for the year was mainly derived from commission income from concessionaire sales which accounted for 39.7%. This was followed by rental income, which took up 32.6%; sales of goods for direct sales, which took up 27.1%; and interest income from finance leases as the lessor, which took up 0.6%.

The Group's loss for the year was HK$483.7 million. Loss per share for the year was HK$0.29.

Business Network

To consolidate and focus its resources, the Group closed one store during the year under review, namely Hong Kong New World Department Store – Shanghai Hongkou Branch Store ("Shanghai Hongkou Branch Store").

As at 30 June 2020, the Group operated 30 department stores and shopping malls, with a total gross floor area of about 1,232,350 square metres. These stores were located in three operating regions in the Northern China, the Eastern China and the Central Western China, covering 17 key locations across the country, including Beijing, Tianjin, Yanjiao, Yantai, Lanzhou, Xi'an, Harbin, Shenyang, Shanghai, Nanjing, Wuhan, Changsha, Zhengzhou, Chengdu, Chongqing, Kunming and Mianyang.



OPERATIONS OVERVIEW

Under the market circumstances of encircling e-commerce competitors and homogenous products, fine-tuning and upgrading brick-and-mortar stores has become the keynote of the department store industry in recent years. The Group upgraded and reformed a few of its stores during the first half of FY2020 to enhance their in-store experience and merchandise appeal, with the aim of actualising store-specific strategies and positioning. In parallel, the Group actively configured online channels such that new retail, new technology and new marketing tactics can be leveraged to craft a shopping experience that unifies online and offline elements for its customers.

The COVID-19 outbreak in Mainland China, however, brought much unfavourable impact to the business operations and marketing plans of the Group during the second half of FY2020. Given that the Group's core business lies in department store retail and all of its department stores are located in the mainland, nationwide lockdowns and travel restrictions resulted in the temporary closure of business outlets, as well as disruption to logistics and transportation. Frontline staff were unable to report to duty, while customer demands and foot traffic to brick-and-mortar stores declined. All these have materially affected the business performance of the Group since early 2020.

In response to the above-mentioned circumstances, the Group implemented an array of measures, including across-the-board cost reduction, retention of working capital, online sales channel promotion, and operational efficiency improvements, etc. to mitigate the pandemic's impact on its business operations.

Department Store Business

The Group has rolled out multi-faceted cost-reduction measures since early 2020. On one hand, stores were driven to initiate negotiations with landlords for rental remission or waivers. On the other, internal restructuring with flexible staffing was carried out to bring down the overall personnel expenses. During the pandemic, the Group also did its best to retain working capital and to save on non-essential expenses in order to maintain steady cashflow.

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01 Shanghai Wujiaochang Branch Store enhanced the categories of children's wear and sportswear after its business reform in September 2019

02 Customers indulging in feasts in a newly-introduced seafood buffet dining bar in Chongqing Store

MANAGEMENT DISCUSSION AND ANALYSIS

Faced with changes in the public's shopping habit and product demand amidst the pandemic as well as significant drop in foot traffic and sales in its own department stores, the Group promptly adjusted its strategies and expedited the setting up and development of a new retail configuration. A multi-platform matrix with online and offline modules was constructed to drive digitised transformation and to implement an omni-channel strategy. In particular, the "New Lab" online shopping platform – the Group's own e-commerce platform that operates as a WeChat mini-programme – has completed a full upgrade in June 2020. On top of optimising its user experience and enriching its product categories, marketing functions such as live-streaming, group-buying and pre-sale campaigns were also introduced. Aiming to generate momentum for traffic and sales on the e-commerce platform and to align with the Group's strategy to shift its focus to driving online sales, the marketing teams of stores actively hosted creative sales campaigns such as live-streaming by store managers, thematic shopping festivals, cloud-based shopping, etc. Besides, the Group also joined up with a third-party courier to launch the "New Lab" home delivery service to respond to the new normal of ensuring social distancing among the public.

To achieve bigger effectiveness in online marketing, the Group motivated its stores to directly engage customers and promote sales by utilising WeChat groups. Riding on the existing customer base of individual stores or brands, guided shopping WeChat groups targeted at different labels, categories or themes were set up and a range of sales campaigns, such as hot item promotions, limited-time offers and exclusive discounts were rolled out in the online communities. By disseminating group chat promotions and pushing short videos, customer interaction and affinity were increased. Furthermore, drawing on mainstream video-sharing platforms, the Group also deployed buzz marketing means such as short video or live-streaming e-commerce by store managers, counter hostess or amateur influencers to integrate the powers of online and offline channels so as to achieve the dual effect of branding and marketing.

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03 Store General Manager (left) of Beijing Qianzi Store dressed in sportswear to live-stream for a sports brand's marketing event

04 An influencer (left) live-streaming a product demonstration for a skincare brand at Shanghai Pujian Branch Store

05 Child dancers performing street dance for Beijing Qianzi Store's 9th anniversary celebration

While the public is less eager to spend amidst the pandemic, the Group has leveraged on a series of membership management and innovative marketing strategies to effectively maintain the vigour of members and to draw in new members. Its VIP membership was increased to more than 6.03 million. As at 30 June 2020, the official WeChat and Weibo accounts of the Group and its stores accumulated over 4.31 million fans. The number of registered VIP members on the "New Lab" online shopping platform, on the other hand, soared to 400,000, out of which close to 70% were from Beijing, followed by those from Shanghai. Female customers continued to dominate the online customer base of "New Lab", and cosmetics sales still represented a high proportion.

The Group believes that merchandise appeal is still at the core of retailing no matter how its marketing efforts are manifested. Therefore, the positioning of its stores, their merchandise mix, as well as the introduction and management of concessionaires have always acted as the drivers and sources for the Group's continual growth. In future, cosmetics will remain the Group's key breakthrough point, which would give impetus to the sales of other on-trend categories. Marketing targeted at members, business digitisation and omni-channel development will also be continuously driven. Besides, the Group has high hopes on "New Lab" and the online community marketing strengths of its stores for building its private domain traffic, which could in turn propel transaction and repeated purchases. Added with public domain traffic generated from live-streaming platforms, etc., it is hoped that low-cost precision marketing can be actualised with multi-directional traffic and cross-sales.

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06 Shanghai Huaihai Branch Store exudes a modern and spacious ambience with designer brands for ladieswear as a highlight

07 Shanghai Shaanxi Road Branch Store staged a countdown concert themed "Twenty Nineteen • Special Memories" at its atrium to welcome the year of 2020

08 A counter hostess at Wuhan Jianshe Store introducing key attributes of a skincare product to a customer

Private Label Business

The Group continued to invest in its direct merchandising and operations model to build up a collection of competitive private labels. During the year under review, the Group fortified its day-to-day essential businesses such as convenience stores and supermarkets to cater for the everyday needs of the public amidst the pandemic.

As the pandemic continued, the public has a very strong demand for daily necessities and the distance travelled for grocery shopping has been significantly shortened. Therefore, the Group opened two new branches of "N+ Convenience Store" in Beijing during the first half of 2020, thereby forming a store network of four branches in the two districts of Dongcheng and Chaoyang. The new branches mainly provide cooked delicacy prepared on site and are complemented by other everyday services for customers' convenience. In future, the Group will continue to focus on Beijing as it expands the "N+ Convenience Store" network. Meanwhile, integration of the supply chain will also be quickened step by step so that product quality, warehouse management, production processes, home delivery service, etc. can be effectively controlled. It is hoped that the operational efficiency and supply chain capability of "N+ Convenience Store" can be lifted in the long run.

On the supermarket business front, the Group has four branches of "New World Supermarket" in Beijing, Lanzhou, Yantai, and Wuhan, respectively. Amongst them, the "New World Supermarket" within Beijing New World Department Store introduced not only complementary food and beverage services and self-service checkout counters, but also collaborated with online takeaway platforms to offer customers with food delivery service. The Group is planning to reform the overall setup and merchandise mix of the "New World Supermarket" in Beijing to improve its interior spaciousness and to optimise customer traffic flow. Interfacing and integration with "New Lab" would also be enhanced with an aim to strengthen the Group's multi-business collaboration and to enhance synergy.

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09 "N+ Convenience Store" in Beijing Chongwen Store features street delicacies prepared on site

10 "New World Supermarket" in Yantai Store leverages self-service checkout counters to save customers' time on queuing

MANAGEMENT DISCUSSION AND ANALYSIS

LOL (Love • Original • Life) Concept Shop ("LOL") continued to fine-tune its merchandising and marketing strategies to better serve market needs. In terms of merchandising, LOL's black label store will strive to consolidate its existing customer base and to respond to the needs of nearby office workers by keeping up the quality and refreshing rate of in-store products. At the same time, personalised products will be added to stimulate young customers' spending. LOL's gold label stores, on the other hand, will strengthen the functionalities and value-for-money appeal of their product offerings, while expanding product categories and developing their male customer base.

As for marketing, LOL will promote online and attract traffic through its WeChat mini-programme and live-streaming module to invigorate online and offline sales. As at 30 June 2020, LOL operated 12 stores in Mainland China; three of which were set up outside of the Group's store network.

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11 LOL in Beijing Liying Store introduced an assortment of on-trend beauty and grooming gadgets to go with its new store image

12 LOL in Shanghai K11 Art Mall showcasing vintage headphones and speakers to appeal to music lovers

13 An Internet-hit tea-drink brand landed in Wuhan Jianshe Store

OUTLOOK

With COVID-19 pandemic sweeping across the world during the first half of 2020, trade, production and other activities stood still and the global economy plummeted – a global economic recession could not be stopped despite sizeable stimulating policies introduced by different countries. In view that work and production resumed in major economies from the second quarter, and that relief measures took effect, the market anticipates a slow rebound in companies' production and households' consumption, which will in turn confine the extent of economic slowdown. However, the uncertainties of the pandemic are hampering economic reactivation in various countries. Added with the escalating China-U.S. conflicts and increasing geopolitical risks, the world economy is expected to stay weak in the second half of the year.

An economic downturn also took place in China as a result of the pandemic and the decelerated economic growth across the globe. Fortunately, the pandemic was effectively contained in the mainland from the second quarter. Work, production, commercial and market activities resumed in an orderly manner and the government's stabilising policies continued to be effective. As a result, major economic indicators in the industrial and service sectors, investments and consumption showed evident rebounds for the second quarter. China's Gross Domestic Product turned positive from negative, showing signs of restorative growth. In particular, investment brought stronger traction to economic growth. Consumption slowly recovered amidst new normalised pandemic control measures. Complicated by reduced residents' income and weakened consumption demand, the economic growth in China remained in the negative region during the first half of the year, registering a year-on-year decline of 1.6%.

Going into the second half of the year, the economic recovery of China will be faced with many variables, including external factors such as the global economy, China-U.S. relations and geopolitics, as well as internal factors such as the fluctuating pandemic situation in certain cities, increasingly difficult operations for companies, and augmented risks of regional debts. That said, moderate recovery in consumption is expected with the continual facilitation of the government's policies to stabilise employment, to ensure people's livelihoods and to promote consumption. All these will bring the overall economy back to its normal trajectory.

The Group believes the economic prospects of China would be positive in the long run, and the resilience of the physical retail sector will continue to manifest itself. The pandemic has changed the normal course of people's everyday life, with many going online to work, to learn, as well as to order food and to shop. All these have given birth to various contactless new retail businesses and services. As COVID-19 gets under control, the public would still tend to shop in the vicinity and to minimise gathering in crowds. Consumption in daily necessities, for example, has risen steadily, with distinguished performance in day-to-day essential businesses such as convenience store and supermarket businesses. In future, the Group will perfect its multi-platform online setup to ride on novel marketing means such as mini-programmes, online community marketing, live-streaming e-commerce, etc. to expedite the integration of online and offline retail, as well as to facilitate the landing of omni-channel strategies. The positioning of community-focused department stores, as well as day-to-day essential businesses such as convenience stores and supermarkets will also be consolidated to strengthen the Group's business setup. The Group will continue to stay prudent and pragmatic to embrace the challenges under the new normal.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue and Other Income

Revenue of the Group was HK$2,232.7 million in FY2020 (or the "Current Year") (FY2019 (or the "Previous Year"): HK$3,519.0 million).

Gross sales revenue of the Group, comprising gross revenue from concessionaire sales and sales of goods for direct sales, rental income, interest income from finance leases as the lessor and other income, was HK$7,101.2 million in FY2020 (FY2019: HK$10,897.3 million).

The Group's merchandise gross margin was 14.9% in the Current Year (FY2019: 17.5%). In FY2020, ladieswear, menswear and accessories made up approximately 41.9% of gross revenue from concessionaire sales and sales of goods for direct sales. Gold, jewellery and watch made up approximately 25.2%, sportswear made up approximately 11.9%, cosmetic products made up approximately 11.0%, and kidswear, foodstuffs, electrical appliances, and housewares largely made up the rest. Direct sales revenue in the Current Year mainly comprised sales of cosmetic products (approximately 70.8%), supermarkets and convenience stores (approximately 27.0%), life concept shops, ladieswear, menswear and accessories as well as miscellaneous items (approximately 2.2%).

Rental income decreased by 14.1% to HK$727.8 million in FY2020 from HK$847.3 million in FY2019, mainly due to the impact of adoption of HKFRS 16 in relation to the sub-leases in the Current Year, the COVID-19 outbreak in Mainland China, the closure of Shanghai Hongkou Branch Store in April 2020 and the closure of certain department stores in FY2019.

Interest income from finance leases as the lessor was HK$12.5 million in FY2020 which was resulted from the impact of adoption of HKFRS 16.

Other income of the Group was HK$93.5 million in FY2020 compared with HK$150.3 million in FY2019. The decrease in other income was mainly due to the inclusion of the write-back of expired stored value cards of HK$21.9 million and the write-back of amount due to former shareholder of a subsidiary of HK$8.1 million in FY2019, the decrease on the income from suppliers of HK$23.6 million and service fee income of HK$6.6 million in the Current Year.

Other Losses, Net

Net other losses of the Group in the Current Year was HK$469.3 million which was primarily resulted from HK$459.2 million of impairment loss on goodwill, HK$22.1 million of impairment loss on property, plant and equipment and right-of-use assets and HK$4.4 million of impairment loss on prepayments, deposits and other receivables for mainly eight department stores in light of the latest market environment, the impact caused by the pandemic of COVID-19 and the management's assessment on the business prospect thereof, HK$19.3 million of loss on derecognition of finance lease receivables, and HK$34.1 million of loss on lease modification of finance lease receivables. The losses was partially offset by HK$12.9 million of gain on derecognition of right-of-use assets due to the closure of Shanghai Hongkou Branch Store in April 2020, HK$49.5 million of the rent concessions granted from certain landlords as a result of the COVID-19 pandemic, and HK$12.5 million of gain on disposal of Well Metro Group Limited ("Well Metro Group") in July 2019.

Changes in Fair Value of Investment Properties

In light of the latest market environment and the impact of the COVID-19 outbreak, changes in fair value of investment properties in the Current Year was HK$39.1 million which was mainly related to properties in Shenyang City, Wuhan City and Tianjin City.

Purchases of and Changes in Inventories, Net

The purchases of and net changes in inventories primarily represented the cost of sales for direct sales of goods. It decreased to HK$547.0 million in FY2020 from HK$912.3 million in FY2019. The decrease was in line with the decrease in sales of goods for direct sales in the Current Year.

Purchases of Promotion Items

The purchases of promotion items represented the costs of promotion items transferred to the customers of concessionaire sales and direct sales upon their consumption in department stores or redemption of reward points granted under customer loyalty programme. The purchases of promotion items was HK$11.5 million in FY2020 compared with HK$28.3 million in FY2019.

Employee Benefit Expense

Employee benefit expense decreased to HK$450.3 million in FY2020 from HK$651.4 million in FY2019. Employee benefit expense decreased primarily due to the continuous efforts by management to carry out cost control measures as well as the closure of certain department stores in FY2019, the disposal of Well Metro Group in the Current Year and the Group's effort in optimisation of human resources to lower the staff costs during the outbreak of COVID-19 in the second half of FY2020.

Depreciation and Amortisation

Depreciation and amortisation expense increased from HK$209.7 million in FY2019 to HK$601.6 million in FY2020, primarily due to the increase was largely attributable to the impact of adoption of HKFRS 16. The increase was partially offset by no depreciation provided in the Current Year for property, plant and equipment of certain department stores closed in FY2019 and Well Metro Group disposed in FY2020.

Rental Expense

Rental expense decreased to HK$118.3 million in FY2020 from HK$1,057.9 million in FY2019, primarily attributable to the impact of adoption of HKFRS 16 in the Current Year. Under HKFRS 16, a significant portion of rental expense is replaced with depreciation expense on the right-of-use assets of HK$424.5 million and interest expense on the lease liabilities of HK$209.6 million in FY2020.

Other Operating Expenses, Net

Net other operating expenses decreased to HK$287.1 million in FY2020 from HK$457.8 million in FY2019. The decrease was primarily resulted from the increase of HK$13.8 million of net exchange gains mainly arising from the changes on Hong Kong dollar against Renminbi during FY2020, a decrease in selling, promotion, advertising and related expenses of HK$29.2 million, a decrease in cleaning, repairs and maintenance of HK$18.4 million, a decrease in other tax expenses of HK$55.0 million, and a decrease in other operating expenses of HK$65.1 million due to the costs control, the temporary suspension of operations of department stores across multiple cities in the mainland during the outbreak of COVID-19, utilities charge reduction in Mainland China, the decrease in sales revenue, the disposal of Well Metro Group in the Current Year and the closure of certain department stores in FY2019. The decrease was partially offset by an increase of HK$13.9 million of net provision for doubtful debts in light of the latest market environment, the impact caused by the pandemic of COVID-19 and the management's assessment on the business prospect thereof.

Operating (Loss)/Profit

Operating loss was HK$198.0 million in FY2020, as compared to operating profit of HK$204.6 million in FY2019.

Finance (Costs)/Income, Net

Net finance costs was HK$206.4 million in FY2020 compared with net finance income of HK$16.2 million in FY2019. The decrease was mainly due to the increase in interest expense on lease liabilities as a result of the adoption of HKFRS 16.

Income Tax Expense

Income tax expense of the Group was HK$79.0 million in FY2020 compared with HK$188.2 million in FY2019.

(Loss)/Profit for the year

As a result of the reasons mentioned above, loss for the year was HK$483.7 million, as compared to profit for the year of HK$32.7 million in the Previous Year.

Liquidity and Financial Resources

Fixed deposits with original maturity over three months and cash and bank balances of the Group amounted to HK$1,514.1 million as at 30 June 2020 (30 June 2019: HK$1,866.7 million).

The Group's borrowings as at 30 June 2020 were HK$1,486.2 million (30 June 2019: HK$1,628.0 million of which HK$215.9 million was secured by an investment property).

At 30 June 2020, the Group's current liabilities exceeded its current assets by HK$2,347.8 million (30 June 2019: HK$1,878.0 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 2020 were HK$44.3 million which were contracted but not provided for in the consolidated statement of financial position.

Pledge of Assets

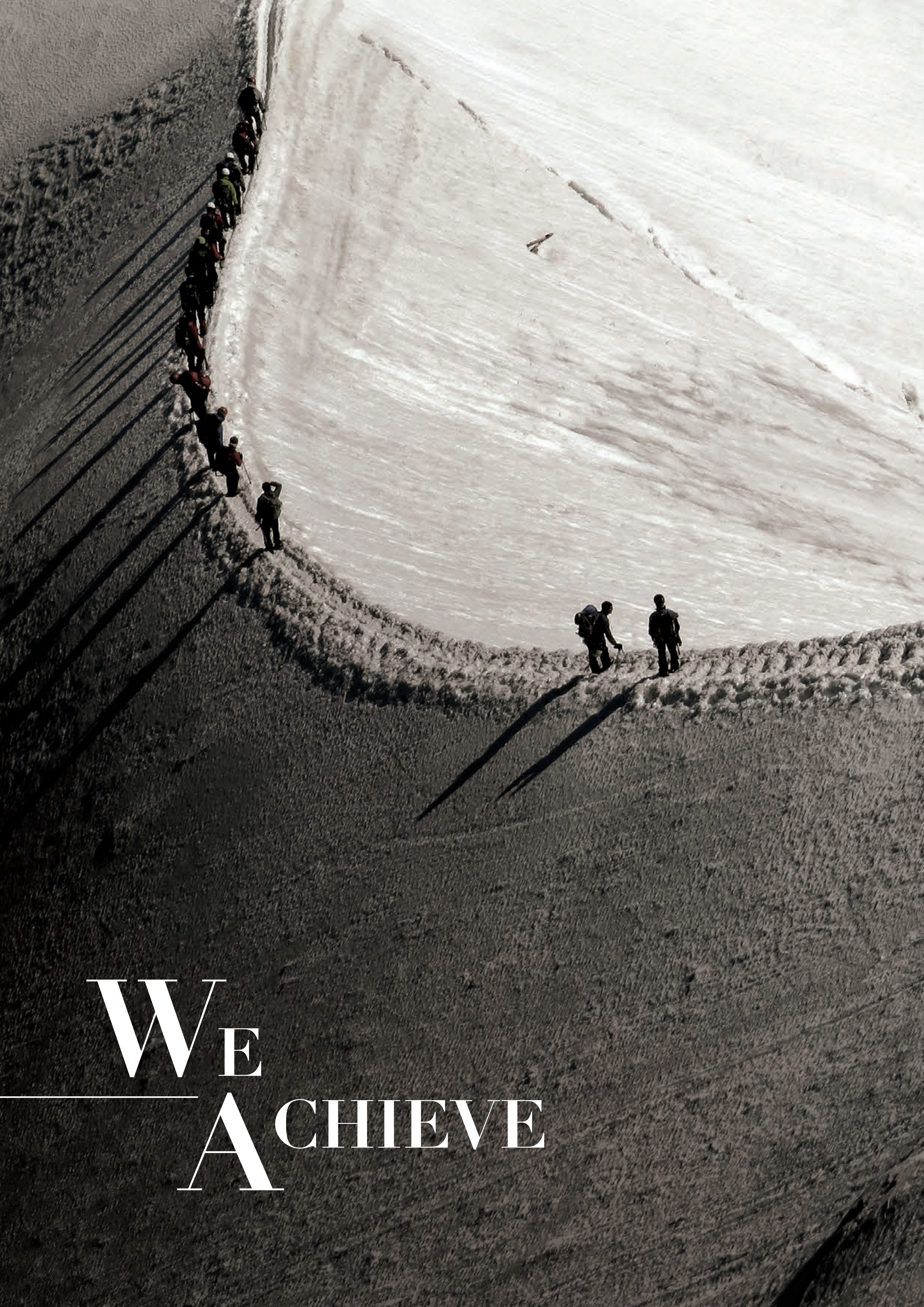
As at 30 June 2020, the Group did not have any pledge of assets (30 June 2019: an investment property of HK$1,743.2 million was pledged as securities for bank borrowings of HK$215.9 million).

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 against Renminbi. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures.

Contingent Liabilities

In respect of certain department stores closed by the Group in the Previous Year, the Group has contingent liabilities arising from the potential claims from the landlords of the premises for compensation in connection with the early termination of the leases. For one of these closed department stores, an arbitration result has been issued on the lodged claims after the reporting period and the compensation amount has been accounted for accordingly in the consolidated financial statements. However the compensation amounts in respect of the potential claims arising from these closed department stores, if any, and timing of payment could not be reliably estimated at current stage, and the final outcome of which is subject to actions of the landlords, negotiation and/or result of legal proceeding. The Group has taken necessary measures to address the potential exposure. The aggregate monthly rental expense for these closed department stores was approximately HK$9.0 million prior to the closure.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DIRECTORS' PROFILE

Chairman and
Non-executive Director

DR. CHENG KAR-SHUN, HENRY *GBM, GBS*
Aged 73

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

Executive Director

DR. CHENG CHI-KONG, ADRIAN *JP*
Aged 40

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 Chief Executive Officer of New World Development Company Limited, a substantial shareholder of the Company, an executive director of NWS Holdings Limited and Chow Tai Fook Jewellery Group Limited and a non-executive director of each of Giordano International Limited and New Century Healthcare Holding Co. Limited, all being listed public companies in Hong Kong. Dr. Cheng is a director and executive chairman of New World China Land Limited and the chairman of New World Group Charity Foundation Limited. He 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 was a non-executive director of i-CABLE Communications Limited up to his resignation on 2 July 2019.

Dr. Cheng is a member of the Tianjin Municipal Committee of The Chinese People's Political Consultative Conference of the People's Republic of China, the chairman of China Young Leaders Foundation and the honorary chairman of K11 Art Foundation. He was the vice-chairman of the 11th and 12th committee of the All-China Youth Federation. He was acknowledged by Fortune as one of "40 Under 40" global business stars and a "Young Global Leader" by the World Economic Forum in 2012. Dr. Cheng is a Justice of Peace appointed by the Government of the Hong Kong Special Administrative Region since 2016 and was made an Officier in the Ordre des Arts et des Lettres by the French Government in 2017. 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 in 2014. He worked in a major international bank prior to joining New World Development Company Limited in 2006 and has substantial experience in corporate finance. Dr. Cheng is the son of Dr. Cheng Kar-shun, Henry, Chairman.

Chief Executive Officer and
Executive Director

MR. CHEUNG FAI-YET, PHILIP

Aged 65

had been an executive Director in June 2007 and became a non-executive Director in February 2018. Mr. Cheung has been re-designated as an executive Director since August 2018 and became a member of the executive committee and the remuneration committee of the Board. Mr. Cheung is also a director of a number of the subsidiaries of the Company. He was the managing director of the Company up to his resignation from such office on 17 March 2017 and has been appointed as the chief executive officer of the Company with effect from 15 August 2019. 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.

Independent non-executive Director

MR. CHEONG YING-CHEW, HENRY

Aged 72

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

Mr. Cheong is an independent non-executive director of each of CK Infrastructure Holdings Limited, CK Asset Holdings Limited and Skyworth Group Limited. He is also an independent director of BTS Group Holdings Public Company Limited, a company listed on the Stock Exchange of Thailand. He was an independent non-executive director of each of CNNC International Limited, Greenland Hong Kong Holdings Limited, Hutchison Telecommunications Hong Kong Holdings Limited and TOM Group Limited, until his resignation on 31 December 2019, all being listed public companies in Hong Kong.

DIRECTORS' PROFILE

Independent non-executive Director

MR. CHAN YIU-TONG, IVAN

Aged 66

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 75

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

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 is the founder, and was the chairman, chief executive officer and an executive director of Oriental Payment Group Holdings Limited until his retirement on 30 July 2019. Mr. Yu was also an independent non-executive director of Power Financial Group Limited. He is the founder, and was the chairman and an executive director of China Smartpay Group Holdings Limited (formerly known as "Oriental City Group Holdings Limited"), all companies are being listed on The Stock Exchange of Hong Kong Limited. Prior to establishing Oriental City Group, Mr. Yu worked for Morgan Stanley, AIG Asset Management (Asia) Ltd, and Allianz Dresdner Asset Management.

Independent non-executive Director

MR. YU CHUN-FAI

Aged 58

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 2020, the Company has applied and complied with all the applicable 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 18 November 2019 (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 2020.

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 one non-executive Director, two executive Directors and four independent non-executive Directors. Their names, biographical details and respective relationships with other Directors are set out on pages 24 to 27 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 Board (the "Executive Committee") and the management are delegated the authority and responsibilities by the Board for the routine management and operation of the Company.

The Board will have at least four regular meetings a year at approximately quarterly intervals and will meet at other times as and when required to review business strategies and financial and operating performance. During the year ended 30 June 2020, the Company held four regular meetings of the Board and the independent non-executive Directors had a meeting with the Chairman once without the presence of other executive and non-executive Directors.

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

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

	Number of meetings attended/held		
Name	Board Meetings	Annual General Meeting	Extraordinary General Meeting
Non-executive Directors			
Dr. Cheng Kar-shun, Henry *(Chairman)*	2/4	0/1	0/1
Mr. Au Tak-cheong[(1)]	3/3	1/1	0/0
Executive Directors			
Dr. Cheng Chi-kong, Adrian	4/4	1/1	0/1
Mr. Cheung Fai-yet, Philip *(Chief Executive Officer)*	4/4	1/1	1/1
Independent non-executive Directors			
Mr. Cheong Ying-chew, Henry	4/4	1/1	1/1
Mr. Chan Yiu-tong, Ivan	4/4	1/1	0/1
Mr. Tong Hang-chan, Peter	4/4	1/1	1/1
Mr. Yu Chun-fai	4/4	1/1	1/1

Note:

(1) Mr. Au Tak-cheong resigned as a non-executive Director on 1 April 2020.

The roles of the Chairman and Chief Executive Officer

Dr. Cheng Kar-shun, Henry, the Chairman, is responsible for the leadership and effective running of the Board, ensuring that all material issues are decided by the Board in a constructive manner. Following with Mr. Ho Kwok-leung, Ivan ceased as the chief executive officer of the Company (the "Chief Executive Officer") on 15 August 2019, Mr. Cheung Fai-yet, Philip had been appointed as the Chief Executive Officer, is responsible for running the Group's business and the timely implementation of the approved strategies of the Group.

Non-executive Directors

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

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

Executive Committee

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

Audit Committee

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

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

During the year, the Audit Committee reviewed with auditor of the Company the audited consolidated financial statements for the year ended 30 June 2019 and the unaudited interim financial information for the six months ended 31 December 2019 as well as risk management and internal control systems of the Company, including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget with recommendations to the Board for approval. The Audit Committee also reviewed the consolidated financial statements for the year ended 30 June 2020 and internal audit report, including the effectiveness of the risk management and internal control systems, with recommendations to the Board for approval. The Audit Committee met two times during the year ended 30 June 2020.

The internal audit department of the Group (the "Internal Audit Department") has conducted audits of the Company and its subsidiaries. The Internal Audit 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 Internal Audit 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 Internal Audit Department shall report its findings and make recommendations to improve and to plan the risk management and internal control of the Group. The Company has written policy and manual for the handling and dissemination of inside information.

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

Name	Number of meetings of the Audit Committee attended/held
Mr. Chan Yiu-tong, Ivan	2/2
Mr. Cheong Ying-chew, Henry	2/2
Mr. Tong Hang-chan, Peter	1/2
Mr. Yu Chun-fai	2/2

Remuneration Committee

The Company has established the remuneration committee of the Board (the "Remuneration Committee") 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 2020, 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 the management. This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment. The Remuneration Committee is also to make recommendations to the Board on the remuneration of non-executive Directors and to ensure that no Directors or any of their associates are involved in deciding their own remuneration.

Details of the amount of emoluments of Directors for the year ended 30 June 2020 are set out in note 12 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	1/2
Dr. Cheng Chi-kong, Adrian	2/2
Mr. Cheung Fai-yet, Philip	2/2
Mr. Cheong Ying-chew, Henry	2/2
Mr. Chan Yiu-tong, Ivan	2/2
Mr. Yu Chun-fai	2/2

Nomination Committee

The Company has established the nomination committee of the Board (the"Nomination Committee") 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 2020, the Nomination Committee met once. Taking into account of the Company's own operation model and specific needs, the members of the Nomination Committee considered that the experience and diversity of perspectives of the Board appropriate to the requirements of the Company's business.

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

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

Nomination Policy

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

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

Nomination Criteria

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

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

(2) Reputation for integrity;

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

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

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

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

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

Nomination Process

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

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

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

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

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

Nomination by shareholders

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

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

Review of the Policy

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

Board Diversity Policy

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

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

DIVERSITY MIX

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 Director	
Dr. Cheng Kar-shun, Henry *(Chairman)*	✓
Executive Directors	
Dr. Cheng Chi-kong, Adrian	✓
Mr. Cheung Fai-yet, Philip[1] *(Chief Executive Officer)*	✓
Independent non-executive Directors	
Mr. Cheong Ying-chew, Henry	✓
Mr. Chan Yiu-tong, Ivan	✓
Mr. Tong Hang-chan, Peter	✓
Mr. Yu Chun-fai	✓

Note:

(1) Mr. Cheung Fai-yet, Philip was appointed as the Chief Executive Officer with effect from 15 August 2019.

Remuneration of Directors

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

FINANCIAL REPORTING, RISK MANAGEMENT AND INTERNAL CONTROL

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

The reporting responsibilities of PricewaterhouseCoopers, the Company's external auditor, are stated in the Independent Auditor's Report on pages 57 to 63 of this annual report.

The Board acknowledges that it is responsible for the Company's risk management and internal control systems and reviewing their effectiveness. The Group's risk management and internal control systems provide a comprehensive and organized structure with clearly defined scopes of responsibilities, authorities and procedures.

The Group has a designated internal control team which is responsible for identifying and monitoring the Group's risks and internal control issues and reports directly to the Audit Committee of any findings and follow-up actions. Each department of the Group is also required to adhere strictly to the Group's internal control procedures/policies and report to the risk management and internal control team of any risks or internal control issues. The internal audit function also reviews the Company's management's action plans in relation to audit findings and the adequacy and effectiveness of the mitigating controls before formally closing the issues. The Audit Committee also reviews the Company's financial controls, risk management and internal control systems/policies on a regular basis.

During the year ended 30 June 2020, the Audit Committee conducted reviews of the effectiveness of the risk management and internal control system/policies of the Group. The reviews had covered various aspects of the Group's risk management and internal control system/policies. The reviews results were reported to the Audit Committee. The Audit Committee is satisfied that such systems/policies are effective and adequate. The systems in place are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material loss.

The Company has conducted half-yearly reviews on the effectiveness of the Group's risk management and internal control systems for the year ended 30 June 2020 and confirmed that the Group's risk management and internal control systems in respect of financial, operational, compliance, risk management and adequacy of resources, are effective and adequate.

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

DISSEMINATION OF INSIDE INFORMATION

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

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

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

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

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

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors acknowledge their responsibilities for keeping proper accounting records and preparing financial statements of each financial period, giving a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 30 June 2020, 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 2020, the Company Secretary has taken no less than 15 hours of relevant professional training.

COMMUNICATION WITH SHAREHOLDERS

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

SHAREHOLDERS' RIGHTS

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

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

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

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

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

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

DIVIDEND POLICY

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

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

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

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

(4) the external economic and market situation.

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

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

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

CONSTITUTIONAL DOCUMENTS

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

INVESTOR RELATIONS

The Group believes that effective and timely communication with the investment community is essential. Since the Group's listing on the Main Board of the Stock Exchange in 2007, the Corporate Affairs Department has been set up to keep investors and the capital market abreast of the Group's business and development by providing necessary information and data. Representative from the aforementioned department maintains an open dialogue with local and overseas institutional investors and analysts through face-to-face meetings, teleconferences and store visits; and also attends investor conferences at home and abroad upon receiving invitations.

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

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

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

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

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

AUDITORS' REMUNERATION

Fees for auditing services amounted to approximately HK$5,054,000 and fees for non-auditing services, including mainly interim review, tax advisory and other related services, amounted to approximately HK$903,000.

GROUP HONOURS

CORPORATE GOVERNANCE

- Gold Award in the category of "Environmental, Social and Governance" in "*The Asset* ESG Corporate Awards 2019" by *The Asset*

EMPLOYEE WELFARE

- "Happy Company" logo in the "Happiness at Work Promotional Scheme 2020" by the Promoting Happiness Index Foundation and Hong Kong Productivity Council

- Honoured as "Good MPF Employer", and presented with "e-Contribution Award" and "MPF Support Award" in the 2019/20 "Good MPF Employer" Award by the Mandatory Provident Fund Schemes Authority

ENVIRONMENTAL PROTECTION

- "Green Office" and "Eco-Healthy Workplace" labels in the "Green Office and Eco-Healthy Workplace Awards Labelling Scheme" by the World Green Organisation

COMMUNITY SERVICES

- "5 Years Plus Caring Company" logo in the 2019/20 "Caring Company" Scheme by the Hong Kong Council of Social Service

- "Corporate Citizenship " logo in the categories of "Enterprise" and "Volunteer" in the "10th Hong Kong Outstanding Corporate Citizenship Awards"

- "Hong Kong Community Volunteers (Corporate Member) Certificate of Appreciation" by the Agency for Volunteer Service

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 2020.

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 2020 are set out in the consolidated income statement on page 64 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 the 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 4 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 12 to 21 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 2020" (a standalone report) to be published around December 2020.

FINAL DIVIDEND

The Directors have resolved not to recommend a final dividend for the year ended 30 June 2020 (2019: 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 2020, calculated under the laws of the Cayman Islands, amounted to HK$1,725.1 million (2019: HK$1,892.5 million).

FIVE-YEAR FINANCIAL SUMMARY

Financial summary for the years ended 30 June 2016 to 2020 are set out on page 147 of this annual report.

PRINCIPAL INVESTMENT PROPERTIES

Details of the principal properties held for investment purposes are set out on page 148 of this annual report.

CHARITABLE DONATIONS

Charitable donations, in form of money and materials, made by the Group during the year costed approximately HK$7,000 (2019: approximately HK$179,000).

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[1]

Executive Directors

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

Independent Non-executive Directors

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

Notes:

(1) Mr. Au Tak-cheong resigned as a non-executive Director on 1 April 2020.

(2) Mr. Cheung Fai-yet, Philip appointed as the Chief Executive Officer with effect from 15 August 2019.

DIRECTORS (continued)

In accordance with articles 87(1) and 87(2) of the Articles, Mr. Cheung Fai-yet, Philip, Mr. Chan Yiu-tong, Ivan and Mr. Tong Hang-chan, Peter will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Mr. Au Tak-cheong resigned as a non-executive Director on 1 April 2020. Mr. Au has confirmed that he has no disagreement with the Board and there are no matters in respect of his resignation that need to be brought to the attention of the Shareholders.

AUDIT COMMITTEE

The Audit Committee was established in accordance with the requirements of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and risk management and internal control. The Audit Committee consists of the four independent non-executive Directors. The Audit Committee has reviewed the systems of risk management and internal control and the annual results and the consolidated financial statements for the year ended 30 June 2020 and discussed those related matters with the management.

DIRECTORS' SERVICE CONTRACTS

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

Non-executive Directors

Dr. Cheng Kar-shun, Henry and Mr. Au Tak-cheong have respectively renewed a service contract with the Company for a fixed term from 1 July 2019 to 30 June 2022, the service contract of Mr. Au Tak-cheong has been automatically terminated due to his resignation as a non-executive Director on 1 April 2020, 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 and Mr. Cheung Fai-yet, Philip have respectively renewed a service contract with the Company for a fixed term from 1 July 2020 to 30 June 2023, 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' SERVICE CONTRACTS (continued)

Independent Non-executive Directors

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts of significance to which the Company, its parent company or any of its subsidiaries or its fellow subsidiaries was a party and in which any Director had a material interest, whether directly or indirectly, subsisted as at 30 June 2020 or at any time during the year.

PERMITTED INDEMNITY PROVISION

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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

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

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 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 expired on 30 June 2020 and was subject to the annual cap not exceeding RMB384,374,000. The Master Leasing Agreement was renewed for a further terms of three years commencing on 1 July 2020 and subject to the annual caps for fixed lease payments payable by the Group as lessee not exceeding RMB406,000,000, RMB428,000,000 and RMB450,000,000, respectively and variable lease payments payable by the Group as lessee not exceeding RMB300,000,000, RMB330,000,000 and RMB360,000,000, respectively (collectively, 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 18 June 2020.

CONNECTED TRANSACTIONS (continued)

A Master leasing agreement (continued)

The aggregate consideration under the Master Leasing Agreement was approximately RMB200,480,000 (2019: approximately RMB235,559,000) 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.

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 expired on 30 June 2020 and was subject to the annual cap not exceeding RMB159,902,000. The Master Concessionaire Counter Agreement was renewed for a further term of three years commencing on 1 July 2020 and subject to the annual caps not exceeding RMB90,000,000, RMB96,000,000 and RMB102,000,000 respectively.

The aggregate consideration under the Master Concessionaire Counter Agreement was approximately RMB42,023,000 (2019: approximately RMB64,405,000) during the year.

NWD is a substantial Shareholder and hence a connected person of the Company. CTFJ is a fellow subsidiary of 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. Subject to the compliance with, including the Listing Rules, upon expiration of the initial term or subsequent renewal term, the Master Services Agreement will be automatically renewed for a successive period of three years thereafter. The Master Services Agreement expired on 30 June 2020 and was subject to the annual cap not exceeding RMB80,470,000. The Master Services Agreement was renewed for a further term of three years commencing on 1 July 2020 and subject to the annual caps not exceeding RMB21,000,000, RMB69,000,000 and RMB57,000,000 respectively.

CONNECTED TRANSACTIONS (continued)

C Master services agreement (continued)

The aggregate consideration under the Master Services Agreement was approximately RMB430,000 (2019: approximately RMB174,000) during the year.

As Mr. Doo is an associate of certain Directors and hence Mr. Doo and the Services Group are connected persons 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.

D Sale and purchase agreement

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

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

E 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") (the "Sales Interests") at nil consideration. 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.

On 6 December 2019, NWDS China entered into another equity transfer agreement (the "Disposal Agreement") with K11 RC, pursuant to which NWDS China agreed to sell to K11 RC the Sale Interests at the consideration of RMB1, which it acquired from K11 RC pursuant to the Equity Transfer Agreement and representing the entire equity interests in the Target Company held by NWDS China (the "Disposal").

CONNECTED TRANSACTIONS (continued)

E Equity transfer agreement (continued)

Pursuant to the Disposal Agreement, K11 RC is required to fulfil its obligation to pay up the outstanding registered capital of the Target Company in full, including the obligation of NWDS China under the Equity Transfer Agreement to contribute RMB16,000,000 to the registered capital of the Target Company, pursuant to the articles of association of the Target Company and the relevant PRC laws and regulations.

Upon completion of the Disposal, the Company will cease to hold any interest in the Target Company.

NWD is a substantial Shareholder 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 Disposal Agreement constitutes a connected transaction of the Company.

F 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.

The Directors confirmed that the Company has complied with the disclosure requirements under the Listing Rules regarding the connected transactions and continuing connected transactions.

Save as disclosed above, the significant related party transactions, including transactions constituted connected transactions and continuing connected transactions under the Listing Rules made 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 executives or any of their spouse or children under the age of 18 to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2020, 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 Kar-shun, Henry	Beneficial owner	Personal interest	2,668,909	2,668,909	0.10
Dr. Cheng Chi-kong, Adrian	Beneficial owner	Personal interest	2,059,118	2,059,118	0.08
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]		

Notes:

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

(2) Every four (4) issued shares of NWD where consolidated into one (1) consolidated share on 23 June 2020.

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** (Note)	**Balance as at 1 July 2019**	**Granted during the year**	**Exercised during the year**	**Adjusted during the year**[4]	**Balance as at 30 June 2020**	**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	–	–	(1,500,000)	500,000	40.144[4]
Dr. Cheng Chi-kong, Adrian	9 March 2016	(3)	3,800,000	–	(3,800,000)	–	–	7.200
	10 June 2016	(1)	3,736,471	–	(3,736,471)	–	–	7.540
	3 July 2017	(2)	2,000,000	–	–	(1,500,000)	500,000	40.144[4]
			22,212,108	–	(18,212,108)	(3,000,000)	1,000,000	

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) Every four (4) issued shares of NWD were consolidated into one (1) consolidated share on 23 June 2020 which gave rise to the adjustments to the number of outstanding share options and the exercise price. The exercise price per share was adjusted from HK$10.036 to HK$40.144.

(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 2019**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**Balance as at 30 June 2020**	**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 2020, 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 2020, 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 2020, 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 2020, the total number of employees of the Group was 3,060 (31 December 2019: 3,303). 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 July 2019, Techwise Enterprises Limited, a wholly-owned subsidiary incorporated in the British Virgin Islands with limited liability, entered into an agreement to sell the entire issued share capital of Well Metro Group Limited to K11 Sales & E-Commerce Company Limited, a fellow subsidiary of the Company, at a gross consideration of HK$1,000,000. Well Metro Group is principally engaged in brand management, and the distribution and retailing of fashion apparels and accessories in the PRC. The transaction was completed in July 2019.

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

Based on the information publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Directors confirm that the Company has maintained the prescribed public float as required under 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 2% of the Group's revenue was attributed by the Group's largest customer and less than 55% of the Group's total purchases were attributed by the Group's five largest direct sales suppliers and approximately 17% 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 2020 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, 29 September 2020

INDEPENDENT AUDITOR'S REPORT

pwc

羅兵咸永道

TO THE SHAREHOLDERS OF NEW WORLD DEPARTMENT STORE CHINA LIMITED

(incorporated in the 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 64 to 146, which comprise:

- the consolidated statement of financial position as at 30 June 2020;
- 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 2020, 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.

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TO THE SHAREHOLDERS OF NEW WORLD DEPARTMENT STORE CHINA LIMITED (continued)
(incorporated in the 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, right-of-use assets and goodwill
- Valuation of investment properties

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of property, plant and equipment, right-of-use assets and goodwill	
Refer to Notes 5, 8, 16 and 19 to the consolidated financial statements. As at 30 June 2020, the Group had property, plant and equipment, right-of-use assets and goodwill of HK$328 million, HK$2,816 million and HK$1,210 million respectively, primarily allocated to cash generating units of the department store and other retail related businesses and discounted cash flow model was adopted for the impairment assessment as required. Impairment losses of goodwill, and property, plant and equipment and right-of-use assets of HK$459 million and HK$22 million respectively were accounted for under "Other losses, net" in the consolidated income statement.	Our procedures in relation to management's impairment assessment of property, plant and equipment, right-of-use assets and goodwill allocated to cash generating units of the department store and other retail related businesses, where discounted cash flow model was adopted, included: • Obtaining management's analysis of the indications of impairment and understanding management's rationale for the analysis; • Assess 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. Internal valuation expert had been engaged to assist the review on the methodology of the recoverable amount calculations and discount rates on selected CGUs; • 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;

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

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of property, plant and equipment, right-of-use assets and goodwill (continued)	
Management has performed impairment assessments of property, plant and equipment, right-of-use assets and goodwill allocated to cash generating units of the department store and other retail related businesses. We focus on this area because the impairment assessment required significant management judgement and estimates with respect to annual gross revenue growth rates and gross margin ratios within the forecast period, long term growth rate and discount rate applied to the cash flow forecasts.	• Reconciling input data to the budgets approved by management; • Evaluating the key assumptions used in the calculations, comprising annual gross 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, right-of-use assets and goodwill to be supportable based on the available evidence.
Valuation of investment properties	
Refer to Notes 5 and 17 to the consolidated financial statements. The Group's investment properties amounted to HK$4,527 million as at 30 June 2020. A net fair value loss on investment properties of HK$39 million was accounted for under "Changes in fair value of investment properties" in the consolidated income statement.	Our procedures in relation to management's valuation of investment properties included: • Assessing the competence, capabilities and objectivity of independent professional valuer; • Assessing the valuation methodologies used by the independent professional valuer and management to estimate the fair value of investment properties;

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

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of investment properties (continued)	
Management engaged an independent professional valuer to perform valuation of investment properties at each reporting period end. 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 independent professional valuer and management.	• Evaluating the key assumptions used in the valuation, particularly the capitalisation rates and rental rates by comparing prevailing market rents adopted by the independent professional valuer to recent lettings of the underlying investment properties or other comparable properties. Internal valuation expert had been engaged to assist the review on the methodology used and the appropriateness of the key assumptions on selected investment properties; and • Performing sample test on the accuracy of the input data used by the independent professional 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 used in the valuation of investment properties was appropriate and key assumptions used by management were supportable based on available evidence.

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.

羅兵咸永道

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

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 is responsible for overseeing the Group's financial reporting process.

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.

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

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

- 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.

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, actions taken to eliminate threats or safeguards applied.

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

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

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, 29 September 2020

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2020

	Note	2020 HK$'000	2019 HK$'000
Revenue	6	**2,232,691**	3,519,017
Other income	7	**93,525**	150,251
Other losses, net	8	**(469,296)**	(147,360)
Changes in fair value of investment properties	17	**(39,125)**	(20)
Purchases of and changes in inventories, net		**(546,981)**	(912,331)
Purchases of promotion items		**(11,453)**	(28,285)
Employee benefit expense	11	**(450,323)**	(651,358)
Depreciation and amortisation		**(601,586)**	(209,653)
Rental expense		**(118,295)**	(1,057,897)
Other operating expenses, net	9	**(287,117)**	(457,762)
Operating (loss)/profit		**(197,960)**	204,602
Finance income		**44,932**	51,964
Finance costs		**(251,286)**	(35,782)
Finance (costs)/income, net	10	**(206,354)**	16,182
		(404,314)	220,784
Share of results of associated companies	20	**(339)**	40
(Loss)/profit before income tax		**(404,653)**	220,824
Income tax expense	13	**(79,015)**	(188,161)
(Loss)/profit for the year		**(483,668)**	32,663
Attributable to:			
Shareholders of the Company		**(483,668)**	32,663
(Loss)/earnings per share attributable to shareholders of the Company for the year (expressed in HK$ per share)			
– Basic and diluted	15	**(0.29)**	0.02

The notes on pages 72 to 146 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2020

	2020 HK$'000	2019 HK$'000
(Loss)/profit for the year	**(483,668)**	32,663
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Revaluation of properties upon reclassification from property, plant and equipment and right-of-use assets (2019: land use rights) to investment properties	**7,638**	49,751
– Deferred income tax thereof	**(1,910)**	(12,438)
	5,728	37,313
Items that may be reclassified subsequently to profit or loss		
Release of reserve upon disposal/deregistration of subsidiaries	**(1,403)**	(11,805)
Translation differences	**(209,255)**	(334,903)
	(210,658)	(346,708)
Other comprehensive income for the year, net of tax	**(204,930)**	(309,395)
Total comprehensive income for the year	**(688,598)**	(276,732)
Attributable to:		
Shareholders of the Company	**(688,598)**	(276,732)

The notes on pages 72 to 146 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Note	2020 HK$'000	2019 HK$'000
Assets			
Non-current assets			
Property, plant and equipment	16(a)	**1,004,982**	888,044
Investment properties	17	**4,526,518**	4,692,081
Right-of-use assets	16(b)	**3,644,746**	–
Land use rights	18	**–**	475,071
Intangible assets	19	**1,453,148**	1,972,351
Interests in associated companies	20	**412**	1,563
Other non-current assets	21	**–**	659,708
Prepayments, deposits and other receivables	22	**192,510**	241,631
Finance lease receivables	34	**217,855**	–
Deferred income tax assets	31	**129,203**	99,793
		11,169,374	9,030,242
Current assets			
Inventories	23	**95,035**	94,450
Debtors	24	**40,193**	63,441
Prepayments, deposits and other receivables	22	**256,832**	301,522
Finance lease receivables	34	**41,294**	–
Amounts due from fellow subsidiaries	25	**2,484**	2,840
Amounts due from related companies	25	**1**	186
Fixed deposits with original maturity over three months	26	**153,735**	131,111
Cash and bank balances	27	**1,360,328**	1,735,590
		1,949,902	2,329,140
Assets classified as held for sale	37	**–**	438,141
Total current assets		**1,949,902**	2,767,281
Total assets		**13,119,276**	11,797,523
Equity and liabilities			
Equity			
Share capital	28	**168,615**	168,615
Reserves	29	**4,040,706**	5,673,994
Total equity		**4,209,321**	5,842,609

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Note	2020 HK$'000	2019 HK$'000
Liabilities			
Non-current liabilities			
Accruals and other payables	32	–	439,132
Lease liabilities	33	**3,765,923**	–
Deferred income tax liabilities	31	**846,372**	870,507
		4,612,295	1,309,639
Current liabilities			
Creditors	32	**878,364**	1,337,492
Accruals and other payables	32	**913,725**	1,051,134
Lease liabilities	33	**698,671**	–
Contract liabilities	35	**275,924**	251,252
Amounts due to fellow subsidiaries	25	**7,650**	9,935
Amounts due to related companies	25	**26,986**	8,652
Borrowings	30	**1,486,222**	1,628,049
Tax payable		**10,118**	20,933
		4,297,660	4,307,447
Liabilities directly associated with assets classified as held for sale	37	–	337,828
Total current liabilities		**4,297,660**	4,645,275
Total liabilities		**8,909,955**	5,954,914
Total equity and liabilities		**13,119,276**	11,797,523

The consolidated financial statements on pages 64 to 146 were approved by the Board of Directors on 29 September 2020 and were signed on its behalf

Dr. Cheng Kar-shun, Henry
Director

Mr. Cheung Fai-yet, Philip
Director

The notes on pages 72 to 146 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

	Attributable to shareholders of the Company									
	Share capital HK$'000	Share premium HK$'000	Property revaluation reserve HK$'000	Capital reserve HK$'000	Statutory reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Shareholders' funds HK$'000	Non-controlling interests HK$'000	Total HK$'000
As at 1 July 2019	168,615	1,826,646	174,741	391,588	446,323	(24,441)	2,859,137	5,842,609	–	5,842,609
Adjustment on adoption of HKFRS 16, net of tax	–	–	–	–	–	–	(944,690)	(944,690)	–	(944,690)
As at 1 July 2019, as adjusted	168,615	1,826,646	174,741	391,588	446,323	(24,441)	1,914,447	4,897,919	–	4,897,919
Comprehensive income										
Loss for the year	–	–	–	–	–	–	(483,668)	(483,668)	–	(483,668)
Other comprehensive income										
Revaluation of property upon reclassification from property, plant and equipment and right-of-use assets to investment properties	–	–	7,638	–	–	–	–	7,638	–	7,638
– Deferred income tax thereof	–	–	(1,910)	–	–	–	–	(1,910)	–	(1,910)
Release of reserve upon disposal/deregistration of subsidiaries	–	–	–	–	–	(1,403)	–	(1,403)	–	(1,403)
Translation differences	–	–	–	–	–	(209,255)	–	(209,255)	–	(209,255)
Total comprehensive income for the year ended 30 June 2020	–	–	5,728	–	–	(210,658)	(483,668)	(688,598)	–	(688,598)
Transactions with owners										
Transfer to statutory reserve	–	–	–	–	12,836	–	(12,836)	–	–	–
Total transactions with owners	–	–	–	–	12,836	–	(12,836)	–	–	–
As at 30 June 2020	168,615	1,826,646	180,469	391,588	459,159	(235,099)	1,417,943	4,209,321	–	4,209,321

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

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

The notes on pages 72 to 146 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2020

	Note	2020 HK$'000	2019 HK$'000
Cash flows from operating activities			
(Loss)/profit before income tax		**(404,653)**	220,824
Adjustments for:			
– Finance income		**(44,932)**	(51,964)
– Interest income from finance leases as the lessor		**(12,456)**	–
– Finance costs		**251,286**	35,782
– Amortisation of land use rights		**–**	21,584
– Depreciation of property, plant and equipment		**149,690**	188,069
– Depreciation of right-of-use assets		**451,896**	–
– Changes in fair value of investment properties		**39,125**	20
– (Gain)/loss on derecognition/disposal of property, plant and equipment and right-of-use assets		**(8,045)**	9,124
– Loss on disposal of associated companies		**11**	–
– Gain on deregistration of subsidiaries		**(12,399)**	(11,805)
– Impairment loss on goodwill		**459,227**	57,471
– Impairment loss on property, plant and equipment and right-of-use assets		**22,144**	13,445
– Impairment loss on prepayments, deposits and other receivables		**4,444**	77,886
– Loss on derecognition of finance lease receivables		**19,276**	–
– Loss on lease modification of finance lease receivables		**34,135**	–
– Rent concessions		**(49,497)**	–
– Inventory write-down, net		**111**	9,315
– Provision for doubtful debts, net		**19,598**	5,725
– Fair value loss on financial asset or liability at fair value through profit or loss		**–**	1,239
– Share of results of associated companies		**339**	(40)
– Net foreign exchange difference		**(6,366)**	4,766
Operating profit before working capital changes		**912,934**	581,441
Changes in:			
Inventories		**(3,851)**	(19,839)
Debtors		**1,793**	5,362
Prepayments, deposits and other receivables		**(28,792)**	61,973
Creditors		**(419,646)**	(210,519)
Accruals and other payables		**(59,043)**	(19,860)
Contract liabilities		**33,321**	(65,294)
Amounts due from/(to) fellow subsidiaries		**769**	(11,669)
Amounts due from/(to) related companies		**19,008**	(15,949)
Cash generated from operations		**456,493**	305,646
Mainland China tax paid		**(99,655)**	(158,229)
Net cash generated from operating activities		**356,838**	147,417

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2020

	Note	2020 HK$'000	2019 HK$'000
Cash flows from investing activities			
Additions to investment properties		**(3,699)**	(8,585)
Additions to property, plant and equipment and right-of-use assets		**(76,519)**	(107,092)
Settlement of financial liability at fair value through profit or loss		**–**	(2,104)
Settlement of amount due from disposed subsidiaries		**100,000**	–
Net cash outflow from disposal of subsidiaries	37	**(45,145)**	–
Proceeds from disposal of associated companies		**763**	–
Proceeds from disposal of property, plant and equipment		**167**	3,448
Increase in fixed deposits with original maturity over three months		**(27,246)**	(91,642)
Principal portion of finance lease received as the lessor		**51,743**	–
Interest portion of finance lease received as the lessor		**12,456**	–
Decrease/(increase) in restricted cash		**1,905**	(1,948)
Interest received		**43,725**	58,299
Net cash generated from/(used in) investing activities		**58,150**	(149,624)
Cash flows from financing activities			
Drawdown of bank borrowings	38	**634,889**	545,723
Repayment of bank borrowings and finance leases	38	**(771,111)**	(601,204)
Drawdown of shareholder loan	38	**–**	80,000
Finance costs paid	38	**(22,037)**	(62,417)
Principal portion of lease payments as the lessee	38	**(408,402)**	–
Interest portion of lease payments as the lessee	38	**(209,619)**	–
Net cash used in financing activities		**(776,280)**	(37,898)
Net decrease in cash and cash equivalents		**(361,292)**	(40,105)
Cash and cash equivalents at beginning of the year		**1,733,642**	1,904,904
Cash and cash equivalents of disposed subsidiaries classified as held for sale at beginning of the year		**46,145**	–
Effect of foreign exchange rate changes		**(58,167)**	(85,012)
Less: cash and cash equivalents included in assets classified as held for sale	37	**–**	(46,145)
Cash and cash equivalents at end of the year	27	**1,360,328**	1,733,642

The notes on pages 72 to 146 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 29 September 2020.

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 2020 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 which is 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 5.

As at 30 June 2020, the Group's current liabilities exceeded its current assets by approximately HK$2,347,758,000 (2019: HK$1,877,994,000). Taking into account the cash flows from operating activities, the track record of successful renewal and refinancing of the borrowings and asset backing, the Group has a reasonable expectation that it has adequate resources to meet its liabilities and commitments as and when they fall due and to continue in operational existence for the foreseeable future. Accordingly, it continues to adopt the going concern basis in preparing the consolidated financial statements.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) Adoption of new standard, amendments to standards and interpretation

In the current year, the Group has adopted the following new standard, amendments to standards and interpretation, which are mandatory for the financial year ended 30 June 2020:

HKFRS 16	Leases
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Employee Benefits
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

Except for the adoption of HKFRS 16 disclosed in Note 3, the adoption of other amendments to standards and interpretation does not have significant effect on the results and financial position of the Group.

(b) Amended standards early adopted by the Group

The Group has early adopted Amendment to HKFRS 16 – COVID-19-related rent concessions retrospectively from 1 July 2019. The amendment provides an optional practical expedient allowing lessees to elect not to assess whether a rent concession related to COVID-19 is a lease modification.

Lessees adopting this election may account for qualifying rent concessions in the same way as they would if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; b) any reduction in lease payments affects only payments due on or before 30 June 2021; and c) there is no substantive change to other terms and conditions of the lease.

The Group has applied the practical expedient to all qualifying COVID-19-related rent concessions. Rent concessions totalling HK$49,497,000 have been accounted for as negative variable lease payments and recognised in other losses, net in the consolidated income statement for the year ended 30 June 2020, with a corresponding adjustment to the lease liability. There is no impact on the opening balance of equity at 1 July 2019.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(c) New standards and amendments to standards which are not yet effective

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 2020 which the Group has not early adopted:

Effective for the year ending 30 June 2021:

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

Effective for the year ending 30 June 2022:

HKFRS 17	Insurance contracts

Effective for the year ending 30 June 2023:

Amendments to HKAS 1	Classification of Liabilities as Current or Non-Current
Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020 Cycle

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 amendments to existing standards and interpretation on its result of operation and financial position.

2.2 Subsidiaries

(i) Consolidation

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

(i) ***Consolidation*** *(continued)*

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.

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 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Associated companies

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

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

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

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

2.4 Segment reporting

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

2.5 Property, plant and equipment

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

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

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

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

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

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

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

2.6 Investment properties

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by independent professional valuer. 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.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.6 Investment properties (continued)

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 and right-of-use assets. However, if the fair value of the property at the date of transfer which results in a reversal of the previous impairment loss, the write-back is recognised in the consolidated income statement.

2.7 Land use rights

All lands in Mainland China are state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the right to use certain land. The premiums paid for such right, which were previously treated as prepayment for operating leases and recorded as land use rights, are classified as right-of-use assets upon adoption of HKFRS 16 (except for those accounted as investment properties), which are amortised over the lease periods using the straight-line method.

2.8 Intangible assets

(i) Goodwill

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

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

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

(ii) Operating rights

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

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

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

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

2.10 Investments and other financial assets

(a) *Classification*

Debt instruments

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

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

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

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.10 Investments and other financial assets (continued)

(a) *Classification* *(continued)*

Debt instruments (continued)

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

- the objective of the Group's business model is to hold the asset to collect the contractual cash flows and to sell financial assets; and
- the contractual terms of the debt instrument give rise to cash flows that are solely payments of principal and interest on the principal outstanding.

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

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

Equity instruments

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

(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)

2.11 Impairment of financial assets

The Group assesses on a forward looking basis the expected credit losses associated with its assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 4.1(b) details how the Group determines whether there has been a significant increase in credit risk.

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

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

2.12 Derivative financial instruments

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

2.13 Debtors and other receivables

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

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

2.14 Inventories

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

2.15 Cash and cash equivalents

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

2.16 Share capital

Ordinary shares are classified as equity.

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.17 Creditors and other payables

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

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

2.18 Borrowings

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

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

2.19 Borrowing costs

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

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

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.20 Current and deferred income tax

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

(i) Current income tax

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

(ii) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

(iii) Offsetting

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.21 Employee benefits

(i) Employee leave entitlements

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

(ii) Pension obligations

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

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

(iii) Bonus plans

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

(iv) Termination benefits

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

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

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

2.22 Provisions, contingent liabilities and contingent assets

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.22 Provisions, contingent liabilities and contingent assets (continued)

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

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

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

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

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

2.23 Revenue and income recognition

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

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

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.23 Revenue and income recognition (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.

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

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

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.

Management fee income is recognised when management and advisory services are rendered.

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

2.24 Government grants

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

2.25 Foreign currency translation

(i) Functional and presentation currency

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

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.25 Foreign currency translation (continued)

(ii) Transactions and balances

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

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

(iii) Group companies

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

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

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

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

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

(iv) Determination of functional currency

Due to the changes in operation of Happy Growth Investment Limited, a subsidiary of the Group, and its subsidiary ("Happy Growth Group") in September 2019, the Directors considered RMB had become the currency that mainly influenced the operations and cash flow of Happy Growth Group, therefore the functional currency of these entities was redesignated as RMB from HK$. The determination of functional currency of these entities was applied in accordance with HKAS 21 "The Effect of Changes in Foreign Exchange Rates". If the functional currency of these entities remained HK$ throughout the period, the exchange differences arising from the Group's borrowings denominated in HK$ would be recognised in other comprehensive income and the Group's loss before income tax for the year would have been approximately HK$5,000,000 higher.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.26 Leases

Accounting policies applied before 1 July 2019

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.

Accounting policies applied from 1 July 2019

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. 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 right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.26 Leases (continued)

Accounting policies applied from 1 July 2019 *(continued)*

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the consolidated income statement. Short-term leases are leases with a lease term of 12 months or less.

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate standalone price of the non-lease components.

As an intermediate lessor, certain sub-leases are recognised as finance lease receivables at the present value of the minimum lease payments and the estimated unguaranteed residual value. The corresponding right-of-use assets are de-recognised. The interest income is recognised to the consolidated income statement over the sub-lease period.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2.27 Dividend distribution

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

2.28 Disposal groups held for sale

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

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

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

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

3 CHANGES IN ACCOUNTING POLICIES

As explained in Note 2.1(a) above, the Group has adopted HKFRS 16 from 1 July 2019, which resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. As allowed in the specific transition provision in the standards, comparative figures is not restated.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 Leases ("HKAS 17"). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rates applied to the lease liabilities on 1 July 2019 were 4.9% for leases in Mainland China. While for right-of-use assets, the Group has elected to measure the right-of-use assets as if HKFRS 16 had been applied since the commencement date of a lease using the same incremental borrowing rate.

For leases previously classified as finance leases, the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application.

3 CHANGES IN ACCOUNTING POLICIES (continued)

There were no existing contracts that were not classified as a lease under HKAS 17 but satisfy the definition of a lease under HKFRS 16.

There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The total impact on the Group's lease liabilities as at 1 July 2019 is as follows:

	HK$'000
Operating lease commitments disclosed as at 30 June 2019	5,043,154
Discounted using the lessee's incremental borrowing rate as at the date of initial application	4,488,772
Less: short-term leases recognised on a straight-line basis as expense	(1,616)
Less: assets classified as held for sale	(85,574)
Lease liabilities recognised as at 1 July 2019	4,401,582
Of which are:	
Current lease liabilities	599,639
Non-current lease liabilities	3,801,943
	4,401,582

The recognised right-of-use assets relate to the following types of assets:

	As at 1 July 2019 HK$'000
Prepaid leasehold land	475,071
Buildings, plant and machinery and others	2,767,963
	3,243,034

3 CHANGES IN ACCOUNTING POLICIES (continued)

The change in accounting policies affected the following items in the consolidated statement of financial position as at 1 July 2019:

	As at 1 July 2019		
	As previously stated HK$'000	Effects of adoption of HKFRS 16 HK$'000	As restated HK$'000
Consolidated statement of financial position (extract)			
Non-current assets			
Property, plant and equipment	888,044	(24,487)	863,557
Land use rights	475,071	(475,071)	–
Right-of-use assets	–	3,243,034	3,243,034
Prepayments, deposits and other receivables	241,631	(12,734)	228,897
Finance lease receivables	–	219,914	219,914
Deferred income tax assets	99,793	31,864	131,657
Current assets			
Prepayments, deposits and other receivables	301,522	(72,329)	229,193
Finance lease receivables	–	71,847	71,847
Assets classified as held for sale	438,141	77,351	515,492
Equity			
Retained earnings	2,859,137	(944,690)	1,914,447
Non-current liabilities			
Accruals and other payables	439,132	(439,132)	–
Lease liabilities	–	3,801,943	3,801,943
Deferred income tax liabilities	870,507	13,893	884,400
Current liabilities			
Accruals and other payables	1,051,134	(57,838)	993,296
Lease liabilities	–	599,639	599,639
Liabilities classified as held for sale	337,828	85,574	423,402

The adoption of HKFRS 16 resulted in changes in certain terminology used. The right-of-use assets in relation to prepaid leasehold land were previously presented as land use rights.

3 CHANGES IN ACCOUNTING POLICIES (continued)

Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend the lease.

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

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

(a) Foreign exchange risk

The Group is mainly exposed to foreign exchange risk arising from HK$, United States dollar ("USD") and Euro ("EUR") against RMB. 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 2020, if HK$, EUR and USD had strengthened/weakened by 5% (2019: 5%) against the RMB with all other variables held constant, loss before income tax for the year would have been approximately HK$70,379,000 higher/lower (2019: profit before income tax lower/higher of HK$1,023,000) mainly as a result of foreign exchange differences on translation of HK$-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.

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.

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(b) Credit risk

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

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

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

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

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

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

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

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(b) *Credit risk* *(continued)*

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

For debtors related to retail sales, which are settled by credit/debit cards and guaranteed by the card issuers, or by major means of electronic payment, no significant impairment allowance had been provided under life-time expected credit loss assessment. Management considered there was no history of default of the card issuers and financial institutions, and also took into account of Group's view of current and forecast economic conditions that may affect the ability of the debtors to settle receivables. No single customer accounted for more than 3% (2019: 3%) of the Group's total revenue during the year.

For finance lease receivables and 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 tenants offset with the deposit placed to the Group by the tenants and the assets of the tenants 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 tenants to settle receivables.

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

(c) *Liquidity risk*

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

As at 30 June 2020, the Group's current liabilities exceeded its current assets by approximately HK$2,347,758,000 (2019: HK$1,877,994,000). 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.

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(c) ***Liquidity risk*** *(continued)*

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**	**More than 5 years HK$'000**
As at 30 June 2020					
Creditors	**878,364**	**878,364**	**878,364**	**–**	**–**
Other payables	**810,156**	**810,156**	**810,156**	**–**	**–**
Amounts due to fellow subsidiaries	**7,650**	**7,650**	**7,650**	**–**	**–**
Amounts due to related companies	**26,986**	**26,986**	**26,986**	**–**	**–**
Borrowings	**1,486,222**	**1,517,673**	**1,517,673**	**–**	**–**
Lease liabilities	**4,464,594**	**5,140,154**	**732,905**	**2,425,534**	**1,981,715**

	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	More than 5 years HK$'000
As at 30 June 2019					
Creditors	1,337,492	1,337,492	1,337,492	–	–
Other payables	816,035	816,035	816,035	–	–
Amounts due to fellow subsidiaries	9,935	9,935	9,935	–	–
Amounts due to related companies	8,652	8,652	8,652	–	–
Borrowings	1,628,049	1,657,512	1,657,512	–	–

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(d) Interest rate risk

Except for the fixed deposits with original maturity over three months and short-term bank deposits as at 30 June 2020 of approximately HK$153,735,000 (2019: HK$131,111,000) and approximately HK$318,923,000 (2019: HK$474,376,000) respectively, which are held at interest rates of ranging from 1.35% to 3.91% (2019: 1.35% to 3.80%) per annum, the Group has no significant interest-bearing assets. The Group's interest rate risk arises from borrowings. Borrowings (including those reclassified as liabilities classified as held for sale) obtained at variable rates of approximately HK$1,412,156,000 (2019: HK$1,884,560,000) expose the Group to cash flow interest rate risk which is partially offset by fixed deposits with original maturity over three months and short-term bank deposits. The Group's income and operating cash flows are substantially independent of changes in market interest rates. At the reporting date, management does not anticipate significant impact resulted from the changes in interest rates.

As at 30 June 2020, if interest rates on fixed deposits with original maturity over three months, short-term bank deposits and borrowings subject to variable rate had been 100 (2019: 100) basis points higher/lower with all other variables held constant, the Group's loss before income tax for the year would have been approximately HK$9,395,000 higher/lower (2019: profit before income tax lower/higher of HK$12,791,000). The sensitivity analysis has been determined assuming that the change in interest rates had occurred at the end of the reporting period.

4.2 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 2020 and 2019, taking into accounts its borrowings, cash and bank balances and fixed deposits with original maturity over three months.

4 FINANCIAL RISK MANAGEMENT (continued)

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

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

The Group had no significant financial instrument that was measured at fair value as at 30 June 2020.

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.

4.4 Valuation techniques used to derive level 2 fair value

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

4 FINANCIAL RISK MANAGEMENT (continued)

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

The fair value of the following financial assets and liabilities approximate their carrying amounts:

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

5 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 has considered the existing and potential impacts arising from the COVID-19 when preparing the consolidated financial statements. Assumptions and estimates are based on circumstances and conditions available when the consolidated financial statements were prepared and in particular, assumed that the current market condition as a result of the COVID-19 is not a long-term norm. Given the severity, duration and economic consequences of the COVID-19 are uncertain, actual results may differ significantly from those assumptions and estimates. The Group will remain alert and cautious on the ongoing development of COVID-19 that may cause further volatility and uncertainty in the global financial market, economy and business environment, and will take necessary measures to address the impact arising therefrom.

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 and right-of-use assets

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.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(a) Estimated useful lives and impairment of property, plant and equipment and right-of-use assets (continued)

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 in accordance with the policy set out in Note 2.9. In determining the value in use, management assesses the present value of the estimated future cash flows expected to arise from the continuing use of the assets and from its disposal at the end of its useful life. Estimates and judgements are applied in determining these future cash flows and the discount rate. Management estimates the future cash flows based on certain assumptions, such as market competition and development and the expected growth in business. The details are set out in Note 16(c).

(b) Valuation of investment properties

The fair value of each investment property is individually determined at the end of each reporting period by independent professional valuer based on a market value assessment. The valuer has 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 17.

The valuations of investment properties were based on the economic, market and other conditions as they exist on, and information available to management as of 30 June 2020. Given the outbreak of COVID-19 has caused significant disruption to economic activities around the world, this disruption has increased the uncertainty of the assumptions used in the valuations being achieved and materialised. Consequently, the ongoing development of COVID-19 may cause unexpected volatility in the future fair value of the investment properties subsequent to 30 June 2020.

(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 23.

(d) Provision for impairment of debtors and finance lease receivables

The Group makes provision for impairment of debtors and finance lease receivables based on an assessment of the recoverability of these receivables. Provisions are recognised where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of debtors and finance lease receivables 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 Notes 24 and 34.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(e) Impairment of goodwill

The Group tests annually and whenever there is an indication that the unit may be impaired whether goodwill has suffered any impairment according to their recoverable amounts determined by the cash-generating units in accordance with the policy set out in Note 2.9. These calculations require the use of estimates which are subject to change of economic environment in future. The details are set out in Note 19.

(f) Recognition of deferred income tax assets

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

(g) Provision for compensation

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

(h) Leases

Liabilities and the corresponding right-of-use assets arising from leases are initially measured at the present value of the lease payments at the commencement date, discounted using the interest rates implicit in the leases, or if that rate cannot be readily determinable, the Group uses the incremental borrowing rate.

The Group generally uses the incremental borrowing rate as the discount rate. The Group applies the incremental borrowing rate with reference to the rate of interest that the Group would have to pay to borrow, over a similar term as that of the lease, the funds necessary to obtain an asset of a similar value to the right-of-use asset in the country where it is located.

Lease payments to be made during the lease term will be included in the measurement of a lease liability. The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any period covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, the Group considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew. The assessment of whether the Group is reasonably certain to exercise the options impacts the lease terms, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

6 REVENUE AND SEGMENT INFORMATION

	2020 HK$'000	2019 HK$'000
Commission income from concessionaire sales	**886,861**	1,420,205
Sales of goods – direct sales	**605,540**	1,251,515
Revenue from contract with customers	**1,492,401**	2,671,720
Rental income	**727,834**	847,297
Interest income from finance leases as the lessor	**12,456**	–
	2,232,691	3,519,017

The income from concessionaire sales is analysed as follows:

	2020 HK$'000	2019 HK$'000
Gross revenue from concessionaire sales	**5,661,827**	8,648,209
Commission income from concessionaire sales	**886,861**	1,420,205

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 other losses, net, changes in fair value of investment properties and net unallocated corporate expenses. In addition, net finance costs or income and share of results of associated companies are not allocated to segments. The measurement of segment assets excludes interests in associated companies, deferred income tax assets, assets classified as held for sale and unallocated corporate assets. There is no inter-segment sales.

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

6 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 2020			
Segment revenue	2,027,823	204,868	2,232,691
Segment operating results	177,100	161,119	338,219
Other losses, net	(469,354)	58	(469,296)
Changes in fair value of investment properties	–	(39,125)	(39,125)
Unallocated corporate expenses, net			(27,758)
Operating loss			(197,960)
Finance income			44,932
Finance costs			(251,286)
Finance costs, net			(206,354)
			(404,314)
Share of results of associated companies			(339)
Loss before income tax			(404,653)
Income tax expense			(79,015)
Loss for the year			(483,668)

6 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 2019			
Segment revenue	3,299,494	219,523	3,519,017
Segment operating results	219,686	170,261	389,947
Other losses, net	(147,372)	12	(147,360)
Changes in fair value of investment properties	–	(20)	(20)
Unallocated corporate expenses, net			(37,965)
Operating profit			204,602
Finance income			51,964
Finance costs			(35,782)
Finance income, net			16,182
			220,784
Share of results of associated companies			40
Profit before income tax			220,824
Income tax expense			(188,161)
Profit for the year			32,663

6 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 2020			
Segment assets	**8,146,316**	**4,820,614**	**12,966,930**
Interests in associated companies	**412**	**–**	**412**
Deferred income tax assets	**129,203**	**–**	**129,203**
Unallocated corporate assets:			
Cash and bank balances			**22,499**
Others			**232**
Total assets			**13,119,276**
For the year ended 30 June 2020			
Additions to non-current assets (Note)	**783,841**	**3,898**	**787,739**
Depreciation	**600,768**	**818**	**601,586**
Impairment loss on goodwill	**459,227**	**–**	**459,227**
Impairment loss on property, plant and equipment and right-of-use assets	**22,144**	**–**	**22,144**
Impairment loss on and provision for prepayments and receivables	**22,678**	**1,364**	**24,042**
Gain on derecognition of right-of-use assets	**(12,884)**	**–**	**(12,884)**
Loss on derecognition and lease modification of finance lease receivables	**53,411**	**–**	**53,411**
As at 30 June 2019			
Segment assets	6,210,628	5,000,810	11,211,438
Interests in associated companies	1,563	–	1,563
Deferred income tax assets	99,793	–	99,793
Assets classified as held for sale	400,997	37,144	438,141
Unallocated corporate assets:			
Cash and bank balances			46,368
Others			220
Total assets			11,797,523
For the year ended 30 June 2019			
Additions to non-current assets (Note)	119,620	9,414	129,034
Depreciation and amortisation	208,868	785	209,653
Impairment loss on goodwill	57,471	–	57,471
Impairment loss on property, plant and equipment	13,445	–	13,445
Impairment loss on and provision for/(reversal of provision for) prepayments and receivables	83,854	(243)	83,611

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.

7 OTHER INCOME

	2020 HK$'000	2019 HK$'000
Compensation from insurance claim	–	3,199
Government grants	25,834	22,881
Income from suppliers	35,032	58,583
Write-back of expired stored value cards	208	21,933
Service fee income	3,664	10,274
Carpark income	7,362	9,262
Other compensation income	15,916	12,318
Write-back of amount due to former shareholder of a subsidiary	–	8,124
Sundries	5,509	3,677
	93,525	150,251

8 OTHER LOSSES, NET

	2020 HK$'000	2019 HK$'000
Changes in fair value on financial asset or liability at fair value through profit or loss	–	1,239
Gain on disposal/deregistration of subsidiaries or associated companies	(12,388)	(11,805)
Impairment loss on goodwill (Note 1)	459,227	57,471
Impairment loss on property, plant and equipment and right-of-use assets (Note 1)	22,144	13,445
Impairment loss on prepayments, deposits and other receivables (Note 1)	4,444	77,886
(Gain)/loss on derecognition/disposal of property, plant and equipment and right-of-use assets	(8,045)	9,124
Loss on derecognition of finance lease receivables	19,276	–
Loss on lease modification of finance lease receivables	34,135	–
Rent concessions (Note 2)	(49,497)	–
	469,296	147,360

Notes:

(1) The impairment provisions were made (i) to reflect management's latest plan for mainly eight department stores (2019: three department stores) in light of the latest market environment, the impact caused by the pandemic of COVID-19 and the management's assessment on the business prospect thereof, and (ii) for mainly four other department stores closed during the year ended 30 June 2019.

(2) Rent concessions represent the change in lease payment directly related to COVID-19.

9 OTHER OPERATING EXPENSES, NET

	2020 HK$'000	2019 HK$'000
Selling, promotion, advertising and related expenses	**31,584**	60,762
Cleaning, repairs and maintenance	**52,190**	70,563
Auditors' remuneration		
– Audit services	**5,054**	5,790
– Non-audit services	**903**	1,348
Net exchange (gains)/losses	**(6,883)**	6,908
Other tax expenses	**115,539**	170,518
Provision for doubtful debts, net	**19,598**	5,725
Compensation expenses (Note)	**52,368**	54,324
Others	**16,764**	81,824
	287,117	457,762

Note:

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

10 FINANCE (COSTS)/INCOME, NET

	2020 HK$'000	2019 HK$'000
Interest income on bank deposits	**44,932**	51,964
Interest expense on bank loans	**(21,771)**	(38,726)
Interest expense on shareholder's loan	**(19,895)**	(17,605)
Interest expense on lease liabilities	**(209,620)**	–
Less: amount capitalised (Note)	**–**	20,549
	(251,286)	(35,782)
	(206,354)	16,182

Note:

For the year ended 30 June 2019, 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 was 3% per annum.

11 EMPLOYEE BENEFIT EXPENSE

	2020 HK$'000	2019 HK$'000
Wages, salaries and other benefits	**420,425**	591,209
Retirement benefit costs – defined contribution plans	**29,898**	60,149
	450,323	651,358

Employee benefit expense includes emoluments of Directors and chief executive (Note 12).

12 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The remuneration of Directors and chief executive for the year ended 30 June 2020 is set out below:

		As management (Note (ii))			
Name of Directors and chief executive	As Director (Note (i)) HK$'000	Basic salaries, housing allowances, other allowances and other benefits in kind HK$'000	Discretionary bonus HK$'000	Retirement benefit costs – defined contribution plans HK$'000	Total HK$'000
Non-executive Directors					
Dr. Cheng Kar-shun, Henry	100	–	–	–	100
Mr. Au Tak-cheong (Note (iii))	75	–	–	–	75
Executive Directors					
Dr. Cheng Chi-kong, Adrian	150	–	–	–	150
Mr. Cheung Fai-yet, Philip (Note (iv))	150	8,296	2,356	800	11,602
Independent non-executive Directors					
Mr. Cheong Ying-chew, Henry	200	–	–	–	200
Mr. Chan Yiu-tong, Ivan	200	–	–	–	200
Mr. Tong Hang-chan, Peter	200	–	–	–	200
Mr. Yu Chun-fai	200	–	–	–	200
Chief executive					
Mr. Ho Kwok Leung, Ivan (Note (v))	–	1,045	–	33	1,078
	1,275	9,341	2,356	833	13,805

12 BENEFITS AND INTERESTS OF DIRECTORS (continued)

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

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

		As management (Note (ii))			
Name of Directors and chief executive	As Director (Note (i)) HK$'000	Basic salaries, housing allowances, other allowances and other benefits in kind HK$'000	Discretionary bonus HK$'000	Retirement benefit costs – defined contribution plans HK$'000	Total HK$'000
Non-executive Directors					
Dr. Cheng Kar-shun, Henry	100	–	–	–	100
Mr. Au Tak-cheong (Note (iii))	100	–	–	–	100
Mr. Cheung Fai-yet, Philip	8	–	–	–	8
Executive Directors					
Dr. Cheng Chi-kong, Adrian	150	–	–	–	150
Mr. Cheung Fai-yet, Philip (Note (iv))	138	6,401	–	639	7,178
Mr. Niu Wei, David	13	525	–	2	540
Independent non-executive Directors					
Mr. Cheong Ying-chew, Henry	200	–	–	–	200
Mr. Chan Yiu-tong, Ivan	200	–	–	–	200
Mr. Tong Hang-chan, Peter	200	–	–	–	200
Mr. Yu Chun-fai	200	–	–	–	200
Chief executive					
Mr. Ho Kwok Leung, Ivan (Note (v))	–	2,402	–	120	2,522
	1,309	9,328	–	761	11,398

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) Mr. Au Tak-cheong resigned as a non-executive Director with effect from 1 April 2020.

(iv) Mr. Cheung Fai-yet, Philip appointed as the Chief Executive Officer with effect from 15 August 2019.

(v) Mr. Ho Kwok-leung, Ivan resigned as the Chief Executive Officer with effect from 15 August 2019.

(vi) No Director waived or agreed to waive any emoluments during the years ended 30 June 2020 and 2019.

12 BENEFITS AND INTERESTS OF DIRECTORS (continued)

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

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

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group includes one Director for the year ended 30 June 2020 (2019: one Director and one chief executive), whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2019: three) individuals during the year are as follows:

	2020 HK$'000	2019 HK$'000
Basic salaries, housing allowances, other allowances and other benefits in kind	8,384	7,256
Discretionary bonus	3,734	941
Retirement benefit costs – defined contribution plans	113	141
	12,231	8,338

The emoluments fell within the following bands:

	Number of individuals	
	2020	2019
Emolument bands		
HK$2,000,001 – HK$2,500,000	2	1
HK$2,500,001 – HK$3,000,000	1	1
HK$3,000,001 – HK$3,500,000	–	1
HK$5,000,001 – HK$5,500,000	1	–
	4	3

13 INCOME TAX EXPENSE

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

	2020 HK$'000	2019 HK$'000
Current income tax		
– Mainland China taxation	**92,624**	153,256
– Over-provision in prior years	**(827)**	(827)
Deferred income tax (Note 31)		
– Undistributed retained earnings	**–**	(1,736)
– Other temporary differences	**(12,782)**	37,468
	79,015	188,161

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 2020 and 2019.

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

The taxation of the Group's (loss)/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:

	2020 HK$'000	2019 HK$'000
(Loss)/profit before income tax and share of results of associated companies	**(404,314)**	220,784
Tax calculated at applicable tax rate	**(101,079)**	55,196
Expenses not deductible for taxation purpose	**145,973**	61,546
Income not subject to taxation	**(4,805)**	(4,554)
Utilisation of previously unrecognised tax losses and other temporary differences	**(7,250)**	(15,309)
Reversal of previously recognised/(recognition of previously unrecognised) tax losses and other temporary differences, net	**8,334**	(3,787)
Tax losses and other temporary differences not recognised	**38,669**	97,622
Over-provision in prior years	**(827)**	(827)
PRC withholding income taxes	**–**	(1,726)
Income tax expense	**79,015**	188,161

	2020	2019
Domestic applicable tax rates	**25%**	25%

14 DIVIDENDS

The Directors have resolved not to recommend a final dividend for the year ended 30 June 2020 (2019: HK$Nil).

15 (LOSS)/EARNINGS PER SHARE

(a) Basic

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

	2020	2019
(Loss)/profit attributable to shareholders of the Company (HK$'000)	**(483,668)**	32,663
Weighted average number of ordinary shares in issue (shares in thousands)	**1,686,145**	1,686,145
Basic (loss)/earnings per share (HK$ per share)	**(0.29)**	0.02

(b) Diluted

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

During the years ended 30 June 2020 and 2019, there was no dilutive potential ordinary share.

16(a) 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 2019	511,618	61,327	8,961	2,377,461	29,638	12,206	255,917	22,746	3,279,874
Adjustment on adoption of HKFRS 16 (Note 3)	(32,205)	–	–	–	–	–	–	–	(32,205)
As at 1 July 2019, as adjusted	479,413	61,327	8,961	2,377,461	29,638	12,206	255,917	22,746	3,247,669
Translation differences	(18,687)	(2,028)	(279)	(78,600)	(946)	(401)	(8,110)	(756)	(109,807)
Additions	272,909	988	–	58,717	1,187	217	8,886	1,942	344,846
Disposals	–	(413)	(1,380)	(140,802)	(4,207)	(497)	(39,675)	–	(186,974)
Reclassification	–	–	–	181	–	–	1,168	(1,349)	–
Transfer to investment properties	(10,706)	–	–	(2,652)	–	–	–	–	(13,358)
As at 30 June 2020	722,929	59,874	7,302	2,214,305	25,672	11,525	218,186	22,583	3,282,376
Accumulated depreciation and impairment									
As at 1 July 2019	135,582	59,017	8,485	1,931,243	26,718	11,235	219,550	–	2,391,830
Adjustment on adoption of HKFRS 16 (Note 3)	(7,718)	–	–	–	–	–	–	–	(7,718)
As at 1 July 2019, as adjusted	127,864	59,017	8,485	1,931,243	26,718	11,235	219,550	–	2,384,112
Translation differences	(4,390)	(1,952)	(268)	(64,219)	(847)	(370)	(7,001)	–	(79,047)
Charge for the year	20,176	1,001	324	108,656	1,086	404	18,043	–	149,690
Written back on disposals	–	(413)	(1,380)	(135,910)	(4,196)	(490)	(39,580)	–	(181,969)
Impairment	–	–	–	9,785	5	18	50	–	9,858
Transfer to investment properties	(4,303)	–	–	(947)	–	–	–	–	(5,250)
As at 30 June 2020	139,347	57,653	7,161	1,848,608	22,766	10,797	191,062	–	2,277,394
Net book amount									
As at 30 June 2020	583,582	2,221	141	365,697	2,906	728	27,124	22,583	1,004,982

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

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

	2020 HK$'000	2019 HK$'000
Capitalised finance lease		
Cost	–	78
Less: accumulated amortisation	–	(62)
Transfer to assets classified as held for sale	–	(16)
Carrying amount	–	–

The Group leased the computer under non-cancellable finance lease agreement. The lease term was 5 years, and ownership of the asset was with the Group.

16(b) RIGHT-OF-USE ASSETS

	Prepaid leasehold land HK$'000	Buildings, plant and machinery and others HK$'000	Total HK$'000
As at 1 July 2019	–	–	–
Adjustment on adoption of HKFRS 16 (Note 3)	475,071	2,767,963	3,243,034
As at 1 July 2019, as adjusted	475,071	2,767,963	3,243,034
Additions	386,693	255,990	642,683
Lease modification	–	467,700	467,700
Derecognition	–	(123,908)	(123,908)
Depreciation	(27,426)	(424,470)	(451,896)
Transfer to investment properties	(8,681)	–	(8,681)
Impairment charged for the year	–	(12,286)	(12,286)
Exchange difference	(19,514)	(92,386)	(111,900)
As at 30 June 2020	806,143	2,838,603	3,644,746

The Group leases various properties. Lease agreements are made for a range of fixed periods but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Some leases contain variable payment terms that are linked to sales or net profits generated. Variable lease payments that depend on sales or net profits are recognised in the consolidated income statement in the period in which the condition that triggers those payments occurs. Most leases are subject to fixed payments.

Extension options are included in a number of property leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension options held are exercisable only by the Group and not by the respective lessor.

For the year ended 30 June 2020, total cash outflows for leases was approximately HK$762,425,000.

16(c) IMPAIRMENT TESTS FOR RIGHT-OF-USE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and right-of-use assets are allocated to the Group's CGUs identified. For the purpose of impairment test, the recoverable amounts of CGUs is determined based on the higher of fair value less costs of disposal and value in use calculation.

The recoverable amounts of property, plant and equipment and right-of-use assets, which carry at approximately HK$677,341,000 and HK$828,940,000 respectively as at 30 June 2020, were determined based on fair value less costs of disposal. Whereas the fair value of the corresponding properties at 30 June 2020 was valued by an independent professional valuer.

The recoverable amounts of property, plant and equipment and right-of-use assets, which carry at approximately HK$327,641,000 and HK$2,815,806,000 respectively as at 30 June 2020, were determined based on value in use calculations if impairment indicators were identified, which used cash flow projections based on financial estimates covering a period over the lease term, and an average pre-tax discount rate of 15% (2019: 14.8%) or the equivalent of a post-tax discount rate of 12.4% (2019: 12.4%).

The key assumptions used in the value in use calculations on annual gross revenue growth rate, gross margin ratios and discount rate as at 30 June 2020 and 2019 are based on management's best estimates and reflect specific risks relating to the relevant businesses.

During the year ended 30 June 2020, impairment loss of approximately HK$22,144,000 (2019: HK$13,445,000) was recognised. For the year ended 30 June 2020, impairment provision were made on property, plant and equipment and right-of-use assets to reflect management's latest plan for two department stores in light of the latest market environment, the impact caused by the pandemic of COVID-19 and the management's assessment on the business prospect thereof. The estimated recoverable amounts of these department stores were approximately HK$13,560,000. The impairment loss recognised for the year represented the difference between the carrying amounts of property, plant and equipment and right-of-use assets of the CGUs and their estimated recoverable amounts.

If the annual gross revenue had been 10% (2019: 5%) lower than management's current estimates, the loss before income tax for the year would have been approximately HK$60,462,000 higher (2019: profit before income tax lower of HK$23,248,000).

If either the gross margin ratios had been 1% (2019: 1%) lower than management's current estimates, the loss before income tax for the year would have been approximately HK$25,007,000 higher (2019: profit before income tax lower of HK$8,326,000).

If the discount rate had been 0.5% (2019: 0.5%) higher than management's current estimates, there is no material adverse impact to the consolidated financial statements.

If the fair value of the corresponding properties has been 5% lower with all other variables held constant, the loss before income tax for the year would have been approximately HK$52,000,000 higher.

17 INVESTMENT PROPERTIES

	2020 HK$'000	2019 HK$'000
At beginning of the year	**4,692,081**	4,761,907
Translation differences	**(154,564)**	(218,562)
Additions	**3,699**	8,585
Transfer from property, plant and equipment	**10,181**	73,924
Transfer from land use rights	**–**	103,391
Transfer from right-of-use assets	**14,246**	–
Changes in fair value charged to consolidated income statement	**(39,125)**	(20)
Transfer to assets classified as held for sale	**–**	(37,144)
At end of the year	**4,526,518**	4,692,081

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

	2020 HK$'000	2019 HK$'000
Net book value at the date of transfer of:		
– Property, plant and equipment (Note 16(a))	**8,108**	61,816
– Land use rights (Note 18)	**–**	65,748
– Right-of-use assets (Note 16(b))	**8,681**	–
Revaluation gain recognised in other comprehensive income	**7,638**	49,751
	24,427	177,315
Representing fair value of investment properties transferred from:		
– Property, plant and equipment	**10,181**	73,924
– Land use rights	**–**	103,391
– Right-of-use assets	**14,246**	–
	24,427	177,315

17 INVESTMENT PROPERTIES (continued)

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

	2020 HK$'000	2019 HK$'000
Rental income	**204,868**	219,523
Direct operating expenses from properties that generated rental income	**(43,691)**	(49,249)
	161,177	170,274

As at 30 June 2020, no investment properties was pledged to secure bank loans of the Group (2019: an investment property with carrying value of approximately HK$1,743,182,000 was pledged to secure a bank loan of the Group).

Valuation processes of the Group

Investment properties have been revalued as at 30 June 2020 and 30 June 2019 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 professional valuer for financial reporting purposes. This team reports directly to the senior management. Discussions of valuation processes and results are held between the management and the independent professional 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 professional valuer.

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.

17 INVESTMENT PROPERTIES (continued)

Fair value measurements using significant unobservable inputs (continued)

Information about fair value measurements using significant unobservable inputs:

As at 30 June 2020

Valuation technique	Range of significant unobservable inputs	
Income approach	**Rental rates** **HK$3.7 to HK$11.5 per sq.m. per day**	**Capitalisation rate** **5.0% to 7.0%**

As at 30 June 2019

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

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

As at 30 June 2020, if the market value of investment properties had been 5% (2019: 5%) higher/lower with all other variables held constant, the carrying value of the Group's investment properties would have been approximately HK$226,326,000 (2019: HK$234,604,000) higher/lower.

18 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:

	2020 **HK$'000**	2019 HK$'000
At beginning of the year	**475,071**	605,343
Adjustment on adoption of HKFRS 16 (Note 3)	**(475,071)**	–
At beginning of the year, as adjusted	**–**	605,343
Translation differences	**–**	(26,523)
Transfer to investment properties	**–**	(65,748)
Amortisation	**–**	(21,584)
Transfer to assets classified as held for sale	**–**	(16,417)
At end of the year	**–**	475,071

19 INTANGIBLE ASSETS

	Goodwill HK$'000
Cost	
As at 1 July 2019	**2,131,495**
Translation differences	**(70,270)**
As at 30 June 2020	**2,061,225**
Accumulated impairment	
As at 1 July 2019	**159,144**
Translation differences	**(10,294)**
Impairment	**459,227**
As at 30 June 2020	**608,077**
Net book amount	
As at 30 June 2020	**1,453,148**
Cost	
As at 1 July 2018	2,234,323
Translation differences	(101,500)
Transfer to assets classified as held for sale	(1,328)
As at 30 June 2019	2,131,495
Accumulated impairment	
As at 1 July 2018	107,198
Translation differences	(5,525)
Impairment	57,471
As at 30 June 2019	159,144
Net book amount	
As at 30 June 2019	1,972,351

Impairment tests for goodwill

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

	2020 HK$'000	2019 HK$'000
Shanghai Wujiaochang Branch Store	**477,141**	493,407
Yanjiao Store	**265,092**	274,129
Shanghai Shaanxi Road Branch Store	**235,551**	243,582
Beijing Chongwen Store	**228,040**	235,814
Beijing Liying Store	**96,076**	99,351

19 INTANGIBLE ASSETS (continued)

As at 30 June 2020, goodwill allocated to CGUs of the department store and other retail related businesses and CGUs of the property investment business was approximately HK$1,210,380,000 (2019: HK$1,721,308,000) and approximately HK$242,768,000 (2019: HK$251,043,000) respectively. For the purpose of impairment test, the recoverable amount of each CGU is determined based on the higher of fair value less costs of disposal and value in use calculations. The recoverable amounts of CGUs of the department store and other retail related businesses and CGUs of the property investment business are measured using the discounted cash flow projections and the fair value of the corresponding 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, where applicable. The fair value estimation is included in level 3 fair value hierarchy.

During the year ended 30 June 2020, impairment loss of approximately HK$459,227,000 (2019: HK$57,471,000) was recognised. For the year ended 30 June 2020, impairment provision was made on goodwill of five CGUs allocated to the department store and other retail related businesses of Wuhan Jianshe Store, Wuhan Xudong Branch Store, Chengdu Store, Beijing Trendy Store and Lanzhou Store based on the management's latest plan in light of the latest market environment, the impact caused by the pandemic of COVID-19 and the management's assessment on the business prospect thereof. The estimated recoverable amounts of CGUs were approximately HK$1,235,614,000 (2019: HK$401,137,000). The impairment loss recognised for the year represented the difference between the carrying amount of the CGU including goodwill and its estimated recoverable amount. The Group reassessed all classes of asset of the CGUs, no asset other than goodwill was impaired as at 30 June 2020.

For each of the CGUs with significant amount of goodwill, the key assumptions used in the cash flow projections, where applicable, namely average annual gross revenue growth rate being not more than 19% for the year ended 30 June 2020 (2019: not more than 10%); average gross margin ratios ranging from 9% to 19% (2019: 11.3% to 19.0%), are determined by considering both internal and external factors relating to the businesses of each CGU; the long term growth rate of 3% (2019: 3%) is consistent with the forecast of the businesses and the discount rate of 12.4% (2019: 12.4%) is post-tax and reflects specific risks relating to the relevant businesses.

If the annual gross revenue had been 10% (2019: 5%) lower than management's current estimates, the loss before income tax for the year would have been approximately HK$234,769,000 higher (2019: profit before income tax lower of HK$145,000,000).

If the gross margin ratios had been 1% (2019: 1%) lower than management's current estimates, the loss before income tax for the year would have been approximately HK$104,382,000 higher (2019: profit before income tax lower of HK$99,000,000).

If the discount rate had been 0.5% (2019: 0.5%) lower than management's current estimates, the loss before income tax for the year would have been approximately HK$54,301,000 higher (2019: profit before income tax lower of HK$12,000,000).

If the fair value of the corresponding properties in relation to the goodwill allocated to CGUs of the property investment business has been 5% lower with all other variables held constant, there is no material adverse impact to the consolidated financial statements.

20 INTERESTS IN ASSOCIATED COMPANIES

	2020	2019
	HK$'000	HK$'000
The Group's share of net assets, unlisted	**412**	1,563

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

	2020	2019
	HK$'000	HK$'000
For the year ended 30 June		
(Loss)/profit for the year	**(339)**	40

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

	2020	2019
	HK$'000	HK$'000
Revenue	**667**	2,027
(Loss)/profit for the year	**(339)**	40
Non-current assets	**1,636**	1,492
Current assets	**766**	2,337
Current liabilities	**(11,087)**	(11,673)
Net liabilities	**(8,685)**	(7,844)

The Group has not recognised losses amounting to approximately HK$68,000 (2019: HK$Nil) for Taizhou New World Department Store Co., Ltd. for the year ended 30 June 2020. The accumulated losses not recognised were approximately HK$10,028,000 (2019: HK$9,960,000) as at 30 June 2020.

20 INTERESTS IN ASSOCIATED COMPANIES (continued)

Details of the principal associated companies are as follows:

Name	Place of establishment	Principal activity	Registered capital	Attributable interest (%) 2020	2019
Shanghai Yijie Trading Co., Ltd.	Mainland China	Catering	RMB1,500,000	**49**	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**	25

Shanghai Xinqi Catering Management Co., Ltd. was deregistered on 15 January 2020.

21 OTHER NON-CURRENT ASSETS

Balance as at 30 June 2019 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, the ultimate holding company of the Company, and a fellow subsidiary of the Company. Pursuant to the cooperation agreement, Shenyang Trendy and SYNWXH agreed to cooperate in a property redevelopment project in Shenyang City. Shenyang Trendy agreed to surrender to the local government authority the land and building where Shenyang New World Department Store – Nanjing Street Branch Store was situated for a compensation of RMB250,012,000 and to make contribution of RMB514,009,800 to SYNWXH for the related costs of demolition of the original building and design, construction and payment of any relevant land grant premium of certain portion of the redeveloped building. As at 30 June 2019, the balance in connection to this transaction and the costs capitalised was approximately HK$659,708,000. The transaction was subsequently completed in July 2019 and transferred to property, plant and equipment and land use rights included in right-of-use assets.

22 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2020 HK$'000	2019 HK$'000
Prepaid rent and rental deposits	**142,905**	222,819
Other tax recoverable	**78,306**	107,394
Prepaid expenses	**24,838**	31,970
Others	**203,293**	180,970
	449,342	543,153
Less: non-current prepayments, deposits and other receivables	**(192,510)**	(241,631)
	256,832	301,522

The balances were mainly denominated in RMB.

Prepaid expenses included insurance expenses to fellow subsidiaries and related companies were approximately HK$34,000 and HK$81,000 respectively (2019: HK$Nil and HK$80,000 respectively).

23 INVENTORIES

	2020 HK$'000	2019 HK$'000
Finished goods	**95,035**	94,450

The cost of inventories recognised as expense and included in 'purchases of and changes in inventories, net' (including those reclassified as assets classified as held for sale) amounted to approximately HK$546,981,000 (2019: HK$912,331,000), which included inventory write-down, net of approximately HK$111,000 (2019: HK$9,315,000).

24 DEBTORS

	2020 HK$'000	2019 HK$'000
Debtors	**64,187**	73,021
Less: loss allowance provision	**(23,994)**	(9,580)
Debtors, net	**40,193**	63,441

24 DEBTORS (continued)

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

	2020 HK$'000	2019 HK$'000
Within period for		
0–30 days	**35,125**	55,688
31–60 days	**729**	2,162
61–90 days	**587**	768
Over 90 days	**3,752**	4,823
	40,193	63,441

Debtors of approximately HK$24,117,000 (2019: HK$10,459,000) were impaired as at 30 June 2020. The amount of the loss allowance provision was approximately HK$23,994,000 (2019: HK$9,580,000) as of 30 June 2020. The individually impaired receivables mainly relate to tenants, which are in unexpectedly difficult economic situations.

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

	2020 HK$'000	2019 HK$'000
At beginning of the year	**9,580**	21,978
Translation differences	**(480)**	(850)
Provision for doubtful debts	**19,653**	7,043
Reversal of provision for doubtful debt	**(55)**	(1,318)
Amount written off	**(4,704)**	(17,273)
At end of the year	**23,994**	9,580

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 deposits held.

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

As at 30 June 2020 and 2019, the balances were unsecured, interest free, repayable on demand and denominated in RMB.

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.

26 FIXED DEPOSITS WITH ORIGINAL MATURITY OVER THREE MONTHS

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

The interest rates on fixed bank deposits with original maturity over three months ranged from 1.59% to 3.91% (2019: 1.75% to 2.78%) per annum. These deposits have remaining maturities ranging from 74 to 365 days (2019: 50 to 365 days).

27 CASH AND BANK BALANCES

	2020 HK$'000	2019 HK$'000
Cash and cash equivalents (Note)	**1,360,328**	1,733,642
Restricted cash	**–**	1,948
	1,360,328	1,735,590

Note:

Cash and cash equivalents comprised cash at bank and in hand of HK$1,041,405,000 (2019: HK$1,259,266,000) and short-term bank deposits of HK$318,923,000 (2019: HK$474,376,000) with original maturity of three months or less.

Cash and bank balances were denominated in the following currencies:

	2020 HK$'000	2019 HK$'000
HK$	**42,966**	51,816
RMB	**1,317,139**	1,683,554
Others	**223**	220
	1,360,328	1,735,590

27 CASH AND BANK BALANCES (continued)

The interest rates on short-term bank deposits was ranging from 1.35% to 2.03% (2019: 1.35% to 3.80%) per annum. These deposits have remaining maturities ranging from 7 to 70 days (2019: 4 to 70 days).

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

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

28 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 2018, 30 June 2019 and 2020	**1,686,145**	**168,615**

29 RESERVES

	Attributable to shareholders of the Company						
	Share premium HK$'000	**Property revaluation reserve HK$'000**	**Capital reserve HK$'000**	**Statutory reserve HK$'000 (Note)**	**Exchange reserve HK$'000**	**Retained earnings HK$'000**	**Total HK$'000**
As at 1 July 2019	**1,826,646**	**174,741**	**391,588**	**446,323**	**(24,441)**	**2,859,137**	**5,673,994**
Adjustment on adoption of HKFRS 16, net of tax	**–**	**–**	**–**	**–**	**–**	**(944,690)**	**(944,690)**
As at 1 July 2019, as adjusted	**1,826,646**	**174,741**	**391,588**	**446,323**	**(24,441)**	**1,914,447**	**4,729,304**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(483,668)**	**(483,668)**
Revaluation of property upon reclassification from property, plant and equipment and right-of-use assets to investment properties, net of tax	**–**	**5,728**	**–**	**–**	**–**	**–**	**5,728**
Release of reserve upon disposal/ deregistration of subsidiaries	**–**	**–**	**–**	**–**	**(1,403)**	**–**	**(1,403)**
Translation differences	**–**	**–**	**–**	**–**	**(209,255)**	**–**	**(209,255)**
Transfer to statutory reserve	**–**	**–**	**–**	**12,836**	**–**	**(12,836)**	**–**
As at 30 June 2020	**1,826,646**	**180,469**	**391,588**	**459,159**	**(235,099)**	**1,417,943**	**4,040,706**

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

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.

30 BORROWINGS

	2020 HK$'000	2019 HK$'000
Secured bank loan	–	215,909
Unsecured bank loans	773,222	699,140
Shareholder loans	713,000	713,000
	1,486,222	1,628,049

Shareholder loan from ultimate holding company is interest-bearing at Hong Kong Interbank Offered Rate plus 0.9% (2019: 0.9%) per annum, unsecured and repayable within one year.

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

	2020	2019
HK$	2.83%	2.71%
RMB	4.18%	4.41%

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

	2020 HK$'000	2019 HK$'000
HK$	1,412,156	1,412,140
RMB	74,066	215,909
	1,486,222	1,628,049

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

	2020 HK$'000	2019 HK$'000
Within six months	1,412,156	1,628,049
In the seventh month to one year	74,066	–
	1,486,222	1,628,049

As at 30 June 2020, no bank loan was secured by investment properties (2019: the bank loan of approximately HK$215,909,000 was secured by an investment property of approximately HK$1,743,182,000).

As at 30 June 2020, the Group has undrawn bank borrowing facilities and undrawn shareholder loan in aggregate of approximately HK$488,538,000 (2019: undrawn shareholder loan of approximately HK$17,000,000).

31 DEFERRED INCOME TAX

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

	2020 HK$'000	2019 HK$'000
Deferred income tax assets	**129,203**	99,793
Deferred income tax liabilities	**(846,372)**	(870,507)
	(717,169)	(770,714)

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

	2020 HK$'000	2019 HK$'000
At beginning of the year	**(770,714)**	(766,967)
Adjustment on adoption of HKFRS 16 (Note 3)	**17,971**	–
As at 1 July 2019, as adjusted	**(752,743)**	(766,967)
Translation differences	**24,702**	38,567
Taxation charged directly to equity	**(1,910)**	(12,438)
Charged to consolidated income statement (Note 13)	**12,782**	(35,732)
Transfer to liabilities directly associated with assets classified as held for sale	**–**	5,856
At end of the year	**(717,169)**	(770,714)

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	Leases HK$'000	Total HK$'000
As at 1 July 2018	37,698	128,205	11,036	1,928	–	178,867
Translation differences	(1,638)	(2,927)	(515)	(196)	–	(5,276)
(Charged)/credited to consolidated income statement	(6,628)	(26,421)	1,204	(498)	–	(32,343)
As at 30 June 2019	**29,432**	**98,857**	**11,725**	**1,234**	**–**	**141,248**
Adjustment on adoption of HKFRS 16 (Note 3)	**–**	**(92,356)**	**–**	**–**	**124,220**	**31,864**
As at 1 July 2019, as adjusted	**29,432**	**6,501**	**11,725**	**1,234**	**124,220**	**173,112**
Translation differences	**(1,125)**	**(1,061)**	**(260)**	**(1,187)**	**(4,343)**	**(7,976)**
Credited/(charged) to consolidated income statement	**14,106**	**717**	**(11,465)**	**739**	**(421)**	**3,676**
As at 30 June 2020	**42,413**	**6,157**	**–**	**786**	**119,456**	**168,812**

31 DEFERRED INCOME TAX (continued)

Deferred income tax liabilities:

	Tax depreciation HK$'000	Fair value adjustment on business combination HK$'000	Revaluation of properties HK$'000	Undistributed profits of subsidiaries HK$'000	Leases HK$'000	Others HK$'000	Total HK$'000
As at 1 July 2018	237,864	622,903	62,499	1,798	–	20,770	945,834
Translation differences	(10,906)	(28,329)	(2,921)	(62)	–	(1,625)	(43,843)
Taxation charged directly to equity	–	–	12,438	–	–	–	12,438
Charged/(credited) to consolidated income statement	6,326	(1,426)	(5)	(1,736)	–	230	3,389
Transfer to liabilities directly associated with assets classified as held for sale	(337)	(5,199)	(320)	–	–	–	(5,856)
As at 30 June 2019	**232,947**	**587,949**	**71,691**	**–**	**–**	**19,375**	**911,962**
Adjustment on adoption of HKFRS 16 (Note 3)	**–**	**–**	**–**	**–**	**13,893**	**–**	**13,893**
As at 1 July 2019, as adjusted	**232,947**	**587,949**	**71,691**	**–**	**13,893**	**19,375**	**925,855**
Translation differences	**(9,345)**	**(19,368)**	**(2,188)**	**–**	**(1,049)**	**(728)**	**(32,678)**
Taxation charged directly to equity	**–**	**–**	**1,910**	**–**	**–**	**–**	**1,910**
Charged/(credited) to consolidated income statement	**10,472**	**(1,379)**	**(9,781)**	**–**	**(11,076)**	**2,658**	**(9,106)**
As at 30 June 2020	**234,074**	**567,202**	**61,632**	**–**	**1,768**	**21,305**	**885,981**

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

As at 30 June 2020, the aggregate amount of temporary differences associated with investments in subsidiaries for which deferred income tax liabilities have not been recognised totalled approximately HK$274,860,000 (2019: HK$276,580,000), 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$351,904,000 (2019: HK$386,936,000) in respect of accumulated losses and deductible temporary differences amounting to approximately HK$1,407,614,000 (2019: HK$1,547,745,000). The accumulated losses can be carried forward against future taxable profit with expiry date of five years or indefinitely.

As at 30 June 2020, if the estimated future taxable profits had been 10% (2019: 10%) lower with all other variables held constant, there is no material adverse impact to the deferred income tax assets recognised on unused tax losses and other deductible temporary differences of the Group.

32 CREDITORS, ACCRUALS AND OTHER PAYABLES

	2020 HK$'000	2019 HK$'000
Creditors	**878,364**	1,337,492
Accruals and other payables	**913,725**	1,490,266
	1,792,089	2,827,758
Less: non-current accruals and other payables	**–**	(439,132)
	1,792,089	2,388,626

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

	2020 HK$'000	2019 HK$'000
Within period for		
0–30 days	**701,666**	1,012,465
31–60 days	**69,007**	151,388
61–90 days	**2,809**	36,728
Over 90 days	**104,882**	136,911
	878,364	1,337,492

Creditors included amounts due to related companies of approximately HK$50,812,000 (2019: HK$51,119,000 which were unsecured, interest free and repayable within 90 days.

Accruals and other payables included interest payable of shareholder loan of approximately HK$24,464,000 (2019: HK$4,637,000).

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

	2020 HK$'000	2019 HK$'000
RMB	**1,778,305**	2,811,124
HK$	**13,784**	16,634
	1,792,089	2,827,758

32 CREDITORS, ACCRUALS AND OTHER PAYABLES (continued)

Nature of accruals and other payables are as follows:

	2020 HK$'000	2019 HK$'000
Rental accruals and payables	**43,401**	558,387
Deposits from concessionaire suppliers	**412,030**	437,684
Interest payable	**24,884**	5,658
Payables for capital expenditures	**26,140**	31,613
Accruals and payables for staff costs	**85,890**	75,609
Valued-added taxes and other taxes payables	**30,722**	61,593
Utilities payables	**7,800**	11,650
Receipts in advance	**72,847**	119,303
Others	**210,011**	188,769
	913,725	1,490,266

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

33 LEASE LIABILITIES

At transition, lease liabilities were measured at the present value of the remaining leases payments, discounted at the Group's incremental borrowing rate at 1 July 2019, and the aggregate effect is as follows:

	HK$'000
As at 1 July 2019 (upon the adoption of HKFRS 16 Leases)	**4,401,582**
Addition	**238,954**
Lease modification	**(38,356)**
Derecognition	**467,700**
Lease payments made during the year	**(618,021)**
Interest expenses on lease liabilities	**209,620**
Rent concessions	**(49,497)**
Translation difference	**(147,388)**
As at 30 June 2020	**4,464,594**
Of which are:	
Current lease liabilities	**698,671**
Non-current lease liabilities	**3,765,923**
	4,464,594

Lease liabilities included lease liabilities to fellow subsidiaries and related companies were approximately HK$125,907,000 and HK$277,355,000 respectively.

34 FINANCE LEASE RECEIVABLES

	2020 HK$'000	2019 HK$'000
Finance lease receivables	**271,838**	–
Unguaranteed residual values	**24,001**	–
Gross investment in finance leases	**295,839**	–
Less: unearned finance income	**(36,690)**	–
Net investment in finance leases	**259,149**	–
Less: accumulated allowance for impairment	**–**	–
Finance lease receivables – net	**259,149**	–
Of which are:		
Current finance lease receivables	**41,294**	–
Non-current finance lease receivables	**217,855**	–
	259,149	–

The table below analyses the Group's gross investment in finance leases by relevant maturity groupings at the end of each reporting period:

	2020 HK$'000	2019 HK$'000
Gross investment in finance leases		
Within one year	**45,751**	–
In the second to fifth year	**172,347**	–
After the fifth year	**77,741**	–
	295,839	–

The effective interest rate applied to the finance lease receivables was 4.9%.

35 CONTRACT LIABILITIES

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

	2020 HK$'000	2019 HK$'000
Contract liabilities in relation to prepayments from customers	**231,842**	200,562
Contract liabilities in relation to customer loyalty programme	**44,082**	50,690
Total contract liabilities	**275,924**	251,252

35 CONTRACT LIABILITIES (continued)

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 direct sales and gross revenue from concessionaire sales when the Group transfers goods or services to the customer.

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

	2020 **HK$'000**	2019 HK$'000
For the year ended 30 June		
Amount recognised that was included in the contract liability balance at the beginning of the year		
– Direct sales and gross revenue from concessionaire sales	**80,545**	158,962

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

	2020 **HK$'000**	2019 HK$'000
At end of the year		
Expected to be recognised within one year	**153,462**	142,776
Expected to be recognised after one year	**122,462**	108,476
	275,924	251,252

36 COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

Capital commitment in respect of investment properties, property, plant and equipment, right-of-use assets (2019: land use rights) and equity instrument of the Group at the end of the reporting period are as follows:

	2020 **HK$'000**	2019 HK$'000
Contracted but not provided for	**44,325**	122,499

36 COMMITMENTS AND CONTINGENCIES (continued)

(b) Operating lease receivable

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

	2020	2019
	HK$'000	HK$'000
Within one year	**520,552**	650,374
In the second to fifth year	**770,513**	1,078,448
After the fifth year	**98,778**	243,022
	1,389,843	1,971,844

The contingent operating lease rental income of the Group for the year ended 30 June 2020 were approximately HK$34,066,000 (2019: HK$39,684,000).

(c) Contingent liabilities

In respect of certain department stores closed by the Group in the previous year, the Group has contingent liabilities arising from the potential claims from the landlords of the premises for compensation in connection with the early termination of the leases. For one of these closed department stores, an arbitration result has been issued on the lodged claims after the reporting period and the compensation amount has been accounted for accordingly in the consolidated financial statements. However the compensation amounts in respect of the potential claims arising from these closed department stores, if any, and timing of payment could not be reliably estimated at current stage, and the final outcome of which is subject to actions of the landlords, negotiation and/or result of legal proceeding. The Group has taken necessary measures to address the potential exposure. The aggregate monthly rental expense for these closed department stores was approximately HK$9,000,000 prior to the closure.

37 DISPOSAL OF SUBSIDIARIES/ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

In July 2019, Techwise Enterprises Limited, a wholly-owned subsidiary incorporated in the British Virgin Islands with limited liability, entered into an agreement to sell the entire issued share capital of Well Metro Group Limited to K11 Sales & E-Commerce Company Limited, a fellow subsidiary of the Company, at a gross consideration of HK$1,000,000. Well Metro Group is principally engaged in brand management, and the distribution and retailing of fashion apparels and accessories in the PRC. Assets and liabilities of Well Metro Group Limited and its subsidiaries (the "Disposal Group") were reclassified as held for sale as at 30 June 2019. The transaction was completed in July 2019.

37 DISPOSAL OF SUBSIDIARIES/ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE (continued)

Details of the net liabilities disposed of are as follows:

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

37 DISPOSAL OF SUBSIDIARIES/ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE (continued)

	HK$'000
Net assets directly associated with the Disposal Group	100,313
Less: Intra-group elimination (Note)	(102,483)
Adjustment for adoption of HKFRS 16:	
– Right-of-use assets	77,351
– Lease liabilities	(85,574)
Net liabilities	(10,393)
Release of reserve upon disposal	(1,114)
Net gain on disposal of subsidiaries	12,507
Cash consideration	1,000

Note:

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

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

	HK$'000
Cash consideration received	1,000
Cash and cash equivalents disposed of	(46,145)
Net cash outflow from disposal of subsidiaries	(45,145)

38 CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Bank borrowings HK$'000	Shareholder loan HK$'000	Interest payable HK$'000	Lease liabilities HK$'000	Total HK$'000
As at 1 July 2019	**915,049**	**713,000**	**5,658**	**–**	**1,633,707**
Recognised on adoption of HKFRS 16 (Note 3)	**–**	**–**	**–**	**4,401,582**	**4,401,582**
As at 1 July 2019, as adjusted	**915,049**	**713,000**	**5,658**	**4,401,582**	**6,035,289**
Changes from cash flows					
Drawdown of bank borrowings	**634,889**	**–**	**–**	**–**	**634,889**
Repayment of bank borrowings	**(771,111)**	**–**	**–**	**–**	**(771,111)**
Payment of lease liabilities	**–**	**–**	**–**	**(618,021)**	**(618,021)**
Finance costs paid	**(1,222)**	**–**	**(20,815)**	**–**	**(22,037)**
Other changes					
Exchange differences	**(5,607)**	**–**	**(401)**	**(147,388)**	**(153,396)**
Interest expenses	**1,224**	**–**	**40,442**	**209,620**	**251,286**
New leases entered, lease modification and derecognition	**–**	**–**	**–**	**618,801**	**618,801**
As at 30 June 2020	**773,222**	**713,000**	**24,884**	**4,464,594**	**5,975,700**

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

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	2020 HK$'000	2019 HK$'000
Fellow subsidiaries			
Rental expenses	(i)	**(23,180)**	(66,982)
Building management expenses	(ii)	**(11,628)**	(13,400)
Sales of goods, prepaid shopping cards and vouchers	(iii)	**27**	281
Payments for purchase of building and right-of-use assets	(iv)	**(42,099)**	–
Management fee income	(v)	**200**	–
Interest expense on lease liabilities	(xi)	**(6,158)**	–
Insurance expenses	(xiii)	**(34)**	–
Related companies			
Rental expenses	(i)	**(82,372)**	(165,882)
Building management expenses	(ii)	**(23,977)**	(24,494)
Sales of goods, prepaid shopping cards and vouchers	(iii)	**–**	29
Commission income from concessionaires sales	(vi)	**46,692**	74,028
Purchase of goods	(vii)	**–**	(9)
Rebates on prepaid shopping cards and vouchers	(viii)	**53**	26
Rental income	(ix)	**167**	187
Other service fee expenses	(x)	**(93)**	(13)
Interest expense on lease liabilities	(xi)	**(14,821)**	–
Additions to right-of-use assets	(xii)	**(2,136)**	–

Notes:

(i) The rental expenses are charged in accordance with respective lease agreements and accounted for in accordance with accounting policy of leases for short-term leases and turnover rent under HKFRS 16 (2019: rental expenses are recognised on a straight-line basis over the lease periods under HKAS 17).

(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) The represents installment paid for the purchase of building and right-of-use assets as described in Note 21.

(v) The income is charged in accordance with the terms of service fee stated in respective agreements.

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

39 RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Notes: (continued)

(vii) 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.

(viii) 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.

(ix) The income is charged in accordance with lease 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.

(xi) Interest expense on lease liabilities is charged at interest rates as specified in Note 3.

(xii) Additions to right-of-use assets are measured in accordance with respective lease agreements.

(xiii) This represents the insurance services provided by the subsidiaries of NWS Holdings Limited.

(b) Related party balances

The details for balances with related parties are disclosed in Notes 22, 25, 30, 32 and 33 to the consolidated financial statements.

(c) Repayments of lease liabilities to related parties

The repayment amount of lease liabilities to related parties were approximately HK$62,027,000 during the year.

(d) Key management compensation

All Directors and one chief executive (2019: All Directors and one chief executive) are considered as key management and their emoluments have been disclosed in Note 12(a) to the consolidated financial statements. The emoluments payable to other key management are as follows:

	2020 **HK$'000**	2019 HK$'000
Basic salaries, housing allowances, other allowances and other benefits in kind	**9,455**	15,826
Discretionary bonus	**4,019**	1,573
Retirement benefit costs – defined contribution plans	**273**	254
	13,747	17,653

40 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2020 HK$'000	2019 HK$'000
Assets		
Non-current asset		
Investments in subsidiaries	**1,818,831**	1,963,172
Current assets		
Prepayments and deposits	**231**	220
Amounts due from subsidiaries	**2,057,799**	2,133,472
Cash and bank balances	**22,499**	46,368
	2,080,529	2,180,060
Total assets	**3,899,360**	4,143,232
Equity and liabilities		
Equity		
Share capital	**168,615**	168,615
Reserves (Note)	**2,110,964**	2,360,753
Total equity	**2,279,579**	2,529,368
Liabilities		
Current liabilities		
Accruals and other payables	**5,556**	5,628
Amounts due to subsidiaries	**1,614,225**	1,608,236
Total liabilities	**1,619,781**	1,613,864
Total equity and liabilities	**3,899,360**	4,143,232

The statement of financial position of the Company was approved by the Board of Directors on 29 September 2020 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$'000	Retained earnings/ (accumulated losses) HK$'000	Total HK$'000
As at 1 July 2019	**1,826,646**	**73,486**	**468,268**	**(7,647)**	**2,360,753**
Loss for the year	**–**	**–**	**–**	**(167,366)**	**(167,366)**
Translation differences	**–**	**–**	**(82,423)**	**–**	**(82,423)**
As at 30 June 2020	**1,826,646**	**73,486**	**385,845**	**(175,013)**	**2,110,964**
As at 1 July 2018	1,826,646	73,486	595,134	172,122	2,667,388
Loss for the year	–	–	–	(179,769)	(179,769)
Translation differences	–	–	(126,866)	–	(126,866)
As at 30 June 2019	1,826,646	73,486	468,268	(7,647)	2,360,753

41 PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company as at 30 June 2020 are as follows:

Name	Place of incorporation/ establishment	Principal activities and place of operation	Issued and paid up share capital	Percentage of equity interests held directly	Percentage of equity interests held indirectly
Constar Investment Limited	The British Virgin Islands	Financing/Hong Kong	US$1	–	100
Happy Growth Investment Limited	Hong Kong	Investment holding and provision of management services/Hong Kong	HK$1	100	–
New World Department Store (Investment) Limited	Hong Kong	Investment holding/Hong Kong	HK$410,045,794	100	–
New World Department Stores Limited	Hong Kong	Provision of management services to department stores/Hong Kong	HK$2	100	–
Jiangsu New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB16,000,000[W]	100	–
New World Department Stores Investment (China) Co., Ltd.	Mainland China	Investment holding/ Mainland China	US$150,000,000[W]	100	–
Shanghai New World Caizi Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB50,000,000[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	Percentage of equity interests held indirectly
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	–
Beijing New World Liying Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB18,000,000[W]	–	100
Beijing New World Qianzi Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	HK$60,000,000[W]	–	100
Beijing New World Trendy Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB25,000,000[W]	–	100
Beijing Wanya Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB100,000[α]	–	100
Beijing Yixi New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB65,000,000[W]	–	100
Beijing Xinpeng Enjia Business Management Co., Ltd.	Mainland China	Convenience store operation/ Mainland China	RMB2,800,000[α]	–	100
Beijing Enjia Youpin Business Management Co., Ltd.	Mainland China	Household goods shop operation/ Mainland China	RMB1,000,000[W]	–	100
Changsha New World Trendy Plaza Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB60,000,000[W]	–	100
Chengdu New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB70,000,000[W]	–	100
Chongqing New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB100,000,000[W]	–	100
Harbin New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB126,000,000[W]	–	100
Lanzhou New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB30,000,000[W]	–	100
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

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
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[W]	–	100
Shanghai New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB18,000,000[W]	–	100
Shanghai New World Huiya Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB240,000,000[W]	–	100
Shanghai New World Huiyan Department Store 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
Shenyang New World Department Store Ltd.	Mainland China	Property investment and department store operation/Mainland China	RMB30,000,000[W]	–	100
Shenyang Trendy Property Company Limited	Mainland China	Property investment/ Mainland China	RMB27,880,000[W]	–	100
Tianjin New World Trendy Plaza Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB30,000,000[W]	–	100
Wuhan New World Department Store Co., Ltd.	Mainland China	Property investment and Department store operation/Mainland China	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

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
Xi'an New World Trendy Plaza Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB40,000,000[W]	–	100
Yantai New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB80,000,000[W]	–	100
Yunnan New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB10,000,000[W]	–	100
Zhengzhou New World Department Store Co., Ltd.	Mainland China	Department store operation/ Mainland China	RMB50,000,000[W]	–	100

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 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				
	2020	2019	2018	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Revenue	**2,232,691**	3,519,017	3,821,120	3,484,322	3,659,896
Operating (loss)/profit	**(197,960)**	204,602	185,353	277,841	209,700
(Loss)/profit for the year	**(483,668)**	32,663	11,085	128,289	45,398
Profit/(loss) attributable to non-controlling interests	**–**	–	57	(322)	(245)
(Loss)/profit attributable to shareholders of the Company	**(483,668)**	32,663	11,028	128,611	45,643

	As at 30 June				
	2020	2019	2018	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets, liabilities and equity					
Total assets	**13,119,276**	11,797,523	12,589,234	12,224,897	11,711,839
Total liabilities	**8,909,955**	5,954,914	6,469,886	6,296,963	5,799,004
Total equity	**4,209,321**	5,842,609	6,119,348	5,927,934	5,912,835

PRINCIPAL INVESTMENT PROPERTIES SUMMARY

MAJOR COMPLETED INVESTMENT PROPERTIES IN MAINLAND CHINA

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

RISK FACTORS

1. Sluggish domestic demand and external uncertainties put bigger pressure on economic slowdown

- The complicated environment in 2019, with sluggish domestic demand, increasingly uncertain external economic circumstances and escalating trade conflicts between China and the U.S., put bigger pressure for an economic downturn in China.
- Unemployment rate rose amid the continuous economic decline. Growth in industrial value added continued to slow down as a result of a weak total demand.
- Food price surged in the second half of 2019, leading to an accelerated increase that broke the 4% mark in the Consumer Price Index (CPI) in 2H2019. The generally weak demand, however, only slowed the growth rate of the core CPI (excluding food and energy) slightly year-on-year. Demand for commodities also fell along plummeted global economic growth; overlaid with sluggish domestic demand, the annual Producer Price Index (PPI) recorded a small negative growth.

2. 1H2020 profoundly impacted by COVID-19

- During the first half of 2020, the COVID-19 outbreak brought unprecedented shock to the country's economic and social development. Compared with the recovery taking place in industrial production, the service sectors were more deeply affected by the pandemic. These include traditional service sectors such as food and beverage, entertainment, education. Business projects that are closely related to the abovementioned sectors were worst hit.
- The first half of 2020 saw industrial investment, the value of industrial export delivery, and the total retail sales of consumer goods dropped by 7.4%, 4.9%, and 11.4%, respectively. The sharpest drop was seen in the total retail sales of consumer goods.
- Consumption slumped in January to February 2020, with the total retail sales of consumer goods down 20.5 percent in nominal terms on a year-on-year basis; growth rate fell 28.7 % comparing with the same period of last year. Offline spending, in particular, registered significant drop.
- According to a report published by the International Monetary Fund, the global economy will enter a deep, synchronised recession as a result of COVID-19. As the pandemic continues to worsen in emerging markets and developing economies, the global economy is projected to shrink by 4.9% this year, or nearly 2 percentage points below the previous forecast.

3. Fund attraction became more difficult for brick-and-mortar projects amidst keen competition for business resources

- 522 new shopping centres, which cover a total floor area of 43.93 million sq.m., opened their doors for business across the country in 2019. The trend was basically flat when compared with 2018.
- Competition for business resources was fierce, and brick-and-mortar projects faced difficulties in fund attraction.
- Complicated by the impact of COVID-19 during 1H2020, many brands ceased operation owing to difficulties in sustaining their businesses, which further aggravated the shortage of business resources.

4. Integrated online-offline platforms sparked intensifying competition

- Different e-commerce platforms expedited their business model transformation by integrating their online-offline channels. During 2019, companies from different industrial backgrounds teamed up with platforms with high online traffic and opened physical stores, bringing in even more heated competition to the physical retail industry.

- During 2019-2020, internet titans rolled out crossover-sector internet platforms one after another. Big data, cloud computing and Internet of Things were leveraged to trigger industrial reform, which will lead to even stronger pressure for business resource competition.

5. Major change in consumption trends emerged with Gen Z becoming the pillar of consumption

- The unique consumption demand of Gen Z customers has resulted in undeniable changes to business hardware and software. As the pillar of consumption, Gen Z are more concerned about their social and trend-setting consumption experiences. Retailers are beginning to generate interaction with users and launching marketing campaigns through various social media.

- Without adjusting their merchandise offering and marketing models in a timely manner, brick-and-mortar retailers will be extremely likely to lose as many as 370 million customers.

6. Swiftly renewing smart business technologies

- In an ever-changing consumption market, physical retailers must place an even stronger emphasis on members' experience and the renewed application of membership technology. Members' satisfaction is no longer merely met by privileges such as discounts and points, but rather, more value-added capabilities.

- Brick-and-mortar companies are faced with three major obstacles: technical barriers, internet mindset, as well as communication. They are also confronted with the predicament of the low brand loyalty of mainstream customers.

7. Foreign exchange risk

- The Group is mainly exposed to foreign exchange risk arising from HK$ against RMB. 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 functional currency of the Company and most of its subsidiaries is RMB. Therefore, any currency fluctuations may have an impact on the Group's financial condition and results of operations.

GLOSSARY OF TERMS

GENERAL TERMS

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

FINANCIAL TERMS

Merchandise gross margin :

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

(Loss)/earnings per share :

$$\frac{\text{(Loss)/profit attributable to shareholders of the Company}}{\text{Weighted average number of ordinary shares in issue}}$$

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

Non-executive Director

Dr. Cheng Kar-shun, Henry *(Chairman)*

Executive Directors

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

Independent Non-executive Directors

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

COMPANY SECRETARY

Miss Wu Yuk-kwai, Catherine

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor

SOLICITORS

Eversheds Sutherland
Woo, Kwan, Lee & Lo

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Suntera (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road
P.O. Box 1586
Grand Cayman, KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER AGENT

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Level 54, Hopewell Centre
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Hong Kong

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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Fax: (852) 2318 0884

PRINCIPAL BANKERS

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

STOCK CODE

Hong Kong Stock Exchange 825

INVESTOR INFORMATION

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Chinese Version

The Chinese version of this Report is available from New World Department Store China Limited upon request. If there is any inconsistency or contradiction between the English and the Chinese versions, the English version shall prevail.

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

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

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