JOYCE

JOYCE BOUTIQUE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 647

2018/19 Results Announcement

OVERVIEW AND PROSPECTS

Group revenue for the year declined by 2.1% to HK$842.4 million (2017/18: HK$860.7 million) in an unfavourable trading environment, including escalation of the US-China trade conflict and consequent uncertainty in the markets.

Gross margin rose by 1.7 percentage points, mainly due to an improvement in full price sell-through and a relatively lower proportion of revenue contributed by the liquidation of aged stock.

Net loss attributable to owners of the Company totalled HK$22.3 million for the year, compared with a loss of HK$54.7 million in the previous year. Loss per share was 1.4 HK cents (2017/18: 3.4 HK cents).

Hong Kong division's operating loss narrowed to HK$14.6 million, reflecting an improvement in shop productivity and reduced operating costs following the closure of underperforming shops.

Mainland China division achieved operating profit breakeven compared with a HK$2.4 million loss in the previous year, mainly due to a 7.3% rise in revenue and improved margins.

The Group expects the near-term operating environment will be increasingly challenging in view of US-China economic and political tensions, slowing economic growth around the world and the weakening of renminbi. These factors can be expected to continue to dampen consumer sentiment and spending in the luxury retail sectors in Hong Kong and China. Moreover, competition from lower-priced online sellers, the relatively high rental levels for prime location stores and the risk of non-renewal of store leases on sustainable terms will increase pressure on the Group's operations and profitability.

Going forward, the Group will focus on driving comparable-store sales, improving customer engagement and customer experience, securing key vendor relationships and building the pipeline for brand development and innovation in all merchandise categories. In view of the unstable retail environment in the coming year, the Group will maintain its prudent approach to stock purchasing and business expansion.

DIVIDEND

In view of this year's results and an uncertain outlook for the coming financial year, the Board has resolved not to declare a dividend for this financial year (2017/18: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

At the financial year-end, the Group operated a total of 34 shops (2018: 39). This portfolio comprised 21 shops in Hong Kong (including 3 multi-label JOYCE stores, one JOYCE concession corner in Lane Crawford at IFC, 6 mono-brand shops, 10 JOYCE Beauty shops and one JOYCE Warehouse outlet), and 6 shops in Mainland China (including 2 multi-label JOYCE stores, one mono-brand shop, 2 JOYCE Beauty shops and one JOYCE Warehouse outlet). In addition, the Group operated 7 Marni shops in Hong Kong under its 49%-held equity investment partnered with Marni Group S.r.l.

During the year under review, the Group focused on driving sales through enhanced product offerings and customer experience and managed to achieve an increase in comparable store sales. The decline in overall sales was partly due to the closure of shops. During the year, the Group closed 4 non-performing shops in Hong Kong and the Marni boutique in Taiwan, resulting in improved store productivity. Taking advantage of improved aged-stock liquidation in China, the Group closed one of its two JOYCE Warehouse outlets in China in order to further enhance operating cost efficiency.

The 49%-held equity investment partnered with Marni Group S.r.l. closed its remaining shop in Taiwan in August 2018 and going forward will dedicate its resources to the Hong Kong market.

FINANCIAL REVIEW

(I) Review of 2018/19 Results

The Group recorded a net loss attributable to owners of the Company of HK$22.3 million for the year ended 31 March 2019, compared with a net loss of HK$54.7 million for the previous year. Loss per share was 1.4 HK cents (2017/18: 3.4 HK cents).

Group revenue declined by 2.1% to HK$842.4 million (2017/18: HK$860.7 million). However, gross margin improved by 1.7 percentage points mainly due to the increased level of full price sell-through.

Hong Kong division revenue dropped by 2.5% against the previous year and accounted for 88.3% of Group revenue (2017/18: 88.7%). Gross margin improved by 1.4 percentage points. Coupled with savings in operating overheads, Hong Kong operating loss narrowed to HK$14.6 million for the year (2017/18: HK$50.7 million).

Mainland China division revenue increased by 7.3% against last year, mainly due to an increase in comparable-store sales. Gross margin also increased by 5.7 percentage points due to a combination of a higher level of full price sell-through of current season stocks and the relatively lower proportion of revenue contributed by liquidation of aged stocks. As a result, Mainland China division managed to achieve an operating profit breakeven, compared to an operating loss of HK$2.4 million in the previous year (which had included a HK$5.8 million reversal of provision after reaching an out-of-court settlement with the landlord over the early termination of a lease).

For the year under review, the 49%-held equity investment partnered with Marni Group S.r.l. recorded a loss contribution of HK$1.9 million (2017/18: profit of HK$3.1 million) resulting from declines in sales and margin.

(II) Liquidity and Financial Resources

At 31 March 2019, the Group's financial position remained liquid with total cash deposits and cash on hand amounting to HK$349.4 million. No bank borrowings were outstanding at 31 March 2019.

(III) Foreign Exchange Risk Management

Most of the Group's imported purchases are denominated in foreign currencies, primarily in euros. To minimize exposure to foreign exchange fluctuations, the Group from time to time reviews its foreign exchange position and, if appropriate and necessary, hedges its exposure by means of forward contracts.

(IV) Finance

At 31 March 2019, the Group had banking facilities totalling HK$254.8 million (2018: HK$254.8 million).

(V) Dividend Policy

Apart from compliance with the applicable legal requirements, the Company adopts a policy to set out key considerations for arriving at the dividend payment decision. Dividend payout will be decided or recommended by the Board after taking into account of the Group's immediate as well as expected prevailing financial performance, cash flow, financial position, capital commitments and future requirements as well as the general business and economic environments.

The Board will review this policy from time to time with reference to its future prospect, capital requirements and other changing circumstances both internally and externally.

(VI) Employees

The Group employed 363 staff as at 31 March 2019. Employees are remunerated according to the nature of their positions and market trends, with merit components incorporated in annual salary increments to reward and motivate individual performance. The Group provides appropriate various job-related training programs to staff. Total staff costs for the year ended 31 March 2019 amounted to HK$143.7 million.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 March 2019

	Note	**2019**	2018
		HK$'000	HK$'000
Revenue	3	**842,419**	860,701
Other income		**38,318**	37,227
Direct costs and operating expenses	4	**(764,068)**	(816,248)
Selling and marketing expenses	4	**(34,688)**	(39,141)
Administrative expenses	4	**(94,602)**	(105,320)
Other (losses)/gains, net	5	**(7,440)**	4,290
Operating loss		**(20,061)**	(58,491)
Finance costs	6	**(4)**	(11)
Share of (loss)/profit of an associate		**(1,938)**	3,111
Loss before income tax		**(22,003)**	(55,391)
Income tax (expense)/credit	7	**(289)**	666
Loss attributable to owners of the Company		**(22,292)**	(54,725)
Dividends	8	–	–
Loss per share			
- Basic and diluted	9	**(1.4) HK cents**	(3.4) HK cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 March 2019

	Note	**2019** **HK$'000**	2018 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**31,156**	45,737
Deposits and prepayments		**39,823**	58,802
Interest in an associate		**8,529**	10,472
Financial asset at fair value through profit or loss		**1,154**	1,231
Deferred income tax assets		**6,650**	6,603
		87,312	122,845
Current assets			
Inventories		**156,177**	158,026
Trade and other receivables	10	**25,135**	44,032
Deposits and prepayments		**33,884**	17,787
Current income tax recoverable		—	99
Financial derivative assets		—	3,081
Cash and cash equivalents		**349,426**	340,834
		564,622	563,859
Total assets		**651,934**	686,704
EQUITY			
Equity attributable to owners of the Company			
Share capital		**162,400**	162,400
Reserves		**290,576**	321,030
Total equity		**452,976**	483,430
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**318**	—
Other non-current liabilities		**6,913**	7,922
Financial derivative liabilities		—	419
		7,231	8,341
Current liabilities			
Trade and bills payables	11	**64,268**	56,414
Other payables and accruals and contract liabilities		**113,946**	131,773
Amount due to an associate		**7,829**	6,181
Financial derivative liabilities		**5,684**	565
		191,727	194,933
Total liabilities		**198,958**	203,274
Total equity and liabilities		**651,934**	686,704

Notes to the Financial Statements

(1) Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and requirements of the Hong Kong Companies Ordinance (Cap. 622). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and financial derivative assets and liabilities.

The preparation of consolidated financial statements in conformity with HKFRSs 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.

(a) New and amended standards, improvements and interpretation adopted by the Group:

The Group has applied the following new and amended standards, improvements and interpretation for the first time for their annual reporting period commencing 1 April 2018.

HKAS 40 (Amendments)	Transfers of Investment Property
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 (Amendment)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HKFRS 15 (Amendments)	Clarifications to HKFRS 15
HK (IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Annual Improvements Project	Annual Improvements 2014-2016 Cycle

Save as disclosed in Note 2, the adoption of the new and amended standards, improvements and interpretation listed above did not have material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future period.

(b) New and amended standards, improvements, interpretation and revised framework not yet adopted

New and amended standards, improvements, interpretation and revised framework which have been issued but are not effective for the Group's financial year beginning 1 April 2018 and have not been early adopted by the Group are as follows:

HKAS 1 and HKAS 8 (Amendments)	Definition of Materials[2]
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement[1]
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures[1]
HKFRS 3 (Amendments)	Definition of Business[2]
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation[1]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Annual Improvements Project (Amendments)	Annual Improvement 2015-2017 Cycle[1]
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting[2]

[1] Effective for accounting period beginning on or after 1 January 2019
[2] Effective for accounting period beginning on or after 1 January 2020
[3] Effective for accounting period beginning on or after 1 January 2021
[4] Effective date to be determined by the HKICPA

The Group will apply the above new and amended standards, improvements, interpretation and revised framework when they become effective. The Group has commenced the assessment of the expected impact of HKFRS 16 as set out below. The directors of the Company is in the process of assessing the financial impact of the other new and amended standards, improvements, interpretation and revised framework, but is not yet in a position to state whether they would have significant impacts on its results of operations and financial position.

HKFRS 16 "Leases"

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at 31 March 2019, the Group has non-cancellable operating lease commitments of approximately HK$432,593,000.

Upon the application of HKFRS 16, the Group will recognise a right-of-use asset of approximately HK$307,000,000 and a corresponding liability of approximately HK$351,000,000. The retained earnings will be reduced by approximately HK$44,000,000. In addition, the application of new requirements may result in changes in measurement, presentation and disclosure.

Mandatory application date/date of adoption by the Group

The Group will apply the standard from its financial year commencing on 1 April 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(2) Changes in accounting policies

This note explains the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group's consolidated financial statements.

The Group elects to adopt HKFRS 9 and HKFRS 15 without restating comparatives. The reclassification and the adjustments arising from the adoption of HKFRS 9 and HKFRS 15 are therefore not reflected in the consolidated statement of financial position as at 31 March 2018, but are recognised in the opening of the consolidated statement of financial position on 1 April 2018.

There is no balance as at 1 April 2018 requires a restatement as a result of the initial adoption of HKFRS 9. Balances as at 1 April 2018, which require reclassifications as a result of the initial adoption of HKFRS 15, are summarised in Note 2(b).

(a) HKFRS 9 "Financial Instruments"

HKFRS 9 replaces the provision for HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments and impairment of financial assets.

The adoption of HKFRS 9 "Financial Instruments" from 1 April 2018 resulted in changes in accounting policies.

There is no material impact on the Group's retained earnings as at 1 April 2018 and no restatement is made.

(i) Classification and measurement

On 1 April 2018, the management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories.

(2) Changes in accounting policies (continued)

(i) Classification and measurement (continued)

There is no change in classification of the Group's financial assets and liabilities as at 1 April 2018 upon initial adoption of HKFRS 9 as compared to the classification under HKAS 39. In addition, the modified retrospective adoption of HKFRS 9 does not result in a material adjustment in the carrying amounts of the financial assets and liabilities and the retained earnings as at 1 April 2018 that would require a restatement.

(ii) Impairment of financial assets

The Group has three main types of financial assets that are subject to HKFRS 9's new expected credit loss model:

- trade receivables;
- cash and cash equivalents; and
- deposits and other receivables.

The Group was required to revise its impairment methodology under HKFRS 9 for these classes of financial assets.

The Group has assessed the expected credit loss model applied as at 1 April 2018 and the change in impairment methodologies has no significant impact of the Group's financial position and results of operations and the opening allowance is not restated in this respect.

(b) HKFRS 15 "Revenue from Contracts with Customers"

The Group has first time adopted HKFRS 15 from 1 April 2018 which resulted in changes in accounting policies and adjustment to the amounts recognised in the consolidated financial statements. In accordance with the transition provisions of HKFRS 15, the Group has adopted the modified retrospective application and no comparative figures are restated.

In summary, the following adjustments were made to the amounts recognised in the consolidated statement of financial position at the date of initial application (1 April 2018):

	HKAS 18 carrying amount 31 March 2018 HK$000	Reclassification HK$000	HKFRS 15 carrying amount 1 April 2018 HK$000
Other payables and accruals	131,773	(23,607)	108,166
Contract liabilities	-	23,607	23,607

The Group has voluntarily changed the presentation of certain amounts in the consolidated statement of financial position to reflect the terminology of HKFRS 15. As such, receipt in advance from customers and outstanding customer loyalty credits from the customer loyalty programme which was previously included in other payables and accruals, totalling approximately HK$23,607,000 as at 1 April 2018, are now classified as contract liabilities (as included in other payables and accruals and contract liabilities) to reflect the terminology of HKFRS 15.

(3) Revenue and segment information

The Group determines its operating segments based on the reports reviewed by the management who makes strategic decisions. The management assesses the Group's business by geographic location. The reportable operating segments identified are Hong Kong, Mainland China and other markets.

Segment (loss)/profit represents the (loss)/profit incurred by each segment before finance costs, tax (expense)/credit and share of (loss)/profit of an associate. This is the measurement basis reported to the management for the purpose of resource allocation and assessment of segment performance.

An analysis of the Group's reportable segment revenue and operating (loss)/profit by geographical location is as follows:

	2019			
	Hong Kong HK$'000	**PRC HK$'000**	**Others HK$'000**	**Total HK$'000**
Revenue – recognised at a point in time	**744,208**	**97,334**	**877**	**842,419**
Operating (loss)/profit	**(14,592)**	**69**	**(5,538)**	**(20,061)**
Finance costs				**(4)**
Share of loss of an associate				**(1,938)**
Loss before income tax				**(22,003)**
Income tax expense				**(289)**
Loss attributable to owners of the Company				**(22,292)**
Other segment information				
Segment capital expenditures	**3,190**	**1,925**	–	**5,115**
Segment depreciation of property, plant and equipment	**13,995**	**3,463**	–	**17,458**
Segment loss on disposal /write-off of property, plant and equipment	**124**	**83**	–	**207**
Segment impairment charge on property, plant and equipment	**1,847**	–	–	**1,847**
Segment provision for impairment of inventories	**78**	**1,249**	–	**1,327**

(3) Revenue and segment information (continued)

	2018			
	Hong Kong HK$'000	PRC HK$'000	Others HK$'000	Total HK$'000
Revenue	763,608	90,681	6,412	860,701
Operating loss	(50,658)	(2,437)	(5,396)	(58,491)
Finance costs				(11)
Share of profit of an associate				3,111
Loss before income tax				(55,391)
Income tax credit				666
Loss attributable to owners of the Company				(54,725)
Other segment information				
Segment capital expenditures	7,328	1,606	—	8,934
Segment depreciation of property, plant and equipment	17,697	3,390	580	21,667
Segment impairment charge on property, plant and equipment	1,697	—	1,569	3,266
Segment (utilisation of provision for)/provision for impairment of inventories	(18,139)	(7,148)	306	(24,981)
Segment reversal of provision for onerous contract	—	(5,808)	—	(5,808)

(4) Expenses by nature

	2019 HK$'000	2018 HK$'000
Cost of inventories	**425,094**	474,818
Provision for/(utilisation of provision for) impairment of inventories	**1,327**	(24,981)
	426,421	449,837
Depreciation of property, plant and equipment	**17,458**	21,667
Impairment charge on property, plant and equipment	**1,847**	3,266
Operating lease rentals in respect of land and buildings		
- minimum lease payments	**202,817**	215,078
- contingent rents	**16,796**	17,314
Auditor's remuneration	**900**	802
Losses on disposal/write-off of property, plant and equipment	**207**	—
Net exchange (gains)/losses	**(1,530)**	5,371
Staff costs (including directors' and chief executive's remuneration)		
Wages and salaries	**135,781**	150,958
Pension costs – defined contribution schemes	**7,932**	7,493
	143,713	158,451
Other expenses	**84,729**	88,923
	893,358	960,709

(5) Other (losses)/gains, net

	2019 **HK$'000**	2018 HK$'000
Fair value loss on financial asset at fair value through profit or loss	**(77)**	(3,615)
Reversal of provision for onerous contract	–	5,808
Net fair value (losses)/gains from financial derivatives	**(7,363)**	2,097
	(7,440)	4,290

(6) Finance costs

	2019 **HK$'000**	2018 HK$'000
Interest on bank overdrafts	**4**	11

(7) Income tax expense/(credit)

Hong Kong profits tax and the People's Republic of China ("PRC") corporate income tax have not been provided for as the Group has no estimated assessable profit for the year ended 31 March 2019 (2018: Nil). Overseas income tax has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged/(credited) to the consolidated income statement represents:

	2019 **HK$'000**	2018 HK$'000
Current income tax		
- Hong Kong profits tax	–	–
- Overseas income tax	**18**	–
- Overprovision in prior years	–	(13)
Deferred income tax	**271**	(653)
	289	(666)

(8) Dividends

No dividends were proposed during the year ended 31 March 2019 (2018: Nil).

The Board has resolved not to declare any dividend for the year ended 31 March 2019 (2018: Nil).

(9) Loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company for the year of approximately HK$22,292,000 (2018: loss of HK$54,725,000) and the weighted average number of ordinary shares of 1,624,000,000 (2018: 1,624,000,000) shares in issue during the year.

Diluted loss per share was equal to basic loss per share as there was no dilutive potential share outstanding for each of the year ended 31 March 2019 and 2018.

(10) Trade and other receivables

Included in trade and other receivables are trade receivables with an ageing analysis based on invoice date at 31 March 2019 as follows:

	2019	2018
	HK$'000	HK$'000
Within 30 days	**22,805**	41,387
Between 31 to 60 days	**382**	961
Between 61 to 90 days	**125**	76
Over 90 days	**299**	161
	23,611	42,585

The Group has established credit policies and the general credit terms allowed range from 0 to 60 days.

Included in trade and other receivables is an amount due from a fellow subsidiary amounted to approximately HK$10,302,000 (2018: HK$22,573,000). The amount is unsecured, interest free and repayable in accordance to the Group's established credit policies.

(11) Trade and bills payables

The ageing analysis of trade and bills payables at 31 March 2019 based on due date is as follows:

	2019	2018
	HK$'000	HK$'000
Due within 30 days	**60,924**	54,295
Due between 31 to 60 days	**2,556**	1,397
Due between 61 to 90 days	**316**	722
Over 90 days	**472**	—
	64,268	56,414

(12) Review of results

The consolidated financial results for the year ended 31 March 2019 have been reviewed with no disagreement by the Audit Committee of the Company.

SCOPE OF WORK OF THE AUDITOR

The figures in respect of the Group's consolidated income statement, consolidated statement of financial position, and the related notes thereto for the year ended 31 March 2019 as set out in the preliminary announcement have been agreed by the Company's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

CORPORATE GOVERNANCE CODE

During the financial year ended 31 March 2019, all the code provisions in the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited were met by the Company.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the financial year under review.

BOOK CLOSURE

The Register of Members of the Company will be closed from Saturday, 10 August 2019 to Thursday, 15 August 2019, both days inclusive, during which period no transfer of shares of the Company can be registered. In order to ascertain Shareholders' right to attend and to vote at the forthcoming Annual General Meeting to be held on Thursday, 15 August 2019, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrars in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Friday, 9 August 2019.

By Order of the Board
Kevin C. Y. Hui
Company Secretary

Hong Kong, 6 June 2019

As at the date of this announcement, the Board of Directors of the Company comprises Mr. Stephen T. H. Ng, Ms. Doreen Y. F. Lee and Mr. Paul Y. C. Tsui, together with three Independent Non-executive Directors, namely Mr. Antonio Chan, Mr. Eric K. K. Lo and Mr. T. Y. Ng.