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)
(Stock Code: 825)

ANNUAL RESULTS ANNOUNCEMENT 2018/2019

HIGHLIGHTS

Same-store sales[(1)] growth for the year was -9.5%. The growth for the Previous Year was 0.8%.

Revenue for the year was HK$3,519.0 million compared with HK$3,821.1 million in the Previous Year.

Operating profit for the year increased to HK$204.6 million from HK$185.4 million in the Previous Year.

Profit for the year increased to HK$32.7 million from HK$11.1 million in the Previous Year.

Earnings per share for the year was HK$0.02.

(1) Same-store sales calculation reflects the gross sales proceeds and the adjustment of the operational strategy for the stores in operation.

ANNUAL RESULTS FOR THE YEAR ENDED 30 JUNE 2019

The board of directors (the "Board" or "Directors") of New World Department Store China Limited (the "Company") is pleased to announce the audited annual results of the Company and its subsidiaries (together, the "Group") for the year ended 30 June 2019 as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2019

	Note	**2019** *HK$'000*	2018 *HK$'000*
Revenue	*2*	**3,519,017**	3,821,120
Other income	*3*	**150,251**	196,902
Other losses, net	*4*	**(147,360)**	(198,137)
Changes in fair value of investment properties		**(20)**	482
Purchases of and changes in inventories, net		**(912,331)**	(940,552)
Purchases of promotion items		**(28,285)**	(47,144)
Employee benefit expense		**(651,358)**	(640,890)
Depreciation and amortisation		**(209,653)**	(246,406)
Operating lease rental expense		**(1,057,897)**	(1,228,302)
Other operating expenses, net	*5*	**(457,762)**	(531,720)
Operating profit		**204,602**	185,353
Finance income		**51,964**	61,783
Finance costs		**(35,782)**	(37,994)
Finance income, net		**16,182**	23,789
		220,784	209,142
Share of results of associated companies		**40**	(560)
Profit before income tax		**220,824**	208,582
Income tax expense	*6*	**(188,161)**	(197,497)
Profit for the year		**32,663**	11,085
Attributable to:			
Shareholders of the Company		**32,663**	11,028
Non-controlling interests		**–**	57
		32,663	11,085
Earnings per share attributable to shareholders of the Company for the year (expressed in HK$ per share)			
– Basic and diluted	*8*	**0.02**	0.01

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2019

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	Note	**2019** **HK$'000**	2018 HK$'000
Assets			
Non-current assets			
Property, plant and equipment		**888,044**	1,150,257
Investment properties		**4,692,081**	4,761,907
Land use rights		**475,071**	605,343
Intangible assets		**1,972,351**	2,127,125
Interests in associated companies		**1,563**	1,595
Other non-current assets	*9*	**659,708**	669,840
Prepayments, deposits and other receivables		**241,631**	363,543
Deferred income tax assets		**99,793**	124,337
		9,030,242	9,803,947
Current assets			
Inventories		**94,450**	318,044
Debtors	*10*	**63,441**	116,697
Prepayments, deposits and other receivables		**301,522**	400,506
Amounts due from fellow subsidiaries		**2,840**	2,696
Amounts due from related companies		**186**	1
Fixed deposits with original maturity over three months		**131,111**	42,439
Cash and bank balances		**1,735,590**	1,904,904
		2,329,140	2,785,287
Assets classified as held for sale		**438,141**	–
Total current assets		**2,767,281**	2,785,287
Total assets		**11,797,523**	12,589,234
Equity and liabilities			
Equity			
Share capital		**168,615**	168,615
Reserves		**5,673,994**	5,950,726
Shareholders' funds		**5,842,609**	6,119,341
Non-controlling interests		**–**	7
Total equity		**5,842,609**	6,119,348

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 30 JUNE 2019

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

NOTES

1 BASIS OF PREPARATION

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

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

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

As at 30 June 2019, the Group's current liabilities exceeded its current assets by approximately HK$1,877,994,000 (2018: HK$1,979,293,000). Taking into account the cash flows from operating activities, the track record of successful renewal of the existing borrowings and asset backing, the Group has a reasonable expectation that it has adequate resources to meet its liabilities and commitments as and when they fall due and to continue in operational existence for the foreseeable future. Accordingly, it continues to adopt the going concern basis in preparing the consolidated financial statements.

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

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

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

2 REVENUE AND SEGMENT INFORMATION

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

The income from concessionaire sales is analysed as follows:

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

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

The CODM considers that the Group has department store and other retail related businesses, and property investment business. The CODM assesses the performance of the operating segments based on their revenue and operating results. The measurement of segment operating results excludes the effect of net other losses, changes in fair value of investment properties and net unallocated corporate expenses or income. In addition, net finance income and share of results of associated companies are not allocated to segments. The measurement of segment assets excludes interests in associated companies, deferred income tax assets, assets classified as held for sale and unallocated corporate assets. There is no inter-segment sales.

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

2 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**
For the year ended 30 June 2018			
Segment revenue	3,613,547	207,573	3,821,120
Segment operating results	230,646	152,080	382,726
Other losses, net	(198,150)	13	(198,137)
Changes in fair value of investment properties	–	482	482
Unallocated corporate income, net			282
Operating profit			185,353
Finance income			61,783
Finance costs			(37,994)
Finance income, net			23,789
			209,142
Share of results of associated companies			(560)
Profit before income tax			208,582
Income tax expense			(197,497)
Profit for the year			11,085

2 REVENUE AND SEGMENT INFORMATION (CONTINUED)

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

Note:

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

3 OTHER INCOME

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

4 OTHER LOSSES, NET

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

Note:

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

5 OTHER OPERATING EXPENSES, NET

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

6 INCOME TAX EXPENSE

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

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

Taxation has been provided at the tax rates prevailing in the tax jurisdictions in which the members of the Group operate. No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profit in Hong Kong for the years ended 30 June 2019 and 2018.

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

7 DIVIDENDS

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

8 EARNINGS PER SHARE

(a) Basic

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

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

(b) Diluted

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

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

9 OTHER NON-CURRENT ASSETS

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

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

10 DEBTORS

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

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

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

The debtors were primarily denominated in Renminbi.

11 CREDITORS

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

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

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

The creditors were primarily denominated in Renminbi.

BUSINESS REVIEW

Business Network

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

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

Revenue Breakdown

By region

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

By segment

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

OPERATIONS OVERVIEW

Department Store Business

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

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

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

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

Rental Business

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

Direct Sales Business

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

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

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

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

OUTLOOK

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

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

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

FINANCIAL REVIEW

Revenue and Other Income

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

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

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

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

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

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

Other Losses, Net

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

Changes in Fair Value of Investment Properties

A loss in fair value of investment properties in the Current Year was HK$20,000 which was a net loss primarily related to the decrease in the fair value of the properties in Zhengzhou City and Shenyang City, partially offset by the increase in the fair value of properties in Shanghai City.

Purchases of and Changes in Inventories, Net

The purchases of and net changes in inventories primarily represented the cost of sales for direct sales of goods. It decreased to HK$912.3 million in FY2019 from HK$940.6 million in FY2018. The decrease was in line with the decrease in sales of goods for direct sales in the Current Year.

Purchases of Promotion Items

The purchases of promotion items represented the costs of promotion items transferred to the customers of concessionaire sales and direct sales upon their consumption in department stores or redemption of reward points granted under customer loyalty programme. The purchases of promotion items was HK$28.3 million in FY2019 compared with HK$47.1 million in FY2018.

Employee Benefit Expense

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

Depreciation and Amortisation

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

Operating Lease Rental Expense

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

Other Operating Expenses, Net

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

Operating Profit

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

Income Tax Expense

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

Profit for the Year

As a result of the reasons mentioned above, profit for the year was HK$32.7 million compared with HK$11.1 million in the Previous Year.

Liquidity and Financial Resources

Fixed deposits with original maturity over three months and cash and bank balances of the Group amounted to HK$1,866.7 million as at 30 June 2019 (30 June 2018: HK$1,947.3 million).

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

As at 30 June 2019, the Group's current liabilities exceeded its current assets by HK$1,878.0 million (30 June 2018: HK$1,979.3 million). The Group will continue to monitor rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs and its liabilities and commitments as and when they fall due.

The capital commitments of the Group as at 30 June 2019 were HK$122.5 million which were contracted but not provided for in the consolidated statement of financial position. For the contractual payment of HK$122.5 million, approximately HK$45.1 million is for the redevelopment project of a building in Shenyang City.

Pledge of Assets

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

Treasury Policies

The Group mainly operates in Mainland China with most of the transactions denominated in Renminbi. The Group is mainly exposed to foreign exchange risk arising from Hong Kong dollar, United States dollar and Euro against Renminbi and from Renminbi and Euro against Hong Kong dollar. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures.

Contingent Liabilities

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

FINAL DIVIDEND

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

EMPLOYEES, REMUNERATION POLICY AND PENSION SCHEME

As at 30 June 2019, the total number of employees of the Group was 3,883 (31 December 2018: 4,293). The Group ensures that all levels of employees are paid competitively within the standard in the market and employees are rewarded on performance related basis within the framework of the Group's salary and incentives.

The Group has made contributions to the staff related plans or funds in accordance with the regulations like pension plans, medical insurance, unemployment assistance, work related injury and maternity insurance. Such arrangements are in compliance with relevant laws and regulations.

ACQUISITION AND DISPOSAL

The Group did not have any significant acquisition and disposal during the year ended 30 June 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

CORPORATE GOVERNANCE CODE

The Company has complied with all the applicable code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the time being in force during the year ended 30 June 2019.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding securities transactions by the Directors. Upon the Company's specific enquiry of each Director, all Directors confirmed that they had complied with the required standard set out in the Model Code and the code of conduct regarding Directors' securities transactions adopted by the Company during the year ended 30 June 2019. Relevant employees are subject to compliance with written guidelines on no less exacting terms than the Model Code.

AUDIT COMMITTEE

The audit committee of the Company (the “Audit Committee”) was established in accordance with requirements of the Listing Rules for the purposes of reviewing and providing supervision over the Group’s financial reporting process and risk management and internal controls. The Audit Committee consists of the four independent non-executive Directors. The Audit Committee has reviewed the systems of risk management and internal control and the annual results and the consolidated financial statements for the year ended 30 June 2019 and discussed the financial related matters with the management.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 13 November 2019 to Monday, 18 November 2019, both days inclusive, during which period no transfer of share of the Company will be registered. In order to establish entitlements to attend and voting at the forthcoming annual general meeting of the Company, all transfers of shares of the Company accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the branch share registrar and transfer agent of the Company in Hong Kong, Tricor Investor Services Limited of Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 12 November 2019.

For and on behalf of the board of
New World Department Store China Limited
Dr. Cheng Kar-shun, Henry
Chairman

Hong Kong, 24 September 2019

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