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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 2019/2020

HIGHLIGHTS

Same-store sales[(1)] growth for the year was -26.6%. The growth for the Previous Year was -9.5%.

Revenue for the year was HK$2,232.7 million compared with HK$3,519.0 million in the Previous Year.

Operating loss for the year was HK$198.0 million, as compared to operating profit for the year of HK$204.6 million in the Previous Year.

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.

Loss per share for the year was HK$0.29.

(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 2020

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 2020 as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 HK$'000	2019 HK$'000
Revenue	3	**2,232,691**	3,519,017
Other income	4	**93,525**	150,251
Other losses, net	5	**(469,296)**	(147,360)
Changes in fair value of investment properties		**(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		**(450,323)**	(651,358)
Depreciation and amortisation		**(601,586)**	(209,653)
Rental expense		**(118,295)**	(1,057,897)
Other operating expenses, net	6	**(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	7	**(206,354)**	16,182
		(404,314)	220,784
Share of results of associated companies		**(339)**	40
(Loss)/profit before income tax		**(404,653)**	220,824
Income tax expense	8	**(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	10	**(0.29)**	0.02

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2020

	2020	2019
	HK$'000	*HK$'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)

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		**1,004,982**	888,044
Investment properties		**4,526,518**	4,692,081
Right-of-use assets		**3,644,746**	–
Land use rights		**–**	475,071
Intangible assets		**1,453,148**	1,972,351
Interests in associated companies		**412**	1,563
Other non-current assets	*11*	**–**	659,708
Prepayments, deposits and other receivables		**192,510**	241,631
Finance lease receivables		**217,855**	–
Deferred income tax assets		**129,203**	99,793
		11,169,374	9,030,242
Current assets			
Inventories		**95,035**	94,450
Debtors	*12*	**40,193**	63,441
Prepayments, deposits and other receivables		**256,832**	301,522
Finance lease receivables		**41,294**	–
Amounts due from fellow subsidiaries		**2,484**	2,840
Amounts due from related companies		**1**	186
Fixed deposits with original maturity over three months		**153,735**	131,111
Cash and bank balances		**1,360,328**	1,735,590
		1,949,902	2,329,140
Assets classified as held for sale		**–**	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		**168,615**	168,615
Reserves		**4,040,706**	5,673,994
Total equity		**4,209,321**	5,842,609

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 30 JUNE 2020

	Note	2020 HK$'000	2019 HK$'000
Liabilities			
Non-current liabilities			
Accruals and other payables		**–**	439,132
Lease liabilities		**3,765,923**	–
Deferred income tax liabilities		**846,372**	870,507
		4,612,295	1,309,639
Current liabilities			
Creditors	*13*	**878,364**	1,337,492
Accruals and other payables		**913,725**	1,051,134
Lease liabilities		**698,671**	–
Contract liabilities		**275,924**	251,252
Amounts due to fellow subsidiaries		**7,650**	9,935
Amounts due to related companies		**26,986**	8,652
Borrowings		**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		**–**	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

NOTES

1 BASIS OF PREPARATION

The 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. The 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.

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.

(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 2, 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.

1 BASIS OF PREPARATION (CONTINUED)

(b) Amended standards early adopted by the Group (Continued)

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.

(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 CHANGES IN ACCOUNTING POLICIES

HKFRS 16 Leases

The impacts of the adoption of HKFRS 16 Leases ("HKFRS 16") on the Group's consolidated financial statements are detailed below and it also discloses the new accounting policies that have been applied from 1 July 2019, where they are different to those applied in prior periods.

(a) Impact on the consolidated financial statements

As explained below, the Group has adopted HKFRS 16 retrospectively from 1 July 2019, but has not restated comparative information for the prior reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and adjustments arising from the new leasing rules are recognised in the opening consolidated statement of financial position as at 1 July 2019.

(b) Impact of adoption

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.

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.

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

HKFRS 16 Leases (Continued)

(b) Impact of adoption (Continued)

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

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

HKFRS 16 Leases (Continued)

(b) Impact of adoption (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	**Effects of adoption of HKFRS 16**	**As restated**
	HK$'000	***HK$'000***	***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.

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

HKFRS 16 Leases (Continued)

(c) 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.

(d) HKFRS 16 Leases – Accounting policies applied from 1 July 2019

The Group leases various properties. Rental contracts are made for a range of fixed periods but may have extension options as described in Note 2(d)(ii) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Until the financial year ended 30 June 2019, leases were classified as either finance leases or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the consolidated income statement on a straight-line basis over the period of the lease.

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 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

HKFRS 16 Leases (Continued)

(d) HKFRS 16 Leases – 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.

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.

(i) Variable lease payments

Estimation uncertainty arising from variable lease payments

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.

(ii) Extension options

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.

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

HKFRS 16 Leases (Continued)

(d) HKFRS 16 Leases – Accounting policies applied from 1 July 2019 (Continued)

(iii) Lease modifications

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.

3 REVENUE AND SEGMENT INFORMATION

	2020	2019
	HK$'000	*HK$'000*
Commission income from concessionaire sales	**886,861**	1,420,205
Sales of goods – direct sales	**605,540**	1,251,515
Revenue from contracts 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	2019
	HK$'000	*HK$'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.

3 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)**
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

3 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.

4 OTHER INCOME

	2020	2019
	HK$'000	*HK$'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

5 OTHER LOSSES, NET

	2020	2019
	HK$'000	*HK$'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.

6 OTHER OPERATING EXPENSES, NET

	2020	2019
	HK$'000	*HK$'000*
Selling, promotion, advertising and related expenses	**31,584**	60,762
Cleaning, repairs and maintenance	**52,190**	70,563
Auditor's 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.

7 FINANCE (COSTS)/INCOME, NET

	2020	2019
	HK$'000	*HK$'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.

8 INCOME TAX EXPENSE

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

	2020	2019
	HK$'000	*HK$'000*
Current income tax		
– Mainland China taxation	**92,624**	153,256
– Over-provision in prior years	**(827)**	(827)
Deferred income tax		
– 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%).

9 DIVIDENDS

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

10 (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.

11 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.

12 DEBTORS

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

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	2019
	HK$'000	*HK$'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

The debtors were primarily denominated in Renminbi.

13 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:

	2020	2019
	HK$'000	*HK$'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

The creditors were primarily denominated in Renminbi.

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.

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.

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.

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.

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.

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.

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.

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.

FINAL DIVIDEND

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

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$1.0 million. Well Metro Group Limited 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.

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 2020 except for the deviation from code provision E.1.2.

Code provision E.1.2 provides that the chairman of the board should attend the annual general meeting. Dr. Cheng Kar-shun, Henry, the chairman of the Board, 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.

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 2020. 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 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 the financial related matters with the management.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 20 November 2020 to Wednesday, 25 November 2020, 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 Thursday, 19 November 2020.

By order of the board of
New World Department Store China Limited
Dr. Cheng Kar-shun, Henry
Chairman

Hong Kong, 29 September 2020

As at the date of this announcement, the non-executive Director is Dr. Cheng Kar-shun, Henry; 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.