AEON STORES (HONG KONG) CO., LIMITED
永旺(香港)百貨有限公司
(Incorporated in Hong Kong with limited liability)
(Stock Code: 984)

2018 ANNUAL RESULTS

The Board of Directors (the "Board") of AEON Stores (Hong Kong) Co., Limited (the "Company") is pleased to announce the results of the Company and its subsidiaries (the "Group" or "AEON") for the year ended 31 December 2018 together with comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2018

	NOTES	**2018 HK$'000**	2017 HK$'000
Revenue	3	**9,675,891**	9,665,539
Other income	4	**572,227**	603,323
Investment income		**27,470**	26,155
Purchases of goods and changes in inventories		**(6,676,251)**	(6,638,768)
Staff costs		**(1,175,440)**	(1,226,873)
Depreciation		**(223,441)**	(226,127)
Operating lease rental expenses		**(1,125,946)**	(1,119,473)
Other expenses	5	**(1,063,111)**	(1,103,392)
Pre-operating expenses		**(12,608)**	(25,187)
Other gains and losses	6	**(22,050)**	(18,375)
Finance costs		**-**	(29)
Loss before tax		**(23,259)**	(63,207)
Income tax expense	7	**(19,718)**	(11,015)
Loss for the year		**(42,977)**	(74,222)
(Loss) profit for the year attributable to:			
Owners of the Company		**(49,224)**	(54,749)
Non-controlling interest		**6,247**	(19,473)
		(42,977)	(74,222)
Loss per share - basic	9	**18.93 HK cents**	21.06 HK cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 HK$'000	2017 HK$'000
Loss for the year	**(42,977)**	(74,222)
Other comprehensive (expense) income		
Item that will not be reclassified to profit or loss:		
Fair value gain on investments in equity instruments at fair value through other comprehensive income (“FVTOCI”)	**2,387**	-
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**(10,294)**	15,003
Fair value gain on available-for-sale investments	**-**	3,047
Other comprehensive (expense) income for the year, net of income tax	**(7,907)**	18,050
Total comprehensive expense for the year	**(50,884)**	(56,172)
Total comprehensive expense for the year attributable to:		
Owners of the Company	**(50,350)**	(44,065)
Non-controlling interest	**(534)**	(12,107)
	(50,884)	(56,172)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2018

	NOTES	**2018**	2017
		HK$'000	HK$'000
Non-current Assets			
Property, plant and equipment		**796,071**	881,412
Goodwill		**94,838**	94,838
Available-for-sale investments		**-**	24,158
Equity instruments at FVTOCI		**26,545**	-
Pledged bank deposits		**25,001**	27,026
Deferred tax assets		**48,736**	69,519
Rental and related deposits paid		**263,826**	249,029
		1,255,017	1,345,982
Current Assets			
Inventories		**856,763**	950,925
Trade receivables	10	**55,368**	63,671
Other receivables, prepayments and deposits		**140,213**	187,459
Amounts due from fellow subsidiaries		**53,805**	58,031
Tax recoverable		**2,284**	-
Time deposits		**358,095**	169,234
Pledged bank deposits		**14,852**	19,703
Bank balances and cash		**1,651,349**	2,047,712
		3,132,729	3,496,735
Current Liabilities			
Trade payables	11	**1,250,497**	1,384,471
Other payables, accrued charges and other liabilities		**846,229**	1,416,898
Contract liabilities		**393,557**	-
Dividend payable		**426**	472
Amount due to ultimate holding company		**30,980**	29,541
Amounts due to fellow subsidiaries		**77,234**	65,111
Tax liabilities		**-**	5,972
		2,598,923	2,902,465
Net Current Assets		**533,806**	594,270
Total Assets Less Current Liabilities		**1,788,823**	1,940,252
Capital and Reserves			
Share capital		**115,158**	115,158
Reserves		**1,325,889**	1,490,543
Equity attributable to owners of the Company		**1,441,047**	1,605,701
Non-controlling interest		**137,136**	137,670
Total Equity		**1,578,183**	1,743,371
Non-current Liabilities			
Rental deposits received and other liabilities		**209,251**	196,054
Deferred tax liabilities		**1,389**	827
		210,640	196,881
		1,788,823	1,940,252

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The financial information relating to the years ended 31 December 2018 and 2017 included in this preliminary announcements of annual results for the years ended 31 December 2018 and 2017 do not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the consolidated financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the consolidated financial statements for the year ended 31 December 2018 in due course.

The Company's auditor has reported on the consolidated financial statements of the Group for both years. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
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
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's performance and financial positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs – continued

***New and Amendments to HKFRSs that are mandatorily effective for the current year** – continued*

2.1 HKFRS I5 Revenue from Contracts with Customers

The Group has applied HKFRS l5 for the first time in the current year. HKFRS 15 superseded HKAS l8 *Revenue*, HKAS11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- direct sales of merchandise in retails stores; and
- commission income from concessionaire sales.

Summary of effects arising from initial application of HKFRS 15

The application of HKFRS15 has no material impact on the Group's retained profits at 1 January 2018.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017	Reclassification	Carrying amounts under HKFRS 15 at 1 January 2018*
	HK$'000	HK$'000 (Note)	HK$'000
Current Liabilities			
Other payables, accrued charges and other liabilities	1,416,898	(440,470)	976,428
Contract liabilities	-	440,470	440,470

* The Group recognised the cumulative effect of initially applying HKFRS 15 as a reclassification to the opening balances as at 1 January 2018. The amounts in this column are before the adjustments from the application of HKFRS 9.

Note: At the date of initial application, included in other payables, accrued charges and other liabilities are advance receipts on prepaid store value cards of HK$405,688,000 and deferred revenue for the award credits granted under customer loyalty scheme of HK$34,782,000. These balances were reclassified to contract liabilities upon application of HKFRS 15.

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs – continued

***New and Amendments to HKFRSs that are mandatorily effective for the current year** – continued*

***2.1 HKFRS I5 Revenue from Contracts with Customers** – continued*

Summary of effects arising from initial application of HKFRS 15 – continued

The following table summarises the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 for each of the line items affected. The application of HKFRS 15 has no material impact on the Group's consolidated statement of profit or loss. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported HK$'000	Reclassification HK$'000	Amounts without application of HKFRS15 HK$'000
Current Liabilities			
Other payables, accrued charges and other liabilities	846,229	393,557	1,239,786
Contract liabilities	393,557	(393,557)	-

2.2 HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and other items (for example, lease receivables) and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9 i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at I January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under *HKAS* 39 *Financial Instruments: Recognition and Measurement*.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs – continued

***New and Amendments to HKFRSs that are mandatorily effective for the current year** – continued*

2.2 HKFRS 9 Financial Instruments – continued

Summary of effects arising from initial application of HKFRS 9 – continued

	Note	Available-for-sale investments HK$'000	Equity instruments at FVTOCI HK$'000
Closing balance at 31 December 2017 -HKAS 39		24,158	-
Effect arising from initial application of HKFRS 9:			
Reclassification From available-for-sale investments	(a)	(24,158)	24,158
Opening balance at 1 January 2018		-	24,158

(a) Available-for-sale (“AFS’) investments

From AFS equity investments to FVTOCI

The Group elected to present in other comprehensive income for the fair value changes of all its equity investments previously classified as available-for-sale. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, HK$24,158,000 were reclassified from available-for-sale investments to equity instruments at FVTOCI. The fair value gains of HK$21,754,000 relating to those investments previously carried at fair value continued to accumulate in investment revaluation reserve.

(b) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Trade receivables have been assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings based on their historical default rates which are adjusted for forward – looking estimates.

Loss allowances for other financial assets at amortised cost mainly comprise of pledged bank deposits, other receivables, amounts due from fellow subsidiaries, time deposits, and bank balances and cash, are measured on 12 months ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, no additional credit loss allowance has been recognised against retained profits as such amounts would not be material.

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs – continued

***New and Amendments to HKFRSs that are mandatorily effective for the current year** – continued*

2.3. Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 HK$'000 (Audited)	HKFRS 15 HK$'000	HKFRS 9 HK$'000	1 January 2018 HK$'000 (Restated)
Non-current Assets				
Available-for-sale investments	24,158	-	(24,158)	-
Equity instruments at FVTOCI	-	-	24,158	24,158
Current Liabilities				
Other payables, accrued charges and other liabilities	1,416,898	(440,470)	-	976,428
Contract liabilities	-	440,470	-	440,470

3. REVENUE AND SEGMENT INFORMATION

Revenue represents the invoiced value of goods, net of discounts, sold to customers, and income from concessionaire sales during the year. Revenue is recognised at a point in time when the customer obtains control of the goods.

A. For the year ended 31 December 2018

(i) Disaggregation of revenue from contracts with customers

	Hong Kong HK$'000	**PRC HK$'000**	**Total HK$'000**
Direct sales	**4,000,589**	**4,893,791**	**8,894,380**
Income from concessionaire sales	**376,315**	**405,196**	**781,511**
	4,376,904	**5,298,987**	**9,675,891**

(ii) Performance obligations for contracts with customers

Direct sales

The Group sells merchandise directly to customers both through its own retail stores and through internet sales.

For sales of merchandise to retail customers, revenue is recognised when control of the goods has transferred, being at the point the customer purchases the goods at the retail stores. Payment of the transaction price is due immediately at the point the customer purchases the goods.

3 REVENUE AND SEGMENT INFORMATION– continued

A. For the year ended 31 December 2018– continued

(ii) Performance obligations for contracts with customers–continued

For internet sales, revenue is recognised when control of the goods has transferred to the customer, being at the point the goods are delivered to the customer. Delivery occurs when the goods have been shipped to the customer's specific location. When the customer initially purchases the goods online the transaction price received by the Group is recognised as a contract liability until the goods have been delivered to the customer.

The Group also grants award credits for customers under the Group's customer loyalty scheme, revenue is recognised when control of the goods has transferred, being at the point the customer purchases the goods using the award credits at the retail stores.

There is no term on goods return under the Group's standard contract but generally the Group allows the customers to exchange the goods within one week in the case of default items.

Income from concessionaire sales

Under concessionaire sales, the Group acts as an agent to arrange for licensees to sell their goods in the retail stores of the Group. Income from concessionaire sales is recognised when the goods of the licensees have been sold, based on certain percentage of the sales amount.

(iii) Transaction price allocated to the remaining performance obligations for contracts with customers

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 and the expected timing of recognising revenue is within one year. The Group elected to apply the practical expedient by recognising revenue in the amount to which the Group has right to invoice. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

B. For the year ended 31 December 2017

An analysis of the Group's revenue for the year is as follows:

	2017 HK$'000
Direct sales	8,816,295
Income from concessionaire sales	849,244
	9,665,539

3. REVENUE AND SEGMENT INFORMATION– continued

Information reported to the Group's chief operating decision makers (i.e. the executive directors) for the purposes of resource allocation and assessment of performance is focused on the retail stores of the Group located in different locations. The reportable segments represented the aggregate of operating segments with similar economic characteristics in terms of nature of products, type of customers and nature of the regulatory environment. The chief operating decision makers identify Hong Kong and the People's Republic of China ("PRC") as the two reportable segments.

Segment revenues and results

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment:

For the year ended 31 December 2018

	Hong Kong **HK$'000**	**PRC** **HK$'000**	**Total** **HK$'000**
Segment revenue - external	**4,376,904**	**5,298,987**	**9,675,891**
Segment profit (loss)	**9,057**	**(59,786)**	**(50,729)**
Investment income			**27,470**
Loss before tax			**(23,259)**

For the year ended 31 December 2017

	Hong Kong HK$'000	PRC HK$'000	Total HK$'000
Segment revenue - external	4,267,653	5,397,886	9,665,539
Segment loss	(47,820)	(41,513)	(89,333)
Investment income			26,155
Finance costs			(29)
Loss before tax			(63,207)

Segment profit (loss) represents the profit earned (loss incurred) by each segment without allocation of investment income and finance costs. This is the measure reported to the chief operating decision makers for the purposes of resource allocation and performance assessment.

4. OTHER INCOME

	2018 **HK$'000**	2017 HK$'000
Rental income from sub-lease	**448,005**	492,666
Others	**124,222**	110,657
	572,227	603,323

5. OTHER EXPENSES

	2018	2017
	HK$'000	HK$'000
Advertising, promotion and selling expenses	**297,499**	313,517
Maintenance and repair expenses	**341,583**	328,059
Others	**246,215**	267,362
Utilities expenses	**177,814**	194,454
	1,063,111	1,103,392

6. OTHER GAINS AND LOSSES

	2018	2017
	HK$'000	HK$'000
Exchange (loss) gain, net	**(8,823)**	3,687
Impairment loss recognised in respect of property, plant and equipment	**(8,062)**	(19,134)
Loss on disposal/written off of property, plant and equipment	**(5,165)**	(2,928)
	(22,050)	(18,375)

7. INCOME TAX EXPENSE

	2018	2017
	HK$'000	HK$'000
The charges (credits) comprise:		
Current tax		
PRC Enterprise Income Tax	**-**	9,952
PRC withholding tax	**310**	1,259
	310	11,211
Under (over) provision in prior years		
Hong Kong	-	(461)
PRC	**225**	313
	225	(148)
Deferred tax		
Current year	**19,183**	(48)
Income tax expense for the year	**19,718**	11,015

No provision for Hong Kong Profits Tax is made for both years as the assessable profits are fully absorbed by tax loss brought forward.

The PRC income tax is calculated at 25% of the estimated assessable profits of the subsidiaries for both years.

Deferred tax for both years arouse from temporary differences arising from accelerated tax depreciation, provision for staff costs and other expenses, other temporary differences, the undistributed profits of subsidiaries and tax losses.

8. DIVIDENDS

	2018 HK$'000	2017 HK$'000
Final dividend paid for 2017 of 22 HK cents (2017: 20 HK cents for 2016) per ordinary share	**57,200**	52,000
Interim dividend paid for 2018 of 22 HK cents (2017: 20 HK cents for 2017) per ordinary share	**57,200**	52,000
	114,400	104,000

The Board of Directors has recommended a final dividend of 22 HK cents per share (2017: 22 HK cents) to be paid on or before 27 June 2019, subject to shareholders' approval at the forthcoming annual general meeting on 16 May 2019.

9. LOSS PER SHARE

The calculation of basic loss per share attributable to the owners of the Company is based on the Group's loss for the year attributable to owners of the Company of HK$49,224,000 (2017: HK$54,749,000) and on 260,000,000 (2017: 260,000,000) ordinary shares in issue during the year.

No diluted loss per share have been presented as there are no potential ordinary shares in issue for both years.

10. TRADE RECEIVABLES

The Group does not have a defined fixed credit policy as its major trade receivables arise from credit card sales and sales by other electronic payment methods.

The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period.

	2018 HK$'000	2017 HK$'000
Within 30 days	**54,905**	63,179
31 to 60 days	**22**	75
Over 60 days	**441**	417
	55,368	63,671

11. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting periods.

	2018 HK$'000	2017 HK$'000
0 to 60 days	**1,052,703**	1,158,975
61 to 90 days	**85,816**	99,529
Over 90 days	**111,978**	125,967
	1,250,497	1,384,471

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 8 May 2019 to 16 May 2019 (both days inclusive), for the purpose of determining Shareholders' entitlement to attend and vote at the annual general meeting, during which period no transfers of Shares will be registered. In order to qualify for the attending and voting at the forthcoming annual general meeting, all share transfers accompanied by the relevant share certificates, must be lodged for registration with the Company's share registrar, Tricor Secretaries Limited, at Level 22 Hopewell Centre, 183 Queen's Road East Hong Kong not later than 4:30 p.m. on 7 May 2019.

The Register of Members of the Company will be closed from 5 June 2019 to 6 June 2019 (both days inclusive), for the purpose of ascertaining Shareholders' entitlement to the proposed final dividend, during which period no transfers of Shares will be registered. In order to qualify for the proposed final dividend to be approved at the forthcoming annual general meeting, all share transfers accompanied by the relevant share certificates, must be lodged for registration with the Company's share registrar, Tricor Secretaries Limited, at Level 22 Hopewell Centre, 183 Queen's Road East Hong Kong not later than 4:30 p.m. on 4 June 2019**.**

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2018, the retail market recovered along with the healthy economic growth in both the PRC and Hong Kong. However, consumption sentiment became more cautious following the escalation of the US-China trade conflict and the fluctuations in global financial markets in the second half. These macroeconomic developments plus a number of uncontrollable factors including the rising operating costs such as the persistently high rentals posed strong pressure on the Group's profit. Despite this, the Group continued to achieve revenue growth and recorded a strong performance through implementing effective sales strategies in 2018. The Group also continued to implement internal business restructuring, strategically adjust its store portfolio and execute cost control measures, all of which contributed to better results than last year.

BUSINESS REVIEW

In order to continuously respond to market changes and customer segmentation, the Group has comprehensively reviewed its previous marketing strategies, focusing on boosting sales on "Super Wednesday" and weekends, while refreshing 52-week merchandise plans in order to provide customers with a portfolio of products and promotions that suit their needs. Despite the market instability in the second half of the year, the Group's same-store sales (including direct sales and concessionaire sales) increased by 3.1% year-on-year. Cost control is also an important part of the Group's work. Apart from a slight increase in rental cost, other operating costs (including employee costs and other expenses) decreased by 3.9% during the year.

In terms of the merchandise mix, the Group has focused on restructuring its supply chain management, it not only enhanced its negotiation ability and reduced costs. But also expanded the proportion of direct procurement, as well as actively utilised AEON's global supply chain network to successfully introduce and launch its new private brands in Hong Kong and the PRC, which have enjoyed an overwhelming response from customers.

The Group also took an initiative in innovating its business along with its business restructuring. To improve employee productivity, the Group is currently working on the automation of some daily repetitive processes. As for the digitalization of operations, the Group has strengthened its digital loyalty membership system. During the year, new user registrations in the PRC recorded a growth of 73%, reaching a total number of 2.2 million members.

The Group is deeply aware of the intensifying market competition and the importance of innovation, and realises the particular importance of improving its internal restructuring capabilities. Thus during the year, the Group has accelerated the pace of restructuring, and as a result, the total revenue reached a record high, while achieving a business turnaround for the Hong Kong segment. Due to the expiration of some of the store leases which affected the revenue of the PRC business, the Group was still able to narrow the segment loss by 43.2%, equivalent to HK$38.6 million from the previous year. The Board has maintained the dividend policy of paying stable dividends to shareholders as a reward for their support. The Group has recommended payment of a final dividend of HK22.0 cents per share. Together with the interim dividend, the Group has paid total dividends of HK44.0 cents in 2018 (2017: HK42.0 cents).

Hong Kong Operations

In the first half of 2018, the Hong Kong economy showed stable growth with improving retail sentiment. However, the US-China trade friction, other external uncertainties and fluctuations in the financial markets contributed to a notable economic slowdown of growth in the second half. According to the data announced by the Hong Kong Government, economic growth in the fourth quarter last year was below 1.5% and growth for the whole year was only approximately 3%, which was at the lower end of the forecast range[1]. Retail sales in Hong Kong also slid substantially from double digit growth in the first half of 2018 to a year-on-year growth of only 0.1% last December.

Under such a challenging environment, the Group has continued to implement effective marketing and promotion strategies, actively adjust its merchandise mix and improve its supply chain management. These strategies and the expected profit contribution from the “AEON STYLE” business model have enhanced the Group’s sales and profitability. As a result, revenue from the Group’s Hong Kong operations climbed by 2.6% to HK$4,376.9 million (2017: HK$4,267.7 million) despite the closure of the Wo Che store. Operations in Hong Kong also turned around from the loss of HK$47.8 million recorded last year to a profit of HK$9.06 million mainly attributable to the Group’s overall sales growth and its proven cost control measures.

During the year under review, the Group actively reviewed the performance of its stores, optimised its store network and focused on opening small stores. As at 31 December 2018, the Group had 63 (2017: 64) stores in densely populated residential and commercial districts in Hong Kong.

PRC Operations

As for the PRC market, its economy grew steadily in 2018 with an annual growth rate of 6.6%[2]. Yet, the continuous development of the “New Retail” business model intensifying competition in the retail industry and the uncertainties arising from the emerging US-China trade war presented challenges to the development of the Group’s PRC operations. During the year, revenue from the PRC operations dropped slightly by 1.8% to HK$5,298.9 million (2017: HK$5,397.9 million). The Group continued to improve its store portfolio through strategically closing and opening stores. For example, it closed the stores in Nanshan, Shenzhen and Shunde after the expiry of the lease agreements and opened three stores in Foshan, Guangzhou and Zhuhai. As the new stores remained at the investment stage and the intense competition led to a drop in gross profit, the Group’s PRC operations recorded a loss of HK$59.8 million (2017: loss of HK$41.5 million) during the year. Riding on the success of the “AEON STYLE” business model in Hong Kong, the Group replicated the model in the PRC and opened the country’s first “AEON STYLE” store in East Lake, Shenzhen. Renovation of the store was completed in December 2018 and it is ready to offer a brand new shopping experience to Chinese customers. As at 31 December 2018, the Group operated a total of 33 stores (2017: 32 stores) in South China.

[1] Budget 2019-20 published by the Hong Kong SAR Government
[2] National Bureau of Statistics

FINANCIAL REVIEW

During the report period, the Group's total revenue increased to a new high of HK$9,675.9 million from HK$9,665.5 million last year, mainly due to the Hong Kong segment achieving sales growth. Gross profit margin was maintained at a stable level of 31.0%. The Group succeeded in narrowing the loss owing to higher sales growth and a series of cost control measures. Loss attributable to owners of the Company for the year was HK$49.2 million (2017: HK$54.7 million).

During the year under review, the Group saw a decline in various cost items due to the impact from the closure and opening of stores. Staff cost decreased by 4.2% and its ratio to revenue dropped to 12.1% (2017:12.7%) thanks to the effective cost saving measures. As for other operating expenses including advertising, promotion and selling expenses, maintenance and repair expenses, utility expenses and other expenses, they were reduced by 3.7% and the ratio of these expenses to revenue decreased from 11.4% to 11.0%. Operating lease rental expenses increased slightly by 0.6% and its ratio to revenue maintained at 11.6%.

Loss in "Other Gains and Losses" surged to HK$22.1 million (2017: HK$18.4 million) mainly affected by the exchange loss recorded during the year.

The Group maintained a net cash position with cash and bank balances and short term time deposits amounting to HK$2,009.4 million as at 31 December 2018 (2017: HK$2,216.9 million). It will continue to use its internal resources to finance future business expansion.

As at 31 December 2018, deposits of HK$31.6 million (2017: HK$32.0 million) were pledged to the bank as guarantees of the rental deposits to landlords. Deposits of HK$8.2 million (2017: HK$14.7 million) were pledged to regulatory bodies as guarantees for prepaid value cards sold.

In 2018, capital expenditure for opening new stores and store renovation in Hong Kong and the PRC amounted to HK$172.2 million.

PROSPECTS

In the coming year, the Group expects the uncertainties in the PRC and Hong Kong economies, in particular those arising from the ongoing US-China trade conflict, will continue to affect consumption and retail sentiment in both places. The retail landscape has also experienced great changes in the past few years. The rising of the "New Retail" model has intensified the competition in the retail market and thus presented challenges to market players. Nevertheless, as customers pursue a higher living standard, the Group will excel in the market through its quality merchandise mix and attentive services. Looking ahead, the Group will build on its solid foundation built over the years to conduct internal reviews and implement internal restructuring, hoping to maintain its competitiveness in the changing retail market and offer an extraordinary retail experience to customers through the new operations model.

The Group has signed an agreement with AEON TopValu Co., Ltd ("TopV"), a subsidiary of AEON Co., Ltd., the controlling shareholder of the Company, at the end of last year. Pursuant to the agreement, starting from 2019, the Group is to purchase both house brand products and other products directly from their manufacturers or suppliers and sell them in Hong Kong and the PRC. The Group believes that having its own merchandising team will further enable it to improve operation of the supply chain as well as strengthen its relationships with the manufacturers and suppliers, in order to better control costs. The Group expects that this procedure will help to increase the sales proportion of the products bearing house brands and to boost overall gross profit margin.

PROSPECTS - continued

Hong Kong Operations

Given that Hong Kong's overall economy has begun slowing down in the second half of last year, the Group expects that the market will face more uncertainties and the overall business environment will become more challenging in the year ahead, and thus will continue to prudently drive the business development. While continuously implementing its proven effective sales strategy, it will also actively enhance operational efficiency and cost structure in order to strengthen cost control and raise profitability.

As operating small stores provides greater flexibility in terms of location selection and lease terms, the Group continues the strategy of actively opening small specialty stores. The Group opened a small store during the first three months of 2019, and plans to open two new stores in the second quarter. In the future, the Group plans to continue to adjust the existing store portfolio and explore opportunities to open more small stores across Hong Kong.

The "AEON STYLE" concept has been well-received in the Hong Kong market and its business has advanced along the right track. In view of this progress, the Group plans to gradually replicate the successful elements of AEON STYLE in other stores, with the aim of offering a better retail experience to customers. At the same time, the Group will further enhance the merchandise mix of all stores and will better utilise the procurement network of the Japan-based AEON Group, so as to stimulate sales growth with enriched and appealing Japanese merchandise.

To enhance operating efficiency, the Group will extend the application of information technology systems in daily business operations, including improving a self-service cashier system and installing more self - service cashiers. It also plans to launch a new ERP system in the first half of 2019 to improve the workflow and offer a more attentive shopping experience to customers.

PRC Operations

Affected adversely by the external uncertainties such as the trade dispute between the PRC and the US, the economic growth of the PRC is likely to slow. However, with the increasing spending power and pursuit of quality of life by the society as a whole, the Group remains optimistic about the long-term growth potential of the PRC operations. Nonetheless, the Group is positive about the development potential of South China, particularly Guangdong Province. The PRC Government's active efforts to drive the development of the Guangdong-Hong Kong-Macao Greater Bay Area, coupled with the completion of the infrastructure projects in the area, notably the opening of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and Hong Kong-Zhuhai-Macao Bridge, are believed to create new opportunities for the Group's business in South China.

To boost the sales performance of existing stores, the Group introduced a new customer relationship management ("CRM") system in 2017 to strengthen its customer relationship management. It has also utilised big data to fine-tune marketing capabilities in order to provide a more comprehensive range of merchandise and attentive services better targeted to the needs of customers.

Looking ahead to 2019, the Group will accelerate initiatives for digitalized operations, including constructing an omni-channel platform and cross-border shopping business. Besides maintaining the pace of opening stores in a prudent manner, the Group will continue to improve its store portfolio and enhance operational efficiency in the PRC through reviewing the performance of existing stores. The Group plans to open a new store in Shenzhen and two stores with new business models in Shunde within this year as well as actively explore the opening of "Cloud Warehouse".

PROSPECTS - continued

PRC Operations - continued

The Group has completed the renovation of its Donghu store in Shenzhen as the first “AEON STYLE” store in the PRC. Opening in December last year the new store has enjoyed a favourable response from customers. The Group will continue to monitor and review its effectiveness and will introduce its successful elements to existing stores in other first-tier cities within the PRC. The Group will also continue to cooperate with property developers to generate business in new areas and will cooperate with operators of other well-established shopping malls to open stores in the areas with potential for growth in a bid to expand its presence in the PRC.

In 2019, the Group expects its total capital expenditure in the PRC and Hong Kong to reach approximately HK$240 million, which mainly earmarked for opening new stores, renovating existing stores and enhancing back-office support such as information technology systems to boost business efficiency and provide support for further business development.

COMPANY OBJECTIVES

Adhering to the concept of “operating a business that can fully satisfy customer needs”, the Group endeavours to provide customers with a healthy, safe and convenient shopping environment and services to enhance their quality of living. All AEON employees share the same service concept and are dedicated to creating long-term value for the Group by gaining the customers’ trust. In the future, the Group will focus on expanding its market share in the PRC and Hong Kong, and also actively drive business growth and enhance its operational efficiency and lower costs. The Group truly believes the above measures will generate stable and satisfactory returns for shareholders and all stakeholders.

HUMAN RESOURCES

As at 31 December 2018, the Group had 7,100 full-time and 3,700 part-time employees in Hong Kong and the PRC. The Group remunerates employees based on their performance, experience and prevailing industry practices. Committed to delivering the highest standard service to all customers, the Group will continue to enhance the quality and skills of its employees by providing them with professional training and mentorship. It also strives to create a pleasant working environment that can foster comradeship among employees.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and with the knowledge of the Directors, the Company has maintained sufficient public float during the year ended 31 December 2018 and up to the date of this announcement.

CORPORATE GOVERNANCE

The Board of the Company has complied throughout the year ended 31 December 2018 with the code provisions set out in the Corporate Governance Code ("CG Code") and Corporate Governance Report contained in Appendix 14 to the Listing Rules except for the deviation disclosed below:

Under code provision A.2.1 of the CG Code requires the roles of chairman and chief executive should be separate and should not be performed by the same individual. The Board considered that the duties of the Managing Director ("MD") were no difference from that required of a chief executive stipulated under the code provision A.2.1 of the CG Code. The management would regard that the term of Managing Director will have the same meaning as the chief executive of the Company. During the year from 1 January 2018 to 31 December 2018, Ms. Yuki Habu ("Ms. Habu") was the Chairman of the Board and the MD of the Company.

The role of Chairman of the Board is responsible for the leadership and effective running of the Board, and ensuring that all significant and key issues are discussed and where required, resolved by the Board timely and constructively. The role of MD is delegated with the authority and responsibility to run the Group's business and day-to-day operation, and implement the Group's strategy with respect to the achievement of its business objectives with the assistance of the Executive Directors and senior management. The Board believes that this structure of having Ms. Habu acting as both the Chairman and MD has been conductive to strong and consistent leadership, enabling the Group to make and implement decisions promptly and efficiently. Also with Mr. Masamitsu Ikuta acting as Deputy MD and Mr. Chak Kam Yuen, Mr. Lau Chi Sum Sam and Mr. Keiji Tsukahara as Executive Directors together with the senior managements, they are assisting Ms. Habu to run the Group's business and day-to-day operation. In light of these considerations, the Company has maintained Ms. Habu as the Chairman and MD of the Board.
The Board will review the current structure when and as it becomes appropriate.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry of all existing Directors, the Company confirms that they have fully complied with the required standard set out in the Model Code throughout the year ended 31 December.

The Audit Committee of the Company has reviewed the annual results for the year ended 31 December 2018 with management.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement.

PUBLICATION OF ANNUAL REPORT ON THE WEBSITE OF THE STOCK EXCHANGE

The annual report for the year ended 31 December 2018 containing all the information as required by the Listing Rules will be published on the websites of the Stock Exchange and the Company respectively and copies will be dispatched to shareholders of the Company in due course.

By order of the Board of
AEON Stores (Hong Kong) Co., Limited
Yuki Habu
Chairman and Managing Director

Hong Kong, 20 March 2019

As at the date of this announcement, the Executive Directors are Ms.Yuki Habu, Mr.Masamitsu Ikuta, Mr. Chak Kam Yuen , Mr. Lau Chi Sum Sam and Mr.Keiji Tsukahara ; the Non-executive Directors is Mr. Akinori Yamashita ; and the Independent Non-executive Directors are Ms. Chan Yi Jen Candi Anna, Ms. Lo Miu Sheung, Betty, Mr. Chow Chi Tong and Mr. Hideto Mizuno.