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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)

2019 INTERIM RESULTS

The Board of Directors (the “Board”) of AEON Stores (Hong Kong) Co., Limited (the “Company”) is pleased to announce the unaudited results of the Company and its subsidiaries (the “Group” or “AEON”) for the six months ended 30 June 2019 together with comparative figures for the previous period as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
 FOR THE SIX MONTHS ENDED 30 JUNE 2019**

	<u>NOTES</u>	Six months ended	
		<u>30.6.2019</u> HK\$'000 (unaudited)	<u>30.6.2018</u> HK\$'000 (unaudited)
Revenue	3	4,829,780	4,929,803
Other income	4	270,906	300,368
Investment income		13,704	11,843
Interest income from rental deposits		5,352	-
Purchase of goods and changes in inventories		(3,405,365)	(3,416,708)
Staff costs		(569,349)	(627,930)
Depreciation of investment properties		(43,673)	-
Depreciation of property, plant and equipment		(105,594)	(114,391)
Depreciation of right-of-use-assets		(378,593)	-
Rental expenses		(61,358)	(572,965)
Pre-operating expenses		(1,661)	(6,697)
Other gains and losses	5	(3,527)	935
Other expenses	6	(535,820)	(542,784)
Interest on lease liabilities		(155,685)	-
Loss before tax		(140,883)	(38,526)
Income tax expense	7	(7,053)	(4,887)
Loss for the period		(147,936)	(43,413)
(Loss) profit for the period attributable to:			
Owners of the Company		(149,096)	(50,484)
Non-controlling interests		1,160	7,071
		(147,936)	(43,413)
Loss per share	9	(57.34) HK cents	(19.42) HK cents

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

	Six months ended	
	<u>30.6.2019</u>	<u>30.6.2018</u>
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss for the period	<u>(147,936)</u>	<u>(43,413)</u>
Other comprehensive income		
<i>Item that will not be reclassified to profit or loss:</i>		
Fair value gain on investments in equity instruments at fair value through other comprehensive income ("FVTOCI")	102	547
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of financial statements of foreign operations	<u>3,233</u>	<u>9,978</u>
Other comprehensive income for the period, net of income tax	<u>3,335</u>	<u>10,525</u>
Total comprehensive expense for the period	<u><u>(144,601)</u></u>	<u><u>(32,888)</u></u>
Total comprehensive (expense) income for the period attributable to:		
Owners of the Company	(147,123)	(44,834)
Non-controlling interests	<u>2,522</u>	<u>11,946</u>
	<u><u>(144,601)</u></u>	<u><u>(32,888)</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2019

	<u>NOTES</u>	<u>30.6.2019</u> <u>HK\$'000</u> (unaudited)	<u>31.12.2018</u> <u>HK\$'000</u> (audited)
Non-current Assets			
Property, plant and equipment		753,950	796,071
Right-of-use assets		3,756,838	-
Investment properties		510,088	-
Goodwill		94,838	94,838
Equity instruments at FVTOCI		26,647	26,545
Pledged bank deposits		28,333	25,001
Deferred tax assets		48,890	48,736
Rental and related deposits paid		191,506	263,826
		<u>5,411,090</u>	<u>1,255,017</u>
Current Assets			
Inventories		784,300	856,763
Trade receivables	10	49,971	55,368
Other receivables, prepayments and deposits		122,317	140,213
Amounts due from fellow subsidiaries		40,995	53,805
Tax recoverable		-	2,284
Time deposits		109,353	358,095
Pledged bank deposits		10,786	14,852
Bank balances and cash		1,853,797	1,651,349
		<u>2,971,519</u>	<u>3,132,729</u>
Current Liabilities			
Trade payables	11	1,330,911	1,250,497
Other payables, accrued charges and other liabilities		709,291	846,229
Lease liabilities		742,241	-
Contract liabilities		393,925	393,557
Dividend payable		32,919	426
Amount due to ultimate holding company		42,853	30,980
Amounts due to fellow subsidiaries		17,846	77,234
Tax liabilities		4,110	-
		<u>3,274,096</u>	<u>2,598,923</u>
Net Current (Liabilities) Assets		<u>(302,577)</u>	<u>533,806</u>
Total Assets Less Current Liabilities		<u>5,108,513</u>	<u>1,788,823</u>
Capital and Reserves			
Share capital		115,158	115,158
Reserves		759,219	1,325,889
Equity attributable to owners of the Company		874,377	1,441,047
Non-controlling interests		139,658	137,136
Total Equity		<u>1,014,035</u>	<u>1,578,183</u>
Non-current Liabilities			
Rental deposits received and other liabilities		121,957	209,251
Lease liabilities		3,970,900	-
Deferred tax liabilities		1,621	1,389
		<u>4,094,478</u>	<u>210,640</u>
		<u>5,108,513</u>	<u>1,788,823</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “*Interim Financial Reporting*” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The financial information relating to the year ended 31 December 2018 that is included in the condensed consolidated financial statements as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements is as follows:

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

The Company’s auditor has reported on those consolidated financial statements. 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.

In preparing the condensed consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that the Group’s current liabilities exceeded its current assets by HK\$302,577,000 at 30 June 2019. In the opinion of the directors of the Company, the Group has a number of sources of finance available to fund its operations. Taking into account of the available banking facilities, the directors of the Company are confident that the Group will be able to meet its financial obligations when they fall due in the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2018.

Application of new and amendments to HKFRSs and an interpretation

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs and an interpretation issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group’s condensed consolidated financial statements.

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	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 - 2017 Cycle

2. PRINCIPAL ACCOUNTING POLICIES - continued

Application of new and amendments to HKFRSs and an interpretation - continued

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

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 *Leases* ("HKAS 17") and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of machinery and equipment that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

2. PRINCIPAL ACCOUNTING POLICIES - continued

Application of new and amendments to HKFRSs and an interpretation - continued

2.1 *Impacts and changes in accounting policies of application on HKFRS 16 Leases* - continued

2.1.1 *Key changes in accounting policies resulting from application of HKFRS 16* - continued

As a lessee - continued

Right-of-use assets - continued

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the consolidated statement of financial position. The right-of-use assets that meet the definition of investment property are presented within "investment properties".

Investment properties

Investment properties are right-of-use asset for sub-lease.

Investment properties are initially measured at cost. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated lease term using the straight-line method.

If an investment property becomes a right-of-use asset because its use has changed as evidenced by the commencement of owner-occupation, the carrying amount of the property at the date of transfer is transferred to right-of-use asset.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

2. PRINCIPAL ACCOUNTING POLICIES - continued

Application of new and amendments to HKFRSs and an interpretation - continued

2.1 *Impacts and changes in accounting policies of application on HKFRS 16 Leases* - continued

2.1.1 *Key changes in accounting policies resulting from application of HKFRS 16* - continued

As a lessee - continued

Lease liabilities - continued

The lease payments include:

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

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period on which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

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.

2. PRINCIPAL ACCOUNTING POLICIES - continued

Application of new and amendments to HKFRSs and an interpretation - continued

2.1 *Impacts and changes in accounting policies of application on HKFRS 16 Leases* - continued

2.1.1 *Key changes in accounting policies resulting from application of HKFRS 16* - continued

As a lessee - continued

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

As a lessor

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value are considered as additional lease payments from lessees.

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

2.1.2 *Transition and summary of effects arising from initial application of HKFRS 16*

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) - Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

2. PRINCIPAL ACCOUNTING POLICIES - continued

Application of new and amendments to HKFRSs and an interpretation - continued

2.1 *Impacts and changes in accounting policies of application on HKFRS 16 Leases* - continued

2.1.2 *Transition and summary of effects arising from initial application of HKFRS 16* - continued

Definition of a lease - continued

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;
- ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties in Hong Kong and People's Republic of China was determined on a portfolio basis; and
- v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1 January 2019, the Group recognised lease liabilities and measured right-of-use assets at the carrying amounts as if HKFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entity at the date of initial application by applying HKFRS 16.C8(b)(i) transition for the leases in Hong Kong and recognised lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition for the leases in PRC.

2. **PRINCIPAL ACCOUNTING POLICIES** - continued

Application of new and amendments to HKFRSs and an interpretation - continued

2.1 *Impacts and changes in accounting policies of application on HKFRS 16 Leases* - continued

2.1.2 *Transition and summary of effects arising from initial application of HKFRS 16* - continued

As a lessee - continued

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rates applied range from 5.77% to 7.89%.

	At 1 January 2019 HK\$'000
Operating lease commitments disclosed as at 31 December 2018	4,655,187
Less: Operating lease commitments of new assets which terms have not commenced as at 1 January 2019	<u>(24,188)</u>
	4,630,999
Lease liabilities discounted at relevant incremental borrowing rates	3,515,455
Add: Termination options reasonably certain not to be exercised	1,489,755
Less: Recognition exemption - short-term leases	<u>(66,605)</u>
Lease liabilities as at 1 January 2019	<u>4,938,605</u>
Analysed as:	
Current	719,481
Non-current	<u>4,219,124</u>
	<u>4,938,605</u>

The carrying amount of right-of-use assets at 1 January 2019 comprises the following:

	<u>Notes</u>	At 1 January 2019 HK\$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		4,576,131
Amounts included in property, plant and equipment under HKAS 17 - Restoration and reinstatement costs	(a)	28,289
Adjustments on rental deposits at 1 January 2019	(b)	78,893
Adjustments on advance payment at 1 January 2019		693
Less: Accrued lease liabilities relating to rent-free period and progressive rent at 1 January 2019	(c)	<u>(111,370)</u>
Less: Investment properties for sub-lease		<u>(525,782)</u>
		<u>4,046,854</u>
By class:		
Land and buildings		<u>4,046,854</u>

2. PRINCIPAL ACCOUNTING POLICIES - continued

Application of new and amendments to HKFRSs and an interpretation - continued

2.1 *Impacts and changes in accounting policies of application on HKFRS 16 Leases* - continued

2.1.2 *Transition and summary of effects arising from initial application of HKFRS 16* - continued

As a lessee - continued

- (a) In relation to the leases of retail stores that the Group acts as lessee, the carrying amount of the estimated costs of reinstating the rented premises previously included in property, plant and equipment amounting to HK\$28,289,000 as at 1 January 2019 were included as right-of-use assets.
- (b) Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, HK\$78,893,000 was adjusted to refundable rental deposits paid and right-of-use assets.
- (c) Rent-free period

These relate to accrued lease liabilities for leases of properties in which the lessors provided rent-free period. The carrying amount of the lease incentive liabilities as at 1 January 2019 was adjusted to right-of-use assets at transition.

Lease payments increase progressively over lease terms

These relate to accrued lease liabilities of several operating leases for leases of properties in which the rentals increase progressively by fixed annual percentage. The carrying amount of the accrued lease liabilities as at 1 January 2019 was adjusted to right-of-use assets at transition.

As a lessor

In accordance with the transitional provisions in HKFRS 16, except for sub-leases in which the Group acts as an intermediate lessor, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

- (d) Upon application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group's condensed consolidated statement of financial position at 1 January 2019. However, effective 1 January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.
- (e) Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right-of-use assets and were adjusted to reflect the discounting effect at transition. There is no material adjustment to refundable rental deposits received.
- (f) Effective on 1 January 2019, the Group has applied HKFRS 15 to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the condensed consolidated financial statements of the Group for the current period.

2. PRINCIPAL ACCOUNTING POLICIES - continued

Application of new and amendments to HKFRSs and an interpretation - continued

2.1 *Impacts and changes in accounting policies of application on HKFRS 16 Leases - continued*

2.1.2 *Transition and summary of effects arising from initial application of HKFRS 16 - continued*

The following table summarises the impact of transition of HKFRS 16 on retained profits at 1 January 2019.

	Impact of adopting HKFRS 16 at 1 January <u>2019</u> HK\$'000
Retained profits	
Depreciation of right-of-use assets from commencement dates upon application of HKFRS 16	1,900,214
Interest on lease liabilities from commencement dates upon application of HKFRS 16	874,516
Less: Lease expenses of operating leases under HKAS17 before 1 January 2019	(2,412,256)
Impact at 1 January 2019	<u>362,474</u>

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	<u>Notes</u>	Carrying amounts previously reported at 31 December <u>2018</u> HK\$'000	<u>Adjustments</u> HK\$'000	Carrying amounts under HKFRS 16 at 1 January <u>2019</u> HK\$'000
Non-current Assets				
Property, plant and equipment	(a)	796,071	(28,289)	767,782
Right-of-use assets		-	4,046,854	4,046,854
Investment properties		-	525,782	525,782
Rental and related deposits paid	(b)	263,826	(78,893)	184,933
Current Asset				
Other receivables, prepayments and deposit		140,213	(693)	139,520
Current Liabilities				
Other payables, accrued charges and other liabilities	(c)	846,229	(111,370)	734,859
Lease liabilities		-	719,481	719,481
Non-current Liability				
Lease liabilities		-	4,219,124	4,219,124
Capital and Reserves				
Reserves		<u>1,325,889</u>	<u>(362,474)</u>	<u>963,415</u>

2. PRINCIPAL ACCOUNTING POLICIES - continued

Application of new and amendments to HKFRSs and an interpretation - continued

2.1 *Impacts and changes in accounting policies of application on HKFRS 16 Leases* - continued

2.1.2 *Transition and summary of effects arising from initial application of HKFRS 16* - continued

Note: For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

The application of *HKFRS 16* as a lessor has no material impact on the condensed consolidated financial statements as at 1 January 2019 and during the interim period.

2.2 *Significant changes in significant judgements and key sources of estimation uncertainty*

The Group applies judgement to determine the lease term for lease contracts in which it is a lessee that include termination option. The assessment of whether the Group is reasonably certain not to exercise the termination options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

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 period. Revenue is recognised at a point in time when the customers obtains control of the goods.

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. The chief operating decision makers identify Hong Kong and the PRC as the two reportable segments.

Disaggregation of revenue from contracts with customers

	Six months ended 30.6.2019		
	Hong Kong HK\$'000	PRC HK\$'000	Total HK\$'000
Direct sales	1,917,985	2,561,054	4,479,039
Income from concessionaire sales	173,599	177,142	350,741
	<u>2,091,584</u>	<u>2,738,196</u>	<u>4,829,780</u>

	Six months ended 30.6.2018		
	Hong Kong HK\$'000	PRC HK\$'000	Total HK\$'000
Direct sales	1,998,245	2,500,132	4,498,377
Income from concessionaire sales	203,079	228,347	431,426
	<u>2,201,324</u>	<u>2,728,479</u>	<u>4,929,803</u>

3. REVENUE AND SEGMENT INFORMATION - continued

Disaggregation of revenue from contracts with customers- continued

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

For the six months ended 30 June 2019

	<u>Hong Kong</u> HK\$'000	<u>PRC</u> HK\$'000	<u>Total</u> HK\$'000
Segment revenue - external	<u>2,091,584</u>	<u>2,738,196</u>	<u>4,829,780</u>
Segment loss	<u>(89,000)</u>	<u>(65,587)</u>	<u>(154,587)</u>
Investment income			<u>13,704</u>
Loss before tax			<u>(140,883)</u>

For the six months ended 30 June 2018

	<u>Hong Kong</u> HK\$'000	<u>PRC</u> HK\$'000	<u>Total</u> HK\$'000
Segment revenue - external	<u>2,201,324</u>	<u>2,728,479</u>	<u>4,929,803</u>
Segment loss	<u>(36,647)</u>	<u>(13,722)</u>	<u>(50,369)</u>
Investment income			<u>11,843</u>
Loss before tax			<u>(38,526)</u>

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

4. OTHER INCOME

	Six months ended	
	<u>30.6.2019</u> HK\$'000	<u>30.6.2018</u> HK\$'000
Rental Income from sub-lease	200,969	239,230
Others	<u>69,937</u>	<u>61,138</u>
	<u>270,906</u>	<u>300,368</u>

5. OTHER GAINS AND LOSSES

	Six months ended	
	<u>30.6.2019</u> HK\$'000	<u>30.6.2018</u> HK\$'000
Exchange (loss) gain, net	(2,520)	1,993
Impairment loss recognised in respect of property, plant and equipment	-	(829)
Loss on disposal/written off of property, plant and equipment	<u>(1,007)</u>	<u>(229)</u>
	<u>(3,527)</u>	<u>935</u>

6. OTHER EXPENSES

	Six months ended	
	<u>30.6.2019</u>	<u>30.6.2018</u>
	HK\$'000	HK\$'000
Advertising, promotion and selling expenses	149,940	150,580
Maintenance and repair expenses	174,467	171,695
Others	129,175	129,371
Utilities expenses	82,238	91,138
	<u>535,820</u>	<u>542,784</u>

7. INCOME TAX EXPENSE

	Six months ended	
	<u>30.6.2019</u>	<u>30.6.2018</u>
	HK\$'000	HK\$'000
The charge comprises:		
PRC Enterprise income tax- current tax	6,524	-
PRC Enterprise income tax- underprovision in prior years	-	233
Deferred tax	529	4,654
Income tax expense for the period	<u>7,053</u>	<u>4,887</u>

No provision for Hong Kong Profits Tax is made as the Company has no assessable profit for six months ended 30 June 2019 and 30 June 2018.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Deferred tax for both periods arose from temporary differences arising from tax depreciation, provision for staff costs and other expenses, undistributed profits of subsidiaries and tax losses.

8. DIVIDENDS

	Six months ended	
	<u>30.6.2019</u>	<u>30.6.2018</u>
	HK\$'000	HK\$'000
Dividend recognised as distribution during the period:		
Final dividend declared and paid for 2018 of 22.0 HK cents (six months ended 30.6.2018: 22.0 HK cents for 2017 final dividend) per ordinary share	<u>57,200</u>	<u>57,200</u>

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of 22.0 HK cents (six months ended 30.6.2018: 22.0 HK cents) per ordinary share amounting to HK\$57,200,000 (six months ended 30.6.2018: HK\$57,200,000) will be paid to the owners of the Company whose names appear in the Register of Members on 11 October 2019. The interim dividend will be paid on or before 30 October 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 period attributable to the owners of the Company of HK\$149,096,000 (six months ended 30.6.2018: loss of HK\$50,484,000) and on 260,000,000 (six months ended 30.6.2018: 260,000,000) ordinary shares in issue during the period.

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

10. TRADE RECEIVABLES

The Group does not have a defined fixed credit policy as its major trade receivables arose 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 periods:

	<u>30.6.2019</u> HK\$'000	<u>31.12.2018</u> HK\$'000
Within 30 days	49,816	54,905
31 to 60 days	25	22
Over 60 days	130	441
	<u>49,971</u>	<u>55,368</u>

11. TRADE PAYABLES

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

	<u>30.6.2019</u> HK\$'000	<u>31.12.2018</u> HK\$'000
0 to 60 days	1,233,055	1,052,703
61 to 90 days	12,392	85,816
Over 90 days	85,464	111,978
	<u>1,330,911</u>	<u>1,250,497</u>

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 10 October 2019 to 11 October 2019 (both days inclusive), for the purpose of ascertaining Shareholders' entitlement to the proposed interim dividend, during which period no transfers of Shares will be registered. In order to qualify for the proposed interim dividend, 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 54 Hopewell Centre, 183 Queen's Road East Hong Kong not later than 4:30 p.m. on 9 October 2019.

BUSINESS REVIEW

In the first half of 2019, the escalating trade dispute between the PRC and the US and the uncertain outlook of the global economy resulted in fluctuations in financial markets. This also caused decline of the economic performance and the retail markets both in the PRC and Hong Kong, bringing negative impact at the consumption sentiment.

Hong Kong Operations

Affected adversely by the abovementioned macroeconomic factors, Hong Kong's economic growth slowed quickly in the first half of 2019. A year-on-year economic growth stalling at 0.6%¹ is estimated and this has subsequently dampened consumption sentiment. The winter at the beginning of this year was very warm, which hindered the overall performance of the local retail market. As a result, the value of retail sales in Hong Kong for the first half of the year recorded a year-on-year decrease of 2.6%². These and various uncontrollable factors exerted pressures on the Group's sales for the first half of the year. Even under such circumstances, the Group strived to rejuvenate existing stores. The renovation of the Kowloon Bay store began in phases during the period, and the store will be re-opened after comprehensive renovation completed as planned in the third quarter. During the period under review, the Group continued to formulate a strategy for improvement, in order to mitigate the impact of these external unfavourable factors. Consequently, revenue for the first half of the year dropped slightly by 5.0% year-on-year to HK\$2,091.6 million (2018: HK\$2,201.3 million). Moreover, besides controlling various operating expenses, the Group made a strategic technology investment and introduced a new ERP system in an attempt to promote digitalisation. However, due to the reduction of revenue and the effects of new accounting standards, the Hong Kong operations recorded a loss of HK\$89.0 million (2018: a loss of HK\$36.6 million)

During the period, the Group continued to actively improve the performance of existing stores, and focused on opening small stores, with Living Plaza as the emphasis, in terms of store opening. As at 30 June 2019, the Group had 65 stores (31 December 2018: 63 stores) in prosperous neighborhoods across Hong Kong.

PRC Operations

As for the PRC market, amidst the trade war between China and the US, the economic growth for the first half of the year slowed to 6.3%³. Nevertheless, the Group proactively renovated its stores during the period. It opened and closed two stores respectively in Guangdong province. At the same time, in addition to Super Tuesday promotion, the marketing strategies were also strengthened to include weekend promotions, which enabled the Group's revenue and number of customers continue to grow. Revenue of the PRC operations rose slightly by 0.4% year-on-year to HK\$2,738.2 million (2018: HK\$2,728.5 million) in the first half. Despite such efforts, due to the impact of the new accounting standards which mainly affected the PRC segment performances, the PRC operations recorded a loss of HK\$65.6 million (2018: a loss of HK\$13.7 million). As at 30 June 2019, the Group operated a total of 33 stores (31 December 2018: 33 stores) in Guangdong province and Shenzhen.

FINANCIAL REVIEW

For the six months ended 30 June 2019, the Group's revenue only decreased slightly by 2.0% to HK\$4,829.8 million (2018: HK\$4,929.8 million). Similarly, gross profit margin dropped slightly to 29.5% (2018: 30.7%).

The Group began to use the Hong Kong Financial Reporting Standard 16 Leases ("HKFRS 16") which became effective for financial periods beginning on or after from 1 January 2019 and which superseded the previous Hong Kong Accounting Standard 17 Leases ("HKAS 17"). The Group, as a lessee, has selected the modified retrospective approach for the application of HKFRS 16 and the cumulative effect of initial application that was recognised in the opening retained profits without restating comparative information (More information about the changes caused by the application of HKFRS 16 can be found in the notes to the financial statements). Changes of the financial standards during the reporting period and the newly added lease liabilities on the balance sheet resulted in an increase in the expenses related to the leases signed by the Group, and thereby led to a significant year-on-year change in its business results.

¹ Census and Statistics Department, The Government of the Hong Kong Special Administrative Region

² Census and Statistics Department, The Government of the Hong Kong Special Administrative Region

³ National Bureau of Statistics of China

FINANCIAL REVIEW- continued

Due to the above reasons, loss attributable to owners of the Company for the period was HK\$149.1 million (2018: a loss of HK\$50.5 million). If excluding the effect of the new accounting standard, the loss attributable to owners of the Company reported by the Group for the period was about two times the loss reported last year. The Board has maintained a steady dividend policy to adhere to its philosophy of bringing stable returns to shareholders. It has recommended payment of an interim dividend of HK22.0 cents (2018: HK22.0 cents) per share.

During the period under review, the Group's staff cost declined by 9.3% and its ratio to sales revenue dropped to 11.8%, thanks to implementing good cost control measures. Other operating expenses, including advertising, promotion and selling expenses, maintenance and repair expenses, utility expenses and other expenses, also decreased by 1.3% year-on-year and the ratio of other expenses to revenue was 11.1%.

The Group maintained a strong cash position with cash and bank balances and short term time deposits amounting to HK\$1,963.2 million as at 30 June 2019 (31 December 2018: HK\$2,009.4 million). It will continue to flexibly use its internal resources to finance future business expansion, and plans to increase its capital efficiency and channels of use.

As at 30 June 2019, deposits of HK\$30.93 million (31 December 2018: HK\$31.6 million) were pledged to the bank as guarantees of the rental deposits to landlords. Deposits of HK\$8.2 million (31 December 2018: HK\$8.2 million) were also pledged to regulatory bodies as guarantees for prepaid value cards sold.

The Group's total lease liabilities as at 30 June 2019 amounted to HK\$4,713.1 million, of which HK\$742.2 million is payable within one year. The Group's lease liabilities to equity ratio as at 30 June 2019 (defined as the total lease liabilities divided by equity attributable to the owners of the Company) was 539%.

As at 30 June 2019, the Group's current liabilities exceeded its current assets by HK\$302.6 million (31 December 2018: net current assets of HK\$533.8 million). This was primarily attributed to the adoption of HKFRS 16 which resulted in an increase in current lease liabilities of HK\$742.2 million. The Group has a number of financial sources available to fund its operations and will be able to meet its financial obligations when they fall due in the foreseeable future.

The Group's capital expenditure for the period was HK\$81.6 million, which was mainly used on opening new stores, renovation of stores and upgrade of the IT system.

PROSPECTS

Looking ahead, the macroeconomic factors and ongoing uncertainties in the global economy will continue to affect the economic performance as well as consumption sentiment in both the PRC and Hong Kong, while market competition continues to intensify. The Group believes that consumers will continue to pursue a higher living standard in the long run. As such, the Group will adhere to the concept of "customer first" and provide quality merchandise at reasonable prices and the best shopping experience to customers. It will continue to take on challenges and consolidate its own fundamental strengths while promoting sales, carry out internal reforms and review and adjust its existing strategies where necessary to enhance operational efficiency. Through these efforts the Group will maintain its long-term market competitiveness.

Starting from this year, merchandise procured from Japan, including TopValu merchandise, has been changed to direct procurement mode. The Group believes that having its dedicated in-house merchandising team will help controlling costs in a more efficient way. The Group has commenced related activities in the first half of this year and it plans to increase the sales proportion of its own branded products and boost its overall gross profit margin in the long run.

PROSPECTS- continued

Regarding Hong Kong operations, uncertainties in the global economy together with the unstable local political situation have presented greater challenges to Hong Kong's retail industry and operating environment. The Group is diligently executing various internal improvements to promote business development. The "AEON STYLE" initiative has in fact been well received by stakeholders, including consumers, since its launch in Hong Kong. The Group plans to gradually replicate the successful elements of "AEON STYLE" in other stores, including the Kowloon Bay Store, while introducing the latest store models of the Group, with the aim of offering a better shopping experience to customers. It will also further optimise the merchandise mix of its stores so as to stimulate sales and gross profit growth.

The Group is trying to promote digitalisation through increasing the number of mobile members, and plans to start the adoption of mobile payment this year. It also plans to increase the number of self-service cashier systems to reduce checkout time and speed up the checkout process, so as to extend the application of information technology systems in daily business operations to control labour costs in the long run. During the review period, the Group also introduced a new ERP system to improve workflow and offer a more attentive shopping experience to customers. More benefits are expected to be realised from this system in the future.

The Group will adhere to its core strategy of opening small specialty stores. It will improve operational efficiency of its stores on a regular basis and increase the overall operating effectiveness of its stores. The Group plans to open more small stores in the second half of 2019, and one of them has already started operation in July. The renovation work of the Kowloon Bay Store is to be completed in late September 2019. Customers are expected to have a more satisfying shopping experience in the newly renovated store, which will also help drive the growth of the Group.

As for the PRC operations, the ongoing Sino-US trade dispute will continue to hinder the economic development of the PRC. However, the Group believes the spending power of Chinese citizens will continue to rise. In the first half of 2019, national per capita spending registered a year-on-year growth of 5.2%⁴ (excluding the price factor), reflecting the huge development potential of the Mainland retail market. Therefore, moving forward, the PRC operations will remain as one of the Group's key growth drivers.

The Group will focus on increasing the revenue of its existing stores. In particular, the Group will continue to improve the operational efficiency of its "AEON STYLE" store in East Lake, Shenzhen and introduce successful elements there to existing stores in the PRC, creating an innovative shopping experience for Chinese customers and thereby boosting revenue growth. At the same time, the Group will concentrate on restructuring its supply chain management to lower procurement cost and increase gross profit margin. It will also enhance operational efficiency and reform cost structure in order to strengthen cost control and raise profitability.

Given the unstable market conditions, the Group will adopt a prudent approach in opening new stores. It will review and adjust the existing store portfolio and strategically close underperforming stores in order to improve the overall results of its PRC operations. The Group plans to open one new store in Shunde in early 2020. In the digital business, there are many innovations in the PRC market. The Group closely cooperates with AEON Digital Management Company Limited (DMC) to enhance home delivery service and digital constructions.

The Group expects its total capital expenditure in the second half of 2019 to reach approximately HK\$155.7 million, which will be mainly spent on store upgrade and transformation, construction of an information technology system and new store openings to support future sales growth.

HUMAN RESOURCES

As at 30 June 2019, the Group had about 6,600 full-time and 3,700 part-time employees in Hong Kong and the PRC. Under the "Everything we do, we do for our customers" credo, in order to deliver the highest service standard to all customers, the Group will continue to enhance the skills and professional knowledge of its employees by providing them with essential education opportunities. Under a fair work environment, it will foster an organisational culture of mutual respect, and strives to raise the morale of employees.

⁴ National Bureau of Statistics

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2019, 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 six months ended 30 June 2019 and up to the date of this report.

CORPORATE GOVERNANCE

The Board of the Company has complied throughout the six months ended 30 June 2019 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, 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 MD will have the same meaning as the chief executive of the Company. During the period from 1 January 2019 to 15 May 2019 (“Service Period”), 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 during the Service Period has been conducive 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 during the Service Period.

Ms. Habu has been re-designated from Executive Director to Non-executive Director from 16 May 2019. Upon her re-designation to Non-executive Director, Ms. Habu ceased to be the Managing Director of the Company and remain the Chairman of the Board. Mr. Isei Nakagawa has been appointed as an Executive Director and Managing Director of the Company from 16 May 2019.

The Company has adopted 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 Directors, the Company confirms that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2019.

The Audit Committee of the Company has reviewed the unaudited interim results for the six months ended 30 June 2019 with management.

PUBLICATION OF INTERIM REPORT ON THE WEBSITE OF THE STOCK EXCHANGE

The interim report for the six months ended 30 June 2019 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
Isei NAKAGAWA
Managing Director

Hong Kong, 23 August 2019

As at the date of this announcement, the Executive Directors are Ms. Isei Nakagawa, Mr. Masamitsu Ikuta, Mr. Chak Kam Yuen, Mr. Lau Chi Sum Sam and Mr. Keiji Tsukahara; the Non-executive Directors are Ms. Yuki Habu, and 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 Hideto Mizuno.