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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)

2024 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 2024 together with comparative figures for the previous period as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX MONTHS ENDED 30 JUNE 2024

	<u>NOTES</u>	Six months ended	
		<u>30.6.2024</u>	<u>30.6.2023</u>
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Revenue	3	4,052,133	4,521,844
Other income	4	235,046	218,741
Investment income		7,790	11,537
Interest income from rental deposits		5,236	5,797
Purchase of goods and changes in inventories		(2,902,908)	(3,217,693)
Staff costs		(487,956)	(494,851)
Depreciation of investment properties		(37,659)	(32,543)
Depreciation of property, plant and equipment		(67,231)	(75,310)
Depreciation of right-of-use assets		(320,461)	(355,893)
Leases expenses		(64,847)	(36,927)
Other expenses	6	(506,493)	(530,320)
Pre-operating expenses		(1,413)	(516)
Other gains and losses	5	11,939	9,359
Interest on lease liabilities		(96,616)	(98,745)
Loss before tax		(173,440)	(75,520)
Income tax expense	7	(748)	(1,033)
Loss for the period		<u>(174,188)</u>	<u>(76,553)</u>
(Loss)/profit for the period attributable to:			
Owners of the Company		(171,176)	(78,194)
Non-controlling interest		(3,012)	1,641
		<u>(174,188)</u>	<u>(76,553)</u>
Loss per share (basic and diluted)	9	<u>(65.84) HK cents</u>	<u>(30.07) HK cents</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2024**

	Six months ended	
	<u>30.6.2024</u>	<u>30.6.2023</u>
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss for the period	<u>(174,188)</u>	<u>(76,553)</u>
Other comprehensive (loss)/income		
<i>Item that will not be reclassified to profit or loss:</i>		
Fair value (loss)/gain on investments in equity instruments measured at fair value through other comprehensive income ("FVTOCI")	(7,532)	1,872
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of operations outside Hong Kong	<u>(377)</u>	<u>(970)</u>
Other comprehensive (loss)/income for the period, net of income tax	<u>(7,909)</u>	<u>902</u>
Total comprehensive loss for the period	<u><u>(182,097)</u></u>	<u><u>(75,651)</u></u>
Total comprehensive (loss)/income for the period attributable to:		
Owners of the Company	(179,233)	(78,016)
Non-controlling interest	<u>(2,864)</u>	<u>2,365</u>
	<u><u>(182,097)</u></u>	<u><u>(75,651)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2024

	<u>NOTES</u>	<u>30.6.2024</u> <u>HK\$'000</u> (unaudited)	<u>31.12.2023</u> <u>HK\$'000</u> (audited)
Non-current Assets			
Property, plant and equipment		412,840	399,945
Right-of-use assets		2,756,688	2,312,166
Investment properties		338,621	278,725
Equity instruments at FVTOCI		12,262	20,752
Time deposits		6,150	6,801
Pledged bank deposits		19,737	13,744
Deferred tax assets		23,013	23,727
Rental and related deposits		210,444	157,200
		<u>3,779,755</u>	<u>3,213,060</u>
Current Assets			
Inventories		777,637	837,475
Receivables, prepayments and deposits		178,803	212,629
Amounts due from fellow subsidiaries		41,845	76,045
Time deposits		319,654	362,484
Pledged bank deposits		27,453	90,164
Bank balances and cash		611,541	787,149
		<u>1,956,933</u>	<u>2,365,946</u>
Current Liabilities			
Trade payables	11	1,126,482	1,192,958
Other payables, accrued charges and other liabilities		621,118	724,141
Lease liabilities		774,372	676,027
Contract liabilities		380,358	398,404
Dividend payable		201	206
Amount due to ultimate holding company		33,980	24,567
Amounts due to fellow subsidiaries		44,945	33,165
Tax liabilities		188	188
		<u>2,981,644</u>	<u>3,049,656</u>
Net Current Liabilities		(1,024,711)	(683,710)
Total Assets Less Current Liabilities		2,755,044	2,529,350
Non-current Liabilities			
Rental deposits received and other liabilities		132,163	91,010
Lease liabilities		2,890,372	2,532,767
		<u>3,022,535</u>	<u>2,623,777</u>
Net Liabilities		(267,491)	(94,427)
Capital and Reserves			
Share capital		115,158	115,158
Reserves		(483,096)	(312,896)
Deficit attributable to owners of the Company		(367,938)	(197,738)
Non-controlling interest		100,447	103,311
Total Deficit		(267,491)	(94,427)

NOTES:

1. BASIS OF PREPARATION

The interim results set out in this preliminary announcement do not constitute the Group's interim financial report for the six months ended 30 June 2024 but are extracted from that interim financial report. The interim financial report has been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix D2 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 2023 that is included in the interim financial report 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 2023 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 interim financial report, 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\$1,024,711,000 at 30 June 2024. The directors have reviewed the Group's cash flow forecast prepared by management which covers a period of at least twelve months from 30 June 2024. The directors have also taken into account that AEON Co., Ltd., the Company's immediate and ultimate holding company, is expected to provide further support to the Group for its operation in the coming twelve months.

On the strength of the undertaking from AEON Co., Ltd. to provide support to the Group from time to time as and when necessary, the directors, after due consideration of the Group's plans and measures, are of the opinion that the Group is able to meet its financial obligations as and when they fall due in the coming twelve months from 30 June 2024. Accordingly, the directors consider it is appropriate to prepare the consolidated financial statements on a going concern basis and there are no material uncertainties related to events or conditions which, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern.

2. CHANGES IN ACCOUNTING POLICIES

The interim financial report has been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies and methods of computation used in the interim financial report for the six months ended 30 June 2024 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2023.

Application of amendments to Hong Kong Financial Reporting Standards ("HKFRSs")

In the current interim period, the Group has applied the following amended HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2024 for the preparation of the Group's interim financial report:

2 CHANGES IN ACCOUNTING POLICIES - continued

<i>Amendments to HKAS 1</i>	<i>Presentation of financial statements: Classification of liabilities as current or non-current</i>
<i>Amendments to HKAS 1</i>	<i>Presentation of financial statements: Non-current liabilities with covenants</i>
<i>Amendments to HKFRS 16</i>	<i>Leases: Lease liability in a sale and leaseback</i>
<i>Amendments to HKAS 7</i>	<i>Statement of cash flows and HKFRS 7, Financial instruments: Disclosures – Supplier finance arrangements</i>

None of these developments have had material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in the interim financial report.

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 customer 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 Mainland China as the two reportable segments.

Disaggregation of revenue from contracts with customers

	<u>Six months ended 30 June 2024</u>		
	<u>Hong Kong</u> HK\$'000	<u>Mainland China</u> HK\$'000	<u>Total</u> HK\$'000
Direct sales	1,763,823	2,048,419	3,812,242
Income from concessionaire sales	133,602	106,289	239,891
	<u>1,897,425</u>	<u>2,154,708</u>	<u>4,052,133</u>

	<u>Six months ended 30 June 2023</u>		
	<u>Hong Kong</u> HK\$'000	<u>Mainland China</u> HK\$'000	<u>Total</u> HK\$'000
Direct sales	1,952,438	2,301,364	4,253,802
Income from concessionaire sales	149,790	118,252	268,042
	<u>2,102,228</u>	<u>2,419,616</u>	<u>4,521,844</u>

The following is an analysis of the Group's revenue and results by reportable segments:

3. REVENUE AND SEGMENT INFORMATION - continued

For the six months ended 30 June 2024

	<u>Hong Kong</u> HK\$'000	<u>Mainland China</u> HK\$'000	<u>Elimination</u> HK\$'000	<u>Total</u> HK\$'000
Segment revenue - external	1,897,425	2,154,708	-	4,052,133
Inter-segment sales	-	4,499	(4,499)	-
	<u>1,897,425</u>	<u>2,159,207</u>	<u>(4,499)</u>	<u>4,052,133</u>
Segment loss	<u>(144,259)</u>	<u>(36,971)</u>	<u>-</u>	<u>(181,230)</u>
Investment income				<u>7,790</u>
Loss before tax				<u>(173,440)</u>

For the six months ended 30 June 2023

	<u>Hong Kong</u> HK\$'000	<u>Mainland China</u> HK\$'000	<u>Elimination</u> HK\$'000	<u>Total</u> HK\$'000
Segment revenue - external	2,102,228	2,419,616	-	4,521,844
Inter-segment sales	-	2,226	(2,226)	-
	<u>2,102,228</u>	<u>2,421,842</u>	<u>(2,226)</u>	<u>4,521,844</u>
Segment loss	<u>(71,620)</u>	<u>(15,437)</u>	<u>-</u>	<u>(87,057)</u>
Investment income				<u>11,537</u>
Loss before tax				<u>(75,520)</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

	<u>Six months ended</u>	
	<u>30.6.2024</u> HK\$'000	<u>30.6.2023</u> HK\$'000
Rental income from investment properties	158,390	164,720
Management fee and other income from lessees	34,512	31,430
Revenue from scrap sales	1,406	1,587
Platform collaboration income	27,323	205
Others	13,415	20,799
	<u>235,046</u>	<u>218,741</u>

5 OTHER GAINS AND LOSSES

	Six months ended	
	<u>30.6.2024</u>	<u>30.6.2023</u>
	HK\$'000	HK\$'000
Exchange gain, net	11,271	4,432
Loss on disposal/write-off of property, plant and equipment	(390)	(112)
Gain on modification of lease contracts	1,058	5,039
	<u>11,939</u>	<u>9,359</u>

6 OTHER EXPENSES

	Six months ended	
	<u>30.6.2024</u>	<u>30.6.2023</u>
	HK\$'000	HK\$'000
Advertising, promotion and selling expenses	145,015	151,406
Maintenance, repair and building management fees	173,964	177,982
Administrative expenses	103,038	111,896
Utilities expenses	67,065	75,818
Others	17,411	13,218
	<u>506,493</u>	<u>530,320</u>

7 INCOME TAX EXPENSE

	Six months ended	
	<u>30.6.2024</u>	<u>30.6.2023</u>
	HK\$'000	HK\$'000
The charge comprises:		
Current tax		
PRC withholding tax	-	476
Deferred tax	748	557
Income tax expense for the period	<u>748</u>	<u>1,033</u>

No provision for Hong Kong Profits Tax is made for the six months ended 30 June 2024 and 30 June 2023 since the Company incorporated in Hong Kong sustained losses for tax purpose.

No provision for PRC Enterprise Income Tax is made for the six months ended 30 June 2024 and 30 June 2023 since the subsidiaries incorporated in Mainland China have sustained losses for tax purpose or the tax losses brought forward exceed the estimated assessable profits. Under the Law of PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of Mainland China subsidiaries is 25% from 1st 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 DIVIDEND

	Six months ended	
	<u>30.6.2024</u>	<u>30.6.2023</u>
	HK\$'000	HK\$'000
Dividend recognised as distribution during the period:		
Final dividend declared and paid for 2023 of HK\$ nil cents (six months ended 30.6.2023:HK\$2.0 cents for 2022 final dividend) per ordinary share	<u>-</u>	<u>5,200</u>

Subsequent to the end of the current interim period, the Board of Directors of the Company has resolved not to declare the payment of an interim dividend (six months ended 30.6.2023: 2.0 HK cents per ordinary share amounting to HK\$5,200,000).

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\$171,176,000 (six months ended 30.6.2023: loss of HK\$78,194,000) and on 260,000,000 (six months ended 30.6.2023: 260,000,000) ordinary shares in issue during the period.

No diluted loss per share has been presented as there are no potential dilutive shares outstanding for both periods.

10 ACCOUNTS RECEIVABLE

The Group's accounts receivable arise from retail sales transactions settled by credit cards or other electronic payment methods. The average settlement period for the proceeds receivable from those credit cards and other electronic payments service providers is 10 days. Based on the ageing of accounts receivable as determined based on invoice date, HK\$41,016,000 (31 December 2023: HK\$46,115,000) is due within 30 days. There are no significant overdue balances of those accounts receivable at the end of reporting period and no default is expected.

11 TRADE PAYABLES

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

	<u>30.6.2024</u> HK\$'000	<u>31.12.2023</u> HK\$'000
0 to 60 days	872,404	951,705
61 to 90 days	140,524	139,888
Over 90 days	113,554	101,365
	<u>1,126,482</u>	<u>1,192,958</u>

BUSINESS REVIEW

In the first half of 2024, the global economy remained fraught with uncertainties amid high interest rates and persistent geopolitical risks. Internal and external factors led to a slow recovery of the Hong Kong and Mainland China economies and affected consumer confidence, resulting in unsatisfactory profitability for the Group. In the face of continuous market changes and challenges, the Group reviewed and adjusted its own business strategies from time to time and actively implemented internal reforms in order to maintain its competitive edge in the market.

Hong Kong Operations

The provisional estimate of the volume of total retail sales for June this year fell 9.7% year-on-year, but this was lower than the market's forecast of 11.8%. The provisional estimate of the volume of total retail sales for the first half of 2024 declined 6.6% year-on-year. It showed that Hong Kong's overall economy was still in the recovery stage and that public consumption sentiment had not improved significantly. The boom in Hong Kong people's travelling north and overseas continued. During the period under review, Hong Kong people made a total of 49.5 million outbound trips, an increase of 72.5% year-on-year, of which around 44.2 million were to various cities in Mainland China. Although the number of inbound tourists also surged by more than 60% to approximately 21 million in the first half of this year, the number of Hong Kong visitors travelling to Shenzhen nearly doubled the number of visitors from the Mainland during the same period. Such a large difference adversely affected the local tourism, F&B and retail industries, as well as the performance of the Group's business in the city.

During the period under review, the Group continued to increase the proportion of its private brand merchandise, launched more diverse products under TOPVALU, HÓME CÓORDY and PEACE FIT WARM/COOL, and imported more product varieties directly from Japan and Southeast Asia. Promotional activities such as "Japanese Food Fair", "Korean Fair", "Thai Food Promotion Week", "Vietnamese Fair" and "TOPVALU FAIR" were held to bring authentic foreign flavours to local customers. The Group also made targeted improvements to the product mix of Wednesday's "Super Day" under its supermarket business, thereby increasing the number of customer visits and purchases. Through the above measures, the Group has successfully provided customers with more diversified products and services, improved sales performance and reduced procurement costs.

The Group continued to actively expand its store network to promote the development of various businesses and to meet the needs of different consumer groups. In June this year, the Group opened Hong Kong's fourth KOMEDA'S Coffee in Tsuen Wan. The Group also entered into a strategic cooperation arrangement with IDEA Co., Ltd. from Japan and opened the first Okonomiyaki Japanese chain restaurant "Tsuruhashi Fugetsu" in Hong Kong in July to strengthen its F&B business layout. During the period under review, the Group also completed the upgrade of its Tsuen Wan store to become the fifth AEON STYLE location in Hong Kong and the first in the New Territories. AEON STYLE Tsuen Wan and AEON STYLE Kornhill also completed their contract renewals and will continue to provide comprehensive lifestyle experiences.

During the period under review, the continuous development of the e-commerce business resulted in a significant year-on-year increase in online sales. The upgraded AEON App provides users with a better shopping experience and encourages customers to make purchases, so the related revenue increased by nearly threefold over the last corresponding period. In addition to Foodpanda, the Group has also entered into a business cooperation arrangement with Deliveroo to provide more goods delivery services to customers through third-party takeaway platforms. In terms of operations and management, the Group continued to optimise its "Mobile Assistant", added the self-payment machine function, implemented full self-payment procedures in certain stores, introduced electronic price tags in the Yau Tong supermarket, strengthened support for back-end operations, streamlined work processes, and improved staff efficiency.

In the first half of the year, revenue from the Group's Hong Kong business decreased by 9.74% to HK\$1,897.4 million (2023: HK\$2,102.2 million), and the segment loss also widened to HK\$144.3 million (2023: loss of HK\$71.6 million).

BUSINESS REVIEW– continued

Mainland China Operations

The GDP growth rate of Mainland China in the second quarter of 2024 was lower than market expectations, declining from the first quarter. Total retail sales of consumer goods in the first half-year increased by 3.7% year-on-year, but the year-on-year growth rate of total retail sales of consumer goods in June fell 1.7 percentage points from May, the lowest since February last year. The downturn in the real estate industry and sluggish consumption continue to weigh on domestic economic and retail growth, and a weak labour market has further reduced consumers' overall purchasing power.

During the period under review, sales of the Group's private brand merchandises increased significantly, reflecting the initial success of the Group's strategy of emphasising product differentiation. In addition, the Group continued to review and optimise the existing store layout. In May, it completed a major revitalisation and renovation of the Sun City Mall store in Guangzhou. During the period, it signed the contracts for two stores, the Canton Tower Plaza store (scheduled to open in 2025) and the Paso Plaza store on Guangzhou Airport Road (scheduled to open in September 2024), to further expand the Greater Bay Area market. In order to attract more local customers and cater for the "northbound" consumption boom of Hong Kong people, the Group continued to review the merchandise and merchant mix of its stores and strengthened its fresh and cooked food offerings. As a result, turnover of several stores improved and profitability was achieved.

Revenue from the Mainland China operations in the first half of the year decreased by 10.95% to HK\$2,154.7 million (2023: HK\$2,419.6 million). The loss of the PRC business was HK\$36.9 million (2023: loss of HK\$15.4 million).

PROSPECTS

Hong Kong Operations

The Hong Kong government is actively promoting the mega-event economy, with more than 100 events expected to be held in the second half of 2024, which is anticipated to attract tourists to Hong Kong and boost local consumption, giving greater momentum to the recovery of the Hong Kong retail sector. The PRC government has raised the duty-free allowance for Mainland residents returning from Hong Kong and Macau and increased the number of Mainland cities eligible for the Individual Visit Scheme to 59, which is also conducive to boosting consumption in Hong Kong. At the same time, the government continues to introduce various measures to support small and medium enterprises in the retail sector, hoping to promote the development of the local retail sector.

The market believes that the U.S. Federal Reserve is very likely to cut interest rates in the second half of this year, which is expected to further support the recovery of Hong Kong's economy. The rate of decline in the value of Hong Kong's total retail sales in June 2024 has slowed down, reflecting signs of stabilisation in retail activities. However, changes in the consumption patterns of tourists and residents and the strong Hong Kong dollar exchange rate will still affect the Hong Kong retail market in the short term. The government expects that the retail sector will remain weak until the end of this year or early next year.

In response to the slow economic recovery, the Group will continue to implement the following strategies. In terms of procurement and sales, the Group will: 1) leverage the scale and supply chain advantages of AEON Group to further increase sales of its private brands and provide customers with affordable and high-quality products while improving the Group's overall gross profit margin; 2) adjust the store operating network, optimise existing stores and strengthen the business of high-margin small specialty stores such as Living PLAZA by AEON, Daiso Japan, and Mono Mono, and increase sales by improving the product mix; 3) further expand its catering business by opening KOMEDA'S Coffee branch and the new business format JELYCO DO By KOMEDA etc., in order to cover a broader and wider customer base and achieve cross-business synergies.

PROSPECTS– continued

Hong Kong Operations– continued

The Group will continue to strengthen its digital transformation to enhance the growth of e-commerce and bolster its level of operational management. In the second half of the year, the Group will work with Octopus to optimise the system and introduce JoyYou card discounts, and will develop self-service functions on the customer app to speed up the processing of delivery services, and introduce a central management system for self-service checkout to expedite the handling of customer enquiries, so as to provide customers with a better and more convenient shopping experience. At the same time, the Group will further optimise the "Mobile Assistant" to enable store employees to view various data more accurately and quickly, thereby improving their work efficiency.

In the second half of the year, the Group is expected to upgrade and renovate the AEON STYLE Tsuen Wan store, and open one AEON STYLE store, one Mono Mono store, one KOMEDA'S Coffee branch, one JELYCO DO By KOMEDA, and several Daiso Japan stores to continuously expand its operating network in Hong Kong.

Mainland China Operations

The Group expects that in the short term, the PRC will continue to face the impact of the real estate crisis on the overall economy, the labour market will remain challenging and there will be uncertainties resulting from geopolitical risks. However, with the gradual easing of global financial conditions, the PRC government's continued implementation of real estate support measures and a number of proactive fiscal measures, as well as the central bank's RRR reduction and interest rate cuts, the Mainland China economy is expected to improve in the second half of the year.

The Group will actively adjust its business strategy and proactively seize the opportunities presented by the trend of "northbound" travel among Hong Kong residents to increase the sales of stores in the Greater Bay Area. By accelerating product reform and broadening differentiation, the Group will strengthen key product categories to enhance its appeal to customers. At the same time, it will further increase sales of its own private brand merchandise and improve profit margins. As for internal management, the Group will continue to strictly control and reduce costs, increase efficiency, and streamline internal processes to improve productivity.

The Group plans to complete the upgrading and renovation of one store and open two AEON supermarkets in the Greater Bay Area in the second half of the year to further expand its store network in the Greater Bay Area.

Group

Under the 2024 Investment Plan, the Group's total capital expenditure on new store openings, store renovations and information technology system upgrades in the second half of the year is estimated to be approximately HK\$95.7 million.

Save as mentioned above or otherwise disclosed, there have been no material events affecting the Group's business from 30 June 2024 up to the date of authorisation for the release of these consolidated financial statements.

FINANCIAL REVIEW

In the first half of the year 2024, the Group's revenue decreased by 10.4% year-on-year to HK\$4,052.1 million (2023: HK\$4,521.8 million). Gross profit margin dropped by 0.4 percentage points to 28.4% (2023: 28.8%).

As for other income, income derived from sub-leases decreased by HK\$6.3 million (2023: decreased by HK\$12.6 million), However, contributed by the Platform collaboration income in the period, other income resulted in an overall increase by 7.5% as compared with last year.

FINANCIAL REVIEW– continued

For operating expenses during the period under review, the Group's staff cost decreased by 1.4% and its ratio to revenue increased to 12.0% (2023: 10.9%). Expenses related to leases decreased by 0.9% and the ratio of expenses to revenue increased to 12.8% (2023: 11.6%). Other operating expenses, including advertising, promotion and selling expenses, maintenance and repair expenses (including building management fee), utility expenses, administrative expenses and other expenses, decreased by 4.5% year-on-year and the ratio of other expenses to revenue was 12.5% (2023: 11.7%).

Included in other gains and losses, amongst others, was exchange gain of HK\$11.3 million (2023: exchange gain of HK\$4.4 million). No impairment loss for the six months ended 30 June 2024 and 2023 has been recognised against the carrying amounts of property, plant and equipment, and right-of-use assets respectively

Due to the above changes, loss attributable to owners of the Company for the period under review was HK\$171.1 million (2023: loss of HK\$78.2 million), representing an increase of loss of HK\$92.9 million.

The Group's adjusted EBITDA¹ for the period was loss HK\$145.8 million (2023: loss HK\$55.2 million), loss increased by HK\$90.6 million.

The Board has reviewed the dividend policy taking into account the following factors of the Company including its financial results, cash flow status, business conditions and strategies, future operations and revenue, capital requirements and expenditure plans, interests of shareholders, any restrictions on distribution of dividends and any other factors that it may consider relevant and has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2024 (2023: HK\$0.02).

During the period, capital expenditure on opening new stores and store renovation in Hong Kong and Mainland China and the upgrade of information technology systems amounted to HK\$77.3 million.

The Group also entered into new lease agreements and lease modifications in the review period and recognized additional HK\$787.3 million (2023: HK\$77.3 million) of right-of-use assets and HK\$826.8 million (2023: HK\$74.4 million) of lease liabilities.

The Group maintained a net cash position with cash and bank balances and short-term time deposits amounting to HK\$931.2 million as at 30 June 2024 (31 December 2023: HK\$1,149.6 million). The Group had no bank borrowing and therefore did not disclose any gearing ratio (which is defined by dividing bank borrowings to equity) and had sufficient internal resources to finance future business operations.

As at 30 June 2024, deposits of HK\$40.0 million (31 December 2023: HK\$97.2 million) were pledged to the bank as guarantees of the rental deposits to landlords. Deposits of HK\$7.2 million (31 December 2023: HK\$6.7 million) were also pledged to regulatory bodies as guarantees for prepaid value cards sold.

The Group's total lease liabilities as at 30 June 2024 amounted to HK\$3,664.7 million (31 December 2023: HK\$3,208.8 million), of which HK\$774.4 million (31 December 2023: HK\$676.0 million) is payable within one year.

As at 30 June 2024, the Group's current liabilities exceeded its current assets by HK\$1,024.7 million (31 December 2023: net current liabilities of HK\$683.7 million). The directors considered that the Group has sufficient financial sources available to fund its operations in the foreseeable future and will be able to meet its financial obligations when they fall due.

FINANCIAL REVIEW– continued

Note 1 Management considered that the Adjusted EBITDA reflected more properly the Groups' earnings from its operations.

<u>Reconciliation of Adjusted EBITDA</u>	Six months ended	
	30.6.2024	30.6.2023
	HK\$'000	HK\$'000
Loss for the period	(174,188)	(76,553)
Adjusting items for EBITDA		
Income tax expenses	748	1,033
Depreciation of investment properties	37,659	32,543
Depreciation of property, plant and equipment	67,231	75,310
Depreciation of rights-of-use assets	320,461	355,893
Interest on lease liabilities	96,616	98,745
Investment income	(7,790)	(11,537)
Interest income from rental deposits	(5,236)	(5,797)
Other gain and losses	(11,939)	(9,359)
Items for adjusted EBITDA		
Repayment of lease liabilities (included in consolidated cash flow statement) *	(372,751)	(416,639)
Interest on lease liabilities*	(96,616)	(98,745)
Rounding	5	(94)
Adjusted EBITDA	(145,800)	(55,200)

* The total of interest on lease liabilities and repayment of lease liabilities represents the rental payment as stated in the lease agreements. Both items are classified as cash flows under financing activities instead of operating activities.

HUMAN RESOURCES

As at 30 June 2024, the Group had approximately 5,050 full-time and 3,920 part-time employees in Hong Kong and Mainland China. Under the “Everything we do, we do for our customers” credo, and in order to deliver the highest standard of service to all customers, the Group will continue to upgrade the skills and professional knowledge of its employees by providing them with educational and career development opportunities. With a fair human resources system, the Group will create a positive work environment for staff and enhance the communication between on-site staff and the back-end support departments, building a system that facilitates prompt action to address business issues. The Group's ultimate goal is to build AEON into a brand that benefits all customers.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2024, 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 2024 and up to the date of this announcement.

CORPORATE GOVERNANCE

The Board has complied throughout the six months ended 30 June 2024 with the code provisions set out in the Corporate Governance Code contained in Appendix C1 to the Listing Rules.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix C3 to the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiries with all Directors, the Company confirmed that they had complied with the required standard set out in the Model Code throughout the six months ended 30 June 2024.

The Audit Committee of the Company has reviewed the unaudited interim results for the six months ended 30 June 2024 with management.

PUBLICATION OF INTERIM REPORT ON THE WEBSITE OF THE STOCK EXCHANGE

The interim report for the six months ended 30 June 2024 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
Toshiya GOTO
Chairman

Hong Kong, 29 August 2024

As at the date of this announcement, the Executive Directors are Mr. Takenori Nagashima and Mr. Shinya Hisanaga; the Non-executive Directors are Mr. Toshiya Goto, Mr. Hiroyuki Inohara, Mr. Kenji Fujita and Mr. Yasutoshi Yokochi; and the Independent Non-executive Directors are Mr. Chow Chi Tong, Mr. Hideto Mizuno and Ms. Shum Wing Ting.