AEON Stores (Hong Kong) Co., Limited

永旺(香港)百貨有限公司

2019 Interim Report

Stock Code: 984

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
NAKAGAWA Isei *(Managing Director)*
IKUTA Masamitsu *(Deputy Managing Director)*
CHAK Kam Yuen
LAU Chi Sum Sam
TSUKAHARA Keiji

Non-executive Directors
HABU Yuki *(Chairman)*
YAMASHITA Akinori

Independent Non-executive Directors
CHAN Yi Jen Candi Anna
LO Miu Sheung Betty
CHOW Chi Tong
MIZUNO Hideto

NOMINATION COMMITTEE
HABU Yuki *(Chairman)*
CHAN Yi Jen Candi Anna
LO Miu Sheung Betty
CHOW Chi Tong
MIZUNO Hideto

REMUNERATION COMMITTEE
CHAN Yi Jen Candi Anna *(Chairman)*
HABU Yuki
LO Miu Sheung Betty
CHOW Chi Tong
MIZUNO Hideto

AUDIT COMMITTEE
CHOW Chi Tong *(Chairman)*
HABU Yuki
CHAN Yi Jen Candi Anna
LO Miu Sheung Betty
MIZUNO Hideto

COMPANY SECRETARY
CHAN Kwong Leung Eric

AUDITOR
Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL BANKERS
Mizuho Bank, Ltd.
MUFG Bank, Ltd.
Sumitomo Mitsui Banking Corporation
Standard Chartered Bank (Hong Kong) Limited
The Hong Kong and Shanghai Banking Corporation Limited

SHARE REGISTRARS
Tricor Secretaries Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE
G-4 Floor, Kornhill Plaza (South)
2 Kornhill Road, Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS
Units 07–11, 26/F, CDW Building
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STOCK CODE
984

WEBSITE
www.aeonstores.com.hk

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	NOTES	**Six months ended** **30.6.2019** **HK$'000** **(unaudited)**	30.6.2018 HK$'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	8	**(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	10	**(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	
	30.6.2019	30.6.2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Loss for the period	**(147,936)**	(43,413)
Other comprehensive 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")	**102**	547
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	**3,233**	9,978
Other comprehensive income for the period, net of income tax	**3,335**	10,525
Total comprehensive expense for the period	**(144,601)**	(32,888)
Total comprehensive (expense) income for the period attributable to:		
Owners of the Company	**(147,123)**	(44,834)
Non-controlling interests	**2,522**	11,946
	(144,601)	(32,888)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2019

	NOTES	**30.6.2019 HK$'000 (unaudited)**	31.12.2018 HK$'000 (audited)
Non-current Assets			
Property, plant and equipment	11	**753,950**	796,071
Right-of-use assets	11	**3,756,838**	—
Investment properties	11	**510,088**	—
Goodwill		**94,838**	94,838
Equity instruments at FVTOCI	12	**26,647**	26,545
Pledged bank deposits	13	**28,333**	25,001
Deferred tax assets		**48,890**	48,736
Rental and related deposits paid	14	**191,506**	263,826
		5,411,090	1,255,017
Current Assets			
Inventories		**784,300**	856,763
Trade receivables	14	**49,971**	55,368
Other receivables, prepayments and deposits	14	**122,317**	140,213
Amounts due from fellow subsidiaries	15	**40,995**	53,805
Tax recoverable		**—**	2,284
Time deposits	16	**109,353**	358,095
Pledged bank deposits	13	**10,786**	14,852
Bank balances and cash		**1,853,797**	1,651,349
		2,971,519	3,132,729
Current Liabilities			
Trade payables	17	**1,330,911**	1,250,497
Other payables, accrued charges and other liabilities	17	**709,291**	846,229
Lease liabilities		**742,241**	—
Contract liabilities	17	**393,925**	393,557
Dividend payable		**32,919**	426
Amount due to ultimate holding company	15	**42,853**	30,980
Amounts due to fellow subsidiaries	15	**17,846**	77,234
Tax liabilities		**4,110**	—
		3,274,096	2,598,923
Net Current (Liabilities) Assets		**(302,577)**	533,806
Total Assets Less Current Liabilities		**5,108,513**	1,788,823
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		**1,014,035**	1,578,183
Non-current Liabilities			
Rental deposits received and other liabilities	17	**121,957**	209,251
Lease liabilities		**3,970,900**	—
Deferred tax liabilities		**1,621**	1,389
		4,094,478	210,640
		5,108,513	1,788,823

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Attributable to owners of the Company								
	Share capital HK$'000	**Investment revaluation reserve** HK$'000	**Translation reserve** HK$'000	**The People's Republic of China ("PRC") statutory reserves** HK$'000	**Non-distributable reserve** HK$'000	**Retained profits** HK$'000	**Sub-total** HK$'000	**Non-controlling interests** HK$'000	**Total** HK$'000
At 1 January 2018 (audited)	115,158	21,754	32,621	33,316	112,352	1,290,500	1,605,701	137,670	1,743,371
(Loss) profit for the period	–	–	–	–	–	(50,484)	(50,484)	7,071	(43,413)
Other comprehensive income for the period	–	547	5,103	–	–	–	5,650	4,875	10,525
Total comprehensive income (expense) for the period	–	547	5,103	–	–	(50,484)	(44,834)	11,946	(32,888)
Dividends recognised as distribution (note 9)	–	–	–	–	–	(57,200)	(57,200)	–	(57,200)
Unclaimed dividends forfeited	–	–	–	–	–	96	96	–	96
At 30 June 2018 (unaudited)	115,158	22,301	37,724	33,316	112,352	1,182,912	1,503,763	149,616	1,653,379
Profit (loss) for the period	–	–	–	–	–	1,260	1,260	(824)	436
Other comprehensive income (expense) for the period	–	1,840	(8,616)	–	–	–	(6,776)	(11,656)	(18,432)
Total comprehensive income (expense) for the period	–	1,840	(8,616)	–	–	1,260	(5,516)	(12,480)	(17,996)
Transfer of reserves	–	–	–	–	9,286	(9,286)	–	–	–
Dividends recognised as distribution	–	–	–	–	–	(57,200)	(57,200)	–	(57,200)
At 31 December 2018 (audited)	115,158	24,141	29,108	33,316	121,638	1,117,686	1,441,047	137,136	1,578,183
Adjustments (note 2)	–	–	–	–	–	(362,474)	(362,474)	–	(362,474)
At 1 January 2019 (restated)	115,158	24,141	29,108	33,316	121,638	755,212	1,078,573	137,136	1,215,709
(Loss) profit for the period	**–**	**–**	**–**	**–**	**–**	**(149,096)**	**(149,096)**	**1,160**	**(147,936)**
Other comprehensive income for the period	**–**	**102**	**1,871**	**–**	**–**	**–**	**1,973**	**1,362**	**3,335**
Total comprehensive income (expense) for the period	**–**	**102**	**1,871**	**–**	**–**	**(149,096)**	**(147,123)**	**2,522**	**(144,601)**
Dividends recognised as distribution (note 9)	**–**	**–**	**–**	**–**	**–**	**(57,200)**	**(57,200)**	**–**	**(57,200)**
Unclaimed dividends forfeited	**–**	**–**	**–**	**–**	**–**	**127**	**127**	**–**	**127**
At 30 June 2019 (unaudited)	**115,158**	**24,243**	**30,979**	**33,316**	**121,638**	**549,043**	**874,377**	**139,658**	**1,014,035**

PRC statutory reserves are reserves required by the relevant PRC laws applicable to the subsidiaries of the Company in the PRC.

Non-distributable reserve is the reserve arising from the capitalisation of retained profits as registered capital of a subsidiary in the PRC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Six months ended	
	30.6.2019	30.6.2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
OPERATING ACTIVITIES		
Operating cash flows before movements in working capital	**523,666**	64,791
Decrease in inventories	**77,205**	28,088
Decrease (increase) in trade receivables	**5,718**	(586)
Increase in other receivables, prepayments and deposits	**9,600**	(38,304)
Decrease in amounts due from fellow subsidiaries	**12,818**	27,102
Increase (decrease) in trade payables	**75,950**	(100,538)
Decrease in other payables, accrued charges and other liabilities	**(142,655)**	(553,257)
Increase in contract liabilities	**215**	429,678
Increase in amount due to ultimate holding company	**11,873**	15,175
(Decrease) increase in amounts due to fellow subsidiaries	**(59,970)**	10,361
Cash generated from (used in) operations	**514,420**	(117,490)
PRC income taxes paid	**—**	(7,805)
Interest on bank deposits and time deposits received	**12,654**	11,838
Interest on lease liabilities	**(155,685)**	—
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**371,389**	(113,457)
INVESTING ACTIVITIES		
Dividend received from equity securities at FVTOCI	**5**	5
Purchase of property, plant and equipment	**(102,013)**	(88,931)
Proceeds from disposal of property, plant and equipment	**72**	57
Placement of time deposits	**(102,689)**	(769,034)
Withdrawal of pledged bank deposits	**1,155**	—
Withdrawal of time deposits	**351,773**	598,699
Payment for right-of-use assets	**(257)**	—
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**148,046**	(259,204)
FINANCING ACTIVITIES		
Dividend paid	**(24,580)**	(24,523)
Repayments of lease liabilities	**(296,267)**	—
CASH USED IN FINANCING ACTIVITIES	**(320,847)**	(24,523)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**198,588**	(397,184)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**1,651,349**	2,047,712
Effect of foreign exchange rate changes	**3,860**	33,580
CASH AND CASH EQUIVALENTS AT 30 JUNE, represented by bank balances and cash	**1,853,797**	1,684,108

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* 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 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

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. 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

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

<u>Allocation of consideration to components of a contract</u>

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.

<u>Short-term leases and leases of low-value assets</u>

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.

<u>Right-of-use assets</u>

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.

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

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.

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.

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 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.

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.

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 lessor (Continued)

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.

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 termination options.

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)

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.

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	(24,188)
	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	(66,605)
Lease liabilities as at 1 January 2019	4,938,605
Analysed as:	
Current	719,481
Non-current	4,219,124
	4,938,605

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)

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

	Notes	**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)	(111,370)
Less: Investment properties for sub-lease		(525,782)
		4,046,854
By class:		
Land and buildings		4,046,854

(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.

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 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.

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 2019 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	362,474

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 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.

	Notes	Carrying amounts previously reported at 31 December 2018	Adjustments	Carrying amounts under HKFRS 16 at 1 January 2019
		HK$'000	HK$'000	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 deposits		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		1,325,889	(362,474)	963,415

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 option, after taking into consideration of the significance of leasehold improvements undertaken, costs relating to the termination of the leases and the importance of that underlying assets to the lessee's operations, 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 (unaudited)		
	Hong Kong	**PRC**	**Total**
	HK$'000	**HK$'000**	**HK$'000**
Direct sales	**1,917,985**	**2,561,054**	**4,479,039**
Income from concessionaire sales	**173,599**	**177,142**	**350,741**
	2,091,584	**2,738,196**	**4,829,780**

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

3. REVENUE AND SEGMENT INFORMATION (Continued)

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

	Six months ended 30.6.2019 (unaudited)		
	Hong Kong HK$'000	**PRC HK$'000**	**Total HK$'000**
Segment revenue — external	**2,091,584**	**2,738,196**	**4,829,780**
Segment loss	**(89,000)**	**(65,587)**	**(154,587)**
Investment income			**13,704**
Loss before tax			**(140,883)**

	Six months ended 30.6.2018 (unaudited)		
	Hong Kong HK$'000	PRC HK$'000	Total HK$'000
Segment revenue — external	2,201,324	2,728,479	4,929,803
Segment loss	(36,647)	(13,722)	(50,369)
Investment income			11,843
Loss before tax			(38,526)

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	
	30.6.2019 HK$'000 (unaudited)	30.6.2018 HK$'000 (unaudited)
Rental income from sub-lease	**200,969**	239,230
Others	**69,937**	61,138
	270,906	300,368

5. OTHER GAINS AND LOSSES

	Six months ended	
	30.6.2019	30.6.2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
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	**(1,007)**	(229)
	(3,527)	935

6. OTHER EXPENSES

	Six months ended	
	30.6.2019	30.6.2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
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
	535,820	542,784

7. INCOME TAX EXPENSE

	Six months ended	
	30.6.2019	30.6.2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
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	**7,053**	4,887

No provision for Hong Kong Profits Tax is made as the Company has no assessable profit for the 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. LOSS FOR THE PERIOD

	Six months ended	
	30.6.2019	30.6.2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Loss for the period has been arrived at after charging (crediting):		
Cost of inventories recognised as an expense	**3,405,365**	3,416,708
Write-back of inventories (included in purchase of goods and changes in inventories)	**–**	(289)

9. DIVIDENDS

	Six months ended	
	30.6.2019	30.6.2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
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	**57,200**	57,200

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.

10. 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: 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 have been presented as there are no potential ordinary shares in issue for both periods.

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INVESTMENT PROPERTIES

During the current interim period, the Group acquired property, plant and equipment of approximately HK$81,568,000 (six months ended 30.6.2018: HK$85,764,000) to expand its operations.

During the current interim period, the Group entered into new lease agreements and lease modification for its stores of which the lease terms ranges from 1 to 6 years. The Group is required to make fixed monthly payments. During the current period, the Group recognised additional HK$86,286,000 of right-of-use assets and HK$84,129,000 lease liabilities.

As at 30 June 2019, the investment properties represent the right-of-use asset under sub-leases in which the Group acts as an intermediate lessor. There is no significant movement during the period.

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INVESTMENT PROPERTIES (Continued)

Certain stores of the Group has been experiencing recurring losses or performing below budget. The management considered there were impairment indicators and hence conducted impairment assessment on the relevant stores, which constitutes individual cash-generating units ("CGU") for the purpose of impairment assessment. The recoverable amounts of the relevant assets have been determined on the basis of value in use of the stores to which the relevant assets belong to. The value in use calculations use cash flow projections based on the latest financial budgets approved by the Company's management covering a period of 5 years with zero growth rate, and at a discount rate of 7% to 10% (31.12.2018: 7% to 10%). Cash flow projections during the budget period were based on the expected gross margins during the budget period and the budgeted margins have been determined based on past performance and management's expectations for the future changes in the market. Accordingly, no impairment loss (six months ended 30.6.2018: HK$829,000) has been recognised in respect of property, plant and equipment, right-of-use asset and investment properties.

12. EQUITY INSTRUMENTS AT FVTOCI

	30.6.2019	31.12.2018
	HK$'000	HK$'000
	(unaudited)	(audited)
Equity securities:		
Listed shares in Hong Kong at fair value	**26,647**	26,545

Included in listed shares in Hong Kong is an investment in a fellow subsidiary of HK$26,412,000 (31.12.2018: HK$26,337,000).

The fair value of equity securities have been determined based on the quoted market bid prices available on The Stock Exchange of Hong Kong Limited. The fair value of the equity securities is classified as Level 1 of the fair value hierarchy. There is no transfers between Levels.

13. PLEDGED BANK DEPOSITS

	30.6.2019		31.12.2018	
	Non-current	**Current**	Non-current	Current
	HK$'000	**HK$'000**	HK$'000	HK$'000
	(unaudited)	**(unaudited)**	(audited)	(audited)
Bank deposits were pledged for the following purposes:				
As guarantee to landlords for rental deposits	**28,333**	**2,595**	25,001	6,632
As requirement by the relevant PRC regulatory body for cash received from prepaid value cards sold	**—**	**8,191**	—	8,220
	28,333	**10,786**	25,001	14,852

14. TRADE RECEIVABLES, OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

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 period and an analysis of other receivables, prepayments and deposits:

	30.6.2019 HK$'000 (unaudited)	31.12.2018 HK$'000 (audited)
Within 30 days	**49,816**	54,905
31 to 60 days	**25**	22
Over 60 days	**130**	441
Trade receivables	**49,971**	55,368
Rental and related deposits paid	**205,236**	280,634
Other receivables, prepayments and deposits	**108,587**	123,405
	313,823	404,039
Less: Rental and related deposits paid under non-current assets	**(191,506)**	(263,826)
Other receivables, prepayments and deposits	**122,317**	140,213

15. AMOUNTS DUE FROM/(TO) ULTIMATE HOLDING COMPANY AND FELLOW SUBSIDIARIES

The amounts due to ultimate holding company and fellow subsidiaries are trade-related, unsecured, interest free and with credit term of 60 to 90 days (31.12.2018: 60 to 90 days). The amounts are aged within 60 days based on the invoice date at the end of both reporting periods.

The amounts due from fellow subsidiaries are trade-related, unsecured, interest free and with credit term of 15 to 35 days (31.12.2018: 15 to 35 days). The amounts are aged within 35 days based on the invoice date and not yet due at the end of both reporting periods.

16. TIME DEPOSITS

As at 30 June 2019, time deposits represent United States dollar-denominated time deposits amounting to HK$47,214,000, Hong Kong dollar-denominated time deposits amounting to HK$28,000,000 and Renminbi-denominated time deposits amounting to HK$34,139,000 with original maturity of three months or more to one year. The average effective interest rate of United States dollar-denominated, Hong Kong dollar-denominated and Renminbi-denominated time deposits is 2.78%, 2.27% and 1.95% per annum, respectively. The deposits will expire within one year from the end of the reporting period. Accordingly, these amounts are classified as current.

As at 31 December 2018, time deposits represent Renminbi-denominated time deposits amounting to HK$34,078,000, Unites States dollar-denominated time deposits amounting to HK$12,017,000 and Hong Kong dollar-denominated time deposits amounting to HK$312,000,000 with original maturity between three months and one year. The average effective interest rates of Renminbi-denominated, United States dollar-denominated and Hong Kong dollar-denominated time deposits are 2.12%, 3.03% and 2.39% per annum, respectively. The deposits expired during the six months ended 30 June 2019.

17. TRADE PAYABLES, OTHER PAYABLES, ACCRUED CHARGES, OTHER LIABILITIES AND CONTRACT LIABILITIES

The following is an aged analysis of trade payables presented based on the invoice date at the end of reporting period and an analysis of other payables, accrued charges and other liabilities:

	30.6.2019 **HK$'000** **(unaudited)**	31.12.2018 HK$'000 (audited)
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
Trade payables	**1,330,911**	1,250,497
Accrued expenses and other liabilities	**382,787**	583,552
Accrued staff costs	**213,531**	211,875
Advance receipts on prepaid store-value cards and related tax	**42,351**	55,473
Payables for purchase of property, plant and equipment	**21,993**	42,438
Provision for reinstatements cost	**82,824**	82,568
Rental deposits received	**87,762**	79,574
	831,248	1,055,480
Less: Rental deposits received and other liabilities under non-current liabilities	**(121,957)**	(209,251)
Other payables, accrued charges and other liabilities	**709,291**	846,229

The following is the analysis of contract liabilities:

	30.6.2019 **HK$'000** **(unaudited)**	31.12.2018 HK$'000 (audited)
Advance receipts on prepaid store-value cards	**351,818**	356,387
Deferred revenue on customer loyalty points	**42,107**	37,170
	393,925	393,557

18. CAPITAL COMMITMENTS

	30.6.2019 **HK$'000** **(unaudited)**	31.12.2018 HK$'000 (audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided	**12,812**	24,140

19. RELATED PARTY TRANSACTIONS

During the current interim period, the Group entered into the following transactions with related parties:

Capacity	Nature of transaction	Six months ended 30.6.2019 HK$'000 (unaudited)	Six months ended 30.6.2018 HK$'000 (unaudited)
Fellow subsidiaries	Commission paid for credit facilities provided to the customers	**6,255**	6,551
	Franchise fee	**200**	200
	Other income	**1,443**	2,507
	Purchase of goods and property, plant and equipment	**4,774**	176,974
	Management fees and utilities expenses	**9,575**	4,904
	Rental expenses	**—**	7,778
	Rental income	**9,515**	11,701
	Repayment of lease liabilities	**5,033**	—
	Interest on lease liabilities	**3,360**	—
	Sales of coupons	**2,275**	4,000
	Service fee expense	**24,355**	52,677
	Trademark licensee fee	**3,232**	—
Ultimate holding company	Royalty expenses	**12,973**	14,210
Non-controlling shareholders of the subsidiaries*	Advertising expenses	**—**	1,180
	Management fees and utilities expenses	**7,400**	8,008
	Rental expenses	**2,001**	25,642
	Repayment of lease liabilities	**14,246**	—
	Interest on lease liabilities	**8,810**	—
Directors and key management	Remuneration	**4,704**	3,928

* Non-controlling shareholders have significant influence over the subsidiaries.

Outstanding balances as at the end of reporting periods arising from the above transactions with related parties were as set out in the condensed consolidated statement of financial position except for the following balances:

	30.6.2019 HK$'000 (unaudited)	31.12.2018 HK$'000 (audited)
Amounts due from non-controlling shareholders of the subsidiaries (included in other receivables, prepayments and deposits)	**4,985**	5,725
Lease liabilities to fellow subsidiaries (included in lease liabilities)	**85,080**	—
Lease liabilities to non-controlling shareholders of the subsidiaries (included in lease liabilities)	**227,730**	—

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The directors of the Company consider that the carrying amounts of the financial assets and financial liabilities recognised at amortised cost in the condensed consolidated financial statements approximate their fair values.

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.

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

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.

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$30.9 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.

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.

4 National Bureau of Statistics

PROSPECTS (Continued)

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.

There are no important events affecting the business of the Group which have occurred since 30 June 2019 up to the date of this interim report.

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.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2019, the interests of the Directors in the shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

(A) THE COMPANY

Name of Director	Number of ordinary shares held as personal interests	Approximate percentage of interests %
HABU Yuki	20,000	0.00769

(B) AEON CO., LTD., THE COMPANY'S ULTIMATE HOLDING COMPANY

Name of Directors	Number of shares held as personal interests	Approximate percentage of interests %
HABU Yuki (Note 1)	8,460	0.00097
NAKAGAWA Isei (Note 2)	2,400	0.00028
IKUTA Masamitsu	504	0.00006
YAMASHITA Akinori (Note 3)	15,630	0.00179
TSUKAHARA Keiji (Note 4)	1,300	0.00015

Notes:

1. As confirmed by Ms. HABU Yuki, her shareholding in AEON Co., Ltd. is 8,460 shares.

2. As confirmed by Mr. NAKAGAWA Isei, his shareholding in AEON Co., Ltd. is 2,400 shares.

3. As confirmed by Mr. YAMASHITA Akinori, his shareholding in AEON Co., Ltd. is 15,630 shares.

4. As confirmed by Mr. TSUKAHARA Keiji, his shareholding in AEON Co., Ltd. is 1,300 shares.

DIRECTORS' INTERESTS IN SHARES (Continued)

(C) THE COMPANY'S ASSOCIATED CORPORATIONS

Name of Directors	Associated corporations	Number of shares/units held as personal interests	Approximate percentage of interests %
YAMASHITA Akinori (Note 1)	AEON Financial Services Co., Ltd.	10,976	0.00486
TSUKAHARA Keiji (Note 2)	AEON REIT Investment Corporation	7	0.00039

Notes:

1. As confirmed by Mr. YAMASHITA Akinori, his shareholding in AEON Financial Services Co., Ltd. is 10,976 shares.

2. As confirmed by Mr. TSUKAHARA Keiji, his holding in AEON REIT Investment Corporation is 7 units.

Other than as disclosed above, at 30 June 2019, neither the Directors nor the chief executives of the Company had any interests or short positions in any shares and debentures of the Company or any of its associated corporations (within the meaning of PART XV of the SFO).

SUBSTANTIAL SHAREHOLDERS

At 30 June 2019, shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or had otherwise notified the Company were as follows:

Name of substantial shareholders	Long Positions Number of ordinary shares held	Approximate percentage of the total number of issued shares %
AEON Co., Ltd.	157,536,000 (Note 1)	60.59
Standard Life Aberdeen plc and its affiliated investment management (together "the Aberdeen Group") on behalf of accounts managed by the Aberdeen Group	23,503,000 (Note 2)	9.04

Notes:

1. These shares are held as to 155,760,000 shares by AEON Co., Ltd. and 1,776,000 shares by AEON Credit Service (Asia) Company Limited ("ACS").

   ACS is owned by AEON Co., Ltd. as to 280,588,000 shares representing 67.00% of the issued share capital of ACS. AEON Co., Ltd. is deemed to be interested in the 1,776,000 shares owned by ACS.

2. As confirmed by Standard Life Aberdeen plc and its affiliated investment management (together "the Aberdeen Group"), these shares are held by the Aberdeen Group on behalf of accounts managed by the Aberdeen Group in the capacity of an investment manager. Aberdeen Group has the power to vote as to 23,417,500 shares representing 9.01% of the total number of issued shares of the Company.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company as at 30 June 2019.

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 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 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 remains 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.

UPDATED INFORMATION OF DIRECTORS

The changes in the information of Directors are set out below pursuant to Rule 13.51B of the Listing Rules:

(A) CHANGES IN DIRECTORS/DIRECTORSHIP

Name of Directors	Details of change
HABU Yuki	Re-designated from Executive Director to Non-executive Director, ceased to be the Managing Director and appointed as a member of Audit Committee from 16 May 2019
NAKAGAWA Isei	Appointed as an Executive Director and Managing Director from 16 May 2019

(B) CHANGES IN DIRECTORS' EMOLUMENTS

The emoluments of the Directors are determined by the Board with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

With effect from 1 January 2019, the Directors' entitlement to directors' fee and emoluments (which will be pro-rata to the period of services in the year of their appointments) for the year ending 31 December 2019 are as follows:

Name of Directors	Emoluments HK$
HABU Yuki (as Executive Director)	1,398,000
(as Non-executive Director)	Nil
NAKAGAWA Isei	2,398,000
IKUTA Masamitsu	1,482,000
CHAK Kam Yuen	1,636,000
LAU Chi Sum Sam	1,447,000
TSUKAHARA Keiji	1,510,000

By order of the Board of
AEON Stores (Hong Kong) Co., Limited
Isei NAKAGAWA
Managing Director

Hong Kong, 23 August 2019