AEON Stores (Hong Kong) Co., Limited

永旺(香港)百貨有限公司

2019 Annual Report

Stock Code: 984

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

NAKAGAWA Isei *(Managing Director)*
CHAK Kam Yuen
LAU Chi Sum Sam
NAGASHIMA Takenori

Non-executive Director

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
388 Castle Peak Road
Tsuen Wan, New Territories, Hong Kong
Tel: (852) 2565 3600
Fax: (852) 2563 8654

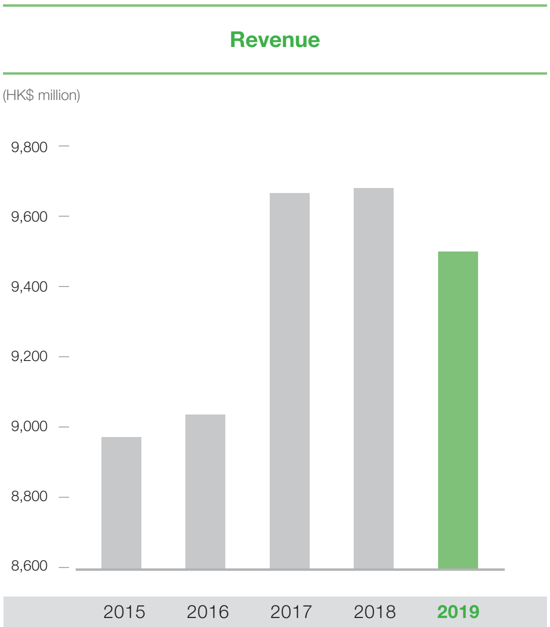
STOCK CODE

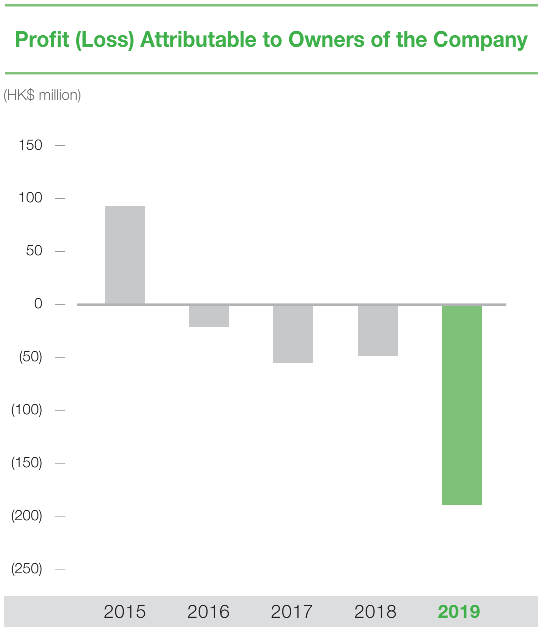
984

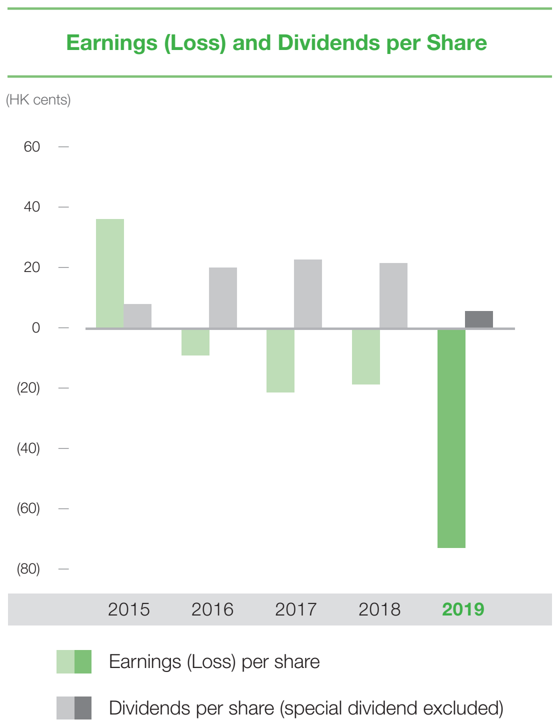
WEBSITE

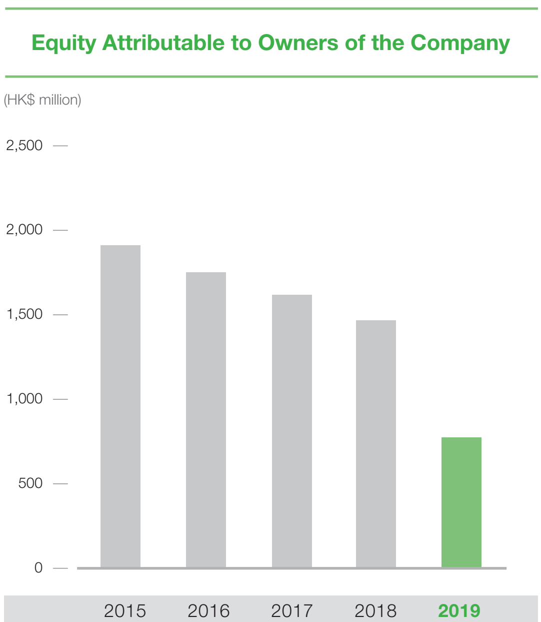
www.aeonstores.com.hk

FINANCIAL HIGHLIGHTS









CHAIRMAN STATEMENT

Ms. HABU Yuki
Chairman

Dear Shareholders,

The year 2019 was a challenging year for us, as well as for the retail industries of Hong Kong and China as a whole. In particular, the trade dispute between China and the US had an impact on the global economy and financial markets, and led to continued weakness in consumer sentiment, hitting the operating conditions of retail companies in China and Hong Kong. Despite these challenges, AEON Stores (Hong Kong) Co., Limited and its subsidiaries (“AEON Stores” or the “Group”) remained committed to reforming its business during the year, in order to improve its operational efficiency and revenue structure, on top of driving sales growth. Also, the Group had continued to promote digitalisation of its operations, so as to boost long-term profitability and achieve sustainable growth.

One of the major directions of our future development is to achieve a better revenue structure, which includes a higher sales contribution of proprietary brands, so as to raise our profit margins and profitability. Since its introduction into the Hong Kong market in 2016, AEON STYLE has enjoyed a positive customer response, among which, the four proprietary brands of Japan’s AEON Group, namely “HÓME CÓORDY”, “iC innercasual”, “Kids Republic” and “Glam Beautique”, proved very popular with customers in the China and Hong Kong markets. Going forward, the Group will capitalise on the strengths brought by these brands, and make better use of the procurement network of Japan’s AEON Group, to improve profitability, as well as bring more wide-ranging quality merchandise and a better shopping experience to our customers.

China is still one of the fastest-growing economies in the world with enormous growth potential, so we still see it as a major growth driver, and are confident of its long-term development. We are also aware of the ever-changing nature of the China retail market, so it is particularly important to respond to the shifts in customer demand. The Group, with the strong support of its digitalisation team, has undergone a series of initiatives in the digitalisation of our stores, including the launch of self-service cashier systems and QR code shopping, which are already underway. The AEON mobile application for the China market, “AEON Home Delivery”, has also been well received by customers, and we plan to fully launch the app in the first half of 2020, so our customers can enjoy the convenience of ordering from their mobile phones and receiving home delivery.

Besides reforming revenue structure, increasing the contribution and profit of proprietary brands, and introducing new business models, it is of utmost importance to raise customer loyalty and business efficiency. Our next key missions include implementing omni-channel development, and enhancing precision marketing.

The Group is committed to executing the abovementioned strategies, and flexibly respond to challenges in our business locations. As the No. 1 retailer in Asia, AEON will continue to strategically focus on the Greater China market. We will thoroughly practice our attitude of “everything we do, we do for our customers” with an innovative spirit, and look forward to becoming the preferred retailer of every customer in the future. We aim to realise the potential of the Group by further strengthening our concept of “business operations that completely satisfy our customers”.

On behalf of the Board, I would like to extend my heartfelt thanks to our management and all of our staff for their dedicated hard work and contributions, as well as the strong support of customers, ever since our establishment.

HABU Yuki
Chairman

Hong Kong, 27 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

Mr. NAKAGAWA Isei
Managing Director

Business Review

In 2019, the economy of Hong Kong has been affected by the Sino-US trade conflict since the previous year, which led to a decline in both imports and exports. Concurrently, the number of tourists was also cut sharply due to social unrest, which further weakened consumer confidence. As part of the retail industry, in response to the changes in consumer confidence in the first half, the Group took action to stimulate sales amidst a sluggish consumer market, so its performance in the second half improved over the first half.

Hong Kong Operations

The retail industry in the city in the first half of the year was affected by uncertainties including the Sino-US trade conflict since the previous year and the resulting drop in trade. Stepping into the second half of the year, people refrained from going out for shopping due to the social unrest. Adding to the uncertainties that overshadowed the situation, the sale of large commodities was suppressed, and the overall consumption environment of the retail industry has changed.

The Group's business model focuses on the General Merchandise Store ("GMS") business, while the food business has steadily developed. But weak consumer confidence had a ripple effect on the performance of other operations including apparel and daily commodities.

However, against the backdrop of the downward trend of the local retail market, the Group managed to alleviate the decrease through more effective sales and daily operation. Besides, as it has anticipated weaker consumer confidence, the Group has enhanced its control measures over various operating expenses in the year under review, so its performance in the second half outperformed that in the first half of the year.

The Group has steadfastly faced the challenges. In 2020, its strategy will echo the needs of customers, to improve the shopping environment and provide innovative products and malls (was already in place in the second half of the year):

1. To reduce the queuing time of customers, the self-service cashier system has been upgraded and "POS Express" which accepts payment via mobile phone was introduced with loyalty member services being digitalized as well.

2. Direct imports of proprietary brand (TOPVALU) and national brand merchandise from Japan in the year. The Group has purchased a variety of unique and higher margin commodities to enrich its product mix.

3. The Kowloon Bay store completed renovation last September, and introduced AEON Japan's proprietary brand — a functional casual underwear store "iC innercasual". AEON's first overseas "HÓME CÓORDY", which sells different household products, was opened at the Kornhill store in December 2019. The store has been well-received by customers after opening and recorded a satisfactory sales performance.

4. The Group opened six "Living Plaza" outlets during the year, which mainly sell daily commodities, and is developing into a store that allows consumers to buy daily necessities at one convenient location.

5. To strengthen the operational foundation and improve productivity in 2020 and beyond, the Group has completed the replacement of the new ERP system, and has laid a foundation for digitalization, informatization and better logistic efficiency.

As at 31 December 2019, the Group operated 65 stores in Hong Kong.

For the year ended 31 December 2019, revenue from Hong Kong operations dropped slightly by 3.2% to HK$4,239,000,000 (2018: HK$4,376,900,000). Mainly under the effects of the new accounting standards, therefore, the Hong Kong segment ultimately recorded a loss of HK$114,800,000 (2018: profit HK$9,100,000).

PRC Operations

Affected by the Sino-US trade dispute and the reduction of imports and exports, the economic growth of China further decelerated to 6.1% in 2019, but local

MANAGEMENT DISCUSSION AND ANALYSIS

consumption showed signs of a rebound under the policy support of the government.

Regarding its PRC operations, the Group's Guangdong AEON and AEON South China companies opened two new stores in 2019 in line with the execution of the annual plan, while closing three stores. The two companies leveraged their accumulated knowledge of opening new stores, as demonstrated by the new stores opening in 2019 recording a profit in the first operating year.

After closing some stores in the year of 2018–2019, Guangdong AEON and AEON South China further reduced the costs through consolidating duplicate business, while increasing profit and business income through centralized procurement.

As at 31 December 2019, the Group operated 33 stores in the PRC.

For the year ended 31 December 2019, revenue from the PRC operations dropped slightly year-on-year by 0.8% to HK$5,254,800,000 (2018: HK$5,299,000,000). However, mainly under the effects of new accounting standards, the segment recorded a loss of HK$80,600,000 (2018: loss HK$59,800,000) in the year.

Financial Review

Amid a challenging business environment, the Group's revenue was stable in the year, reaching HK$9,493,800,000 (2018: HK$9,675,900,000). Gross profit margin only adjusted modestly to 29.9% (2018: 31.0%).

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 1 January 2019 and which superseded the previous Hong Kong Accounting Standard 17 Leases ("HKAS 17"), on 1 January 2019. 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 recognized 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 year was HK$188,700,000 (2018: loss of HK$49,200,000). The change of the accounting standard has led to an increase of HK$96,600,000 in expenses related to leases when compared with the same period last year. The loss attributable to owners of the Company reported by the Group for the six months ended 30 June 2019 increased by approximately HK$100,000,000 when compared with the same period of 2018. The loss in the second half of 2019 rose by approximately HK$40,000,000 and the increase in loss was less than that of the first half of 2019.

In the recommendation or declaration of dividends, the Board has reviewed the dividend policy and takes into account the following factors of the Company including its financial results, cash flow status, business conditions and strategies, future operations and earnings, capital requirements and expenditure plans, interests of shareholders, any restrictions on distribution of dividends and any other factors that the Board may consider relevant. The Board will review such dividend policy as appropriate from time to time. Based on the aforementioned factors, the Board proposed a final dividend of HK$0.05 (2018: HK$0.22) per share for the year ended 31 December 2019. Together with the interim dividend of HK$0.22 (2018: HK$0.22) per share, the total dividends for the year is HK$0.27 (2018: HK$0.44) per share as a reward to shareholders for their support.

During the year, the Group continued to implement effective cost control measures. Consequently, its staff cost declined by 8.3% and its ratio to sales revenue dropped to 11.3% (2018: 12.1%). Other operating expenses, including advertising, promotion and selling expenses, maintenance and repair expenses, utility expenses and other expenses maintained at similar level as last year and the ratio of other expenses to revenue slightly increased to 11.2% (2018: 11.0%).

Other gains and losses recorded a decrease in loss to HK$12,700,000 from a loss of HK$22,100,000 in last year, mainly due to a gain of HK$8,600,000 (2018: nil) related to store closure recorded during the year.

In 2019, capital expenditure for opening new stores and store renovation in Hong Kong and the PRC and the upgrade of the information technology system amounted to HK$130,500,000.

After the Group started recognizing the right-of-use assets and investment properties on 1 January 2019, the Group entered into new lease agreements and lease modifications, and recognized an additional HK$625,200,000 in right-of-use assets and HK$58,700,000 in investment properties.

The Group maintained a net cash position with cash and bank balances and short term time deposits amounting to HK$1,798,100,000 as at 31 December 2019 (2018: HK$2,009,400,000). The Group had no bank borrowing as at the year ended date and had sufficient internal resources to finance future business expansion.

As at 31 December 2019, deposits of HK$24,100,000 (2018: HK$31,600,000) were pledged to the bank as guarantees of the rental deposits to landlords. Deposits of HK$7,900,000 (2018: HK$8,200,000) were pledged to regulatory bodies as guarantees for prepaid value cards sold.

The Group's total lease liabilities as at 31 December 2019 amounted to HK$4,800,700,000, of which HK$762,100,000 was payable within one year. The Group's lease liabilities-to-equity ratio as at 31 December 2019 (defined as the total lease liabilities divided by equity attributable to the owners of the Company) was 621%.

As at 31 December 2019, the Group's current liabilities exceeded its current assets by HK$361,600,000 (31 December 2018: net current assets of HK$533,800,000). This was primarily attributed to the adoption of HKFRS 16 which resulted in an increase in current lease liabilities of HK$762,100,000. The Group has a number of financial sources available to fund its operations and in the foreseeable future will be able to meet its financial obligations when they fall due.

Prospects for 2020

Hong Kong Operations

At the end of 2019, China and US concluded and signed Phase 1 of their trade agreement and this presented a silver lining for Hong Kong's economic recovery. However, the novel coronavirus (COVID-19) outbreak after the Lunar New Year in 2020 brought new uncertainties to the business environment. Further measures are needed to cope with the changes in the consumption behaviour of customers.

Starting from the end of January with the COVID-19 outbreak, the consumption behaviour of Hong Kong customers has changed. People are going out less frequently, electing to stay at home. In particular, they are purchasing large amounts of food reserves, hygiene, cleaning and antibacterial items. As a retail industry player, the Group has embraced the mission of supporting the community. Hence, the Group, through the worldwide procurement channels of AEON Japan Group, has sourced the merchandise, from Japan, China and South East Asia which are needed by Hong Kong residents, and has strived to assure the offering of hygiene products required by the stores.

1. The Group will implement extensive renovation in its Tuen Mun store, one of its core retail outlets.

   Facing the changes in the market, in order to increase the sales proportion of local customers, the Group will enhance differentiation of the food division, strengthen the variety of fresh food such as fish, meat and vegetables, and enrich the portfolio of processed food, which is primarily made in Japan, with the aim of becoming the leading store in the district.

   The Group will reorganize its apparel and household merchandise categories, which are family-oriented, along with the store layout. It will also actively introduce brands under AEON Japan Group. Moreover, it will carry out small-scale renovations in three stores elsewhere in Hong Kong.

2. The Group has changed to direct procurement model since 2019. It purchases its merchandise mix formulated by AEON Group in Japan directly from Japanese manufacturers, with special focus on four house brands namely "iC innercasual", "HÓME CÓORDY", "Kids Republic" and "Glam Beautique".

   As for food, the Group is building a system which speeds up the introduction of new Japanese merchandise.

   It hopes to further increase the sales proportion of its own branded products and hence improve its overall gross profit margin by no longer relying on third party suppliers.

3. In the process of addressing different issues in the retail industry, the Group believes that enhancing efficiency in daily operations can help to boost profit. Therefore, it is essential to minimize inventory in the warehouses of stores as well as shorten the turnover days of inventory. Thus the Group plans to change its logistics warehouses and strengthen its cooperation with logistics service providers in 2020, hoping to increase inventory turnover and hence working capital.

4. To facilitate business growth of Living Plaza and increase its revenue, the planned number of new stores opened by the Group in 2020 exceeds that in 2019. The Group is reviewing and optimizing its store opening, construction and operation systems.

5. The Group expects the strategy to digitalize its daily operations, back-end support, etc. to bear fruit this year. It has added self-service cashier

MANAGEMENT DISCUSSION AND ANALYSIS

systems and the "POS Express" mobile payment system in daily operation in order to accelerate payment and reduce labour. It has also developed online shopping platforms such as an e-commerce platform to provide convenience to customers. These efforts have allowed the Group to conduct real-time inventory control at stores and shorten delivery time.

In 2020, the Group will continue efforts to push up revenue and control costs in order to achieve net profit growth.

PRC Operations

The market looked forward to economic recovery following the signing of the Phase One trade deal between the PRC and the US at the end of last year. However, the nationwide outbreak of COVID-19 in the PRC after Chinese New Year has added uncertainties to the operating environment. Guangdong AEON and South China AEON have obtained the government's approval to continue to operate food business. The Group targets to procure daily necessities, in particular food products, and support the basic needs of the community. It also supplies merchandise to support the operation of stores and implements strict hygiene management to ensure the safety of staff. In addition, to address the needs of customers who are unable to go out, the Group has enhanced the services of its online supermarket. Under the current uncertain operating environment, the Group has actively responded to changes in customers' needs and ensured the continuous operation of its stores.

In 2020

1. As part of its strategy to boost growth, the Group will increase the number of new stores (7 expected) which will mainly be GMS. Its key challenge for the year is to implement the key strategy of opening small supermarkets in Guangzhou.

2. In terms of merchandise improvement, the Group will step up the development and sales volume of the TOPVALU brand in the PRC, aiming to differentiate the brand and improve its profit. It also plans to introduce "iC innercasual" and "HÓME CÓORDY" stores to the PRC market. These two brands have achieved good progress in Hong Kong. The Group will also expand beauty-related counters in the PRC.

3. Regarding the promotion of digitalized operations, the Group will 1) expand O2O sales of online supermarkets; 2) upgrade its CRM strategy and expand its stable customer base by strengthening customer loyalty and 3) further promote centralized operation of Guangdong AEON and South China AEON stores to rationalize resources.

For the Group's investment plans in 2020, in Hong Kong, the Group will carry out renovation for four of its stores including mainly the Tuen Mun store and also open new Living Plaza stores while renovating existing stores. In the PRC, the Group's key investment plans include opening new stores and small supermarkets. The expected total capital expenditure is approximately HK$299,700,000.

Save as previously mentioned or otherwise disclosed herein, there are no important events affecting the business of the Group which have occurred since 31 December 2019 up to the date these consolidated financial statements are authorised for issue.

Corporate Goals

The Group will strive to provide daily necessities in order to satisfy the basic needs of customers in the community and also adapt to the changes in the consumption habits of customers. It will 1) continue to uphold the "Everything we do, we do for our customers" credo; 2) realize healthy growth under conditions of fierce competition; 3) concentrate on smooth store operations and 4) roll out innovative ideas and concepts. The Group believes by implementing these strategies, it will be able to create stable and satisfactory returns for shareholders and stakeholders.

Human Resources

As at 31 December 2019, the Group had about 6,600 full-time and 3,800 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 standard of service 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 human resources system, the Group will create an energetic work environment for staff and enhance the communications between on-site staff and the back-end support departments, hoping to build a system that facilitates prompt action to address business issues. The Group's ultimate goal is build the "AEON" brand that benefits all customers.

I. nakagawa

NAKAGAWA Isei
Managing Director

Hong Kong, 27 March 2020

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

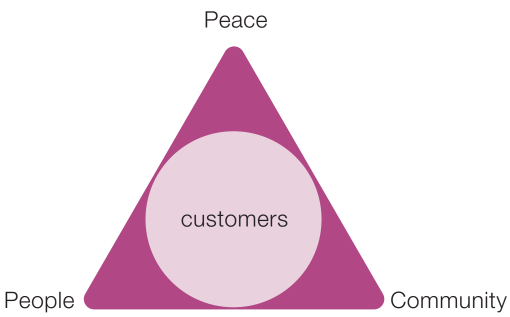
The Company is committed to the sustainable development of the environment and our society.

This report contains information on significant economic, environmental and social impacts arising from the Group's operations in Hong Kong and in mainland China for the year. These include operations conducted by AEON Stores (Hong Kong) Co., Limited and our two principal subsidiaries Guangdong AEON Teem Company Limited and AEON South China Company Limited. The Group operates a variety of retail outlets with different characteristics or focuses ("Store Portfolios"), ranged from large scale regional shopping outlets to small scale specialty stores, to cater for different lifestyle of our customers at different locations.

The Company has complied with the provisions contained in the Environmental, Social and Governance Reporting Guide (the "ESG Guide") as set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Our philosophy

AEON has continuously worked to fulfill its mission as a retailer grounded in a basic philosophy of peace, people, and the community (the "AEON Principles").



Peace: AEON is a corporate group whose operations are dedicated to the pursuit of peace through prosperity

People: AEON is a corporate group that respects human dignity and values personal relationships

Community: AEON is a corporate group rooted in local community life and dedicated to making a continuing contribution to the community

On the basis of the AEON Principles, AEON practices its "Customer-First" philosophy with its everlasting innovative spirit.

AEON established the AEON Sustainability Principle in line with the AEON Principles as the fundamental policy that governs the environmental and social contribution activities that all AEON group companies should take part in.

AEON Sustainability Principle aims to realize a sustainable society with our stakeholders. With "realization of a low-carbon society", "conservation of biodiversity", "better use of resources" and "addressing social issues" as core principles, we will advance activities in pursuance of these principles from time to time.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Environmental

With AEON's environmental policy, we strive to balance enriching lifestyles with environmental conservation by providing safe and comfortable stores, products and services to our customers. We also operate an environmental management system to implement measures, conduct periodical reviews, and promote continual improvements.

1. We will strive to reduce the emission of greenhouse gases in all of our business activities in order to realize a low-carbon society.

2. We will promote conservation activities and ascertain the benefits and impact of our business activities on natural ecosystems.

3. We will strive to implement resources conservation and resources recycling initiatives in order to use resources in a sustainable manner.

4. We will comply with legal requirements and with other requirements related to our environmental aspects, and strive to prevent pollution.

5. We will develop partnerships with many stakeholders, including our customers, and widen the reach of our initiatives.

Throughout the year, AEON has complied in material respects with the relevant standards, rules and regulations on air and greenhouse gas emissions, discharges into water and land, generation of hazardous and non-hazardous wastes.

(a) Emissions

AEON's largest direct source of carbon dioxide emissions is from kitchens or workshops in our store operations which consume gas. In 2019, 899 tonnes (2018: 969 tonnes) of carbon dioxide was emitted. AEON will continue to introduce all-electric cooking system and kitchen equipment in stores to reduce greenhouse gas emissions from gas combustion as far as practicable.

AEON's indirect source of carbon dioxide emissions is from its electricity consumption in our store operations. In 2019, 122,463 tonnes (2018: 110,093 tonnes) of carbon dioxide was emitted.

Waste discharged from AEON's stores rarely if ever contains hazardous substances.

AEON generates food waste through its business and is also tied to waste produced by customers after the use of plastic bags and food containers. This is why we are working on various activities for the better use of resources as one of our key issues. AEON has started the collection of food waste generated from its business and collected by eco-friendly organization (designated resources-reutilizing business operator) for the recycling of these food wastes.

AEON works with recycling organizations which convert food waste to animal feed or transform food waste into electricity and compost. In 2019, 2,272 tonnes (2018: 3,429 tonnes) of food waste was collected for recycling.

AEON recycles waste cooking oil into biodiesel products. In 2019, 70,778 litres (2018: 72,252 litres) of waste oil was collected for recycling.

Different emissions data reported above are stated in the total amount of their measuring units. As the Group is operating a variety of Store Portfolios, intensity data (e.g per store or per gross sales area) are not prepared because such indicators may not be meaningful.

(b) Use of resources

AEON consumes a large volume of energy, mainly in air-conditioning and lighting as well as freezer and refrigeration cabinets. For AEON, reducing carbon dioxide emissions from stores plays a key role in reducing emissions for the entire Group. Therefore, AEON is devoting efforts to reducing its carbon dioxide emission by curbing energy usage with the use of more efficient air conditioners, lighting, and refrigerator/freezer cases.

The Group's electricity and gas consumption in the year were 171.4 million kWh and 14.3 million MJ respectively (2018: 152.5 million kWh and 15.5 million MJ). We are actively promoting measures such as converting store lighting to LED or use LED for new stores and improving energy conservation management as we strive to reduce energy consumption. We also adopt high-efficiency motors and compressors for refrigeration and take measures to minimize heat loss such as increase the proportion of closed-typed freezers.

The Group's water consumption in the year was 1.28 million cubic metres (2018: 1.34 million cubic metres). The Group does not have any issue in sourcing water that is fit for our operations. We are actively working to raise water consumption efficiency by improving facility design and operational practices.

Packaging material is another source of resources consumed in our operations. In the year, the Group distributed plastic shopping bags and packing materials of 206,700 Kg (2018: 235,800 Kg) to our customers. AEON encourages our customers to bring their own shopping bags to reduce shopping bags consumption. AEON also adopted bio-degradable materials for the production of its shopping bags and adopted recyclable materials for its wrapping materials.

Different use of resources data reported above are stated in the total amount of their measuring units. As the Group is operating a variety of Store Portfolios, intensity data (e.g per store or per gross sales area) are not prepared because such indicators may not be meaningful.

(c) The environment and natural resources

AEON sells different merchandise in our stores every day and is striving for sustainable procurement so as not to deplete but to preserve limited natural resources in fisheries and agriculture for future generations.

AEON promotes the procurement of sustainable fisheries, aquaculture products and agricultural products.

Social

1. Employment and labour practices

AEON has been built by AEON people through their contributions and innovative efforts. The future history of AEON will also be written by AEON people. AEON people are the most important assets we have at AEON. AEON people contribute their talents to realize our "Customer-First" philosophy which is the core part of AEON Principles.

(a) Employment

One of the three basic AEON Principles is AEON is a corporate group that respects human dignity and values personal relationships. With this guiding principle, AEON implements its policies in all aspects in relation to AEON people.

Throughout the year, AEON has complied in material respects with the relevant standards, rules and regulations on compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunities, diversity, anti-discrimination and other benefits and welfare.

(b) Health and safety

AEON works to enhance safety for facilities and fixtures used in its work places to prevent accidents. Meetings are organized at the stores and business office level in order to ensure the safety and health of employees and promote the creation of pleasant, comfortable conditions.

Throughout the year AEON has complied in material respects with the relevant standards, rules and regulations on providing a safe working environment and protecting employees from occupational hazards.

(c) Development and training

AEON believes that the greatest form of welfare is education. This phrase embodies the thought that education, in addition to wages and benefits, is key to enriching the lives of its employees. Given this, we have created a wide range of training programs that support the growth of employees and their desire for advancement.

In AEON, we have a system for employees to meet twice a year with their supervisors to discuss and reflect on their work performance and work challenges, and to look ahead to their future aspirations. There are also regular assessments of individual work results and career achievements.

In AEON, various training and staff development programs are provided to employees:

i) AEON fundamental education

This is provided to all new join AEON people. Besides sharing AEON's basic philosophy and set of values, the education aims to get employees to master the corporate culture and basic skills as AEON people.

ii) Internal certification systems

AEON has established an array of internal certification systems for specific jobs, including but not limited to sushi master, meat master and fresh fish master etc.

iii) Group recruitment system

This system enables personnel to challenge the business and job position they aspire to without being restricted to the domain or company they belong to.

iv) Trainee system

AEON has established training program to university graduates of different disciplines in order to train the human resources with the ability to become future leaders of the business.

v) AEON business school

The AEON business school provides courses for personnel to learn the knowledge necessary for the jobs they aspire to. The system supports self-actualization of motivated personnel.

vi) Partnership training program with Tsinghua University

AEON Tsinghua University School of Social Science Social Development Research Centre was established with Tsinghua University with the goal of promoting industry-academia cooperation in human resource development and research in the field of social sciences.

This training program, which comprises unique curriculum on management strategy, marketing, IT and other fields that leverage the expertise of Tsinghua University, will be held every year for selected outstanding human resources.

vii) AEON Code of Conduct training

AEON established the AEON Code of Conduct in 2003 in order to express the AEON basic principles in terms of a specific set of guidelines. The AEON Code of Conduct makes explicit to Group employees criteria for action, consideration and judgment, under the AEON basic principles, in order to serve customers. It is intended as a shared set of values for the AEON Group.

All employees of the AEON Group participate in general training once a year to review the AEON Code of Conduct. Reconfirming the necessity of corporate ethics helps create a shared set of values among employees.

(d) Labour standards

AEON prohibits child labour or forced labour and this is the basic principles of our human resources policy. Such policy is enforced and reviewed by human resources department during the recruitment process.

AEON has complied in material respects with relevant standards, rules and regulations on preventing child or forced labour throughout the reporting period and we are not aware of any non-compliance case.

2. Operating practices

(a) Supply chain management

AEON recognizes that our supply chain management plays a central role in the Group's overall business sustainability. AEON sustains strong relationships with our suppliers to deliver safe food and reliable products to meet our customers' needs.

Under our guiding AEON principles, we joint efforts with suppliers or their associates/agents located in Japan, Hong Kong and the mainland China to provide the goods to help AEON to achieve its objective of "Customer Satisfaction".

(b) Product responsibility

Our suppliers who sell their merchandise in our stores are required to assume full responsibility for their products' compliance with the relevant rules and regulations governing food and product safety, including but not limited to product safety, labeling and packaging. When there is doubt regarding potential safety or trust of a product, with the source of information either from related government departments, media or suppliers, we work with our business partners to promptly ascertain the nature of the concern and resolve the issue immediately.

Throughout the year AEON has complied in material respects with the relevant standards, rules and regulations on health and safety, advertising, labeling and privacy matters relating to products and services provided.

(c) Anti-corruption

AEON realized the importance of anti-corruption and has adopted policies and procedures to communicate with and provide training to our staff on anti-corruption. Anti-corruption forms part of the messages that AEON reconfirms with all employees during the AEON Code of Conduct training held once a year.

AEON also requires our business partners to strictly comply with anti-corruption practices. All business partners need to sign acknowledgement letter of AEON's anti-corruption policies. Our statement of anti-corruption policies is placed in all open meeting areas to remind ourselves and our business partners of such practices.

Throughout the year AEON has complied in material respects with the relevant standards, rules and regulations on bribery, extortion, fraud and money laundering.

3. Community

AEON gives back to local communities by improving community economic conditions and welfare through its business operations and contributing to a safer society. AEON is also providing myriad programs for supporting the growth of youth at each life stage, from infants up to university students.

AEON launched among its community contribution programs:

i) AEON happy yellow receipt campaign to link customers and volunteer organizations. Customers participate in the campaign simply by taking the yellow receipts they receive when making purchase on every 11th of every month, and placing them in a box labeled with the name of an organization or a particular activity. AEON then contributes goods accordingly at a value of 1% of the total amount of the receipts.

   In the year, goods valued approximately HK$1.8 million were donated to 122 charitable organizations. Since its launch, the campaign has supported different organizations, providing support to charity works covering environmental conservation, senior and child welfare and animal protection.

ii) Clean and green activities, consists of employees volunteering to plant trees, clean up areas around stores and areas surrounding public facilities. Staff volunteers contributed to visits of elderly homes, mentally handicapped centres and under-privileged families to convey love and care. In the year nearly 50 trees were planted to promote green lifestyle.

iii) The AEON Cheers Club provides hands-on opportunities for primary to secondary students to learn about the environment. Young people can participate in environmental activities with the support of store employees. In the year, 79 activities were organized.

iv) The AEON scholarship program provides financial support to high school and university students, leaders of the next generation in China.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

v) AEON and World Vision Hong Kong jointly organized the "Used Book Recycling Campaign" every year to raise funds for school building construction and other educational projects in poor areas in China through collection and charity sale of used books. The campaign aims to improve the learning environment of children, and at the same time, to promote resource recycling among the public.

In the year, nearly 186,200 books were collected and raised approximately HK$1.1 million. Fund raised was used to support the early childhood education schools in Guangxi and Shaanxi Provinces, providing quality pre-primary education to children, improving their learning environment and offering trainings for teachers and parents.

vi) AEON provides direct support to low-income families through food donation. In the year over 20,000 items valued HK$0.5 million were donated to a food bank run by charitable organization.

SENIOR MANAGEMENT PROFILE

Executive Directors

Mr. NAKAGAWA Isei

Mr. Nakagawa (aged 53) was appointed as Executive Director and the Managing Director of the Company in May 2019. Before he joined the Company, he was the managing director of Qingdao AEON Dongtai Co., Ltd. ("QADCL"). He joined AEON Co., Ltd. group in March 1990 and since then was assigned to assume different positions related to various operations in AEON Retail Co., Ltd. ("ARCL"). He became the chairman of Maxvalu Hokuriku Co., Ltd. in August 2010, an executive director of ARCL in March 2013, and the managing director of QADCL in February 2015. Mr. Nakagawa graduated from the Toyo University with a bachelor's degree in Business Administration.

Mr. CHAK Kam Yuen

Mr. Chak (aged 57) was appointed as Executive Director in March 2013 and is in charge of Corporate Compliance Division of the Company. Since joining the Company in 1987, Mr. Chak has amassed over 30 years of solid experience in retail industry, specifically in store management. Mr. Chak graduated from The Open University of Hong Kong with a master's degree in Business Administration and Electronic Commerce.

Mr. LAU Chi Sum Sam

Mr. Lau (aged 53) was appointed as Executive Director in March 2017 and is in charge of the Operations Division of the Company. He joined the Company in 1992 and possesses extensive experience in retail operations and buying field.

Mr. NAGASHIMA Takenori

Mr. Nagashima (aged 38) was appointed as the Administration General Manager of the Company in May 2019 and Executive Director of the Company in charge of Administration and Corporate Finance in October 2019. He joined AEON Retail Co., Ltd. in September 2004. From 2011 to 2014, he was assigned to assume different positions related to various operations in AEON Co., Ltd. In September 2014, he was appointed as the Administration General Manager of 永旺 (湖北) 商業有限公司, with responsibility of establishing its supporting team, management in charge and small store development. Mr. Nagashima received his bachelor's degree from the International Cultural Exchange School of Fudan University.

Non-Executive Directors

Ms. HABU Yuki

Ms. Habu (aged 52) was appointed as Non-executive Director in March 2014 and re-designated as Executive Director in May 2017. She became the Chairman in April 2015 and the Managing Director in May 2017. She was re-designated from Executive Director to Non-executive Director and ceased to be the Managing Director in May 2019. She is also an executive vice president of Digital Business and China Business of AEON Co., Ltd. ("AEON Co") from March 2020 and was an executive officer, chief officer of China Business of AEON Co from March 2017. She is the president of AEON (China) Co., Ltd. She joined AEON Co in 1991 and has been a director of AEON (China) Co., Ltd. and was the former managing director of Beijing AEON Co., Ltd. She is also a director of Giddy Inc., a Delaware corporation doing business as Boxed from August 2018. Ms. Habu graduated from the Keio University with a bachelor's degree in Commerce.

SENIOR MANAGEMENT PROFILE

Mr. YAMASHITA Akinori

Mr. Yamashita (aged 66) was appointed as Non-executive Director in May 2018. He is a director, representative executive vice president and executive officer, chief financial officer and business management of Aeon Co. He joined AEON Co in April 1977 and became executive officer in May 2004, managing executive officer in May 2005 and chief officer of finance in September 2013. He was a director and senior executive vice president of The Daiei, Inc. in May 2010, president and representative director of Aeon Financial Service Co., Ltd. in June 2014, chairman and representative director of Aeon Retail Co., Ltd. in March 2016. Mr. Yamashita graduated from the Kwansei Gakuin University with a bachelor's degree in Law.

Independent Non-Executive Directors

Ms. CHAN Yi Jen Candi Anna

Ms. Chan (aged 58) was appointed as Independent Non-executive Director in May 2013. She is a practicing solicitor in Hong Kong for over 29 years and is a consultant of LCP Lawyers. Ms. Chan was respectively admitted as solicitor in Hong Kong in 1987, as solicitor in England & Wales in 1992 and as advocate and solicitor in Singapore in 1995. She is also a civil celebrant and accredited mediator. Ms. Chan graduated from The University of Hong Kong with a bachelor's degree in Laws (LL.B.). She is currently the Deputy Chairman of Rules, Chairman of Championship Committee and Tournament Director with the Hong Kong Golf Association.

Ms. LO Miu Sheung Betty

Ms. Lo (aged 57) was appointed as Independent Non-executive Director in November 2013. She is a qualified solicitor in Hong Kong and has over 29 years of experience in general legal practice, with specialisation in conveyancing, commercial and probate laws. Ms. Lo has been in active practice since qualification and is currently a consultant of Messrs. K.C. Ho & Fong, Solicitors. She graduated from The University of Hong Kong with a bachelor's degree in Laws (LL.B.). She also holds a Postgraduate Certificate in Laws (PCLL). She is currently an independent non-executive director of Sincere Watch (Hong Kong) Limited and Kingston Financial Group Limited, the shares of which are listed on the main board of the Stock Exchange. She was an independent non-executive director of Eagle Legend Asia Limited for the period from March 2012 to December 2014, which is listed on the main board of the Stock Exchange.

Mr. CHOW Chi Tong

Mr. Chow (aged 60) was appointed as Independent Non-executive Director in January 2016. He is an accountant in practice as a partner of Ting Ho Kwan & Chan CPA Limited, Certified Public Accountants (Practising). Mr. Chow holds a diploma in yarn manufacturing from The Hong Kong Polytechnic University and he has over 33 years of experience in both accounting and auditing. He is a fellow member of Hong Kong Institute of Certified Public Accountants and The Institute of Chartered Accountants in England and Wales.

Mr. MIZUNO Hideto

Mr. Mizuno (aged 46) was appointed as Independent Non-executive Director in August 2018. He has been the vice chairman of Mizuno Sports Promotional Foundation, a non-profit organization, since June 2016. He was also the wholesale director of Timberland brand of VF Japan Corporation from June 2017 to February 2018. Before June 2017, Mr. Mizuno was an executive director of Mizuno Corporation, a company listed on the Tokyo Stock Exchange. During his over ten years' services in Mizuno Corporation, he was in charge of the Global Brand Development, New Business Development, National Accounts Sales and Nagoya Sales Branch Office. He was also the vice president of Mizuno USA in charge of Corporate Planning during the period from July 2005 to March 2009. Mr. Mizuno holds a master degree in Business Architect from the Kanazawa Institute of Technology Japan, a bachelor's degree in Chemistry from the Carthage College USA and a bachelor's degree in Economics from the Keio University Japan.

SENIOR MANAGEMENT PROFILE

Senior Management

Mr. YEUNG Tze Shing

Mr. Yeung (aged 56) is the General Manager of Corporate Finance Division of the Company. He is a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. He joined the Company in 1995. Mr. Yeung graduated from the Chinese University of Hong Kong with a bachelor's degree in Science.

Mr. SIU Hung Fat Gary

Mr. Siu (aged 56) is the Assistant General Manager of Business Support Division of the Company. He joined the Company in 1994 and possesses extensive experience in retail operations and buying field. Mr. Siu graduated from the University of Leicester with a master's degree in Business Administration.

Mr. WONG Shun Ping

Mr. Wong (aged 51) joined the Company in January 2019 as the Assistant General Manager of Construction and Maintenance Department of the Company. Before he joined the Company, he was a senior manager of AEON (China) Co., Ltd. responsible for the standardisation of stores designs, procurement of fixtures and facilities for all new store projects and store renovation projects in China. Mr. Wong graduated from the Hong Kong Polytechnic University with a Higher Certificate in Mechanical Engineering.

CORPORATE GOVERNANCE REPORT

Corporate Governance Practice

The Board of Directors (the "Board") of the Company is committed to maintaining high standard of corporate governance practices to promote the interests of the shareholders and enhance the shareholders' value. The Board reviews the corporate governance practices and procedures regularly with reference to the latest development in corporate governance practices so as to ensure the Group is under the leadership of an effective Board and to meet interested parties' expectation and relevant regulatory requirements.

The Company has adopted the code provisions contained in the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as its own code of corporate governance practice.

In the opinion of the Directors, the Company has complied throughout the year ended 31 December 2019 with the code provisions of the Code, except for certain deviations disclosed in this report.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry of all existing Directors, the Company confirms that they have fully complied with the required standard set out in the Model Code throughout the year ended 31 December 2019.

Board of Directors

Board Composition

The Board currently comprises a total of 10 Directors, being 4 Executive Directors, 2 Non-executive Directors and 4 Independent Non-executive Directors. The number of Independent Non-executive Directors represents one-third of the Board as required by Rule 3.10A of the Listing Rules. The list of the Directors and their biographies are set out on pages 16 to 17 of this annual report.

The Board members have no financial, business, family or other material/relevant relationship with each other.

The Company recognizes and embraces the benefits of having a diverse Board and believes that Board diversity is an important element to enhance the quality of its performance and maintain a sustainable development in long run. In this regard, the Board has adopted a board diversity policy (the "Board Diversity Policy") which sets out the approach to achieve diversity on the Board. Board diversity is achieved through consideration of a number of factors and measurable objectives as set out in the Board Diversity Policy, including but not limited to gender, age, cultural and educational background, ethnicity, professional expertise, skills, knowledge and length of service. Given the nature and business objectives of the Company, the Board has a balance of skill, experience and diversity perspectives appropriate for the requirements of the business of the Company.

Role of the Board

The Board is responsible for the leadership and control of the Company, oversees the Group's businesses, strategic decisions and performance, and reserves the key matters such as the declaration of interim dividend, recommendation of final dividend or other distributions for the approval of the Board. The Board has delegated the management functions and day-to-day operating responsibilities to the Executive Directors and senior management who perform their duties under the leadership of the Managing Director ("MD").

Board Process

The Board has scheduled at least four meetings a year and meets as and when required. During the year, the Board held seven meetings. The Company Secretary assists the Chairman in establishing the meeting agenda, and each Director may request inclusion of items in the agenda. For all Board meetings held in the year, at least 14 days' notice was given to all Directors. All Board meetings were duly convened and held in the way prescribed by the Articles of Association of the Company. Adequate and appropriate information are circulated normally three days in advance of Board meetings to the Directors to enable them to make informed decisions.

Board and committee approvals are also given by circulation of resolutions in writing pursuant to the Articles of Association of the Company on urgent matters which require decision in a tight timeframe and hence convening a Board or committee meeting is difficult or not practicable. In the case where a resolution in writing is circulated, sufficient information and explanatory materials will also be provided to the Directors and the members of the relevant committees at the same time.

In addition to regular Board meetings, the Chairman of the Board met with the Independent Non-executive Directors without the presence of the other Executive and Non-executive Directors.

Board and committee minutes are recorded in appropriate detail and draft minutes are circulated to all Directors and committee members for comments before being approved by the Board and committees respectively at the next meetings. All minutes are kept by the Company Secretary and are open for inspection by the Directors.

The Directors are entitled, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses. The Board shall resolve to provide separate appropriate independent professional advice to the Directors to assist the relevant Directors to discharge their duties.

Attendance at Board Meetings

Directors' attendance at Board meetings are set out as follows:

	Directors	Number of attendance
Executive Directors	Isei Nakagawa *(MD)* (Note 1)	4/4
	Chak Kam Yuen	7/7
	Lau Chi Sum Sam	7/7
	Takenori Nagashima (Note 2)	1/1
	Masamitsu Ikuta (Note 3)	7/7
	Keiji Tsukahara (Note 4)	5/5
Non-executive Directors	Yuki Habu *(Chairman)* (Note 5)	6/7
	Akinori Yamashita	7/7
Independent Non-executive Directors	Chan Yi Jen Candi Anna	7/7
	Lo Miu Sheung, Betty	7/7
	Chow Chi Tong	7/7
	Hideto Mizuno	7/7

Notes:

1. Mr. Isei Nakagawa was appointed as an Executive Director and Managing Director on 16 May 2019 and there were 4 Board meetings held after his appointment.

2. Mr. Takenori Nagashima was appointed as an Executive Director on 15 October 2019 and there was 1 Board meeting held after his appointment.

3. Mr. Masamitsu Ikuta was re-designated from an Executive Director and the Deputy Managing Director to an Executive Director on 15 October 2019 and resigned as an Executive Director on 25 November 2019.

4. Mr. Keiji Tsukahara resigned as an Executive Director on 20 September 2019.

5. Ms. Yuki Habu was re-designated from an Executive Director to a Non-executive Director and ceased to be the Managing Director on 16 May 2019.

Appointment and re-election of Directors

The Company has not fixed the terms of appointment for all Directors but they are subject to retirement and being eligible, offer themselves for re-election at each annual general meeting of the Company.

The Board may at any time appoint any person as a Director either to fill a vacancy or as an addition to the existing Board. Newly appointed Directors hold office until the next following annual general meeting of the Company and are eligible for re-election.

The Company has adopted a nomination policy (the "Nomination Policy") setting out the key selection criteria and principles to be used by the Company in making recommendations on the appointment or re-appointment of Directors and succession planning for Directors to the Board to ensure that the Board has a balance of skill, knowledge, experience and diversity of perspectives appropriate to the requirements of the Company's business.

Attendance at Annual General Meeting

The attendance of the Directors at the Annual General Meeting held on 16 May 2019 is as follows:

	Directors	Number of attendance
Executive Directors	Masamitsu Ikuta	1/1
	Chak Kam Yuen	1/1
	Lau Chi Sum Sam	1/1
	Keiji Tsukahara	1/1
Non-executive Directors	Yuki Habu *(Chairman)* (Note 1)	1/1
	Akinori Yamashita	1/1
Independent Non-executive Directors	Chan Yi Jen Candi Anna	1/1
	Lo Miu Sheung, Betty	1/1
	Chow Chi Tong	1/1
	Hideto Mizuno	1/1

Note:

1. Ms. Yuki Habu was re-designated from an Executive Director to a Non-executive Director and ceased to be the Managing Director on 16 May 2019.

Independence of Independent Non-executive Directors

The Company has received annual confirmations of independence from all existing Independent Non-executive Directors pursuant to Rule 3.13 of the Listing Rules and considers them to be independent. The Nomination Committee has assessed the independence of all the Independent Non-executive Directors.

Directors' Induction and Continuous Professional Development

The newly appointed Directors were given an induction after their appointment so as to ensure that they had appropriate understanding of the Group's business and of their duties and responsibilities under the Listing Rules and the relevant statutory and regulatory requirements. The Company provides regular updates on the business performance of the Group to the Directors. The Directors are continually updated on the latest development regarding the Listing Rules and other applicable statutory requirement to ensure compliance and upkeep of good corporate governance practices.

Directors are encouraged to participate in continuing professional development to develop and refresh their knowledge and skills. The Company has devised a training record in order to assist the Directors to record the training they have undertaken and they are asked to submit a signed training record to the Company on annual basis.

The Company has also arranged in-house trainings for Directors in the form of seminar during the year. The attendance of the Directors to the in-house and/or external training seminars throughout the year according to the records provided by the Directors is as follows:

	Directors	**Directors' participation in trainings**
Executive Directors	Isei Nakagawa *(MD)*	✓
	Chak Kam Yuen	✓
	Lau Chi Sum Sam	✓
	Takenori Nagashima	✓
	Masamitsu Ikuta (Note 1)	—
	Keiji Tsukahara (Note 2)	—
Non-executive Directors	Yuki Habu *(Chairman)* (Note 3)	✓
	Akinori Yamashita	✓
Independent Non-executive Directors	Chan Yi Jen Candi Anna	✓
	Lo Miu Sheung, Betty	✓
	Chow Chi Tong	✓
	Hideto Mizuno	✓

Notes:

1. Mr. Masamitsu Ikuta resigned as an Executive Director on 25 November 2019.

2. Mr. Keiji Tsukahara resigned as an Executive Director on 20 September 2019.

3. Ms. Yuki Habu was re-designated from an Executive Director to a Non-executive Director and ceased to be the Managing Director on 16 May 2019.

Under code provision A.6.5 of the Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills, and should provide a record of the training they received to the issuer. Mr. Keiji Tsukahara, a former Director, has not provided a record of the training to the Company during the period from 1 January 2019 to 19 September 2019. Mr. Masamitsu Ikuta, being former Director, has not provided a record of the training to the Company during the period from 1 January 2019 to 24 November 2019.

Chairman and Chief Executive

Under code provision A.2.1 of the 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 MD were no difference from that required of a chief executive stipulated under the code provision A.2.1 of the 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, Ms. Yuki Habu was the Chairman of the Board and the MD of the Company. Mr. Isei Nakagawa has been appointed as the MD in place of Ms. Yuki Habu since 16 May 2019, whereupon the roles of the Chairman and the Managing Director of the Company are segregated and assumed by two separate individuals who have no relationship with each other to ensure the power and authority are not concentrated in any one individual for the purpose of code provision A.2.1.

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 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.

Board Committees

Nomination Committee

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy. In assessing the Board's composition, the Nomination Committee takes into account various aspects set out in the Board Diversity Policy.

In the selection, appointment and re-appointment of Directors, the Nomination Committee will consider, revaluate and select the candidate(s) based on meritocracy and with reference to nomination criteria set out in the Nomination Policy, which include:

1. age, skills, knowledge, experience, expertise, professional and educational qualifications, background and other personal qualities of the candidate;

2. effect on the Board's composition and diversity;

3. commitment of the candidate to devote sufficient time to effectively carry out his/her duties. In this regard, the number and nature of offices held by the candidate in public companies or organizations, and other executive appointments or significant commitments will be considered;

4. potential/actual conflicts of interest that may arise if the candidate is selected;

5. independence of the candidate;

6. in the case of a proposed re-appointment of an independent non-executive director, the number of years he/she has already served the Company; and

7. other factors considered to be relevant by the Nomination Committee on a case by case basis.

CORPORATE GOVERNANCE REPORT

The nomination procedures for selection, appointment and re-appointment of a Director are summarized as following:

(1) identifies or selects candidate(s) recommended to the Nomination Committee, with or without assistance from external agencies or the Company, pursuant to the nomination criteria set out in the above paragraph;

(2) may use any process it deems appropriate to evaluate the candidate(s), which may include personal interviews, background checks, presentations or written submissions by the candidate(s) and third party references;

(3) holds meeting(s) to consider and approve the matter or make decisions by written resolutions;

(4) provides to the Board with all the information required including information set out in Rule 13.51(2) of the Listing Rules in relation to the candidate(s);

(5) makes recommendation to the Board including the terms and conditions of the appointment;

(6) the Board deliberates and decides on the appointment based upon the recommendation of the Nomination Committee;

(7) all appointments of directors should be confirmed by a letter of appointment or director service agreement setting out the key terms and conditions of the appointment of the directors; and

(8) pursuant to Rule 13.74 of the Listing Rules, where shareholders are required to vote on electing or re-electing a director or directors, the circular accompanying the notice of the relevant general meeting should contain all the information of the candidate(s) required under Rule 13.51(2) of the Listing Rules.

The Nomination Committee's authorities and duties are set out in written terms of reference. The terms of reference of the Nomination Committee, the Board Diversity Policy (containing the measurable objectives on the Board diversity) and the Nomination Policy are available on the websites of the Stock Exchange and the Company.

Members of the Nomination Committee and the attendance of each member are set out as follows:

	Directors	Number of attendance
Non-executive Director	Yuki Habu *(Chairman)* (Note 1)	3/4
Independent Non-executive Directors	Chan Yi Jen Candi Anna	4/4
	Lo Miu Sheung, Betty	4/4
	Chow Chi Tong	4/4
	Hideto Mizuno	3/4

Note:

1. Ms. Yuki Habu was re-designated from an Executive Director to a Non-executive Director and ceased to be the Managing Director on 16 May 2019.

CORPORATE GOVERNANCE REPORT

During 2019, the Nomination Committee performed the following duties:

- reviewed the revised terms of reference of the Nomination Committee, the proposed Nomination Policy and the proposed Diversity Policy and recommended the Board on their adoption;
- reviewed the size, structure and composition of the Board;
- identified individuals suitably qualified to become members of the Board on merit and against objective criteria and with due regard for the benefits of diversity on the Board and select or make recommendations to the Board on the selection of individuals nominated for directorship;
- assessed the independence of Independent Non-executive Directors;
- recommended the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the chief executive; and
- recommended the Board on the appointment of new senior management.

Remuneration Committee

The Remuneration Committee is responsible for ensuring that the Company has formal and transparent procedures for developing and overseeing its policies on the remuneration of the Directors and senior management. It will also make recommendations to the Board on the remuneration packages of all Directors and senior management. The Committee's authorities and duties are set out in written terms of reference. The terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

Members of the Remuneration Committee and the attendance of each member are set out as follows:

	Directors	Number of attendance
Non-executive Director	Yuki Habu (Note 1)	3/4
Independent Non-executive Directors	Chan Yi Jen Candi Anna *(Chairman)*	4/4
	Lo Miu Sheung, Betty	4/4
	Chow Chi Tong	4/4
	Hideto Mizuno	3/4

Note:

1. Ms. Yuki Habu was re-designated from an Executive Director to a Non-executive Director and ceased to be the Managing Director on 16 May 2019.

During 2019, the Remuneration Committee performed the following duties:

- reviewed the remuneration of all Directors (including the MD and the Deputy MD) and the senior management and recommended the Board to approve their remuneration; and
- reviewed and made recommendations to the Board on the proposed remuneration of new Directors and new senior management.

Details of the remuneration paid to Directors and members of senior management by band for the year ended 31 December 2019 are disclosed in the notes 15 and 16 to the consolidated financial statements.

Audit Committee

The Audit Committee is responsible for ensuring the objectivity and credibility of the Group's financial reporting. The Committee's authority and duties are set out in written terms of reference. The terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

The Audit Committee reviews the Group's financial statements, internal financial reports, risk management and internal control systems. The Audit Committee meets at least twice a year with management and external auditors and reviews their reports.

Members of the Audit Committee and the attendance of each member are set out as follows:

	Directors	Number of attendance
Non-executive Director	Yuki Habu (Note 1)	2/2
Independent Non-executive Directors	Chow Chi Tong *(Chairman)*	3/3
	Chan Yi Jen Candi Anna	3/3
	Lo Miu Sheung, Betty	3/3
	Hideto Mizuno	3/3

Note:

1. Ms. Yuki Habu was re-designated from Executive Director to Non-executive Director and ceased to be Managing Director on 16 May 2019. She was appointed as a member of the Audit Committee on 16 May 2019 and there were two Audit Committee meetings held after her appointment.

During 2019, the Audit Committee performed the following duties:

— reviewed the audited financial statements for the year ended 31 December 2018 with a recommendation to the Board for approval;

— reviewed the un-audited financial statements for the six months ended 30 June 2019 with a recommendation to the Board for approval;

— reviewed the effectiveness of and various reports on risk management and internal control system covering financial, operational, procedural compliance and risk management functions;

— met the external auditor and reviewed their reports to the committee in respect of the audit of the annual results and review of interim results of the Company;

— reviewed and approved the engagement and remuneration of the external auditor in respect of audit and non-audit services;

— reviewed the independence and objectivity of the external auditor;

— recommended to the Board the reappointment of the external auditor; and

— reviewed the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting, internal audit and financial reporting functions.

All members of the Audit Committee possess in-depth experience in their own profession. At least one of the committee members possesses appropriate professional qualifications in finance and accounting and meets the requirements of Rule 3.21 of the Listing Rules. No member of the Audit Committee is a former partner of the existing auditing firm engaged by the Company during two years after he or she ceases to be a partner of the auditing firm.

Auditor's Remuneration

During the year under review, the remuneration paid and payable to the Company's auditor, Deloitte Touche Tohmatsu, is set out as follows:

Services rendered	Fees paid/payable HK$'000
Audit services — annual audit	5,211
Non-audit services:	
Review of interim results	813
Taxation services	964
Other services	663
	7,651

Corporate Governance Function

The Board is also responsible for performing the corporate governance duties as set out below:

— to develop and review the Company's policies and practices on corporate governance;

— to review and monitor the training and continuous professional development of Directors and senior management;

— to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

— to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

— to review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

Accountability and Audit

The Directors are responsible for the preparation of the accounts of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give a true and fair view of the state of affairs, the results of operations and cash flows of the Group. In preparing the accounts for the six months ended 30 June 2019 and for the year ended 31 December 2019, the Directors have adopted suitable accounting policies and applied them consistently. The accounts for the reporting year have been prepared on a going concern basis.

The reporting responsibilities of the Company's auditor, Deloitte Touche Tohmatsu, are stated in the "Independent Auditor's Report" on pages 44 to 49 of this annual report.

Risk Management and Internal Controls

The Board acknowledges its responsibility for overseeing the Group's risk management and internal control systems and conducted interim and annual review of the effectiveness of such systems through the Audit Committee. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Audit Committee assists the Board in fulfilling its oversight and corporate governance roles in the Group's financial, operational, procedural compliance, risk management and internal control functions.

The Group has adopted "Risk Control Self-Assessment Matrix" in terms of likelihood and impact with a view to assess the level of risks faced by the Group. The line management identifies and prioritizes the risk, and top management reviews and assesses if the risks are addressed and prioritized with reference to the Group's objectives. The two tier management are put together to determine the Group's key risk areas.

The Risk Control Self-Assessment Matrix focuses on the following 9 categories of corporate risk factors:

A. Transaction and Legal Matters

B. Society and Economy

C. Natural Disaster

D. Politics

E. Technology

F. Business and Corporate Governance

  F1. Finance

  F2. Product and Service

  F3. Employment

  F4. Information Security

G. Environment

H. Health and Safety

I. Facility and Equipment

During the year, each of the Group companies has performed self-assessment of all risk areas presented in the "Risk Control Self-Assessment Matrix" with reference to the impact and likelihood of risks, to prioritize risks and identify key risk issues that require its further attention. Risk countermeasures had been set up for monitoring the identified key risk areas. The business units continuously manage and monitor the high priority risk areas of the Group. The assessment results were reviewed by the Audit Committee and the Board.

The Group's internal audit teams carried out internal audit functions of the Group to assess the risk, efficiency and effectiveness of the overall risk management and internal control systems. The Group's internal audit teams also regularly performs review of the business processes and activities of the internal control systems and report the review results to management and the Audit Committee twice a year.

CORPORATE GOVERNANCE REPORT

As part of the Group's internal control systems, Connected Party Transaction Panel has been set up to assist the Directors to review and monitor the existing and proposed connected transactions of the Group. Regular Panel meetings were held nearly every alternate week to review and monitor the existing and proposed connected transactions.

In relation to the handling of inside information in compliance with the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the Executive Directors and the senior management team will hold meetings to discuss and ascertain whether the relevant information constitutes inside information of the Group and are responsible for the dissemination of those inside information, if any.

The Board has reviewed the effectiveness of the risk management and internal control systems and considered such systems are effective and adequate.

Company Secretary

The Company's secretarial functions are outsourced to external service provider. Mr. Yeung Tze Shing, General Manager of Corporate Finance Division of the Company, is the primary contact person of the Company with the external service provider.

According to Rule 3.29 of the Listing Rules, Mr. Chan Kwong Leung Eric, the Company Secretary, has taken no less than 15 hours of the relevant professional training during the year ended 31 December 2019.

Shareholders' Rights

Convening a General Meeting by Shareholders

General meeting may be convened by the Directors on requisition of Shareholder(s) representing at least 5% of the total voting rights of all the Shareholders having a right to vote at general meetings of the Company pursuant to sections 566 to 568 of the Companies Ordinance (Chapter 622, Laws of Hong Kong) (the "Companies Ordinance"). The objects of the meeting must be stated in the requisition which must be signed by the requisitionist(s) and deposited at the registered office of the Company. Shareholders should follow the requirements and procedures as set out in the Companies Ordinance for convening a general meeting.

Putting Forward Enquiries to the Board

Shareholders may send written enquiries to the Company Secretary who will direct the enquiries to the Board for handling. The contact details of the Company Secretary are as follows:

The Secretary of the Company
AEON Stores (Hong Kong) Co., Limited
Units 07–11, 26/F, CDW Building
388 Castle Peak Road, Tsuen Wan
New Territories, Hong Kong
Email: cs@aeonstores.com.hk
Tel: (852) 2565 3600
Fax: (852) 2563 8654

Putting Forward Proposals at the General Meetings

Pursuant to section 615 of the Companies Ordinance, Shareholders representing at least 2.5% of the total voting rights of all Shareholders having a right to vote on the resolution at the annual general meeting to which requests relate; or at least 50 Shareholders who have a right to vote on the resolution at the annual general meeting to which the requests relate, may make requisition in writing for proposing resolution or business to be dealt with at the annual general meeting. Shareholders should follow the requirements and procedures as set out in section 615 of the Companies Ordinance for putting forward a proposal at an annual general meeting.

If a Shareholder of the Company intends to propose a person other than a Director of the Company for election as a Director of the Company at any general meeting, the Shareholder shall follow the "Procedures for Nominating Directors for Election from Shareholders", which can be found on the website of the Company.

Investor Relations

There is no significant change in the Company's constitutional documents during the year ended 31 December 2019.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019.

Principal Activities

The Company and its subsidiaries are engaged in the operation of retail stores.

Business Review

A review of the business of the Group during the year and a discussion on the Group's future business development are provided in the Chairman's Statement on page 4 and in the Management Discussion and Analysis on pages 5 to 8 of this annual report. Description of possible risks and uncertainties that the Group may be facing can be found in the Chairman's Statement on page 4 and in the Management Discussion and Analysis on pages 5 to 8 and in the Corporate Governance report Risk Management and Internal Controls on pages 28 to 29 of this annual report. Also, the financial risk management objectives and policies of the Group can be found in notes 41 and 42 to the consolidated financial statements. An analysis of the Group's performance during the year using financial key performance indicators is provided in the Group Financial Highlights on page 3 of this annual report, in the Management Discussion and Analysis on pages 5 to 8 and in notes 6 and 7 to the consolidated financial statements. In addition, discussions on the Group's environmental policies, relationships with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are contained in the Environmental, Social and Governance Report on pages 9 to 15 of this annual report.

Subsidiaries

Details of the Company's subsidiaries as at 31 December 2019 are set out in note 44 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 50 to 51 of this annual report.

An interim dividend of 22.0 HK cents per share amounting to HK$57,200,000 was paid to the shareholders during the year. The Board has recommended the payment of a final dividend of 5.0 HK cents per share amounting to HK$13,000,000 to the shareholders on the register of members on 5 June 2020.

Fixed Assets

Details of the movements in the property, plant and equipment, right-of-use assets and investment properties of the Group during the year ended 31 December 2019 are set out in note 19 to note 22 to the consolidated financial statements.

Distributable Reserves of the Company

The Company's reserves available for distribution to shareholders as at 31 December 2019 were the retained profits of HK$659,309,000 (2018: HK$1,217,000,000).

Equity-linked Agreements

During the year, the Company has not entered into any equity-linked agreements.

DIRECTORS' REPORT

Directors

The Directors of the Company during the year and up to the date of this report were:

Executive Directors

NAKAGAWA Isei *(Managing Director)*	Appointed on 16 May 2019
CHAK Kam Yuen	
LAU Chi Sum Sam	
NAGASHIMA Takenori	Appointed on 15 October 2019
IKUTA Masamitsu	Resigned on 25 November 2019
TSUKAHARA Keiji	Resigned on 20 September 2019

Non-executive Directors

HABU Yuki *(Chairman)*	Re-designated from Executive Director to Non-executive Director and ceased to be the Managing Director from 16 May 2019
YAMASHITA Akinori	

Independent Non-executive Directors

CHAN Yi Jen Candi Anna
LO Miu Sheung Betty
CHOW Chi Tong
MIZUNO Hideto

In accordance with Articles 85 and 101 of the Company's Articles of Association, all Directors shall retire from office at the forthcoming annual general meeting and offer themselves for re-election.

The term of office for the Directors is the period up to their retirement in accordance with the above Articles.

The directors who have served on the boards of the subsidiaries of the Company during the year and up to the date of this report were:

CHAK Kam Yuen, Masamitsu IKUTA, LAU Chi Sum Sam, Keiji TSUKAHARA, Isei NAKAGAWA, Takenori NAGASHIMA, Yuki HABU, ZENG Jian, CHEN Yin Feng, Kenji TOMARI, Egami HIROKI, HUANG Qi Ning, JIAO Li, WANG Jian Heng, Hiroyuki INOHARA, Isao SUGAWARA, Masatoshi OMOTO, Minoru FUKADA and YE Qing.

Directors' Service Contracts

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Management Contracts

Save for Directors' service contracts and contract of service with persons engaged in the full time employment of the Company, no contracts concerning the management and/or administration of the whole or any substantial part of the business of the Company were entered into or subsisting during the year.

Directors' Interests in Shares

As at 31 December 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 ("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
YAMASHITA Akinori (Note 3)	20,630	0.00237

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 20,630 shares.

(C) The Company's Associated Corporation

Name of Director	Associated corporation	Number of shares held as personal interests	Approximate percentage of interests %
YAMASHITA Akinori (Note 1)	AEON Financial Services Co., Ltd.	10,976	0.00508

Note:

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

Other than as disclosed above, at 31 December 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).

Directors' Interests in Contracts of Significance

Other than as disclosed under the heading "Related Party Transactions" as set out in note 40 to the consolidated financial statements and those connected transactions disclosed herein below, there were no other transactions, arrangements or contracts of significance to which the Company, its subsidiaries, its ultimate holding company or any of its fellow subsidiaries was a party and in which a Director of the Company or its connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Indemnities

Pursuant to the Company's Articles of Association, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities (to the fullest extent permitted by the Companies Ordinance (Cap. 622)) which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

Connected Transactions

Pursuant to Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the Company discloses the following continuing connected transactions and connected transaction incurred during the year. More details of each of the connected transactions reported could be referred to in the announcements related to each connected transaction.

(a) Continuing Connected Transactions

(i) On 9 June 2010, the subsidiary of the Company, Guangdong Aeon Teem Stores Co., Ltd. ("GDA") and a related party of the Company, Guangdong Teem (Holdings) Limited ("Teem Holding") entered into the Supplemental Tenancy Agreement to extend the lease until 30 June 2025. The entering into the Supplemental Tenancy Agreement constitutes continuing connected transactions of the Company. Pursuant to the Supplemental Tenancy Agreement, GDA pays rents, management fees, utility expenses and usage charges and other fees in relation to any provisional showrooms, storage areas, other facilities and special equipment that GDA may from time to time choose to rent or employ to Teem Holding and Guangdong Teem Properties Management Limited ("Teem Properties") respectively for the year. GDA was held as to 65% and 35% by the Company and Guangdong Teemall Department Stores Holdings Limited ("Teem Department Stores") respectively. The premises, i.e. GDA's Teem Plaza Store which is situated at Basement 1, Teem Plaza, 208 Tianhe Road, Guangzhou, being the subject of the tenancy agreement, is owned by Teem Holding. Teem Department Stores and Teem Properties are the wholly-owned subsidiaries of Teem Holding. The total amount of rents, management fees, utility expenses and other charges paid and payable by GDA for the year was RMB52,970,421. This amount does not exceed the cap amount of RMB70,000,000 as shown in the announcement of the Company dated 9 June 2010.

(ii) On 24 December 2018, Aeon Co., Ltd. ("ACL"), the controlling shareholder of the Company, and the Company entered into a renewal agreement to renew the Royalty Agreement for another three years expiring on 31 December 2021. The renewed Royalty Agreement was renewed on substantially the same terms as the Royalty Agreement that was entered on 29 December 2015 and expired on 31 December 2018. ACL is a connected person of the Company and the entering into the renewed Royalty Agreement constitute continuing connected transactions of the Company.

Pursuant to the Royalty Agreement, the Company and its Affiliates (through the Company) are granted:

(a) an exclusive right to use the Hong Kong Trade Marks and the Macau Trade Marks in relation to the Business within the Territory;

(b) a non-exclusive right to use the PRC Trade Marks in relation to the Business within the PRC; and

(c) a non-exclusive right to use the Trade Marks in relation to the following businesses in the Territory and the PRC:

(i) the provision of retail services;

(ii) the operation of shopping centres; and

(iii) catering services, food-court with seating and restaurants.

Under the renewed Royalty Agreement, ACL shall disclose full particulars of the Know-How to the Company and grant the Company the non-exclusive right to use the Know-How in relation to the Business in the Territory and the PRC.

The Company shall pay to ACL a fee in respect of each financial year of the Company:

(a) an amount representing 0.2% of the audited consolidated Total of Revenue of the Company and its Affiliates for that financial year: and

(b) an amount representing 0.05% of the audited Total of Revenue of the Company and its Affiliates in respect of the Business in the Territory for the relevant financial year.

The total amount of fees payable by the Company for the year was HK$26,490,842. This amount does not exceed the cap amount of HK$40,000,000 as shown in the announcement of the Company dated 24 December 2018.

Total of Revenue of the Company and its Affiliates is the aggregate of (i) the total amount of the consolidated direct sales; (ii) the total amount of the consolidated concessionaires sales; and (iii) the total amount of licensee fees and rentals received, all attributable to the rights to use the relevant Trade Marks. The total amount of the consolidated concessionaires sales represents the total amount of sales proceeds received by the respective concessionaires that are operating their business inside the respective store premises of the Company and its Affiliates. The "total amount of concessionaire sales" is different and is greater than the "income from concessionaire sales" as disclosed in note 6 to the consolidated financial statements, which is the income derived from the concessionaires' business operations.

(iii) On 13 April 2017, the Company and AEON Credit Service (Asia) Company Limited ("ACS") entered into the Renewal Agreement to renew the Master Agreement in respect of the Commission Payment Transactions for a further term of three years from 15 April 2017 to 14 April 2020. ACS and the Company are both subsidiaries of Aeon Co., Ltd., a controlling shareholder of the Company, ACS is therefore a connected person of the Company. The entering into the Renewal Agreement constitutes continuing connected transactions of the Company. Pursuant to the Renewal Agreement, the Company shall pay commissions to ACS in respect of (1) credit purchase facilities made available to customers of the Company for making purchases at the Company's stores with the use of the various co-branded credit cards issued by ACS; (2) card instalment plan made available to customers of the Company for making purchases of goods and/or services at the Company's stores; (3) other payment solutions made and to be made available to customers of the Company for making purchases from time to time, including the usage of any kind of credit, debit, pre-paid and/or stored value cards or other medium or facilities owned and/or operated by ACS; and (4) other related services provided to the Company or its customers which are derived from or ancillary to the transactions described above or arising out of the cards or other medium or facilities from time to time. The commissions are calculated on the basis of fixed percentages of the sales generated by the credit purchase facilities or the payment solutions provided by ACS, depending on the type of service provided. These commission rates (as may be revised from time to time) are and will be determined between the Company and ACS after arm's length negotiations. In negotiating and agreeing the commission rates and other terms of the Commission Payment Transactions with ACS, the Company takes into account the prevailing market commission rates for similar types of transactions that are provided and/or made available by independent third parties to the Company and gives credit to ACS for any ancillary services provided and to be provided to the customers of the Company by ACS. Further, the Company has compared the fees charged by other independent third parties in the market for similar services to ensure that the price and terms offered by ACS are better than those offered by such third parties. The total amount of commissions paid by the Company for the year was HK$12,178,896. This amount does not exceed the cap amount of HK$25,500,000 as shown in the announcement of the Company dated 13 April 2017.

(iv) On 11 December 2018, the Company entered into the Master Services Agreement with 永旺永樂(上海)企業管理有限公司 ("AEON Delight") for a period of three years commenced on 1 January 2019 and expiring on 31 December 2021. This Master Services Agreement was entered into on substantially the same terms as the Master Services Agreement that the Company entered into with AEON Delight (China) Co., Ltd., ("AEON Delight (China)") on 1 January 2016 which expired on 31 December 2018. AEON Delight is the contracting party to the Master Service Agreement in place of AEON Delight (China) due to the restructuring of AEON Delight and its group members ("AEON Delight Group"). AEON Delight is a subsidiary of Aeon Co., Ltd., the controlling shareholder of the Company, the transactions under the Master Services Agreement constitute continuing connected transactions of the Company.

The Master Services Agreement sets out the framework for the continuing provision of the Services by the members of the AEON Delight Group. Services provided by AEON Delight Group to the Company Group including comprehensive building/facilities management, maintenance and cleaning services, management consultation, business services, research, development and production of computer hardware and software, data processing and such other services in relation to retail stores, offices and/or other facilities/establishments operated by the Company Group.

The Company Group from time to time requires the Services in its ordinary and usual course of business. The Company Group selects providers for such Services with reference to prevailing market conditions and where appropriate, based on a procurement process conducted at arm's length basis, and make their selection based on normal commercial considerations.

In relation to the procurement process, the relevant members of the Company Group may, in their sole and absolute discretion, invite the AEON Delight Group to tender to provide certain Services. If the AEON Delight Group is invited to tender, the relevant member of the Company Group will also invite quotations or tenders from at least two other independent third party suppliers for such Services. The management of the relevant member of the Company Group will then compare the quotations offered by the respective bidders and conduct an assessment, taking into account factors such as their background and reputation, any existing business relationship with such bidders, the price, scope and quality of services offered by the bidders. After considering the abovementioned factors, the management of the relevant member of the Company Group will then decide on which bidder to engage and enter into a services contract with for the provision of Services.

Where a member of the AEON Delight Group is selected through relevant procurement process to provide the Services, the Company and/or the relevant member of the Group and the relevant member of the AEON Delight Group may from time to time (and AEON Delight shall procure such member of the AEON Delight Group to) enter into separate contracts setting out the detailed terms under which the relevant member of the AEON Delight Group shall provide, or procure to be provided, the Services to the Company and/or the relevant member of the Group. Such terms shall be on normal commercial terms, on an arm's length basis and are on comparable terms to which the Company and/or the relevant member of the Group procures the Services from independent third parties.

The total aggregated amount of service fees paid and payable by the Company Group to AEON Delight Group in the year was RMB29,231,653. This amount does not exceed the cap amount of RMB45,000,000 as shown in the announcement of the Company dated 11 December 2018.

(v) On 23 November 2015, the subsidiary of the Company, Guangdong Aeon Teem Stores Co., Ltd. ("GDA") as lessee, and 永旺夢樂城(廣東)商業有限公司 ("AEON Mall") as lessor entered into the Tenancy Agreement, pursuant to which AEON Mall agreed to sub-lease the premises located at Units B1F0078, 1F1008 and 2F2028 Basement 1 and Basement 2, 1 Yayun Avenue, Dalong Street, Panyu, Guangzhou to GDA for a term of 20 years. AEON Mall is an indirect subsidiary of Aeon Co., Ltd., the controlling shareholder of the Company, and therefore a connected person of the Company. Accordingly, the entering into of the Tenancy Agreement constitutes a continuing connected transaction of the Company. In accordance with the Tenancy Agreement, GDA pays rent, management fees, utility expenses and other fees in relation to any provisional showrooms, storage areas, other facilities and special equipment that GDA may from time to time rent or employ with the consent of AEON Mall. The total amount of rent, management fees, utility expenses and other fees paid and payable by GDA for the year was RMB21,180,888. This amount does not exceed the cap amount of RMB34,400,000 as shown in the announcement of the Company dated 23 November 2015.

(vi) On 26 February 2019, the Company and AEON Credit Service (Asia) Company Limited ("ACS") entered into a renewal agreement to renew the Master Agreement in relation to the sales of the Company's Gift Certificates to ACS for a term of three years from 1 March 2019 to 28 February 2022. The renewed Master Agreement was renewed on substantially the same terms as the Master Agreement that was entered on 1 March 2016 and expired on 28 February 2019. The Company and ACS are both subsidiaries of Aeon Co., Ltd., a controlling shareholder of the Company, ACS is therefore a connected person of the Company. The entering into the renewed Master Agreement constitutes continuing connected transactions of the Company.

Pursuant to the renewed Master Agreement, the Company sells its Gift Certificates to ACS at face value. The total amount of Gift Certificates sold by the Company to ACS in the year was HK$9,110,100. This amount does not exceed the relevant aggregated cap amount of HK$15,700,000 as shown in the announcements of the Company dated 1 March 2016 and 26 February 2019.

(vii) On 16 January 2019, each of the Company, its two subsidiaries being Guangdong Aeon Teem Stores Co., Ltd. ("GDA") and AEON South China Co., Ltd. ("ASC") and AEON (China) Co., Ltd. ("AEON China") entered into renewal agreements to renew the Consultancy Services Agreements for a period of three years from 1 January 2019 to 31 December 2021. The renewed Consultancy Services Agreements were renewed on substantially the same terms as the Consultancy Services Agreements that was entered by each of the Company, GDA and ASC with AEON China on 29 March 2016 and expired on 31 December 2018. AEON China is a subsidiary of Aeon Co., Ltd. ("AEON Co"), the controlling shareholder of the Company, and AEON China is therefore a connected person of the Company. The entering into the renewed Consultancy Services Agreements constitutes continuing connected transactions of the Company.

Pursuant to the renewed Consultancy Services Agreements, the scope of the consultancy services to be provided by AEON China to the Company, GDA and ASC relates to (i) operational logistics; (ii) establishment of operating systems; (iii) procurement activities; (iv) market development; (v) staff training; and (vi) in accordance with specific requests of each of the Company, GDA and ASC, provide other consultancy services on production or operational related matters.

AEON China provided consultancy services to seven AEON group companies, including the Company, GDA, ASC and four subsidiaries of AEON Co. AEON China's service fees are charged on a cost-plus basis, representing its total costs of providing consultancy services to the seven companies, plus 5% of such costs. The service fee payable by each of the Company, GDA and ASC shall be a portion of such total amount, determined with reference to its number of stores that received such consultancy services during the relevant period, together with related taxes.

The service fee payable by (i) the Company and (ii) each of GDA and ASC is subject to an annual maximum fee of (i) 0.15% and (ii) 0.20% of its respective audited total sales amount (as defined in each Consultancy Services Agreement) for that financial year.

The total amount of Consultancy Services fees paid and payable by the Company, GDA and ACS to AEON China in the year was HK$10,386,842. This amount does not exceed the cap amount of HK$30,000,000 as shown in the announcement of the Company dated 16 January 2019.

(viii) On 29 January 2019, the Company and 新腳步(北京)商貿有限公司 ("GFoot") entered into renewal agreement to renew the Master Purchase Agreement for a period of three months from 1 January 2019 to 31 March 2019. The renewed Master Purchase Agreement was renewed on substantially the same terms as the Master Purchase Agreement that entered by the Company on 5 May 2016 and expired on 31 December 2018. GFoot is a subsidiary of Aeon Co., Ltd., the controlling shareholder of the Company and GFoot is therefore a connected person of the Company. The entering into the renewed Master Purchase Agreement constitutes continuing connected transaction of the Company.

Pursuant to the renewed Master Purchase Agreement, GFoot will provide a variety of shoes merchandise to the Purchaser for sale to retail customers on a consignment basis at general merchandise stores of the Group. The Purchaser shall be entitled to a commission out of the proceeds from its sale of shoes merchandises provided by GFoot. The amount of such commission shall be no less than 10% to 16% of the sales proceeds and no less favourable than the commission rate offered by GFoot to its other consignee(s), if any.

The aggregated transaction amount under the renewed Master Purchase Agreement in the year was RMB3,700,523. This amount does not exceed the cap amount of RMB7,600,000 as shown in the announcement of the Company dated 29 January 2019.

(ix) On 16 June 2017 the Company entered into the Master Services Agreement with 永旺環球(北京)國際貨運代理有限公司 ("AGSCM"), pursuant to which AGSCM and its subsidiaries ("AGSCM Group") will provide consultancy and logistic services ("Services") to the Company and its subsidiaries ("the Group"). The term of the Master Services Agreement shall be a period of three years from 16 June 2017 to 15 June 2020. AGSCM is a subsidiary of Aeon Co., Ltd., a controlling shareholder of the Company and the entering into the Master Services Agreement constitutes continuing connected transactions of the Company.

The Group selects providers for the Services with reference to prevailing market conditions and based on a procurement process conducted on arm's length basis, and makes their selection based on normal commercial considerations. In relation to the procurement process, the relevant member of the Group may, in their sole and absolute discretion, invite the AGSCM Group to tender to provide certain Services. If the AGSCM Group is invited to tender, the relevant member of the Group will also invite quotations or tenders from at least two other independent third party suppliers for such Services. The management of the relevant member of the Group will then compare the quotations offered by the respective bidders and conduct an assessment, taking into account factors such as their background and reputation, any existing business relationship with such bidders, the price, scope and quality of services offered by the bidders. The relevant member of the Group will consider and compare the prices offered by the different bidders based on their respective monthly service fees. For logistics services, the manpower costs (based on fixed monthly rates that vary for the different personnel) and handling charges (based on fixed rates that vary depending on the type of merchandise involved and services provided) will also be considered. After considering the abovementioned factors, the management of the relevant member of the Group will then decide on which bidder to engage and enter into a service contract with for the provision of Services.

On 3 December 2019, the Company and AEON GLOBAL SCM Co., Ltd., ("AGSCM Japan") entered into another Master Services Agreement, pursuant to which AGSCM Japan and its subsidiaries ("AGSCM Japan Group") will provide consultancy and logistics services ("Services") and the use of Warehouses to the Company and its subsidiaries ("Group"). The term of this Master Services Agreement shall be a period of three years from 3 December 2019 to 30 November 2022. From 3 December 2019, this Master Services Agreement superseded the Master Services Agreement that the Company entered into with AGSCM on 16 June 2017. AGSCM Japan is a connected person of the Company by virtue of it being a non-wholly owned subsidiary of AEON Co., Ltd., the controlling shareholder of the Company and the entering into of the Master Services Agreement in respect of the Services constitutes continuing connected transactions of the Company. The procurement process in respect of the provision of Services stated in the Master Services Agreement dated 3 December 2019 is substantially the same as the superseded Master Services Agreement dated 16 June 2017.

The aggregated transaction amount of the two relevant Master Services Agreement in the year was RMB3,935,036. This amount does not exceed the aggregated relevant cap amount of RMB9,372,603 as shown in the announcements of the Company dated 16 June 2017 and 3 December 2019.

(x) On 15 August 2017, Guangdong AEON Teem Stores Co., Ltd. ("GDA"), a subsidiary of the Company, and the Sublessees entered into the Sublease Agreements (as defined in the announcement dated 15 August 2017) in respect of the sublease of certain areas located at the 5th Floor Fortune Plaza West Tower, No. 118 Tiyu East Road, Tian He District, Guangzhou. Pursuant to the Sublease Agreements, each of the Sublessees pays deposits, rents, management fees, utilities charges and other fees in relation to the use of the Sublease Premises to GDA. The Sublease Agreements have a term of three years from 1 August 2017 to 31 July 2020. Each of the Sublessees is a connected person of the Company by virtue of it being a subsidiary of Aeon Co., Ltd., the controlling shareholder of the Company. Accordingly, the transactions under each of the Sublease Agreements constitutes continuing connected transactions of the Company. The terms of the Sublease Agreements have been reached after arm's length negotiations between the relevant parties. The total amount of rents, management fees, utilities expenses and other fees received and receivable by GDA in the year was RMB2,578,584. This amount does not exceed the cap amount of RMB2,700,000 as shown in the announcement of the Company dated 15 August 2017.

(xi) On 30 August 2017 the Company and AEON Integrated Business Service China Co., Limited, ("AIBS") entered into the IT Master Agreement, pursuant to which AIBS shall provide the relevant IT related Services (as defined in the announcement dated 30 August 2017) to the Company and any of its subsidiaries, each a "Member". The term of the IT Master Agreement shall be a period of three years from 30 August 2017 to 29 August 2020. AIBS is a connected person of the Company by virtue of it being a subsidiary of Aeon Co., Ltd., the controlling shareholder of the Company. Accordingly, the transactions under the IT Master Agreement constitute continuing connected transactions of the Company. Pursuant to the IT Master Agreement, the fees for the provision of Services by AIBS shall be charged on a cost-plus basis, representing the Actual Costs plus a mark-up rate of not more than 10%. The prices offered by AIBS shall be no less favourable than (i) prices available in the market for the same or similar services and (ii) the prices offered by AIBS to its other Users (i.e. parties, including the Members, who are using the services provided by AIBS which are the same as or similar to the Services), if any. The total aggregated amount of service fees paid and payable by the Company Group to AIBS in the year was RMB21,124,154. This amount does not exceed the cap amount of RMB56,400,000 as shown in the announcement of the Company 30 August 2017.

(xii) On 7 November 2017 Guangdong AEON Teem Stores Co., Ltd. ("GDA"), a subsidiary of the Company and 永旺夢樂城(佛山南海)商業管理有限公司 ("AMBM") entered into the Master Agreements to govern certain transactions arising out of GDA's lease of the premises at 佛山市南海區大瀝鎮聯滘滘口路13號負一層店號0001，一層店號1001，二層店號2001，三層店號3001. The term of the Master Agreement shall be a period of three years from 19 December 2017 to 18 December 2020. AMBM is a connected person of the Company by virtue of it being an indirect subsidiary of Aeon Co., Ltd., the controlling shareholder of the Company. Accordingly, the transactions under the Master Agreement constitute continuing connected transactions of the Company. GDA's leased premises are located in the Dali Mall and AMBM is the head tenant of the Dali Mall. AMBM, as head tenant, is responsible for making payment of utilities expenses and property management fees in respect of the entire Dali Mall. The amounts paid by GDA to AMBM pursuant to the Master Agreement represent GDA's proportionate contribution to such expenses and fees, which will then be paid by AMBM to relevant authorities or parties on behalf of GDA. The rates for utilities expenses and property management fees are no less favourable than those applicable to AMBM or its other tenants. The total aggregated amount of the fees paid and payable by the GDA to AMBM in the year was RMB5,019,461. This amount does not exceed the cap amount of RMB7,260,000 as shown in the announcement of the Company dated 7 November 2017.

(xiii) On 31 December 2018, the Company and AEON TopValu Co., Ltd. ("TopV") entered into the Master Trademark Licence Agreement in respect of the granting of the licence to use the TopValu Trademarks and the related ancillary services to be provided by the TopV Group. The term of the Master Trademark Licence Agreement commenced from 1 January 2019 for a period of three years to 31 December 2021. TopV is a connected person of the Company by virtue of it being a subsidiary of Aeon Co., Ltd., the controlling shareholder of the Company. Accordingly, the transactions contemplated under the Master Trademark Licence Agreement constitute continuing connected transactions of the Company.

Pursuant to the Master Trademark Licence Agreement, TopV agreed to (i) grant (and/or procure other members of the TopV Group to grant) to members of the Group the licence to use the TopValu Trademarks and (ii) provide (and/or procure other members of the TopV Group to provide) the ancillary services to the members of the Group. In consideration to the grant of the licence to use the TopValu Trademarks and the ancillary services, the relevant member of the Group shall pay to the relevant member of the TopV Group a licence fee equivalent to 7% of the amount of purchase costs of the TopV Products (excluding any value added tax or other tax or freight expenses) supplied by manufacturers or suppliers to the Group.

The ancillary services that the TopV Group provides to the Group includes:

(i) conduct market research, planning and development of products;

(ii) establish product specifications;

(iii) provide to members of the Group with information on product specifications, product cost and related expenses;

(iv) manage production and conduct quality control on products;

(v) provide information on promotion; and

(vi) any other services in connection with the above.

The total aggregated amount of the fees paid and payable by the Group to TopV Group in the year was HK$9,208,633. This amount does not exceed the cap amount of HK$20,000,000 as shown in the announcement of the Company dated 31 December 2018.

(xiv) On 29 January 2019, Guangdong AEON Teem Stores Co., Ltd. ("GDA"), a subsidiary of the Company and 永旺夢樂城(廣州白雲)商業管理有限公司 ("AMBM") entered into the Management Agreement to govern certain transactions in respect of GDA's lease of the premises at Shop No.43, located in the 永旺夢樂城廣州金沙購物中心 in Jinshazhou, Baiyun District, Guangzhou ("Jinsha Mall"). The term of the Management Agreement commenced from 1 February 2019 for a period of three years to 31 January 2022. AMBM is a connected person of the Company by virtue of it being an indirect subsidiary of Aeon Co., Ltd., the controlling shareholder of the Company. Accordingly, the transactions contemplated under the Management Agreement constitute continuing connected transaction of the Company.

DIRECTORS' REPORT

AMBM has been appointed by the landlord of the Premises ("Landlord") as property manager to manage the operation of the Jinsha Mall and shall pay the utilities expenses incurred in the Jinsha Mall to the utility suppliers on behalf of the Landlord. GDA entered into the Management Agreement with AMBM in respect of the management of the Premises and payment of related fees. The amounts payable by GDA to AMBM pursuant to the Management Agreement represent GDA's proportionate contribution to such expenses, which will be subsequently paid by AMBM to the utility suppliers.

Utilities expenses incurred by GDA in the Premises, comprising water and electricity expenses, were determined with reference to the actual usage of GDA and local municipal standard rates for electricity charges and water charges and were payable by GDA. Expenses incurred for use of lifts and escalators within the area leased by GDA were payable by GDA. Expenses incurred for use of lifts and escalators located in areas which exceed the Premises were payable by GDA on a pro rata basis based on area leased by GDA.

The total aggregated amount of the utilities expenses paid and payable by the GDA to AMBM in the year was RMB4,470,588. This amount does not exceed the cap amount of RMB4,760,000 as shown in the announcement of the Company dated 29 January 2019.

During the year, the above continuing connected transactions were carried out within their respective applicable annual caps for the year. The Independent Non-Executive Directors had reviewed the above continuing connected transactions and confirmed that the transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favorable to the Group than terms available from independent third parties; (iii) in accordance with each of the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor of the Company has issued an unqualified letter containing the findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with paragraph 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

(b) Connected Transaction

On 3 December 2019, the Company and AEON GLOBAL SCM Co., Ltd., ("AGSCM Japan") entered into the Master Services Agreement. Pursuant to the Master Services Agreement, certain use of the warehouses of members of AGSCM Japan Group in PRC and Japan ("Warehouses") by the Company and its subsidiaries ("Group") will require the Group to recognize the Warehouses as right-of-use asset of the Group. Accordingly, the Group has recognized the amount of RMB8,985,662 as right-of-use asset in the year.

AGSCM Japan is a connected person of the Company by virtue of it being a non-wholly owned subsidiary of AEON Co., Ltd., the controlling shareholder of the Company. The entering into of the Master Services Agreement in respect of the use of Warehouses constitutes an one-off connected transaction for the Company.

The related party transactions as disclosed in note 40 to the consolidated financial statements also fell under the definition of "connected transactions" or "continuing connected transactions" in Chapter 14A of the Listing Rules. The Group has complied with the disclosure requirements, where applicable, in accordance with Chapter 14A of the Listing Rules.

Appointment of Independent Non-executive Directors

The Company has received, from each of the existing Independent Non-executive Directors, an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the Independent Non-Executive Directors are independent.

Substantial Shareholders

At 31 December 2019, shareholders (other than Directors or chief executive 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	22,122,000 (Note 2)	8.51

Note 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.

Note 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 22,036,000 shares representing 8.48% 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 31 December 2019.

Arrangements to Purchase Shares or Debentures

At no time during the year was the Company, its subsidiaries, its ultimate holding company, or any of its fellow subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Purchase, Sale or Redemption of Listed Securities

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

Donations

During the year, the Group made charitable and other donations amounting to approximately HK$1,230,000.

DIRECTORS' REPORT

Major Customers and Suppliers

The aggregate amount of sales and purchases attributable to the Group's five largest customers and suppliers respectively were less than 30 per cent of the Group's total sales and purchases for the year.

Emolument Policy

The emoluments of the Directors of the Company are recommended by the Remuneration Committee and approved by the Board, having regard to the Company's operating results, individual performance and comparable market statistics.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and with the knowledge of the Directors, the Company has maintained sufficient public float during the year ended 31 December 2019 and up to the date of this report.

Auditor

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

HABU Yuki
Chairman

Hong Kong, 27 March 2020

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE MEMBERS OF AEON STORES (HONG KONG) CO., LIMITED
永旺(香港)百貨有限公司
(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of AEON Stores (Hong Kong) Co., Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 50 to 125, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill	
We identified the impairment of goodwill as a key audit matter as significant judgement is required to assess the impairment of goodwill. As at 31 December 2019, goodwill, arising from acquisition of an additional 35% interest in AEON South China Co., Ltd. in 2008 which operates retail stores business in the People's Republic of China, amounted to HK$94,838,000. As further disclosed in notes 5 and 23 to the consolidated financial statements, determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash inflows/outflows expected to arise from the cash-generating units by considering the budgeted sales and gross margins which are based on past performance and management's expectations for the future changes in the market and taking into account a suitable discount rate to calculate the present value. The management of the Group determines that there was no impairment to be recognised in respect to the goodwill during the year ended 31 December 2019 and as at 31 December 2019.	Our procedures in relation to management's impairment assessment include: • Obtaining the cash flow forecasts prepared by management, reviewing and discussing with management on the major assumptions adopted in the cash flow forecasts for each cash-generating unit and checking arithmetic accuracy of the forecast calculation; • Comparing the growth rates, budgeted sales and gross margins to historical results and reference to the market information based on our knowledge of the retail markets to determine their reasonableness; • Challenging the discount rates used by management in the cash flow forecasts by benchmarking against the required rate of return adjusted for industry specific factors; • Assessing the sensitivity analysis prepared by management on the significant assumptions to evaluate the extent of impact of these assumptions on the cash flow forecasts; • Evaluating the accuracy of historical cash flow forecasts prepared by the management by comparing the historical cash flow forecasts with the actual performance; and • Evaluating the sufficiency of the disclosure of impairment assessment by management in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Impairment of property, plant and equipment, and right-of-use assets	
We identified the impairment of property, plant and equipment, and right-of-use assets as a key audit matter as significant judgement is required to assess the amount of impairment of property, plant and equipment, and right-of-use assets. As at 31 December 2019, property, plant and equipment amounted to HK$679,741,000, net of accumulated impairment loss of HK$141,029,000 while right-of-use assets recognised in accordance with HKFRS 16 Leases amounted to HK$3,902,352,000, net of accumulated impairment loss of HK$7,963,000. As further disclosed in notes 5 and 21 to the consolidated financial statements, determining whether property, plant and equipment, and right-of-use assets are impaired requires an estimation of the value in use of the cash-generating units of each loss making retail store. The value in use calculation requires the Group to estimate the future cash inflows/outflows expected to arise from the cash-generating units by considering the budgeted sales and gross margins which are based on past performance and management's expectations for future changes in the market and taking into account a suitable discount rate to calculate the present value. Based on the management's assessment, impairment losses on property, plant and equipment, and right-of-use assets of HK$1,021,000 and HK$7,963,000, respectively, were recognised in profit or loss during the year ended 31 December 2019.	Our procedures in relation to management's impairment assessment include: • Obtaining the cash flow forecasts prepared by management, reviewing and discussing with management on the major assumptions adopted in the cash flow forecasts for each cash-generating units and checking arithmetic accuracy of the forecast calculation; • Comparing the growth rates, budgeted sales and gross margins to historical results and reference to the market information based on our knowledge of the retail markets to determine their reasonableness; • Challenging the discount rates used by management in the cash flow forecasts by benchmarking against the required rate of return adjusted for industry specific factors; • Assessing the sensitivity analysis prepared by management on the significant assumptions to evaluate the extent of impact of these assumptions on the cash flow forecasts; • Evaluating the accuracy of historical cash flows forecasts prepared by the management by comparing the historical cash flows forecasts with the actual performance; and • Evaluating the sufficiency of the disclosure of impairment assessment by management in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Valuation of inventories	
We identified the valuation of inventories as a key audit matter due to the use of judgement in identifying obsolete and slow moving inventories and determining the net realisable values ("NRVs") to assess the amount of allowance/write down. As at 31 December 2019, inventories comprise of merchandise held for resale amounting to HK$935,949,000 which are carried at the lower of cost and NRVs. As disclosed in note 5 of the consolidated financial statements, the determination of the amount of allowance requires assessment of NRVs of inventories by the management and the consideration of customer demand, condition, aging analysis and subsequent sales information. The Group carried out an inventory review at the end of the reporting period and made the necessary allowance for obsolete and slow moving items so as to write off or write down inventories to their NRVs. The Group has written back inventories of HK$2,938,000 to their NRVs during the year ended 31 December 2019.	Our procedures in relation to the valuation of the inventories include: • Understanding the inventories allowance/write down policy of the Group; • Assessing the reasonableness of the inventories allowance/write down made by the Group by obtaining the inventory aging analysis from management and discussing with management the basis of inventory allowance/write down; • Testing inventory aging analysis, on a sample basis, to the goods receipt documents and assessing the accuracy of the base data used to determine the allowance/write down and re-performing the allowance/write down calculation to check arithmetic accuracy; • Understanding from management the rationale for the specific adjustments based on the consumer demand and condition of the inventories and challenging the assumption made where there are specific adjustments on the inventories allowance/write down; and • Assessing the sufficiency of the allowance/write down on inventories made by management with reference to the inventory ageing analysis and the subsequent transaction prices of the inventories, on a sample basis.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

INDEPENDENT AUDITOR'S REPORT

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Tan Wei Ming.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
27 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2019

	NOTES	**2019 HK$'000**	2018 HK$'000
Revenue	6	**9,493,774**	9,675,891
Other income	8	**545,918**	572,227
Investment income	9	**27,430**	27,470
Interest income from rental deposits		**10,316**	—
Purchases of goods and changes in inventories		**(6,656,159)**	(6,676,251)
Staff costs		**(1,077,474)**	(1,175,440)
Depreciation of investment properties	22	**(85,247)**	—
Depreciation of property, plant and equipment	19	**(209,769)**	(223,441)
Depreciation of right-of-use assets	20	**(749,094)**	—
Lease expenses		**(84,831)**	(1,125,946)
Other expenses	10	**(1,063,992)**	(1,063,111)
Pre-operating expenses	11	**(2,694)**	(12,608)
Other gains and losses	12	**(12,719)**	(22,050)
Interest on lease liabilities		**(303,414)**	—
Loss before tax		**(167,955)**	(23,259)
Income tax expense	13	**(21,032)**	(19,718)
Loss for the year	14	**(188,987)**	(42,977)
(Loss) profit for the year attributable to:			
Owners of the Company		**(188,726)**	(49,224)
Non-controlling interest		**(261)**	6,247
		(188,987)	(42,977)
Loss per share — basic	18	**72.59 HK cents**	18.93 HK cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 **HK$'000**	2018 HK$'000
Loss for the year	**(188,987)**	(42,977)
Other comprehensive (expense) income		
Item that will not be reclassified to profit or loss:		
Fair value (loss) gain on investments in equity instruments at fair value through other comprehensive income ("FVTOCI")	**(2,947)**	2,387
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**(453)**	(10,294)
Other comprehensive expense for the year, net of income tax	**(3,400)**	(7,907)
Total comprehensive expense for the year	**(192,387)**	(50,884)
Total comprehensive expense for the year attributable to:		
Owners of the Company	**(190,768)**	(50,350)
Non-controlling interest	**(1,619)**	(534)
	(192,387)	(50,884)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	NOTES	2019 HK$'000	2018 HK$'000
Non-current Assets			
Property, plant and equipment	19	**679,741**	796,071
Right-of-use assets	20	**3,902,352**	—
Investment properties	22	**488,352**	—
Goodwill	23	**94,838**	94,838
Equity instruments at FVTOCI	24	**23,598**	26,545
Pledged bank deposits	25	**21,305**	25,001
Deferred tax assets	26	**46,944**	48,736
Rental and related deposits paid	27	**184,349**	263,826
		5,441,479	1,255,017
Current Assets			
Inventories	28	**935,949**	856,763
Trade receivables	27	**35,316**	55,368
Other receivables, prepayments and deposits	27	**83,346**	140,213
Amounts due from fellow subsidiaries	29	**63,995**	53,805
Tax recoverable		**8,532**	2,284
Time deposits	30	**327,567**	358,095
Pledged bank deposits	25	**10,751**	14,852
Bank balances and cash	31	**1,470,515**	1,651,349
		2,935,971	3,132,729
Current Liabilities			
Trade payables	32	**1,250,087**	1,250,497
Other payables, accrued charges and other liabilities	32	**729,068**	846,229
Lease liabilities	33	**762,137**	—
Contract liabilities	32	**409,426**	393,557
Dividend payable		**354**	426
Amount due to ultimate holding company	34	**28,665**	30,980
Amounts due to fellow subsidiaries	34	**100,979**	77,234
Tax liabilities		**16,859**	—
		3,297,575	2,598,923
Net Current (Liabilities) Assets		**(361,604)**	533,806
Total Assets Less Current Liabilities		**5,079,875**	1,788,823

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	NOTES	2019 HK$'000	2018 HK$'000
Capital and Reserves			
Share capital	35	**115,158**	115,158
Reserves		**658,374**	1,325,889
Equity attributable to owners of the Company		**773,532**	1,441,047
Non-controlling interest		**132,752**	137,136
Total Equity		**906,284**	1,578,183
Non-current Liabilities			
Rental deposits received and other liabilities	32	**133,916**	209,251
Lease liabilities	33	**4,038,563**	—
Deferred tax liabilities	26	**1,112**	1,389
		4,173,591	210,640
		5,079,875	1,788,823

The consolidated financial statements on pages 50 to 125 were approved and authorised for issue by the board of directors on 27 March 2020 and are signed on its behalf by:

Yuki Habu

YUKI HABU
Director

I. Nakagawa

ISEI NAKAGAWA
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Attributable to owners of the Company								
	Share capital HK$'000	**Investment revaluation reserve** HK$'000	**Translation reserve** HK$'000	**The People's Republic of China (the "PRC") statutory reserves** HK$'000	**Non-distributable reserve** HK$'000	**Retained profits** HK$'000	**Sub-total** HK$'000	**Non-controlling interest** HK$'000	**Total** HK$'000
At 1 January 2018	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 year	–	–	–	–	–	(49,224)	(49,224)	6,247	(42,977)
Other comprehensive income (expense) for the year	–	2,387	(3,513)	–	–	–	(1,126)	(6,781)	(7,907)
Total comprehensive income (expense) for the year	–	2,387	(3,513)	–	–	(49,224)	(50,350)	(534)	(50,884)
Transfer of reserves	–	–	–	–	9,286	(9,286)	–	–	–
Dividends recognised as distribution (note 17)	–	–	–	–	–	(114,400)	(114,400)	–	(114,400)
Unclaimed dividends forfeited	–	–	–	–	–	96	96	–	96
At 31 December 2018	115,158	24,141	29,108	33,316	121,638	1,117,686	1,441,047	137,136	1,578,183
Adjustments (note 3)	–	–	–	–	–	(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 for the year	**–**	**–**	**–**	**–**	**–**	**(188,726)**	**(188,726)**	**(261)**	**(188,987)**
Other comprehensive (expense) income for the year	**–**	**(2,947)**	**905**	**–**	**–**	**–**	**(2,042)**	**(1,358)**	**(3,400)**
Total comprehensive income (expense) for the year	**–**	**(2,947)**	**905**	**–**	**–**	**(188,726)**	**(190,768)**	**(1,619)**	**(192,387)**
Transfer of reserves	**–**	**–**	**–**	**1,052**	**12,897**	**(13,949)**	**–**	**–**	**–**
Dividends recognised as distribution (note 17)	**–**	**–**	**–**	**–**	**–**	**(114,400)**	**(114,400)**	**–**	**(114,400)**
Dividend paid to a non-controlling shareholder	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2,765)**	**(2,765)**
Unclaimed dividends forfeited	**–**	**–**	**–**	**–**	**–**	**127**	**127**	**–**	**127**
At 31 December 2019	**115,158**	**21,194**	**30,013**	**34,368**	**134,535**	**438,264**	**773,532**	**132,752**	**906,284**

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.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 HK$'000	2018 HK$'000
OPERATING ACTIVITIES		
Loss before tax	**(167,955)**	(23,259)
Adjustments for:		
Depreciation of investment properties	**85,247**	—
Depreciation of property, plant and equipment	**209,769**	223,441
Depreciation of right-of-use assets	**749,094**	—
Interest on lease liabilities	**303,414**	—
Interest income from rental deposits	**(10,316)**	—
Impairment loss recognised in respect of property, plant and equipment	**1,021**	8,062
Impairment loss recognised in respect of right-of-use assets	**7,963**	—
Investment income	**(27,430)**	(27,470)
Loss on disposal/written off of property, plant and equipment	**3,394**	5,165
Write-back of inventories	**(2,938)**	(6,797)
Gain on termination of lease contracts	**(8,615)**	—
Operating cash flows before movements in working capital	**1,142,648**	179,142
(Increase) decrease in inventories	**(81,808)**	80,367
Decrease in trade receivables	**19,881**	6,898
(Increase) decrease in other receivables, prepayments and deposits	**(8,975)**	37,393
(Increase) decrease in amounts due from fellow subsidiaries	**(10,193)**	4,210
Increase (decrease) in trade payables	**6,609**	(103,829)
Decrease in other payables, accrued charges and other liabilities	**(45,833)**	(77,451)
Increase (decrease) in contract liabilities	**20,190**	(46,913)
(Decrease) increase in amount due to ultimate holding company	**(2,315)**	1,439
Increase in amounts due to fellow subsidiaries	**25,435**	13,713
Cash generated from operations	**1,065,639**	94,969
Income taxes paid	**(9,748)**	(10,573)
Income taxes refunded	**731**	—
Interest on bank and time deposits	**19,957**	25,797
NET CASH FROM OPERATING ACTIVITIES	**1,076,579**	110,193
INVESTING ACTIVITIES		
Placement of pledged bank deposits	**(8,302)**	(1,186)
Withdrawal of pledged bank deposits	**15,579**	6,113
Dividends from equity instruments at FVTOCI	**1,673**	1,673
Purchase of property, plant and equipment	**(161,770)**	(173,292)
Proceeds from disposal of property, plant and equipment	**223**	560
Payment for right-of-use assets	**(14,092)**	—
Payment for rental deposits	**(3,187)**	—
Placement of time deposits	**(945,730)**	(1,114,304)
Withdrawal of time deposits	**972,345**	923,815
NET CASH USED IN INVESTING ACTIVITIES	**(143,261)**	(356,621)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 HK$'000	2018 HK$'000
FINANCING ACTIVITIES		
Dividends paid	**(114,345)**	(114,350)
Dividends paid to a non-controlling interest of a subsidiary	**(2,765)**	—
Interest on lease liabilities	**(303,414)**	—
Repayment of lease liabilities	**(685,571)**	—
CASH USED IN FINANCING ACTIVITIES	**(1,106,095)**	(114,350)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(172,777)**	(360,778)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**1,651,349**	2,047,712
Effect of foreign exchange rate changes	**(8,057)**	(35,585)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash	**1,470,515**	1,651,349

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1. General

Aeon Stores (Hong Kong) Co., Limited (the "Company") is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). Its parent and its ultimate parent is AEON Co., Ltd., incorporated and listed in Japan.

The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

The principal activity of the Company and its subsidiaries (the "Group") is the operation of retail stores.

The consolidated financial statements are presented in Hong Kong dollar ("HK$" or HKD"). The Company's functional currency is HKD, while the functional currency of the subsidiaries registered in the PRC is Renminbi ("RMB").

2. Basis of Preparation of Consolidated Financial Statements

In preparing the 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$361,604,000 at 31 December 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 the available banking facilities, the directors of the Company are confident that the Group has sufficient working capital to meet in full its financial obligations as they fall due for at least the next twelve months from the end of the reporting period and accordingly these consolidated financial statements have been prepared on a going concern basis.

3. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs")

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

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

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 in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

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

HKFRS 16 *Leases*

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 *Leases*, and the related interpretations.

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 standard 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.

As at 1 January 2019, the Company recognised additional 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 entities at the date of initial application by applying HKFRS 16.C8(b)(i) transition, while the group entities recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition. 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; and

v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

3. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

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

HKFRS 16 *Leases* (Continued)

As a lessee (Continued)

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied by the relevant group entities 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 have not commenced as at 1 January 2019	(24,188)
	4,630,999
Lease liabilities discounted at relevant incremental borrowing rates	3,674,532
Add: Termination options reasonably certain not to be exercised	1,312,456
Less: Recognition exemption — short-term leases	(2,662)
Less: Practical expedient — leases with lease term ending within 12 months from the date of initial application	(45,721)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 as at 1 January 2019	4,938,605
Analysed as	
Current	719,481
Non-current	4,219,124
	4,938,605

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

3. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

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

HKFRS 16 *Leases* (Continued)

As a lessee (Continued)

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

	Notes	Right-of-use assets 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 as at 31 December 2018		
— Restoration and reinstatement costs	(a)	28,289
Adjustments on rental deposits at 1 January 2019	(b)	78,893
Adjustments on advance lease 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: Leased properties under sub-leases	(d)	(525,782)
		4,046,854

Notes:

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

3. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

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

HKFRS 16 *Leases* (Continued)

As a lessee (Continued)

Notes: (Continued)

(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.

(d) The right-of-use assets for leased properties held for sub-leases under operating lease meet the definition of investment properties.

At the date of initial application, leased properties held for sub-leases were assessed whether the sub-leases classified as an operating lease or a finance lease individually based on the remaining contractual terms and conditions of the head lease and the sub-lease at that date. In the case of all sub-leases that are classified as operating lease, the related right-of-use assets of HK$531,116,000, net of corresponding accumulated depreciation of HK$5,334,000, are classified as investment properties and are measured under the cost model in accordance with the Group's accounting policies for investment properties.

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.

(e) 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 consolidated statement of financial position at 1 January 2019. However, effective from 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.

3. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

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

HKFRS 16 *Leases* (Continued)

As a lessor (Continued)

(f) Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied under trade and other payables. 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. In the opinion of the directors of the Company, there is no material adjustment to refundable rental deposits received as at 1 January 2019 and during the current year.

(g) 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 consolidated financial statements of the Group for the current year.

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

	Impact on 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 under HKAS 17 before 1 January 2019	(2,412,256)
Impact at 1 January 2019	362,474

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

3. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

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

HKFRS 16 *Leases* (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 HK$'000	Adjustments HK$'000	Carrying amounts under HKFRS 16 at 1 January 2019 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	(d)	—	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 year ended 31 December 2019, movements in working capital have been computed based on opening consolidated 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 consolidated financial statements as at 1 January 2019 and during the current year.

3. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2021.
2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2020.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 and HKAS 8 *Definition of Material*

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

3. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

New and amendments to HKFRSs in issue but not yet effective (Continued)

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for the Group's annual period beginning on or after 1 January 2020. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

4. Significant Accounting Policies

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

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

4. Significant Accounting Policies (Continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Significant Accounting Policies (Continued)

Basis of consolidation (Continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

4. Significant Accounting Policies (Continued)

Revenue from contracts with customers (Continued)

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations (sales of goods and award credits for customers under the Group's customer loyalty scheme), the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, except for the allocation of discounts.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. direct sales in which the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. income from concessionaire sales in which the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Significant Accounting Policies (Continued)

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 3)

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 or arising from business combinations 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, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 3)

Allocation of consideration to components of a contract

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

Non-lease components are separated from lease component and are accounted for by applying other applicable standards.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases 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 or another systematic basis over the lease term.

Right-of-use assets

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 are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

4. Significant Accounting Policies (Continued)

Leases (Continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 3) (Continued)

Right-of-use assets (Continued)

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 are 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. Right-of-use assets that meet the definition of investment property are presented within "investment properties".

Refundable rental deposits

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

Lease liabilities

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

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, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

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 in which the event or condition that triggers the payment occurs.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Significant Accounting Policies (Continued)

Leases (Continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 3) (Continued)

Lease liabilities (Continued)

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.

- the lease payments change due to changes in market rental rates following a market rent review in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

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.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified 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.

The Group as a lessee (prior to 1 January 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Lease incentives relating to operating leases are considered as integral part of lease payments, the aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

4. Significant Accounting Policies (Continued)

Leases (Continued)

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term. Upon application of HKFRS 16 on 1 January 2019, variable lease payments for operating leases that depend on an index or a rate are estimated and included in the total lease payments to be recognised on a straight-line basis over the lease term. Variable lease payments that do not depend on an index or a rate are recognised as income when they arise.

The Group as a lessor (upon application of HKFRS 16 in accordance with transitions in note 3)

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies 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 for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Sub-lease

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

Lease modification

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Significant Accounting Policies (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributable to non-controlling interests as appropriate).

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

Pre-operating expenses

Expenses relating to the setting up of stores are charged directly to profit or loss when incurred.

Retirement benefits costs

Payments to the defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

4. Significant Accounting Policies (Continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit/loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using the tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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 the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

4. Significant Accounting Policies (Continued)

Property, plant and equipment

Property, plant and equipment (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Construction in progress in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets, other than construction in progress, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Effective 1 January 2019, investment properties also include leased properties which are being recognised as right-of-use assets upon application of HKFRS 16 and sub-leased by the Group under operating leases.

Investment properties are initially measured at cost, including any directly attributable expenditure. 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 useful lives and after taking into account of their estimated residual value, 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.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Effective 1 January 2019, a leased property which is recognised as a right-of-use asset upon application of HKFRS 16 is derecognised if the Group as intermediate lessor classifies the sublease as a finance lease. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

4. Significant Accounting Policies (Continued)

Impairment on property, plant and equipment, investment properties and right-of-use assets

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, investment properties, and right-of-use assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment, investment properties and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, corporate assets are allocated to individual cash generating units when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, the recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories, which represent merchandise held for resale, are stated at the lower of cost and net realisable value. “Purchase of goods and changes in inventories” as reported in the consolidated statement of profit or loss are determined on a retail price method.

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Significant Accounting Policies (Continued)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Provisions for the costs to restore leased assets to their original condition, as required by the terms and conditions of the lease, are recognised at the date of inception of the lease at the directors' best estimate of the expenditure that would be required to restore the assets. Estimates are regularly reviewed and adjusted as appropriate for new circumstances.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of HKFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "investment income" line item in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including pledged bank deposits, trade and other receivables, amounts due from fellow subsidiaries, time deposits and bank balances) which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(i) Significant increase in credit risk (Continued)

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over one year past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (prior to 1 January 2019).

Where ECL is measured on a collective basis cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade receivables and other receivables are each assessed as a separate group. Amounts due from fellow subsidiaries are assessed for expected credit losses on an individual basis);
- Past-due status; and
- Nature, size and industry of debtors.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the investment revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

5. Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash inflows/outflows expected to arise from the cash-generating units by considering the budgeted sales and gross margins which are based on past performance and management's expectations for the future changes in the market and taking into account a suitable discount rate to calculate the present value. Where the actual future cash flows are less than expected, or unfavourable changes in facts and circumstances which result in downward revision of the estimated future cash flows for the purpose of determining the value in use, a material impairment loss may arise. As at 31 December 2019, the carrying amount of goodwill is HK$94,838,000 (2018: HK$94,838,000). Details of the recoverable amount calculation are disclosed in note 23.

Impairment of property, plant and equipment, and right-of-use assets

Property, plant and equipment, and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the net present value used in the impairment test.

As at 31 December 2019, the carrying amounts of property, plant and equipment, and right-of-use assets are HK$679,741,000 and HK$3,902,352,000 (2018: HK$796,071,000 and HK$nil), respectively, after taking into account the accumulated impairment losses of HK$141,029,000 and HK$7,963,000 (2018: HK$162,368,000 and HK$nil) in respect of property, plant and equipment, and right-of-use assets that have been recognised respectively. Details of the impairment of property, plant and equipment, and right-of-use assets are disclosed in note 21.

5. Key Sources of Estimation Uncertainty (Continued)

Net realisable value of inventories

The Group's inventories with carrying amount of HK$935,949,000 (2018: HK$856,763,000) are carried at the lower of cost and net realisable value. The cost of inventories is written down to net realisable value for certain items when there is objective evidence that the cost of inventories may not be recoverable for those items. The cost of inventories may not be recoverable if certain items of inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs to be incurred to make the sale have increased. The Group has written back inventories of HK$2,938,000 (2018: HK$6,797,000) to their net realisable values and included in "Purchase of goods and changes in inventories" during the year ended 31 December 2019.

The determination of the amount of allowance requires assessment of net realisable values of inventories by the management and the consideration of consumer demand, condition, aging analysis and subsequent sales information. If estimates regarding consumer demand are inaccurate, allowance for inventories may increase or decrease accordingly.

6. Revenue

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

(i) Disaggregation of revenue from contracts with customers

	For the year ended 31 December 2019		
	Hong Kong HK$'000	**PRC HK$'000**	**Total HK$'000**
Direct sales	**3,909,190**	**4,917,032**	**8,826,222**
Income from concessionaire sales	**329,762**	**337,790**	**667,552**
	4,238,952	**5,254,822**	**9,493,774**

	For the year ended 31 December 2018		
	Hong Kong HK$'000	PRC HK$'000	Total HK$'000
Direct sales	4,000,589	4,893,791	8,894,380
Income from concessionaire sales	376,315	405,196	781,511
	4,376,904	5,298,987	9,675,891

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

6. Revenue (Continued)

(ii) Performance obligations for contracts with customers

Direct sales

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

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

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

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

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

Income from concessionaire sales

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

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

As at 31 December 2019 and 2018, the remaining performance obligations (unsatisfied or partially unsatisfied) are part of contracts that have original expected duration of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

7. Operating Segments

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

Segment revenues and results

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

For the year ended 31 December 2019

	Hong Kong HK$'000	**PRC HK$'000**	**Total HK$'000**
Segment revenue — external	**4,238,952**	**5,254,822**	**9,493,774**
Segment loss	**(114,775)**	**(80,610)**	**(195,385)**
Investment income			**27,430**
Loss before tax			**(167,955)**

For the year ended 31 December 2018

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

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 4. Segment profit (loss) represents the profit earned (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

7. Operating Segments (Continued)

Segment revenues and results (Continued)

There is no inter-segment revenue for both years.

The chief operating decision makers make decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as the chief operating decision makers do not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

Other segment information

For the year ended 31 December 2019

	Hong Kong HK$'000	**PRC HK$'000**	**Segment total HK$'000**
Amounts included in the measure of segment profit or loss:			
Depreciation of investment properties	**44,360**	**40,887**	**85,247**
Depreciation of property, plant and equipment	**106,541**	**103,228**	**209,769**
Depreciation of right-of-use assets	**509,339**	**239,755**	**749,094**
Impairment loss recognised in respect of property, plant and equipment	**1,021**	**—**	**1,021**
Impairment loss recognised in respect of right-of-use assets	**2,948**	**5,015**	**7,963**
Loss on disposal/written off of property, plant and equipment	**432**	**2,962**	**3,394**
Gain on termination of lease contracts	**(409)**	**(8,206)**	**(8,615)**
Write-back of inventories	**(2,938)**	**—**	**(2,938)**

For the year ended 31 December 2018

	Hong Kong HK$'000	PRC HK$'000	Segment total HK$'000
Amounts included in the measure of segment profit or loss:			
Depreciation of property, plant and equipment	122,178	101,263	223,441
Impairment loss recognised in respect of property, plant and equipment	7,067	995	8,062
Loss on disposal/written off of property, plant and equipment	169	4,996	5,165
Write-back of inventories	(6,797)	—	(6,797)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

7. Operating Segments (Continued)

Geographical information

The information of the group's non-current assets by geographical location of assets other than equity instruments at FVTOCI, pledged bank deposits and deferred tax assets are set out below:

	2019 HK$'000	2018 HK$'000
Hong Kong	**3,280,078**	601,277
PRC	**2,069,554**	553,458
	5,349,632	1,154,735

Information about major customers

None of the Group's single customer attributed to more than 10% of the Group's total external revenue for both years.

8. Other Income

	2019 HK$'000	2018 HK$'000
Rental income from investment properties (note 14)	**395,039**	–
Rental income from sub-leases (note 14)	**–**	448,005
Others	**150,879**	124,222
	545,918	572,227

9. Investment Income

	2019 HK$'000	2018 HK$'000
Dividends from equity instruments at FVTOCI	**1,673**	1,673
Interest on bank and time deposits	**25,757**	25,797
	27,430	27,470

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

10. Other Expenses

	2019 HK$'000	2018 HK$'000
Advertising, promotion and selling expenses	**273,952**	297,499
Maintenance and repair expenses	**351,463**	341,583
Others	**274,107**	246,215
Utilities expenses	**164,470**	177,814
	1,063,992	1,063,111

11. Pre-operating Expenses

The amounts represent the set up costs for new stores. Included in pre-operating expenses for the year ended 31 December 2019 are staff costs of HK$2,115,000 (2018: HK$10,403,000).

12. Other Gains and Losses

	2019 HK$'000	2018 HK$'000
Exchange loss, net	**(8,956)**	(8,823)
Impairment loss recognised in respect of property, plant and equipment	**(1,021)**	(8,062)
Impairment loss recognised in respect of right-of-use assets	**(7,963)**	—
Loss on disposal/written off of property, plant and equipment	**(3,394)**	(5,165)
Gain on termination of lease contracts	**8,615**	—
	(12,719)	(22,050)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

13. Income Tax Expense

	2019 HK$'000	2018 HK$'000
The charges comprise:		
Current tax		
PRC Enterprise Income Tax	**18,766**	—
PRC withholding tax	**1,216**	310
	19,982	310
Underprovision in prior years	**—**	225
Deferred tax (note 26)		
Current year	**1,050**	19,183
Income tax expense for the year	**21,032**	19,718

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

Under the Law of PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred tax liability in respect of the withholding tax on the undistributed earnings of subsidiaries during the year has been provided at the applicable tax rate.

The tax charge for the year can be reconciled from the loss before tax per the consolidated statement of profit or loss as follows:

	2019 HK$'000	2018 HK$'000
Loss before tax	**(167,955)**	(23,259)
Taxation at the applicable rate of 16.5% (Note)	**(27,713)**	(3,838)
Tax effect of expenses not deductible for tax purpose	**5,435**	4,187
Tax effect of income not taxable for tax purpose	**(7,303)**	(5,315)
Tax effect of deductible temporary difference not recognised	**12,944**	2,858
Tax effect of tax losses not recognised	**29,872**	11,633
Withholding tax on undistributed earnings of a subsidiary	**(277)**	562
Withholding tax on interest income of a subsidiary	**1,216**	310
Effect of different tax rates of entities operating in the PRC	**6,858**	8,218
Underprovision in prior years	**—**	225
Others	**—**	878
Income tax expense	**21,032**	19,718

Note: The domestic tax rate which is Hong Kong Profits Tax rate in the jurisdiction where the operation of the Group is substantially based is used.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

14. Loss for the Year

	2019 HK$'000	2018 HK$'000
Loss for the year has been arrived at after charging (crediting):		
Depreciation of investment properties	**85,247**	—
Depreciation of property, plant and equipment	**209,769**	223,441
Depreciation of right-of-use assets	**749,094**	—
Auditor's remuneration	**5,463**	5,351
Operating lease expenses in respect of rented premises		
— minimum lease payments	**—**	1,077,232
— contingent rent (Note)	**—**	48,714
	—	1,125,946
Expenses relating to		
— short-term leases and leases of low-value assets	**23,520**	—
— variable lease payment (Note)	**61,311**	—
	84,831	—
Retirement benefits scheme contributions	**100,352**	106,867
Gross rental income from sub-leases		
— minimum lease payments	**—**	(428,604)
— contingent rent (Note)	**—**	(19,401)
	—	(448,005)
Gross rental income from investment properties		
— Fixed	**(339,374)**	—
— Variable (Note)	**(55,665)**	—
Less: direct operating expenses incurred for investment properties that generated rental income during the year	**131,917**	—
	(263,122)	—
Cost of inventories recognised as an expense	**6,656,159**	6,676,251
Write-back of inventories (included in purchase of goods and changes in inventories)	**(2,938)**	(6,797)

Note: Variable lease payment/contingent rent is the excess of the minimum lease payments as stated in the relevant lease agreements, which is calculated based on a percentage of turnover of the relevant operation that occupied the premises.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

15. Directors' Emoluments

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, is as follows:

	Executive directors								Non-executive directors			Independent non-executive directors				
	Yuki Habu HK$'000 (Note a)	Isei Nakagawa HK$'000 (Note b)	Masamitsu Ikuta HK$'000	Chak Kam Yuen HK$'000	Lau Chi Sum, Sam HK$'000	Takenori Nagashima HK$'000 (Note c)	Keiji Tsukahara HK$'000 (Note e)	Hideaki Yajima HK$'000 (Note f)	Yuki Habu HK$'000 (Note a)	Akinori Yamashita HK$'000 (Note d)	Shinya Wako HK$'000 (Note f)	Chan Yi Jen, Candi Anna HK$'000	Lo Miu Sheung, Betty HK$'000	Chow Chi Tong HK$'000	Hideto Mizuno HK$'000 (Note d)	Total HK$'000
For the year ended 31 December 2019																
Fees	**–**	**–**	**–**	**70**	**70**	**–**	**–**	**–**	**–**	**–**	**–**	**180**	**170**	**180**	**170**	**840**
Other emoluments																
Salaries and other benefits	**411**	**994**	**1,252**	**1,078**	**988**	**367**	**1,062**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**6,152**
Performance based bonus (Note g)	**122**	**408**	**–**	**428**	**331**	**35**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,324**
Contributions to retirement benefits schemes	**–**	**212**	**–**	**73**	**67**	**35**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**387**
Total	**533**	**1,614**	**1,252**	**1,649**	**1,456**	**437**	**1,062**	**–**	**–**	**–**	**–**	**180**	**170**	**180**	**170**	**8,703**
For the year ended 31 December 2018																
Fees	–	–	–	70	70	–	–	–	–	–	–	180	170	180	64	734
Other emoluments																
Salaries and other benefits	1,381	–	1,586	1,050	962	–	956	576	–	–	–	–	–	–	–	6,511
Performance based bonus (Note g)	–	–	–	284	204	–	–	–	–	–	–	–	–	–	–	488
Contributions to retirement benefits schemes	–	–	–	73	66	–	–	–	–	–	–	–	–	–	–	139
Total	1,381	–	1,586	1,477	1,302	–	956	576	–	–	–	180	170	180	64	7,872

Notes:

(a) Ms. Yuki Habu has been re-designated from Managing Director ("MD") to non-executive director with effect from 16 May 2019.

(b) Mr. Isei Nakagawa was appointed as MD of the Company with effect from 16 May 2019. The Board of Directors considered that the duties of the MD were of no difference from that of a Chief Executive Officer stipulated under Provision A.2 of the Code of Corporate Governance Practices in Appendix 14 of the Listing Rules. The management would regard that the term MD will have the same meaning as the Chief Executive Officer of the Company.

(c) Director was appointed during the year ended 31 December 2019.

(d) Directors were appointed during the year ended 31 December 2018.

(e) Director resigned during the year ended 31 December 2019.

(f) Directors resigned during the year ended 31 December 2018.

(g) The performance based bonus is determined by reference to the individual performance of the directors. It is reviewed by the Remuneration Committee and approved by the Board of Directors.

15. Directors' Emoluments (Continued)

The executive directors' emoluments were for their services in connection with the management of the affairs of the Company and the Group.

The non-executive directors' emoluments were for their services as directors of the Company or its subsidiaries.

The independent non-executive director's emoluments were for their services as directors of the Company.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year. There is no inducement for directors to join the Group nor compensation for the loss of office as a director in connection with the management of the affairs of any member of the Group.

16. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, none was a director whose emolument is included in the disclosures in note 15 above. The emoluments of the remaining five individuals were as follows:

	2019 HK$'000	2018 HK$'000
Salaries and other benefits	**7,079**	10,630
Performance based bonus	**2,047**	1,142
Contributions to retirement benefit schemes	**686**	393
	9,812	12,165

	2019 No. of employees	2018 No. of employees
Their emoluments were within the following bands:		
HK$1,500,001 to HK$2,000,000	**4**	3
HK$2,500,001 to HK$3,000,000	**1**	—
HK$3,000,001 to HK$3,500,000	**—**	2

There is no inducement for five highest paid employee to join the Group nor compensation for the loss of office as an employee in connection with the management of the affairs of any member of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

16. Employees' Emoluments (Continued)

Other than the emoluments of five individuals of the Group disclosed above, the emoluments of the senior management of the Group were within the following bands:

	2019 No. of employees	2018 No. of employees
Nil to HK$1,000,000	**3**	2
HK$1,000,001 to HK$1,500,000	**2**	1

17. Dividends

	2019 HK$'000	2018 HK$'000
Final dividend paid for 2018 of 22 HK cents (2018: 22 HK cents for 2017) per ordinary share	**57,200**	57,200
Interim dividend paid for 2019 of 22 HK cents (2018: 22 HK cents for 2018) per ordinary share	**57,200**	57,200
	114,400	114,400

The Board of Directors has recommended a final dividend of 5 HK cents per share (2018: 22 HK cents) to be paid on or before 26 June 2020, subject to shareholders' approval at the forthcoming annual general meeting on 26 May 2020.

18. Loss Per Share

The calculation of basic loss per share attributable to the owners of the Company is based on the Group's loss for the year attributable to owners of the Company of HK$188,726,000 (2018: HK$49,224,000) and on 260,000,000 (2018: 260,000,000) ordinary shares in issue during the year.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

19. Property, Plant and Equipment

	Building fixtures HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST					
At 1 January 2018	1,935,493	633,033	8,936	73,857	2,651,319
Exchange adjustments	(52,144)	(16,657)	(178)	(943)	(69,922)
Additions	22,551	22,081	—	127,531	172,163
Transfer	103,901	28,367	—	(132,268)	—
Disposals/written off	(207,559)	(45,118)	(4,265)	—	(256,942)
At 31 December 2018	1,802,242	621,706	4,493	68,177	2,496,618
Adjustments upon application of HKFRS 16	(89,898)	—	—	—	(89,898)
At 1 January 2019 (restated)	**1,712,344**	**621,706**	**4,493**	**68,177**	**2,406,720**
Exchange adjustments	**(11,179)**	**(3,674)**	**(22)**	**(249)**	**(15,124)**
Additions	**11,248**	**19,617**	**—**	**99,631**	**130,496**
Transfer	**90,318**	**52,414**	**—**	**(142,732)**	**—**
Disposals/written off	**(86,804)**	**(31,600)**	**(1,090)**	**—**	**(119,494)**
At 31 December 2019	**1,715,927**	**658,463**	**3,381**	**24,827**	**2,402,598**
DEPRECIATION AND IMPAIRMENT					
At 1 January 2018	1,313,248	449,711	6,948	—	1,769,907
Exchange adjustments	(37,809)	(11,701)	(136)	—	(49,646)
Provided for the year	160,703	62,024	714	—	223,441
Eliminated on disposal/written off	(204,061)	(42,891)	(4,265)	—	(251,217)
Impairment losses recognised (note 21)	7,473	589	—	—	8,062
At 31 December 2018	1,239,554	457,732	3,261	—	1,700,547
Adjustments upon application of HKFRS 16	(61,609)	—	—	—	(61,609)
At 1 January 2019 (restated)	**1,177,945**	**457,732**	**3,261**	**—**	**1,638,938**
Exchange adjustments	**(7,938)**	**(3,034)**	**(22)**	**—**	**(10,994)**
Provided for the year	**145,944**	**63,315**	**510**	**—**	**209,769**
Eliminated on disposal/written off	**(85,652)**	**(29,278)**	**(947)**	**—**	**(115,877)**
Impairment losses recognised (note 21)	**1,021**	**—**	**—**	**—**	**1,021**
At 31 December 2019	**1,231,320**	**488,735**	**2,802**	**—**	**1,722,857**
CARRYING VALUES					
At 31 December 2019	**484,607**	**169,728**	**579**	**24,827**	**679,741**
At 31 December 2018	562,688	163,974	1,232	68,177	796,071

19. Property, Plant and Equipment (Continued)

The property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis at the following rates:

Building fixtures	Over the expected useful lives of nine years or, where shorter, the term of the relevant lease
Furniture, fixtures and equipment	10% to 25% per annum
Motor vehicles	20% to 25% per annum

20. Right-of-use Assets

	Leased properties HK$'000
As at 1 January 2019	
Carrying amount	**4,046,854**
As at 31 December 2019	
Carrying amount	**3,902,352**
For the year ended 31 December 2019	
Depreciation charge	**749,094**
Impairment loss recognised	**7,963**
Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16	**17,583**
Expense relating to leases of low-value assets, excluding short-term leases of low value assets	**5,937**
Variable lease payments not included in the measurement of lease liabilities	**61,311**
Total cash outflow for leases	**1,091,095**
Additions to right-of-use assets	**625,228**

For both years, the Group leases retail stores, warehouse, office, staff quarters, office equipment and advertising billboards for its operations. Lease contracts are entered into for fixed term of one month to twenty years, but may have extension and termination options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

20. Right-of-use Assets (Continued)

The Group regularly entered into short-term leases for staff quarters, office equipment and advertising billboards. As at 31 December 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases entered during the year, to which the short-term lease expense of HK$17,583,000 recognised in current year.

Leases of retail stores are either with only fixed lease payments or contain variable lease payment that are based on 2.5% to 14.0% of sales in addition of minimum annual lease payment that are fixed over the lease term. Some variable payment terms include cap clauses. The payment terms are common in retail stores in Hong Kong and PRC where the Group operates. The amount of fixed and variable lease payments paid/payable to relevant lessors for the year ended 31 December 2019 are shown below:

	Number of premises	Fixed payments HK$'000	Variable payments HK$'000	Total payments HK$'000
Retail stores, warehouse and office without variable lease payments	**38**	**315,381**	**–**	**315,381**
Retail stores with variable lease payments	**74**	**673,604**	**61,311**	**734,915**
	112	**988,985**	**61,311**	**1,050,296**

The overall financial effect of using variable payment terms is that higher rental costs are incurred by stores with higher sales. Variable rent expenses are expected to continue to represent a similar proportion of store sales in future years.

The Group has extension and/or termination options in a number of leases for retail stores. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessors.

The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options or not to exercise the termination options. The potential exposures to these future lease payments for (i) extension options in which the Group is not reasonably certain to exercise and (ii) termination options in which the Group is not reasonably certain not to exercise is summarised below:

	Lease liabilities recognised as at 31 December 2019 HK$'000	Potential future lease not included in lease liabilities (undiscounted) HK$'000
Retail stores, warehouse and office — Hong Kong	**3,193,919**	**147,293**
Retail stores, warehouse and office — PRC	**1,606,781**	**711,231**

20. Right-of-use Assets (Continued)

Lease contracts with termination options exercisable during the year were not identified. The following table summarised the additional lease liabilities recognised during the year ended 31 December 2019 as a result of exercising extension option that the Group was not reasonably certain to exercise:

	Extension option exercisable during the year ended 31 December 2019 No. of leases	Extension option exercised No. of leases
Retail stores — Hong Kong	**2**	**2**
Additional lease liabilities recognised during the year ended 31 December 2019 (HK$'000)		**10,634**

In addition, the Group reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During the year ended 31 December 2019, there is no such triggering event.

Lease committed

As at 31 December 2019, the Group was subject to a contingent lease commitment of a sum of approximately HK$3,012,000 to a landlord which is a third party under the circumstance of early termination of lease agreements between the landlord and certain related companies covering a lease period of three years starting from 2019.

Restrictions or covenants on leases

In addition, lease liabilities of HK$4,800,700,000 are recognised with related right-of-use assets of HK$3,902,352,000 and investment properties of HK$488,352,000 as at 31 December 2019. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Details of the lease maturity analysis of lease liabilities are set out in notes 33 and 42.

21. Impairment Assessment on Property, Plant and Equipment, and Right-of-use Assets

Certain stores of the Group have 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 constitute individual cash-generating units 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 individual stores to which the relevant assets belong.

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, together with an extension period to the end of the relevant leases of the building fixtures and right-of-use assets with zero growth rate, and at a discount rate ranging from 10% to 11% (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.

Based on the result of the assessment, management of the Group determined that the recoverable amount of the cash-generating unit is lower than the carrying amount. The impairment amount has been allocated to each category of property, plant and equipment, and right-of-use assets, such that the carrying amount of each category of asset is not reduced below the highest of its fair value less cost of disposal, its value in use and zero. Based on the value in use calculation and the allocation, an impairment of HK$1,021,000 and HK$7,963,000 (2018: HK$8,062,000 and HK$nil), respectively, has been recognised against the carrying amount of property, plant and equipment, and right-of-use assets.

During the year, accumulated impairment loss on property, plant and equipment of HK$23,007,000 (2018: HK$22,360,000) of the Group has been eliminated upon the disposal of building fixtures.

As at 31 December 2019, accumulated impairment loss on property, plant and equipment of the Group is HK$141,029,000 (2018: HK$162,368,000).

As at 31 December 2019, accumulated impairment loss on right-of-use assets of the Group is HK$7,963,000 (2018: HK$nil).

22. Investment Properties

The Group leases out retail stores under operating leases with rentals payable monthly. The leases typically run for an initial period of one to fourteen years. The leases of retail stores contain variable lease payment that are based on 5.0% to 30.0% of sales and minimum annual lease payment that are fixed over the lease term.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

22. Investment Properties (Continued)

For the year ended 31 December 2019, cash outflow for leases of HK$80,504,000 represented the amount paid for leased properties under sub-leases.

	Leased properties HK$'000
COST	
At 1 January 2018 and 31 December 2018	—
Adjustment upon application of HKFRS 16	531,116
At 1 January 2019 (restated)	**531,116**
Exchange adjustments	**(3,034)**
Additions	**58,706**
Reclassification to right-of-use assets (Note)	**(10,153)**
At 31 December 2019	**576,635**
DEPRECIATION	
At 1 January 2018 and 31 December 2018	—
Adjustment upon application of HKFRS 16	5,334
At 1 January 2019 (restated)	**5,334**
Exchange adjustments	**(1,142)**
Provided for the year	**85,247**
Eliminated on reclassification to right-of-use assets (Note)	**(1,156)**
At 31 December 2019	**88,283**
CARRYING VALUES	
As 31 December 2019	**488,352**
At 31 December 2018	—

The fair value of the Group's investment properties at 31 December 2019 was HK$1,758,820,000. The fair value has been arrived at based on a valuation carried out by Cushman & Wakefield Limited, an independent qualified professional valuer not connected to the Group which has appropriate professional qualifications and recent experience in the valuations of similar properties in the relevant locations.

The fair value was determined based on the income approach, where the market rentals of all lettable units of the properties are assessed and capitalised at the market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The capitalisation rate is determined by reference to the yields derived from analysing the sales transactions of similar retail stores in Hong Kong and PRC and adjusted to take into account the market expectation form property investors to reflect factors specific to the Group's investment properties.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

22. Investment Properties (Continued)

Details of the Group's investment properties and information about the fair value hierarchy as at the end of the reporting period are as follows:

	2019	
	Carrying amount HK$'000	Fair value at Level 3 hierarchy HK$'000
Retail stores located in Hong Kong	**255,507**	**757,750**
Retail stores located in PRC	**232,845**	**1,001,070**
	488,352	**1,758,820**

Note: The carrying amount of investment properties of HK$8,997,000 has been transferred to right-of-use assets because its use has changed as evidenced by the commencement of owner-occupation.

23. Goodwill

	HK$'000
CARRYING AMOUNT	
At 1 January 2018, 31 December 2018 and 31 December 2019	94,838

The amount represents goodwill arising from the acquisition of an additional 35% interest in AEON South China (as defined in note 44(a)) in 2008. AEON South China became a wholly-owned subsidiary of the Company subsequent to the additional acquisition.

The Group identifies the relevant retail stores business operated by AEON South China as a group of cash-generating units with synergy effects to which the goodwill of HK$94,838,000 is allocated.

The recoverable amount of the cash-generating unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period (2018: 5-year period), and discount rate of 11% (2018: 10%) that reflects current market assessment of the time value of money and the risks specific to the group of cash-generating units. The cash flows beyond 5-year period are extrapolated using a zero growth rate. In the case of other key assumptions for the value in use calculations related to the estimation of cash inflows/outflows which include budgeted sales and gross margins, such estimation is based on the cash-generating unit's past performance and management's expectations for the future changes in the market. Management determined that the recoverable amount of the group of cash-generating units exceeds the carrying amount of the group of cash-generating units. Accordingly, no impairment loss was recognised in the consolidated statement of profit or loss. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of the group of cash-generating units to exceed their respective recoverable amount.

24. Equity Instruments at FVTOCI

	2019 **HK$'000**	2018 HK$'000
Equity securities:		
Listed shares in Hong Kong at fair value	**23,598**	26,545

The listed shares in Hong Kong mainly represents an investment in a fellow subsidiary of HK$23,385,000 (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.

25. Pledged Bank Deposits

	2019		2018	
	Non-current **HK$'000**	**Current** **HK$'000**	Non-current HK$'000	Current HK$'000
Bank deposits were pledged for the following purpose:				
As guarantee to:				
— landlords for rental deposits	**21,305**	**2,841**	25,001	6,632
As requirement by the relevant PRC regulatory body for cash received from prepaid value cards sold	**—**	**7,910**	—	8,220
	21,305	**10,751**	25,001	14,852

Details of impairment assessment are set out in note 42.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

26. Deferred Taxation

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the current and prior reporting periods:

	Decelerated tax depreciation HK$'000	Provision for staff costs and other expenses HK$'000	Other temporary differences HK$'000	Undistributed profits of subsidiaries HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2018	9,420	42,695	634	(827)	16,770	68,692
Exchange adjustments	(305)	(1,837)	–	–	(20)	(2,162)
Charge to profit or loss	(1,755)	(5,181)	–	(562)	(11,685)	(19,183)
At 31 December 2018	7,360	35,677	634	(1,389)	5,065	47,347
Exchange adjustments	**(29)**	**(433)**	**–**	**–**	**(3)**	**(465)**
(Charge) credit to profit or loss	**(2,060)**	**1,109**	**–**	**277**	**(376)**	**(1,050)**
At 31 December 2019	**5,271**	**36,353**	**634**	**(1,112)**	**4,686**	**45,832**

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2019 HK$'000	2018 HK$'000
Deferred tax assets	**46,944**	48,736
Deferred tax liabilities	**(1,112)**	(1,389)
	45,832	47,347

Furthermore, the Group had unused tax losses of HK$276,812,000 (2018: HK$100,515,000) available for offset against future profits. A deferred tax asset has been recognised in respect of tax losses of HK$28,438,000 (2018: HK$30,009,000). No deferred tax asset has been recognised in respect of the remaining unused tax losses due to the unpredictability of future profit streams for the relevant subsidiaries in current year. Included in unrecognised tax losses are losses of HK$167,222,000 (2018: HK$70,506,000) that will expire as follows. Other losses may be carried forward indefinitely.

	2019 HK$'000	2018 HK$'000
31 December 2023	**67,331**	70,506
31 December 2024	**99,891**	—

At the end of the reporting period, the Group had other deductible temporary difference of HK$469,544,000 (2018: HK$420,883,000). A deferred tax asset has been recognised in respect of deductible temporary difference of HK$182,735,000 (2018: HK$194,329,000). No deferred tax asset has been recognised in respect of the remaining deductible temporary difference of HK$286,809,000 (2018: HK$226,554,000).

27. Trade Receivables, Other Receivables, Prepayments and Deposits

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

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

	2019 HK$'000	2018 HK$'000
Within 30 days	**35,128**	54,905
31 to 60 days	**13**	22
Over 60 days	**175**	441
Trade receivables	**35,316**	55,368
Rental and related deposits paid	**202,555**	280,634
Other receivables, prepayments and other deposits	**65,140**	123,405
	267,695	404,039
Less: Rental and related deposits paid under non-current assets	**(184,349)**	(263,826)
Other receivables, prepayments and deposits	**83,346**	140,213

The Group's revenue is generated mainly from cash sales, credit card sales and sales by other electronic payment methods. The average credit period on credit cards sales and sales by other electronic payment methods are 10 days. The balance of trade receivables mainly represents trade receivables arising from credit card sales and sales by other electronic payment methods. There are no significant overdue debtors at the end of reporting period. No default is expected.

Advance lease payments and rental deposits paid were adjusted upon application of HKFRS 16. Details of the adjustments are set out in note 3.

Details of impairment assessment of trade and other receivables are set out in note 42.

28. Inventories

Inventories represent merchandise held for resale.

During the year, the directors have considered the market performance and the expected net realisable value of the inventories. As a result, the Group has written back inventories of HK$2,938,000 (2018: HK$6,797,000) to their net realisable values and included in "Purchases of goods and changes in inventories".

29. Amounts due from Fellow Subsidiaries

The amounts due from fellow subsidiaries are trade-related, unsecured, interest free and with credit term of 15 to 35 days (2018: 15 to 35 days). The amounts have an age of 0 to 35 days (2018: 0 to 35 days) since the invoice date and not yet due at the end of the respective reporting periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

30. Time Deposits

As at 31 December 2019, time deposits represent time deposits denominated in RMB, United States dollar ("USD") and HKD amounting to HK$213,561,000, HK$55,006,000 and HK$59,000,000, respectively, with an original maturity between three months and one year. The average effective interest rates of those time deposits denominated in RMB, USD and HKD are 2.09%, 2.17% and 2.19% per annum, respectively. The deposits will expire within one year from the end of the reporting period. Accordingly, these amounts are classified as current assets.

As at 31 December 2018, time deposits represent time deposits denominated in RMB, USD and HKD amounting to HK$34,078,000, HK$12,017,000 and HK$312,000,000, respectively, with an original maturity between three months and one year. The average effective interest rates of those time deposits denominated in RMB, USD and HKD are 2.12%, 3.03% and 2.39% per annum, respectively. The deposits expired during the year ended 31 December 2019.

Details of impairment assessment are set out in note 42.

31. Bank Balances and Cash

Bank balances and cash comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. Bank balances carry interest at market rates which range from 0.01% to 2.85% (2018: 0.01% to 2.85%) per annum.

The Group's bank balances and cash that are denominated in currencies other than the functional currencies of the respective group entities are set out below:

	2019 **HK$'000**	2018 HK$'000
HKD	**171**	169
USD	**128,082**	27,235
Japanese Yen ("JPY")	**6,665**	18,688
RMB	**43,304**	6,902

Details of impairment assessment are set out in note 42.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

32. Trade Payables, Other Payables, Accrued Charges and Other Liabilities, and Contract Liabilities

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

	2019 **HK$'000**	2018 HK$'000
0 to 60 days	**1,076,522**	1,052,703
61 to 90 days	**70,460**	85,816
Over 90 days	**103,105**	111,978
Trade payables	**1,250,087**	1,250,497
Accrued expenses and other liabilities	**409,028**	583,552
Accrued staff costs	**222,939**	211,875
Advance receipts on prepaid store-value cards and related tax	**44,354**	55,473
Payables for purchase of property, plant and equipment	**11,333**	42,438
Provision for reinstatement	**92,271**	82,568
Rental deposits received	**83,059**	79,574
	862,984	1,055,480
Less: Rental deposits received and other liabilities under non-current liabilities	**(133,916)**	(209,251)
Other payables, accrued charges and other liabilities	**729,068**	846,229

The average credit period on purchases of goods is 60 days (2018: 60 days).

Provision for reinstatement costs relates to the estimated cost to reinstate the stores at the end of the leases. The following is a movement of provision for reinstatement cost during the year:

	HK$'000
At 1 January 2019	**82,568**
Additional provision in the year	**13,724**
Utilisation of provision	**(3,869)**
Exchange realignments	**(152)**
At 31 December 2019	**92,271**

32. Trade Payables, Other Payables, Accrued Charges and Other Liabilities, and Contract Liabilities (Continued)

The following is an analysis of contract liabilities:

	2019 HK$'000	2018 HK$'000
Advance receipts on prepaid store-value cards	**378,147**	356,387
Deferred revenue	**31,279**	37,170
	409,426	393,557

The contract liabilities represent the Group's obligation to transfer performance obligation to customers for which the Group has received consideration from the customers.

Movements in contract liabilities:

	2019 HK$'000	2018 HK$'000
Balance at the beginning of the year	**393,557**	440,470
Decrease in contract liabilities as a result of recognising revenue during the year	**(396,530)**	(401,505)
Increase in contract liabilities as a result of receiving consideration	**416,720**	375,585
Exchange realignments	**(4,321)**	(20,993)
Balance at the end of the year	**409,426**	393,557

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

– **Prepaid store-value cards**

The Group receives the face value of prepaid store-value cards and these prepaid store-value cards are non-refundable and have no expiration.

– **Customer loyalty programmes**

The Group grants award credits for customers for sales over certain amount under the Group's customer loyalty scheme. The customers can redeem the award credits as cash to be used in future sales. The award credits have expiration.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

33. Lease Liabilities

	2019 HK$'000
Lease liabilities payable:	
Within one year	**762,137**
Within a period of more than one year but not more than two years	**750,152**
Within a period of more than two years but not more than five years	**2,059,323**
Within a period of more than five years	**1,229,088**
	4,800,700
Less: Amount due for settlement within 12 months shown under current liabilities	**(762,137)**
Amount due for settlement after 12 months shown under non-current liabilities	**4,038,563**

34. Amounts due 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 (2018: 60 to 90 days). The amounts have an age of 60 to 90 days (2018: 0 to 60 days) since the invoice date at the end of respective reporting period.

35. Share Capital

	Number of shares	HK$'000
Ordinary shares of no par value as at 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	260,000,000	115,158

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

36. Statement of Financial Position of the Company

The statement of financial position of the Company at the end of the reporting period is as follows:

	2019 HK$'000	2018 HK$'000
Non-current Assets		
Property, plant and equipment	**299,586**	387,938
Right-of-use assets	**2,571,597**	—
Investment properties	**255,507**	—
Investments in subsidiaries	**197,137**	197,137
Equity instruments at FVTOCI	**23,598**	26,545
Loan to a subsidiary	**150,805**	44,798
Deferred tax assets	**4,499**	5,469
Rental and related deposits paid	**153,388**	139,768
	3,656,117	801,655
Current Assets		
Inventories	**474,926**	435,392
Trade receivables	**14,448**	26,789
Other receivables, prepayments and deposits	**52,864**	180,518
Amounts due from subsidiaries	**5,741**	6,148
Amounts due from fellow subsidiaries	**63,648**	53,435
Tax recoverable	**8,532**	—
Time deposits	**115,844**	324,298
Bank balances and cash	**810,828**	920,605
	1,546,831	1,947,185
Current Liabilities		
Trade payables	**631,192**	632,574
Other payables, accrued charges and other liabilities	**416,308**	461,459
Lease liabilities	**451,044**	—
Contract liabilities	**41,737**	44,162
Dividend payable	**354**	426
Amount due to ultimate holding company	**28,665**	30,980
Amounts due to fellow subsidiaries	**2,131**	44,895
	1,571,431	1,214,496
Net Current (Liabilities) Assets	**(24,600)**	732,689
Total Assets Less Current Liabilities	**3,631,517**	1,534,344

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

36. Statement of Financial Position of the Company (Continued)

	2019 HK$'000	2018 HK$'000
Capital and Reserves		
Share capital	**115,158**	115,158
Reserves	**680,503**	1,241,141
	795,661	1,356,299
Non-current Liabilities		
Rental deposits received and other liabilities	**91,869**	175,686
Lease liabilities	**2,742,875**	—
Deferred tax liabilities	**1,112**	2,359
	2,835,856	178,045
	3,631,517	1,534,344

The Company's statement of financial position was approved and authorised for issue by the board of directors on 27 March 2020 and is signed on its behalf by:

Yuki Habu

YUKI HABU
Director

I. Nakagawa

ISEI NAKAGAWA
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

36. Statement of Financial Position of the Company (Continued)

A summary of the Company's share premium and reserves is as follows:

	Investment revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2018	21,754	1,397,220	1,418,974
Loss for the year	—	(65,916)	(65,916)
Fair value gain on investments in equity instruments at FVTOCI	2,387	—	2,387
Total comprehensive income (expense) for the year	2,387	(65,916)	(63,529)
Dividends recognised as distribution	—	(114,400)	(114,400)
Unclaimed dividends forfeited	—	96	96
At 31 December 2018	24,141	1,217,000	1,241,141
Adjustments (note 3)	—	(362,474)	(362,474)
At 1 January 2019 (restated)	**24,141**	**854,526**	**878,667**
Loss for the year	**—**	**(80,944)**	**(80,944)**
Fair value loss on investments in equity instruments at FVTOCI	**(2,947)**	**—**	**(2,947)**
Total comprehensive expense for the year	**(2,947)**	**(80,944)**	**(83,891)**
Dividends recognised as distribution	**—**	**(114,400)**	**(114,400)**
Unclaimed dividends forfeited	**—**	**127**	**127**
At 31 December 2019	**21,194**	**659,309**	**680,503**

37. Capital Commitments

	2019 HK$'000	2018 HK$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**9,302**	24,140

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

38. Operating Leases

The Group as lessee

The Group had commitments for future minimum lease payments in respect of rented premises under non-cancellable operating leases, which fall due as follows:

	2018 HK$'000
Within one year	809,114
In the second to fifth year inclusive	2,434,459
Over five years	1,411,614
	4,655,187

In addition to the above, (i) over 90% of the leases of the Group were subject to contingent rents based on a fixed percentage of the annual gross turnover and receipts in excess of the minimum lease payments; and (ii) the Group was also subject to a maximum lease commitment of a sum of approximately HK$4,627,000 to a landlord which is a third party under the circumstance of early termination of lease agreements between the landlord and certain related companies covering a lease period of four years starting from 2018.

Operating lease payments represent rentals payable by the Group for its stores and staff quarters. Leases of stores are negotiated for terms ranging from one to twenty years and rentals are fixed for one to three years. Leases of staff quarters are negotiated for terms ranging from one to two years and rentals are fixed for one to two years.

The Group as lessor

All of the properties held for rental purposes have committed licensees for the next one to fourteen years.

Minimum lease payments receivable on leases are as follows:

	2019 **HK$'000**
Within one year	**269,727**
In the second year	**159,330**
In the third year	**93,728**
In the fourth year	**50,732**
In the fifth year	**21,324**
Over five years	**35,711**
	630,552

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

38. Operating Leases (Continued)

The Group as lessor (Continued)

The Group had contracted with licensees for the following future minimum lease payments:

	2018 HK$'000
Within one year	301,705
In the second to fifth year inclusive	369,139
Over five years	48,816
	719,660

The leases are negotiated for terms ranging from one to fourteen years. In addition to the minimum lease payments, the Group is entitled to receive contingent rent based on a fixed percentage of turnover of the licensees in excess of the minimum lease payments as stated in the relevant rental agreements.

39. Retirement Benefits Schemes

The Company participates in the Mandatory Provident Fund Schemes ("MPF Schemes") registered under the Mandatory Provident Fund Ordinance in December 2001. Contributions paid or payable for the MPF Schemes for the year amounting to HK$18,881,000 (2018: HK$20,166,000) are charged to the consolidated statement of profit or loss for the year. The contributions represent contributions payable to the MPF Schemes by the Company in accordance with government regulations. In addition to the mandatory contributions, the contributions also include voluntary contributions at rates specified in the rules of the MPF Scheme for certain employees who make voluntary contributions.

The Company also operates a defined contribution provident fund scheme for all qualifying employees. The assets of the scheme are held separately from those of the Company in funds under the control of trustees. The contributions amounting to HK$3,688,000 (2018: HK$3,313,000) charged to the consolidated statement of profit or loss represent contributions payable to the funds by the Company at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Company are reduced by the amount of forfeited contributions.

The employees employed in the PRC subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute to the retirement benefits schemes based on a certain percentage of their payroll to fund the benefits. The only obligation of the Group with respect to these retirement benefits schemes is to make the required contributions under the schemes. Contributions paid or payable for these retirement benefits schemes for the year are HK$77,783,000 (2018: HK$83,388,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

40. Related Party Transactions

During the year, the Group entered into the following transactions with related parties:

Capacity	**Nature of transaction**	**2019 HK$'000**	2018 HK$'000
Fellow subsidiaries	Commission for credit facilities provided to the customers	**12,179**	12,738
	Franchise fee	**415**	406
	Trademark fee	**9,208**	—
	Other expense	**23,810**	16,368
	Other income	**9,195**	7,352
	Purchase of goods and property, plant and equipment	**6,006**	378,165
	Interest on lease liabilities	**6,465**	—
	Repayment of lease liabilities	**10,518**	—
	Operating lease expenses	**—**	14,996
	Management fees and utilities expenses	**18,110**	9,739
	Rental income	**19,479**	22,014
	Sales of coupons	**9,110**	9,500
	Service fee expense	**48,930**	88,286
Ultimate holding company	Royalty expenses	**26,491**	27,961
Non-controlling shareholder of the subsidiary	Advertising expenses	**2,185**	2,282
	Interest on lease liabilities	**16,715**	—
	Repayment of lease liabilities	**29,547**	—
	Operating lease expenses	**—**	44,896
	Other income	**7,088**	—
	Management fees and utilities expenses	**14,107**	20,188

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

40. Related Party Transactions (Continued)

Outstanding balances as at the end of reporting periods arising from the above transactions with related parties were as set out in the consolidated statement of financial position except for the following balance, which is included in other receivables, prepayments and deposits, and lease liabilities:

	2019 HK$'000	2018 HK$'000
Amounts due from fellow subsidiaries (included in other receivables, prepayments and deposits)	**3,913**	5,430
Amounts due to fellow subsidiaries (included in lease liabilities)	**87,839**	—
Amount due from a non-controlling shareholder of the subsidiary (included in other receivables, prepayments and deposits)	**2,727**	5,725
Amount due to a non-controlling shareholder of the subsidiary (included in lease liabilities)	**206,037**	—

Amount due from a non-controlling shareholder of the subsidiary is unsecured, interest free and no fixed repayment term.

Compensation of key management personnel

The Group's key management personnel are all directors, details of their remuneration are disclosed in note 15.

The remuneration of key management personnel is determined by the remuneration committee having regard to the performance of individuals and market trends.

41. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the Group's equity attributable to owners of the Group, comprising issued share capital, reserves and retained profits.

The Group's management review the capital structure on a regular basis. As a part of this review, the directors consider the cost of capital and the risks associated with the issued share capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, as well as the issue of new debt or the redemption of existing debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

42. Financial Instruments

(a) Categories of financial instruments

	2019 **HK$'000**	2018 HK$'000
Financial assets at amortised cost	**2,160,956**	2,179,434
Equity instruments at FVTOCI	**23,598**	26,545
Financial liabilities at amortised cost	**1,836,013**	1,793,241
Lease liabilities	**4,800,700**	—

(b) Financial risk management objectives and policies

The directors have overall responsibility for the establishment and oversight of the Group's risk management framework. The management manages and monitors these risk exposures to ensure that appropriate measures are implemented on a timely and effective manner.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The directors monitor and manage the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The Group's audit committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The audit committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for hedging or speculative purpose.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risks in 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

42. Financial Instruments (Continued)

(c) Foreign currency risk management

Certain of the Group's purchases are denominated in foreign currencies other than the functional currencies of the operations to which they relate. They expose the Group to foreign currency risk and the Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	Assets		**Liabilities**	
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
HKD	**171**	169	**—**	—
USD	**183,088**	39,252	**8,628**	2,888
JPY	**6,665**	18,688	**18,488**	23,865
RMB	**45,142**	7,182	**—**	—

Foreign currency sensitivity

As HKD is pegged to USD, it is assumed that there would be no material currency risk exposure on between these two currencies. The directors of the Company considered that the Group's exposures to HKD and USD are limited. Accordingly, no sensitivity to fluctuation in HKD and USD are presented. The Group therefore is exposed to fluctuations in JPY and RMB.

42. Financial Instruments (Continued)

(c) Foreign currency risk management (Continued)

Foreign currency sensitivity (Continued)

The following table indicates the approximate change in the Group's loss for the year in response to reasonably possible changes in the foreign exchange rates to which the Group have significant exposure at the end of the reporting periods.

	2019		2018	
	Increase (decrease) in foreign exchange rates	**(Increase) decrease in loss after tax**	Increase (decrease) in foreign exchange rates	(Increase) decrease in loss after tax
	%	**HK$'000**	%	HK$'000
JPY	**10%**	**(987)**	10%	(432)
	(10%)	**987**	(10%)	432
RMB	**10%**	**3,769**	10%	600
	(10%)	**(3,769)**	(10%)	(600)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the group entities' exposure to currency risk for financial instruments in existence at that date, and that all other variables remain constant.

The stated changes represent the management's assessment of reasonably possible changes in foreign exchange rates. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the group entities' profit or loss measured in the respective functional currencies, translated into HKD at the exchange rate ruling at the end of the reporting period for presentation purposes. The analysis is performed on the same basis for 2018.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

(d) Interest rate risk management

The Group is exposed to cash flow interest rate risk as the Group's bank balances are subject to floating interest rates. The Group analyses its interest rate exposure on a dynamic basis, but the Group did not use floating-to-fixed interest rate swaps in managing its cash flow interest rate risk. However, from time to time, if interest rates fluctuates significantly, appropriate measures would be taken to manage interest rate exposure.

The Group is also exposed to fair value interest rate risk in relation to fixed-rate time deposits and lease liabilities. The management will take appropriate measures to manage interest rate exposure if interest rate fluctuates significantly. The management considers the fair value interest rate risk to the Group is low.

The Group's exposure to interest rates and financial liabilities is detailed in the liquidity risk management section of this note.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

42. Financial Instruments (Continued)

(d) Interest rate risk management (Continued)

Interest rate sensitivity

Sensitivity analysis on bank balances is not presented as the management considers that the Group's exposure to interest rate fluctuation is insignificant.

(e) Other price risk

The Group is exposed to equity price risks through its investments in equity securities. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these investments. The management will monitor the price movements and take appropriate actions when it is required.

Equity price sensitivity

The sensitivity analysis below have been determined based on the exposure to equity price risks in respect of equity instruments at FVTOCI at the reporting date. If the prices of the equity instruments at FVTOCI had been 5% (2018: 5%) higher/lower, while all other variables were held constant, the investment revaluation reserve would increase/decrease by approximately HK$1,180,000 (2018: HK$1,327,000) for the Group, as a result of the changes in fair value of equity instruments at FVTOCI.

(f) Credit risk and impairment assessment

The carrying amounts of pledged bank deposits, trade receivables, other receivables, amounts due from fellow subsidiaries, time deposits and bank balances best represent the maximum exposure to credit risk. The Group has no significant concentrations of credit risk with exposure spread over a number of counterparties and trade receivables represent mainly credit card receivables from finance companies.

Trade receivables

Retail sales are mainly on a cash basis, either in cash, debit card, credit card or electronic payment methods. Where transactions are conducted other than on a cash basis, the Group practices stringent credit reviews. The Group performs impairment assessment using lifetime ECL individually for debtors with significant balance and collectively using a provision matrix with appropriate groupings. The Group considered the credit risk on trade receivables is limited because counterparties are banks/financial institutions with high external credit ratings assigned by international credit rating agencies. Therefore, the allowance for credit risk of trade receivables was immaterial and no provision was made.

Amounts due from fellow subsidiaries

The credit terms for the amounts due from fellow subsidiaries are made in accordance with the relevant agreements and there are no significant overdue debts as at the end of the reporting period. The Group performs impairment assessment using lifetime ECL for trade-related amount due from a fellow subsidiary, which is a financing company in Hong Kong, and 12m ECL for other non-trade related balances individually. The Group considered all the counterparties have a low risk of default and do not have any material past-due amounts. Therefore, the allowance for credit risk of amounts due from fellow subsidiaries was immaterial and no provision was made.

42. Financial Instruments (Continued)

(f) Credit risk and impairment assessment (Continued)

Other receivables

The Group makes periodic individual assessment on 12m ECL of other receivables based on historical settlement records, past experience and external credit ratings, if any. The Group believes that there are no significant increase in credit risk of these amounts since initial recognition. The Group assessed the allowance for credit risk of other receivables was immaterial and no provision was made.

Pledged bank deposits, time deposits and bank balances

The credit risk on pledged bank deposits, time deposits and bank balances is limited because the counterparties are reputable banks with high credit ratings assigned by international credit agencies. The Group assessed 12m ECL for pledged bank deposits and bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. The relevant 12m ECL is considered to be immaterial and no provision was made.

(g) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the directors of the Company, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, working capital and banking facilities.

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$361,604,000 at 31 December 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 to the available banking facilities, the directors of the Company are confident that the Group has sufficient working capital to meet in full its financial obligations as they fall due for at least the next twelve months from the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

42. Financial Instruments (Continued)

(g) Liquidity risk management (Continued)

The following tables detail the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. To the extent that interest flows are floating rate, the undiscounted amount is derived from the interest rate curve at the end of the reporting period.

	Weighted average effective interest rate	6 months or less	6 to 12 months	1 to 5 years	Over 5 years	Total undiscounted cash flows amount	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2019							
Lease liabilities	**3.80% – 7.89%**	**476,378**	**479,202**	**3,628,571**	**1,377,837**	**5,961,988**	**4,800,700**
Non-interest bearing financial liabilities		**1,774,252**	**17,641**	**43,343**	**777**	**1,836,013**	**1,836,013**
		2,250,630	**496,843**	**3,671,914**	**1,378,614**	**7,798,001**	**6,636,713**
2018							
Non-interest bearing financial liabilities		1,800,215	49,243	23,357	–	1,872,815	1,872,815

(h) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and
- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Group's consolidated financial statements approximate to their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

42. Financial Instruments (Continued)

(h) Fair value of financial instruments (Continued)

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

	Level 1	
	2019 **HK$'000**	2018 HK$'000
Equity instruments at FVTOCI		
Listed equity securities	**23,598**	26,545

There were no transfers between levels in both years.

43. Reconciliation of Liabilities arising from Financing Activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Dividend payable HK$'000	**Lease liabilities** HK$'000	**Total** HK$'000
At 1 January 2018	472	—	472
Financing cash flows	(114,350)	—	(114,350)
Non-cash changes			
Dividends recognised as distribution	114,400	—	114,400
Unclaimed dividends forfeited	(96)	—	(96)
At 31 December 2018	426	—	426
Adjustment (note 3)	—	4,938,605	4,938,605
At 1 January 2019 (restated)	**426**	**4,938,605**	**4,939,031**
Financing cash flows	**(117,110)**	**(988,985)**	**(1,106,095)**
Non-cash changes			
New leases entered/leases modified	**—**	**565,450**	**565,450**
Interest on lease liabilities	**—**	**303,414**	**303,414**
Dividends recognised as distribution	**114,400**	**—**	**114,400**
Dividends paid to non-controlling shareholders	**2,765**	**—**	**2,765**
Unclaimed dividends forfeited	**(127)**	**—**	**(127)**
Exchange realignment	**—**	**(17,784)**	**(17,784)**
At 31 December 2019	**354**	**4,800,700**	**4,801,054**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

44. Particulars of Subsidiaries of the Company

(a) General information of subsidiaries

Details of the Group's subsidiaries at the end of the reporting periods are set out below:

Name	Form of business structure	Place of registration or operation principal place of business	Paid up registered/ ordinary share capital	Proportion of ownership interest directly held by the Company	Proportion of voting power held by the Company	Proportion of ownership interest held by a non-controlling interest	Proportion of voting power held by a non-controlling interest	(Loss) profit allocated to a non-controlling interest		Accumulated non-controlling interest		Principal activities
				2019 & 2018	2019 & 2018	2019 & 2018	2019 & 2018	**2019**	2018	**2019**	2018	
Guangdong AEON Teem Co., Ltd. ("Guangdong AEON")	Sino-foreign equity joint venture	PRC	RMB228,690,000 (2018: RMB228,690,000)	65%	66%	35%	34%	**(261)**	6,247	**132,752**	137,136	Retail stores
AEON South China Co., Ltd. ("AEON South China")	Wholly-owned foreign enterprise	PRC	RMB212,800,000 (2018: RMB212,800,000)	100%	100%	–	–	**–**	–	**–**	–	Retail stores
Jusco Stores (Hong Kong) Co., Limited	Incorporated	Hong Kong	HK$1,000 (2018: HK$1,000)	100%	100%	–	–	**–**	–	**–**	–	Inactive

None of the subsidiaries had issued any debt securities at the end of the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

44. Particulars of Subsidiaries of the Company (Continued)

(b) Details of non-wholly owned subsidiaries that have material non-controlling interest

Summarised financial information in respect of Guangdong AEON that has material non-controlling interest is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	2019 **HK$'000**	2018 HK$'000
Current assets	**1,205,465**	1,085,583
Non-current assets	**1,292,765**	399,144
Current liabilities	**1,341,913**	1,067,890
Non-current liabilities	**769,831**	17,825
Equity attributable to owners of the Company	**253,734**	261,876
Non-controlling interest	**132,752**	137,136
Revenue	**4,135,168**	4,102,151
Expenses	**4,135,914**	4,084,302
(Loss) profit for the year	**(746)**	17,849
(Loss) profit attributable to owners of the Company	**(485)**	11,602
(Loss) profit attributable to a non-controlling interest	**(261)**	6,247
(Loss) profit for the year	**(746)**	17,849
Other comprehensive expense attributable to owners of the Company	**(2,522)**	(12,976)
Other comprehensive expense attributable to a non-controlling interest	**(1,358)**	(6,781)
Other comprehensive expense for the year	**(3,880)**	(19,757)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

44. Particulars of Subsidiaries of the Company (Continued)

(b) Details of non-wholly owned subsidiaries that have material non-controlling interest (Continued)

	Year ended	
	2019 **HK$'000**	2018 HK$'000
Total comprehensive expense attributable to owners of the Company	**(3,007)**	(1,374)
Total comprehensive expense attributable to a non-controlling interest	**(1,619)**	(534)
Total comprehensive expense for the year	**(4,626)**	(1,908)
Dividends paid to a non-controlling interest	**(2,765)**	—
Net cash inflow from operating activities	**391,462**	22,064
Net cash outflow from investing activities	**(212,492)**	(137,977)
Net cash outflow from financing activities	**(225,413)**	—
Net cash outflow	**(46,443)**	(115,913)

45. Event After the Reporting Period

Arising from the COVID-19 outbreak in early 2020, a series of precautionary and control measures have been and continued to be implemented across the globe. The Group is paying close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position, cash flows and operating results of the Group. Given the dynamic nature of the COVID-19 outbreak and unpredictability of future development, it is not practicable to provide a reasonable estimate of its impacts on the Group's financial position, cash flows and operating results for the first half and full year of 2020, at the date on which these consolidated financial statements are authorised for issue.

FINANCIAL SUMMARY

The Group

	For the year ended 31 December				
	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000	**2019** **HK$'000**
RESULTS					
Revenue	8,975,315	9,036,609	9,665,539	9,675,891	**9,493,774**
Profit (loss) before tax	121,712	(10,606)	(63,207)	(23,259)	**(167,955)**
Income tax expense	(18,157)	(4,407)	(11,015)	(19,718)	**(21,032)**
Profit (loss) for the year	103,555	(15,013)	(74,222)	(42,977)	**(188,987)**

	At 31 December				
	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000	**2019** **HK$'000**
ASSETS AND LIABILITIES					
Total assets	5,115,104	4,855,365	4,842,717	4,387,746	**8,377,450**
Total liabilities	(3,042,450)	(2,948,145)	(3,099,346)	(2,809,563)	**(7,471,166)**
	2,072,654	1,907,220	1,743,371	1,578,183	**906,284**
Equity attributable to:					
Owners of the Company	1,911,330	1,753,708	1,605,701	1,441,047	**773,532**
Non-controlling interest	161,324	153,512	137,670	137,136	**132,752**
	2,072,654	1,907,220	1,743,371	1,578,183	**906,284**