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

2018 INTERIM RESULTS

The Board of Directors (the "Board") of AEON Stores (Hong Kong) Co., Limited (the "Company") is pleased to announce the unaudited results of the Company and its subsidiaries (the "Group" or "AEON") for the six months ended 30 June 2018 together with comparative figures for the previous period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE SIX MONTHS ENDED 30 JUNE 2018

	NOTES	**Six months ended 30.6.2018 HK$'000 (unaudited)**	30.6.2017 HK$'000 (unaudited)
Revenue	3	**4,929,803**	4,620,696
Other income	4	**300,368**	285,082
Investment income		**11,843**	12,481
Purchase of goods and changes in inventories		**(3,416,708)**	(3,209,107)
Staff costs		**(627,930)**	(588,100)
Depreciation		**(114,391)**	(110,194)
Operating lease rental expenses		**(572,965)**	(567,428)
Pre-operating expenses		**(6,697)**	(9,193)
Other gains and losses	5	**935**	2,251
Other expenses	6	**(542,784)**	(507,127)
Finance costs		**-**	(24)
Loss before tax		**(38,526)**	(70,663)
Income tax expense	7	**(4,887)**	(617)
Loss for the period		**(43,413)**	(71,280)
(Loss) profit for the period attributable to:			
Owners of the Company		**(50,484)**	(71,997)
Non-controlling interests		**7,071**	717
		(43,413)	(71,280)
Loss per share	9	**(19.42) HK cents**	(27.69) HK cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Six months ended	
	30.6.2018	30.6.2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Loss for the period	**(43,413)**	(71,280)
Other comprehensive income		
Item that will not be reclassified to profit or loss:		
Fair value gain on investments in equity instruments at fair value through other comprehensive income	**547**	-
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	**9,978**	5,529
Fair value gain on available-for-sale investments	**-**	869
Other comprehensive income for the period, net of income tax	**10,525**	6,398
Total comprehensive expense for the period	**(32,888)**	(64,882)
Total comprehensive (expense) income for the period attributable to:		
Owners of the Company	**(44,834)**	(68,273)
Non-controlling interests	**11,946**	3,391
	(32,888)	(64,882)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2018

	NOTES	30.6.2018 HK$'000 (unaudited)	31.12.2017 HK$'000 (audited)
Non-current Assets			
Property, plant and equipment		**865,495**	881,412
Goodwill		**94,838**	94,838
Available-for-sale investments		**-**	24,158
Equity instruments at fair value through other comprehensive income		**24,705**	-
Pledged bank deposits		**26,441**	27,026
Deferred tax assets		**67,694**	69,519
Rental and related deposits paid		**261,012**	249,029
		1,340,185	1,345,982
Current Assets			
Inventories		**941,099**	950,925
Trade receivables	10	**65,306**	63,671
Other receivables, prepayments and deposits		**214,289**	187,459
Amounts due from fellow subsidiaries		**30,965**	58,031
Tax recoverable		**1,580**	-
Time deposits		**341,438**	169,234
Pledged bank deposits		**21,958**	19,703
Bank balances and cash		**1,684,108**	2,047,712
		3,300,743	3,496,735
Current Liabilities			
Trade payables	11	**1,311,241**	1,384,471
Other payables, accrued charges and other liabilities		**881,138**	1,416,898
Dividend payable		**33,053**	472
Contract liabilities		**429,678**	-
Amount due to ultimate holding company		**44,716**	29,541
Amounts due to fellow subsidiaries		**76,734**	65,111
Tax liabilities		**-**	5,972
		2,776,560	2,902,465
Net Current Assets		**524,183**	594,270
Total Assets Less Current Liabilities		**1,864,368**	1,940,252
Capital and Reserves			
Share capital		**115,158**	115,158
Reserves		**1,388,605**	1,490,543
Equity attributable to owners of the Company		**1,503,763**	1,605,701
Non-controlling interests		**149,616**	137,670
Total Equity		**1,653,379**	1,743,371
Non-current Liabilities			
Rental deposits received and other liabilities		**209,245**	196,054
Deferred tax liabilities		**1,744**	827
		210,989	196,881
		1,864,368	1,940,252

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

1. BASIS OF PREPARATION

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

The financial information relating to the year ended 31 December 2017 that is included in the condensed consolidated financial statements as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements is as follows:

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 3l December 2017.

Application of new and amendments to HKFRSs and Interpretation

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements.

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Translations and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS9 Financial Instruments with HKFRS4 Insurance Contracts

2. PRINCIPAL ACCOUNTING POLICIES - continued

Application of new and amendments to HKFRSs and Interpretation - continued

Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 - 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs and Interpretation have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

2.1 Impacts and changes in accounting policies of application on HKFRS I5 Revenue from Contracts with Customers

The Group has applied HKFRS l5 *Revenue from Contracts with Customers* ("HKFRS 15") for the first time in the current interim period. HKFRS 15 superseded HKAS l8 *Revenue,* HKAS11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the following major sources:

- Direct sales of merchandise in retails stores; and
- Commission income from concessionaire sales

The Group has applied HKFRS l5 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and the related interpretations.

Summary of effects arising from initial application of HKFRS 15

The application of HKFRS15 has no material impact on the Group's retained profits at 1 January 2018.The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31.12.2017	Reclassification	Carrying amounts under HKFRS 15 at 1.1.2018*
	HK$'000	HK$'000	HK$'000
Current Liabilities		(Note)	
Other payables, accrued charges and other liabilities	1,416,898	(440,470)	976,428
Contract liabilities	-	440,470	440,470

* The amounts in this column are before the adjustments from the application of HKFRS 9.

2. PRINCIPAL ACCOUNTING POLICIES - continued

Application of new and amendments to HKFRSs and Interpretation - continued

2.1 Impacts and changes in accounting policies of application on HKFRS I5 Revenue from Contracts with Customers - continued

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

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

The following table summarises the impacts of applying HKFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018 each of the line items affected. The application of HKFRS 15 has no material impact on the Group's condensed consolidated statement of profit or loss. Line items that were not affected by the changes have not been included.

Impact on the condensed consolidated statement of financial position

	As reported	Reclassification	Amounts without application of HKFRS 15
	HK$'000	HK$'000	HK$'000
Current Liabilities			
Other payables, accrued charges and other liabilities	881,138	429,678	1,310,816
Contract liabilities	429,678	(429,678)	-

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments

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

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

2. PRINCIPAL ACCOUNTING POLICIES - continued

Application of new and amendments to HKFRSs and Interpretation ***- continued***

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments - continued

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

Summary of effects arising from initial application of HKFRS 9

(a) Available-for-sale investments

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

(b) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables and trade-related amounts due from fellow subsidiaries. To measure the ECL, trade receivables and trade-related amounts due from fellow subsidiaries have been assessed individually for debtors with significant balances and/or collectively using a provision matrix with groupings based on shared credit risk characteristics.

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

The directors of the Company considered that the measurement of ECL has no material impact to the Group's retained profits at 1 January 2018.

Except as described above, the application of other amendments to HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents the invoiced value of goods, net of discounts, sold to customers, and income from concessionaire sales during the period. Revenue is recognised at a point in time when the customers obtains control of the goods. An analysis of the Group’s revenue for the period is as follows:

3. REVENUE AND SEGMENT INFORMATION - continued

	Six months ended	
	30.6.2018	30.6.2017
	HK$'000	HK$'000
Direct sales	**4,498,377**	4,219,592
Income from concessionaire sales	**431,426**	401,104
	4,929,803	4,620,696

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

Disaggregation of revenue

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

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

For the six months ended 30 June 2018

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

For the six months ended 30 June 2017

	Hong Kong	PRC	Total
	HK$'000	HK$'000	HK$'000
Segment revenue - external	2,037,181	2,583,515	4,620,696
Segment (loss) profit	(86,116)	2,996	(83,120)
Investment income			12,481
Finance costs			(24)
Loss before tax			(70,663)

3. REVENUE AND SEGMENT INFORMATION - continued

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

4. OTHER INCOME

	Six months ended	
	30.6.2018	30.6.2017
	HK$'000	HK$'000
Rental Income from sub-lease	**239,230**	237,076
Others	**61,138**	48,006
	300,368	285,082

5. OTHER GAINS AND LOSSES

	Six months ended	
	30.6.2018	30.6.2017
	HK$'000	HK$'000
Exchange gain, net	**1,993**	2,391
Impairment loss recognised in respect of property, plant and equipment	**(829)**	-
Loss on disposal/written off of property, plant and equipment	**(229)**	(140)
	935	2,251

6. OTHER EXPENSES

	Six months ended	
	30.6.2018	30.6.2017
	HK$'000	HK$'000
Advertising, promotion and selling expenses	**150,580**	151,364
Maintenance and repair expenses	**171,695**	158,691
Others	**129,371**	106,540
Utilities expenses	**91,138**	90,532
	542,784	507,127

7. INCOME TAX EXPENSE

	Six months ended	
	30.6.2018	30.6.2017
	HK$'000	HK$'000
The charge comprises:		
Current tax		
PRC Enterprise income tax	**-**	2,826
Underprovision in prior years		
PRC Enterprise income tax	**233**	13
Deferred tax	**4,654**	(2,222)
Income tax expense for the period	**4,887**	617

7. INCOME TAX EXPENSE - continued

No provision for Hong Kong Profits Tax is made as the Company has no assessable profit for six months ended 30 June 2018 and 30 June 2017.

No provision for PRC Enterprise income tax is made as the subsidiaries have no assessable profit for six months ended 30 June 2018.

The PRC Enterprise income tax is calculated at 25% of the estimated assessable profits of the subsidiaries for six months ended 30 June 2017.

Deferred tax for both periods arouse from temporary differences arising from accelerated tax depreciation, provision for staff costs and other expenses, other temporary differences and the withholding tax at applicable tax rate of the undistributed profits of subsidiaries.

8. DIVIDENDS

	Six months ended	
	30.6.2018	30.6.2017
	HK$'000	HK$'000
Dividend recognised as distribution during the period:		
Final dividend declared and paid for 2017 of 22.0 HK cents (six months ended 30.6.2017: 20.0 HK cents for 2016 final dividend) per ordinary share	**57,200**	52,000

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of 22.0 HK cents (six months ended 30.6.2017: 20.0 HK cents) per ordinary share amounting to HK$57,200,000 (six months ended 30.6.2017: HK$52,000,000) will be paid to the owners of the Company whose names appear in the Register of Members on 12 October 2018. The interim dividend will be paid on or before 30 October 2018.

9. LOSS PER SHARE

The calculation of basic loss per share attributable to the owners of the Company is based on the Group's loss for the period attributable to the owners of the Company of HK$50,484,000 (six months ended 30.6.2017: loss of HK$71,997,000) and on 260,000,000 (six months ended 30.6.2017: 260,000,000) ordinary shares in issue during the period.

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

10. TRADE RECEIVABLES

The Group does not have a defined fixed credit policy as its major trade receivables arise from credit card sales.

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

10. TRADE RECEIVABLES - continued

	30.6.2018	31.12.2017
	HK$'000	HK$'000
Within 30 days	**64,866**	63,179
31 to 60 days	**6**	75
Over 60 days	**434**	417
	65,306	63,671

11. TRADE PAYABLES

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

	30.6.2018	31.12.2017
	HK$'000	HK$'000
0 to 60 days	**1,089,706**	1,158,975
61 to 90 days	**88,997**	99,529
Over 90 days	**132,538**	125,967
	1,311,241	1,384,471

12. COMPARATIVE FIGURES

In order to conform with current period's presentation:

(a) operating lease rental expenses of HK$567,428,000 as contained in the comparative figures of "Other expenses" in the condensed consolidated statement of profit or loss have been reclassified to "Operating lease rental expenses";

(b) net exchange gain of HK$2,391,000 as contained in the comparative figures of "Other expenses" in the condensed consolidated statement of profit or loss have been reclassified to "Other gains and losses"; and

(c) loss on disposal/written off of property, plant and equipment of HK$140,000 as contained in the comparative figures in the condensed consolidated statement of profit or loss have been reclassified to "Other gains and losses".

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 11 October 2018 to 12 October 2018 (both days inclusive), for the purpose of ascertaining Shareholders' entitlement to the proposed interim dividend, during which period no transfers of Shares will be registered. In order to qualify for the proposed interim dividend, all share transfers accompanied by the relevant share certificates, must be lodged for registration with the Company's share registrar, Tricor Secretaries Limited, at Level 22 Hopewell Centre, 183 Queen's Road East Hong Kong not later than 4:30 p.m. on 10 October 2018.

FINANCIAL REVIEW

In the first half of 2018, the PRC and Hong Kong delivered a stable macroeconomic performance and the retail sector in both markets showed signs of recovery. However, the development of new retail stores types and O2O e-commerce has intensified the competition in the retail market and presented challenges to the Group. Nevertheless, the diversification and personalisation of consumers' lifestyles have afforded a proliferation of opportunities. During the period, the Group continued to actively carry out internal business restructuring and cost control, focusing on improving customer experience and operation standards, and at the same time has accelerated digital marketing activities to cement its foundation for supporting future growth. For the six months ended 30 June 2018, thanks to its effective sales strategy and successful promotion initiatives, the Group's revenue hit a half-year record high of HK$4,929.8 million (2017: HK$4,620.7 million), representing a year-on-year increase of 6.7%. Furthermore, the Group's gross profit margin rose by 0.2 percentage point to 30.7% (2017: 30.5%) during the period. Therefore, despite the persistently high operating costs, the Group's profit before tax has improved by HK$32.1 million and substantially narrowed its loss to HK$38.5 million (2017: HK$70.6 million) during the period. The Board has maintained a stable dividend payment to shareholders and recommended payment of an interim dividend of HK22.0 cents (2017: HK20.0 cents) per share.

During the review period, staff costs increased by 6.8%, mainly attributable to additional labour costs incurred from adjustment of PRC staff salaries, and the ratio of staff costs to revenue was kept at 12.7%. Rental costs increased slightly by 1.0%, and the ratio of rental costs to revenue decreased from 12.3% to 11.6%. Other operating expenses including advertising, promotion and selling, maintenance and repair, utilities and other expenses increased by 7.0% and the ratio of these expenses to revenue stayed at 11.0%.

The Group has maintained a net cash position with cash and bank balances and short term time deposits of HK$2,025.5 million as at 30 June 2018 (31 December 2017: HK$2,216.9 million). It continues to use its internal resources to finance future business expansion.

As at 30 June 2018, deposits of HK$33.2 million (31 December 2017: HK$32.0 million) were pledged as guarantees to landlords for rental deposits. Deposits of HK$15.2 million (31 December 2017: HK$14.7 million) were pledged as guarantees to regulatory bodies for prepaid value cards sold.

Capital expenditure for the period was HK$86.9 million which was incurred from new store openings and store renovations.

Fluctuation of currency exchange rates had no significant impact on the Group as less than 5% of its total purchases were settled in foreign currencies other than its functional currencies in Hong Kong and the PRC.

BUSINESS REVIEW

Hong Kong Operations

During the review period, the Hong Kong economy achieved stable growth with the retail sector experiencing a recovery. For the first half of 2018, the Group continued to implement the sales strategies in 2H2017, including the "Super Wednesday" initiative, and largely adjusted its merchandise mix. Moreover, the "AEON STYLE" business model has continued to contribute satisfactory sales, with a total passenger flow enjoying a 5.2% increase. Hence, revenue from the Hong Kong operations still increased by 8.1% to HK$2,201.3 million year-on-year (2017: HK$2,037.2 million), despite the closure of its Wo Che store and some small stores during the period under review. The Group has adopted clear operations guidance in order to control different operational costs. During the review period, the increase in operational cost was just 1% and staff costs and miscellaneous expenses have been largely reduced compared to the previous year. Furthermore, boosted by the effective sales strategy, the Group recorded sales growth and thus the Hong Kong segment results significantly improved by HK$49.5 million and loss of its Hong Kong operation narrowed to HK$36.6 million (2017: HK$86.1 million).

During the period, the Group actively reviewed the performance of its stores and optimised its store network. As at 30 June 2018, the Group had 60 (31 December 2017: 64) stores in densely populated residential and commercial districts in Hong Kong.

PRC Operations

As for the PRC market, driven by the continued stability of both the overall economy and retail sentiment, revenue from the PRC operation rose by 5.6% to HK$2,728.5 million (2017: HK$2,583.5 million). To address the intensifying competition in the market, the Group has launched a new customer relationship management ("CRM") system last year with the aim of optimising customer relationship management and introducing big data analysis to strengthen its sales and marketing platform, leading to continued increase in sales from members. In order to continually improve the gross margin and optimise the commodity mix, the Company has integrated the mechanism of the procurement headquarters and expanded direct cooperation with brand merchants. The Group has also accelerated the development of self-owned brands. As a result of these measures, gross margin has increased from last year.

During the period under review, the Group reviewed its store portfolio in a timely manner, opening a store in Foshan and closing a store in Nanshan, Shenzhen after the expiry of the lease agreement. The results of the PRC operations, however, reported a loss of HK$13.7 million (2017: profit of HK$3.0 million) during the period. As the newly-opened stores are still in cultivation stage, plus the additional costs of store closures, additional loss of HK$30 million was incurred when compared with the same period last year. As at 30 June 2018, the Group operated a total of 32 stores (31 December 2017: 32 stores) in South China.

PROSPECTS

Looking ahead, although the economies in Hong Kong and the PRC are predicted to remain stable, looming uncertainties cannot be ignored. The intensifying competition in the retail sector, especially driven by the capital market, might result in more new retail business models entering the market. However, the Group has always believed, that no matter how the mode of sales changes, the nature of retail remains unchanged, that is, quality goods and good services are the keys to continually gaining customers' trust and their business. To cope with the challenges, the Group continuously reviews and adjusts its existing strategies and improves its cost structure, as well as undertakes new initiatives, including the development of e-commerce, aiming to secure a firm footing and maintaining its competitiveness in a fast-changing market.

Regarding the Hong Kong operations, persistently high operating costs still pose challenges, even as the macro economy and the retail market began to show sign of recovery. The Group remains cautiously optimistic about the future of the local retail market. It will continue to implement various measures to improve operational efficiency, including reducing staff at headquarters and strengthening the operational capabilities of stores. At the same time, we also recognise the need to find more excellent suppliers, as well as the importance of minimising the involvement of middlemen to reduce procurement costs. An important task in promoting the use of IT in business applications is the introduction of the new backbone system, which is currently in progress and is expected to be completed in early 2019. The establishment of the IT platform not only can improve digital analysis, but, more importantly, simplify working procedures and enhance efficiency. On the e-commerce front, the Group will continue to improve the user experience of "AEONCITY", boost the sales by expanding the use of the mobile app launched last year, and study the feasibility of working with third parties to further expand online sales channels.

About the store portfolio, the Group will maintain the strategy of opening small specialty stores and strengthening the development capacity of its stores. The Group expects at least five small stores to be opened in the second half of 2018. It also plans to incorporate part of the "AEON STYLE" elements into existing stores, in order to provide a better shopping experience for customers. With proven strategies in place, the Group looks forward to continued improvement of the Hong Kong operations in the near future.

Regarding the PRC operations, continuous steady growth is expected for the Chinese economy. With the contribution of consumer spending to economic growth up notably in the first half year, it is clear that consumption has become a major driver of the economy, showing the strong development potential of the retail sector. As the Group has entered the PRC market for 20 years, it is facing the challenges of aging stores and leases renewal. As such, besides opening new stores in a stable manner, it is also important to raise the profitability of existing stores. In the second half of the year, new stores will be opened in Jinshazhou, Guangzhou and Aoyuan, Zhuhai, respectively. Besides, based on the success of the "AEON STYLE" initiative in Hong Kong, the Group also plans to renovate the Shenzhen East Lake store into the first "AEON STYLE" in China during the second half of the year, with the aim to offer a brand new shopping experience for local customers. In late July, the store at Shunde was closed upon the expiry of tenancy. Due to store closures during the year, the Group expects that the performance of PRC operations for the year will not be significantly different from the previous year.

In addition, the Group has also actively adopted new elements into its business and launched business models amidst the "New Retail" environment. At the end of July 2018, the Group has partnered with JD.com and initiated trials of the O2O retail business model of “Cloud Warehouse” (雲倉) in Shenzhen and Shunde, targeting the customers beyond brick-and-mortar stores to provide daily necessities including fresh products. If the trial run delivers satisfactory results, the Group will expand the coverage of this business model to communities with high potential so that more consumers can enjoy its quality products without leaving home. At the same time, the Group is cooperating with Weixin and other business partners, aiming to bring customers a new retail experience.

The Group expects its total capital expenditure in the second half of 2018 to reach approximately HK$222 million, to be mainly spent on stores upgrade and transformation, construction of information system, and opening new stores, to boost operational efficiency and support greater sales volumes.

HUMAN RESOURCES

As at 30 June 2018, the Group has approximately 7,500 full-time and 4,200 part-time employees in Hong Kong and the PRC. The fundamental aspect of the retail business is people. In the first half of the year, the Group offered different courses, with about 17,000 people participating and involving 45,000 working hours of training. The Group is maintaining the successful strategies that it has implemented in the first half of the year, continuing to improve the content of operating manuals, and strengthening the standardisation of operations. This, in turn, can bolster the business indicators and the comprehensive assessment of staff performance. The Group also plans to launch a new personnel system next year in order to better motivate its staff. Committed to delivering the highest standards of service to its customers, the Group also strives to create a good working environment in order to foster camaraderie and morale among employees.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2018, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and with the knowledge of the Directors, the Company has maintained sufficient public float during the six months ended 30 June 2018 and up to the date of this report.

CORPORATE GOVERNANCE

The Board of the Company has complied throughout the six months ended 30 June 2018 with the code provisions set out in the Corporate Governance Code ("CG Code") and Corporate Governance Report contained in Appendix 14 to the Listing Rules except for the deviation disclosed below:

Under code provision A.2.1 of the CG Code requires the roles of chairman and chief executive should be separate and should not be performed by the same individual. The Board considered that the duties of the Managing Director ("MD") were no difference from that required of a chief executive stipulated under the code provision A.2.1 of the CG Code. The management would regard that the term of Managing Director will have the same meaning as the chief executive of the Company. During the period from 1 January 2018 to 30 June 2018, Ms. Yuki Habu ("Ms. Habu") was the Chairman of the Board and the MD of the Company.

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

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry of all Directors, the Company confirms that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2018.

The Audit Committee of the Company has reviewed the unaudited interim results for the six months ended 30 June 2018 with management.

PUBLICATION OF INTERIM REPORT ON THE WEBSITE OF THE STOCK EXCHANGE

The interim report for the six months ended 30 June 2018 containing all the information as required by the Listing Rules will be published on the websites of the Stock Exchange and the Company respectively and copies will be dispatched to shareholders of the Company in due course.

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

Hong Kong, 17 August 2018

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