AEON Stores (Hong Kong) Co., Limited

永旺(香港)百貨有限公司

2018 Interim Report

Stock Code: 984

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
HABU Yuki *(Chairman and Managing Director)*
IKUTA Masamitsu *(Deputy Managing Director)*
CHAK Kam Yuen
LAU Chi Sum Sam
TSUKAHARA Keiji

Non-executive Director
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)*
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 22, 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

7/F., D2 Place One
9 Cheung Yee Street
Lai Chi Kok, Kowloon
Tel: (852) 2565 3600
Fax: (852) 2563 8654

STOCK CODE

984

WEBSITE

www.aeonstores.com.hk

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	30.6.2017
		HK$'000	HK$'000
		(unaudited)	(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	8	**(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	10	**(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	11	**865,495**	881,412
Goodwill		**94,838**	94,838
Available-for-sale investments	12	**—**	24,158
Equity instruments at fair value through other comprehensive income	12	**24,705**	—
Pledged bank deposits	13	**26,441**	27,026
Deferred tax assets		**67,694**	69,519
Rental and related deposits paid	14	**261,012**	249,029
		1,340,185	1,345,982
Current Assets			
Inventories		**941,099**	950,925
Trade receivables	14	**65,306**	63,671
Other receivables, prepayments and deposits	14	**214,289**	187,459
Amounts due from fellow subsidiaries	15	**30,965**	58,031
Tax recoverable		**1,580**	—
Time deposits	16	**341,438**	169,234
Pledged bank deposits	13	**21,958**	19,703
Bank balances and cash		**1,684,108**	2,047,712
		3,300,743	3,496,735
Current Liabilities			
Trade payables	17	**1,311,241**	1,384,471
Other payables, accrued charges and other liabilities	17	**881,138**	1,416,898
Dividend payable		**33,053**	472
Contract liabilities	17	**429,678**	—
Amount due to ultimate holding company	15	**44,716**	29,541
Amounts due to fellow subsidiaries	15	**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	17	**209,245**	196,054
Deferred tax liabilities		**1,744**	827
		210,989	196,881
		1,864,368	1,940,252

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Attributable to owners of the Company								
	Share capital HK$'000	Investment revaluation reserve HK$'000	Translation reserve HK$'000	The People's Republic of China ("PRC") statutory reserves HK$'000	Non-distributable reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2017 (audited)	115,158	18,707	24,984	31,870	95,058	1,467,931	1,753,708	153,512	1,907,220
(Loss) profit for the period	–	–	–	–	–	(71,997)	(71,997)	717	(71,280)
Other comprehensive income for the period	–	869	2,855	–	–	–	3,724	2,674	6,398
Total comprehensive income (expense) for the period	–	869	2,855	–	–	(71,997)	(68,273)	3,391	(64,882)
Transfer of reserve	–	–	–	–	17,294	(17,294)	–	–	–
Dividends recognised as distribution (note 9)	–	–	–	–	–	(52,000)	(52,000)	–	(52,000)
Unclaimed dividends forfeited	–	–	–	–	–	58	58	–	58
At 30 June 2017 (unaudited)	115,158	19,576	27,839	31,870	112,352	1,326,698	1,633,493	156,903	1,790,396
Profit (loss) for the period	–	–	–	–	–	17,248	17,248	(20,190)	(2,942)
Other comprehensive income for the period	–	2,178	4,782	–	–	–	6,960	4,692	11,652
Total comprehensive income (expense) for the period	–	2,178	4,782	–	–	17,248	24,208	(15,498)	8,710
Transfer of reserve	–	–	–	1,446	–	(1,446)	–	–	–
Dividends recognised as distribution (note 9)	–	–	–	–	–	(52,000)	(52,000)	–	(52,000)
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	(3,735)	(3,735)
At 31 December 2017 (audited)	115,158	21,754	32,621	33,316	112,352	1,290,500	1,605,701	137,670	1,743,371
(Loss) profit for the period	**–**	**–**	**–**	**–**	**–**	**(50,484)**	**(50,484)**	**7,071**	**(43,413)**
Other comprehensive income for the period	**–**	**547**	**5,103**	**–**	**–**	**–**	**5,650**	**4,875**	**10,525**
Total comprehensive income (expense) for the period	**–**	**547**	**5,103**	**–**	**–**	**(50,484)**	**(44,834)**	**11,946**	**(32,888)**
Dividends recognised as distribution (note 9)	**–**	**–**	**–**	**–**	**–**	**(57,200)**	**(57,200)**	**–**	**(57,200)**
Unclaimed dividends forfeited	**–**	**–**	**–**	**–**	**–**	**96**	**96**	**–**	**96**
At 30 June 2018 (unaudited)	**115,158**	**22,301**	**37,724**	**33,316**	**112,352**	**1,182,912**	**1,503,763**	**149,616**	**1,653,379**

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

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Six months ended	
	30.6.2018	30.6.2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
OPERATING ACTIVITIES		
Operating cash flows before movements in working capital	**64,791**	30,215
Decrease in inventories	**28,088**	49,406
Increase in trade receivables	**(586)**	(1,532)
Increase in other receivables, prepayments and deposits	**(38,304)**	(10,586)
Decrease in amounts due from fellow subsidiaries	**27,102**	39,049
(Decrease) increase in trade payables	**(100,538)**	6,867
Decrease in other payables, accrued charges and other liabilities	**(553,257)**	(22,904)
Increase in contract liabilities	**429,678**	—
Increase in amount due to ultimate holding company	**15,175**	13,207
Increase (decrease) in amounts due to fellow subsidiaries	**10,361**	(17,809)
Cash (used in) generated from operations	**(117,490)**	85,913
PRC income taxes paid	**(7,805)**	(23,064)
Interest paid	**—**	(24)
Interest on bank deposits and time deposits received	**11,838**	12,477
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(113,457)**	75,302
INVESTING ACTIVITIES		
Dividend received from listed investment securities	**5**	4
Purchase of property, plant and equipment	**(88,931)**	(147,172)
Proceeds from disposal of property, plant and equipment	**57**	66
Placement of time deposits	**(769,034)**	(396,100)
Withdrawal of time deposits	**598,699**	378,818
NET CASH USED IN INVESTING ACTIVITIES	**(259,204)**	(164,384)
FINANCING ACTIVITIES		
Dividend paid	**(24,523)**	(20,962)
Repayment of obligation under a finance lease	**—**	(480)
CASH USED IN FINANCING ACTIVITIES	**(24,523)**	(21,442)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(397,184)**	(110,524)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**2,047,712**	1,769,924
Effect of foreign exchange rate changes	**33,580**	15,216
CASH AND CASH EQUIVALENTS AT 30 JUNE, represented by bank balances and cash	**1,684,108**	1,674,616

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 31 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 and Interpretation 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 Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
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. 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 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15") for the first time in the current interim period. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the following major sources:

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

The Group has applied HKFRS 15 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.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

Under HKFRS 15, 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.

A performance obligation represents a good and 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 and 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.

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 15 Revenue from Contracts with Customers (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (Continued)

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

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.

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 15 Revenue from Contracts with Customers (Continued)

2.1.2 Summary of effects arising from initial application of HKFRS 15

The application of HKFRS 15 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 (Note)	HK$'000
Current Liabilities			
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.

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 award 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 for 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. 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

In the current period, the Group has applied HKFRS 9 *Financial Instruments* ("HKFRS 9") 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 1 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.

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

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9

<u>Classification and measurement of financial assets</u>

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset 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 fair value through profit or loss ("FVTPL"), except that at the date of initial application/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 ("OCI") 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.

Equity instruments designated as at FVTOCI

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI 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.

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)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Classification and measurement of financial assets (Continued)

Equity instruments designated as at FVTOCI (Continued)

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with HKFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in note 2.2.2.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including pledged bank deposits, trade receivables, other receivables, amounts due from fellow subsidiaries, time deposits, and bank balances and cash). 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 and trade-related amounts due from fellow subsidiaries. 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 when there has been a significant increase in credit risk since initial recognition, 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.

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.

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)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Impairment under ECL model (Continued)

Significant increase in credit risk (Continued)

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; and
- 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.

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.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group considers that default has occurred when the instrument 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.

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)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Impairment under ECL model (Continued)

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.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

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, other receivables and amounts due from fellow subsidiaries where the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in note 2.2.2.

2.2.2 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 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.

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)

2.2.2 Summary of effects arising from initial application of HKFRS 9 (Continued)

(b) Impairment under ECL model (Continued)

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.

2.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the entity's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each individual line item.

	31.12.2017 HK$'000 (audited)	**HKFRS 15** HK$'000	**HKFRS 9** HK$'000	**1.1.2018** HK$'000 (restated)
Non-current Assets				
Available-for-sale investments	24,158	—	(24,158)	—
Equity instruments at fair value through other comprehensive income	—	—	24,158	24,158
Others with no adjustments	1,321,824	—	—	1,321,824
	1,345,982	—	—	1,345,982
Current Assets				
Others with no adjustments	3,496,735	—	—	3,496,735
Current Liabilities				
Other payables, accrued charges and other liabilities	1,416,898	(440,470)	—	976,428
Contract liabilities	—	440,470	—	440,470
Others with no adjustments	1,485,567	—	—	1,485,567
	2,902,465	—	—	2,902,465
Net Current Assets	594,270	—	—	594,270
Total Assets Less Current Liabilities	1,940,252	—	—	1,940,252
Capital and Reserves				
Others with no adjustments	1,743,371	—	—	1,743,371
Non-current Liabilities				
Others with no adjustments	196,881	—	—	196,881
	1,940,252	—	—	1,940,252

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:

	Six months ended	
	30.6.2018	30.6.2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
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 (unaudited)		
	Hong Kong	**PRC**	**Total**
	HK$'000	**HK$'000**	**HK$'000**
Direct sales	**1,998,245**	**2,500,132**	**4,498,377**
Income from concessionaire sales	**203,079**	**228,347**	**431,426**
	2,201,324	**2,728,479**	**4,929,803**

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 (unaudited)

	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)**

3. REVENUE AND SEGMENT INFORMATION (Continued)

For the six months ended 30 June 2017 (unaudited)

	Hong Kong HK$'000	PRC HK$'000	Total 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)

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
	(unaudited)	(unaudited)
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
	(unaudited)	(unaudited)
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 HK$'000 (unaudited)	30.6.2017 HK$'000 (unaudited)
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 HK$'000 (unaudited)	30.6.2017 HK$'000 (unaudited)
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

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.

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

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. LOSS FOR THE PERIOD

	Six months ended 30.6.2018 HK$'000 (unaudited)	30.6.2017 HK$'000 (unaudited)
Loss for the period has been arrived at after charging (crediting):		
Depreciation	**114,391**	110,194
Cost of inventories recognised as an expense	**3,416,708**	3,209,107
(Write-back) write-down of inventories (included in purchase of goods and changes in inventories)	**(289)**	2,791
Interest on finance leases	**–**	24

9. DIVIDENDS

	Six months ended 30.6.2018 HK$'000 (unaudited)	Six months ended 30.6.2017 HK$'000 (unaudited)
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.

10. LOSS PER SHARE

The calculation of basic loss per share attributable to the owners of the Company is based on the Group's loss for the period attributable to the owners of the Company of HK$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.

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group acquired property, plant and equipment of approximately HK$85,764,000 (six months ended 30.6.2017: HK$147,172,000) to expand its operations.

Certain stores of the Group has been experiencing recurring losses or performing below budget. The management considered there were impairment indicators and hence conducted impairment assessment on the relevant stores, which constitutes individual cash-generating units ("CGU") for the purpose of impairment assessment. The recoverable amounts of the relevant assets have been determined on the basis of value in use of the stores to which the relevant assets belong to. The value in use calculations use cash flow projections based on the latest financial budgets approved by the Company's management covering a period of 5 years, together with an extension period to the end of the relevant leases of the building fixtures with zero growth rate, and at a discount rate of 7% to 10% (six months ended 30.6.2017: 7% to 10%). Cash flow projections during the budget period were based on the expected gross margins during the budget period and the budgeted margins have been determined based on past performance and management's expectations for the future changes in the market. Accordingly, an impairment loss of HK$829,000 (six months ended 30.6.2017: nil) has been recognised in respect of property, plant and equipment of the Group, which has been allocated to the building fixtures and furniture, fixtures and equipment within property, plant and equipment.

12. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS

	30.6.2018 **HK$'000** **(unaudited)**	31.12.2017 HK$'000 (audited)
Equity securities:		
Listed shares in Hong Kong at fair value (Note)	**24,705**	24,158

Note: Listed equity securities were reclassified from available-for-sale investments to equity instruments at fair value through other comprehensive income upon the application of HKFRS 9.

Included in listed shares in Hong Kong is an investment in a fellow subsidiary of HK$24,482,000 (31.12.2017: HK$23,915,000).

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

13. PLEDGED BANK DEPOSITS

	30.6.2018		31.12.2017	
	Non-current **HK$'000** **(unaudited)**	**Current** **HK$'000** **(unaudited)**	Non-current HK$'000 (audited)	Current HK$'000 (audited)
Bank deposits were pledged for the following purposes:				
As guarantee to landlords for rental deposits	**26,441**	**6,714**	27,026	4,985
As requirement by the relevant PRC regulatory body for cash received from prepaid value cards sold	**—**	**15,244**	—	14,718
	26,441	**21,958**	27,026	19,703

14. 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 and an analysis of other receivables, prepayments and deposits:

	30.6.2018 **HK$'000** **(unaudited)**	31.12.2017 HK$'000 (audited)
Within 30 days	**64,866**	63,179
31 to 60 days	**6**	75
Over 60 days	**434**	417
Trade receivables	**65,306**	63,671
Rental and related deposits paid	**287,058**	266,157
Other receivables, prepayments and deposits	**188,243**	170,331
	475,301	436,488
Less: Rental and related deposits paid under non-current assets	**(261,012)**	(249,029)
Other receivables, prepayments and deposits	**214,289**	187,459

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

The amounts due to ultimate holding company and fellow subsidiaries are trade-related, unsecured, interest free and with credit term of 60 to 90 days (31.12.2017: 60 to 90 days). The amounts are aged within 60 days based on the invoice date at the end of reporting periods.

The amounts due from fellow subsidiaries are trade-related, unsecured, interest free and with credit term of 15 to 35 days (31.12.2017: 15 to 35 days). The amounts are aged within 35 days based on the invoice date and not yet due at the end of the respective reporting periods.

16. TIME DEPOSITS

As at 30 June 2018, time deposits represent Renminbi-denominated time deposits amounting to HK$12,244,000 and Hong Kong dollar-denominated time deposits amounting to HK$329,194,000 with original maturity of three months or more to one year. The average effective interest rate of Renminbi-denominated and Hong Kong dollar-denominated time deposits is 1.56% and 2.25% per annum, respectively. The deposits will expire within one year from the end of the reporting period. Accordingly, these amounts are classified as current.

As at 31 December 2017, time deposits represent Renminbi-denominated time deposits amounting to HK$47,287,000, Unites States dollar-denominated time deposits amounting to HK$11,747,000 and Hong Kong dollar-denominated time deposits amounting to HK$110,200,000 with original maturity between three months and one year. The average effective interest rates of Renminbi-denominated, United States dollar-denominated and Hong Kong dollar-denominated time deposits are 1.82%, 1.72% and 1.35% per annum, respectively. The deposits expired during the six months ended 30 June 2018.

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

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

	30.6.2018 HK$'000 (unaudited)	31.12.2017 HK$'000 (audited)
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
Trade payables	**1,311,241**	1,384,471
Accrued expenses and other liabilities	**582,790**	685,630
Accrued staff costs	**240,555**	218,585
Advance receipts on prepaid store-value cards and related tax	**55,266**	462,328
Deferred revenue	**—**	34,782
Payables for purchase of property, plant and equipment	**42,562**	43,803
Provision for reinstatements cost	**82,543**	84,487
Rental deposits received	**86,667**	83,337
	1,090,383	1,612,952
Less: Rental deposits received and other liabilities under non-current liabilities	**(209,245)**	(196,054)
Other payables, accrued charges and other liabilities	**881,138**	1,416,898
Contract liabilities (Note)	**429,678**	—

Note: Included in contract liabilities are advance receipts on prepaid store-value cards of HK$387,653,000 and deferred revenue for the award credits granted under customer loyalty scheme of HK$42,025,000.

18. CAPITAL COMMITMENTS

	30.6.2018 HK$'000 (unaudited)	31.12.2017 HK$'000 (audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided	**7,544**	8,037

19. RELATED PARTY TRANSACTIONS

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

		Six months ended	
Capacity	**Nature of transaction**	**30.6.2018 HK$'000 (unaudited)**	30.6.2017 HK$'000 (unaudited)
Fellow subsidiaries	Commission paid for credit facilities provided to the customers	**6,551**	6,349
	Franchise fee	**200**	211
	Other income	**2,507**	1,659
	Purchase of goods and property, plant and equipment	**176,974**	139,432
	Rental expenses, management fees and utilities expenses	**12,682**	10,626
	Rental income	**11,701**	9,486
	Sales of coupons	**4,000**	2,500
	Service fee expense	**52,677**	45,845
Ultimate holding company	Royalty expenses	**14,210**	12,976
Non-controlling shareholders of the subsidiaries*	Advertising expenses	**1,180**	1,161
	Rental expenses, management fees and utilities expenses	**33,650**	29,487
Directors and key management	Remuneration	**3,928**	4,605

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

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

	30.6.2018 HK$'000 (unaudited)	31.12.2017 HK$'000 (audited)
Amounts due from non-controlling shareholders of the subsidiaries (included in other receivables, prepayments and deposits)	**6,049**	5,535

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

21. 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.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2018, the interests of the Directors in the shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

(A) THE COMPANY

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

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

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

Notes:
1. As confirmed by Ms. HABU Yuki, her shareholding in AEON Co., Ltd. is 8,460 shares.
2. As confirmed by Mr. YAMASHITA Akinori, his shareholding in AEON Co., Ltd. is 15,630 shares.
3. As confirmed by Mr. TSUKAHARA Keiji, his shareholding in AEON Co., Ltd. is 1,300 shares.

DIRECTORS' INTERESTS IN SHARES (Continued)

(C) THE COMPANY'S ASSOCIATED CORPORATIONS

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

Notes:
1. As confirmed by Mr. YAMASHITA Akinori, his shareholding in AEON Financial Services Co., Ltd. is 10,976 shares.
2. As confirmed by Mr. TSUKAHARA Keiji, his holding in AEON REIT Investment Corporation is 7 units.

Other than as disclosed above, at 30 June 2018, neither the Directors nor the chief executives of the Company had any interests or short positions in any shares and debentures of the Company or any of its associated corporations (within the meaning of PART XV of the SFO).

SUBSTANTIAL SHAREHOLDERS

At 30 June 2018, shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or had otherwise notified the Company were as follows:

Name of substantial shareholders	Long Positions Number of ordinary shares held	Approximate percentage of the total number of issued shares %
AEON Co., Ltd.	157,536,000 (Note 1)	60.59
Standard Life Aberdeen plc and its affiliated investment management (together "the Aberdeen Group") on behalf of accounts managed by the Aberdeen Group	27,366,500 (Note 2)	10.53

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 27,136,500 shares representing 10.44% of the total number of issued shares of the Company.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company as at 30 June 2018.

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, 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.

UPDATED INFORMATION OF DIRECTORS

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

(A) CHANGES IN DIRECTORS

Name of Directors	Details of change
YAJIMA Hideaki	Retired as an Executive Director on 18 May 2018
WAKO Shinya	Retired as a Non-executive Director on 18 May 2018
YAMASHITA Akinori	Appointed as a Non-executive Director on 18 May 2018
TSUKAHARA Keiji	Appointed as an Executive Director on 24 May 2018
MIZUNO Hideto	Appointed as an Independent Non-executive Director on 17 August 2018
HABU Yuki	Appointed a Director of Giddy Inc., a Delaware corporation doing business as Boxed, on 10 August 2018

(B) CHANGES IN DIRECTORS' EMOLUMENTS

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

With effect from 1 January 2018, the Directors' entitlement to director fees and/or emoluments (which will be pro-rata to the period of services in the year of their appointments) for the year ending 31 December 2018 are as follows:

Name of Directors	Fees and/or Emoluments HK$
HABU Yuki	1,381,000
IKUTA Masamitsu	1,585,000
YAJIMA Hideaki	1,575,000
CHAK Kam Yuen	1,313,000
LAU Chi Sum Sam	1,152,000

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

Hong Kong, 17 August 2018