

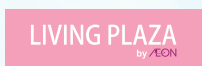


AEON Stores (Hong Kong) Co., Limited

永旺(香港)百貨有限公司

2018 Annual Report

Stock Code: 984



CONTENTS

Corporate Information	2
Financial Highlights	3
Management Discussion and Analysis	4
Environmental, Social and Governance Report	8
Senior Management Profile	14
Corporate Governance Report	17
Directors' Report	27
Independent Auditor's Report	38
Consolidated Statement of Profit or Loss	44
Consolidated Statement of Profit or Loss and Other Comprehensive Income	45
Consolidated Statement of Financial Position	46
Consolidated Statement of Changes in Equity	48
Consolidated Statement of Cash Flows	49
Notes to the Consolidated Financial Statements	51
Financial Summary	110

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

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

Units 07–11, 26/F, CDW Building
388 Castle Peak Road
Tsuen Wan, N.T.
Tel: (852) 2565 3600
Fax: (852) 2563 8654

STOCK CODE

984

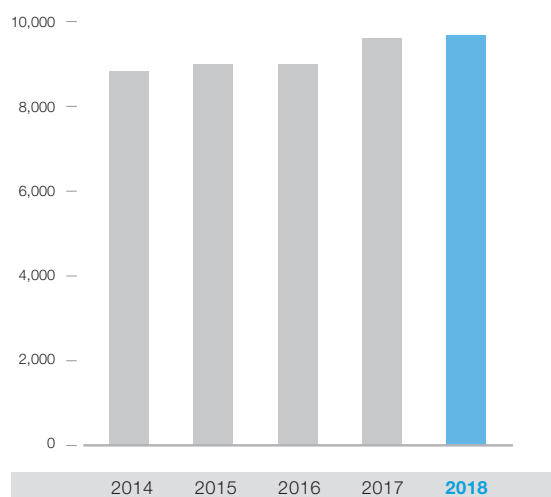
WEBSITE

www.aeonstores.com.hk

FINANCIAL HIGHLIGHTS

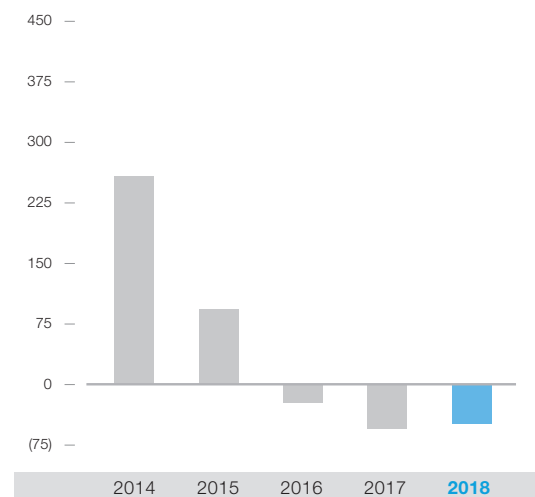
Revenue

(HK\$ million)



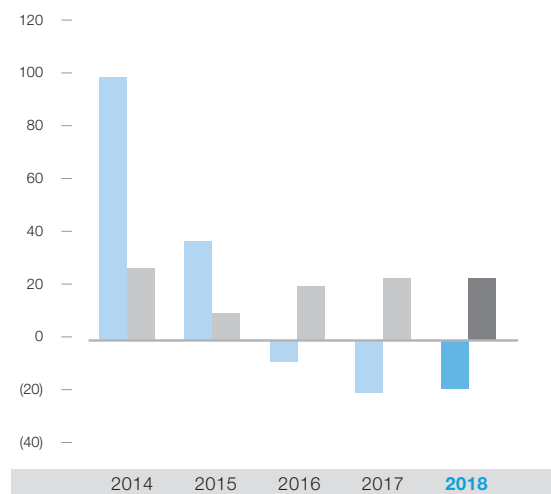
Profit (Loss) Attributable to Owners of the Company

(HK\$ million)



Earnings (Loss) and Dividends per Share

(HK cents)

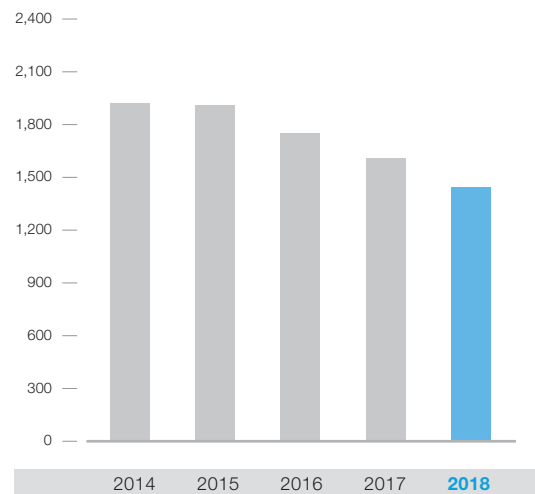


■ Earnings (Loss) per share

■ Dividends per share (special dividend excluded)

Equity Attributable to Owners of the Company

(HK\$ million)



MANAGEMENT DISCUSSION AND ANALYSIS



Ms. HABA Yuki
Chairman and Managing Director

In the first half of 2018, the retail market recovered along with the healthy economic growth in both the PRC and Hong Kong. However, consumption sentiment became more cautious following the escalation of the US-China trade conflict and the fluctuations in global financial markets in the second half. These macroeconomic developments plus a number of uncontrollable factors including the rising operating costs such as the persistently high rentals posed strong pressure on the Group's profit. Despite this, the Group continued to achieve revenue growth and recorded a strong performance through implementing effective sales strategies in 2018. The Group also continued to implement internal business restructuring, strategically adjust its store portfolio and execute cost control measures, all of which contributed to better results than last year.

Business Review

In order to continuously respond to market changes and customer segmentation, the Group has comprehensively reviewed its previous marketing strategies, focusing on boosting sales on "Super Wednesday" and weekends, while refreshing 52-week merchandise plans in order to provide customers with a portfolio of products and promotions that suit their needs. Despite the market instability in the second half of the year, the Group's same-store sales (including direct sales and concessionaire sales) increased by 3.1% year-on-year. Cost control is also an important part of the Group's work. Apart from a slight increase in rental cost, other operating costs (including employee costs and other expenses) decreased by 3.9% during the year.

In terms of the merchandise mix, the Group has focused on restructuring its supply chain management, it not only enhanced its negotiation ability and reduced costs, but also expanded the proportion of direct procurement, as well as actively utilised AEON's global supply chain network to successfully introduce and launch its new private brands in Hong Kong and the PRC, which have enjoyed an overwhelming response from customers.

The Group also took an initiative in innovating its business along with its business restructuring. To improve employee productivity, the Group is currently working on the automation of some daily repetitive processes. As for the digitalization of operations, the Group has strengthened its digital loyalty membership system. During the year, new user registrations in the PRC recorded a growth of 73%, reaching a total number of 2.2 million members.

The Group is deeply aware of the intensifying market competition and the importance of innovation, and realises the particular importance of improving its internal restructuring capabilities. Thus during the year, the Group has accelerated the pace of restructuring, and as a result, the total revenue reached a record high, while achieving a business turnaround for the Hong Kong segment. Due to the expiration of some of the store leases which affected the revenue of the PRC business, the Group was still able to narrow the segment loss by 43.2%, equivalent to HK\$38.6 million from the previous year. The Board has maintained the dividend policy of paying stable dividends to shareholders as a reward for their support. The Group has recommended payment of a final dividend of HK22.0 cents per share. Together with the interim dividend, the Group has paid total dividends of HK44.0 cents in 2018 (2017: HK42.0 cents).

MANAGEMENT DISCUSSION AND ANALYSIS

Hong Kong Operations

In the first half of 2018, the Hong Kong economy showed stable growth with improving retail sentiment. However, the US-China trade friction, other external uncertainties and fluctuations in the financial markets contributed to a notable economic slowdown of growth in the second half. According to the data announced by the Hong Kong Government, economic growth in the fourth quarter last year was below 1.5% and growth for the whole year was only approximately 3%, which was at the lower end of the forecast range¹. Retail sales in Hong Kong also slid substantially from double digit growth in the first half of 2018 to a year-on-year growth of only 0.1% last December.

Under such a challenging environment, the Group has continued to implement effective marketing and promotion strategies, actively adjust its merchandise mix and improve its supply chain management. These strategies and the expected profit contribution from the “AEON STYLE” business model have enhanced the Group’s sales and profitability. As a result, revenue from the Group’s Hong Kong operations climbed by 2.6% to HK\$4,376.9 million (2017: HK\$4,267.7 million) despite the closure of the Wo Che store. Operations in Hong Kong also turned around from the loss of HK\$47.8 million recorded last year to a profit of HK\$9.06 million mainly attributable to the Group’s overall sales growth and its proven cost control measures.

During the year under review, the Group actively reviewed the performance of its stores, optimised its store network and focused on opening small stores. As at 31 December 2018, the Group had 63 (2017: 64) stores in densely populated residential and commercial districts in Hong Kong.

PRC Operations

As for the PRC market, its economy grew steadily in 2018 with an annual growth rate of 6.6%². Yet, the continuous development of the “New Retail” business model intensifying competition in the retail industry and the uncertainties arising from the emerging US-China trade war presented challenges to the development of the Group’s PRC operations. During the year, revenue from the PRC operations dropped slightly by 1.8% to HK\$5,298.9 million (2017: HK\$5,397.9 million). The Group continued to improve its store portfolio through strategically closing and opening stores. For example, it closed the stores in Nanshan, Shenzhen and Shunde after the expiry of the lease agreements and opened three stores in Foshan, Guangzhou and Zhuhai. As the new stores remained at the investment stage and the intense competition led to a drop in gross profit, the Group’s PRC operations recorded a loss of HK\$59.8 million (2017: loss of HK\$41.5 million) during the year. Riding on the success of the “AEON STYLE” business model in Hong Kong, the Group replicated the model in the PRC and opened the country’s first “AEON STYLE” store in East Lake, Shenzhen. Renovation of the store was completed in December 2018 and it is ready to offer a brand new shopping experience to Chinese customers. As at 31 December 2018, the Group operated a total of 33 stores (2017: 32 stores) in South China.

Financial Review

During the report period, the Group’s total revenue increased HK\$10.4 million to a new high of HK\$9,675.9 million from HK\$9,665.5 million last year, mainly due to the Hong Kong segment achieving sales growth. Gross profit margin was maintained at a stable level of 31.0%. The Group succeeded in narrowing the loss owing to higher sales growth and a series of cost control measures. Loss attributable to owners of the Company for the year was HK\$49.2 million (2017: HK\$54.7 million).

¹ Budget 2019-20 published by the Hong Kong SAR Government

² National Bureau of Statistics

MANAGEMENT DISCUSSION AND ANALYSIS

During the year under review, the Group saw a decline in various cost items due to the impact from the closure and opening of stores. Staff cost decreased by 4.2% and its ratio to revenue dropped to 12.1% (2017: 12.7%) thanks to the effective cost saving measures. As for other operating expenses including advertising, promotion and selling expenses, maintenance and repair expenses, utility expenses and other expenses, they were reduced by 3.7% and the ratio of these expenses to revenue decreased from 11.4% to 11.0%. Operating lease rental expenses increased slightly by 0.6% and its ratio to revenue maintained at 11.6%.

Loss in “Other Gains and Losses” surged to HK\$22.1 million (2017: HK\$18.4 million) mainly affected by the exchange loss recorded during the year.

The Group maintained a net cash position with cash and bank balances and short term time deposits amounting to HK\$2,009.4 million as at 31 December 2018 (2017: HK\$2,216.9 million). It will continue to use its internal resources to finance future business expansion.

As at 31 December 2018, deposits of HK\$31.6 million (2017: HK\$32.0 million) were pledged to the bank as guarantees of the rental deposits to landlords. Deposits of HK\$8.2 million (2017: HK\$14.7 million) were pledged to regulatory bodies as guarantees for prepaid value cards sold.

In 2018, capital expenditure for opening new stores and store renovation in Hong Kong and the PRC amounted to HK\$172.2 million.

Prospects

In the coming year, the Group expects the uncertainties in the PRC and Hong Kong economies, in particular those arising from the ongoing US-China trade conflict, will continue to affect consumption and retail sentiment in both places. The retail landscape has also experienced great changes in the past few years. The rising of the “New Retail” model has intensified the competition in the retail market and thus presented challenges to market players. Nevertheless, as customers pursue a higher living standard, the Group will excel in the market through its quality merchandise mix and attentive services. Looking ahead, the Group will build on its solid foundation built over the years to conduct internal reviews and implement internal restructuring, hoping to maintain its competitiveness in the changing retail market and offer an extraordinary retail experience to customers through the new operations model.

The Group has signed an agreement with AEON TopValu Co., Ltd (“TopV”), a subsidiary of AEON Co., Ltd., the controlling shareholder of the Company, at the end of last year. Pursuant to the agreement, starting from 2019, the Group is to purchase both house brand products and other products directly from their manufacturers or suppliers and sell them in Hong Kong and the PRC. The Group believes that having its own merchandising team will further enable it to improve operation of the supply chain as well as strengthen its relationships with the manufacturers and suppliers, in order to better control costs. The Group expects that this procedure will help to increase the sales proportion of the products bearing house brand and to boost overall gross profit margin.

Hong Kong Operations

Given that Hong Kong’s overall economy has begun slowing down in the second half of last year, the Group expects that the market will face more uncertainties and the overall business environment will become more challenging in the year ahead, and thus will continue to prudently drive the business development. While continuously implementing its proven effective sales strategy, it will also actively enhance operational efficiency and cost structure in order to strengthen cost control and raise profitability.

As operating small stores provides greater flexibility in terms of location selection and lease terms, the Group continues the strategy of actively opening small specialty stores. The Group opened a small store during the first three months of 2019, and plans to open two new stores in the second quarter. In the future, the Group plans to continue to adjust the existing store portfolio and explore opportunities to open more small stores across Hong Kong.

The “AEON STYLE” concept has been well-received in the Hong Kong market and its business has advanced along the right track. In view of this progress, the Group plans to gradually replicate the successful elements of AEON STYLE in other stores, with the aim of offering a better retail experience to customers. At the same time, the Group will further enhance the merchandise mix of all stores and will better utilise the procurement network of the Japan-based AEON Group, so as to stimulate sales growth with enriched and appealing Japanese merchandise.

To enhance operating efficiency, the Group will extend the application of information technology systems in daily business operations, including improving a self-service cashier system and installing more self-service cashiers. It also plans to launch a new ERP system in the first half of 2019 to improve the workflow and offer a more attentive shopping experience to customers.

MANAGEMENT DISCUSSION AND ANALYSIS

PRC Operations

Affected adversely by the external uncertainties such as the trade dispute between the PRC and the US, the economic growth of the PRC is likely to slow. However, with the increasing spending power and pursuit of quality of life by the society as a whole, the Group remains optimistic about the long-term growth potential of the PRC operations. Nonetheless, the Group is positive about the development potential of South China, particularly Guangdong Province. The PRC Government's active efforts to drive the development of the Guangdong-Hong Kong-Macao Greater Bay Area, coupled with the completion of the infrastructure projects in the area, notably the opening of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and Hong Kong-Zhuhai-Macao Bridge, are believed to create new opportunities for the Group's business in South China.

To boost the sales performance of existing stores, the Group introduced a new customer relationship management ("CRM") system in 2017 to strengthen its customer relationship management. It has also utilised big data to fine-tune marketing capabilities in order to provide a more comprehensive range of merchandise and attentive services better targeted to the needs of customers.

Looking ahead to 2019, the Group will accelerate initiatives for digitalized operations, including constructing an omni-channel platform and cross-border shopping business. Besides maintaining the pace of opening stores in a prudent manner, the Group will continue to improve its store portfolio and enhance operational efficiency in the PRC through reviewing the performance of existing stores. The Group plans to open a new store in Shenzhen and two stores with new business models in Shunde within this year as well as actively explore the opening of "Cloud Warehouse".

The Group has completed the renovation of its Donghu store in Shenzhen as the first "AEON STYLE" store in the PRC. Opening in December last year the new store has enjoyed a favourable response from customers. The Group will continue to monitor and review its effectiveness and will introduce its successful elements to existing stores in other first-tier cities within the PRC. The Group will also continue to cooperate with property developers to generate business in new areas and will cooperate with operators of other well-established shopping malls to open stores in the areas with potential for growth in a bid to expand its presence in the PRC.

In 2019, the Group expects its total capital expenditure in the PRC and Hong Kong to reach approximately HK\$240 million, which is mainly earmarked for opening new stores, renovating existing stores and enhancing back-office support such as information technology systems to boost business efficiency and provide support for further business development.

Company Objectives

Adhering to the concept of "operating a business that can fully satisfy customer needs", the Group endeavours to provide customers with a healthy, safe and convenient shopping environment and services to enhance their quality of living. All AEON employees share the same service concept and are dedicated to creating long-term value for the Group by gaining the customers' trust. In the future, the Group will focus on expanding its market share in the PRC and Hong Kong, and also actively drive business growth and enhance its operational efficiency and lower costs. The Group truly believes the above measures will generate stable and satisfactory returns for shareholders and all stakeholders.

Human Resources

As at 31 December 2018, the Group had 7,100 full-time and 3,700 part-time employees in Hong Kong and the PRC. The Group remunerates employees based on their performance, experience and prevailing industry practices. Committed to delivering the highest standard service to all customers, the Group will continue to enhance the quality and skills of its employees by providing them with professional training and mentorship. It also strives to create a pleasant working environment that can foster comradeship among employees.



Yuki HABU

Chairman and Managing Director

Hong Kong, 20 March 2019

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

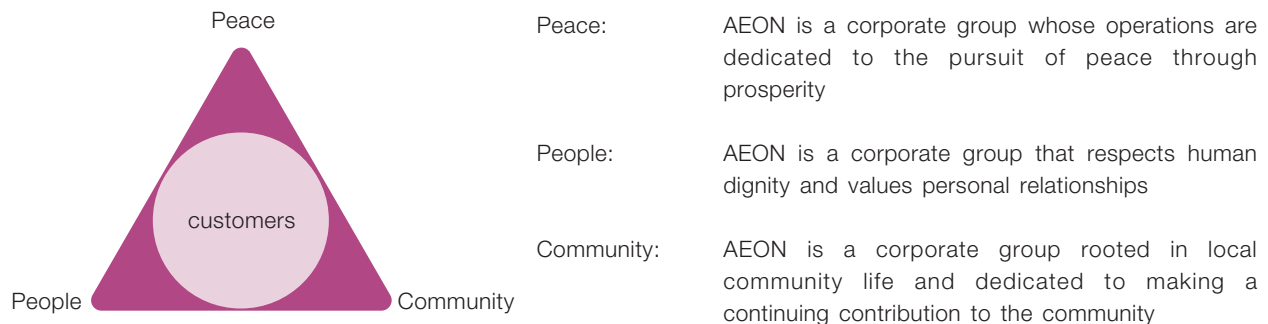
The Company is committed to the sustainable development of the environment and our society.

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

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

Our philosophy

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



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

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

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

Environmental

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

1. We will strive to reduce the emission of greenhouse gases in all of our business activities in order to realize a low-carbon society.
2. We will promote conservation activities and ascertain the benefits and impact of our business activities on natural ecosystems.
3. We will strive to implement resources conservation and resources recycling initiatives in order to use resources in a sustainable manner.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

4. We will comply with legal requirements and with other requirements related to our environmental aspects, and strive to prevent pollution.
5. We will develop partnerships with many stakeholders, including our customers, and widen the reach of our initiatives.

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

(a) Emissions

AEON's largest direct source of carbon dioxide emissions is from kitchens or workshops in our store operations which consume gas. In 2018, 969 tonnes (2017: 1,052 tonnes) of carbon dioxide was emitted. AEON will continue to introduce all-electric cooking system and kitchen equipment in stores to reduce greenhouse gas emissions from gas combustion as far as practicable.

AEON's indirect source of carbon dioxide emissions is from its electricity consumption in our store operations. In 2018, 110,093 tonnes (2017: 114,161 tonnes) of carbon dioxide was emitted.

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

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

AEON works with recycling organizations which convert food waste to animal feed or transform food waste into electricity and compost. In 2018, 3,429 tonnes (2017: 4,070 tonnes) of food waste was collected for recycling.

AEON recycles waste cooking oil into biodiesel products. In 2018, 72,252 litres (2017: 66,750 litres) of waste oil was collected for recycling.

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

(b) Use of resources

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

The Group's electricity and gas consumption in the year were 152.5 million kWh and 15.5 million MJ respectively (2017: 157.6 million kWh and 17.0 million MJ). We are actively promoting measures such as converting store lighting to LED or use LED for new stores and improving energy conservation management as we strive to reduce energy consumption. We also adopt high-efficiency motors and compressors for refrigeration and take measures to minimize heat loss such as increase the proportion of closed-typed freezers.

The Group's water consumption in the year was 1.3 million cubic metres (2017: 1.4 million cubic metres). The Group does not have any issue in sourcing water that is fit for our operations. We are actively working to raise water consumption efficiency by improving facility design and operational practices.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Packaging material is another source of resources consumed in our operations. In the year, the Group distributed plastic shopping bags and packing materials of 235,800 Kg (2017: 258,100 Kg) to our customers. AEON encourages our customers to bring their own shopping bags to reduce shopping bags consumption. AEON also adopted bio-degradable materials for the production of its shopping bags and adopted recyclable materials for its wrapping materials.

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

(c) The environment and natural resources

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

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

Social

1. Employment and labour practices

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

(a) Employment

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

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

(b) Health and safety

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

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

(c) Development and training

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

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

i) AEON fundamental education

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

ii) Internal certification systems

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

iii) Group recruitment system

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

iv) Trainee system

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

v) AEON business school

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

vi) Partnership training program with Tsinghua University

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

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

vii) AEON Code of Conduct training

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

(d) Labour standards

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

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

2. Operating practices

(a) Supply chain management

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

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

(b) Product responsibility

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

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

(c) Anti-corruption

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

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3. Community

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

AEON launched among its community contribution programs:

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

In the year, goods valued approximately HK\$1.9 million were donated to 120 charitable organizations. Since its launch, the campaign has supported different organizations, providing support to charity works covering environmental conservation, senior and child welfare and animal protection.

- ii) Clean and green activities, consists of employees volunteering to plant trees, clean up areas around stores and areas surrounding public facilities. Staff volunteers contributed to visits of elderly homes, mentally handicapped centres and under-privileged families to convey love and care. In the year nearly 6,000 trees were planted and 2,400 sets of planting kits were distributed to customers to promote green lifestyle.
- iii) The AEON Cheers Club provides hands-on opportunities for primary to secondary students to learn about the environment. Young people can participate in environmental activities with the support of store employees. In the year, 73 activities were organized.
- iv) The AEON scholarship program provides financial support to high school and university students, leaders of the next generation in China.
- v) AEON and World Vision Hong Kong jointly organized the “Used Book Recycling Campaign” every year to raise funds for school building construction and other educational projects in poor areas in China through collection and charity sale of used books. The campaign aims to improve the learning environment of children, and at the same time, to promote resource recycling among the public.

In the year, nearly 160,000 books were collected and raised approximately HK\$1.6 million. Fund raised was used to support the Jiaxin Centre and Xieshou Centre in Kunming County, Yunnan Province, providing life skills training to children, improving their learning environment and offering trainings for teachers.

- vi) AEON provides direct support to low-income families through food donation. In the year over 43,000 items valued HK\$0.9 million were donated to a food bank run by charitable organization.

SENIOR MANAGEMENT PROFILE

Executive Directors

Ms. HABU Yuki

Ms. Habu (aged 51) was appointed as Non-executive Director in March 2014 and re-designated as Executive Director in May 2017. She became the Chairman in April 2015 and the Managing Director in May 2017. She is also an executive officer, chief officer of China Business of Aeon Co., Ltd. ("Aeon Co") from March 2017. She is the president of AEON (China) Co., Ltd.. She joined Aeon Co in 1991 and has been a director of AEON (China) Co., Ltd. and was the former managing director of Beijing AEON Co., Ltd. She is also a director of Giddy Inc., a Delaware corporation doing business as Boxed from August 2018. Ms. Habu graduated from the Keio University with a bachelor's degree in Commerce.

Mr. IKUTA Masamitsu

Mr. Ikuta (aged 52) was appointed as Executive Director and Deputy Managing Director in March 2017. He is the Director in charge of the Buying Division of the Company. He joined Aeon Co in 1989 and worked in AEON Global Merchandising Co., Ltd. ("AGMCL") since August 2007 and became the assistant general manager of non-foods section of AGMCL in April 2010. He joined Daymon Worldwide Inc. as senior director of health & beauty care and nonfoods in July 2012. In September 2014, he joined AEON (Thailand) Co., Ltd as managing director and AEON Topvalu (Thailand) Co., Ltd. as director. Mr. Ikuta graduated from the Nihon University College of Economics, Department of Industrial Management.

Mr. CHAK Kam Yuen

Mr. Chak (aged 56) was appointed as Executive Director in March 2013 and is in charge of Corporate Compliance Division of the Company. Since joining the Company in 1987, Mr. Chak has amassed over 30 years of solid experience in retail industry, specifically in store management. Mr. Chak graduated from The Open University of Hong Kong with a master's degree in Business Administration and Electronic Commerce.

Mr. LAU Chi Sum Sam

Mr. Lau (aged 52) was appointed as Executive Director in March 2017 and is in charge of the Operations Division of the Company. He joined the Company in 1992 and possesses extensive experience in retail operations and buying field.

Mr. TSUKAHARA Keiji

Mr. Tsukahara (aged 49) was appointed as Executive Director in May 2018 and is in charge of the Administration Division and Corporate Finance Division of the Company. He joined Aeon Co as the manager of the real estate finance group in September 2003 and became manager of the finance and planning group in October 2009. He became director of AEON REIT Management Co., Ltd. ("ARMCL") in August 2012 and was an executive director of ARMCL before he joined the Company. Mr. Tsukahara graduated from the Chiba University with a bachelor's degree in Economics.

Non-Executive Director

Mr. YAMASHITA Akinori

Mr. Yamashita (aged 65) was appointed as Non-executive Director in May 2018. He is a director, executive vice president and executive officer, chief financial officer and business management of Aeon Co. He joined AEON Co in April 1977 and became executive officer in May 2004, managing executive officer in May 2005 and chief officer of finance in September 2013. He was a director and senior executive vice president of The Dai-ichi Kangyo Bank, Ltd. in May 2010, president and representative director of Aeon Financial Service Co., Ltd. in June 2014, chairman and representative director of Aeon Retail Co., Ltd. in March 2016. Mr. Yamashita graduated from the Kansei Gakuin University with a bachelor's degree in Law.

SENIOR MANAGEMENT PROFILE

Independent Non-Executive Directors

Ms. CHAN Yi Jen Candi Anna

Ms. Chan (aged 57) was appointed as Independent Non-executive Director in May 2013. She is a practicing solicitor in Hong Kong for over 28 years and is a consultant of LCP Lawyers. Ms. Chan was respectively admitted as solicitor in Hong Kong in 1987, as solicitor in England & Wales in 1992 and as advocate and solicitor in Singapore in 1995. She is also a civil celebrant and accredited mediator. Ms. Chan graduated from the University of Hong Kong with a bachelor's degree in Laws (LL.B.). She is currently the Deputy Chairman of Rules, Chairman of Championship Committee and Tournament Director with the Hong Kong Golf Association.

Ms. LO Miu Sheung, Betty

Ms. Lo (aged 56) was appointed as Independent Non-executive Director in November 2013. She is a qualified solicitor in Hong Kong and has over 28 years of experience in general legal practice, with specialisation in conveyancing, commercial and probate laws. Ms. Lo has been in active practice since qualification and is currently a consultant of Messrs. K.C. Ho & Fong, Solicitors. She graduated from The University of Hong Kong with a bachelor's degree in Laws (LL.B.) in 1985. She also holds a Postgraduate Certificate in Laws (PCLL). She is currently an independent non-executive director of Sincere Watch (Hong Kong) Limited and Kingston Financial Group Limited, the shares of which are listed on the main board of the Stock Exchange. She was an independent non-executive director of Eagle Legend Asia Limited for the period from March 2012 to December 2014, which is listed on the main board of the Stock Exchange.

Mr. CHOW Chi Tong

Mr. Chow (aged 59) was appointed as Independent Non-executive Director in January 2016. He is an accountant in practice as a partner of Ting Ho Kwan & Chan CPA Limited, Certified Public Accountants (Practising). Mr. Chow holds a diploma in yarn manufacturing from The Hong Kong Polytechnic University and he has over 32 years of experience in both accounting and auditing. He is a fellow member of Hong Kong Institute of Certified Public Accountants and The Institute of Chartered Accountants in England and Wales.

Mr. MIZUNO Hideto

Mr. Mizuno (aged 45) was appointed as Independent Non-executive Director in August 2018. He has been the vice chairman of Mizuno Sports Promotional Foundation, a non-profit organization, since June 2016. He was also the wholesale director of Timberland brand of VF Japan Corporation from June 2017 to February 2018. Before June 2017, Mr. Mizuno was an executive director of Mizuno Corporation, a company listed on the Tokyo Stock Exchange. During his over ten years' services in Mizuno Corporation, he was in charge of the Global Brand Development, New Business Development, National Accounts Sales and Nagoya Sales Branch Office. He was also the vice president of Mizuno USA in charge of Corporate Planning during the period from July 2005 to March 2009. Mr. Mizuno holds a master degree in Business Architect from the Kanazawa Institute of Technology Japan, a bachelor's degree in Chemistry from the Carthage College USA and a bachelor's degree in Economics from the Keio University Japan.

SENIOR MANAGEMENT PROFILE

Senior Management

Mr. YEUNG Tze Shing

Mr. Yeung (aged 55) is the General Manager of Corporate Finance Division of the Company. He is a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant of the HKICPA. He joined the Company in 1995. Mr. Yeung graduated from the Chinese University of Hong Kong with a bachelor's degree in Science.

Mr. SIU Hung Fat Gary

Mr. Siu (aged 55) is the Assistant General Manager of Business Support Division of the Company. He joined the Company in 1994 and possesses extensive experience in retail operations and buying field. Mr. Siu graduated from the University of Leicester with a master's degree in Business Administration.

Ms. LI Qian

Ms. Li (aged 45) is the Assistant General Manager of Human Resources Department of the Company. She joined the Company in July 2018. After she joined AEON (China) Co., Ltd. in June 2004 as manager of Human Resources Department, she has worked in various related entities of the Group in China and gained extensive experience in the management of Human Resources and Administration. Ms. Li graduated from the Tianjin Polytechnic University with a bachelor's degree in Computer and Applications and from the Renmin University of China with a master's degree in Business Administration.

CORPORATE GOVERNANCE REPORT

Corporate Governance Practice

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

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

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

Directors’ Securities Transactions

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

Board of Directors

The Board currently comprises a total of 10 Directors, being 5 Executive Directors, 1 Non-executive Director and 4 Independent Non-executive Directors. The number of Independent Non-executive Directors represents one-third of the Board as required by Rule 3.10A of the Listing Rules. The list of the Directors and their biographies are respectively set out on pages 14 to 15 of this annual report.

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

The Board has scheduled at least four meetings a year and meets as and when required. During the year, the Board held six meetings. The Company Secretary assists the Chairman in establishing the meeting agenda, and each Director may request inclusion of items in the agenda. For the five out of the six Board meetings held in the year, at least 14 days’ notice is given to all Directors. One Board meeting was convened with less than 14 days’ notice to facilitate the Directors’ timely reaction and expeditious decision making process in respect of the affairs of the Company. All Board meetings, nevertheless, were duly convened and held in the way prescribed by the Articles of Association of the Company. Adequate and appropriate information are circulated normally three days in advance of Board meetings to the Directors. In addition to regular Board meetings, the Chairman of the Board met with the Non-executive Directors (including the Independent Non-executive Directors) without the presence of the other Executive Directors.

CORPORATE GOVERNANCE REPORT

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

	Directors	Number of attendance
Executive Directors	Yuki Habu (<i>Chairman and MD</i>) (Note 1)	6/6
	Masamitsu Ikuta (<i>Deputy MD</i>)	6/6
	Hideaki Yajima (Note 2)	3/3
	Chak Kam Yuen	6/6
	Lau Chi Sum Sam	6/6
	Keiji Tsukahara (Note 3)	2/2
Non-executive Director	Shinya Wako (Note 4)	2/3
	Akinori Yamashita (Note 5)	3/3
Independent Non-executive Directors	Chan Yi Jen Candi Anna	5/6
	Lo Miu Sheung Betty	5/6
	Chow Chi Tong	6/6
	Hideto Mizuno (Note 6)	1/1

Notes:

- Ms. Yuki Habu was appointed as a Director of Giddy Inc., a Delaware corporation doing business as Boxed, on 10 August 2018.
- Mr. Hideaki Yajima retired as an Executive Director on 18 May 2018.
- Mr. Keiji Tsukahara was appointed as an Executive Director on 24 May 2018 and there were 2 Board meetings held after his appointment.
- Mr. Shinya Wako retired as a Non-executive Director on 18 May 2018.
- Mr. Akinori Yamashita was appointed as a Non-executive Director on 18 May 2018 and there were 3 Board meetings held after his appointment.
- Mr. Hideto Mizuno was appointed as an Independent Non-executive Director on 17 August 2018 and there was 1 Board meeting held after his appointment.

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

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

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

The Board members have no financial, business, family or other material/relevant relationship with each other. Given the nature and business objectives of the Company, the Board has a balance of skill, experience and diversity perspectives appropriate for the requirements of the business of the Company.

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

CORPORATE GOVERNANCE REPORT

The attendance of the Directors at the Annual General Meeting held on 18 May 2018 is as follows:

	Directors	Number of attendance
Executive Directors	Yuki Habu (<i>Chairman and MD</i>)	1/1
	Masamitsu Ikuta (<i>Deputy MD</i>)	1/1
	Hideaki Yajima (Note 1)	0/1
	Chak Kam Yuen	1/1
	Lau Chi Sum Sam	1/1
Non-executive Director	Shinya Wako (Note 2)	0/1
Independent Non-executive Directors	Chan Yi Jen Candi Anna	1/1
	Lo Miu Sheung Betty	1/1
	Chow Chi Tong	1/1

Notes:

1. Mr. Hideaki Yajima retired as an Executive Director on 18 May 2018.
2. Mr. Shinya Wako retired as a Non-executive Director on 18 May 2018.

Directors' Induction and continuous Professional Development

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

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

CORPORATE GOVERNANCE REPORT

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

	Directors	Directors' participation in trainings
Executive Directors	Yuki Habu (<i>Chairman and MD</i>)	✓
	Masamitsu Ikuta (<i>Deputy MD</i>)	✓
	Hideaki Yajima (Note 1)	—
	Chak Kam Yuen	✓
	Lau Chi Sum Sam	✓
	Keiji Tsukahara (Note 2)	✓
	Non-executive Director	Shinya Wako (Note 3)
	Akinori Yamashita (Note 4)	✓
Independent Non-executive Directors	Chan Yi Jen Candi Anna	✓
	Lo Miu Sheung Betty	✓
	Chow Chi Tong	✓
	Hideto Mizuno (Note 5)	—

Notes:

1. Mr. Hideaki Yajima retired as an Executive Director on 18 May 2018.
2. Mr. Keiji Tsukahara was appointed as an Executive Director on 24 May 2018.
3. Mr. Shinya Wako retired as a Non-executive Director on 18 May 2018.
4. Mr. Akinori Yamashita was appointed as a Non-executive Director on 18 May 2018.
5. Mr. Hideto Mizuno was appointed as an Independent Non-executive Director on 17 August 2018.

Under code provision A.6.5 of the Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills, and should provide a record of the training they received to the issuer. Mr. Hideaki Yajima and Mr. Shinya Wako, being former Directors, had not provided a record of the training to the Company during the period from 1 January 2018 to 18 May 2018. Mr. Hideto Mizuno had not provided a record of the training to the Company during the period from 17 August 2018 to 31 December 2018.

Chairman and Chief Executive

Under code provision A.2.1 of the Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The Board considered that the duties of the MD were no difference from that required of a chief executive stipulated under the code provision A.2.1 of the Code. The management would regard that the term of MD will have the same meaning as the chief executive of the Company. During the period from 1 January 2018 to 31 December 2018, Ms. Yuki Habu was the Chairman of the Board and the MD of the Company.

CORPORATE GOVERNANCE REPORT

The role of Chairman of the Board is responsible for the leadership and effective running of the Board, and ensuring that all significant and key issues are discussed and where required, resolved by the Board timely and constructively. The MD is delegated with the authority and responsibility to run the Group's business and day-to-day operation, and implement the Group's strategy with respect to the achievement of its business objectives with the assistance of the Executive Directors and senior management. The Board believes that this structure of having Ms. Yuki Habu acting as both the Chairman and MD has been conducive 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 management, they are assisting Ms. Yuki Habu to run the Group's business and day-to-day operation. In light of these considerations, the Company has maintained Ms. Yuki Habu as the Chairman and MD of the Board. The Board will review the current structure when and as it becomes appropriate.

Nomination Committee

The Nomination Committee is responsible for reviewing the structure, size and composition (factors including but not limited to gender, age, cultural and educational background, professional qualification, skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy. The Nomination Committee's authorities and duties are set out in written terms of reference. The terms of reference of the Nomination Committee and the measurable objectives on the Board diversity as addendum thereto are available on the websites of the Stock Exchange and the Company.

The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, professional qualification, skills, knowledge and experience. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

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

	Directors	Number of attendance
Executive Director	Yuki Habu (<i>Chairman</i>)	4/4
Independent Non-executive Directors	Chan Yi Jen Candi Anna	3/4
	Lo Miu Sheung Betty	4/4
	Chow Chi Tong	4/4
	Hideto Mizuno (Note 1)	0/0

Note:

1. Mr. Hideto Mizuno was appointed as a member of the Nomination Committee of the Company on 17 August 2018 and no Nomination Committee Meeting was held after his appointment.

During 2018, the Nomination Committee performed the following duties:

- reviewed the size, structure and composition of the Board;
- identified individuals suitably qualified to become board members and recommended the Board on the selection of individuals nominated for directorships;
- assessed the independence of Independent Non-executive Directors;
- recommended the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the chief executive; and
- recommended the Board on the appointment of new senior management.

CORPORATE GOVERNANCE REPORT

Remuneration Committee

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

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

	Directors	Number of attendance
Executive Director	Yuki Habu	3/3
Independent Non-executive Directors	Chan Yi Jen Candi Anna (<i>Chairman</i>)	3/3
	Lo Miu Sheung Betty	3/3
	Chow Chi Tong	3/3
	Hideto Mizuno (Note 1)	0/0

Note:

1. Mr. Hideto Mizuno was appointed as a member of the Remuneration Committee of the Company on 17 August 2018 and no Remuneration Committee Meeting was held after his appointment.

During 2018, the Remuneration Committee performed the following duties:

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

Details of the remuneration paid to Directors and members of senior management by band for the year ended 31 December 2018 are disclosed in the notes 15 and 16 to the consolidated financial statements.

Auditor's Remuneration

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

Services rendered	Fees paid/ payable HK\$'000
Audit services — annual audit	5,351
Non-audit services:	
Review of interim results	799
Taxation services	1,526
Other services	1,360
	9,036

CORPORATE GOVERNANCE REPORT

Audit Committee

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

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

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

	Directors	Number of attendance
Independent Non-executive Directors	Chow Chi Tong (<i>Chairman</i>)	4/4
	Chan Yi Jen Candi Anna	4/4
	Lo Miu Sheung Betty	3/4
	Hideto Mizuno (Note 1)	1/1

Note:

1. Mr. Hideto Mizuno was appointed as a member of the Audit Committee on 17 August 2018 and there was 1 Audit Committee Meeting held after his appointment.

During 2018, the Audit Committee performed the following duties:

- reviewed the audited financial statements for the year ended 31 December 2017 with a recommendation to the Board for approval;
- reviewed the un-audited financial statements for the six months ended 30 June 2018 with a recommendation to the Board for approval;
- reviewed various reports on risk management and internal control system covering financial, operational, procedural compliance and risk management functions;
- met the external auditor and reviewed their reports to the committee in respect of the audit of the annual results and review of interim results of the Company;
- reviewed the remuneration in respect of audit and non-audit services provided by the external auditor; and
- reviewed the independence and objectivity of the external auditor.

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

CORPORATE GOVERNANCE REPORT

Corporate Governance Function

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

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- to review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

Accountability and Audit

The Directors are responsible for the preparation of the accounts of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give a true and fair view of the state of affairs, the results of operations and cash flows of the Group. In preparing the accounts for the six months ended 30 June 2018 and for the year ended 31 December 2018, the Directors have adopted suitable accounting policies and applied them consistently. The accounts for the reporting year have been prepared on a going concern basis.

The reporting responsibilities of the Company's external auditors, Deloitte Touche Tohmatsu, are stated in the "Independent Auditor's Report" on pages 38 to 43 of this annual report.

Risk Management and Internal Controls

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

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

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

- A. Transaction and Legal Matters
- B. Society and Economy
- C. Natural Disaster
- D. Politics
- E. Technology

CORPORATE GOVERNANCE REPORT

F. Business and Corporate Governance

F1. Finance

F2. Product and Service

F3. Employment

F4. Information Security

G. Environment

H. Health and Safety

I. Facility and Equipment

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

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

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

The Executive Directors of the Company and the senior management team are responsible for the dissemination of inside information of the Group, if any.

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

Company Secretary

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

According to Rule 3.29 of the Listing Rule, Mr. Chan Kwong Leung Eric, the Company Secretary, has taken no less than 15 hours of the relevant professional training during the year ended 31 December 2018.

CORPORATE GOVERNANCE REPORT

Shareholders' Rights

Convening a General Meeting by Shareholders

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

Putting Forward Enquiries to the Board

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

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

Putting Forward Proposals at the General Meetings

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

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

Investor Relations

There is no significant change in the Company's constitutional documents during the year ended 31 December 2018.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018.

Principal Activities

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

Business Review

A review of the business of the Group during the year and a discussion on the Group's future business development are provided in the Management Discussion and Analysis on pages 4 to 7 of this annual report. Description of possible risks and uncertainties that the Group may be facing can be found in the Management Discussion and Analysis on pages 4 to 7 and in the Corporate Governance report Risk Management and Internal Controls on pages 24 to 25 of this annual report. Also, the financial risk management objectives and policies of the Group can be found in note 37 and 38 to the consolidated financial statements. An analysis of the Group's performance during the year using financial key performance indicators is provided in the Group Financial Highlights on page 3 of this annual report, in the Management Discussion and Analysis on pages 4 to 7 and in note 6 to the consolidated financial statements. In addition, discussions on the Group's environmental policies, relationships with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are contained in the Environmental, Social and Governance Report on pages 8 to 13 of this annual report.

Subsidiaries

Details of the Company's subsidiaries as at 31 December 2018 are set out in note 40 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 44 to 45 of this annual report.

An interim dividend of 22.0 HK cents per share amounting to HK\$57,200,000 was paid to the shareholders during the year. The Board has recommended the payment of a final dividend of 22.0 HK cents per share amounting to HK\$57,200,000 to the shareholders on the register of members on 6 June 2019.

Fixed Assets

Details of the movements in the property, plant and equipment of the Group during the year ended 31 December 2018 are set out in note 19 to the consolidated financial statements.

Distributable Reserves of the Company

The Company's reserves available for distribution to shareholders as at 31 December 2018 were the retained profits of HK\$1,217,001,000 (2017: HK\$1,397,220,000).

Equity-linked Agreements

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

DIRECTORS' REPORT

Directors

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

Executive Directors

HABU Yuki (*Chairman and Managing Director*)

IKUTA Masamitsu (*Deputy Managing Director*)

CHAK Kam Yuen

LAU Chi Sum Sam

TSUKAHARA Keiji

Appointed on 24 May 2018

YAJIMA Hideaki

Retired on 18 May 2018

Non-executive Directors

YAMASHITA Akinori

Appointed on 18 May 2018

WAKO Shinya

Retired on 18 May 2018

Independent Non-executive Directors

CHAN Yi Jen Candi Anna

LO Miu Sheung Betty

CHOW Chi Tong

MIZUNO Hideto

Appointed on 17 August 2018

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

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

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

Yuki HABU, Kenji TOMARI, ZENG Jian, WANG Jian Heng, HUANG Qi Ning, JIAO Li, Isao SUGAWARA, Egami HIROKI, Omoto MASATOSHI, CHEN Yin Feng, Hideaki YAJIMA, CHAK Kam Yuen, Masamitsu IKUTA, LAU Chi Sum Sam, Hiroyuki INOHARA, YE Qing, Kenji TAMMORI, TSUKAHARA Keiji and Minoru FUKADA.

Directors' Service Contracts

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

Management Contracts

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

DIRECTORS' REPORT

Directors' Interests in Shares

As at 31 December 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 ("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 (Note1)	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:

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

(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:

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

DIRECTORS' REPORT

Other than as disclosed above, at 31 December 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).

Directors' Interests in Contracts of Significance

Other than as disclosed under the heading "Related Party Transactions" as set out in Note 36 to the consolidated financial statements, there were no other transactions, arrangements or contracts of significance to which the Company, its subsidiaries, its ultimate holding company or any of its fellow subsidiaries was a party and in which a Director of the Company or its connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Indemnities

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

Connected Transactions

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

- (i) On 9 June 2010, the subsidiary of the Company, Guangdong Aeon Teem Stores Co., Ltd. ("GDA") and a related party of the Company, Guangdong Teem (Holdings) Limited ("Teem Holding") have entered into the Supplemental Tenancy Agreement to extend the lease until 30 June 2025. The entering into the Supplemental Tenancy Agreement constitute continuing connected transactions of the Company. Pursuant to the Supplemental Tenancy Agreement, GDA pays rents, management fees, utility expenses and usage charges and other fees in relation to any provisional showrooms, storage areas, other facilities and special equipment that GDA may from time to time choose to rent or employ to Teem Holding and Guangdong Teem Properties Management Limited ("Teem Properties") respectively for the year. GDA was held as to 65% and 35% by the Company and Guangdong Teemall Department Stores Holdings Limited ("Teem Department Stores") respectively. The premises, i.e. GDA's Teem Plaza Store which is situated at Basement 1, Teem Plaza, 208 Tianhe Road, Guangzhou, being the subject of the tenancy agreement, is owned by Teem Holding. Teem Department Stores and Teem Properties are the wholly-owned subsidiaries of Teem Holding. The total amount of rents, management fees, utility expenses and other charges paid and payable by GDA for the year was RMB51,857,955. This amount does not exceed the cap amount of RMB70,000,000 as shown in the announcement of the Company dated 9 June 2010.

DIRECTORS' REPORT

- (ii) On 29 December 2015, Aeon Co., Ltd., ("ACL") the controlling shareholder of the Company, and the Company have entered into a renewal agreement to renew the Royalty Agreement for another three years expiring on 31 December 2018. ACL is a connected person of the Company and the entering into the Renewed Royalty Agreement constitute continuing connected transactions of the Company. Pursuant to the Renewed Royalty Agreement, the Company and its Affiliates (through the Company) are granted:
- (a) exclusive right to use the Hong Kong Trade Marks and the Macau Trade Marks in relation to the Business within the Territory;
 - (b) non-exclusive right to use the PRC Trade Marks in relation to the Business within the PRC; and
 - (c) non-exclusive right to use the Trade Marks in relation to the following businesses in the Territory and the PRC:
 - (i) the provision of retail services;
 - (ii) the operation of Shopping Centres; and
 - (iii) catering services, food-court with seating and restaurants.

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

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

- (a) an amount representing 0.2% of the audited consolidated Total of Revenue of the Company and its Affiliates for that financial year; and
- (b) an amount representing 0.05% of the audited Total of Revenue of the Company and its Affiliates in respect of the Business in the Territory for the relevant financial year.

The total amount of royalties paid and payable by the Company for the year was HK\$27,961,288. This amount does not exceed the cap amount of HK\$49,000,000 as shown in the announcement of the Company dated 29 December 2015.

Total of Revenue of the Company and its Affiliates is the aggregate of (i) the total amount of the consolidated direct sales; (ii) the total amount of the consolidated concessionaires sales; and (iii) the total amount of licensee fees and rentals received, all attributable to the rights to use the relevant Trade Marks. The total amount of the consolidated concessionaires sales represents the total amount of sales proceeds received by the respective concessionaires that are operating their business inside the respective store premises of the Company and its Affiliates. The "total amount of concessionaire sales" is different and is greater than the "income from concessionaire sales" as disclosed in note 5 to the consolidated financial statements, which is the income derived from the concessionaires' business operations.

DIRECTORS' REPORT

- (iii) On 13 April 2017, the Company and AEON Credit Service (Asia) Company Limited (“ACS”) entered into the Renewal Agreement to renew the Master Agreement in respect of the Commission Payment Transactions for a further term of three years from 15 April 2017 to 14 April 2020. ACS and the Company are both subsidiaries of Aeon Co., Ltd., a controlling shareholder of the Company, ACS is therefore a connected person of the Company. The entering into the Renewal Agreement constitutes continuing connected transactions of the Company. Pursuant to the Renewal Agreement, the Company shall pay commissions to ACS in respect of (1) credit purchase facilities made available to customers of the Company for making purchases at the Company’s stores with the use of the various co-branded credit cards issued by ACS; (2) card instalment plan made available to customers of the Company for making purchases of goods and/or services at the Company’s stores; (3) other payment solutions made and to be made available to customers of the Company for making purchases from time to time, including the usage of any kind of credit, debit, pre-paid and/or stored value cards or other medium or facilities owned and/or operated by ACS; and (4) other related services provided to the Company or its customers which are derived from or ancillary to the transactions described above or arising out of the cards or other medium or facilities from time to time. The commissions are calculated on the basis of fixed percentages of the sales generated by the credit purchase facilities or the payment solutions provided by ACS, depending on the type of service provided. These commission rates (as may be revised from time to time) are and will be determined between the Company and ACS after arm’s length negotiations. In negotiating and agreeing the commission rates and other terms of the Commission Payment Transactions with ACS, the Company takes into account the prevailing market commission rates for similar types of transactions that are provided and/or made available by independent third parties to the Company and gives credit to ACS for any ancillary services provided and to be provided to the customers of the Company by ACS. Further, the Company has compared the fees charged by other independent third parties in the market for similar services to ensure that the price and terms offered by ACS are better than those offered by such third parties. The total amount of commissions paid and payable by the Company for the year was HK\$12,738,199. This amount does not exceed the cap amount of HK\$25,500,000 as shown in the announcement of the Company dated 13 April 2017.
- (iv) On 1 January 2016, the Company entered into the Renewed Master Services Agreement with AEON Delight to renew and set out the framework for the continued future provision of the Services by the members of the AEON Delight Group to the Company Group in Hong Kong and the PRC. The Renewed Master Services Agreement shall be for a period of three years from 1 January 2016 to 31 December 2018. AEON Delight is an indirect non-wholly-owned subsidiary of Aeon Co., Ltd., the controlling shareholder of the Company, the transactions under the Renewed Master Services Agreement constitute continuing connected transactions of the Company. Services provided by AEON Delight Group to the Company Group including comprehensive building/facilities management, maintenance and cleaning services, management consultation, business services, research and such other services in relation to retail stores, offices and/or other facilities/establishments operated by the Company Group. The total aggregated amount of service fees paid and payable by the Company Group to AEON Delight Group in the year was RMB63,208,167. This amount does not exceed the cap amount of RMB80,000,000 as shown in the announcement of the Company dated 1 January 2016.
- (v) On 23 November 2015, the subsidiary of the Company, Guangdong Aeon Teem Stores Co., Ltd. (“GDA”) as lessee and 永旺夢樂城(廣東)商業有限公司 (“AEON Mall”) as lessor entered into the Tenancy Agreement, pursuant to which AEON Mall agreed to sub-lease the premises located at Units B1F0078, 1F1008 and 2F2028 Basement 1 and Basement 2, 1 Yayun Avenue, Dalong Street, Panyu, Guangzhou to GDA for a term of 20 years. AEON Mall is an indirect subsidiary of Aeon Co., Ltd., the controlling shareholder of the Company, and therefore a connected person of the Company. Accordingly, the entering into of the Tenancy Agreement constitutes a continuing connected transaction of the Company. In accordance with the Tenancy Agreement, GDA pays rent, management fees, utility expenses and other fees in relation to any provisional showrooms, storage areas, other facilities and special equipment that GDA may from time to time rent or employ with the consent of AEON Mall. The total amount of rent, management fees, utility expenses and other fees paid and payable by GDA for the year was RMB17,228,883. This amount does not exceed the cap amount of RMB30,600,000 as shown in the announcement of the Company dated 23 November 2015.

DIRECTORS' REPORT

- (vi) On 1 March 2016, the Company entered into the Master Agreement with AEON Credit Service (Asia) Company Limited (“ACS”) in relation to the sales of the Company’s Gift Certificates to ACS for a term of three years from 1 March 2016 to 28 February 2019. The Company and ACS are both subsidiaries of Aeon Co., Ltd., a controlling shareholder of the Company, ACS is therefore a connected person of the Company. The entering into the Master Agreement constitutes continuing connected transactions of the Company. Pursuant to the Master Agreement, the Company sells the Company’s Gift Certificates to ACS at face value. The total amount of Gift Certificates sold by the Company to ACS in the year was HK\$9,500,000. This amount does not exceed the cap amount of HK\$12,500,000 as shown in the announcement of the Company dated 1 March 2016.
- (vii) On 29 March 2016, each of the Company, its two subsidiaries being Guangdong Aeon Teem Stores Co., Ltd. (“GDA”) and AEON South China Co., Ltd. (“ASC”) entered into the Consultancy Services Agreement with AEON (China) Co., Ltd. (“AEON China”), pursuant to which each of the Company, GDA and ASC shall pay a service fee for the provision of consultancy services by AEON China in relation to the improvement of activities relevant to the general merchandise stores and supermarket stores business of the Company, GDA and ASC in Hong Kong and in other regions of China. The term of each Consultancy Services Agreement shall be a period of three years from 1 January 2016 to 31 December 2018. AEON China is a subsidiary of Aeon Co., Ltd., a controlling shareholder of the Company and AEON China is therefore a connected person of the Company. The entering into the Consultancy Services Agreements constitutes continuing connected transactions of the Company. Pursuant to the Consultancy Services Agreements, the scope of the consultancy services to be provided by AEON China to the Company, GDA and ASC relates to (i) operational logistics; (ii) establishment of operating systems; (iii) procurement activities; (iv) market development; and (v) in accordance with specific requests of each of the Company, GDA and ASC, provide other consultancy services on production or operational related matters. AEON China’s service fees shall be charged on a cost-plus basis, representing its costs of providing consultancy services plus 5% of such costs. The total amount of Consultancy Services Fees paid and payable by the Company, GDA and ACS to AEON China in the year was HK\$9,248,267. This amount does not exceed the cap amount of HK\$46,000,000 as shown in the announcement of the Company dated 29 March 2016.
- (viii) On 31 March 2016 the Company entered into the Master Purchase Agreement with AEON Topvalu (Hong Kong) Co., Ltd. (“ATVHK”) and AEON Topvalu China Co., Ltd. (“ATV China”) (ATVHK and ATV China collectively referred to as “ATV Group”), pursuant to which the Company and its two subsidiaries being Guangdong Aeon Teem Stores Co., Ltd. (“GDA”) and AEON South China Co., Ltd. (“ASC”) (the Company, GDA and ASC collectively referred to as “Purchaser”) will purchase a variety of merchandise such as fashion, food and household merchandise from ATV Group and sell to retail customers by the Purchaser at its general merchandise stores and supermarket stores. The term of the Master Purchase Agreement shall be a period of three years from 1 January 2016 to 31 December 2018. ATV Group companies are subsidiaries of AEON Co., Ltd., a controlling shareholder of the Company and ATV Group companies are connected persons of the Company. The entering into the Master Purchase Agreement constitutes continuing connected transactions of the Company. Pursuant to the Master Purchase Agreement, the Purchaser will be charged on a cost-plus basis, representing all costs incurred in relation to the supply of the merchandise plus a mark-up rate of not more than 15% of such costs.

On 5 May 2016 the Company also entered into Master Purchase Agreements with 芙嘉(上海)商貿有限公司 (“COX”) and 新腳步(北京)商貿有限公司 (“GFoot”) respectively. Pursuant to the COX Master Purchase Agreements, the Purchaser will purchase a variety of fashion and household merchandise from COX and sell to retail customers by the Purchaser at its general merchandise stores and supermarket stores. Pursuant to the GFoot Master Purchase Agreement, GFoot will provide a variety of shoes merchandise to the Purchaser for sale to retail customers on a consignment basis at its general merchandise stores. The term of the COX Master Purchase Agreement and GFoot Master Purchase Agreement shall be a period of three years from 1 January 2016 to 31 December 2018. COX and GFoot are subsidiaries of AEON Co., Ltd., a controlling shareholder of the Company and COX and GFoot are connected persons of the Company. The entering into the COX Master Purchase Agreement and the GFoot Master Purchase Agreement constitutes continuing connected transactions of the Company. Pursuant to the COX Master Purchase Agreement, the Purchaser will be charged on a cost-plus basis, representing all costs incurred in relation to the supply of the merchandise plus a mark-up rate of not more than 15% of such costs. Pursuant to the GFoot Master Purchase Agreement, the Purchaser shall be

DIRECTORS' REPORT

entitled to a commission out of the proceeds from its sale of shoes merchandises provided by GFoot. The amount of such commission shall be no less than 10% to 16%.

Given the similarity in nature of the transactions under the above mentioned Master Purchase Agreements and that ATV Group, COX and GFoot are all subsidiaries of Aeon Co., Ltd., the COX Master Purchase Agreement and the GFoot Master Purchase Agreement have been aggregated with the ATV Group Master Purchase Agreement. The aggregated transaction amount under the Master Purchase Agreements in the year was HK\$376,596,904. This amount does not exceed the cap amount of HK\$815,000,000 as shown in the announcement of the Company dated 31 March 2016 and 5 May 2016.

- (ix) On 16 June 2017 the Company entered into the Master Services Agreement with 永旺環球(北京)國際貨運代理有限公司 (“AGSCM”), pursuant to which AGSCM and its subsidiaries (“AGSCM Group”) will provide consultancy and logistic services (“Services”) to the Company and its two subsidiaries being Guangdong Aeon Teem Stores Co., Ltd. (“GDA”) and AEON South China Co., Ltd. (“ASC”) (the Company, GDA and ASC collectively referred to as “the Group”). The term of the Master Services Agreement shall be a period of three years from 16 June 2017 to 15 June 2020. AGSCM is a subsidiary of Aeon Co., Ltd., a controlling shareholder of the Company and the entering into the Master Services Agreement constitutes continuing connected transactions of the Company.

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

The aggregated transaction amount of the Master Services Agreement in the year was RMB3,102,297. This amount does not exceed the cap amount of RMB8,400,000 as shown in the announcement of the Company dated 16 June 2017.

- (x) On 15 August 2017, Guangdong AEON Teem Stores Co., Ltd. (“GDA”), a subsidiary of the Company and the Sublessees entered into the Sublease Agreements (as defined in the announcement dated 15 August 2017) in respect of the sublease of certain areas located at the 5th Floor Fortune Plaza West Tower, No. 118 Tiyu East Road, Tian He District, Guangzhou. Pursuant to the Sublease Agreements, each of the Sublessees pays deposits, rents, management fees, utilities charges and other fees in relation to the use of the Sublease Premises to GDA. The Sublease Agreements have a term of three years from 1 August 2017 to 31 July 2020. Each of the Sublessees is a connected person of the Company by virtue of it being a subsidiary of Aeon Co., Ltd., the controlling shareholder of the Company. Accordingly, the transactions under each of the Sublease Agreements constitutes continuing connected transactions of the Company. The terms of the Sublease Agreements have been reached after arm’s length negotiations between the relevant parties. The total amount of rents, management fees, utilities expenses and other fees received and receivable by GDA in the year was RMB2,559,366. This amount does not exceed the cap amount of RMB2,700,000 as shown in the announcement of the Company dated 15 August 2017.

DIRECTORS' REPORT

- (xi) On 30 August 2017 the Company and AEON Integrated Business Service China Co., Limited, (“AIBS”) entered into the IT Master Agreement, pursuant to which AIBS shall provide the relevant IT related Services (as defined in the announcement dated 30 August 2017) to the Company and any of its subsidiaries, each a “Member”. The term of the IT Master Agreement shall be a period of three years from 30 August 2017 to 29 August 2020. AIBS is a connected person of the Company by virtue of it being a subsidiary of Aeon Co., Ltd., the controlling shareholder of the Company. Accordingly, the transactions under the IT Master Agreement constitute continuing connected transactions of the Company. Pursuant to the IT Master Agreement, the fees for the provision of Services by AIBS shall be charged on a cost-plus basis, representing the Actual Costs plus a mark-up rate of not more than 10%. The prices offered by AIBS shall be no less favourable than (i) prices available in the market for the same or similar services and (ii) the prices offered by AIBS to its other Users (i.e. parties, including the Members, who are using services provided by AIBS which are the same as or similar to the Services), if any. The total aggregated amount of service fees paid and payable by the Company Group to AIBS in the year was RMB14,911,370. This amount does not exceed the cap amount of RMB56,400,000 as shown in the announcement of the Company 30 August 2017.
- (xii) On 7 November 2017 Guangdong AEON Teem Stores Co., Ltd. (“GDA”), a subsidiary of the Company and永旺夢樂城(佛山南海)商業管理有限公司(“AMBM”) entered into the Master Agreements to govern certain transactions arising out of GDA’s lease of the premises at 佛山市南海區大瀝鎮聯滘滘口路13號負一層店號0001·一層店號1001·二層店號2001·三層店號3001. The term of the Master Agreement shall be a period of three years from 19 December 2017 to 18 December 2020. AMBM is a connected person of the Company by virtue of it being an indirect subsidiary of Aeon Co., Ltd., the controlling shareholder of the Company. Accordingly, the transactions under the Master Agreement constitute continuing connected transactions of the Company. GDA’s leased premises are located in the Dali Mall and AMBM is the head tenant of the Dali Mall. AMBM, as head tenant, is responsible for making payment of utilities expenses and property management fees in respect of the entire Dali Mall. The amounts paid by GDA to AMBM pursuant to the Master Agreement represent GDA’s proportionate contribution to such expenses and fees, which will then be paid by AMBM to relevant authorities or parties on behalf of GDA. The rates for utilities expenses and property management fees are no less favourable than those applicable to AMBM or its other tenants. The total aggregated amount of the fees paid and payable by the Company Group to AMBM in the year was RMB3,562,797. This amount does not exceed the cap amount of RMB7,260,000 as shown in the announcement of the Company dated 7 November 2017.

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

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

The related party transactions as disclosed in note 36 to the consolidated financial statements also fell under the definition of “connected transactions” or “continuing connected transactions” in Chapter 14A of the Listing Rules. The Group has complied with the disclosure requirements, where applicable, in accordance with Chapter 14A of the Listing Rules.

DIRECTORS' REPORT

Appointment of Independent Non-executive Directors

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

Substantial Shareholders

At 31 December 2018, shareholders (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or had otherwise notified the Company were as follows:

Name of substantial shareholders	Long Positions Number of ordinary shares held	Approximate percentage of the total number of issued shares %
AEON Co., Ltd.	157,536,000 (Note 1)	60.59
Standard Life Aberdeen plc and its affiliated investment management (together "the Aberdeen Group") on behalf of accounts managed by the Aberdeen Group	27,327,000 (Note 2)	10.51

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

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

Note 2: As confirmed by Standard Life Aberdeen plc and its affiliated investment management (together "the Aberdeen Group"), these shares are held by the Aberdeen Group on behalf of accounts managed by the Aberdeen Group in the capacity of an investment manager. Aberdeen Group has the power to vote as to 27,127,000 shares representing 10.43% of the total number of issued shares of the Company.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company as at 31 December 2018.

Arrangements to Purchase Shares or Debentures

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

Purchase, Sale or Redemption of Listed Securities

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

DIRECTORS' REPORT

Donations

During the year, the Group made charitable and other donations amounting to approximately HK\$1,305,000.

Major Customers and Suppliers

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

Emolument Policy

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

Sufficiency of Public Float

Based on the information that is publicly available to the Company and with the knowledge of the Directors, the Company has maintained sufficient public float during the year ended 31 December 2018 and up to the date of this report.

Auditor

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

On behalf of the Board



HABU Yuki
Chairman and Managing Director

Hong Kong, 20 March 2019

INDEPENDENT AUDITOR'S REPORT

Deloitte.

德勤

TO THE MEMBERS OF AEON STORES (HONG KONG) CO., LIMITED

永旺(香港)百貨有限公司

(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of AEON Stores (Hong Kong) Co., Limited (the “Company”) and its subsidiaries (collectively referred to as “the Group”) set out on pages 44 to 109, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

INDEPENDENT AUDITOR'S REPORT

Key audit matter

Impairment of goodwill

We identified the impairment of goodwill as a key audit matter as significant judgement is required to assess the impairment of goodwill.

As at 31 December 2018, goodwill, arising from acquisition of an additional 35% interest in AEON South China Co., Ltd. in 2008 which operates retail stores business in the People's Republic of China, amounted to HK\$94,838,000.

As further disclosed in notes 4 and 20 to the consolidated financial statements, determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash inflows/outflows expected to arise from the cash-generating units by considering the budgeted sales and gross margins which are based on past performance and management's expectations for the future changes in the market and taking into account a suitable discount rate to calculate the present value.

The management of the Group determines that there was no impairment to be recognised in respect to the goodwill during the year ended 31 December 2018 and as at 31 December 2018.

How our audit addressed the key audit matter

Our procedures in relation to management's impairment assessment include:

- Obtaining the cash flow forecasts prepared by management, reviewing and discussing with management on the major assumptions adopted in the cash flow forecasts for each cash-generating unit and checking arithmetic accuracy of the forecast calculation;
- Comparing the growth rates, budgeted sales and gross margins to historical results and reference to the market information based on our knowledge of the retail markets to determine their reasonableness;
- Challenging the discount rates used by management in the cash flow forecasts by benchmarking against the required rate of return adjusted for industry specific factors;
- Assessing the sensitivity analysis prepared by management on the significant assumptions to evaluate the extent of impact of these assumptions on the cash flow forecasts; and
- Evaluating the accuracy of historical cash flow forecasts prepared by the management by comparing the historical cash flow forecasts with the actual performance.

INDEPENDENT AUDITOR'S REPORT

Key audit matter

Impairment of property, plant and equipment

We identified the impairment of property, plant and equipment as a key audit matter as significant judgement is required to assess the amount of impairment of property, plant and equipment.

As at 31 December 2018, property, plant and equipment comprise of building fixtures, furniture, fixture and equipment, motor vehicles and construction in progress amounted to HK\$796,071,000, net of accumulated impairment loss of HK\$162,368,000.

As further disclosed in notes 4 and 19 to the consolidated financial statements, determining whether property, plant and equipment is impaired requires an estimation of the value in use of the cash-generating units of each loss making retail store. The value in use calculation requires the Group to estimate the future cash inflows/outflows expected to arise from the cash-generating units by considering the budgeted sales and gross margins which are based on past performance and management's expectations for future changes in the market and taking into account a suitable discount rate to calculate the present value.

Based on the management's assessment, an impairment loss on property, plant and equipment of HK\$8,062,000 was recognised in profit or loss during the year ended 31 December 2018.

How our audit addressed the key audit matter

Our procedures in relation to management's impairment assessment include:

- Obtaining the cash flow forecasts prepared by management, reviewing and discussing with management on the major assumptions adopted in the cash flow forecasts for each cash-generating units and checking arithmetic accuracy of the forecast calculation;
- Comparing the growth rates, budgeted sales and gross margins to historical results and reference to the market information based on our knowledge of the retail markets to determine their reasonableness;
- Challenging the discount rates used by management in the cash flow forecasts by benchmarking against the required rate of return adjusted for industry specific factors;
- Assessing the sensitivity analysis prepared by management on the significant assumptions to evaluate the extent of impact of these assumptions on the cash flow forecasts; and
- Evaluating the accuracy of historical cash flows forecasts prepared by the management by comparing the historical cash flows forecasts with the actual performance.

INDEPENDENT AUDITOR'S REPORT

Key audit matter

Valuation of inventories

We identified the valuation of inventories as a key audit matter due to the use of judgement in identifying obsolete and slow moving inventories and determining the net realisable values ("NRVs") to assess the amount of allowance/write down.

As at 31 December 2018, inventories comprise of merchandise held for resale amounting to HK\$856,763,000 which are carried at the lower of cost and NRVs. As disclosed in note 4 of the consolidated financial statements, the determination of the amount of allowance requires assessment of NRVs of inventories by the management and the consideration of customer demand, condition, aging analysis and subsequent sales information. The Group carried out an inventory review at the end of the reporting period and made the necessary allowance on obsolete and slow moving items so as to write off or write down inventories to their NRVs.

The Group has written back inventories of HK\$6,797,000 to their NRVs during the year ended 31 December 2018.

How our audit addressed the key audit matter

Our procedures in relation to the valuation of the inventories include:

- Inquiring and understanding the inventories allowance/write down policy of the Group;
- Assessing the reasonableness of the inventories allowance/write down made by the Group by obtaining the inventory aging analysis from management and discussing with management the basis of inventory allowance/write down;
- Testing inventory aging analysis, on a sample basis, to the goods receipt documents and assessing the accuracy of the base data used to determine the allowance/write down and re-performing the allowance/write down calculation to check arithmetic accuracy;
- Understanding from management the rationale for the specific adjustments based on the consumer demand and condition of the inventories and challenged the assumption made where there are specific adjustments on the inventories allowance/write down; and
- Assessing the sufficiency of the allowance/write down on inventories made by management with reference to the inventory ageing analysis and the subsequent transaction prices of the inventories, on a sample basis.

INDEPENDENT AUDITOR'S REPORT

Other Information

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

INDEPENDENT AUDITOR'S REPORT

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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



Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong
20 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2018

	NOTES	2018 HK\$'000	2017 HK\$'000
Revenue	5	9,675,891	9,665,539
Other income	7	572,227	603,323
Investment income	8	27,470	26,155
Purchases of goods and changes in inventories		(6,676,251)	(6,638,768)
Staff costs		(1,175,440)	(1,226,873)
Depreciation	19	(223,441)	(226,127)
Operating lease rental expenses		(1,125,946)	(1,119,473)
Other expenses	9	(1,063,111)	(1,103,392)
Pre-operating expenses	10	(12,608)	(25,187)
Other gains and losses	11	(22,050)	(18,375)
Finance costs	12	—	(29)
Loss before tax		(23,259)	(63,207)
Income tax expense	13	(19,718)	(11,015)
Loss for the year	14	(42,977)	(74,222)
(Loss) profit for the year attributable to:			
Owners of the Company		(49,224)	(54,749)
Non-controlling interest		6,247	(19,473)
		(42,977)	(74,222)
Loss per share — basic	18	18.93 HK cents	21.06 HK cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 HK\$'000	2017 HK\$'000
Loss for the year	(42,977)	(74,222)
Other comprehensive (expense) income		
<i>Item that will not be reclassified to profit or loss:</i>		
Fair value gain on investments in equity instruments at fair value through other comprehensive income ("FVTOCI")	2,387	—
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	(10,294)	15,003
Fair value gain on available-for-sale investments	—	3,047
Other comprehensive (expense) income for the year, net of income tax	(7,907)	18,050
Total comprehensive expense for the year	(50,884)	(56,172)
Total comprehensive expense for the year attributable to:		
Owners of the Company	(50,350)	(44,065)
Non-controlling interest	(534)	(12,107)
	(50,884)	(56,172)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	NOTES	2018 HK\$'000	2017 HK\$'000
Non-current Assets			
Property, plant and equipment	19	796,071	881,412
Goodwill	20	94,838	94,838
Available-for-sale investments	21	—	24,158
Equity instruments at FVTOCI	21	26,545	—
Pledged bank deposits	22	25,001	27,026
Deferred tax assets	23	48,736	69,519
Rental and related deposits paid	24	263,826	249,029
		1,255,017	1,345,982
Current Assets			
Inventories	25	856,763	950,925
Trade receivables	24	55,368	63,671
Other receivables, prepayments and deposits	24	140,213	187,459
Amounts due from fellow subsidiaries	26	53,805	58,031
Tax recoverable		2,284	—
Time deposits	27	358,095	169,234
Pledged bank deposits	22	14,852	19,703
Bank balances and cash	28	1,651,349	2,047,712
		3,132,729	3,496,735
Current Liabilities			
Trade payables	29	1,250,497	1,384,471
Other payables, accrued charges and other liabilities	29	846,229	1,416,898
Contract liabilities	29	393,557	—
Dividend payable		426	472
Amount due to ultimate holding company	30	30,980	29,541
Amounts due to fellow subsidiaries	30	77,234	65,111
Tax liabilities		—	5,972
		2,598,923	2,902,465
Net Current Assets		533,806	594,270
Total Assets Less Current Liabilities		1,788,823	1,940,252

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

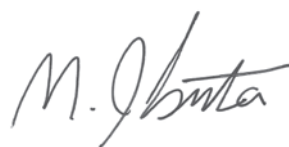
AT 31 DECEMBER 2018

	NOTES	2018 HK\$'000	2017 HK\$'000
Capital and Reserves			
Share capital	31	115,158	115,158
Reserves		1,325,889	1,490,543
Equity attributable to owners of the Company		1,441,047	1,605,701
Non-controlling interest		137,136	137,670
Total Equity		1,578,183	1,743,371
Non-current Liabilities			
Rental deposits received and other liabilities	29	209,251	196,054
Deferred tax liabilities	23	1,389	827
		210,640	196,881
		1,788,823	1,940,252

The consolidated financial statements on pages 44 to 109 were approved and authorised for issue by the board of directors on 20 March 2019 and are signed on its behalf by:



YUKI HABU
Director



MASAMITSU IKUTA
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Attributable to owners of the Company								Total HK\$'000
	Share capital HK\$'000	Investment revaluation reserve HK\$'000	Translation reserve HK\$'000	The People's Republic of China (the "PRC") statutory reserves HK\$'000	Non- distributable reserve HK\$'000	Retained profits HK\$'000	Sub-total HK\$'000	Non- controlling interest HK\$'000	
At 1 January 2017	115,158	18,707	24,984	31,870	95,058	1,467,931	1,753,708	153,512	1,907,220
Loss for the year	—	—	—	—	—	(54,749)	(54,749)	(19,473)	(74,222)
Other comprehensive income for the year	—	3,047	7,637	—	—	—	10,684	7,366	18,050
Total comprehensive income (expense) for the year	—	3,047	7,637	—	—	(54,749)	(44,065)	(12,107)	(56,172)
Transfer of reserves	—	—	—	1,446	17,294	(18,740)	—	—	—
Dividends recognised as distribution (note 17)	—	—	—	—	—	(104,000)	(104,000)	—	(104,000)
Unclaimed dividends forfeited	—	—	—	—	—	58	58	—	58
Dividend paid to a non-controlling shareholder	—	—	—	—	—	—	—	(3,735)	(3,735)
At 31 December 2017	115,158	21,754	32,621	33,316	112,352	1,290,500	1,605,701	137,670	1,743,371
(Loss) profit for the year	—	—	—	—	—	(49,224)	(49,224)	6,247	(42,977)
Other comprehensive income (expense) for the year	—	2,387	(3,513)	—	—	—	(1,126)	(6,781)	(7,907)
Total comprehensive income (expense) for the year	—	2,387	(3,513)	—	—	(49,224)	(50,350)	(534)	(50,884)
Transfer of reserves	—	—	—	—	9,286	(9,286)	—	—	—
Dividends recognised as distribution (note 17)	—	—	—	—	—	(114,400)	(114,400)	—	(114,400)
Unclaimed dividends forfeited	—	—	—	—	—	96	96	—	96
At 31 December 2018	115,158	24,141	29,108	33,316	121,638	1,117,686	1,441,047	137,136	1,578,183

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 HK\$'000	2017 HK\$'000
OPERATING ACTIVITIES		
Loss before tax	(23,259)	(63,207)
Adjustments for:		
Depreciation of property, plant and equipment	223,441	226,127
Finance costs	—	29
Impairment loss recognised in respect of property, plant and equipment	8,062	19,134
Investment income	(27,470)	(26,155)
Loss on disposal/written off of property, plant and equipment	5,165	2,928
(Write-back) write-down of inventories	(6,797)	2,941
Operating cash flows before movements in working capital	179,142	161,797
Decrease in inventories	80,367	44,006
Decrease (increase) in trade receivables	6,898	(14,343)
Decrease (increase) in other receivables, prepayments and deposits	37,393	(6,114)
Decrease in amounts due from fellow subsidiaries	4,210	17,619
(Decrease) increase in trade payables	(103,829)	24,749
(Decrease) increase in other payables, accrued charges and other liabilities	(77,451)	68,894
Decrease in contract liabilities	(46,913)	—
Increase in amount due to ultimate holding company	1,439	3,054
Increase (decrease) in amounts due to fellow subsidiaries	13,713	(13,252)
Cash generated from operations	94,969	286,410
Hong Kong Profits Tax refund	—	21,137
PRC income taxes paid	(10,573)	(28,240)
Interest paid	—	(29)
Interest on bank deposits received	25,797	24,634
NET CASH FROM OPERATING ACTIVITIES	110,193	303,912
INVESTING ACTIVITIES		
Placement of pledged bank deposits	(1,186)	—
Withdrawal of pledged bank deposits	6,113	1,524
Dividends received from listed equity securities	1,673	1,521
Purchase of property, plant and equipment	(173,292)	(256,725)
Proceeds from disposal of property, plant and equipment	560	112
Placement of time deposits	(1,114,304)	(837,409)
Withdrawal of time deposits	923,815	1,129,407
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(356,621)	38,430

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 HK\$'000	2017 HK\$'000
FINANCING ACTIVITIES		
Dividends paid	(114,350)	(103,975)
Dividends paid to a non-controlling interest of a subsidiary	—	(3,501)
Repayment of obligation under a finance lease	—	(743)
CASH USED IN FINANCING ACTIVITIES	(114,350)	(108,219)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(360,778)	234,123
CASH AND CASH EQUIVALENTS AT 1 JANUARY	2,047,712	1,769,924
Effect of foreign exchange rate changes	(35,585)	43,665
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash	1,651,349	2,047,712

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1. General

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

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

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

The consolidated financial statements are presented in Hong Kong dollars. The Company’s functional currency is Hong Kong dollars, while the functional currency of the subsidiaries registered in the PRC is Renminbi.

2. Application of New and Amendments to Hong Kong Financial Reporting Standards (“HKFRSs”)

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

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

HKFRS 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

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group’s performance and financial positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. Application of New and Amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) (Continued)

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

2.1 HKFRS 15 *Revenue from Contracts with Customers*

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

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. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- direct sales of merchandise in retail stores; and
- commission income from concessionaire sales.

Information about the Group’s performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. Application of New and Amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) (Continued)

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

2.1 HKFRS 15 Revenue from Contracts with Customers (Continued)

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 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 December 2017	Reclassification	Carrying amounts under HKFRS 15 at 1 January 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 Group recognised the cumulative effect of initially applying HKFRS 15 as a reclassification to the opening balances as at 1 January 2018. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. Application of New and Amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) (Continued)

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

2.1 HKFRS 15 Revenue from Contracts with Customers (Continued)

Summary of effects arising from initial application of HKFRS 15 (Continued)

The following tables summarise the impacts of applying HKFRS 15 on the Group’s consolidated statement of financial position as at 31 December 2018 and consolidated statement of cash flows for the year then ended, for each of the line items affected. The application of HKFRS 15 has no material impact on the Group’s consolidated statement of profit or loss. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported HK\$'000	Reclassification HK\$'000	Amounts without application of HKFRS 15 HK\$'000
Current Liabilities			
Other payables, accrued charges and other liabilities	846,229	393,557	1,239,786
Contract liabilities	393,557	(393,557)	—

Impact on the consolidated statement of cash flows

	As reported HK\$'000	Reclassification HK\$'000	Amounts without application of HKFRS 15 HK\$'000
OPERATING ACTIVITIES			
Decrease in other payables, accrued charges and other liabilities	(77,451)	(46,913)	(124,364)
Decrease in contract liabilities	(46,913)	46,913	—

The explanations of the above changes affected in the current year by the application of HKFRS 15 as compared to HKAS 18 and the related interpretations are set out in note above for describing the reclassifications made to the consolidated statement of financial position at 1 January 2018 upon the adoption of HKFRS 15.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. Application of New and Amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) (Continued)

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

2.2 HKFRS 9 *Financial Instruments*

In the current year, 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 other items (for example, lease receivables) 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 under ECL model) 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*.

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Note	Available- for-sale investments HK\$'000	Equity instruments at FVTOCI HK\$'000
Closing balance at 31 December 2017 — HKAS 39		24,158	—
Effect arising from initial application of HKFRS 9:			
Reclassification			
From available-for-sale investments	(a)	(24,158)	24,158
Opening balance at 1 January 2018		—	24,158

(a) Available-for-sale (“AFS”) investments

From AFS equity investments to FVTOCI

The Group elected to present in other comprehensive income 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. Application of New and Amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) (Continued)

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

2.2 HKFRS 9 *Financial Instruments* (Continued)

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

(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. Trade receivables have been assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings based on their historical default rates which are adjusted for forward-looking estimates.

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

As at 1 January 2018, no additional credit loss allowance has been recognised against retained profits as such amounts would not be material.

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

As a result of the changes in the Group’s accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 HK\$'000 (Audited)	HKFRS 15 HK\$'000	HKFRS 9 HK\$'000	1 January 2018 HK\$'000 (Restated)
Non-current Assets				
Available-for-sale investments	24,158	—	(24,158)	—
Equity instruments at FVTOCI	—	—	24,158	24,158
Current Liabilities				
Other payables, accrued charges and other liabilities	1,416,898	(440,470)	—	976,428
Contract liabilities	—	440,470	—	440,470

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2018 as disclosed above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. Application of New and Amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) (Continued)

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 16	Leases ¹
HKFRS 17	Insurance Contracts ²
HK(IFRIC) — Int 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKFRS 3	Definition of a Business ³
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁵
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle ¹

¹ Effective for annual periods beginning on or after 1 January 2019.

² Effective for annual periods beginning on or after 1 January 2021.

³ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

⁴ Effective for annual periods beginning on or after a date to be determined.

⁵ Effective for annual periods beginning on or after 1 January 2020.

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

HKFRS 16 *Leases*

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

2. Application of New and Amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) (Continued)

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

HKFRS 16 *Leases* (Continued)

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon the application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows, respectively. Upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK\$4,655,187,000 as disclosed in note 34. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK\$267,348,000 and refundable rental deposits received of HK\$79,574,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements results in changes in measurement, presentation and disclosure as indicated above. The Group will elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC) – Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group will elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

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

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. Significant Accounting Policies (Continued)

Basis of consolidation (Continued)

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

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

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

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

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

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

Goodwill

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. Significant Accounting Policies (Continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

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 or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

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

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

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

Revenue from direct sales is recognised at a point in time when the customer obtains control of the distinct goods or service.

Concessionaire income on sales of goods is recognised at a point in time when the related goods are sold and is measured on a net basis, representing the excess of sales proceeds from goods delivered over the amount charged by the suppliers.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. Significant Accounting Policies (Continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) (Continued)

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.

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from direct sales is recognised when goods are delivered and titles have passed.

Concessionaire income on sales of goods is recognised when the related goods are sold and is measured on a net basis, representing the excess of sales proceeds from goods delivered over the amount charged by the suppliers.

Sale of goods that result in award credits for customers, under the Group's customer loyalty scheme, are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the goods supplied and the award credits granted. The consideration allocated to the award credits is measured by reference to the fair value of the awards for which they could be redeemed. Such consideration is not recognised as revenue at the time of the initial sale transaction — but is deferred and recognised as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.

Dividend income from investments is recognised when the rights to receive payment have been established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. Significant Accounting Policies (Continued)

Revenue recognition (prior to 1 January 2018) (Continued)

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Leasing

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

The Group as lessee

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset.

Foreign currencies

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. Significant Accounting Policies (Continued)

Foreign currencies (Continued)

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

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

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

Borrowing costs

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

Pre-operating expenses

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

Retirement benefits costs

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

Short-term employee benefits

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. Significant Accounting Policies (Continued)

Taxation

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

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

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

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. Significant Accounting Policies (Continued)

Property, plant and equipment

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

Construction in progress includes property, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets within finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of tangible assets are estimated individually, when it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. Significant Accounting Policies (Continued)

Impairment losses on tangible assets (Continued)

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

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

Inventories

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

Provisions

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

The amount recognised as a provision, including those arising from the contractual obligation specified in the rental agreement to maintain or restore the infrastructure before it is handed over to the lessor, is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainty surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Financial instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

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

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

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

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

All other financial assets are subsequently measured at 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 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.

(i) Amortised cost and interest income

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (Continued)

- (ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in 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.

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

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2)

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) and lease receivables. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

*Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2)
(Continued)*

(i) Significant increase in credit risk

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

*Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2)
(Continued)*

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

*Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2)
(Continued)*

(v) Measurement and recognition of ECL

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

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKAS 17 *Leases*.

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

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

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

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

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

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are classified into available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity securities held by the Group that are classified as AFS financial assets are measured at fair value at the end of each reporting period. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including pledged bank deposits, trade receivables, other receivables, amounts due from fellow subsidiaries, time deposits, and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 10 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets that are carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Derecognition of financial assets (Continued)

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

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

On derecognition of an AFS financial asset, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Financial liabilities at amortised cost

Financial liabilities including trade payables, other payables, dividend payable, amounts due to ultimate holding company and fellow subsidiaries are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

4. Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash inflows/outflows expected to arise from the cash-generating units by considering the budgeted sales and gross margins which are based on past performance and management's expectations for the future changes in the market and taking into account a suitable discount rate to calculate the present value. Where the actual future cash flows are less than expected, or unfavourable changes in facts and circumstances which result in downward revision of the estimated future cash flows for the purpose of determining the value in use, a material impairment loss may arise. As at 31 December 2018, the carrying amount of goodwill is HK\$94,838,000 (2017: HK\$94,838,000). Details of the recoverable amount calculation are disclosed in note 20.

Impairment of property, plant and equipment

Determining whether property, plant and equipment is impaired requires an estimation of the value in use of the cash-generating units to which property, plant and equipment has been allocated. The amount of the impairment loss is measured as the difference between the carrying amount and the recoverable amount of the cash-generating unit. The recoverable amount is higher of value in use and fair value less costs to sell. The value in use calculation requires the Group to estimate the future cash inflows/outflows expected to arise from the cash-generating units by considering the budgeted sales and gross margins which are based on past performance and management's expectations for the future changes in the market and taking into account a suitable discount rate to calculate the present value. Where the actual future cash flows are less than expected, or unfavourable changes in facts and circumstances which result in downward revision of the estimated future cash flows for the purpose of determining the value in use, further impairment loss may arise.

As at 31 December 2018, the aggregate carrying amount of the property, plant and equipment is HK\$796,071,000 (2017: HK\$881,412,000), net the accumulated impairment loss of the property, plant and equipment of HK\$162,368,000 (2017: HK\$176,542,000). Details about impairment losses recognised during the year are set out in note 19.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

4. Key Sources of Estimation Uncertainty (Continued)

Net realisable value of inventories

The Group's inventories with carrying amount of HK\$856,763,000 (2017: HK\$950,925,000) are carried at the lower of cost and net realisable value. The cost of inventories is written down to net realisable value for certain items when there is objective evidence that the cost of inventories may not be recoverable for those items. The cost of inventories may not be recoverable if certain items of inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs to be incurred to make the sale have increased. The Group has written back inventories of HK\$6,797,000 (2017: write down inventories of HK\$2,941,000) to their net realisable values during the year ended 31 December 2018.

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

5. Revenue

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

A. For the year ended 31 December 2018

(i) Disaggregation of revenue from contracts with customers

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

(ii) Performance obligations for contracts with customers

Direct sales

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

5. Revenue (Continued)

A. For the year ended 31 December 2018 (Continued)

(ii) Performance obligations for contracts with customers (Continued)

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

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

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

Income from concessionaire sales

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

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

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 and the expected timing of recognising revenue is within one year. The Group elected to apply the practical expedient by recognising revenue in the amount to which the Group has right to invoice. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

B. For the year ended 31 December 2017

An analysis of the Group's revenue for the year is as follows:

	2017 HK\$'000
Direct sales	8,816,295
Income from concessionaire sales	849,244
	9,665,539

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

6. Operating Segments

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

Segment revenues and results

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

For the year ended 31 December 2018

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

For the year ended 31 December 2017

	Hong Kong HK\$'000	PRC HK\$'000	Total HK\$'000
Segment revenue — external	4,267,653	5,397,886	9,665,539
Segment loss	(47,820)	(41,513)	(89,333)
Investment income			26,155
Finance costs			(29)
Loss before tax			(63,207)

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit (loss) represents the profit earned (loss incurred) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

6. Operating Segments (Continued)

Segment revenues and results (Continued)

There is no inter-segment revenue for both years.

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

Other segment information

For the year ended 31 December 2018

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

For the year ended 31 December 2017

	Hong Kong HK\$'000	PRC HK\$'000	Segment total HK\$'000
Amounts included in the measure of segment profit or loss:			
Depreciation	126,774	99,353	226,127
Impairment loss recognised in respect of property, plant and equipment	—	19,134	19,134
Loss on disposal/written off of property, plant and equipment	79	2,849	2,928
Write-down of inventories	2,941	—	2,941

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

6. Operating Segments (Continued)

Geographical information

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

	2018 HK\$'000	2017 HK\$'000
Hong Kong	601,277	694,441
PRC	553,458	530,838
	1,154,735	1,225,279

Information about major customers

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

7. Other Income

	2018 HK\$'000	2017 HK\$'000
Rental income from sub-lease	448,005	492,666
Others	124,222	110,657
	572,227	603,323

8. Investment Income

	2018 HK\$'000	2017 HK\$'000
Dividends from listed equity securities	1,673	1,521
Interest on bank deposits	25,797	24,634
	27,470	26,155

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

9. Other Expenses

	2018 HK\$'000	2017 HK\$'000
Advertising, promotion and selling expenses	297,499	313,517
Maintenance and repair expenses	341,583	328,059
Others	246,215	267,362
Utilities expenses	177,814	194,454
	1,063,111	1,103,392

10. Pre-operating Expenses

The amounts represent the set up costs for new stores. Included in pre-operating expenses for the year ended 31 December 2018 are staff costs of HK\$10,403,000 (2017: HK\$19,595,000).

11. Other Gains and Losses

	2018 HK\$'000	2017 HK\$'000
Exchange (loss) gain, net	(8,823)	3,687
Impairment loss recognised in respect of property, plant and equipment	(8,062)	(19,134)
Loss on disposal/written off of property, plant and equipment	(5,165)	(2,928)
	(22,050)	(18,375)

12. Finance Costs

	2018 HK\$'000	2017 HK\$'000
Interest on finance lease	—	29

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

13. Income Tax Expense

	2018	2017
	HK\$'000	HK\$'000
The charges (credits) comprise:		
Current tax		
PRC Enterprise Income Tax	—	9,952
PRC withholding tax	310	1,259
	310	11,211
Under(over) provision in prior years		
Hong Kong	—	(461)
PRC	225	313
	225	(148)
Deferred tax (note 23)		
Current year	19,183	(48)
Income tax expense for the year	19,718	11,015

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

13. Income Tax Expense (Continued)

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

	2018 HK\$'000	2017 HK\$'000
Loss before tax	(23,259)	(63,207)
Taxation at the applicable rate of 16.5% (Note)	(3,838)	(10,429)
Tax effect of expenses not deductible for tax purpose	4,187	5,838
Tax effect of income not taxable for tax purpose	(5,315)	(8,091)
Tax effect of deductible temporary difference not recognised	2,858	22,025
Tax effect of tax losses not recognised	11,633	—
Utilisation of tax losses previously not recognised	—	(1,222)
Withholding tax on undistributed earnings of a subsidiary	562	(2,282)
Withholding tax on interest income of a subsidiary	310	—
Effect of different tax rates of entities operating in the PRC	8,218	3,971
Under(over) provision in prior years	225	(148)
Others	878	1,353
Income tax expense	19,718	11,015

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

14. Loss for the Year

	2018 HK\$'000	2017 HK\$'000
Loss for the year has been arrived at after charging (crediting):		
Depreciation	223,441	226,127
Auditor's remuneration	5,351	5,166
Operating lease rental expenses in respect of rented premises		
— minimum lease payments	1,077,232	1,067,176
— contingent rent (Note)	48,714	52,297
	1,125,946	1,119,473
Retirement benefits scheme contributions	106,867	104,841
Rental income from sub-lease		
— minimum lease payments	(428,604)	(470,081)
— contingent rent (Note)	(19,401)	(22,585)
	(448,005)	(492,666)
Cost of inventories recognised as an expense	6,676,251	6,638,768
(Write-back) write-down of inventories (included in purchase of goods and changes in inventories)	(6,797)	2,941

Note: Contingent rent is calculated based on the excess of a percentage of turnover of the relevant operation that occupied the premises over the minimum lease payments as stated in the relevant rental agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

15. Directors' Emoluments

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

	Executive directors															Non-executive directors					Independent non-executive directors					Total					
	Yuki Habu		Masamitsu Ikuta		Chak Kam Yuen		Lau Chi Sam		Keiji Tsukahara		Hideaki Yajima		Chan Pui Man, Christine		Yoshiaki Mizushima		Akinori Yamashita		Shinya Wako		Chan Yi Jen, Candi Anna		Lo Miu Sheung, Betty		Chow Chi Tong		Hideto Mizuno		Cheng Yin Ching, Anna		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note a)				(Note b)	(Note d)	(Note c)	(Note e)	(Note b)	(Note d)																					
For the year ended 31 December 2018																															
Fees	-	-	70	70	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	180	170	180	64	-	-	-	-	-	734	
Other emoluments																															
Salaries and other benefits	1,381	1,586	1,050	962	956	576	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,511	
Performance based bonus (Note f)	-	-	284	204	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	488	
Contributions to retirement benefits schemes	-	-	73	66	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	139	
Total	1,381	1,586	1,477	1,302	956	576	-	-	-	-	-	-	-	-	-	-	-	-	-	-	180	170	180	64	-	-	-	-	7,872		
For the year ended 31 December 2017																															
Fees	58	-	70	55	-	-	91	-	-	140	180	170	176	-	83	1,023															
Other emoluments																															
Salaries and other benefits	827	1,367	1,051	680	-	1,717	800	393	-	-	-	-	-	-	-	6,865															
Performance based bonus (Note f)	-	-	72	-	-	-	405	-	-	-	-	-	-	-	-	477															
Contributions to retirement benefits schemes	-	-	72	51	-	-	43	-	-	-	-	-	-	-	-	166															
Total	885	1,367	1,265	786	-	1,717	1,369	393	-	140	180	170	176	-	83	8,531															

Notes:

- Ms. Yuki Habu has been re-designated from non-executive director to executive director and appointed as the Managing Director ("MD") of the Company with effect from 31 May 2017. The Board of Directors considered that the duties of the MD were of no difference from that of a Chief Executive Officer stipulated under Provision A. 2 of the Code of Corporate Governance Practices in Appendix 14 of the Listing Rules. The management would regard that the term MD will have the same meaning as the Chief Executive Officer of the Company.
- Directors were appointed during the year ended 31 December 2018.
- Ms. Chan Pui Man, Christine retired as an executive director and resigned as the MD of the Company with effect from 31 May 2017.
- Directors resigned during the year ended 31 December 2018.
- Directors resigned during the year ended 31 December 2017.
- The performance based bonus is determined by reference to the individual performance of the directors. It is reviewed by the Remuneration Committee and approved by the Board of Directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

15. Directors' Emoluments (Continued)

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

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

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

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

16. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, none (2017: one) was a director whose emolument is included in the disclosures in note 15 above. The emoluments of the remaining five individuals (2017: four) were as follows:

	2018 HK\$'000	2017 HK\$'000
Salaries and other benefits	10,630	6,890
Performance based bonus	1,142	448
Contributions to retirement benefit schemes	393	262
	12,165	7,600

	2018 No. of employees	2017 No. of employees
Their emoluments were within the following bands:		
HK\$1,500,001 to HK\$2,000,000	3	3
HK\$2,000,001 to HK\$2,500,000	—	1
HK\$2,500,001 to HK\$3,500,000	2	—

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

16. Employees' Emoluments (Continued)

Other than the emoluments of five (2017: four) senior management individuals of the Group disclosed in note 15 and above, the emoluments of the remaining senior management of the Group were within the following bands:

	2018	2017
	No. of employees	No. of employees
Nil to HK\$1,000,000	2	2
HK\$1,000,001 to HK\$1,500,000	1	—

17. Dividends

	2018	2017
	HK\$'000	HK\$'000
Final dividend paid for 2017 of 22 HK cents (2017: 20 HK cents for 2016) per ordinary share	57,200	52,000
Interim dividend paid for 2018 of 22 HK cents (2017: 20 HK cents for 2017) per ordinary share	57,200	52,000
	114,400	104,000

The Board of Directors has recommended a final dividend of 22 HK cents per share (2017: 22 HK cents) to be paid on or before 27 June 2019, subject to shareholders' approval at the forthcoming annual general meeting on 16 May 2019.

18. Loss Per Share

The calculation of basic loss per share attributable to the owners of the Company is based on the Group's loss for the year attributable to owners of the Company of HK\$49,224,000 (2017: HK\$54,749,000) and on 260,000,000 (2017: 260,000,000) ordinary shares in issue during the year.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

19. Property, Plant and Equipment

	Building fixtures HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
COST					
At 1 January 2017	1,837,327	688,458	7,909	67,490	2,601,184
Exchange adjustments	56,361	16,505	367	1,677	74,910
Additions	18,203	22,654	1,138	219,567	261,562
Transfer	172,250	42,627	—	(214,877)	—
Disposals/written off	(148,648)	(137,211)	(478)	—	(286,337)
At 31 December 2017	1,935,493	633,033	8,936	73,857	2,651,319
Exchange adjustments	(52,144)	(16,657)	(178)	(943)	(69,922)
Additions	22,551	22,081	—	127,531	172,163
Transfer	103,901	28,367	—	(132,268)	—
Disposals/written off	(207,559)	(45,118)	(4,265)	—	(256,942)
At 31 December 2018	1,802,242	621,706	4,493	68,177	2,496,618
DEPRECIATION AND IMPAIRMENT					
At 1 January 2017	1,236,376	506,690	6,399	—	1,749,465
Exchange adjustments	45,524	12,660	293	—	58,477
Provided for the year	160,269	65,124	734	—	226,127
Eliminated on disposal/ written off	(147,952)	(134,866)	(478)	—	(283,296)
Impairment losses recognised	19,031	103	—	—	19,134
At 31 December 2017	1,313,248	449,711	6,948	—	1,769,907
Exchange adjustments	(37,809)	(11,701)	(136)	—	(49,646)
Provided for the year	160,703	62,024	714	—	223,441
Eliminated on disposal/ written off	(204,061)	(42,891)	(4,265)	—	(251,217)
Impairment losses recognised	7,473	589	—	—	8,062
At 31 December 2018	1,239,554	457,732	3,261	—	1,700,547
CARRYING VALUES					
At 31 December 2018	562,688	163,974	1,232	68,177	796,071
At 31 December 2017	622,245	183,322	1,988	73,857	881,412

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

19. Property, Plant and Equipment (Continued)

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

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

Certain stores of the Group have been experiencing recurring losses or performing below budget. The management considered there were impairment indicators and hence conducted impairment assessment on the relevant stores, which constitute individual cash-generating units for the purpose of impairment assessment. The recoverable amounts of the relevant assets have been determined on the basis of value in use of the individual stores to which the relevant assets belong. The value in use calculations use cash flow projections based on the latest financial budgets approved by the Company's management covering a period of 5 years, together with an extension period to the end of the relevant leases of the building fixtures with zero growth rate, and at a discount rate of 7% or 10% (2017: 7% or 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\$8,062,000 (2017: HK\$19,134,000) has been recognised in respect of property, plant and equipment of the Group.

During the year, accumulated impairment loss on property, plant and equipment of HK\$22,360,000 (2017: HK\$38,518,000) of the Group has been eliminated upon the disposal of building fixtures.

As at 31 December 2018, accumulated impairment loss on property, plant and equipment of the Group is HK\$162,368,000 (2017: HK\$176,542,000).

20. Goodwill

	HK\$'000
CARRYING AMOUNT	
At 1 January 2017, 31 December 2017 and 31 December 2018	94,838

The amount represents goodwill arising from the acquisition of an additional 35% interest in AEON South China (as defined in note 40(a)) in 2008. AEON South China became a wholly-owned subsidiary of the Company subsequent to the additional acquisition.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

20. Goodwill (Continued)

The recoverable amount of the cash-generating unit has been determined based on a value in use calculation. That calculation uses cash flow projections with average annual growth rates ranging from 1.75% to 7.67% (2017: 0.1% to 4.3%) based on financial budgets approved by management covering a 5-year period, and discount rate of 10% (2017: 10%) that reflects current market assessment of the time value of money and the risks specific to the cash-generating unit. The cash flows beyond 5-year period are extrapolated using a zero growth rate. In the case of other key assumptions for the value in use calculations related to the estimation of cash inflows/outflows which include budgeted sales and gross margins, such estimation is based on the cash-generating unit past performance and management's expectations for the future changes in the market. Management believe that the aggregate recoverable amount of the cash-generating unit exceeds the aggregate carrying amount of the cash-generating unit. Accordingly, no impairment loss was recognised in the consolidated statement of profit or loss.

21. Equity Instruments at FVTOCI and Available-for-sale Investments

	2018 HK\$'000	2017 HK\$'000
Equity securities:		
Listed shares in Hong Kong at fair value	26,545	24,158

The listed shares in Hong Kong represents an investment in a fellow subsidiary of HK\$26,337,000 (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.

22. Pledged Bank Deposits

	2018		2017	
	Non-current HK\$'000	Current HK\$'000	Non-current HK\$'000	Current HK\$'000
Bank deposits were pledged for the following purpose:				
As guarantee to:				
— landlords for rental deposits	25,001	6,632	27,026	4,985
As requirement by the relevant PRC regulatory body for cash received from prepaid value cards sold	—	8,220	—	14,718
	25,001	14,852	27,026	19,703

Details of impairment assessment for the year ended 31 December 2018 are set out in note 38.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

23. Deferred Taxation

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

	Decelerated tax depreciation HK\$'000	Provision for staff costs and other expenses HK\$'000	Other temporary differences HK\$'000	Undistributed profits of subsidiaries HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1 January 2017	8,922	41,402	634	(4,370)	18,536	65,124
Exchange adjustments	498	3,022	—	—	—	3,520
(Charge) credit to profit or loss	—	(1,729)	—	3,543	(1,766)	48
At 31 December 2017	9,420	42,695	634	(827)	16,770	68,692
Exchange adjustments	(305)	(1,837)	—	—	(20)	(2,162)
Charge to profit or loss	(1,755)	(5,181)	—	(562)	(11,685)	(19,183)
At 31 December 2018	7,360	35,677	634	(1,389)	5,065	47,347

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

	2018 HK\$'000	2017 HK\$'000
Deferred tax assets	48,736	69,519
Deferred tax liabilities	(1,389)	(827)
	47,347	68,692

Furthermore, the Group had unused tax losses of HK\$100,515,000 (2017: HK\$101,636,000) available for offset against future profits. A deferred tax asset has been recognised in respect of tax losses of HK\$30,009,000 (2017: HK\$101,636,000). No deferred tax asset has been recognised in respect of the remaining unused tax losses due to the unpredictability of future profit streams for the relevant subsidiaries in current year. Included in unrecognised tax losses are losses of HK\$70,506,000 (2017: nil) that will expire as follows. Other losses may be carried forward indefinitely.

	2018 HK\$'000	2017 HK\$'000
31 December 2023	70,506	—

At the end of the reporting period, the Group had other deductible temporary difference of HK\$348,902,000 (2017: HK\$453,176,000). A deferred tax asset has been recognised in respect of deductible temporary difference of HK\$205,161,000 (2017: HK\$319,691,000). No deferred tax asset has been recognised in respect of the remaining deductible difference of HK\$143,741,000 (2017: HK\$133,485,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

24. Trade Receivables, Other Receivables, Prepayments and Deposits

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

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

	2018 HK\$'000	2017 HK\$'000
Within 30 days	54,905	63,179
31 to 60 days	22	75
Over 60 days	441	417
Trade receivables	55,368	63,671
Rental and related deposits paid	280,634	266,157
Other receivables, prepayments and other deposits	123,405	170,331
	404,039	436,488
Less: Rental and related deposits paid under non-current assets	(263,826)	(249,029)
Other receivables, prepayments and deposits	140,213	187,459

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

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in note 38.

25. Inventories

Inventories represent merchandise held for resale.

During the year, the directors have considered the market performance and the expected net realisable value of the inventories. As a result, the Group has written back inventories of HK\$6,797,000 (2017: written down inventories of HK\$2,941,000) to their net realisable values and included in "Purchases of goods and changes in inventories".

26. Amounts due from Fellow Subsidiaries

The amounts due from fellow subsidiaries are trade-related, unsecured, interest free and with credit term of 15 to 35 days (2017: 15 to 35 days). The amounts have an age of 0 to 35 days (2017: 0 to 35 days) since the invoice date and not yet due at the end of the respective reporting periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

27. Time Deposits

As at 31 December 2018, time deposits represent Renminbi-denominated time deposits amounting to HK\$34,078,000, United States dollar-denominated time deposits amounting to HK\$12,017,000 and Hong Kong dollar-denominated time deposits amounting to HK\$312,000,000 with an original maturity between three months and one year. The average effective interest rates of Renminbi-denominated, United States dollar-denominated and Hong Kong dollar-denominated time deposits are 2.12%, 3.03% and 2.39% per annum, respectively. The deposits will expire within one year from the end of the reporting period. Accordingly, these amounts are classified as current assets.

As at 31 December 2017, time deposits represent Renminbi-denominated time deposits amounting to HK\$47,287,000, United 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 an 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 year ended 31 December 2018.

28. Bank Balances and Cash

Bank balances and cash comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. Bank balances carry interest at market rates which range from 0.01% to 5.50% (2017: 0.01% to 5.50%) per annum.

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

	2018 HK\$'000	2017 HK\$'000
Hong Kong dollars	169	—
United States dollars	27,235	24,468
Japanese Yen	18,688	2,298
Renminbi	6,902	14,616

Details of impairment assessment for the year ended 31 December 2018 are set out in note 38.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

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

	2018 HK\$'000	2017 HK\$'000
0 to 60 days	1,052,703	1,158,975
61 to 90 days	85,816	99,529
Over 90 days	111,978	125,967
Trade payables	1,250,497	1,384,471
Accrued expenses and other liabilities	583,552	685,630
Accrued staff costs	211,875	218,585
Advance receipts on prepaid store-value cards and related tax	55,473	462,328
Deferred revenue	—	34,782
Payables for purchase of property, plant and equipment	42,438	43,803
Provision for reinstatement	82,568	84,487
Rental deposits received	79,574	83,337
	1,055,480	1,612,952
Less: Rental deposits received and other liabilities under non-current liabilities	(209,251)	(196,054)
Other payables, accrued charges and other liabilities	846,229	1,416,898

The average credit period on purchases of goods is 60 days (2017: 60 days).

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

	HK\$'000
At 1 January 2018	84,487
Additional provision in the year	619
Utilisation of provision	(2,538)
At 31 December 2018	82,568

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

The following is any analysis of contract liabilities:

	At 31 December 2018 HK\$'000	At 1 January 2018 HK\$'000 (Note)
Advance receipts on prepaid store-value cards	356,387	405,688
Deferred revenue	37,170	34,782
	393,557	440,470

Note: The amounts in this column are after the adjustments from the application of HKFRS 15.

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

Movements in contract liabilities:

	HK\$'000
Balance at the beginning of the year	440,470
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(401,505)
Increase in contract liabilities as a result of receiving consideration	375,585
Exchange realignments	(20,993)
Balance at the end of the year	393,557

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

– Prepaid store-value cards

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

– Customer loyalty programmes

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

30. Amounts due to Ultimate Holding Company and Fellow Subsidiaries

The amounts due to ultimate holding company and fellow subsidiaries are trade-related, unsecured, interest free and with credit term of 60 to 90 days (2017: 60 to 90 days). The amounts have an age of 0 to 60 days (2017: 0 to 60 days) since the invoice date at the end of respective reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

31. Share Capital

	Number of shares	HK\$'000
Ordinary shares of no par value as at 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	260,000,000	115,158

32. Statement of Financial Position of the Company

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

	2018 HK\$'000	2017 HK\$'000
Non-current Assets		
Property, plant and equipment	387,938	490,573
Investments in subsidiaries	197,137	197,137
Available-for-sale investments	—	24,158
Equity instruments at FVTOCI	26,545	—
Loan to a subsidiary	44,798	41,377
Deferred tax assets	5,469	16,577
Rental and related deposits paid	139,768	203,868
	801,655	973,690
Current Assets		
Inventories	435,392	446,764
Trade receivables	26,789	31,965
Other receivables, prepayments and deposits	180,518	91,549
Amounts due from subsidiaries	6,148	7,422
Amounts due from fellow subsidiaries	53,435	57,017
Time deposits	324,298	121,947
Bank balances and cash	920,605	1,135,992
	1,947,185	1,892,656
Current Liabilities		
Trade payables	632,574	629,579
Other payables, accrued charges and other liabilities	461,459	475,171
Contract liabilities	44,162	—
Dividend payable	426	472
Amount due to ultimate holding company	30,980	29,541
Amounts due to fellow subsidiaries	44,895	29,238
	1,214,496	1,164,001
Net Current Assets	732,689	728,655
Total Assets Less Current Liabilities	1,534,344	1,702,345

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

	2018 HK\$'000	2017 HK\$'000
Capital and Reserves		
Share capital	115,158	115,158
Reserves	1,241,141	1,418,974
	1,356,299	1,534,132
Non-current Liabilities		
Rental deposits received and other liabilities	175,686	167,386
Deferred tax liabilities	2,359	827
	178,045	168,213
	1,534,344	1,702,345

The Company's statement of financial position was approved and authorised for issue by the board of directors on 20 March 2019 and is signed on its behalf by:



YUKI HABU
Director



MASAMITSU IKUTA
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

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

	Investment revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2017	18,707	1,519,836	1,538,543
Loss for the year	—	(18,674)	(18,674)
Fair value gain on available-for-sale investments	3,047	—	3,047
Total comprehensive income (expense) for the year	3,047	(18,674)	(15,627)
Dividends recognised as distribution	—	(104,000)	(104,000)
Unclaimed dividends forfeited	—	58	58
At 31 December 2017	21,754	1,397,220	1,418,974
Loss for the year	—	(65,916)	(65,916)
Fair value gain on investments in equity instruments at FVTOCI	2,387	—	2,387
Total comprehensive income (expense) for the year	2,387	(65,916)	(63,529)
Dividends recognised as distribution	—	(114,400)	(114,400)
Unclaimed dividends forfeited	—	96	96
At 31 December 2018	24,141	1,217,000	1,241,141

33. Capital Commitments

	2018 HK\$'000	2017 HK\$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	24,140	8,037

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

34. Operating Leases

The Group as lessee

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

	2018 HK\$'000	2017 HK\$'000
Within one year	809,114	659,089
In the second to fifth year inclusive	2,434,459	1,468,274
Over five years	1,411,614	1,215,707
	4,655,187	3,343,070

In addition to the above, (i) over 90% (2017: over 90%) of the leases of the Group are subject to contingent rents based on a fixed percentage of the annual gross turnover and receipts in excess of the minimum lease payments; and (ii) the Group is also subject to a maximum lease commitment of a sum of approximately HK\$4,627,000 (2017: HK\$6,242,000) to a landlord which is a third party under the circumstance of early termination of lease agreements between the landlord and certain related companies covering a lease period of four years starting from 2018 (2017: five years starting from 2017).

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

The Group as lessor

At the end of the reporting period, the Group had contracted with licensees for floor areas in the stores for the following future minimum lease payments under non-cancellable operating leases for each of the following period:

	2018 HK\$'000	2017 HK\$'000
Within one year	301,705	304,349
In the second to fifth year inclusive	369,139	304,134
Over five years	48,816	44,452
	719,660	652,935

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

35. Retirement Benefits Schemes

The Company participates in the Mandatory Provident Fund Schemes (“MPF Schemes”) registered under the Mandatory Provident Fund Ordinance in December 2001. Contributions paid or payable for the MPF Schemes for the year amounting to HK\$20,166,000 (2017: HK\$32,568,000) are charged to the consolidated statement of profit or loss for the year. The contributions represent contributions payable to the MPF Schemes by the Company in accordance with government regulations. In addition to the mandatory contributions, the contributions also include voluntary contributions at rates specified in the rules of the MPF Scheme for certain employees who make voluntary contributions.

The Company also operates a defined contribution provident fund scheme for all qualifying employees. The assets of the scheme are held separately from those of the Company in funds under the control of trustees. The contributions amounting to HK\$3,313,000 (2017: HK\$3,596,000) charged to the consolidated statement of profit or loss represent contributions payable to the funds by the Company at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Company are reduced by the amount of forfeited contributions.

The employees employed in the PRC subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute to the retirement benefits schemes based on a certain percentage of their payroll to fund the benefits. The only obligation of the Group with respect to these retirement benefits schemes is to make the required contributions under the schemes. Contributions paid or payable for these retirement benefits schemes for the year are HK\$83,388,000 (2017: HK\$68,677,000).

36. Related Party Transactions

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

Capacity	Nature of transaction	2018 HK\$'000	2017 HK\$'000
Fellow subsidiaries	Commission for credit facilities provided to the customers	12,738	12,865
	Franchise fee	406	438
	Other expense	16,368	6,377
	Other income	7,352	5,592
	Purchase of goods and property, plant and equipment	378,165	321,849
	Rental expenses, management fees and utilities expenses	24,735	21,325
	Rental income	22,014	19,775
	Sales of coupons	9,500	4,570
	Service fee expense	88,286	93,741
Ultimate holding company	Royalty expenses	27,961	27,858
Non-controlling shareholders of the subsidiaries*	Advertising expenses	2,282	2,143
	Rental expenses, management fees and utilities expenses	65,084	61,678

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

36. Related Party Transactions (Continued)

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

	2018 HK\$'000	2017 HK\$'000
Amounts due from a non-controlling shareholder of the subsidiary (included in other receivables, prepayments and deposits)	5,725	5,535

Amounts due from non-controlling shareholders of the subsidiaries are unsecured, interest free and no fixed repayment term.

Compensation of key management personnel

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

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

37. Capital Risk Management

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

38. Financial Instruments

(a) Categories of financial instruments

	2018 HK\$'000	2017 HK\$'000
Financial assets at amortised cost	2,179,434	—
Loans and receivables (including cash and cash equivalents)	—	2,400,437
Equity instruments at FVTOCI	26,545	—
Available-for-sale financial assets	—	24,158
Financial liabilities at amortised cost	1,793,241	2,030,570

(b) Financial risk management objectives and policies

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

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

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

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

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

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risks in 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

38. Financial Instruments (Continued)

(c) Foreign currency risk management

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

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

	Assets		Liabilities	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Hong Kong dollars	169	230	—	—
United States dollars	39,252	36,215	2,888	5,418
Japanese Yen	18,688	2,298	23,865	10,474
Renminbi	7,182	14,616	—	—

Foreign currency sensitivity

As Hong Kong dollars are pegged to United States dollars, it is assumed that there would be no material currency risk exposure on between these two currencies. The directors of the Company considered that the Group's exposures to Hong Kong dollars and United States dollars are limited. Accordingly, no sensitivity to fluctuation in Hong Kong dollars and United States dollars are presented. The Group therefore is exposed to fluctuations in Japanese Yen and Renminbi.

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

	2018		2017	
	Increase (decrease) in foreign exchange rates %	(Increase) decrease in loss after tax HK\$'000	Increase (decrease) in foreign exchange rates %	(Increase) decrease in loss after tax HK\$'000
Japanese Yen	10%	(432)	10%	(683)
	(10%)	432	(10%)	683
Renminbi	10%	600	10%	1,220
	(10%)	(600)	(10%)	(1,220)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

38. Financial Instruments (Continued)

(c) Foreign currency risk management (Continued)

Foreign currency sensitivity (Continued)

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

The stated changes represent the management's assessment of reasonably possible changes in foreign exchange rates. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the group entities' profit or loss measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes. The analysis is performed on the same basis for 2017.

(d) Interest rate risk management

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

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

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

Interest rate sensitivity

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

(e) Other price risk

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

Equity price sensitivity

The sensitivity analysis below have been determined based on the exposure to equity price risks in respect of equity instruments at FVTOCI at the reporting date. If the prices of the equity instruments at FVTOCI had been 5% (2017: 5%) higher/lower, while all other variables were held constant, the investment revaluation reserve would increase/decrease by approximately HK\$1,327,000 (2017: HK\$1,208,000) for the Group, as a result of the changes in fair value of equity instruments at FVTOCI.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

38. Financial Instruments (Continued)

(f) Credit risk and impairment assessment

The carrying amounts of pledged bank deposits, trade receivables, other receivables, amounts due from fellow subsidiaries, time deposits, and bank balances and cash best represent the maximum exposure to credit risk. Credit risks for the trade receivables and other receivables are limited as the Group's revenue is generated mainly from cash sales, credit card sales and sales by other electronic payment methods. Where transactions are conducted other than on a cash basis, the Group practices stringent credit reviews.

The credit terms for the amounts due from fellow subsidiaries are made in accordance with the relevant agreements and there are no significant overdue debts as at the end of the reporting period.

The Group has no significant concentrations of credit risk with exposure spread over a number of counterparties and trade receivables represent mainly credit card receivables from finance companies.

The credit risks on liquid funds is limited because the directors of the Company consider that the counterparties are financially sound.

The Group performs impairment assessment using lifetime ECL for trade receivables and trade-related amounts due from fellow subsidiaries individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings and 12 months ECL for all other instruments upon application of HKFRS 9. The Group considered all the counterparties have a low risk of default and do not have any material past-due amounts and thus did not provide any allowance for credit loss during the year ended 31 December 2018.

(g) Liquidity risk management

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

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

	Weighted average effective interest rate %	6 months or less HK\$'000	6 to 12 months HK\$'000	1 to 5 years HK\$'000	Total undiscounted cash flows amount HK\$'000	Carrying amount HK\$'000
2018						
Non-interest bearing	—	1,800,215	49,243	23,357	1,872,815	1,872,815
2017						
Non-interest bearing	—	2,068,965	5,996	38,946	2,113,907	2,113,907

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

38. Financial Instruments (Continued)

(h) Fair value of financial instruments

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

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

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

Fair value measurements recognised in the consolidated statement of financial position

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

	Level 1	
	2018 HK\$'000	2017 HK\$'000
Equity instruments at FVTOCI		
Listed equity securities	26,545	—
Available-for-sale financial assets		
Listed equity securities	—	24,158

There were no transfers between levels in both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

39. Reconciliation of Liabilities arising from Financing Activities

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

	Dividend payable HK\$'000	Obligation under a finance lease HK\$'000	Total HK\$'000
At 1 January 2017	505	724	1,229
Financing cash flows	(107,476)	(743)	(108,219)
<i>Non-cash changes</i>			
Dividends recognised as distribution	104,000	—	104,000
Dividend paid to non-controlling shareholders	3,735	—	3,735
Unclaimed dividends forfeited	(58)	—	(58)
Exchange realignment	(234)	19	(215)
At 30 December 2017	472	—	472
Financing cash flows	(114,350)	—	(114,350)
<i>Non-cash changes</i>			
Dividends recognised as distribution	114,400	—	114,400
Unclaimed dividends forfeited	(96)	—	(96)
At 31 December 2018	426	—	426

40. Particulars of Subsidiaries of the Company

(a) General information of subsidiaries

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

Name	Form of business structure	Place of registration or operation principal place of business	Paid up registered/ ordinary share capital	Proportion of ownership interest		Proportion of ownership interest held by a non- controlling interest		Proportion of voting power held by a non- controlling interest		Profit (loss) allocated to a non-controlling interest		Accumulated non-controlling interest		Principal activities
				2018 & 2017	2018 & 2017	2018 & 2017	2018 & 2017	2018	2017	2018	2017			
Guangdong AEON Teem Co., Ltd. ("Guangdong AEON")	Sino-foreign equity joint venture	PRC	RMB228,690,000 (2017: RMB215,050,000)	65%	66%	35%	34%	6,247	(19,473)	137,136	137,670	Retail stores		
AEON South China Co., Ltd. ("AEON South China")	Wholly-owned foreign enterprise	PRC	RMB212,800,000 (2017: RMB212,800,000)	100%	100%	—	—	—	—	—	—	Retail stores		
Jusco Stores (Hong Kong) Co., Limited	Incorporated	Hong Kong	HK\$1,000 (2017: HK\$1,000)	100%	100%	—	—	—	—	—	—	Inactive		

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

40. Particulars of Subsidiaries of the Company (Continued)

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

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

	2018 HK\$'000	2017 HK\$'000
Current assets	1,085,583	1,268,034
Non-current assets	399,144	399,635
Current liabilities	1,067,890	1,251,978
Non-current liabilities	17,825	14,769
Equity attributable to owners of the Company	261,876	263,252
Non-controlling interest	137,136	137,670
Revenue	4,102,151	3,883,273
Expenses	4,084,302	3,938,910
Profit (loss) for the year	17,849	(55,637)
Profit (loss) attributable to owners of the Company	11,602	(36,164)
Profit (loss) attributable to a non-controlling interest	6,247	(19,473)
Profit (loss) for the year	17,849	(55,637)
Other comprehensive (expense) income attributable to owners of the Company	(12,976)	7,120
Other comprehensive (expense) income attributable to a non-controlling interest	(6,781)	7,366
Other comprehensive (expense) income for the year	(19,757)	14,486

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

40. Particulars of Subsidiaries of the Company (Continued)

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

	Year ended	
	2018 HK\$'000	2017 HK\$'000
Total comprehensive expense attributable to owners of the Company	(1,374)	(29,044)
Total comprehensive expense attributable to a non-controlling interest	(534)	(12,107)
Total comprehensive expense for the year	(1,908)	(41,151)
Dividends paid to a non-controlling interest	—	3,735
Net cash inflow from operating activities	22,064	99,576
Net cash outflow from investing activities	(137,977)	(27,992)
Net cash outflow financing activities	—	(10,438)
Net cash (outflow) inflow	(115,913)	61,146

FINANCIAL SUMMARY

The Group

	For the year ended 31 December				2018 HK\$'000
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	
RESULTS					
Revenue	8,815,758	8,975,315	9,036,609	9,665,539	9,675,891
Profit (loss) before tax	305,999	121,712	(10,606)	(63,207)	(23,259)
Income tax expense	(40,034)	(18,157)	(4,407)	(11,015)	(19,718)
Profit (loss) for the year	265,965	103,555	(15,013)	(74,222)	(42,977)

	At 31 December				2018 HK\$'000
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	
ASSETS AND LIABILITIES					
Total assets	5,239,953	5,115,104	4,855,365	4,842,717	4,387,746
Total liabilities	(3,156,516)	(3,042,450)	(2,948,145)	(3,099,346)	(2,809,563)
	2,083,437	2,072,654	1,907,220	1,743,371	1,578,183
Equity attributable to:					
Owners of the Company	1,922,188	1,911,330	1,753,708	1,605,701	1,441,047
Non-controlling interest	161,249	161,324	153,512	137,670	137,136
	2,083,437	2,072,654	1,907,220	1,743,371	1,578,183