



AEON Stores (Hong Kong) Co., Limited

永旺(香港)百貨有限公司

2020 Interim Report

Stock Code: 984

LIVING PLAZA
by AEON



AEON STYLE

AEON
SUPERMARKET



ものもの
Mono Mono

La Bohème
BAKERY

Bent
Express
by AEON

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

HABU Yuki (*Chairman*)
 YAMASHITA Akinori

Independent Non-executive Directors

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

AUDIT COMMITTEE

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

COMPANY SECRETARY

CHAN Kwong Leung Eric

AUDITOR

Deloitte Touche Tohmatsu
 Certified Public Accountants

PRINCIPAL BANKERS

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

SHARE REGISTRARS

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

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units 07-11, 26/F, CDW Building
 388 Castle Peak Road
 Tsuen Wan, New Territories, Hong Kong
 Tel: (852) 2565 3600
 Fax: (852) 2563 8654

STOCK CODE

984

WEBSITE

www.aeonstores.com.hk

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	NOTES	Six months ended	
		30.6.2020 HK\$'000 (unaudited)	30.6.2019 HK\$'000 (unaudited)
Revenue	3	5,157,673	4,829,780
Other income	4	229,320	270,906
Investment income		11,509	13,704
Interest income from rental deposits		5,386	5,352
Purchase of goods and changes in inventories		(3,701,983)	(3,405,365)
Staff costs		(534,468)	(569,349)
Depreciation of investment properties		(33,944)	(43,673)
Depreciation of property, plant and equipment		(99,186)	(105,594)
Depreciation of right-of-use assets		(368,816)	(378,593)
Leases expenses		(57,687)	(61,358)
Other expenses	6	(507,686)	(535,820)
Pre-operating expenses		(644)	(1,661)
Other gains and losses	5	(8,602)	(3,527)
Interest on lease liabilities		(143,857)	(155,685)
Loss before tax		(52,985)	(140,883)
Income tax expense	7	(10,056)	(7,053)
Loss for the period	8	(63,041)	(147,936)
(Loss) profit for the period attributable to:			
Owners of the Company		(72,029)	(149,096)
Non-controlling interest		8,988	1,160
		(63,041)	(147,936)
Loss per share	10	(27.70) HK cents	(57.34) HK cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Six months ended	
	30.6.2020	30.6.2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss for the period	(63,041)	(147,936)
Other comprehensive (expense) income		
<i>Item that will not be reclassified to profit or loss:</i>		
Fair value (loss) gain on investments in equity instruments at fair value through other comprehensive income ("FVTOCI")	(2,810)	102
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	(2,785)	3,233
Other comprehensive (expense) income for the period, net of income tax	(5,595)	3,335
Total comprehensive expense for the period	(68,636)	(144,601)
Total comprehensive (expense) income for the period attributable to:		
Owners of the Company	(74,263)	(147,123)
Non-controlling interest	5,627	2,522
	(68,636)	(144,601)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2020

	NOTES	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Non-current Assets			
Property, plant and equipment	11	637,722	679,741
Right-of-use assets	11	3,636,335	3,902,352
Investment properties	11	402,971	488,352
Goodwill		94,838	94,838
Equity instruments at FVTOCI	12	20,788	23,598
Pledged bank deposits	13	20,037	21,305
Deferred tax assets		41,770	46,944
Rental and related deposits paid	14	187,082	184,349
		5,041,543	5,441,479
Current Assets			
Inventories		858,910	935,949
Trade receivables	14	30,305	35,316
Other receivables, prepayments and deposits	14	109,158	83,346
Amounts due from fellow subsidiaries	15	53,469	63,995
Tax recoverable		8,532	8,532
Time deposits	16	478,746	327,567
Pledged bank deposits	13	10,489	10,751
Bank balances and cash		1,335,562	1,470,515
		2,885,171	2,935,971
Current Liabilities			
Trade payables	17	1,204,029	1,250,087
Other payables, accrued charges and other liabilities	17	713,204	729,068
Lease liabilities		775,572	762,137
Contract liabilities	17	385,285	409,426
Dividend payable		7,695	354
Amount due to ultimate holding company	15	40,431	28,665
Amounts due to fellow subsidiaries	15	90,916	100,979
Tax liabilities		4,552	16,859
		3,221,684	3,297,575
Net Current Liabilities		(336,513)	(361,604)
Total Assets Less Current Liabilities		4,705,030	5,079,875

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2020

	NOTE	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Capital and Reserves			
Share capital		115,158	115,158
Reserves		571,166	658,374
Equity attributable to owners of the Company		686,324	773,532
Non-controlling interest		138,379	132,752
Total Equity		824,703	906,284
Non-current Liabilities			
Rental deposits received and other liabilities	17	126,804	133,916
Lease liabilities		3,751,939	4,038,563
Deferred tax liabilities		1,584	1,112
		3,880,327	4,173,591
		4,705,030	5,079,875

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	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 ("PRC") statutory reserves HK\$'000	Non- distributable reserve HK\$'000	Retained profits HK\$'000	Sub-total HK\$'000	Non- controlling interest HK\$'000	
At 31 December 2018 (audited)	115,158	24,141	29,108	33,316	121,638	1,117,686	1,441,047	137,136	1,578,183
Adjustments	—	—	—	—	—	(362,474)	(362,474)	—	(362,474)
At 1 January 2019 (restated)	115,158	24,141	29,108	33,316	121,638	755,212	1,078,573	137,136	1,215,709
(Loss) profit for the period	—	—	—	—	—	(149,096)	(149,096)	1,160	(147,936)
Other comprehensive income for the period	—	102	1,871	—	—	—	1,973	1,362	3,335
Total comprehensive income (expense) for the period	—	102	1,871	—	—	(149,096)	(147,123)	2,522	(144,601)
Dividends recognised as distribution (note 9)	—	—	—	—	—	(57,200)	(57,200)	—	(57,200)
Unclaimed dividends forfeited	—	—	—	—	—	127	127	—	127
At 30 June 2019 (unaudited)	115,158	24,243	30,979	33,316	121,638	549,043	874,377	139,658	1,014,035
Loss for the period	—	—	—	—	—	(39,630)	(39,630)	(1,421)	(41,051)
Other comprehensive expense for the period	—	(3,049)	(966)	—	—	—	(4,015)	(2,720)	(6,735)
Total comprehensive expense for the period	—	(3,049)	(966)	—	—	(39,630)	(43,645)	(4,141)	(47,786)
Transfer of reserves	—	—	—	1,052	12,897	(13,949)	—	—	—
Dividends recognised as distribution	—	—	—	—	—	(57,200)	(57,200)	—	(57,200)
Dividend paid to a non-controlling shareholder	—	—	—	—	—	—	—	(2,765)	(2,765)
At 31 December 2019 (audited)	115,158	21,194	30,013	34,368	134,535	438,264	773,532	132,752	906,284
(Loss) profit for the period	—	—	—	—	—	(72,029)	(72,029)	8,988	(63,041)
Other comprehensive (expense) income for the period	—	(2,810)	576	—	—	—	(2,234)	(3,361)	(5,595)
Total comprehensive (expense) income for the period	—	(2,810)	576	—	—	(72,029)	(74,263)	5,627	(68,636)
Dividends recognised as distribution (note 9)	—	—	—	—	—	(13,000)	(13,000)	—	(13,000)
Unclaimed dividends forfeited	—	—	—	—	—	55	55	—	55
At 30 June 2020 (unaudited)	115,158	18,384	30,589	34,368	134,535	353,290	686,324	138,379	824,703

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

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Six months ended	
	30.6.2020 HK\$'000 (unaudited)	30.6.2019 HK\$'000 (unaudited)
OPERATING ACTIVITIES		
Operating cash flows before movements in working capital	578,640	523,666
Decrease in inventories	65,485	77,205
Decrease in trade receivables	4,489	5,718
(Increase) decrease in other receivables, prepayments and deposits	(24,283)	9,600
Decrease in amounts due from fellow subsidiaries	10,520	12,818
(Decrease) increase in trade payables	(31,720)	75,950
Decrease in other payables, accrued charges and other liabilities	(14,816)	(142,655)
(Decrease) increase in contract liabilities	(15,382)	215
Increase in amount due to ultimate holding company	11,766	11,873
Decrease in amounts due to fellow subsidiaries	(7,781)	(59,970)
	576,918	514,420
Cash generated from operations	576,918	514,420
PRC income taxes paid	(17,461)	—
Interest on bank deposits and time deposits received	11,455	12,654
	570,912	527,074
NET CASH FROM OPERATING ACTIVITIES	570,912	527,074
INVESTING ACTIVITIES		
Dividends from equity securities at FVTOCI	5	5
Purchase of property, plant and equipment	(67,448)	(102,013)
Proceeds from disposal of property, plant and equipment	24	72
Payment for rental deposits	(955)	—
Payment for right-of-use assets	(204)	(257)
Placement of time deposits	(695,732)	(102,689)
Withdrawal of time deposits	540,756	351,773
Placement of pledged bank deposits	(662)	—
Withdrawal of pledged bank deposits	—	1,155
	(224,216)	148,046
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(224,216)	148,046
FINANCING ACTIVITIES		
Dividend paid	(5,604)	(24,580)
Interest paid on lease liabilities	(143,857)	(155,685)
Repayments of lease liabilities	(316,547)	(296,267)
	(466,008)	(476,532)
CASH USED IN FINANCING ACTIVITIES	(466,008)	(476,532)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(119,312)	198,588
CASH AND CASH EQUIVALENTS AT 1 JANUARY	1,470,515	1,651,349
Effect of foreign exchange rate changes	(15,641)	3,860
CASH AND CASH EQUIVALENTS AT 30 JUNE, represented by bank balances and cash	1,335,562	1,853,797

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

1. BASIS OF PREPARATION

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

The financial information relating to the year ended 31 December 2019 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements is as follows:

The Company has delivered the consolidated financial statements for the year ended 31 December 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

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

In preparing the condensed consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that the Group’s current liabilities exceeded its current assets by HK\$336,513,000 at 30 June 2020. In the opinion of the directors of the Company, the Group has a number of sources of finance available to fund its operations. Taking into account of the available banking facilities, the directors of the Company are confident that the Group will be able to meet its financial obligations when they fall due in the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) and application of certain accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2019.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.1 Impacts of application on Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

2.2 Accounting policies newly applied by the Group

In addition, the Group has applied the following accounting policies which became relevant to the Group in the current interim period.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants relate to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other income".

3. REVENUE AND SEGMENT INFORMATION

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

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

Disaggregation of revenue from contracts with customers

	Six months ended 30.6.2020 (unaudited)		
	Hong Kong HK\$'000	PRC HK\$'000	Total HK\$'000
Direct sales	2,288,453	2,615,829	4,904,282
Income from concessionaire sales	134,857	118,534	253,391
	2,423,310	2,734,363	5,157,673
	Six months ended 30.6.2019 (unaudited)		
	Hong Kong HK\$'000	PRC HK\$'000	Total HK\$'000
Direct sales	1,917,985	2,561,054	4,479,039
Income from concessionaire sales	173,599	177,142	350,741
	2,091,584	2,738,196	4,829,780

The following is an analysis of the Group's revenue and results by reportable and operating segments:

	Six months ended 30.6.2020 (unaudited)		
	Hong Kong HK\$'000	PRC HK\$'000	Total HK\$'000
Segment revenue — external	2,423,310	2,734,363	5,157,673
Segment (loss) profit	(66,563)	2,069	(64,494)
Investment income			11,509
Loss before tax			(52,985)

3. REVENUE AND SEGMENT INFORMATION (Continued)**Disaggregation of revenue from contracts with customers (Continued)**

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

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

4. OTHER INCOME

	Six months ended	
	30.6.2020 HK\$'000 (unaudited)	30.6.2019 HK\$'000 (unaudited)
Rental income from investment properties	159,940	200,969
Government grants	17,103	—
Management fee and other income from lessees	38,624	44,986
Compensation from closure of store	—	7,207
Others	13,653	17,744
	229,320	270,906

During the current interim period, the Group recognised government grants of HK\$13,020,000 from Places of Public Entertainment Licence Holder Subsidy Scheme and Food Licence Holders Subsidy Scheme under Anti-Epidemic Fund of the Hong Kong Government, and HK\$4,083,000 relating to subsidies granted by municipal governments in PRC.

5. OTHER GAINS AND LOSSES

	Six months ended	
	30.6.2020 HK\$'000 (unaudited)	30.6.2019 HK\$'000 (unaudited)
Exchange loss, net	(7,217)	(2,520)
Loss on disposal/written off of property, plant and equipment	(1,385)	(1,007)
	(8,602)	(3,527)

6. OTHER EXPENSES

	Six months ended	
	30.6.2020	30.6.2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Advertising, promotion and selling expenses	149,855	149,940
Maintenance and repair expenses	169,715	174,467
Administrative expenses	117,142	125,826
Utilities expenses	67,585	82,238
Others	3,389	3,349
	507,686	535,820

7. INCOME TAX EXPENSE

	Six months ended	
	30.6.2020	30.6.2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
The charge comprises:		
Current tax		
PRC Enterprise Income Tax	4,547	6,524
PRC withholding tax	832	—
Deferred tax	4,677	529
Income tax expense for the period	10,056	7,053

No provision for Hong Kong Profits Tax is made as the Company has no assessable profit for the six months ended 30 June 2020 and 30 June 2019.

Under the Law of PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Deferred tax for both periods arose from temporary differences arising from tax depreciation, provision for staff costs and other expenses, undistributed profits of subsidiaries and tax losses.

8. LOSS FOR THE PERIOD

	Six months ended	
	30.6.2020	30.6.2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss for the period has been arrived at after charging:		
Cost of inventories recognised as an expense	3,701,983	3,405,365
Write-down of inventories (included in purchase of goods and changes in inventories)	1,331	—

9. DIVIDENDS

	Six months ended	
	30.6.2020	30.6.2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Dividend recognised as distribution during the period:		
Final dividend declared and paid for 2019 of		
5.0 HK cents (six months ended 30.6.2019:		
22.0 HK cents for 2018 final dividend) per ordinary share	13,000	57,200

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of 5.0 HK cents (six months ended 30.6.2019: 22 HK cents) per ordinary share amounting to HK\$13,000,000 (six months ended 30.6.2019: HK\$57,200,000) will be paid to the owners of the Company whose names appear in the register of members on 9 October 2020. The interim dividend will be paid on or before 30 October 2020.

10. LOSS PER SHARE

The calculation of basic loss per share attributable to the owners of the Company is based on the Group's loss for the period attributable to the owners of the Company of HK\$72,029,000 (six months ended 30.6.2019: HK\$149,096,000) and on 260,000,000 (six months ended 30.6.2019: 260,000,000) ordinary shares in issue during the period.

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

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

During the current interim period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of HK\$1,409,000 (six months ended 30 June 2019: HK\$1,079,000), resulting in a loss on disposal of HK\$1,385,000 (six months ended 30 June 2019: HK\$1,007,000).

During the current interim period, the Group acquired property, plant and equipment of approximately HK\$67,448,000 (six months ended 30.6.2019: HK\$81,568,000) to expand its operations.

During the current interim period, the Group entered into several new lease agreements and lease modification for its stores of which the lease terms ranges from 1 to 10 years. The Group is required to make fixed monthly payments. During the current period, the Group recognised additional HK\$88,115,000 (six months ended 30.6.2019: HK\$86,286,000) of right-of-use assets and HK\$87,667,000 (six months ended 30.6.2019: HK\$84,129,000) lease liabilities.

During the current interim period, in combating the Covid-19 pandemic, the lessors of certain retail stores have provided rent concessions to the Group through rent reductions ranging from 10% to 100% over one to two months. The Group opted not to apply the practical expedients under HKFRS 16.46A and treated the changes in lease payments as lease modifications. Accordingly, the Group recognised additional lease liabilities of HK\$29,556,000 and a corresponding adjustment of the same amount to the right-of-use assets.

As at 30 June 2020, the investment properties represent the right-of-use asset under sub-leases in which the Group acts as an intermediate lessor.

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

Impairment assessment

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 ("CGU") for the purpose of impairment assessment. The recoverable amounts of the relevant assets have been determined on the basis of value in use of the individual stores to which the relevant assets belong.

The value in use calculations use discounted cash flow projections based on the latest financial budgets approved by the Company's management covering a period of 5 years, together with an extension period to the end of the relevant leases of the building fixtures and right-of-use assets with zero growth rate. Cash flow projections during the budget period were based on the expected gross margins during the budget period and the budgeted margins have been determined based on past performance and management's expectations for the future changes in the market.

Based on the result of the assessment, management of the Group determined that the recoverable amount of the CGU is higher than the carrying amount. Accordingly, no impairment loss has been recognised against the carrying amount of property, plant and equipment, and right-of-use assets.

12. EQUITY INSTRUMENTS AT FVTOCI

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Equity securities:		
Listed shares in Hong Kong at fair value	20,788	23,598

The listed shares in Hong Kong mainly represents an investment in a fellow subsidiary of HK\$20,623,000 (31.12.2019: HK\$23,385,000).

The fair value of equity securities which have been categorised as Level 1 under fair value hierarchy, have been determined based on the quoted market bid prices available on The Stock Exchange of Hong Kong Limited.

13. PLEDGED BANK DEPOSITS

	30.6.2020		31.12.2019	
	Non-current HK\$'000 (unaudited)	Current HK\$'000 (unaudited)	Non-current HK\$'000 (audited)	Current HK\$'000 (audited)
Bank deposits were pledged for the following purpose:				
As guarantee to landlords for rental deposits	20,037	2,772	21,305	2,841
As requirement by the relevant PRC regulatory body for cash received from prepaid value cards sold	—	7,717	—	7,910
	20,037	10,489	21,305	10,751

14. TRADE RECEIVABLES, OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

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

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

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Within 30 days	27,796	35,128
31 to 60 days	47	13
Over 60 days	2,462	175
Trade receivables	30,305	35,316
Rental and related deposits paid	206,448	202,555
Other receivables, prepayments and other deposits	89,792	65,140
	296,240	267,695
Less: Rental and related deposits paid under non-current assets	(187,082)	(184,349)
Other receivables, prepayments and deposits	109,158	83,346

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

The amounts due to ultimate holding company and fellow subsidiaries are trade-related, unsecured, interest free and with credit term of 60 to 90 days (31.12.2019: 60 to 90 days). The amounts are aged within 60 days based on the invoice date at the end of both reporting periods.

The amounts due from fellow subsidiaries are trade-related, unsecured, interest free and with credit term of 15 to 35 days (31.12.2019: 15 to 35 days). The amounts are aged within 35 days based on the invoice date and not yet due at the end of both reporting periods.

16. TIME DEPOSITS

As at 30 June 2020, time deposits represent time deposits denominated in Renminbi ("RMB"), United States dollar ("USD") and Hong Kong Dollars ("HKD") amounting to HK\$229,970,000, HK\$186,000 and HK\$248,590,000, respectively, with an original maturity between three months and one year. The average effective interest rates of those time deposits denominated in RMB, USD and HKD are 1.94%, 0.41% and 3.41% per annum, respectively.

As at 31 December 2019, time deposits represent time deposits denominated in RMB, USD and HKD amounting to HK\$213,561,000, HK\$55,006,000 and HK\$59,000,000, respectively, with an original maturity between three months and one year. The average effective interest rates of those time deposits denominated in RMB, USD and HKD are 2.09%, 2.17% and 2.19% per annum, respectively.

The deposits will expire within one year from the end of each reporting period. Accordingly, these amounts are classified as current assets.

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

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

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
0 to 60 days	1,062,370	1,076,522
61 to 90 days	44,156	70,460
Over 90 days	97,503	103,105
Trade payables	1,204,029	1,250,087
Accrued expenses and other liabilities	380,662	409,028
Accrued staff costs	239,813	222,939
Accrued value-added tax on prepaid store-value cards	41,062	44,354
Payables for purchase of property, plant and equipment	11,127	11,333
Provision for reinstatement	92,244	92,271
Rental deposits received	75,100	83,059
	840,008	862,984
Less: Rental deposits received and other liabilities under non-current liabilities	(126,804)	(133,916)
Other payables, accrued charges and other liabilities	713,204	729,068

The following is the analysis of contract liabilities:

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Advance receipts on prepaid store-value cards	348,278	378,147
Deferred revenue on customer loyalty points	37,007	31,279
	385,285	409,426

18. CAPITAL COMMITMENTS

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided	36,872	9,302

19. RELATED PARTY TRANSACTIONS

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

Relationship	Nature of transaction	Six months ended	
		30.6.2020 HK\$'000 (unaudited)	30.6.2019 HK\$'000 (unaudited)
Fellow subsidiaries	Commission paid for credit facilities provided to the customers	6,575	6,255
	Franchise fee	118	200
	Trademark fee	2,088	3,232
	Other income	4,691	1,443
	Purchase of goods and property, plant and equipment	4,655	4,774
	Rental income	8,574	9,515
	Interest on lease liabilities	2,653	3,360
	Repayment of lease liabilities	8,935	5,033
	Management fees and utilities expenses	7,430	9,575
	Sales of coupons	3,544	2,275
	Service fee expense	30,311	24,355
	Ultimate holding company	Royalty expenses	13,617
Non-controlling shareholder of the subsidiary*	Repayments of lease liabilities	21,960	14,246
	Interest on lease liabilities	6,987	8,810
	Rental expenses	1,086	2,001
	Management fees and utilities expenses	6,465	7,400
Directors and key management personnel	Remuneration	4,011	4,704

* Non-controlling shareholder has significant influence over the subsidiary.

19. 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 condensed consolidated statement of financial position except for the following balances:

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Amounts due from fellow subsidiaries (included in other receivables, prepayments and deposits)	4,099	3,913
Amounts due to fellow subsidiaries (included in lease liabilities)	71,097	87,839
Amount due from a non-controlling shareholder of the subsidiary (included in other receivables, prepayments and deposits)	4,126	2,727
Amount due to a non-controlling shareholder of the subsidiary (included in lease liabilities)	191,075	206,037

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

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

21. EVENT AFTER THE END OF REPORTING PERIOD**Government grants in respect of Covid-19-related subsidies**

As disclosed in note 4, the Group received government grants of HK\$17,103,000 during the current interim period, in which HK\$15,477,000 are Covid-19-related subsidies.

As at end of the reporting period, the Group applied for the first tranche of the Employment Support Scheme under the Anti-Epidemic Fund of Hong Kong Government, which aims to retain employment during the challenge of Covid-19. As a condition of receiving such grants from the Employment Support Scheme, the Group undertakes not to make redundancies by 31 August 2020.

In August 2020, the Group received the grants amounted to HK\$59,944,000 as compensation to the Group's salary costs for a three-month period.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 8 October 2020 to 9 October 2020 (both days inclusive), for the purpose of ascertaining shareholders' entitlement to the proposed interim dividend, during which period no transfer of shares will be registered. In order to qualify for the proposed interim dividend, all share transfers accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Tricor Secretaries Limited, at Level 54 Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 7 October 2020.

BUSINESS REVIEW

In the first half of 2020, starting from January with the novel coronavirus (COVID-19) outbreak, the flow of people and goods, as a vital part of economic activity, has been under restriction, which subsequently severely affected the global economy. Consumer behavior and the consumption pattern in Hong Kong and China has also changed. As a player in the retail industry, the Group needed to take decisive action in response to the changes.

HONG KONG OPERATIONS

Affected adversely by the abovementioned factors, the Hong Kong economy continued to weaken in the first half of 2020. The economy for the first quarter and second quarter of 2020 recorded a significant year-on-year contraction of 9.1% and 9.0%* respectively, after contracting by 1.2% in 2019*. As the economic environment weakened and local people went out less frequently to spend amid the outbreak, the retail industry continued to operate in a tough business environment. Consequently, the value of retail sales for the first half of 2020 dropped sharply by 33.3%* year-on-year.

In the first half of the year, the consumption behaviour of customers changed significantly, with an increasing proportion electing to stay at home, so they had greater concern about the improvement of the living environment as well as health and safety. To cater for the needs of customers, the Group not only assured the supply of local products, but also sourced merchandise which was needed by Hong Kong residents from Japan, South East Asia and China by capitalising on the procurement channels of AEON Group, so as to fulfill its mission of supporting the community.

During the period under review, the Group completed the extensive renovation of its Tuen Mun store, one of its core retail outlets. In order to increase the sales proportion of local customers, the Group enhanced the differentiation of its food division, strengthened the variety of fresh food such as fish, meat and vegetables and enriched the portfolio of processed food products which are primarily made in Japan. In addition, the Group also reorganised its apparel and household merchandise categories, which are family-oriented, along with the store layout. It also actively introduced the brands under AEON Japan Group. Moreover, the Group completed small-scale renovations in three stores in Hong Kong, and at the same time introduced house brands, namely “HÓME CÓORDY”, “iC innercasual” and “KIDS REPUBLIC” in suitable stores, with the aim of bringing high quality products and a new shopping experience to customers.

“HÓME CÓORDY” primarily provides household products, featuring Japanese elements such as simple design, suitable prices, multi-functionality, colorful appearance and being easy to mix-and-match, so it has been well-received by customers. (Four specialty outlets were opened in the Group’s stores.) Moreover, “iC innercasual”, which primarily provides functional causal underwear, comfortable homewear and casual wear, reported a better-than-expected sales performance. (Two specialty outlets were opened in the Group’s stores.)

To facilitate business growth of Living Plaza and increase its revenue, the Group opened two “Living Plaza” outlets during the period under review. Meanwhile, it has reviewed and optimised its store opening, construction and operation infrastructure.

As for daily operations, the Group added more self-service cashier systems and a “POS Express” mobile payment system in suitable stores in order to accelerate payment and provide greater convenience to customers.

In the first half of the year, revenue from Hong Kong operations increased by 15.9% to HK\$2,423,300,000 (2019: HK\$2,091,600,000), while loss was down to HK\$66,600,000 (2019: HK\$89,000,000) mainly attributable to sales growth and effective implementation of strict cost control measures.

PRC OPERATIONS

Affected by the COVID-19 pandemic and the tense relations between the PRC and the US, economic growth in the PRC decelerated by 1.6% year-on-year# in the first half. Total retail sales of consumer goods also declined by 11.4% year-on-year#.

Amidst the pandemic, the Group has obtained the government’s approval to continue its food business operations and support the commodity needs of the community. It has enhanced the services of its online supermarket to address the needs of customers who are unable to go out and also opened new supermarkets in Southern China during March.

In the first half of the year, growth in revenue of the PRC operations was partly offset by the 4.6% depreciation of RMB against HK dollar when compared with the previous corresponding period, and thus slightly decreased to HK\$2,734,400,000 (2019: 2,738,200,000). However, as a result of the Group’s efforts in optimising store portfolio and implementing effective cost control measures, its PRC operations improved notably to record a profit of HK\$2,100,000 during the period (2019: loss of HK\$65,600,000).

* Census and Statistics Department, The Government of the Hong Kong Special Administrative Region

National Bureau of Statistics of the PRC

FINANCIAL REVIEW

For the six months ended 30 June 2020, the Group's revenue increased by 6.8% year-on-year to HK\$5,157,700,000 (2019: HK\$4,829,800,000). Gross profit margin dropped slightly to 28.2% (2019: 29.5%).

As for cost control during the period under review, the Group's staff cost declined by 6.1% and its ratio to sales revenue dropped to 10.4% (2019:11.8%). Expenses related to the leases also dropped by 5.5% and the ratio of expenses to sales revenue dropped to 11.7% (2019: 13.2%). Other operating expenses, including advertising, promotion and selling expenses, maintenance and repair expenses, utility expenses, administrative expenses and other expenses, also decreased by 5.3% year-on-year and the ratio of other expenses to revenue was 9.8% (2019:11.1%).

Due to the above reasons, loss attributable to owners of the Company for the period was HK\$72,000,000 (2019: loss of HK\$149,100,000), representing a reduction of HK\$77,100,000.

The Board recommended payment of an interim dividend of HK\$0.05 per share (2019: HK\$0.22 per share). In the recommendation or declaration of dividends, the Board has reviewed the dividend policy taking into account the following factors of the Company including its financial results, cash flow status, business conditions and strategies, future operations and revenue, capital requirements and expenditure plans, interests of shareholders, any restrictions on distribution of dividends and any other factors that it may consider relevant.

During the review period, capital expenditure for opening new stores and store renovation in Hong Kong and the PRC and the upgrade of information technology systems amounted to HK\$67,500,000.

The Group also entered into new lease agreements and lease modifications in the review period and recognized an additional HK\$88,100,000 of right-of-use assets.

The Group maintained a net cash position with cash and bank balances and short-term time deposits amounting to HK\$1,814,300,000 as at 30 June 2020 (31 December 2019: HK\$1,798,100,000). It had no bank borrowings and had sufficient internal resources to finance future business expansions.

As at 30 June 2020, deposits of HK\$22,800,000 (31 December 2019: HK\$24,100,000) were pledged to the bank as guarantees of the rental deposits to landlords. Deposits of HK\$7,700,000 (31 December 2019: HK\$7,900,000) were also pledged to regulatory bodies as guarantees for prepaid value cards sold.

The Group's total lease liabilities as at 30 June 2020 amounted to HK\$4,527,500,000 (31 December 2019: HK\$4,800,700,000), of which HK\$775,600,000 (31 December 2019: HK\$762,100,000) is payable within one year. The Group's lease liabilities to equity ratio as at 30 June 2020 (defined as the total lease liabilities divided by equity attributable to the owners of the Company) was 660% (31 December 2019: 621%).

As at 30 June 2020, the Group's current liabilities exceeded its current assets by HK\$336,500,000 (31 December 2019: net current assets of HK\$361,600,000). The Group has a number of financial sources available to fund its operations and in the foreseeable future will be able to meet its financial obligations when they fall due.

PROSPECTS

In light of uncertain global geopolitical conditions, particularly the sign of further deterioration of Sino-US relations, and ongoing instability of the COVID-19 situation, the sluggish PRC and Hong Kong economy and consumption sentiment are expected to persist. Facing the changes in customers' behavior patterns and this "new normal", the Group will implement different measures aimed at improving its results.

HONG KONG OPERATIONS

Customers have changed their spending habits since the outbreak of COVID-19 in Hong Kong. The Group will strive to introduce more product varieties to match the changing demand of customers through its operation of large general merchandise stores, and small stores under Living Plaza. The Group will try to satisfy the increasingly sophisticated customers demands by offering affordable and comprehensive merchandise with new elements.

The Tuen Mun store has completed renovation and reopened in July. The novel layout features three themes: "play", "eat" and "live", presenting new surprises to customers.

The Group plans to speed up the opening of Living Plaza stores in the third quarter of 2020. In the year, 15 stores have been targeted to open, so the total number of Living Plaza outlets in 2020 will exceed those in 2019 significantly.

The Group will further improve its online platform than in 2019 by introducing services including product reservation and delivery of bento, sushi, etc, thereby improving results with better online sales. The Group also plans to promote the use of the online platform in the second half and provide more services to customers, so as to facilitate future development in 2021.

PRC OPERATIONS

The COVID-19 wave has eased in Guangdong Province, but the economic outlook is still uncertain under the influence of this disease and current international conditions.

However, its new store opening plan will continue to proceed as scheduled, with two more openings set for the second half this year. The Group will also implement the business model of small supermarkets on a trial basis.

In the future, the Group will continuously streamline the operating network to improve its operational efficiency and overall business performance. In the long term, the Group believes that the PRC market still possesses huge growth potential, which will remain as an important driver of the Group's business development.

GROUP

According to the investment plans in 2020, the expected total capital expenditure in the second half period is approximately HK\$227,100,000.

Save as previously mentioned or otherwise disclosed herein, there are no important events affecting the business of the Group which have occurred since 30 June 2020 up to the date these consolidated financial statements are authorised for issue.

HUMAN RESOURCES

As at 30 June 2020, the Group had about 6,500 full-time and 3,900 part-time employees in Hong Kong and the PRC. Under the "Everything we do, we do for our customers" credo, in order to deliver the highest standard of service to all customers, the Group will continue to upgrade the skills and professional knowledge of its employees by providing them with essential education opportunities and career development. Under a fair human resources system, the Group will create an energetic work environment for staff and enhance the communications between on-site staff and the back-end support departments, hoping to build a system that facilitates prompt action to address business issues. The Group's ultimate goal is to build the AEON brand that benefits all customers.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2020, the interests of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules, were as follows:

(A) THE COMPANY

Name of Director	Long Position 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	Long Position Number of shares held as personal interests	Approximate percentage of interests %
HABU Yuki (Note 1)	8,460	0.00097
NAKAGAWA Isei (Note 2)	2,400	0.00028
YAMASHITA Akinori (Note 3)	20,630	0.00237
HISANAGA Shinya (Note 4)	2,030	0.00023

Notes:

- As confirmed by Ms. HABU Yuki, her shareholding in AEON Co., Ltd. is 8,460 shares.
- As confirmed by Mr. NAKAGAWA Isei, his shareholding in AEON Co., Ltd. is 2,400 shares.
- As confirmed by Mr. YAMASHITA Akinori, his shareholding in AEON Co., Ltd. is 20,630 shares.
- As confirmed by Mr. HISANAGA Shinya, his shareholding in AEON Co., Ltd. is 2,030 shares.

(C) THE COMPANY'S ASSOCIATED CORPORATION

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

Note:

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

Other than as disclosed above, as at 30 June 2020, neither the Directors nor the chief executives of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of PART XV of the SFO).

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2020, shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange 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 shareholder	Long Position 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	21,960,000 (Note 2)	8.45

Note 1: These shares were 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 was owned by AEON Co., Ltd. as to 280,588,000 shares representing 67.00% of the issued share capital of ACS. AEON Co., Ltd. was 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 21,895,500 shares representing 8.42% of the total number of issued shares of the Company.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company as at 30 June 2020.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2020, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and with the knowledge of the Directors, the Company has maintained sufficient public float during the six months ended 30 June 2020 and up to the date of this report.

CORPORATE GOVERNANCE

The Board has complied throughout the six months ended 30 June 2020 with the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

The Company has adopted the Model Code as the code of conduct regarding securities transactions by Directors. Having made specific enquiries with all Directors, the Company confirmed that they had complied with the required standard set out in the Model Code throughout the six months ended 30 June 2020.

The Audit Committee of the Company has reviewed the unaudited interim results for the six months ended 30 June 2020 with management.

UPDATED INFORMATION OF DIRECTORS

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

CHANGES IN DIRECTORS' EMOLUMENTS

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

With effect from 1 January 2020, the Directors' entitlement to directors' fee and emoluments (which will be pro-rata to the period of services in the year of their appointments) for the year ending 31 December 2020 are as follows:

Name of Directors	Emoluments HK\$
NAKAGAWA Isei	2,013,000
CHAK Kam Yuen	1,420,000
LAU Chi Sum Sam	1,247,000
NAGASHIMA Takenori	1,799,000
HISANAGA Shinya	1,487,000

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

Hong Kong, 27 August 2020