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

2023 INTERIM RESULTS

The Board of Directors (the "Board") of AEON Stores (Hong Kong) Co., Limited (the "Company") is pleased to announce the unaudited results of the Company and its subsidiaries (the "Group" or "AEON") for the six months ended 30 June 2023 together with comparative figures for the previous period as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX MONTHS ENDED 30 JUNE 2023

	NOTES	**Six months ended**	
		30.6.2023	30.6.2022
		HK$'000	HK$'000
		(unaudited)	(unaudited)
Revenue	3	**4,521,844**	5,048,699
Other income	4	**218,741**	240,460
Investment income		**11,537**	9,236
Interest income from rental deposits		**5,797**	5,884
Purchase of goods and changes in inventories		**(3,217,693)**	(3,618,488)
Staff costs		**(494,851)**	(554,306)
Depreciation of investment properties		**(32,543)**	(32,927)
Depreciation of property, plant and equipment		**(75,310)**	(100,891)
Depreciation of right-of-use assets		**(355,893)**	(374,383)
Leases expenses		**(36,927)**	(37,724)
Other expenses	6	**(530,320)**	(562,002)
Pre-operating expenses		**(516)**	(278)
Other gains and losses	5	**9,359**	(49,707)
Interest on lease liabilities		**(98,745)**	(126,036)
Loss before tax		**(75,520)**	(152,463)
Income tax expense	7	**(1,033)**	(5,156)
Loss for the period		**(76,553)**	(157,619)
(Loss)/profit for the period attributable to:			
Owners of the Company		**(78,194)**	(144,624)
Non-controlling interest		**1,641**	(12,995)
		(76,553)	(157,619)
Loss per share (basic and diluted)	9	**(30.07) HK cents**	(55.62) HK cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Six months ended	
	30.6.2023	30.6.2022
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Loss for the period	**(76,553)**	(157,619)
Other comprehensive income/(expense)		
Item that will not be reclassified to profit or loss:		
Fair value gain on investments in equity instruments measured at fair value through other comprehensive income ("FVTOCI")	**1,872**	261
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of operations outside Hong Kong	**(970)**	10,155
Other comprehensive income for the period, net of income tax	**902**	10,416
Total comprehensive expense for the period	**(75,651)**	(147,203)
Total comprehensive expense for the period attributable to:		
Owners of the Company	**(78,016)**	(129,961)
Non-controlling interest	**2,365**	(17,242)
	(75,651)	(147,203)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2023

	NOTES	30.6.2023 HK$'000 (unaudited)	31.12.2022 HK$'000 (audited)
Non-current Assets			
Property, plant and equipment		**415,560**	431,155
Right-of-use assets		**2,182,639**	2,496,964
Investment properties		**222,880**	280,181
Equity instruments at FVTOCI		**20,797**	18,925
Time deposits		**3,531**	6,068
Pledged bank deposits		**20,877**	22,643
Deferred tax assets		**25,320**	25,670
Rental and related deposits		**169,505**	220,507
		3,061,109	3,502,113
Current Assets			
Inventories		**807,951**	892,697
Receivables, prepayments and deposits		**201,746**	152,495
Amounts due from fellow subsidiaries		**33,597**	59,025
Time deposits		**313,922**	289,524
Pledged bank deposits		**110,014**	7,785
Bank balances and cash		**952,160**	1,133,879
		2,419,390	2,535,405
Current Liabilities			
Trade payables	11	**1,135,588**	1,088,346
Other payables, accrued charges and other liabilities		**666,795**	731,711
Lease liabilities		**795,434**	827,036
Contract liabilities		**411,933**	436,711
Dividend payable		**211**	213
Amount due to ultimate holding company		**39,090**	27,030
Amounts due to fellow subsidiaries		**32,666**	39,918
Tax liabilities		**189**	187
		3,081,906	3,151,152
Net Current Liabilities		**(662,516)**	(615,747)
Total Assets Less Current Liabilities		**2,398,593**	2,886,366
Capital and Reserves			
Share capital		**115,158**	115,158
Reserves		**(198,636)**	(115,432)
Equity attributable to owners of the Company		**(83,478)**	(274)
Non-controlling interest		**104,513**	102,148
Total Equity		**21,035**	101,874
Non-current Liabilities			
Rental deposits received and other liabilities		**96,013**	130,200
Lease liabilities		**2,281,545**	2,654,292
		2,377,558	2,784,492
		2,398,593	2,886,366

NOTES:

1. BASIS OF PREPARATION

The interim results set out in this preliminary announcement do not constitute the Group’s interim financial report for the six months ended 30 June 2023 but are extracted from that interim financial report. The interim financial report has 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 “Listing Rules”).

The financial information relating to the year ended 31 December 2022 that is included in the interim financial report 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 2022 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 interim financial report, 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$662,516,000 at 30 June 2023. The directors of the Company have reviewed the cash flow projections prepared by management to evaluate the Group's ability to continue as a going concern. Based on the cash flow projections, the directors of the Company have a reasonable expectation that the Group has adequate resources to continue in operational existence and to meet its financial obligations as and when they fall due in the coming twelve months from 30 June 2023. Thus, they continue to adopt the going concern basis of accounting in preparing the interim financial report.

2. PRINCIPAL ACCOUNTING POLICIES

The interim financial report has been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies and methods of computation used in the interim financial report for the six months ended 30 June 2023 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2022.

Application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”)

In the current interim period, the Group has applied the following new and amended HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2023 for the preparation of the Group’s interim financial report:

HKFRS 17	*Insurance contracts*
Amendments to HKAS 8	*Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
Amendments to HKAS 12	*Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*

Amendments to HKAS 12 *Income taxes: International tax reform – Pillar Two model rules*

None of these developments have had material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in the interim financial report.

New HKICPA guidance on the accounting implications of the abolition of the MPF-LSP offsetting mechanism

In June 2022, the Government of the Hong Kong SAR (the "Government") gazetted the Hong Kong Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the "Amendment Ordinance"), which will eventually abolish the statutory right of an employer to reduce its long service payment ("LSP") and severance payment payable to a Hong Kong employee by drawing on its mandatory contributions to the mandatory provident fund ("MPF") scheme (also known as the "offsetting mechanism"). The Government has subsequently announced that the Amendment Ordinance will come into effect from 1 May 2025 (the "Transition Date"). Separately, the Government is also expected to introduce a subsidy scheme to assist employers after the abolition.

Among other things, once the abolition of the offsetting mechanism takes effect, an employer can no longer use any of the accrued benefits derived from its mandatory MPF contributions (irrespective of the contributions made before, on or after the Transition Date) to reduce the LSP in respect of an employee's service from the Transition Date. However, where an employee's employment commenced before the Transition Date, the employer can continue to use the above accrued benefits to reduce the LSP in respect of the employee's service up to that date; in addition, the LSP in respect of the service before the Transition Date will be calculated based on the employee's monthly salary immediately before the Transition Date and the years of service up to that date.

In July 2023, the HKICPA published "Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong" that provides guidance on the accounting considerations relating to the offsetting mechanism and the abolition of the mechanism. In particular, the guidance indicates that entities may account for the accrued benefits derived from its mandatory MPF contributions that are expected to be used to reduce the LSP payable to an employee as deemed contributions by that employee towards the LSP. However, applying this approach, upon the enactment of the Amendment Ordinance in June 2022, it is no longer permissible to apply the practical expedient in paragraph 93(b) of HKAS 19 and recognise such deemed contributions as reduction of current service cost in the period the related service is rendered, and any impact from ceasing to apply the practical expedient is recognised as a catch-up adjustment in profit or loss with a corresponding adjustment to the LSP liability during the year ended 31 December 2022.

In this interim financial report and in prior periods, consistent with the HKICPA guidance the Group has been accounting for the accrued benefits derived from its mandatory MPF contributions that are expected to be used to reduce the LSP payable to an employee as deemed employee contributions towards the LSP. However, the Group has been applying the above-mentioned practical expedient.

The Group has assessed the implications of this new guidance on the above accounting policies and has decided to change those accounting policies to conform with the guidance. The management has commenced the processes on implementing the change including additional data collection and impact assessment. However, the impact of the change is not reasonably estimable at the time this interim financial report is authorised for issue, as the Group has yet to fully complete its assessment of the impact of the HKICPA guidance. The Group expects to adopt this guidance with retrospective application in its annual financial statements for the year ending 31 December 2023.

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 Mainland China as the two reportable segments.

Disaggregation of revenue from contracts with customers

	Six months ended 30 June 2023		
	Hong Kong HK$'000	**Mainland China HK$'000**	**Total HK$'000**
Direct sales	**1,952,438**	**2,301,364**	**4,253,802**
Income from concessionaire sales	**149,790**	**118,252**	**268,042**
	2,102,228	**2,419,616**	**4,521,844**

	Six months ended 30 June 2022		
	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
Direct sales	2,193,787	2,578,917	4,772,704
Income from concessionaire sales	153,450	122,545	275,995
	2,347,237	2,701,462	5,048,699

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

	For the six months ended 30 June 2023			
	Hong Kong HK$'000	**Mainland China HK$'000**	**Elimination HK$'000**	**Total HK$'000**
Segment revenue - external	**2,102,228**	**2,419,616**	**-**	**4,521,844**
Inter-segment sales	**-**	**2,226**	**(2,226)**	**-**
	2,102,228	**2,421,842**	**(2,226)**	**4,521,844**
Segment loss	**(71,620)**	**(15,437)**	**-**	**(87,057)**
Investment income				**11,537**
Loss before tax				**(75,520)**

3. REVENUE AND SEGMENT INFORMATION - continued

	For the six months ended 30 June 2022			
	Hong Kong	Mainland China	Elimination	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue - external	2,347,237	2,701,462	-	5,048,699
Inter-segment sales	-	3,162	(3,162)	-
	2,347,237	2,704,624	(3,162)	5,048,699
Segment loss	(76,077)	(85,622)	-	(161,699)
Investment income				9,236
Loss before tax				(152,463)

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

4. OTHER INCOME

	Six months ended	
	30.6.2023	30.6.2022
	HK$'000	HK$'000
Rental income from investment properties	**164,720**	177,324
Government grants	**-**	19,309
Management fee and other income from lessees	**31,430**	32,616
Revenue from scrap sales	**1,587**	1,654
Others	**21,004**	9,557
	218,741	240,460

5. OTHER GAINS AND LOSSES

	Six months ended	
	30.6.2023	30.6.2022
	HK$'000	HK$'000
Exchange gain /(loss), net	**4,432**	(11,857)
Impairment loss recognised in respect of property, plant and equipment	**-**	(28,822)
Impairment loss recognised in respect of right-of-use assets	-	(7,742)
Loss on disposal/written off of property, plant and equipment	**(112)**	(1,570)
Gain on modification of lease contracts	**5,039**	284
	9,359	(49,707)

6. OTHER EXPENSES

	Six months ended	
	30.6.2023	30.6.2022
	HK$'000	HK$'000
Advertising, promotion and selling expenses	**151,406**	165,688
Maintenance, repair and building management fees	**177,982**	185,709
Administrative expenses	**111,896**	109,617
Utilities expenses	**75,818**	75,955
Others	**13,218**	25,033
	530,320	562,002

7. INCOME TAX EXPENSE

	Six months ended	
	30.6.2023	30.6.2022
	HK$'000	HK$'000
The charge comprises:		
Current tax		
PRC withholding tax	**476**	497
Deferred tax	**557**	4,659
Income tax expense for the period	**1,033**	5,156

No provision for Hong Kong Profits Tax is made for the six months ended 30 June 2023 and 30 June 2022 since the Company incorporated in Hong Kong sustained losses for tax purpose.

No provision for PRC Enterprise Income Tax is made for the six months ended 30 June 2023 and 30 June 2022 since the subsidiaries incorporated in Mainland China have sustained losses for tax purpose or the tax losses brought forward exceed the estimated assessable profits. Under the Law of PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of Mainland China 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. DIVIDEND

	Six months ended	
	30.6.2023	30.6.2022
	HK$'000	HK$'000
Dividend recognised as distribution during the period:		
Final dividend declared and paid for 2022 of 2.0 HK cents (six months ended 30.6.2022: 2.0 HK cents for 2021 final dividend) per ordinary share	**5,200**	5,200

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of 2.0 HK cents (six months ended 30.6.2022: 3.0 HK cents) per ordinary share amounting to HK$5,200,000 (six months ended 30.6.2022: HK$7,800,000) will be paid to the owners of the Company whose names appear in the Register of Members on 6 October 2023. The interim dividend will be paid on or before 27 October 2023.

9. LOSS PER SHARE

The calculation of basic loss per share attributable to the owners of the Company is based on the Group's loss for the period attributable to the owners of the Company of HK$78,194,000 (six months ended 30.6.2022: loss of HK$144,624,000) and on 260,000,000 (six months ended 30.6.2022: 260,000,000) ordinary shares in issue during the period.

No diluted loss per share has been presented as there are no potential dilutive shares outstanding for both periods.

10. ACCOUNTS RECEIVABLE

The Group's accounts receivable arise from retail sales transactions settled by credit cards or other electronic payment methods. The average settlement period for the proceeds receivable from those credit cards and other electronic payments service providers is 10 days. Based on the ageing of accounts receivable as determined based on invoice date, HK$29,542,000 (31 December 2022: HK$38,470,000) is due within 30 days. There are no significant overdue balances of those accounts receivable at the end of reporting period and no default is expected.

11. TRADE PAYABLES

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

	30.6.2023	31.12.2022
	HK$'000	HK$'000
0 to 60 days	**970,763**	930,506
61 to 90 days	**58,621**	63,945
Over 90 days	**106,204**	93,895
	1,135,588	1,088,346

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 5 October 2023 to 6 October 2023 (both days inclusive), for the purpose of ascertaining Shareholders' entitlement to the interim dividend, during which period no transfers of Shares will be registered. In order to qualify for the 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 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on 4 October 2023.

BUSINESS REVIEW

In the first half of 2023, the COVID-19 situation remained volatile, and the international political tug-of-war has yet to be eliminated. The global economy has improved but not fully recovered and the pace of recovery in the retail market remained slow. In the face of various uncertainties, the Group continued to adopt flexible operational strategies to maintain market competitiveness.

Hong Kong Operations

The Hong Kong retail market has gradually recovered as the pandemic eased and the border reopened and the number of inbound tourists increased. In June, the value of total retail sales in Hong Kong rose 19.6% * year-on-year. Excluding price changes, the provisional estimate of the volume of total retail sales for the month rose 17.5%* year-on-year.

During the period, the sales performance of tourism-related goods such as jewelry and watches rose sharply, driven by the recovery of the tourism industry and positive consumer sentiment in Hong Kong. However, the performance of the local market remained weak, with no significant improvement in the sales of daily consumables such as food and supermarket products. Following the reopening of the border, there has been an outbound travel frenzy among local customers who had not been able to travel for a long time due to the pandemic, resulting in the continued sluggish performance of the local retail sector.

In order to attract more tourists to Hong Kong, the Hong Kong government launched the "Hello, Hong Kong!" campaign in February 2023, followed by the "Happy Hong Kong" event in April 2023, launching a comprehensive range of promotions targeting local citizens. Together with the first round of the Consumption Voucher Scheme launched this year to stimulate the retail, catering and other industries, these initiatives boosted local consumption, revitalized the economy, and had a somewhat positive effect on the retail industry.

In the first half of 2023, the Group strengthened its “Made in Hong Kong” product series and launched a large-scale themed promotional event entitled “Welcome To Hong Kong” to provide tourists and local customers with unique products in Hong Kong.

With regard to its small specialty store business, the Group continued its strategic cooperation with Daiso Industries Co., Ltd. (“DAISO”) to expand its network of small specialty stores in Hong Kong.

In June 2023, the Group opened its second and third "KOMEDA'S Coffee", which originate from Nagoya, Japan, in Tuen Mun and Tsim Sha Tsui, to accelerate the development of AEON Hong Kong's specialty restaurant chain business.

In the first half year, the Group's revenue from its Hong Kong operations decreased by 10.4% to HK$2,102.2 million (2022: HK$2,347.2 million). The loss from the Hong Kong operations decreased to HK$71.6 million (2022: loss of HK$76.1 million).

PRC Operations

In the first half of 2023, with the relaxation of COVID-19 prevention and control policies in Mainland China (the “PRC”), overall consumption, including retail merchandise and food and beverage, improved compared with the same period last year while the sales of upgraded products grew faster. Among them, the business performance of general merchandise stores (“GMS”) in prime business districts picked up significantly. However, the sales performance of community-based stores and online retail remained sluggish.

Overall, mass consumption tended to be conservative due to factors such as geopolitical turmoil and uncertain macroeconomic prospects. The national consumer price index (CPI) remained flat at 0.7% year-on-year, reflecting the lack of confidence in the mid- to long-term economic recovery.

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

In response to the current consumption situation, the Group proactively optimized the product mix of its food division, especially enriching the variety of fruits, vegetables and fresh products, which boosted sales during the period. The Group also expanded the proportion of sales of its private label merchandise, provided more directly imported goods, and reduced the number of intermediaries in order to control costs effectively.

During the review period, the Group continued to adjust its operating network by closing the AEON supermarket at Port City, Guangzhou in January 2023 and a AEON GMS in Shenzhen in February 2023 to reduce the Group's financial burden.

The revenue from the PRC business in the first half year decreased by 10.4% to HK$2,419.6 million (2022: HK$2,701.5 million). The loss of the PRC business decreased to HK$15.4 million (2022: loss of HK$85.6 million).

PROSPECTS

Hong Kong Operations

External geopolitical factors, the unfavorable economic environment in Europe, the high exchange rate of the U.S. dollar and the COVID-19 pandemic have weighed on the factors supporting Hong Kong's economic growth, such as exports, fixed investments and consumption. The persistent rise in domestic prices has discouraged tourists from visiting and spending in Hong Kong. With the frequent visits of Mainland tourists to Hong Kong, the retail market may improve, but the overall economic downturn will inevitably affect consumer sentiment to some extent.

The second round of the 2023 Consumption Voucher Scheme has been launched in July 2023. However, with the regularization of the Scheme and the increase in inflationary pressure, the public has become more cautious in their consumption. Therefore, the Group believes that the impact of the Scheme on its sales performance in the third quarter of 2023 will be limited. Spending by Mainland visitors to Hong Kong has not yet returned to pre-pandemic levels. This, coupled with the manpower shortage in the retail industry, will continue to add uncertainties to the Group's operations in the second half of 2023.

To address these challenges, the Group will push ahead with digital transformation to reduce repetitive manual tasks and better deploy human resources. For example, it has expanded the application of the Self Payment Machine, "POS Express" and High-Speed Cash Recycler to simplify the daily and back-end work of the stores, and hence improve operational efficiency.

In addition, the Group plans to strengthen its online supermarket initiatives to enhance its competitiveness in the e-commerce arena. By encouraging customers to use the mobile AEON App, the Group will be able to drive online sales and maintain customer loyalty. In the second half of 2023, the Group will launch a delivery service on the "AEON App", aiming to provide customers with a more convenient and satisfactory shopping experience while leveraging online platforms to enhance sales performance.

As for the offline business, the Group will accelerate product reform and broaden differentiation to meet the different needs of customers. It will also further expand its small specialty store network, deepen its strategic cooperation with DAISO, and open pop-up stores in suitable locations to attract more customers and improve business performance.

PRC Operations

Due to the geopolitical instability and uncertain economic outlook, the Group does not expect any significant change in customers' consumption pattern in the short term. Although the retail market is gradually recovering, the pace of rebound will continue to be slow.

In the face of an uncertain economic outlook, the Group will continue to adopt a prudent approach and focus on developing its own business and controlling costs in order to achieve continuous improvement in performance. In terms of products, the Group will accelerate product reform and broaden differentiation to meet the post-pandemic shopping needs of customers. It will also capitalize on the strengths of its global supply chain to increase the proportion of proprietary brands and boost profitability.

As for the store network, the Group has opened one supermarket in Guangzhou in August 2023 and expects to open one more supermarket in Zhuhai in September 2023 and renovate certain stores as scheduled to enhance customers' shopping experience. It will also continue to review and optimize its existing store layout to improve operational efficiency and business performance.

Group

According to the 2023 investment plan, the Group’s total capital expenditure in the second half of 2023 is expected to be approximately HK$56.2 million.

Save as mentioned above or otherwise disclosed, there have been no material events affecting the Group’s business from 30 June 2023 up to the date of authorisation for the release of these consolidated financial statements.

FINANCIAL REVIEW

In the first half of the year 2023, the Group’s revenue decreased by 10.4% year-on-year to HK$4,521.8 million (2022: HK$5,048.7 million). Gross profit margin improved by 0.5 percentage points to 28.8% (2022: 28.3%).

As for other income, no government grants were received from the Hong Kong government and municipal governments in Mainland China in the period (2022: HK$19.3 million) resulted in an overall decrease of 9.0% as compared with last year.

For operating expenses during the period under review, the Group’s staff cost decreased by 10.7% and its ratio to revenue decreased to 10.9% (2022: 11.0%). Expenses related to leases decreased by 8.2% and the ratio of expenses to revenue increased to 11.6% (2022: 11.3%). Other operating expenses, including advertising, promotion and selling expenses, maintenance and repair expenses (including building management fee), utility expenses, administrative expenses and other expenses, decreased by 5.6% year-on-year and the ratio of other expenses to revenue was 11.7% (2022: 11.1%).

Included in other gains and losses, amongst others, was exchange gain of HK$4.4 million (2022: exchange loss of HK$11.9 million). In addition, there was no impairment loss recognized in respect of right-of-use assets (2022: HK$7.7 million) and in respect of property, plant and equipment (2022: HK$28.8 million) in the review period.

Due to the above changes, loss attributable to owners of the Company for the period under review was HK$78.2 million (2022: loss of HK$144.6 million), representing a decrease of HK$66.4 million.

The Group’s adjusted EBITDA (which is defined by EBITDA less interest on lease liabilities and repayment of lease liabilities) for the period was loss HK$55.2 million (2022: loss HK$26.7 million), loss increased by HK$28.5 million.

The Board declared an interim dividend of HK$0.02 (2022: HK$0.03) per share for the six months ended 30 June 2023. 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 period, capital expenditure for opening new stores and store renovation in Hong Kong and Mainland China and the upgrade of information technology systems amounted to HK$57.5 million.

The Group also entered into new lease agreements and lease modifications in the review period and recognized additional HK$77.3 million (2022: HK$64.8 million) of right-of-use assets and HK$74.4 million (2022: HK$66.9 million) lease liabilities.

The Group maintained a net cash position with cash and bank balances and short-term time deposits amounting to HK$1,266.1 million as at 30 June 2023 (31 December 2022: HK$1,423.4 million). The Group had no bank borrowing and therefore did not disclose any gearing ratio (which is defined by dividing bank borrowings to equity) and had sufficient internal resources to finance future business operations.

As at 30 June 2023, deposits of HK$124.2 million (31 December 2022: HK$23.7 million) were pledged to the bank as guarantees of the rental deposits to landlords. Deposits of HK$6.7 million (31 December 2022: HK$6.7 million) were also pledged to regulatory bodies as guarantees for prepaid value cards sold.

The Group's total lease liabilities as at 30 June 2023 amounted to HK$3,077.0 million (31 December 2022: HK$3,481.3 million), of which HK$795.4 million (31 December 2022: HK$827.0 million) is payable within one year. The Group's lease liabilities to equity ratio as at 30 June 2023 (defined as the total lease liabilities divided by total equity) was 14,628% (31 December 2022: 3,417%).

As at 30 June 2023, the Group's current liabilities exceeded its current assets by HK$662.5 million (31 December 2022: net current liabilities of HK$615.8 million). The directors considered that the Group has sufficient financial sources available to fund its operations in the foreseeable future and will be able to meet its financial obligations when they fall due.

HUMAN RESOURCES

As at 30 June 2023, the Group had approximately 5,400 full-time and 3,900 part-time employees in Hong Kong and Mainland China. Under the "Everything we do, we do for our customers" credo, and 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 educational and career development opportunities. With a fair human resources system, the Group will create a positive work environment for staff and enhance the communication between on-site staff and the back-end support departments, building a system that facilitates prompt action to address business issues. The Group's ultimate goal is to build AEON into a brand that benefits all customers.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2023, 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 2023 and up to the date of this announcement.

CORPORATE GOVERNANCE

The Board has complied throughout the six months ended 30 June 2023 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 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 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 2023.

The Audit Committee of the Company has reviewed the unaudited interim results for the six months ended 30 June 2023 with management.

PUBLICATION OF INTERIM REPORT ON THE WEBSITE OF THE STOCK EXCHANGE

The interim report for the six months ended 30 June 2023 containing all the information as required by the Listing Rules will be published on the websites of the Stock Exchange and the Company respectively and copies will be dispatched to shareholders of the Company in due course.

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

Hong Kong, 25 August 2023

As at the date of this announcement, the Executive Directors are Mr. Takenori Nagashima and Mr. Shinya Hisanaga; the Non-executive Directors are Mr. Isei Nakagawa, Mr. Makoto Fukuda, Mr. Toshiya Goto and Mr. Hiroyuki Inohara; and the Independent Non-executive Directors are Mr. Chow Chi Tong, Mr. Hideto Mizuno and Ms. Shum Wing Ting.