

AEON

AEON Stores (Hong Kong) Co., Limited

永旺(香港)百貨有限公司

2017 Interim Report

Stock Code: 984



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

HABU Yuki (*Chairman and Managing Director*)

IKUTA Masamitsu (*Deputy Managing Director*)

YAJIMA Hideaki

CHAK Kam Yuen

LAU Chi Sum Sam

Non-executive Director

WAKO Shinya

Independent Non-executive Directors

CHAN Yi Jen Candi Anna

LO Miu Sheung Betty

CHOW Chi Tong

NOMINATION COMMITTEE

HABU Yuki (*Chairman*)

CHAN Yi Jen Candi Anna

LO Miu Sheung Betty

CHOW Chi Tong

REMUNERATION COMMITTEE

CHAN Yi Jen Candi Anna (*Chairman*)

HABU Yuki

LO Miu Sheung Betty

CHOW Chi Tong

AUDIT COMMITTEE

CHOW Chi Tong (*Chairman*)

CHAN Yi Jen Candi Anna

LO Miu Sheung Betty

COMPANY SECRETARY

CHAN Kwong Leung Eric

AUDITOR

Deloitte Touche Tohmatsu

Certified Public Accountants

PRINCIPAL BANKERS

Mizuho Bank, Ltd.

The Bank of Tokyo – Mitsubishi UFJ, Ltd.

Sumitomo Mitsui Banking Corporation

Standard Chartered Bank (Hong Kong) Limited

The Hongkong 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

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9 Cheung Yee Street

Lai Chi Kok, Kowloon

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STOCK CODE

984

WEBSITE

www.aeonstores.com.hk

The Board of Directors (the "Board") of AEON Stores (Hong Kong) Co., Limited (the "Company") is pleased to announce the unaudited results of the Company and its subsidiaries (the "Group" or "AEON") for the 6 months ended 30 June 2017 together with comparative figures for the previous period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	NOTES	Six months ended	
		30.6.2017 HK\$'000 (unaudited)	30.6.2016 HK\$'000 (unaudited)
Revenue	3	4,620,696	4,536,691
Other income		285,082	301,115
Investment income		12,481	16,451
Purchase of goods and changes in inventories		(3,209,107)	(3,185,911)
Staff costs		(588,100)	(577,135)
Depreciation		(110,194)	(91,744)
Loss on disposal/written off of property, plant and equipment		(140)	(262)
Pre-operating expenses		(9,193)	(3,617)
Other expenses		(1,072,164)	(1,068,329)
Finance costs	4	(24)	(70)
Loss before tax		(70,663)	(72,811)
Income tax expense	5	(617)	(6,515)
Loss for the period		(71,280)	(79,326)
(Loss) profit for the period attributable to:			
Owners of the Company		(71,997)	(82,916)
Non-controlling interests		717	3,590
		(71,280)	(79,326)
Loss per share	7	(27.69) HK cents	(31.89) HK cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Six months ended	
	30.6.2017 HK\$'000 (unaudited)	30.6.2016 HK\$'000 (unaudited)
Loss for the period	(71,280)	(79,326)
Other comprehensive income (expense)		
<i>Items that may be subsequently reclassified to profit or loss</i>		
Exchange differences on translation of financial statements of foreign operations	5,529	(8,249)
Fair value gain (loss) on available-for-sale investments	869	(693)
Other comprehensive income (expense) for the period, net of income tax	6,398	(8,942)
Total comprehensive expense for the period	(64,882)	(88,268)
Total comprehensive (expense) income for the period attributable to:		
Owners of the Company	(68,273)	(87,541)
Non-controlling interests	3,391	(727)
	(64,882)	(88,268)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2017

	NOTES	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
Non-current Assets			
Property, plant and equipment	8	894,044	851,719
Goodwill		94,838	94,838
Available-for-sale investments	9	21,980	21,111
Pledged bank deposits	10	26,160	27,431
Deferred tax assets		73,248	70,461
Rental deposits paid		241,596	254,936
		1,351,866	1,320,496
Current Assets			
Inventories		928,893	973,518
Trade receivables	11	50,030	47,885
Other receivables, prepayments and deposits		198,776	173,671
Amounts due from fellow subsidiaries	14	36,274	75,224
Tax recoverable		20,676	20,676
Time deposits	12	476,200	455,458
Pledged bank deposits	10	19,072	18,513
Bank balances and cash		1,674,616	1,769,924
		3,404,537	3,534,869
Current Liabilities			
Trade payables	13	1,343,489	1,324,037
Other payables and accrued charges		1,292,776	1,293,890
Dividend payable		31,485	505
Amount due to ultimate holding company	14	39,694	26,487
Amounts due to fellow subsidiaries	14	59,196	76,047
Tax liabilities		2,561	22,618
Obligation under a finance lease		251	724
		2,769,452	2,744,308
Net Current Assets			
		635,085	790,561
Total Assets Less Current Liabilities			
		1,986,951	2,111,057
Capital and Reserves			
Share capital		115,158	115,158
Reserves		1,518,335	1,638,550
Equity attributable to owners of the Company		1,633,493	1,753,708
Non-controlling interests		156,903	153,512
Total Equity			
		1,790,396	1,907,220
Non-current Liabilities			
Rental deposits received and other liabilities		191,562	198,500
Deferred tax liabilities		4,993	5,337
		196,555	203,837
		1,986,951	2,111,057

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2017

Attributable to owners of the Company									
	Share capital	Investment revaluation reserve	Translation reserve	The People's Republic of China ("PRC") statutory reserves	Non-distributable reserve	Retained profits	Total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2016 (audited)	115,158	17,434	36,470	30,190	95,058	1,617,020	1,911,330	161,324	2,072,654
(Loss) profit for the period	—	—	—	—	—	(82,916)	(82,916)	3,590	(79,326)
Other comprehensive expense for the period	—	(693)	(3,932)	—	—	—	(4,625)	(4,317)	(8,942)
Total comprehensive expense for the period	—	(693)	(3,932)	—	—	(82,916)	(87,541)	(727)	(88,268)
Dividends recognised as distribution (note 6)	—	—	—	—	—	(20,280)	(20,280)	—	(20,280)
Unclaimed dividends forfeited	—	—	—	—	—	99	99	—	99
At 30 June 2016 (unaudited)	115,158	16,741	32,538	30,190	95,058	1,513,923	1,803,608	160,597	1,964,205
Profit for the period	—	—	—	—	—	59,688	59,688	4,625	64,313
Other comprehensive income (expense) for the period	—	1,966	(7,554)	—	—	—	(5,588)	(7,488)	(13,076)
Total comprehensive income (expense) for the period	—	1,966	(7,554)	—	—	59,688	54,100	(2,863)	51,237
Transfer, net of non-controlling interests share	—	—	—	1,680	—	(1,680)	—	—	—
Dividends recognised as distribution	—	—	—	—	—	(104,000)	(104,000)	—	(104,000)
Dividends paid to non-controlling shareholders	—	—	—	—	—	—	—	(4,222)	(4,222)
At 31 December 2016 (audited)	115,158	18,707	24,984	31,870	95,058	1,467,931	1,753,708	153,512	1,907,220
(Loss) profit for the period	—	—	—	—	—	(71,997)	(71,997)	717	(71,280)
Other comprehensive income for the period	—	869	2,855	—	—	—	3,724	2,674	6,398
Total comprehensive income (expense) for the period	—	869	2,855	—	—	(71,997)	(68,273)	3,391	(64,882)
Transfer, net of non-controlling interests share	—	—	—	—	17,293	(17,293)	—	—	—
Dividends recognised as distribution (note 6)	—	—	—	—	—	(52,000)	(52,000)	—	(52,000)
Unclaimed dividends forfeited	—	—	—	—	—	58	58	—	58
At 30 June 2017 (unaudited)	115,158	19,576	27,839	31,870	112,351	1,326,699	1,633,493	156,903	1,790,396

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 2017

	Six months ended	
	30.6.2017 HK\$'000 (unaudited)	30.6.2016 HK\$'000 (unaudited)
OPERATING ACTIVITIES		
Operating cash flows before movements in working capital	30,215	4,155
Decrease in inventories	49,406	47,852
(Increase) decrease in trade receivables	(1,532)	233
Increase in other receivables, prepayments and deposits	(10,586)	(78,623)
Decrease in amounts due from fellow subsidiaries	39,049	49,122
Increase (decrease) in trade payables	6,867	(100,730)
(Decrease) increase in other payables and accrued charges	(22,904)	10,469
Increase in amount due to ultimate holding company	13,207	12,892
(Decrease) increase in amounts due to fellow subsidiaries	(17,809)	19,674
Cash generated from (used in) operations	85,913	(34,956)
PRC income taxes paid	(23,064)	(6,282)
Interest paid	(24)	(70)
Interest on bank deposits and time deposits received	12,477	16,447
NET CASH FROM (USED IN) OPERATING ACTIVITIES	75,302	(24,861)
INVESTING ACTIVITIES		
Dividend received from listed investment securities	4	4
Purchase of property, plant and equipment	(147,172)	(223,617)
Proceeds from disposal of property, plant and equipment	66	12
Placement of time deposits	(396,100)	(520,164)
Withdrawal of time deposits	378,818	678,363
NET CASH USED IN INVESTING ACTIVITIES	(164,384)	(65,402)
FINANCING ACTIVITIES		
Dividend paid	(20,962)	(20,222)
Repayment of obligation under a finance lease	(480)	(460)
NET CASH USED IN FINANCING ACTIVITIES	(21,442)	(20,682)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(110,524)	(110,945)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	1,769,924	2,018,767
Effect of foreign exchange rate changes	15,216	(25,690)
CASH AND CASH EQUIVALENTS AT 30 JUNE	1,674,616	1,882,132
Represented by:		
Bank balances and cash	1,674,616	1,882,132

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

1. BASIS OF PREPARATION

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

The financial information relating to the year ended 31 December 2016 that is included in the condensed consolidated financial statements as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements is as follows:

The Company has delivered the consolidated financial statements for the year ended 31 December 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

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

3. REVENUE AND SEGMENT INFORMATION

Revenue represents the invoiced value of goods, net of discounts, sold to customers, and income from concessionaire sales during the period. An analysis of the Group's revenue for the period is as follows:

	Six months ended	
	30.6.2017	30.6.2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Direct sales	4,219,592	4,119,165
Income from concessionaire sales	401,104	417,526
	4,620,696	4,536,691

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 PRC as the two reportable segments.

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

For the six months ended 30 June 2017 (unaudited)

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

For the six months ended 30 June 2016 (unaudited)

	Hong Kong	PRC	Total
	HK\$'000	HK\$'000	HK\$'000
Segment revenue — external	1,824,500	2,712,191	4,536,691
Segment (loss) profit	(101,396)	12,204	(89,192)
Investment income			16,451
Finance costs			(70)
Loss before tax			(72,811)

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

4. FINANCE COSTS

	Six months ended	
	30.6.2017	30.6.2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest on finance leases	24	70

5. INCOME TAX EXPENSE

	Six months ended	
	30.6.2017	30.6.2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
The charge (credit) comprises:		
Current tax		
Other regions in the PRC	2,826	12,382
Underprovision in prior years		
Other regions in the PRC	13	—
Deferred tax	(2,222)	(5,867)
Income tax expense for the period	617	6,515

No provision for Hong Kong Profits Tax is made as the Company has no assessable profit for the six months ended 30 June 2017 and 30 June 2016.

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% from 1 January 2008 onwards.

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

6. DIVIDENDS

	Six months ended	
	30.6.2017	30.6.2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Dividend recognised as distribution during the period:		
Final dividend declared and paid for 2016 of 20.0 HK cents (six months ended 30.6.2016: 7.8 HK cents for 2015 final dividend) per ordinary share	52,000	20,280

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of 20.0 HK cents (six months ended 30.6.2016: 20.0 HK cents) per ordinary share amounting to HK\$52,000,000 (six months ended 30.6.2016: HK\$52,000,000) and a special dividend of nil (six months ended 30.6.2016: 20.0 HK cents) per ordinary share amounting to nil (six months ended 30.6.2016: HK\$52,000,000) will be paid to the owners of the Company whose names appear in the Register of Members on 27 September 2017. The interim dividend will be paid on or before 12 October 2017.

7. 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\$71,997,000 (six months ended 30.6.2016: HK\$82,916,000) and on 260,000,000 (six months ended 30.6.2016: 260,000,000) ordinary shares in issue during the period.

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

8. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group acquired property, plant and equipment of approximately HK\$147,172,000 (six months ended 30.6.2016: HK\$223,474,000) to expand its operations.

Certain stores of the Group has been experiencing recurring losses or performing below budget. The management considered there were impairment indicators and hence conducted impairment assessment on the relevant stores, which constitutes individual cash-generating units ("CGU") for the purpose of impairment assessment. The recoverable amounts of the relevant assets have been determined on the basis of value in use of the stores to which the relevant assets belong to. The value in use calculations use cash flow projections based on the latest financial budgets approved by the Company's management covering a period of 5 years, together with an extension period to the end of the relevant leases of the building fixtures with zero growth rate, and at a discount rate of 7% to 10% (six months ended 30.6.2016: 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 market development. No impairment loss has been recognised in respect of property, plant and equipment of the Group in both periods.

9. AVAILABLE-FOR-SALE INVESTMENTS

	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
Equity securities:		
Listed shares in Hong Kong at fair value	21,980	21,111

Included in listed shares in Hong Kong is an investment in a fellow subsidiary of HK\$21,758,000 (31.12.2016: HK\$20,926,000).

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

10. PLEDGED BANK DEPOSITS

	30.6.2017		31.12.2016	
	Non-current HK\$'000 (unaudited)	Current HK\$'000 (unaudited)	Non-current HK\$'000 (audited)	Current HK\$'000 (audited)
Bank deposits were pledged for the following purposes:				
As guarantee to landlords for rental deposits	26,160	4,825	27,431	4,510
As requirement by the relevant PRC regulatory body for cash received from prepaid value cards sold	—	14,247	—	14,003
	26,160	19,072	27,431	18,513

11. TRADE RECEIVABLES

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

The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting periods, which approximated the respective revenue recognition dates:

	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
Within 30 days	48,575	47,298
31 to 60 days	637	215
Over 60 days	818	372
	50,030	47,885

12. TIME DEPOSITS

As at 30 June 2017, time deposits represent Renminbi-denominated time deposits amounting to HK\$80,100,000 and Hong Kong dollar-denominated time deposits amounting to HK\$396,100,000 with an original maturity of three months or more to one year. The average effective interest rate of Renminbi-denominated and Hong Kong dollar-denominated time deposits is 1.62% and 1.43% per annum, respectively. The deposits will expire within one year from the end of the reporting period. Accordingly, these amounts are classified as current.

As at 31 December 2016, time deposits represented Renminbi-denominated time deposits amounting to HK\$175,458,000, and Hong Kong dollar-denominated time deposits amounting to HK\$280,000,000 with an original maturity of three months or more to one year. The average effective interest rates of Renminbi-denominated and Hong Kong dollar-denominated time deposits were 1.53% and 1.55% per annum, respectively. The deposits expired during the six months ended 30 June 2017.

13. TRADE PAYABLES

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

	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
0 to 60 days	1,134,820	1,118,729
61 to 90 days	85,669	92,645
Over 90 days	123,000	112,663
	1,343,489	1,324,037

14. 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 (31.12.2016: 60 to 90 days). The amounts are aged within 60 days based on the invoice date at the end of reporting periods.

The amounts due from fellow subsidiaries are trade-related, unsecured, interest free and with credit term of 15 to 35 days (31.12.2016: 15 to 35 days). The amounts are aged within 35 days based on the invoice date and not yet due at the end of the respective reporting periods.

15. CAPITAL COMMITMENTS

	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided	15,253	31,235

16. RELATED PARTY TRANSACTIONS

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

Capacity	Nature of transaction	Six months ended	
		30.6.2017 HK\$'000 (unaudited)	30.6.2016 HK\$'000 (unaudited)
Fellow subsidiaries	Commission for credit facilities provided to the customers	6,349	6,503
	Franchise fee	211	139
	Other income	1,659	1,256
	Purchase of goods and fixed assets	139,432	130,678
	Rental expenses, management fees and utilities expenses	10,626	8,396
	Rental income	9,486	10,336
	Sales of coupons	2,500	3,400
	Service fee expense	45,845	44,263
Ultimate holding company	Royalty expenses	12,976	13,304
Non-controlling shareholders of the subsidiaries*	Advertising expenses	1,161	1,869
	Rental expenses, management fees and utilities expenses	29,487	30,971
Directors and key management	Remuneration	4,605	4,241

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

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

	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
Amounts due from non-controlling shareholders of the subsidiaries (included in other receivables, prepayments and deposits)	5,763	5,346

17. 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.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 26 September 2017 to 27 September 2017 (both days inclusive), for the purpose of ascertaining Shareholders' entitlement to the proposed interim dividend, during which period no transfers of Shares will be registered. In order to qualify for the proposed interim dividend, all share transfers accompanied by the relevant share certificates, must be lodged for registration with the Company's share registrar, Tricor Secretaries Limited, at Level 22 Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 25 September 2017.

BUSINESS REVIEW

The first half of 2017 has continued to be challenging for the Group, as there was no sign of strong recovery for both the economy and retail markets in Hong Kong and the PRC. Nonetheless, in the face of such adverse conditions, the Group has continued to implement its strategies of optimising the merchandise mix of existing stores as well as take advantage of the opportunity to expand its scale of business during the market downturn in order to enjoy first-mover advantage when recovery occurs in the future. For the six months ended 30 June 2017, despite the stagnant market environment, revenue of the Group reached a half-year record high of HK\$4,620.7 million (2016: HK\$4,536.7 million), growing 1.9% year-on-year, mainly attributable to the Hong Kong segment contributed in part by the Kornhill and Whampoa stores re-opening after transformation into "AEON STYLE" stores, a major strategic initiative moving forward. The gross profit margin rose slightly to 30.5% (2016: 29.8%), due to the contributions in part from the "AEON STYLE" stores and the higher proportion of direct sales, relatively fewer promotional activities and clearance sales compared with the same period last year prior to the partial closure of the Kornhill and Whampoa stores. However, against the backdrop of a difficult macroeconomic environment and a continuous surge in operating expenses, the Group recorded a loss attributable to the owners of the Company of HK\$72.0 million (2016: HK\$82.9 million).

During the period under review, while the ongoing sluggish retail environment had further dampened the Group's performance, a number of adverse factors had contributed to the difficulties it encountered. These included the uncertainties in the economy and volatile financial markets exacerbating already weak consumer sentiment, as evident by a further 0.6% year-on-year drop in overall retail sales¹ in Hong Kong during the first half of 2017. At the same time, operating costs, especially rentals, remained high during the period, adding to the pressure on the Group's profitability. As a result, although revenue from the Group's Hong Kong operations increased 11.7% to HK\$2,037.2 million (2016: HK\$1,824.5 million) following the re-opening and transformation of the Kornhill and Whampoa stores into "AEON STYLE" stores, a segment loss of HK\$86.1 million was recorded (2016: HK\$101.4 million).

As at 30 June 2017, the Group operated a total of 57 stores (31 December 2016: 54 stores) located in densely-populated residential and commercial districts across Hong Kong.

Similar to the situation in Hong Kong, the retail market in the PRC had been sluggish during the period under review. This, coupled with the depreciation of Renminbi of approximately 4.9% year-on-year, dragged revenue from the PRC operations down by 4.7% to HK\$2,583.5 million (2016: HK\$2,712.2 million). Affected by the market conditions, as well as with the newly opened stores there still at the investment stage, together with high operating costs, the segment profit inevitably dropped by 75.4% to HK\$3.0 million (2016: HK\$12.2 million) during the period. If excluded the pre-operating expenses of HK\$9.2 million (2016: HK\$3.6 million) incurred for the opening of new stores, the segment profit would have dropped by 23.0%. The Group operated a total of 30 stores (31 December 2016: 31 stores) in South China as at 30 June 2017.

During the review period, staff costs increased by 1.9% and the ratio of staff cost to revenue stayed at 12.7%, while rental costs increased by 7.0% and the ratio of rental costs to revenue went up from 11.7% to 12.3%, according to adjustments in lease agreements. Other operating expenses representing sales promotions, utilities, management fees, maintenance and administrative expenses after deducting rental costs dropped by 6.2%.

The Group has maintained a net cash position with cash and bank balances and short term time deposits of HK\$2,150.8 million as at 30 June 2017 (31 December 2016: HK\$2,225.4 million). The Group had no bank borrowings as at the end of the review period and it has sufficient internal resources to finance future business expansion.

¹ Census and Statistics Department, HKSAR Government
(<http://www.statistics.gov.hk/pub/B10800032017MM06B0100.pdf>)

BUSINESS REVIEW (Continued)

As at 30 June 2017, deposits of HK\$31.0 million (31 December 2016: HK\$31.9 million) were pledged as guarantees to landlords for rental deposits. Deposits of HK\$14.2 million (31 December 2016: HK\$14.0 million) were pledged as guarantees to regulatory bodies for prepaid value cards sold.

Capital expenditure for the period was HK\$147.2 million which was incurred for new store openings and store renovations. The Group continues to finance capital expenditure with internal resources and short-term borrowings.

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

The year 2017 marks the 30th Anniversary of the Group's founding. To celebrate this special occasion with its major stakeholders, the Group has embarked on a range of initiatives this year. Highlights include tailoring special merchandise and themed activities for customers; organising a kick-off ceremony to thank its suppliers for their support over the years, especially those with whom it has partnered for 30 years; a gala celebration dinner with its staff; as well as offering discount coupons for shareholders so that they may appreciate the happy shopping experience in its stores. As it reaches this important milestone, the Group continues to diligently strive to establish a sound business infrastructure for future growth following the AEON Basic Principles, and adhering to its "Customer-First" philosophy with an innovative spirit.

PROSPECTS

Looking ahead, the Group expects the operating environment in Hong Kong to remain difficult, as uncertainties in the economy persist and no sign of a revival in consumption sentiment can be seen. At the same time, the surge in the operating costs in various business areas is not expected to slow down, particularly labour costs and rentals. In view of the challenges ahead, the Group is well aware of the need for a more competitive cost structure in order to maintain its competitiveness and will thus step up its efforts in raising efficiency and controlling operating costs. The Group also continues to strengthen its merchandise and concessionaire mix to offer an enhanced and more enjoyable shopping experience to its customers, which includes incorporating successful elements of the newly-opened "AEON STYLE" stores into other stores in Hong Kong. Moreover, the Group is exploring opportunities to open small-scale stores there. One such store was opened in Kennedy Town in July 2017, and by the end of 2017, five more small-scale stores are to be opened, while the store in Causeway Bay is to be refurbished to re-open as a Lifestyle store, an appropriate concept for that upscale shopping district.

The Group remains cautiously optimistic about the mid-to-long term economic prospects of the PRC, especially Guangdong province, the main base of the Group's operations in Mainland China which has boasted an economic growth faster than the national average in recent years. As the Group's expansion plan is not hindered by economic fluctuations, it will continue looking for store-opening opportunities in the PRC, so as to increase its market share in areas in which consumers' purchasing power grows relatively faster. At the same time it will enhance the profitability of existing stores by modifying the merchandise mix to meet customers' preference and enhance its stores competitiveness through renovations. Towards that end, three stores have been opened in Foshan, Guangzhou and Dongguan in the province during July and August 2017, adding to the Group's growth momentum in the PRC market.

To reinforce the AEON brand image and improve profitability, as a long term business strategy, the Group will increase the contributions from direct sales through further promoting its house brand "TOPVALU" products as well as products of exclusive brands introduced by the Group.

Total capital expenditure of the Group from the second half of 2017 to 2019 is expected to reach approximately HK\$1 billion, which is planned for new store openings, store renovations and improvements in back-end infrastructures that are aimed at bolstering efficiency to support greater sales volumes.

HUMAN RESOURCES

As at 30 June 2017, the Group had approximately 8,100 full-time and 3,700 part-time employees in Hong Kong and the PRC. The Group remunerates employees based on their performance and experience in line with prevailing practices within the industry. Committed to delivering the highest standards of service to all of its customers, the Group continues to enhance the quality and skills of its staff by providing professional training and mentorship. It also strives to create a good working environment in order to foster camaraderie and morale among employees.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2017, the interests of the Directors in the shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

AEON CO., LTD., THE COMPANY'S ULTIMATE HOLDING COMPANY

Name of Directors	Number of shares held as personal interests	Approximate percentage of total number of issued shares of AEON Co., Ltd. %
HABU Yuki (Note 1)	8,460	0.00097
IKUTA Masamitsu	504	0.00006
WAKO Shinya (Note 2)	7,400	0.00085

Notes:

- As confirmed by Ms. Yuki Habu, her shareholding in AEON Co., Ltd. is 8,460 shares.
- As confirmed by Mr. Shinya Wako, his shareholding in AEON Co., Ltd. is 7,400 shares.

Other than as disclosed above, at 30 June 2017, neither the Directors nor the chief executives of the Company had any interests or short positions in any shares and debentures of the Company or any of its associated corporations (within the meaning of PART XV of the SFO).

SUBSTANTIAL SHAREHOLDERS

At 30 June 2017, shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or had otherwise notified the Company were as follows:

Name of substantial shareholders	Long Positions Number of ordinary shares held	Approximate percentage of the total number of issued shares %
AEON Co., Ltd.	157,536,000 (Note 1)	60.59
Aberdeen Asset Management Plc and its Associates (together "the Aberdeen Group") on behalf of accounts managed by the Aberdeen Group	30,314,500 (Note 2)	11.66

SUBSTANTIAL SHAREHOLDERS (Continued)

Note 1: These shares are held as to 148,760,000 shares by AEON Co., Ltd., 7,000,000 shares by AEON (U.S.A.), Inc., and 1,776,000 shares by AEON Credit Service (Asia) Company Limited ("ACS").

AEON (U.S.A.), Inc. is a wholly-owned subsidiary of AEON Co., Ltd. and AEON Co., Ltd. is deemed to be interested in the 7,000,000 shares owned by AEON (U.S.A.), Inc.

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 Aberdeen Asset Management Plc and its associates (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 29,538,500 shares representing 11.36% 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 2017.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2017, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

SUFFICIENCY OF PUBLIC FLOAT

Reference is made to the announcement of the Company dated 6 March 2015.

The public float of the Company fell below the minimum 25% requirement as required by Rule 8.08(1)(a) of the Listing Rules until 13 June 2017. On 13 June 2017, the Company announced that its public float was restored to 27.78% after it was informed that AEON Co., Ltd. disposed of an aggregate of 28,740,000 shares in the Company to four independent third parties. Accordingly, the public float of the Company had been restored to at least 25% of the total number of issued shares of the Company in compliance with Rule 8.08(1)(a) of the Listing Rules.

Save as disclosed above, 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 since 13 June 2017 and up to the date of this report.

CORPORATE GOVERNANCE

The Board of the Company has complied throughout the six months ended 30 June 2017 with the code provisions set out in the Corporate Governance Code ("CG Code") and Corporate Governance Report contained in Appendix 14 to the Listing Rules except for the deviation disclosed below:

Under code provision A.2.1 of the CG Code requires the roles of chairman and chief executive should be separate and should not be performed by the same individual. The Board considered that the duties of the Managing Director ("MD") were no difference from that required of a chief executive stipulated under the code provision A.2.1 of the CG Code. The management would regard that the term of Managing Director will have the same meaning as the chief executive of the Company. During the period from 1 January 2017 to 31 May 2017, Ms. Yuki Habu ("Ms. Habu") was the Chairman of the Board and Ms. Chan Pui Man Christine ("Ms. Chan") was the MD of the Company. After the retirement of Ms. Chan on 31 May 2017, Ms. Habu was appointed as the MD.

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

CORPORATE GOVERNANCE (Continued)

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry of all Directors, all Directors have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2017.

The Audit Committee of the Company has reviewed the unaudited interim results for the six months ended 30 June 2017 with management.

UPDATED INFORMATION OF DIRECTORS

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

(A) CHANGES IN DIRECTORS

Name of Director	Details of change
MIZUSHIMA Yoshiaki	Resigned as an Executive Director and the Deputy Managing Director on 22 March 2017
IKUTA Masamitsu	Appointed as an Executive Director and the Deputy Managing Director on 22 March 2017
LAU Chi Sum Sam	Appointed as an Executive Director on 22 March 2017
CHAN Pui Man, Christine	Retired as an Executive Director and resigned as the Managing Director on 31 May 2017
CHENG Yin Ching, Anna	Retired as an Independent Non-executive Director and resigned as the Chairman of Audit Committee and a member of each of Nomination Committee and Remuneration Committee on 31 May 2017
HABU Yuki	Re-designated from a Non-executive Director to Executive Director, appointed as the Managing Director and also resigned as a member of Audit Committee on 31 May 2017
YAJIMA Hidaeki	Ceased as Deputy Managing Director on 31 May 2017
CHOW Chi Tong	Appointed as the Chairman of Audit Committee on 31 May 2017

(B) CHANGES IN DIRECTORS' EMOLUMENTS

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

With effect from 1 January 2017, the Directors entitlement to director 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 2017 are as follows:

Name of Directors	Emoluments HK\$
HABU Yuki	1,412,000
YAJIMA Hideaki	1,652,000
IKUTA Masamitsu	1,702,000
CHAK Kam Yuen	1,256,000
LAU Chi Sum Sam	1,105,000
CHOW Chi Tong	180,000

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

Hong Kong, 23 August 2017