



AEON Stores (Hong Kong) Co., Limited

永旺(香港)百貨有限公司

2016 Interim Report

Stock Code : 984

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

CHAN Pui Man Christine (*Managing Director*)
MIZUSHIMA Yoshiaki (*Deputy Managing Director*)
YAJIMA Hideaki (*Deputy Managing Director*)
CHAK Kam Yuen

Non-executive Directors

HABU Yuki (*Chairman*)
WAKO Shinya

Independent Non-executive Directors

CHENG Yin Ching Anna
CHAN Yi Jen Candi Anna
LO Miu Sheung Betty
CHOW Chi Tong

NOMINATION COMMITTEE

HABU Yuki (*Chairman*)
CHENG Yin Ching Anna
CHAN Yi Jen Candi Anna
LO Miu Sheung Betty
CHOW Chi Tong

REMUNERATION COMMITTEE

CHAN Yi Jen Candi Anna (*Chairman*)
HABU Yuki
CHENG Yin Ching Anna
LO Miu Sheung Betty
CHOW Chi Tong

AUDIT COMMITTEE

CHENG Yin Ching Anna (*Chairman*)
HABU Yuki
CHAN Yi Jen Candi Anna
LO Miu Sheung Betty
CHOW Chi Tong

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 Hong Kong and Shanghai Banking
Corporation Limited

SHARE REGISTRARS

Tricor Secretaries Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

STOCK CODE

984

WEBSITE

www.aeonstores.com.hk

The Board of Directors (the "Board") of AEON Stores (Hong Kong) Co., Limited (the "Company") is pleased to announce the unaudited results of the Company and its subsidiaries (the "Group" or "AEON") for the 6 months ended 30 June 2016 together with comparative figures for the previous period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	NOTES	Six months ended	
		30.6.2016 HK\$'000 (unaudited)	30.6.2015 HK\$'000 (unaudited)
Revenue	3	4,536,691	4,498,539
Other income		301,115	339,414
Investment income		16,451	16,416
Purchase of goods and changes in inventories		(3,185,911)	(3,101,266)
Staff costs		(577,135)	(547,672)
Depreciation		(91,744)	(95,528)
Loss on disposal/written off of property, plant and equipment		(262)	(288)
Pre-operating expenses		(3,617)	—
Other expenses		(1,068,329)	(1,042,843)
Finance costs	4	(70)	(117)
(Loss) profit before tax		(72,811)	66,655
Income tax expense	5	(6,515)	(8,068)
(Loss) profit for the period		(79,326)	58,587
(Loss) profit for the period attributable to:			
Owners of the Company		(82,916)	48,659
Non-controlling interests		3,590	9,928
		(79,326)	58,587
(Loss) earnings per share	7	(31.89) HK cents	18.72 HK cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Six months ended	
	30.6.2016 HK\$'000 (unaudited)	30.6.2015 HK\$'000 (unaudited)
(Loss) profit for the period	(79,326)	58,587
Other comprehensive (expense) income		
<i>Items that may be subsequently reclassified to profit or loss</i>		
Exchange differences on translation of financial statements of foreign operations	(8,249)	1,063
Fair value (loss) gain on available-for-sale investments	(693)	1,958
Other comprehensive (expense) income for the period, net of income tax	(8,942)	3,021
Total comprehensive (expense) income for the period	(88,268)	61,608
Total comprehensive (expense) income for the period attributable to:		
Owners of the Company	(87,541)	51,144
Non-controlling interests	(727)	10,464
	(88,268)	61,608

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2016

	NOTES	30.6.2016 HK\$'000 (unaudited)	31.12.2015 HK\$'000 (audited)
Non-current Assets			
Goodwill		94,838	94,838
Property, plant and equipment	8	740,714	617,254
Available-for-sale investments	9	19,145	19,838
Deferred tax assets		57,244	52,742
Rental deposits paid		250,244	172,216
Pledged bank deposits	10	25,969	18,591
		1,188,154	975,479
Current Assets			
Inventories		851,766	913,449
Trade receivables	11	30,184	30,933
Other receivables, prepayments and deposits		198,365	198,856
Amounts due from fellow subsidiaries		28,164	77,522
Tax recoverable		21,716	21,821
Time deposits	12	686,460	849,314
Pledged bank deposits	10	20,321	28,963
Bank balances and cash		1,882,132	2,018,767
		3,719,108	4,139,625
Current Liabilities			
Trade payables	13	1,250,966	1,371,450
Other payables and accrued charges		1,344,164	1,371,886
Dividend payable		492	533
Amount due to ultimate holding company	14	64,752	51,860
Amounts due to fellow subsidiaries	14	74,395	55,433
Obligation under a finance lease		978	960
Tax liabilities		11,520	5,621
		2,747,267	2,857,743
Net Current Assets		971,841	1,281,882
Total Assets Less Current Liabilities		2,159,995	2,257,361
Capital and Reserves			
Share capital		115,158	115,158
Reserves		1,688,450	1,796,172
Equity attributable to owners of the Company		1,803,608	1,911,330
Non-controlling interests		160,597	161,324
Total Equity		1,964,205	2,072,654
Non-current Liabilities			
Rental deposits received and other liabilities		191,629	179,916
Obligation under a finance lease		259	780
Deferred tax liabilities		3,902	4,011
		195,790	184,707
		2,159,995	2,257,361

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2016

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 2015 (audited)	115,158	20,841	42,833	28,890	64,015	1,650,451	1,922,188	161,249	2,083,437
Profit for the period	—	—	—	—	—	48,659	48,659	9,928	58,587
Other comprehensive income for the period	—	1,958	527	—	—	—	2,485	536	3,021
Total comprehensive income for the period	—	1,958	527	—	—	48,659	51,144	10,464	61,608
Dividends recognised as distribution (note 6)	—	—	—	—	—	(68,120)	(68,120)	—	(68,120)
Unclaimed dividends forfeited	—	—	—	—	—	122	122	—	122
At 30 June 2015 (unaudited)	115,158	22,799	43,360	28,890	64,015	1,631,112	1,905,334	171,713	2,077,047
Profit for the period	—	—	—	—	—	44,511	44,511	457	44,968
Other comprehensive expense for the period	—	(5,365)	(6,890)	—	—	—	(12,255)	(7,328)	(19,583)
Total comprehensive (expense) income for the period	—	(5,365)	(6,890)	—	—	44,511	32,256	(6,871)	25,385
Transfer, net of non-controlling interests share	—	—	—	1,300	31,043	(32,343)	—	—	—
Dividends recognised as distribution	—	—	—	—	—	(26,260)	(26,260)	—	(26,260)
Dividends paid to non-controlling shareholders	—	—	—	—	—	—	—	(3,518)	(3,518)
At 31 December 2015 (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

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 2016

	Six months ended	
	30.6.2016 HK\$'000 (unaudited)	30.6.2015 HK\$'000 (unaudited)
OPERATING ACTIVITIES		
Operating cash flows before movements in working capital	4,155	148,138
Decrease (increase) in inventories	47,852	(29,203)
Decrease (increase) in trade receivables	233	(3,424)
Increase in other receivables, prepayments and deposits	(78,623)	(16,408)
Decrease in amounts due from fellow subsidiaries	49,122	66,448
Decrease in trade payables	(100,730)	(80,514)
Increase (decrease) in other payables and accrued charges	10,469	(57,056)
Increase in amount due to ultimate holding company	12,892	23,947
Increase in amounts due to fellow subsidiaries	19,674	6
Cash (used in) generated from operations	(34,956)	51,934
PRC income taxes paid	(6,282)	(3,655)
Interest paid	(70)	(117)
Interest on bank deposits and time deposits received	16,447	16,414
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(24,861)	64,576
INVESTING ACTIVITIES		
Dividend received from listed investment securities	4	2
Purchase of property, plant and equipment	(223,617)	(51,213)
Proceeds from disposal of property, plant and equipment	12	93
Proceeds from disposal of an investment property	—	570,420
Placement of time deposits	(520,164)	(918,633)
Withdrawal of time deposits	678,363	6,326
NET CASH USED IN INVESTING ACTIVITIES	(65,402)	(393,005)
FINANCING ACTIVITIES		
Dividend paid	(20,222)	(67,904)
Repayment of obligation under a finance lease	(460)	(584)
Others	—	137
NET CASH USED IN FINANCING ACTIVITIES	(20,682)	(68,351)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(110,945)	(396,780)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	2,018,767	2,426,922
Effect of foreign exchange rate changes	(25,690)	3,738
CASH AND CASH EQUIVALENTS AT 30 JUNE	1,882,132	2,033,880
Represented by:		
Bank balances and cash	1,882,132	2,033,880

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

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 2015 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 2015 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 2016 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2015.

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 HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements

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	
	30.6.2016	30.6.2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Direct sales	4,119,165	4,040,617
Income from concessionaire sales	417,526	457,922
	4,536,691	4,498,539

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

For the six months ended 30 June 2015 (unaudited)

	Hong Kong	PRC	Total
	HK\$'000	HK\$'000	HK\$'000
Segment revenue — external	1,872,453	2,626,086	4,498,539
Segment profit	23,565	20,184	43,749
Investment income			16,416
Finance costs			(117)
Rental income on an investment property			6,607
Profit before tax			66,655

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

4. FINANCE COSTS

	Six months ended	
	30.6.2016	30.6.2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest on finance leases	70	117

5. INCOME TAX EXPENSE

	Six months ended	
	30.6.2016	30.6.2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
The charge (credit) comprises:		
Current tax		
Hong Kong	—	11,200
Other regions in the PRC	12,382	16,444
	12,382	27,644
Overprovision in prior years		
Other regions in the PRC	—	(11,314)
	12,382	16,330
Deferred tax	(5,867)	(8,262)
Income tax expense for the period	6,515	8,068

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

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the six months ended 30 June 2015.

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 also attributable to the 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	
	30.6.2016	30.6.2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Dividend recognised as distribution during the period:		
Final dividend declared and paid for 2015 of 7.8 HK cents (six months ended 30.6.2015: 26.2 HK cents for 2014 final dividend) per ordinary share	20,280	68,120

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 30.6.2015: 10.1 HK cents) per ordinary share amounting to HK\$52,000,000 (six months ended 30.6.2015: HK\$26,260,000) and a special dividend of 20.0 HK cents (six months ended 30.6.2015: Nil) per ordinary share amounting to HK\$52,000,000 (six months ended 30.6.2015: Nil) will be paid to the owners of the Company whose names appear in the Register of Members on 28 September 2016. The interim dividend and the special dividend will be paid on or before 14 October 2016.

7. (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings 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\$82,916,000 (six months ended 30.6.2015: profit of HK\$48,659,000) and on 260,000,000 (six months ended 30.6.2015: 260,000,000) ordinary shares in issue during the period.

No diluted (loss) earnings per share have 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\$223,474,000 (six months ended 30.6.2015: HK\$51,213,000) 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 30.6.2015: 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.

As at 30 June 2016, accumulated impairment loss on property, plant and equipment of the Group is HK\$223,984,000 (31.12.2015: HK\$223,984,000).

9. AVAILABLE-FOR-SALE INVESTMENTS

	30.6.2016 HK\$'000 (unaudited)	31.12.2015 HK\$'000 (audited)
Equity securities:		
Listed shares in Hong Kong at fair value	19,145	19,838

Included in listed shares in Hong Kong is an investment in a fellow subsidiary of HK\$18,958,000 (31.12.2015: HK\$19,639,000).

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

	30.6.2016		31.12.2015	
	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	25,969	5,638	18,591	13,879
As requirement by the relevant PRC regulatory body for cash received from prepaid value cards sold	—	14,683	—	15,084
	25,969	20,321	18,591	28,963

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:

	30.6.2016 HK\$'000 (unaudited)	31.12.2015 HK\$'000 (audited)
Within 30 days	29,328	30,495
31 to 60 days	140	93
Over 60 days	716	345
	30,184	30,933

12. TIME DEPOSITS

As at 30 June 2016, time deposits represent Renminbi-denominated time deposits amounting to HK\$189,883,000, United States dollar-denominated time deposits amounting to HK\$47,577,000 and Hong Kong dollar-denominated time deposits amounting to HK\$449,000,000 with an original maturity of three months or more to one year. The average effective interest rate of Renminbi-denominated, United States dollar-denominated and Hong Kong dollar-denominated time deposits is 1.89%, 1.42% and 1.15% 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 2015, time deposits represented Renminbi-denominated time deposits amounting to HK\$176,897,000, United States dollar-denominated time deposits amounting to HK\$46,692,000 and Hong Kong dollar-denominated time deposits amounting to HK\$625,725,000 with an original maturity of three months or more to one year. The average effective interest rates of Renminbi-denominated, United States dollar-denominated and Hong Kong dollar-denominated time deposits were 1.78%, 1.60% and 1.38% per annum, respectively. The deposits expired during the six months ended 30 June 2016.

13. TRADE PAYABLES

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

	30.6.2016 HK\$'000 (unaudited)	31.12.2015 HK\$'000 (audited)
0 to 60 days	1,050,644	1,172,567
61 to 90 days	91,375	97,100
Over 90 days	108,947	101,783
	1,250,966	1,371,450

14. AMOUNTS DUE TO ULTIMATE HOLDING COMPANY AND FELLOW SUBSIDIARIES

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

15. CAPITAL COMMITMENTS

	30.6.2016 HK\$'000 (unaudited)	31.12.2015 HK\$'000 (audited)
Capital expenditure contracted for but not provided for in respect of acquisition of property, plant and equipment	141,434	13,377

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	
		30.6.2016 HK\$'000 (unaudited)	30.6.2015 HK\$'000 (unaudited)
Fellow subsidiaries	Commission for credit facilities provided to the customers	6,503	6,917
	Consultancy fee	990	878
	Franchise fee, consumable expenses and purchase of machines	536	313
	Other income	1,184	1,072
	Outsourcing service expense	1,990	4,791
	Purchase of goods	130,282	131,513
	Recharge for administrative expenses	390	190
	Reimbursement of administrative expenses	203	391
	Rental expenses, management fees and utilities expenses	8,396	—
	Rental income	10,336	8,685
	Sales of coupons	3,400	—
Service fee expense	41,024	43,573	
Ultimate holding company	Royalty expenses	13,304	25,013
Non-controlling shareholders of the subsidiaries*	Advertising expenses	1,869	1,980
	Rental expenses, management fees and utilities expenses	30,971	32,190
Directors and key management	Remuneration	4,241	4,152

* 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:

	30.6.2016 HK\$'000 (unaudited)	31.12.2015 HK\$'000 (audited)
Amounts due from non-controlling shareholders of the subsidiaries (included in other receivables, prepayments and deposits)	5,926	6,083

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 27 September 2016 to 28 September 2016 (both days inclusive), for the purpose of ascertaining Shareholders' entitlement to the proposed interim dividend and the special dividend, during which period no transfers of Shares will be registered. In order to qualify for the proposed interim dividend and the special 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 26 September 2016.

BUSINESS REVIEW

Further slowdown of the economy in Hong Kong and the PRC in 2016 adversely affected consumer sentiment, as evidenced by the 10.5%¹ drop in overall retail sales in Hong Kong in the first half of 2016. Nonetheless, the Group achieved revenue growth in such a stagnant market as its strategies of prioritizing the enhanced performance of existing stores proved effective. For the six months ended 30 June 2016, amidst the adverse business environment and despite the partial closure of the Kornhill and Whampoa stores for renovation, revenue of the Group still rose by 0.8% to HK\$4,536.7 million (2015: HK\$4,498.5 million), mainly attributable to the PRC segment and the full period contribution of newly opened stores. The gross profit margin was 29.8% (2015: 31.1%), in part due to the launch of promotional activities to boost sales and clearance sales prior to the partial closure of the Kornhill and Whampoa Stores. Due to increase in operating expenses compounded by the challenging macroeconomic environment, the Group recorded a loss attributable to the owners of the Company of HK\$82.9 million (2015: profit of HK\$48.7 million).

During the first half of 2016, in addition to the slack retail market in Hong Kong, the partial closure of Kornhill Store from March 2016 and Whampoa Store from May 2016 for transformation into "AEON STYLE" stores had a negative impact on the Group's revenue, partially offset by the late winter which saw improved sales in January and February. As a result, revenue from the Group's Hong Kong operations dropped 2.6% to HK\$1,824.5 million (2015: HK\$1,872.5 million). The segment's performance, however, was adversely affected by a number of factors, including promotional activities during the period, clearance sales prior to the partial closure of the Kornhill and Whampoa Stores, and the increment in operating expenses. Thus, a segment loss of HK\$101.4 million was recorded (2015: profit of HK\$23.6 million).

As at 30 June 2016, the Group operated a total of 48 stores (31 December 2015: 48 stores) located in densely-populated residential and commercial districts across Hong Kong.

During the period under review, the PRC's economic slowdown and weaker consumer sentiment persisted. The Group continued to effectively implement its successful strategies including proactively revamping the merchandise mix and improving back-end support services. These strategies together with the contribution from the new stores opened in late 2015 and early 2016, reinforced by the late winter sales spike, helped boost revenue from the PRC operations by 3.3% to HK\$2,712.2 million (2015: HK\$2,626.0 million). However, the segment profit dropped by 39.5% to HK\$12.2 million (2015: HK\$20.2 million), mainly because the newly opened stores were still at investment stage. With the opening of a store in Panyu during February 2016, the Group operated a total of 31 stores (31 December 2015: 30 stores) in South China as at 30 June 2016.

During the review period, staff cost increased by 5.4% and the ratio of staff cost to revenue increased slightly from 12.2% to 12.7%, mainly attributed to the salary adjustment to attract and keep staff in a more competitive labour market, as well as additional labour costs incurred at newly opened stores. Rental costs increased 1.7% with the ratio of rental costs to revenue up from 11.6% to 11.7%, according to adjustments in lease agreements.

Other operating expenses representing sales promotion, utilities, management fees, maintenance and administrative expenses after deducting rental costs increased by 3.2%.

The Group has maintained a strong net cash position with cash and bank balances and short term time deposits of HK\$2,568.6 million as at 30 June 2016 (31 December 2015: HK\$2,868.1 million). Under this background, the Board of Directors has adopted a new dividend policy that seeks to maintain its annual ordinary dividend at current levels for the foreseeable future and that the Group's capital can be used more effectively. An annual review will be performed to confirm whether the current dividend scale is supportable taking into consideration of the results of operations and future operating and capital requirements.

¹ *Census and Statistics Department, HKSAR*

BUSINESS REVIEW (Continued)

The Board has proposed payment of an interim dividend of 20.0 HK cents (2015: 10.1 HK cents) per ordinary share for the six months ended 30 June 2016. As year 2016 also marks the 20th anniversary of the Group's subsidiary Guangdong AEON Teem Company Limited, the Board also proposed payment of a special dividend of 20.0 HK cents (2015: Nil) per ordinary share to celebrate this special occasion and to thank Shareholders' support for the period under review.

As at 30 June 2016, deposits of HK\$31.6 million (31 December 2015: HK\$32.5 million) were pledged as guarantees to landlords for rental deposits. Deposits of HK\$14.7 million (31 December 2015: HK\$15.1 million) were pledged as guarantees to regulatory bodies for prepaid value cards sold.

Capital expenditure for the period was HK\$223.5 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.

PROSPECTS

Looking ahead, the challenges in Hong Kong's operating environment are expected to persist as further weakening in the local economy and consumer sentiment continue to present strong headwinds to the retail business. Meanwhile, there is a high possibility of increasing operating costs in Hong Kong as costs in various business aspects, especially labour costs and rentals, remain high. To enhance its competitiveness in such a challenging market and meet the ever-changing needs of customers, the Group has introduced a brand new business model, "AEON STYLE", a proven concept brought in by the AEON Group from Japan. As Kornhill Store re-opened in July 2016, it has been transformed into the first "AEON STYLE" store outside Japan. "AEON STYLE" features a fresh store layout, an enhanced merchandise mix and a more stylish and comfortable shopping environment which offers a brand new shopping experience to its customers. A wide range of novel elements were introduced in "AEON STYLE Kornhill", including delicatessen counters such as "Select Deli" and "CONA CONA", as well as the brand new "Glam Beautique", a health and beauty care shop introduced from AEON Group in Japan, and "Adult Study", which offers wide selections of elegantly understated stationery. Following the launch of "AEON STYLE Kornhill", the Whampoa Store is engaging in a similar transformation as it re-opens in September 2016. These two revolutionary "AEON STYLE" stores are to start contributing to the Group once launched and to help drive the Group's growth.

The Group continues to explore potential opportunities for small-scale store expansion. In July and August 2016, three stores were opened in Fo Tan, Wong Tai Sin and Tai Po respectively, and three more are to be opened in Fortress Hill, Yuen Long and Sha Tin respectively by end of 2016.

The Group believes that the Chinese economy should maintain stable growth amid recent fluctuations in the global market. In the long term, the Group is cautiously optimistic about the overall economic growth of the PRC, and considers it to be a major growth enabler. In fact, the "13th Five-year Plan" has set a growth target of around 7% for the Chinese economy, far faster than most of the major economies in the world. For Guangdong province, where the Group's operations in the PRC are mainly based, the economic growth is even faster as the province recorded GDP growth of 7.4%² in the first half of 2016, higher than the 6.7%³ national economic growth. Therefore, while the Group should continue to keep improving profitability of its current operations, it will also prudently take advantage of opportunities to open stores in better locations, with lower rental costs and better leasing terms, mainly targeting suburban areas as consumers' purchasing power there is growing rapidly. In the second half of 2016, the Group plans to open three stores in Guangzhou, Dongguan and Shenzhen to sustain its growth momentum and better prepare to fully realise the potential when the market starts to recover.

Total capital expenditure of the Group in the second half of 2016 and in 2017 planned for new store openings, store renovations and acquisition of another logistic centre is approximately HK\$1,260 million.

² National Bureau of Statistics of China

³ www.gdstats.gov.cn

HUMAN RESOURCES

As at 30 June 2016, the Group had approximately 7,900 full-time and 4,300 part-time employees in Hong Kong and the PRC. The Group remunerates employees based on their performance, experience and 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 good working environment in order to foster camaraderie among employees.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2016, 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 ("Model Code"), were as follows:

(A) THE COMPANY

Name of Director	Number of ordinary shares held as personal interests	Approximate percentage of interests in the total number of issued shares of the Company %
CHAN Pui Man Christine	6,000	0.002

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

Name of Directors	Number of shares held as personal interests	Approximate percentage of interests %
Yoshiaki MIZUSHIMA	3,788	0.00043
Yuki HABU	7,708	0.00088
Shinya WAKO	4,400	0.00050

Other than as disclosed above, at 30 June 2016, 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

At 30 June 2016, 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.	186,276,000 (Note 1)	71.64
Aberdeen Asset Management Plc and its Associates (together "the Aberdeen Group") on behalf of accounts managed by the Aberdeen Group	31,364,500 (Note 2)	12.06

Note 1: These shares are held as to 177,500,000 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 effectively 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: These shares are held by Aberdeen Asset Management Plc and its associates (together "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 29,353,500 shares representing 11.29% 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 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2016, neither the Company nor any of 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 remains below the minimum 25% requirement as required by Rule 8.08(1)(a) of the Listing Rules. To the best knowledge, information and belief of the Directors, as at the date of this report, the public float of the Company is approximately 17.06%.

The Company is considering various options to restore its public float. As at the date of this report, no concrete proposals for the restoration of public float or timetable have been determined. The Company will make further announcement when the proposal to restore its public float has been finalised.

CORPORATE GOVERNANCE

The Board of the Company has complied throughout the six months ended 30 June 2016 with the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules.

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 2016.

The Audit Committee of the Company has reviewed the unaudited interim results for the six months ended 30 June 2016 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
WAKO Shinya	Resigned as a non-permanent corporate auditor of United Super Markets Holdings Inc. (the shares of the company are listed on Tokyo Stock Exchange) on 19 May 2016
CHOW Chi Tong	Appointed as a member of the Nomination Committee and the Remuneration Committee of the Company on 20 May 2016

(B) CHANGES IN DIRECTORS' EMOLUMENTS

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

With effect from 1 January 2016, 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 2016 are as follows:

Name of Directors	Emoluments HK\$
CHAN Pui Man Christine	2,489,000
MIZUSHIMA Yoshiaki	1,714,000
YAJIMA Hideaki	1,753,000
CHAK Kam Yuen	1,315,000
CHOW Chi Tong	170,000

By order of the Board of
AEON Stores (Hong Kong) Co., Limited
CHAN Pui Man, Christine
Managing Director

Hong Kong, 19 August 2016