AEON Stores (Hong Kong) Co., Limited

永旺(香港)百貨有限公司

2016 Annual Report

Stock Code : 984

AEON STYLE

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

CHAN Pui Man Christine *(Managing Director)*
YAJIMA Hideaki *(Deputy Managing Director)*
IKUTA Masamitsu *(Deputy Managing Director)*
CHAK Kam Yuen
LAU Chi Sum Sam

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

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

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9 Cheung Yee Street
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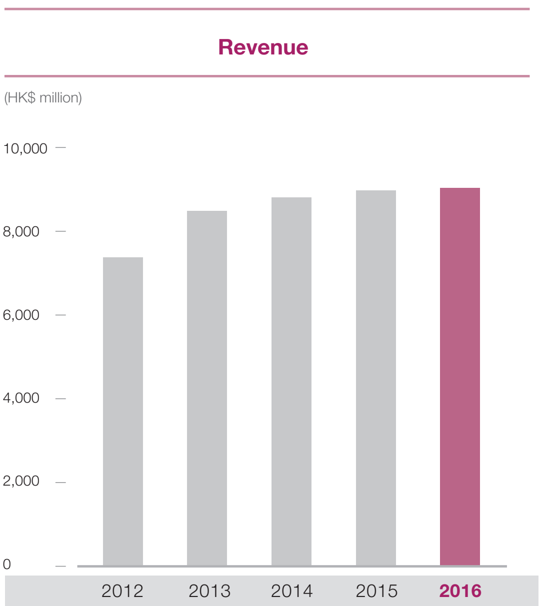
STOCK CODE

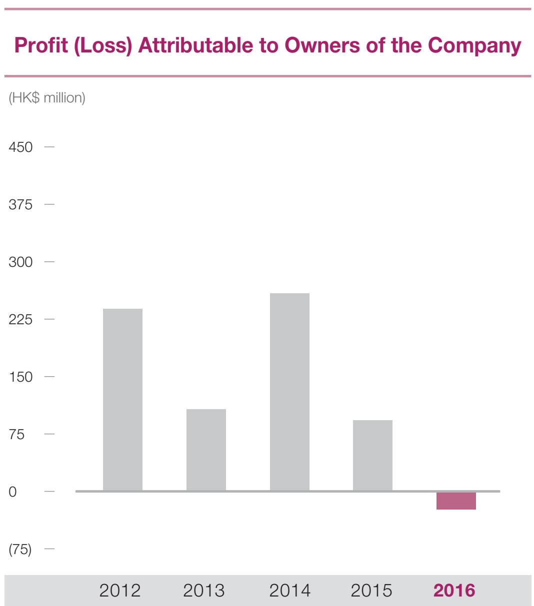
984

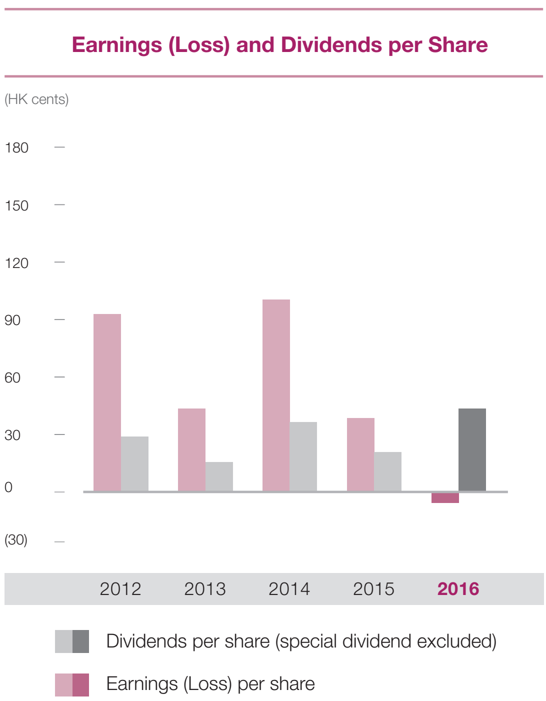
WEBSITE

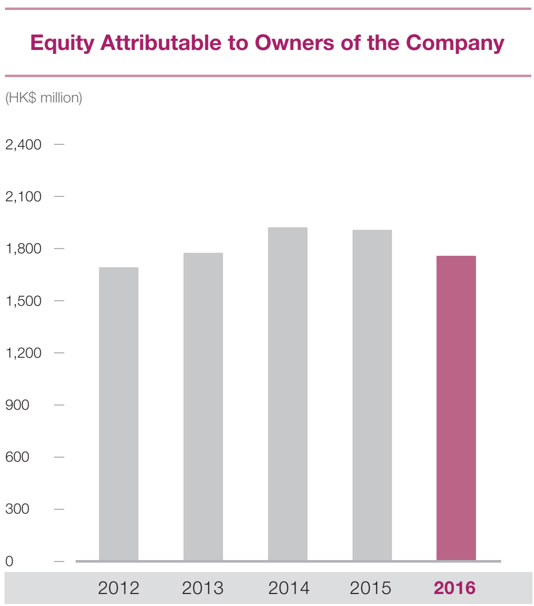
www.aeonstores.com.hk

FINANCIAL HIGHLIGHTS









CHAIRMAN'S STATEMENT

Ms. HABU Yuki
Chairman

Dear Shareholders,

The year 2016 was yet another challenging year for the retail industry in the PRC and Hong Kong. Economic downturn amplified by the volatility of the global economy affected the consumption sentiment in the two economies, and to complicate matters, the operating costs of retail players, including rental and labour costs, stood high. To maintain competitiveness and business scale, many players launched frequent promotional sales throughout the year, and profitability was inevitably squeezed. Encountering all these challenges, AEON Stores (Hong Kong) Co., Limited and its subsidiaries ("AEON Stores" or the "Group") initiated a number of measures to ensure the Group's sustainable development, including modifying our business expansion strategies and adjustments to our operations to adapt to the changing needs of our customers. Through our diligent efforts, we are gratified that we managed to maintain top-line growth despite the tough market conditions in the past year.

As mentioned in our previous report, we regard 2016 as an important year for AEON Stores to establish a sound infrastructure for further growth in the lead-up to our 30th anniversary. While the retail industry has been encountering strong headwinds, we believe the market is cyclical in nature and will gradually bottom out in the future. Therefore, to prepare for the recovery of the market, we have mapped out a series of strategies in three main directions to realise our goal for long-term growth.

The first core direction is to re-vitalise AEON Stores as a "lifestyle new concept store", In the second half of 2016, AEON STYLE, a proven concept adopted by the AEON Group from Japan, was launched in Kornhill Store and Whampoa Store completing their transformation. Compared to the traditional General Merchandise Store (GMS), AEON STYLE is evolving to a higher level focusing on four pillars, covering "Merchandise & Sales Floor", "Experience & Service", "Concierge & Communication" and "Interior & Environment" designed to meet constantly-changing customer needs. These new concept stores not only fulfil our "Everything we do, we do for our customers" credo, but also provide a brand new shopping experience that truly satisfies customers' wants and thus have been well-received by the market since their launch. We are further refining the AEON STYLE model based on customers' preference and feedback, and continue to enrich its product portfolio including introducing more proprietary brands.

Secondly, we will sustain the pace of our business expansion in the PRC, one of the world's fastest growing economies with enormous potential, as well as our major growth driver in the future. In view of the improving living standard and growing purchasing power of residents in the second-tier cities, in addition to our strong foothold in Guangzhou, Shenzhen, Dongguan, etc, in Guangdong Province, we are planning to capture the opportunities in those cities to deepen our penetration and consolidate our solid position in South China.

CHAIRMAN'S STATEMENT

The third direction is to expand our business through a more rapid addition of small specialty stores. While it takes longer to identify suitable locations and prepare for opening GMS and AEON Supermarkets, the Group is continuing to focus on expanding its network of small specialty stores under existing brand names including Living PLAZA by AEON, Bento Express by AEON and La Boheme. The Group is also laying the groundwork to realise the synergies from fully utilising the resources of Japan's AEON Group and accelerate the opening of the small specialty stores adapted from Japan, such as the beauty and health concept shop "AEONBODY" and the popular Japanese lifestyle variety shop "R.O.U.", particularly in Hong Kong. As these specialty stores become more popular and mature in their operation, we would establish a wider store network and bring their quality merchandise to a wider swath of customers.

We will diligently strive to effectively implement the above strategies in a prudent manner and be flexible in our approach at the same time in view of further challenges in the markets where the Group operates. The effectiveness and speed of implementation of these strategies, together with the efforts in controlling rising operating costs will doubtless be critical to the future success of the Group.

In 2017 we celebrate the 30th anniversary of AEON Stores. Notwithstanding the uncertainties in the macroeconomic environment in the near term, we take this special occasion as an excellent opportunity to highlight our core value and solidify our foundation for future development. On the basis of the Aeon Basic Principles, Aeon practices its "Customer-First" philosophy with a tireless innovative spirit. With a successful history of 30 years, we look forward to becoming a retailer that is embraced by everyone in the next 30 years. We aim to realise the potential of the Group by further strengthening our concept of "business operations that completely satisfy our customers". As we step into the 30th year since our founding, we are rejuvenated, and continue to conscientiously serve the community as we always have!

On behalf of the Board, I would like to extend my heartfelt thanks to our management and all of our staff for their dedicated hard work and contributions, as well as the strong support of customers since our establishment. Going forward, the Group is committed to work diligently and offer quality products and services, with the aim to become a preferred retailer in the hearts of our customers.

Yuki HABU
Chairman

Hong Kong, 22 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

Ms. CHAN Pui Man Christine
Managing Director

Financial Review

Despite weak consumer sentiment due to economic uncertainties, and an unusually warm winter, as well as the partial closure of the Kornhill and Whampoa stores for their transformation into pioneering "AEON STYLE" stores, the Group still maintained a growth in revenue of 0.7% to HK$9,036.6 million in 2016 from HK$8,975.3 million last year, mainly driven by the PRC segment and the full period contribution of newly opened stores. Gross profit margin was slightly adjusted to 31.2% (2015: 31.7%), mainly due to the launch of promotional activities and clearance sales prior to the partial closure of the Kornhill and Whampoa stores together with the further increase in the PRC segment share within the Group's revenue. During the period under review, affected by the partial closure of the two stores and the increase in operating cost, the Group recorded a loss attributable to shareholders of HK$23.2 million, compared with profit of HK$93.2 million in 2015.

During the year, staff cost mildly increased 0.6%, mainly attributable to salary adjustment of the Group and the additional labour costs incurred by the newly-opened stores in the PRC. Rental costs rose by 2.8% and the ratio of rental costs to revenue increased from 11.8% to 12.0% according to the adjustment in the lease agreements. Other operating expenses including selling, distribution and administrative expenses after excluding rental cost which increased by 0.6% in line with general inflation and as a result of the enlarged scale of the Group's operations created by the newly-opened stores.

As at 31 December 2016, the Group maintained a strong net cash position with cash and bank balance and short term time deposits of HK$2,225.4 million (2015: HK$2,868.1 million). The Group had no bank borrowings at the year end date and has sufficient internal resources to finance future business expansion.

As at 31 December 2016, deposits of HK$31.9 million (2015: HK$32.5 million) were pledged as guarantees to landlords for rental deposits. Deposits of HK$14.0 million (2015: HK$15.1 million) were pledged as a guarantee to regulatory bodies for prepaid value cards sold.

In 2016, capital expenditure for opening new stores and store renovations in Hong Kong and the PRC amounted to HK$470.1 million. Reflecting its strong financial position, the Group continues to finance future capital expenditure by internal resources and short-term borrowings.

Fluctuation of currency exchange rates had no material impact on the Group's retail business as less than 5% of the Group's total purchases were settled in foreign currencies other than its functional currencies in Hong Kong and in the PRC. The Group recorded an exchange loss of HK$19.7 million in 2016, compared to HK$9.8 million in the year before, which was mainly attributable to the depreciation of Renminbi leading to a decrease in the valuation of receivable items denominated in Renminbi and Renminbi deposits in Hong Kong.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Hong Kong Operations

In 2016, the local retail market remained sluggish due to the continuous slowdown of the economy and weak consumer sentiment, coupled with the effect of an unseasonably warm winter contributing to a drop in overall retail sales in Hong Kong by 8.1%[1] in 2016. In addition, the Hong Kong segment's performance was significantly affected by the partial closure of the Kornhill store from March to June and the Whampoa store from May to early August as both were transformed into "AEON STYLE" stores. Nevertheless, for the year ended 31 December 2016, revenue from Hong Kong operations slightly increased by 0.1% to HK$3,826.6 million (2015: HK$3,823.4 million), while a segment loss was recorded at HK$82.5 million (2015: profit of HK$76.7 million), mainly due to the launch of promotional activities to boost sales and clearance sales prior to the partial closure of the Kornhill and Whampoa stores and the rising operating costs.

During the year, to better address the ever-changing needs of customers, the Group has introduced into Hong Kong a brand new business model, "AEON STYLE", a proven concept brought in from Japan. Different from a traditional GMS, which has floors and layout planned by departments, "AEON STYLE" is a revolutionary operational model which has the layout of each floor by lifestyle, aiming to become a daily life partner of its customers by providing them with new lifestyle solutions. Moreover, the Group continued its efforts to develop its exclusive brands in Hong Kong, including the introduction of "Glam Beautique", "Adult Study" and "Cantovole Bakery", as well as further expansion of its outlets of "R.O.U." and "AEONBODY", offering a unique experience to customers.

During the period under review, the Group continued to identify suitable locations for new store openings in a cautious manner as a net increase of seven small-scale stores was recorded. As at 31 December 2016, the Group had 54 (2015: 48) stores in densely populated residential and commercial districts across Hong Kong.

PRC Operations

Though the PRC experienced slower economic growth in 2016, the economy has shown signs of stabilisation, along with its consumer sentiment. During the year, the PRC segment's revenue increased by 1.1% to HK$5,210.0 million (2015: HK$5,151.9 million). Segment profit increased by 18.8 times to HK$41.3 million from HK$2.2 million in 2015. If the impact of an impairment loss of property, plant and equipment for both years are excluded, the PRC segment results would have still surged by 3.7 times from HK$11.2 million to HK$41.4 million. The good performance of the segment was mainly contributed by the strong control of operating costs.

The Group opened a new GMS in Panyu in the first half of the year. As at 31 December 2016, the Group operated 31 (2015: 30) stores in South China.

Prospects

Hong Kong Operations

Looking ahead, the Group does not expect the consumer sentiment in Hong Kong to worsen further as stabilisation becomes evident in the overall retail market. However, the operating environment is expected to remain challenging due to Hong Kong's exposure to economic volatility and the risk of increasing operating costs. Therefore, the Group will continue to focus its resources on optimising sales performance of existing stores and exploring new measures in achieving cost control. As the two "AEON STYLE" stores had performed as expected since their launches, the Group believes the operations of the Hong Kong segment are on the right track. Thus, the Group intends to pursue its current strategies by improving "AEON STYLE" stores, such as enhancing the assortment merchandise to meet local customers' needs, as well as introducing the successful elements of "AEON STYLE" stores into existing stores elsewhere in Hong Kong.

[1] Census and Statistics Department, HKSAR

MANAGEMENT DISCUSSION AND ANALYSIS

The Group will also aim to further increase the contributions from direct sales through further promoting products of exclusive brands introduced by the Group to Hong Kong along with its house brand "TOPVALU" products. These initiatives are aimed at reinforcing the AEON brand image and further differentiating itself from other market players.

In January 2017, the Group has opened one small-scale store in Kai Tak and will continue to explore opportunities to open small-scale stores in Hong Kong.

PRC Operations

On the PRC front, as economic growth stabilises, the Group will strive to further improve profitability of its current operations. The Group is still cautiously optimistic about the economy of the PRC, the second-largest and one of the fastest-growing in the world and considers the PRC operations as a major growth driver. The Group will continue to look for opportunities and expand prudently in the PRC through opening new stores. Currently, the Group plans to open four new stores in the PRC during 2017.

Total capital expenditure of the Group in 2017 for new store openings and store renovations in Hong Kong and the PRC is expected to be approximately HK$380 million.

Human Resources

As at 31 December 2016, the Group has 8,180 full-time and 3,690 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 standard 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 strives to create a working environment to foster camaraderie among employees.

Creating Long-Term Value

The Group's business strategy is to optimise customer satisfaction by providing safe, reliable and environmentally-friendly merchandise that meets customer demand in a pleasant shopping environment and offering quality customer-oriented services. Embedded in the heart of every AEON employee are our AEON principles, as the Group is firmly determined to create long-term value through earning the trust of our customers.

CHAN Pui Man Christine
Managing Director

Hong Kong, 22 March 2017

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

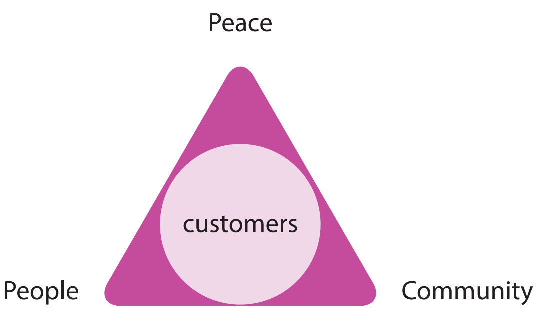
The Company is committed to the sustainable development of the environment and our society.

This report contains information on significant economic, environmental and social impacts arising from the Group's operations in Hong Kong and in mainland China for the year. These include operations conducted by AEON Stores (Hong Kong) Co., Limited and our two principal subsidiaries Guangdong AEON Teem Company Limited and AEON South China Company Limited.

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

Our Philosophy

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



Peace: AEON is a corporate group whose operations are dedicated to the pursuit of peace through prosperity

People: AEON is a corporate group that respects human dignity and values personal relationships

Community: AEON is a corporate group rooted in local community life and dedicated to making a continuing contribution to the community

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

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

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

Environmental

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

1. We will strive to reduce the emission of greenhouse gases in all of our business activities in order to realize a low-carbon society.

2. We will promote conservation activities and ascertain the benefits and impact of our business activities on natural ecosystems.

3. We will strive to implement resources conservation and resources recycling initiatives in order to use resources in a sustainable manner.

4. We will comply with legal requirements and with other requirements related to our environmental aspects, and strive to prevent pollution.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

5. We will develop partnerships with many stakeholders, including our customers, and widen the reach of our initiatives.

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

(a) Emissions

AEON's largest direct source of carbon dioxide emissions is from kitchens or workshops in our store operations which consume gas. In 2016, 1,003 tonnes of carbon dioxide was emitted. AEON will continue to introduce all-electric cooking system and kitchen equipment in stores to reduce greenhouse gas emissions from gas combustion as far as practicable.

AEON's indirect source of carbon dioxide emissions is from its electricity consumption in our store operations. In 2016, 110,622 tonnes of carbon dioxide was emitted.

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

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

AEON works with recycling organizations which convert food waste to animal feed. In 2016, 3,714 tonnes of food waste was collected for recycling.

AEON recycles waste cooking oil into biodiesel products. In 2016, 62,864 litres of waste oil was collected for recycling.

(b) Use of resources

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

The Group's electricity and gas consumption in the year were 152.4 million kWh and 16.4 million MJ respectively. We are actively promoting measures such as converting store lighting to LED or use LED for new stores and improving energy conservation management as we strive to reduce energy consumption. We also adopt high-efficiency motors and compressors for refrigeration and take measures to minimize heat loss such as increase the proportion of closed-typed freezers.

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

Packaging material is another source of resources consumed in our operations. In the year, the Group distributed plastic shopping bags and packing materials of 239,500 kg to our customers. AEON encourage our customers to bring their own shopping bags to reduce shopping bags consumption. AEON also adopted bio-degradable materials for the production of its shopping bags and adopted recyclable materials for its wrapping materials.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

(c) The environment and natural resources

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

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

Social

1. Employment and labour practices

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

(a) Employment

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

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

(b) Health and safety

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

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

(c) Development and training

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

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

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

i) AEON fundamental education

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

ii) *Internal certification systems*

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

iii) *Group recruitment system*

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

iv) *Trainee system*

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

v) *AEON business school*

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

vi) *Partnership training program with Tsinghua University*

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

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

vii) *AEON Code of Conduct training*

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

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

(d) Labour standards

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

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

2. Operating practices

(a) Supply chain management

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

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

(b) Product responsibility

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

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

(c) Anti-corruption

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

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

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

3. Community

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

AEON launched among its community contribution programs:

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

In the year, goods valued approximately HK$2.0 million were donated to 127 charitable organizations. Since its launch, the campaign has supported different organizations, providing support to charity works covering environmental conservation, senior and child welfare and animal protection.

ii) Clean and green activities, consists of employees volunteering to plant trees, clean up parks and rivers around stores and areas surrounding public facilities. Staff volunteers also contributed to elderly home visits and disaster stricken area to render our support to those in need. In the year, over 8,000 trees were planted.

iii) The AEON Cheers Club provides hands-on opportunities for primary to secondary students to learn about the environment. Young people can participate in environmental activities with the support of store employees. In the year, 45 activities were organized.

iv) The AEON scholarship program provides financial support to high school and university students, leaders of the next generation in China.

v) AEON and World Vision Hong Kong jointly organized the "Used Book Recycling Campaign" every year to raise funds for school building construction and other educational projects in poor areas in China through collection and charity sale of used books. The campaign aims to improve the learning environment of children, and at the same time, to promote resource recycling among the public.

In the year, nearly 370,000 books were collected and raised approximately HK$1.7 million. Fund raised was used to support the Tianjin Wuqing Children Rehabilitation Centre, enabling them to purchase new rehabilitative equipment, and provide training and special education for children with disabilities.

vi) AEON provides direct support to low-income families through food donation. In the year, over 28,000 items valued over HK$560,000 were donated to a food bank run by charitable organization.

SENIOR MANAGEMENT PROFILE

Executive Directors

Ms. CHAN Pui Man Christine

Ms. Chan (aged 65) was appointed as Executive Director in September 2009 and became the Managing Director in May 2012. She is also a director of AEON (China) Co., Ltd.. Ms. Chan joined the Company in 1998. She possesses extensive experience in the buying field as well as operations. Ms. Chan is a graduate of the State of Washington University with a bachelor's degree in Business Administration.

Mr. YAJIMA Hideaki

Mr. Yajima (aged 56) was appointed as Executive Director in May 2015 and became the Deputy Managing Director in January 2016. He is the Director in charge of the Administration Division of the Company. He joined AEON Co., Ltd ("AEON Co") in 1984 and became senior manager of the Group General Affairs Department in 2008 and general manager of Trend Development Department in 2014. Mr. Yajima graduated from the Keio University with a bachelor's degree in Arts.

Mr. IKUTA Masamitsu

Mr. Ikuta (age 50) was appointed as Executive Director and Deputy Managing Director in March 2017. He is the Director in charge of the Buying Division of the Company. He joined AEON Co in 1989 and worked in AEON Global Merchandising Co., Ltd. ("AGMCL") since August 2007 and became the assistant general manager of non-foods section of AGMCL in April 2010. He joined Daymon Worldwide Inc. as senior director of health & beauty care and nonfoods in July 2012. In September 2014, he joined AEON (Thailand) Co., Ltd as managing director and AEON Topvalu (Thailand) Co., Ltd. as director. Mr. Ikuta graduated from the Nihon University College of Economics, Department of Industrial Management.

Mr. CHAK Kam Yuen

Mr. Chak (aged 54) was appointed as Executive Director in March 2013 and is in charge of Business Development Division of the Company. Since joining the Company in 1987, Mr. Chak has amassed over 30 years of solid experience in retail industry, specifically in store management. Mr. Chak graduated from The Open University of Hong Kong with a master's degree in Business Administration and Electronic Commerce.

Mr. LAU Chi Sum Sam

Mr. Lau (age 50) was appointed as Executive Director in March 2017 and is in charge of the Operation Division of the Company. He joined the Company in 1992 and possesses extensive experience in retail operations and buying field.

Non-executive Directors

Ms. HABU Yuki

Ms. Habu (aged 49) was appointed as Non-executive Director in March 2014 and became the Chairman in April 2015. She is the president of AEON (China) Co., Ltd.. She joined AEON Co in 1991 and has been a director of AEON (China) Co., Ltd. and was the former managing director of Beijing AEON Co., Ltd.. She is also a director of AEON TOPVALU (Hong Kong) Co., Limited. Ms. Habu graduated from the Keio University with a bachelor's degree in Commerce.

Mr. WAKO Shinya

Mr. Wako (aged 60) was appointed as Non-executive Director in May 2015 and is the executive deputy president, chief corporate strategy officer of AEON Co. He is also a non-executive director of The Daiei, Inc.. He joined AEON Co in May 2014 and became the senior executive vice president, chief financial officer. Before he joined AEON Co, he was the managing executive officer head of the Americas of Mizuho Bank, Ltd. and managing executive officer in charge of compliance with U.S. FBO Regulation of Mizuho Financial Group, Inc. Mr. Wako graduated from the University of Tokyo with a bachelor's degree in Law and he also holds a master's degree in Law from the University of Washington.

SENIOR MANAGEMENT PROFILE

Independent Non-executive Directors

Ms. CHENG Yin Ching Anna

Ms. Cheng (aged 47) was appointed as Independent Non-executive Director in June 2006 and she is a fellow member of the Association of Chartered Certified Accountants and also a Certified Public Accountant of the HKICPA. She has over 27 years' experience in auditing, accounting and financial management.

Ms. CHAN Yi Jen Candi Anna

Ms. Chan (aged 55) was appointed as Independent Non-executive Director in May 2013. She is a practicing solicitor in Hong Kong for over 26 years and is a consultant of LCP Lawyers. Ms. Chan was respectively admitted as solicitor in Hong Kong in 1987, as solicitor in England & Wales in 1992 and as advocate and solicitor in Singapore in 1995. She is also a civil celebrant and accredited mediator. Ms. Chan graduated from the University of Hong Kong with a bachelor's degree in Laws (LL.B.). She is currently the Deputy Chairman of Rules, Chairman of Championship Committee and Tournament Director with the Hong Kong Golf Association.

Ms. LO Miu Sheung Betty

Ms. Lo (aged 54) was appointed as Independent Non-executive Director in November 2013. She is a qualified solicitor in Hong Kong and has over 26 years of experience in general legal practice, with specialisation in conveyancing, commercial and probate laws. Ms. Lo has been in active practice since qualification and is currently a consultant of Messrs. K.C.Ho & Fong, Solicitors. She graduated from The University of Hong Kong with a bachelor's degree in Laws (LL.B.) in 1985. She also holds a Postgraduate Certificate in Laws (PCLL). She is currently an independent non-executive director of Sincere Watch (Hong Kong) Limited and Kingston Financial Group Limited, the shares of which are listed on the main board of the Stock Exchange. She was an independent non-executive director of Eagle Legend Asia Limited for the period from March 2012 to December 2014, which is listed on the main board of the Stock Exchange.

Mr. CHOW Chi Tong

Mr. Chow (aged 57) was appointed as Independent Non-executive Director in January 2016. He is an accountant in practice as a partner of Ting Ho Kwan & Chan CPA Limited, Certified Public Accountants (Practising). Mr. Chow holds a diploma in yarn manufacturing from The Hong Kong Polytechnic University and he has over 30 years of experience in both accounting and auditing. He is a fellow member of Hong Kong Institute of Certified Public Accountants and The Institute of Chartered Accountants in England and Wales.

Senior Management

Mr. YEUNG Tze Shing

Mr. Yeung (aged 53) is the General Manager of Corporate Finance Division of the Company. He is a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant of the HKICPA. He joined the Company in 1995. Mr. Yeung graduated from the Chinese University of Hong Kong with a bachelor's degree in Science.

Mr. SIU Hung Fat Gary

Mr. Siu (age 53) is the Assistant General Manager of Specialty Division of the Company. He joined the Company in 1994 and possesses extensive experience in retail operations and buying field. Mr. Siu graduated from the University of Leicester with a master's degree in Business Administration.

CORPORATE GOVERNANCE REPORT

Corporate Governance Practice

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

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

In the opinion of the Directors, the Company has complied throughout the year with the code provisions of the Code.

Directors' Securities Transactions

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

Board of Directors

The Board currently comprises a total of 11 Directors, being 5 Executive Directors, 2 Non-executive Directors and 4 Independent Non-executive Directors. The number of Independent Non-executive Directors exceeds one-third of the Board as required by Rule 3.10A of the Listing Rules. The list of the Directors and their biographies are respectively set out on pages 15 to 16 of this annual report.

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

The Board has scheduled at least four meetings a year and meets as and when required. During the year, the Board held six meetings. The Company Secretary assists the Chairman in establishing the meeting agenda, and each Director may request inclusion of items in the agenda. For all such meetings, at least 14 days' notice is given to all Directors. Adequate and appropriate information are circulated normally three days in advance of Board meetings to the Directors. In addition to regular Board meetings, the Chairman of the Board met with the Non-executive Directors (including the Independent Non-executive Directors) without the presence of the Executive Directors.

CORPORATE GOVERNANCE REPORT

Directors' attendance at Board meetings held in the year are set out as follows:

	Directors	Number of attendance
Executive Directors	Chan Pui Man Christine *(MD)*	6/6
	Yoshiaki Mizushima *(Deputy MD)*	6/6
	Hideaki Yajima *(Deputy MD)* (Note 1)	6/6
	Chak Kam Yuen	5/6
Non-executive Directors	Yuki Habu *(Chairman)*	5/6
	Shinya Wako	3/6
Independent Non-executive Directors	Cheng Yin Ching Anna	6/6
	Chan Yi Jen Candi Anna	5/6
	Lo Miu Sheung Betty	6/6
	Chow Chi Tong (Note 2)	5/5

Notes:

1. Mr. Hideaki Yajima was appointed as the Deputy Managing Director of the Company on 29 January 2016.

2. Mr. Chow Chi Tong was appointed as an Independent Non-executive Director of the Company on 29 January 2016 and there have been 5 Board meetings held after his appointment.

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

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

The Company has received annual confirmations of independence from all existing Independent Non-executive Directors pursuant to Rule 3.13 of the Listing Rules and considers them to be independent. The Nomination Committee has assessed the independence of all the Independent Non-executive Directors in particular, Ms. Cheng Yin Ching Anna who has served the Board for more than nine years. Ms. Cheng Yin Ching Anna does not have any management role in the Company and its subsidiaries since her appointment. She has expressed her willingness clearly to exercise independent judgement and has been giving objective views to the Company. There is no evidence that length of tenure is having any unfavourable influence on her independence. The Board is satisfied that, as well proven by the valuable independent judgement and advice given by Ms. Cheng Yin Ching Anna over the years, Ms. Cheng Yin Ching Anna has the required character, integrity, independence and experience to perform the role of an Independent Non-executive Director. The Board is not aware of any circumstances that might influence Ms. Cheng Yin Ching Anna in exercising her independent judgement and therefore believes she is still independent.

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

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

The attendance of the Directors at the Annual General Meeting ("AGM") and the Extraordinary General Meeting ("EGM") held on 20 May 2016 and 21 June 2016 respectively is as follows:

	Directors	Number of attendance AGM	EGM
Executive Directors	Chan Pui Man Christine *(MD)*	1/1	1/1
	Yoshiaki Mizushima *(Deputy MD)*	1/1	1/1
	Hideaki Yajima *(Deputy MD)* (Note 1)	1/1	1/1
	Chak Kam Yuen	1/1	1/1
Non-executive Directors	Yuki Habu *(Chairman)*	1/1	1/1
	Shinya Wako	0/1	0/1
Independent Non-executive Directors	Cheng Yin Ching Anna	1/1	1/1
	Chan Yi Jen Candi Anna	1/1	1/1
	Lo Miu Sheung Betty	1/1	1/1
	Chow Chi Tong (Note 2)	1/1	1/1

Notes:

1. Mr. Hideaki Yajima was appointed as the Deputy Managing Director of the Company on 29 January 2016.

2. Mr. Chow Chi Tong was appointed as an Independent Non-executive Director of the Company on 29 January 2016.

Directors' Induction and continuous Professional Development

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

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

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

	Directors	Directors' participation in trainings
Executive Directors	Chan Pui Man Christine *(MD)*	✓
	Yoshiaki Mizushima *(Deputy MD)*	✓
	Hideaki Yajima *(Deputy MD)* (Note 1)	✓
	Chak Kam Yuen	✓
Non-executive Directors	Yuki Habu *(Chairman)*	✓
	Shinya Wako	—
Independent Non-executive Directors	Cheng Yin Ching Anna	✓
	Chan Yi Jen Candi Anna	✓
	Lo Miu Sheung Betty	✓
	Chow Chi Tong (Note 2)	✓

Notes:

1. Mr. Hideaki Yajima was appointed as the Deputy Managing Director of the Company on 29 January 2016.

2. Mr. Chow Chi Tong was appointed as an Independent Non-executive Director of the Company on 29 January 2016.

Chairman and Chief Executive

The Board considered that the duties of the MD were no difference from that required of a chief executive stipulated under the code provision A.2 of the Code. The management would regard that the term MD will have the same meaning as the chief executive of the Company.

The Chairman of the Board is a Non-executive Director, who is responsible for the leadership and effective running of the Board, and ensuring that all significant and key issues are discussed and where required, resolved by the Board timely and constructively.

The MD of the Board 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.

Nomination Committee

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

In March 2016, on the recommendation of the Nomination Committee, the Board adopted the amended written terms of reference (with the revised measurable objectives) of the Nomination Committee in respect of the re-appointment of Independent Non-executive Directors who have served more than 9 years. The terms of reference of the Nomination Committee were amended during the year and the amended terms of reference can be found on the websites of the Stock Exchange and the Company.

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

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

	Directors	Number of attendance
Non-executive Director	Yuki Habu *(Chairman)*	3/3
Independent Non-executive Directors	Cheng Yin Ching Anna	3/3
	Chan Yi Jen Candi Anna	3/3
	Lo Miu Sheung Betty	3/3
	Chow Chi Tong (Note)	0/0

Note: Mr. Chow Chi Tong was appointed as a member of the Nomination Committee of the Company on 20 May 2016 and there was no Nomination Committee meeting held after his appointment.

During 2016, the Nomination Committee performed the following duties:

— identified individuals suitably qualified to become board members and recommended the Board on the selection of individuals nominated for directorships;

— assessed the independence of Independent Non-executive Directors;

— recommended the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the chief executive; and

— recommended the Board on the adoption of the amended terms of reference of the Nomination Committee (with the revised measurable objectives).

Remuneration Committee

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

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

	Directors	Number of attendance
Non-executive Director	Yuki Habu	3/3
Independent Non-executive Directors	Chan Yi Jen Candi Anna *(Chairman)*	3/3
	Cheng Yin Ching Anna	3/3
	Lo Miu Sheung Betty	3/3
	Chow Chi Tong (Note)	0/0

Note: Mr. Chow Chi Tong was appointed as a member of the Remuneration Committee of the Company on 20 May 2016 and there was no Remuneration Committee meeting held after his appointment.

During 2016, the Remuneration Committee performed the following duties:

— reviewed the remuneration of all Directors (including the MD and the Deputy MDs) and the senior management and recommended the Board to approve their remuneration.

Details of the remuneration paid to Directors and members of senior management by band for the year ended 31 December 2016 are disclosed in the notes 12 and 13 to the consolidated financial statements.

Auditor's Remuneration

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

Services rendered	Fees paid/ payable HK$'000
Audit services — annual audit	5,136
Non-audit services:	
Review of interim results	744
Taxation services	2,048
Other services	368
	8,296

Audit Committee

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

In January 2016, on the recommendation of the Audit Committee, the Board adopted the revised written terms of reference of the Audit Committee in light of the amendments of the Code in respect of the risk management and internal control systems of the Company applied to accounting periods beginning on or after 1 January 2016. The terms of reference of the Audit Committee were updated during the year and the amended terms of reference can be found on the websites of the Stock Exchange and the Company.

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

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

	Directors	Number of attendance
Non-executive Director	Yuki Habu	4/4
Independent Non-executive Directors	Cheng Yin Ching Anna *(Chairman)*	4/4
	Chan Yi Jen Candi Anna	3/4
	Lo Miu Sheung Betty	4/4
	Chow Chi Tong (Note)	3/3

Note: Mr. Chow Chi Tong was appointed as a member of the Audit Committee of the Company on 29 January 2016 and there have been 3 Audit Committee meetings held after his appointment.

CORPORATE GOVERNANCE REPORT

During 2016, the Audit Committee performed the following duties:

- reviewed the audited financial statements for the year ended 31 December 2015 with a recommendation to the Board for approval;
- reviewed the un-audited financial statements for the six months ended 30 June 2016 with a recommendation to the Board for approval;
- reviewed various reports on risk management and internal control system covering financial, operational, procedural compliance and risk management functions;
- met the external auditor and reviewed their reports to the committee in respect of the audit of the annual results and review of interim results of the Company;
- reviewed and approved the engagement of the auditor's non-audit services; and
- recommended the Board on the adoption of the revised terms of reference of the Audit Committee.

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

Corporate Governance Function

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

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

Accountability and Audit

The Directors are responsible for the preparation of the accounts of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give a true and fair view of the state of affairs, the results of operations and cash flows of the Group. In preparing the accounts for the six months ended 30 June 2016 and for the year ended 31 December 2016, the Directors have adopted suitable accounting policies and applied them consistently. The accounts for the reporting year have been prepared on a going concern basis.

The reporting responsibilities of the Company's external auditors, Deloitte Touche Tohmatsu, are stated in the "Independent Auditor's Report" on pages 36 to 41 of this annual report.

Risk Management and Internal Controls

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

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

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

A. Compliance
B. Social and Economic
C. Natural disaster
D. Political or Regulatory
E. Technical
F. Operation, Internal Controls and Strategic
  F1. Finance
  F2. Products and Services
  F3. Employment and Labour practices
  F4. Information Technology and Security
G. Environmental
H. Occupational Safety and Health
I. Facilities and Equipment

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

Company Secretary

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

According to Rule 3.29 of the Listing Rule, Mr. Chan Kwong Leung Eric, the Company Secretary, has taken no less than 15 hours of the relevant professional training during the year ended 31 December 2016.

Shareholders' Rights

Convening an Extraordinary General Meeting by Shareholders

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

Putting Forward Enquiries to the Board

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

The Secretary of the Company
AEON Stores (Hong Kong) Co., Limited
7/F., D2 Place One
9 Cheung Yee Street
Lai Chi Kok
Kowloon
Email: cs@aeonstores.com.hk
Tel: (852) 2565 3600
Fax: (852) 2563 8654

Putting Forward Proposals at the General Meetings

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

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

Investor Relations

There is no significant change in the Company's constitutional documents during the year ended 31 December 2016.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2016.

Principal Activities

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

Business Review

A review of the business of the Group during the year and a discussion on the Group's future business development are provided in the Chairman's Statement on pages 4 to 5 and in the Management Discussion and Analysis on pages 6 to 8 of this annual report. Description of possible risks and uncertainties that the Group may be facing can be found in the Chairman's Statement on pages 4 to 5 and in the Management Discussion and Analysis on pages 6 to 8 of this annual report. Also, the financial risk management objectives and policies of the Group can be found in note 33 and 34 to the consolidated financial statements. An analysis of the Group's performance during the year using financial key performance indicators is provided in the Group Financial Highlights on page 3 of this annual report, in the Management Discussion and Analysis on pages 6 to 8 and in note 6 to the consolidated financial statements. In addition, discussions on the Group's environmental policies, relationships with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are contained in the Environmental, Social and Governance Report on pages 9 to 14 of this annual report.

Subsidiaries

Details of the Company's subsidiaries as at 31 December 2016 are set out in note 36 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 42 to 43 of this annual report.

An interim dividend of 20.0 HK cents per share amounting to HK$52,000,000 and a special dividend of 20.0 HK cents per share amounting to HK$52,000,000 were paid to the shareholders during the year. The Board has recommended the payment of a final dividend of 20.0 HK cents per share amounting to HK$52,000,000 to the shareholders on the register of members on 8 June 2017.

Fixed Assets

During the year, the Group has incurred approximately HK$470,090,000 on property, plant and equipment to renovate its stores and expand its operations.

Details of these movements during the year in the property, plant and equipment of the Group are set out in note 16 to the consolidated financial statements.

Distributable Reserves of the Company

The Company's reserves available for distribution to shareholders as at 31 December 2016 were the retained profits of HK$1,519,836,000 (2015: HK$1,656,862,000).

Equity-linked Agreements

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

DIRECTORS' REPORT

Directors

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

Executive Directors

CHAN Pui Man Christine *(Managing Director)*	
Hideaki YAJIMA *(Deputy Managing Director)*	
Masamitsu IKUTA *(Deputy Managing Director)*	Appointed on 22 March 2017
CHAK Kam Yuen	
LAU Chi Sum Sam	Appointed on 22 March 2017
Yoshiaki MIZUSHIMA *(Deputy Managing Director)*	Resigned on 22 March 2017

Non-executive Directors

Yuki HABU *(Chairman)*
Shinya WAKO

Independent Non-executive Directors

CHENG Yin Ching Anna	
CHAN Yi Jen Candi Anna	
LO Miu Sheung Betty	
CHOW Chi Tong	Appointed on 29 January 2016

Mr. Yoshiaki MIZUSHIMA will take up new management post in a subsidiary of AEON Co., Ltd., the ultimate holding company of the Company following his resignation from the Board. Ms. CHAN Pui Man Christine and Ms. CHENG Yin Ching Anna will not stand for re-election at the forthcoming annual general meeting of the Company held on 31 May 2017 as they would like to allocate more time to their personal commitments.

In accordance with Articles 85 and 101 of the Company's Articles of Association, all Directors (except Ms. CHAN Pui Man Christine and Ms. CHENG Yin Ching Anna) shall retire from office at the forthcoming annual general meeting and offer themselves for re-election.

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

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

Yuki HABU, CHAN Pui Man Christine, Toyotaro KOIBUCHI, Kenji TOMARI, ZENG Jian, WU Chun Xia, HUANG Qi Ning, JIAO Li, Isao SUGAWARA, Yoshiaki MIZUSHIMA, Hideaki YAJIMA, CHAK Kam Yuen, Hiroyuki INOHARA, Ye Qing and Lacson HON Yi Yeung.

Directors' Service Contracts

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

Management Contracts

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

Directors' Interests in Shares

As at 31 December 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 ("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 Companies, were as follows:

(a) The Company

Name of Directors	Number of ordinary shares held as personal interests	Approximate percentage of 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 total number of issued shares of AEON Co., Ltd. %
Yoshiaki MIZUSHIMA	3,788	0.00043
Yuki HABU	7,708	0.00088
Shinya WAKO	4,400	0.00050

Other than as disclosed above, at 31 December 2016, neither the Directors nor the chief executives of the Company had any interests or short positions in any shares and debentures of the Company or any of its associated corporations (within the meaning of PART XV of the SFO).

Directors' Interests in Contracts of Significance

Other than as disclosed under the heading "Related Party Transactions" as set out in Note 35 to the consolidated financial statements, there were no other transactions, arrangements or contracts of significance to which the Company, its subsidiaries, its ultimate holding company or any of its fellow subsidiaries was a party and in which a Director of the Company or its connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Indemnities

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

Connected Transactions

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

(a) Continuing Connected Transactions

(i) On 9 June 2010, the subsidiary of the Company, Guangdong Aeon Teem Stores Co., Ltd. ("GDA") and a related party of the Company, Guangdong Teem (Holdings) Limited ("Teem Holding") have entered into the Supplemental Tenancy Agreement to extend the lease until 30 June 2025. The entering into the Supplemental Tenancy Agreement constitute continuing connected transactions of the Company. Pursuant to the Supplemental Tenancy Agreement, GDA pays rent, management fees, utility expenses and usage charges and other fees in relation to any provisional showrooms, storage areas, other facilities and special equipment that GDA may from time to time choose to rent or employ to Teem Holding and Guangdong Teem Properties Management Limited ("Teem Properties") respectively for the year. GDA was held as to 65% and 35% by the Company and Guangdong Teemall Department Stores Holdings Limited ("Teem Department Stores") respectively. The premises, i.e. GDA's Teem Plaza Store which is situated at Basement 1, Teem Plaza, 208 Tianhe Road, Guangzhou, being the subject of the tenancy agreement, is owned by Teem Holding. Teem Department Stores and Teem Properties are the wholly-owned subsidiaries of Teem Holding. The total amount of rental, management fees, utility expenses and other charges paid and payable by GDA for the year was RMB50,090,000. This amount does not exceed the cap amount of RMB70,000,000 as shown in the announcement of the Company dated 9 June 2010.

(ii) On 29 December 2015, AEON Co., Ltd., the controlling shareholder of the Company ("ACL"), and the Company have entered into a renewal agreement to renew the Royalty Agreement for another three years expiring on 31 December 2018. ACL is a connected person of the Company and the entering into the Renewed Royalty Agreement constitute continuing connected transactions of the Company. Pursuant to the Renewed Royalty Agreement, the Company and its Affiliates (through the Company) are granted:

(a) exclusive right to use the Hong Kong Trade Marks and the Macau Trade Marks in relation to the Business within the Territory;

(b) non-exclusive right to use the PRC Trade Marks in relation to the Business within the PRC; and

(c) non-exclusive right to use the Trade Marks in relation to the following businesses in the Territory and the PRC:

(i) the provision of retail services;

(ii) the operation of Shopping Centres; and

(iii) catering services, food-court with seating and restaurants.

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

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

(a) an amount representing 0.2% of the audited consolidated Total of Revenue of the Company and its Affiliates for that financial year; and

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

The total amount of royalties paid and payable by the Company for the year was HK$27,159,000. This amount does not exceed the cap amount of HK$49,000,000 as shown in the announcement of the Company dated 29 December 2015.

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

(iii) On 16 April 2014, AEON Credit Service (Asia) Company Limited ("ACS") and the Company have entered into the Renewal Agreement to renew the Master Agreement in respect of the Commission Payment Transactions for a further term of three years from 15 April 2014 to 14 April 2017. ACS and the Company are both subsidiaries of AEON Co., Ltd., a controlling shareholder of the Company, ACS is therefore a connected person of the Company. The entering into the Renewal Agreement constitute continuing connected transactions of the Company. Pursuant to the Renewal Agreement, the Company pays commission to ACS in respect of certain purchases made by customers of the Company with the use of the Company's various co-brand cards and certain purchases which are financed by interest-free hire purchase credit facilities provided by ACS to customers of the Company. The commissions are calculated on the basis of fixed percentages of the sales generated by the credit purchase or hire purchase facilities or the payment solutions provided by ACS, depending on the type of service provided. The total amount of commission paid and payable by the Company for the year was HK$12,560,000. This amount does not exceed the cap amount of HK$21,300,000 as shown in the announcement of the Company dated 16 April 2014.

(iv) On 1 January 2016, the Company entered into the Renewed Master Services Agreement with AEON Delight to renew and set out the framework for the continued future provision of the Services by the members of the AEON Delight Group to the Company Group in Hong Kong and the PRC. The Renewed Master Services Agreement shall be a period of three years from 1 January 2016 to 31 December 2018. AEON Delight is an indirect non-wholly-owned subsidiary of AEON Co., Ltd, the controlling shareholder of the Company, the transactions under the Renewed Master Services Agreement constitute continuing connected transactions of the Company. Services provided by AEON Delight Group to the Company Group including comprehensive building/facilities management, maintenance and cleaning services, management consultation, business services, research and such other services in relation to retail stores, offices and/or other facilities/establishments operated by the Company Group. The total aggregated amount of service fees paid and payable by the Company Group to AEON Delight Group in the year was RMB72,339,000. This amount does not exceed the cap amount of RMB80,000,000 as shown in the announcement of the Company dated 1 January 2016.

(v) On 18 December 2014, the wholly-owned subsidiary of the Company, AEON South China Co., Ltd. ("ASC") and AEON Information Services (Shenzhen) Co., Ltd. ("AIS") have entered into the Service Agreement pursuant to which AIS provide services in relation to the establishment and maintenance of the New Point Cards and other related services to ASC and ASC pay service fees to AIS in respect of the services provided under the Service Agreement. The Service Agreement has a term of three years from 18 December 2014 to 17 December 2017. AIS is an indirect non-wholly-owned subsidiary of AEON Co., Ltd, the controlling shareholder of the Company, the transactions under the Service Agreement constitute continuing connected transactions of the Company. Service fees payable by ASC to AIS including a handling fee of RMB2.5 for the successful recruitment of each new member, a service fee of RMB1.0 for data processing of each member (including new applications and change of member data), and a commission of 0.3% of the sales amount arising from the purchases made by the members of the New Point Cards. The total amount of service fees paid and payable by ASC to AIS in the year was RMB3,087,000. This amount does not exceed the enlarged cap amount of RMB4,000,000 as shown in the announcement of the Company dated 14 October 2016.

(vi) The wholly-owned subsidiary of the Company, AEON South China Co., Ltd. ("ASC") previously entered into various service agreements with the Company's subsidiary AEON GD and the Existing Participant Companies (as defined in the announcement dated 31 December 2014), whereby AEON GD and each Existing Participant Company paid (i) an initial fee as contribution to the Initial Costs and (ii) an annual service fee for the usage of the IT system and related services provided by ASC. On 31 December 2014, ASC and each of five New Participant Companies (as defined in the announcement dated 31 December 2014) entered into a New Service Agreement, pursuant to which each New Participant Company shall pay (i) an Initial Fee to ASC as contribution to the Initial Costs and (ii) a Service Fee to ASC for usage of the IT System and related services provided by ASC. The New Service Agreement has a term of three years from 31 December 2014 to 30 December 2017. Each Existing Participant Companies and the New Participant Companies is a direct or indirect subsidiary of AEON Co., Ltd., the controlling shareholder of the Company, and therefore a connected person of the Company. Accordingly, the transactions under the New Service Agreements constitute continuing connected transactions of the Company. The Initial Fee and the Service Fee was determined based on various factors stated in the announcement. The total amount of service fees received and receivable by ASC in the year was RMB1,222,000. This amount does not exceed the cap amount of RMB5,500,000 as shown in the announcement of the Company dated 31 December 2014.

(vii) On 23 November 2015, the subsidiary of the Company, Guangdong Aeon Teem Stores Co., Ltd. ("GDA") as lessee and 永旺夢樂城（廣東）商業有限公司 ("AEON Mall") as lessor entered into the Tenancy Agreement, pursuant to which AEON Mall agreed to sub-lease the premises located at Units B1F0078, 1F1008 and 2F2028 Basement 1 and Basement 2, 1 Yayun Avenue, Dalong Street, Panyu, Guangzhou to GDA for a term of 20 years. AEON Mall is an indirect subsidiary of AEON Co., Ltd., the controlling shareholder of the Company, and therefore a connected person of the Company. Accordingly, the entering into of the Tenancy Agreement constitutes a continuing connected transaction of the Company. In accordance with the Tenancy Agreement, GDA pays rent, management fees, utility expenses and other fees in relation to any provisional showrooms, storage areas, other facilities and special equipment that GDA may from time to time rent or employ with the consent of AEON Mall. The total amount of rent, management fees, utility expenses and other fees paid and payable by GDA for the year was RMB15,963,000. This amount does not exceed the cap amount of RMB25,000,000 as shown in the announcement of the Company dated 23 November 2015.

(viii) On 1 March 2016, the Company entered into the Master Agreement with AEON Credit Service (Asia) Company Limited ("ACS") in relation to the sales of the Company's Gift Certificates to ACS for a term of three years from 1 March 2016 to 28 February 2019. The Company and ACS are both subsidiaries of AEON Co., Ltd., a controlling shareholder of the Company, ACS is therefore a connected person of the Company. The entering into the Master Agreement constitute continuing connected transactions of the Company. Pursuant to the Master Agreement, the Company sells the Company's Gift Certificates to ACS at face value. The total amount of Gift Certificates sold by the Company to ACS in the year was HK$7,300,000. This amount does not exceed the cap amount of HK$10,500,000 as shown in the announcement of the Company dated 1 March 2016.

(ix) On 29 March 2016, each of the Company, its two subsidiaries being Guangdong Aeon Teem Stores Co., Ltd. ("GDA") and AEON South China Co., Ltd. ("ASC") entered into the Consultancy Services Agreement with AEON (China) Co., Ltd. ("AEON China"), pursuant to which each of the Company, GDA and ASC shall pay a service fee for the provision of consultancy services by AEON China in relation to the improvement of activities relevant to the general merchandise stores and supermarket stores business of the Company, GDA and ASC in Hong Kong and in other regions of China. The term of each Consultancy Services Agreement shall be a period of three years from 1 January 2016 to 31 December 2018. AEON China is a subsidiary of AEON Co., Ltd., a controlling shareholder of the Company and AEON China is therefore a connected person of the Company. The entering into the Consultancy Services Agreements constitute continuing connected transactions of the Company. Pursuant to the Consultancy Services Agreements, the scope of the consultancy services to be provided by AEON China to the Company, GDA and ASC relates to (i) operational logistics; (ii) establishment of operating systems; (iii) procurement activities; (iv) market development; and (v) in accordance with specific requests of each of the Company, GDA and ASC, provide other consultancy services on production or operational related matters. AEON China's service fees shall be charged on a cost-plus basis, representing its costs of providing consultancy services plus 5% of such costs. The total amount of Consultancy Services Fees paid and payable by the Company, GDA and ACS to AEON China in the year was HK$11,941,000. This amount does not exceed the cap amount of HK$46,000,000 as shown in the announcement of the Company dated 29 March 2016.

(x) On 31 March 2016, the Company entered into the Master Purchase Agreement with AEON Topvalu (Hong Kong) Co., Ltd. ("ATVHK") and AEON Topvalu China Co., Ltd. ("ATV China") (ATVHK and ATV China collectively referred to as "ATV Group"), pursuant to which the Company and its two subsidiaries being Guangdong Aeon Teem Stores Co., Ltd. ("GDA") and AEON South China Co., Ltd. ("ASC") (the Company, GDA and ASC collectively referred to as "Purchaser") will purchase a variety of merchandise such as fashion, food and household merchandise from the ATV Group and sell to retail customers by the Purchaser at its general merchandise stores and supermarket stores. The term of the Master Purchase Agreement shall be a period of three years from 1 January 2016 to 31 December 2018. ATV Group companies are subsidiaries of AEON Co., Ltd., a controlling shareholder of the Company and ATV Group companies are connected persons of the Company. The entering into the Master Purchase Agreement constitute continuing connected transactions of the Company. Pursuant to the Master Purchase Agreement, the Purchaser will be charged on a cost-plus basis, representing all costs incurred in relation to the supply of the merchandise plus a mark-up rate of not more than 15% of such costs.

On 5 May 2016, the Company also entered into Master Purchase Agreements with 芙嘉（上海）商貿有限公司 ("COX") and 新腳步（北京）商貿有限公司 ("GFoot") respectively. Pursuant to the COX Master Purchase Agreements, the Purchaser will purchase a variety of fashion and household merchandise from the COX and sell to retail customers by the Purchaser at its general merchandise stores and supermarket stores. Pursuant to the GFoot Master Purchase Agreement, GFoot will provide a variety of shoes merchandise to the Purchaser for sale to retail customers on a consignment basis at its general merchandise stores. The term of the COX Master Purchase Agreement and GFoot Master Purchase Agreement shall be a period of three years from 1 January 2016 to 31 December 2018. COX and GFoot are subsidiaries of AEON Co., Ltd., a controlling shareholder of the Company and COX and GFoot are connected persons of the Company. The entering into the COX Master Purchase Agreement and the GFoot Master Purchase Agreement constitute continuing connected transactions of the Company. Pursuant to the COX Master Purchase Agreement, the Purchaser will be charged on a cost-plus basis, representing all costs incurred in relation to the supply of the merchandise plus a mark-up rate of not more than 15% of such costs. Pursuant to the GFoot Master Purchase Agreement, the Purchaser shall be entitled to a commission out of the proceeds from its sale of shoes merchandises provided by GFoot. The amount of such commission shall be no less than 10% to 16%.

Given the similarity in nature of the transactions under the above mentioned Master Purchase Agreements and that ATV Group, COX and GFoot are all subsidiaries of AEON Co., Ltd., the COX Master Purchase Agreement and the GFoot Master Purchase Agreement have been aggregated with the ATV Group Master Purchase Agreement. The aggregated transaction amount of the Master Purchase Agreements in the year was HK$303,362,000. This amount does not exceed the cap amount of HK$402,000,000 as shown in the announcement of the Company dated 31 March 2016 and 5 May 2016.

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

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

(b) Connected Transaction

On 9 December 2016, the Existing User Companies (i.e. the Company, its two subsidiaries AEON South China Co., Ltd. and Guangdong AEON Teem Stores Co., Ltd., Qingdao AEON Dongtai Co., Ltd. and Beijing AEON Co., Ltd. (each an "Existing User Company")) entered into the SAP System Fees Agreement with the New User Companies (i.e. AEON (China) Co., Ltd., AEON Huadong (Suzhou) Co., Ltd, and AEON (Hubei) Co., Ltd. (each a "New User Company")), pursuant to which each New User Company shall pay a one-off Fee of RMB584,500 to each Existing User Company as contribution to the development of the SAP System. In return, each New User Company shall be allowed to implement and use the SAP System.

The Company and its subsidiaries shall receive a total amount of RMB5,260,500 pursuant to the SAP System Fees Agreement.

As each new User Company is a subsidiary of AEON Co., Ltd., the controlling shareholder of the Company and therefore a connected person of the Company. Accordingly, the SAP System Fees Agreement constitutes connected transaction of the Company under the Listing Rules.

Appointment of Independent Non-executive Directors

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

Substantial Shareholders

At 31 December 2016, shareholders (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or had otherwise notified the Company were as follows:

Name of substantial shareholders	Long Positions Number of ordinary shares held	Approximate percentage of the total number of issued shares %
AEON Co., Ltd.	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	31,004,500 (Note 2)	11.92

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 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 29,728,500 shares representing 11.43% of the issued share capital of the Company.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company as at 31 December 2016.

Arrangements to Purchase Shares or Debentures

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

Purchase, Sale or Redemption of Listed Securities

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

Donations

During the year, the Group made charitable and other donations amounting to HK$1,957,000.

DIRECTORS' REPORT

Major Customers and Suppliers

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

Emolument Policy

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

Sufficiency of Public Float

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 16.92%.

The Company has been in contact with its two substantial shareholders (as defined in the Listing Rules) in respect of its public float issue. AEON Co., Ltd., the controlling shareholder of the Company, has indicated that it is willing to take steps to assist the Company in resolving the public float issue. The Company will make further announcement as and when there are material updates on the progress in this regard.

Auditor

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

On behalf of the Board

HABU Yuki
Chairman

Hong Kong, 22 March 2017

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE MEMBERS OF AEON STORES (HONG KONG) CO., LIMITED
永旺（香港）百貨有限公司
(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of AEON Stores (Hong Kong) Co., Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 42 to 91, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill	
We identified the impairment of goodwill as a key audit matter as significant judgement is required to assess the impairment of goodwill. As at 31 December 2016, goodwill, arising from acquisition of an additional 35% interest in AEON South China Co., Ltd. in 2008 which operated retail stores business in the People's Republic of China, amounted to HK$94,838,000. As further disclosed in note 4 and 17 to the consolidated financial statements, determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units ("CGU") to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash inflows/outflows expected to arise from the CGU by considering the budgeted sales and gross margin which are based on past performance and management's expectations for the future changes in the market and taking into account a suitable discount rate to calculate the present value. The management of the Group determines that there was no impairment to be recognised in respect to the goodwill during the year ended 31 December 2016 and as at 31 December 2016.	Our procedures in relation to management's impairment assessment include: • Obtaining the cash flow forecast prepared by management, reviewing and discussing with management on the major assumptions adopted in the cash flow forecast for each CGU and checking arithmetic accuracy of the forecast calculation; • Comparing the growth rates, budgeted sales and gross margin to historical results and reference to the market information based on our knowledge of the retail markets to determine their reasonableness; • Challenging the discount rate used by management in the cash flow forecast by benchmarking against the required rate of return adjusted for industrial specific factors; and • Assessing the sensitivity analysis prepared by management on the significant assumptions to evaluate the extent of impact of these assumptions on the cash flow forecast.

Key audit matter	How our audit addressed the key audit matter
Impairment of property, plant and equipment	
We identified the impairment of property, plant and equipment as a key audit matter as significant judgement is required to assess the amount of impairment of property, plant and equipment. As at 31 December 2016, property, plant and equipment comprise building fixtures, furniture, fixtures and equipment, motor vehicles and construction in progress amounting to HK$851,719,000, net of accumulated impairment loss of HK$195,926,000. As further disclosed in notes 4 and 16 to the consolidated financial statements, determining whether property, plant and equipment is impaired requires an estimation of the value in use of the CGUs of each loss making retail store. The value in use calculation requires the Group to estimate the future cash inflows/outflows expected to arise from the CGU by considering the budgeted sales and gross margin which are based on past performance and management's expectations for future changes in the market and taking into account a suitable discount rate to calculate the present value. Based on the management's assessment, an impairment loss on property, plant and equipment of HK$163,000 was recognised in profit or loss during the year ended 31 December 2016.	Our procedures in relation to management's impairment assessment include: • Obtaining the cash flow forecast prepared by management, reviewing and discussing with management on the major assumptions adopted in the cash flow forecast for each CGU and checking arithmetic accuracy of the forecast calculation; • Comparing the growth rates, budgeted sales and gross margin to historical results and reference to the market information based on our knowledge of the retail markets to determine their reasonableness; • Challenging the discount rate used by management in the cash flow forecast by benchmarking against the required rate of return adjusted for industrial specific factors; and • Assessing the sensitivity analysis prepared by management on the significant assumptions to evaluate the extent of impact of these assumptions on the cash flow forecast.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Valuation of inventories	
We identified the valuation of inventories as a key audit matter due to the use of judgement in identifying obsolete and slow moving inventories and determining the net realisable values ("NRVs") to assess the amount of allowance/write down. As at 31 December 2016, inventories comprise merchandise held for resale amounting to HK$973,518,000 which are carried at the lower of cost and NRVs. As disclosed in note 4 of the consolidated financial statements, the determination of the amount of allowance requires assessment of NRVs of inventories by the management and to consider customer demand, condition, aging analysis and subsequent sales information. The Group carried out inventory review at the end of the reporting period and made the necessary allowance on obsolete and slow moving items so as to write off or write down inventories to their NRVs. The Group has written down inventories of HK$2,791,000 to profit or loss for the year ended 31 December 2016.	Our procedures in relation to the valuation of inventories include: • Inquiring and understanding the inventories allowance/write down policy of the Group; • Assessing the reasonableness of the inventories allowance/write down made by the Group by obtaining the inventory aging analysis from management and discussing with management on the basis of inventory allowance/write down; • Testing inventory aging analysis, on a sample basis, to the goods receipt documents and to assess the accuracy of the base data used to determine the allowance/write down and re-performing the allowance/write down calculation to check arithmetic accuracy; • Understanding from management the rationale for the specific adjustments based on the consumer demand and condition of the inventories and challenging the assumption made where there is specific adjustments on the inventories allowance/write down; and • Assessing the sufficiency of the allowance/write down on inventories made by management with reference to the inventory ageing analysis and the subsequent transaction prices of the inventories, on a sample basis.

Other Information

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITOR'S REPORT

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
22 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTES	2016 HK$'000	2015 HK$'000
Revenue	5	**9,036,609**	8,975,315
Other income		**612,465**	684,258
Investment income	7	**30,737**	36,440
Purchases of goods and changes in inventories		**(6,212,937)**	(6,134,108)
Staff costs		**(1,096,029)**	(1,089,888)
Depreciation	16	**(207,797)**	(190,270)
Impairment loss recognised in respect of property, plant and equipment	16	**(163)**	(9,026)
Loss on disposal/written off of property, plant and equipment		**(6,024)**	(13,099)
Pre-operating expenses	8	**(5,133)**	(11,219)
Other expenses		**(2,162,218)**	(2,126,481)
Finance costs	9	**(116)**	(210)
(Loss) profit before tax		**(10,606)**	121,712
Income tax expense	10	**(4,407)**	(18,157)
(Loss) profit for the year	11	**(15,013)**	103,555
(Loss) profit for the year attributable to:			
Owners of the Company		**(23,228)**	93,170
Non-controlling interests		**8,215**	10,385
		(15,013)	103,555
(Loss) earnings per share	15	**(8.93) HK cents**	35.83 HK cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 **HK$'000**	2015 HK$'000
(Loss) profit for the year	**(15,013)**	103,555
Other comprehensive (expense) income		
Items that may be subsequently reclassified to profit or loss		
Exchange differences on translation of foreign operations	**(23,291)**	(13,155)
Fair value gain (loss) on available-for-sale investments	**1,273**	(3,407)
	(22,018)	(16,562)
Other comprehensive expense for the year, net of income tax	**(22,018)**	(16,562)
Total comprehensive (expense) income for the year	**(37,031)**	86,993
Total comprehensive (expense) income for the year attributable to:		
Owners of the Company	**(33,441)**	83,400
Non-controlling interests	**(3,590)**	3,593
	(37,031)	86,993

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

	NOTES	2016 HK$'000	2015 HK$'000
Non-current Assets			
Property, plant and equipment	16	**851,719**	617,254
Goodwill	17	**94,838**	94,838
Available-for-sale investments	18	**21,111**	19,838
Pledged bank deposits	19	**27,431**	18,591
Deferred tax assets	20	**70,461**	52,742
Rental deposits paid		**254,936**	172,216
		1,320,496	975,479
Current Assets			
Inventories	21	**973,518**	913,449
Trade receivables	22	**47,885**	30,933
Other receivables, prepayments and deposits		**173,671**	198,856
Amounts due from fellow subsidiaries		**75,224**	77,522
Tax recoverable		**20,676**	21,821
Time deposits	23	**455,458**	849,314
Pledged bank deposits	19	**18,513**	28,963
Bank balances and cash		**1,769,924**	2,018,767
		3,534,869	4,139,625
Current Liabilities			
Trade payables	25	**1,324,037**	1,371,450
Other payables and accrued charges		**1,293,890**	1,371,886
Dividend payable		**505**	533
Amount due to ultimate holding company		**26,487**	51,860
Amounts due to fellow subsidiaries		**76,047**	55,433
Tax liabilities		**22,618**	5,621
Obligation under a finance lease	26	**724**	960
		2,744,308	2,857,743
Net Current Assets		**790,561**	1,281,882
Total Assets Less Current Liabilities		**2,111,057**	2,257,361

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

	NOTES	2016 HK$'000	2015 HK$'000
Capital and Reserves			
Share capital	28	**115,158**	115,158
Reserves		**1,638,550**	1,796,172
Equity attributable to owners of the Company		**1,753,708**	1,911,330
Non-controlling interests		**153,512**	161,324
Total Equity		**1,907,220**	2,072,654
Non-current Liabilities			
Rental deposits received and other liabilities		**198,500**	179,916
Obligation under a finance lease	26	**—**	780
Deferred tax liabilities	20	**5,337**	4,011
		203,837	184,707
		2,111,057	2,257,361

The consolidated financial statements on pages 42 to 91 were approved and authorised for issue by the Board of Directors on 22 March 2017 and are signed on its behalf by:

YUKI HABU
Director

CHAN PUI MAN CHRISTINE
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Attributable to owners of the Company								
	Share capital HK$'000	**Investment revaluation reserve** HK$'000	**Translation reserve** HK$'000	**The People's Republic of China (the "PRC") statutory reserves** HK$'000	**Non-distributable reserve** HK$'000	**Retained profits** HK$'000	**Total** HK$'000	**Non-controlling interests** HK$'000	**Total** HK$'000
At 1 January 2015	115,158	20,841	42,833	28,890	64,015	1,650,451	1,922,188	161,249	2,083,437
Profit for the year	—	—	—	—	—	93,170	93,170	10,385	103,555
Other comprehensive expense for the year	—	(3,407)	(6,363)	—	—	—	(9,770)	(6,792)	(16,562)
Total comprehensive (expense) income for the year	—	(3,407)	(6,363)	—	—	93,170	83,400	3,593	86,993
Transfer, net of non-controlling interests share	—	—	—	1,300	31,043	(32,343)	—	—	—
Dividends recognised as distribution (note 14)	—	—	—	—	—	(94,380)	(94,380)	—	(94,380)
Unclaimed dividends forfeited	—	—	—	—	—	122	122	—	122
Dividend paid to non-controlling shareholders	—	—	—	—	—	—	—	(3,518)	(3,518)
At 31 December 2015	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 year	**—**	**—**	**—**	**—**	**—**	**(23,228)**	**(23,228)**	**8,215**	**(15,013)**
Other comprehensive income (expense) for the year	**—**	**1,273**	**(11,486)**	**—**	**—**	**—**	**(10,213)**	**(11,805)**	**(22,018)**
Total comprehensive income (expense) for the year	**—**	**1,273**	**(11,486)**	**—**	**—**	**(23,228)**	**(33,441)**	**(3,590)**	**(37,031)**
Transfer, net of non-controlling interests share	**—**	**—**	**—**	**1,680**	**—**	**(1,680)**	**—**	**—**	**—**
Dividends recognised as distribution (note 14)	**—**	**—**	**—**	**—**	**—**	**(124,280)**	**(124,280)**	**—**	**(124,280)**
Unclaimed dividends forfeited	**—**	**—**	**—**	**—**	**—**	**99**	**99**	**—**	**99**
Dividend paid to non-controlling shareholders	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(4,222)**	**(4,222)**
At 31 December 2016	**115,158**	**18,707**	**24,984**	**31,870**	**95,058**	**1,467,931**	**1,753,708**	**153,512**	**1,907,220**

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 HK$'000	2015 HK$'000
OPERATING ACTIVITIES		
(Loss) profit before tax	**(10,606)**	121,712
Adjustments for:		
Depreciation of property, plant and equipment	**207,797**	190,270
Finance costs	**116**	210
Impairment loss recognised in respect of property, plant and equipment	**163**	9,026
Impairment loss recognised in respect of other receivables	**—**	907
Investment income	**(30,737)**	(36,440)
Loss on disposal/written off of property, plant and equipment	**6,024**	13,099
Write-down of inventories	**2,791**	744
Operating cash flows before movements in working capital	**175,548**	299,528
Increase in inventories	**(97,926)**	(130,084)
(Increase) decrease in trade receivables	**(18,578)**	1,590
Increase in other receivables, prepayments and deposits	**(59,434)**	(33,201)
Decrease in amounts due from fellow subsidiaries	**1,292**	52,960
Increase (decrease) in trade payables	**4,891**	(20,606)
(Decrease) increase in other payables and accrued charges	**(24,653)**	61,112
(Decrease) increase in amount due to ultimate holding company	**(25,373)**	240
Increase (decrease) in amounts due to fellow subsidiaries	**23,582**	(4,645)
Cash (used in) generated from operations	**(20,651)**	226,894
Hong Kong Profits Tax paid	**(2,807)**	(39,086)
PRC income taxes paid	**(2,479)**	(8,099)
Interest paid	**(116)**	(210)
Interest on bank deposits and time deposits received	**29,368**	35,072
NET CASH FROM OPERATING ACTIVITIES	**3,315**	214,571
INVESTING ACTIVITIES		
Placement of pledged bank deposits	**(1,870)**	(20,256)
Withdrawal of pledged bank deposits	**—**	18,686
Dividends received from investments	**1,369**	1,368
Purchase of property, plant and equipment	**(436,791)**	(203,275)
Proceeds from disposal of property, plant and equipment	**18**	20
Proceeds from disposal of an investment property	**—**	570,420
Placement of time deposits	**(581,655)**	(1,516,921)
Withdrawal of time deposits	**962,382**	668,941
NET CASH USED IN INVESTING ACTIVITIES	**(56,547)**	(481,017)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 HK$'000	2015 HK$'000
FINANCING ACTIVITIES		
Dividends paid	**(124,209)**	(94,359)
Dividends paid to non-controlling interest of a subsidiary	**(4,222)**	(3,518)
Repayment of obligation under a finance lease	**(926)**	(900)
NET CASH USED IN FINANCING ACTIVITIES	**(129,357)**	(98,777)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(182,589)**	(365,223)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**2,018,767**	2,426,922
Effect of foreign exchange rate changes	**(66,254)**	(42,932)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**1,769,924**	2,018,767
Represented by:		
Bank balances and cash	**1,769,924**	2,018,767

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

1. General

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

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

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

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

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

Amendments to HKFRSs that are mandatorily effective for the current year

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

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 amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

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

Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
HKFRS 9	Financial Instruments[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
HKFRS 15	Revenue from Contracts with Customers[1]
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers[1]
HKFRS 16	Leases[3]
Amendments to HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]

2. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") — continued

New and amendments to HKFRSs in issue but not yet effective — continued

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after a date to be determined
[3] Effective for annual periods beginning on or after 1 January 2019
[4] Effective for annual periods beginning on or after 1 January 2017

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39 *Financial Instruments: Recognition and Measurement*, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on the Group's consolidated statement of financial position as at 31 December 2016, the directors anticipate that the application of HKFRS 9 is not expected to have a significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

2. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") — continued

New and amendments to HKFRSs in issue but not yet effective — continued

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Sept 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 Leases

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and financial leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

2. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") — continued

New and amendments to HKFRSs in issue but not yet effective — continued

HKFRS 16 Leases — continued

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

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line at which the corresponding underlying assets would be presented if they were owned.

In contrast to lease accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of HK$3,878,565 as disclosed in note 31. A preliminary assessment indicates that these arrangements may meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they quantify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result in changes to measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

Except as described above, the directors do not anticipate that the application of the other new and amendments to HKFRSs will have a material effect on the amounts recognised in the Group's consolidated financial statements.

3. Significant Accounting Policies

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

3. Significant Accounting Policies — continued

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

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

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

3. Significant Accounting Policies — continued

Basis of consolidation — continued

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

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

Goodwill

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

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

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

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

Depreciation is recognised so as to write off the cost of assets other than construction in progress over their estimated useful lives, using the straight-line method at the following rates:

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

The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

3. Significant Accounting Policies — continued

Property, plant and equipment — continued

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

Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets within finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGU for which a reasonable and consistent allocation basis can be identified.

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

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

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

Inventories

Inventories, which represent merchandise held for resale, are stated at the lower of cost and net realisable value and are computed using the retail price method.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

3. Significant Accounting Policies — continued

Financial instruments — continued

Financial assets

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

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

AFS financial assets

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

Equity securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Changes in the carrying amount of AFS financial assets at fair value are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Loans and receivables

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

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

Impairment of financial assets

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

3. Significant Accounting Policies — continued

Financial instruments — continued

Financial assets — continued

Impairment of financial assets — continued

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

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

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

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

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

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

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

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

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

Financial liabilities and equity instruments

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

3. Significant Accounting Policies — continued

Financial instruments — continued

Financial liabilities and equity instruments — continued

Equity instruments

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

Effective interest method

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

Financial liabilities at amortised cost

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

Derecognition

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

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

Provisions

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

3. Significant Accounting Policies — continued

Provisions — continued

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

Revenue recognition

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

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

Deposits and instalments received from purchasers prior to meeting the criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

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

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

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

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

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

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

Leasing

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

3. Significant Accounting Policies — continued

Leasing — continued

The Group as lessor

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

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Pre-operating expenses

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

3. Significant Accounting Policies — continued

Foreign currencies

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

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

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

Taxation

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

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

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

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

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

3. Significant Accounting Policies — continued

Taxation — continued

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

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

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Retirement benefits costs and termination benefits

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

4. Key Sources of Estimation Uncertainty

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

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

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

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash inflows/outflows expected to arise from the CGU by considering the budgeted sales and gross margin which are based on past performance and management's expectations for the future changes in the market and taking into account a suitable discount rate to calculate the present value. Where the actual future cash flows are less than expected, or unfavourable changes in facts and circumstances which result in downward revision of the estimated future cash flows for the purpose of determining the value in use, a material impairment loss may arise. As at 31 December 2016, the carrying amount of goodwill is HK$94,838,000 (2015: HK$94,838,000). Details of the recoverable amount calculation are disclosed in note 17.

4. Key Sources of Estimation Uncertainty — continued

Impairment of property, plant and equipment

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

As at 31 December 2016, the aggregate carrying amount of the property, plant and equipment is HK$851,719,000 (2015: HK$617,254,000). The accumulated impairment loss of the property, plant and equipment of HK$195,926,000 (2015: HK$223,984,000) is recognised. Details about impairment losses recognised during the year are set out in note 16.

Net realisable value of inventories

The Group's inventories with carrying amount of HK$973,518,000 (2015: HK$913,449,000) is carried at the lower of cost and net realisable value. The cost of inventories is written down to net realisable value for certain items when there is objective evidence that the cost of inventories may not be recoverable for those items. The cost of inventories may not be recoverable if certain items of inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may not also be recoverable if the estimated costs to be incurred to make the sale have increased. The Group has written-down the inventories of HK$2,791,000 (2015: HK$744,000), which is the difference between the carrying value and net realisable value of the items of affected inventories, to the profit or loss for the year.

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

Estimation of useful lives of property, plant and equipment

Management estimates the useful lives of property, plant and equipment. The estimated useful lives are based on the periods the property, plant and equipment are expected to be available for use. Depreciation of HK$207,797,000 (2015: HK$190,270,000) has been recognised in the profit or loss for the year.

Income taxes

As at 31 December 2016, a deferred tax asset of HK$41,402,000 (2015: HK$31,763,000) in relation to temporary differences arising from provision for staff costs and other expenses has been recognised in the Group's consolidated statement of financial position. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future.

4. Key Sources of Estimation Uncertainty — continued

Income taxes — continued

In addition, as at 31 December 2016, a deferred tax asset of HK$18,536,000 (2015: nil) has been recognised in the Group's consolidated financial statement of financial position in relation to tax losses of the Company. The realisability of the tax effect of tax losses mainly depends on whether sufficient profits or taxable temporary differences will be available in the future.

5. Revenue

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

	2016 **HK$'000**	2015 HK$'000
Direct sales	**8,198,225**	8,063,687
Income from concessionaire sales	**838,384**	911,628
	9,036,609	8,975,315

6. Segment Information

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.

Segment revenues and results

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

For the year ended 31 December 2016

	Hong Kong **HK$'000**	**PRC** **HK$'000**	**Total** **HK$'000**
Segment revenue — external	**3,826,626**	**5,209,983**	**9,036,609**
Segment (loss) profit	**(82,505)**	**41,278**	**(41,227)**
Investment income			**30,737**
Finance costs			**(116)**
Loss before tax			**(10,606)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

6. Segment Information — continued

Segment revenues and results — continued

For the year ended 31 December 2015

	Hong Kong HK$'000	PRC HK$'000	Total HK$'000
Segment revenue — external	3,823,447	5,151,868	8,975,315
Segment profit	76,701	2,175	78,876
Rental income from an investment property			6,606
Investment income			36,440
Finance costs			(210)
Profit before tax			121,712

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. 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.

Other segment information

For the year ended 31 December 2016

	Hong Kong HK$'000	**PRC HK$'000**	**Segment total HK$'000**
Amounts included in the measure of segment profit or loss:			
Depreciation	**99,584**	**108,213**	**207,797**
Impairment loss recognised in respect of property, plant and equipment	**—**	**163**	**163**
Loss on disposal/written off of property, plant and equipment	**5,498**	**526**	**6,024**
Write-down of inventories	**2,791**	**—**	**2,791**

For the year ended 31 December 2015

	Hong Kong HK$'000	PRC HK$'000	Segment total HK$'000
Amounts included in the measure of segment profit or loss:			
Depreciation	83,592	106,678	190,270
Impairment loss recognised in respect of other receivables	907	—	907
Impairment loss recognised in respect of property, plant and equipment	—	9,026	9,026
Loss on disposal/written off of property, plant and equipment	12,873	226	13,099
Write-down of inventories	744	—	744

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

6. Segment Information — continued

Geographical information

The information of the group's non-current assets by geographical location of assets other than available-for-sale investments and deferred tax assets are set out below:

	2016 HK$'000	2015 HK$'000
Hong Kong	**784,673**	431,461
PRC	**444,251**	471,438
	1,228,924	902,899

7. Investment Income

	2016 HK$'000	2015 HK$'000
Dividends from listed equity securities	**1,369**	1,368
Interest on bank deposits	**29,368**	35,072
	30,737	36,440

8. Pre-operating Expenses

The amounts represent the set up costs for new stores. Included in pre-operating expenses for the year ended 31 December 2016 are staff costs of HK$4,262,000 (2015: HK$8,243,000).

9. Finance Costs

	2016 HK$'000	2015 HK$'000
Interest on finance leases	**116**	210

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

10. Income Tax Expense

	2016 HK$'000	2015 HK$'000
The charges (credits) comprise:		
Current tax		
Hong Kong	–	21,578
Other regions in the PRC	24,377	13,878
	24,377	35,456
Overprovision in prior years		
Hong Kong	–	(3,378)
Other regions in the PRC	–	(11,135)
	–	(14,513)
	24,377	20,943
Deferred tax (note 20)		
Current year	(19,970)	(2,786)
Income tax expense for the year	4,407	18,157

No provision for Hong Kong Profits Tax is made as the Company has no assessable profit for the year ended 31 December 2016.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the year ended 31 December 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

10. Income Tax Expense — continued

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

	2016 **HK$'000**	2015 HK$'000
(Loss) profit before tax	**(10,606)**	121,712
Taxation at the applicable rate of 16.5%	**(1,750)**	20,082
Tax effect of expenses not deductible for tax purpose	**7,862**	15,921
Tax effect of income not taxable for tax purpose	**(5,390)**	(8,398)
Tax effect of tax losses not recognised	**—**	616
Utilisation of tax losses previously not recognised	**(1,398)**	—
Withholding tax on undistributed earning of a subsidiary (note 20)	**359**	924
Effect of different tax rates of entities operating in the PRC	**4,767**	9,155
Overprovision in prior years	**—**	(14,513)
Others	**(43)**	(5,630)
Income tax expense	**4,407**	18,157

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

11. (Loss) Profit for the Year

	2016 HK$'000	2015 HK$'000
(Loss) profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	**5,359**	5,708
Exchange loss, net	**19,694**	9,819
Operating lease rentals in respect of rented premises (included in other expenses)		
— minimum lease payments	**1,054,980**	1,002,881
— contingent rent (Note)	**29,070**	52,143
	1,084,050	1,055,024
Retirement benefits scheme contributions	**101,907**	101,304
Royalties payable to the ultimate holding company	**27,159**	49,987
Rental income (included in other income)		
— minimum lease payments	**(460,503)**	(519,557)
— contingent rent (Note)	**(33,928)**	(41,915)
	(494,431)	(561,472)
Rental income from an investment property, net of negligible outgoing (included in other income)	**—**	(6,606)
Write-down of inventories (included in purchase of goods and changes in inventories)	**2,791**	744
Impairment loss recognised in respect of other receivables	**—**	907

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

12. Directors' Emoluments

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

For the year ended 31 December 2016

	Executive directors					Non-executive directors					Independent non-executive directors					
	Chan Pui Man, Christine	Yoshiaki Mizushima	Hideaki Yajima	Chak Kam Yuen	Junichi Suzuki	Yuki Habu	Shinya Wako	Yoshinori Okuno	Yutaka Agawa	Kazuhiko Yasukawa	Cheng Yin Ching, Anna	Chan Yi Jen, Candi Anna	Lo Miu Sheung, Betty	Chow Chi Tong	Sham Sui Leung, Daniel	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	(Note a)				(Note b)			(Note b)	(Note b)	(Note b)					(Note b)	
Fees	**220**	**–**	**–**	**70**	**–**	**140**	**140**	**–**	**–**	**–**	**200**	**180**	**170**	**154**	**–**	**1,274**
Other emoluments																
Salaries and other benefits	**1,489**	**1,766**	**1,619**	**1,045**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**5,919**
Performance based bonus (Note c)	**904**	**–**	**–**	**292**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,196**
Contributions to retirement benefits schemes	**103**	**–**	**–**	**72**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**175**
Total	**2,716**	**1,766**	**1,619**	**1,479**	**–**	**140**	**140**	**–**	**–**	**–**	**200**	**180**	**170**	**154**	**–**	**8,564**

For the year ended 31 December 2015

Fees	220	–	–	70	–	140	87	–	29	29	196	176	170	–	73	1,190
Other emoluments																
Salaries and other benefits	1,462	1,819	1,107	1,028	277	–	–	942	–	–	–	–	–	–	–	6,635
Performance based bonus (Note c)	252	–	–	178	–	–	–	–	–	–	–	–	–	–	–	430
Contributions to retirement benefits schemes	100	–	–	70	–	–	–	35	–	–	–	–	–	–	–	205
Total	2,034	1,819	1,107	1,346	277	140	87	977	29	29	196	176	170	–	73	8,460

Notes:

(a) Ms. Chan Pui Man, Christine is the Managing Director ("MD") of the Company. The Board of Directors considered that the duties of the MD were of no difference from that of a Chief Executive Officer stipulated under Provision A. 2 of the Code of Corporate Governance Practices in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange. The management would regard that the term MD will have the same meaning as the Chief Executive Officer of the Company. For the years ended 31 December 2016 and 2015, Ms. Chan was MD of the Company.

(b) Directors resigned during the year ended 31 December 2015.

(c) The performance based bonus is determined by reference to the individual performance of the directors. It is reviewed by the Remuneration Committee and approved by the Board of Directors.

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

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

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

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

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FOR THE YEAR ENDED 31 DECEMBER 2016

13. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, one (2015: two) was a director whose emolument is included in the disclosures in note 12 above. The emoluments of the remaining four individuals (2015: three) were as follows:

	2016 **HK$'000**	2015 HK$'000
Salaries and other benefits	**6,769**	4,891
Performance based bonus	**823**	547
Contributions to retirement benefit schemes	**337**	215
	7,929	5,653

	2016 **No. of employees**	2015 No. of employees
Their emoluments were within the following bands:		
HK$1,500,001 to HK$2,000,000	**2**	2
HK$2,000,001 to HK$2,500,000	**2**	1

Other than the emoluments of a director and four (2015: three) senior management individuals of the Group disclosed in note 12 and above, the emoluments of the remaining senior management of the Group were within the following bands:

	2016 **No. of employees**	2015 No. of employees
HK$500,001 to HK$1,000,000	**1**	3
HK$1,000,001 to HK$1,500,000	**2**	1

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14. Dividends

	2016 **HK$'000**	2015 HK$'000
Final dividend paid for 2015 of 7.8 HK cents (2015: 26.2 HK cents for 2014) per ordinary share	**20,280**	68,120
Interim dividend paid for 2016 of 20 HK cents (2015: 10.1 HK cents for 2015) per ordinary share	**52,000**	26,260
Special dividend paid for 2016 of 20 HK cents (2015: nil for 2015) per ordinary share	**52,000**	—
	124,280	94,380

The Board of Directors has recommended a final dividend of 20.0 HK cents per share (2015: 7.8 HK cents) to be paid on or before 28 June 2017, subject to shareholders' approval at the forthcoming annual general meeting on 31 May 2017.

15. (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 year attributable to owners of the Company of HK$23,228,000 (2015: profit of HK$93,170,000) and on 260,000,000 (2015: 260,000,000) ordinary shares in issue during the year.

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

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FOR THE YEAR ENDED 31 DECEMBER 2016

16. Property, Plant and Equipment

	Building fixtures HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST					
At 1 January 2015	1,672,126	662,151	8,378	14,561	2,357,216
Exchange adjustments	(42,541)	(16,306)	(299)	(1,340)	(60,486)
Additions	10,110	21,013	—	170,638	201,761
Transfer	85,479	50,117	—	(135,596)	—
Disposals/written off	(17,660)	(10,660)	—	—	(28,320)
At 31 December 2015	1,707,514	706,315	8,079	48,263	2,470,171
Exchange adjustments	**(78,887)**	**(26,628)**	**(685)**	**(2,698)**	**(108,898)**
Additions	**23,233**	**30,190**	**1,123**	**415,544**	**470,090**
Transfer	**345,248**	**48,371**	**—**	**(393,619)**	**—**
Disposals/written off	**(159,781)**	**(69,790)**	**(608)**	**—**	**(230,179)**
At 31 December 2016	**1,837,327**	**688,458**	**7,909**	**67,490**	**2,601,184**
DEPRECIATION AND IMPAIRMENT					
At 1 January 2015	1,221,662	488,922	5,882	—	1,716,466
Exchange adjustments	(34,881)	(12,539)	(224)	—	(47,644)
Provided for the year	122,952	66,379	939	—	190,270
Eliminated on disposal/written off	(5,339)	(9,862)	—	—	(15,201)
Impairment losses recognised	4,451	4,575	—	—	9,026
At 31 December 2015	1,308,845	537,475	6,597	—	1,852,917
Exchange adjustments	**(59,840)**	**(26,911)**	**(524)**	**—**	**(87,275)**
Provided for the year	**144,767**	**62,096**	**934**	**—**	**207,797**
Eliminated on disposal/written off	**(157,436)**	**(66,093)**	**(608)**	**—**	**(224,137)**
Impairment losses recognised	**40**	**123**	**—**	**—**	**163**
At 31 December 2016	**1,236,376**	**506,690**	**6,399**	**—**	**1,749,465**
CARRYING VALUES					
At 31 December 2016	**600,951**	**181,768**	**1,510**	**67,490**	**851,719**
At 31 December 2015	398,669	168,840	1,482	48,263	617,254

16. Property, Plant and Equipment — continued

As at 31 December 2016, the carrying values of furniture, fixture and equipment of the Group included an amount of approximately HK$602,000 (2015: HK$1,740,000) in respect of assets held under a finance lease.

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 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% or 10% (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 future changes in the market. Accordingly, an impairment loss of HK$163,000 (2015: HK$9,026,000) has been recognised in respect of property, plant and equipment of the Group, which has been allocated to the building fixtures and furniture, fixtures and equipment of property, plant and equipment.

During the year, accumulated impairment loss on property, plant and equipment of HK$28,221,000 of the Group has been eliminated upon the disposal of building fixtures.

As at 31 December 2016, accumulated impairment loss on property, plant and equipment of the Group is HK$195,926,000 (2015: HK$223,984,000).

17. Goodwill

	HK$'000
CARRYING AMOUNT	
At 1 January 2015, 31 December 2015 and 31 December 2016	94,838

The amount represents goodwill arising from the acquisition of an additional 35% interest in AEON South China (as defined in note 36(a)) in 2008. AEON South China became a wholly-owned subsidiary of the Company subsequent to the additional acquisition.

The Group identifies the relevant retail stores business operated by AEON South China as the single CGU with synergy effect to which the goodwill of HK$94,838,000 is allocated.

The recoverable amount of the CGU has been determined based on a value in use calculation. That calculation uses cash flow projections with growth rates ranging from 1% to 2% (2015: 1% to 3%) based on financial budgets approved by management covering a 5-year period, and discount rate of 10%. The cash flows beyond 5-year period are extrapolated using a zero growth rate. Other key assumptions for the value in use calculations related to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the CGU past performance and management's expectations for the future changes in the market. Management believe that the aggregate recoverable amount of the CGU exceed the aggregate carrying amount of the CGU. Accordingly, no impairment loss was recognised in the consolidated statement of profit or loss.

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18. Available-For-Sale Investments

	2016 HK$'000	2015 HK$'000
Equity securities:		
Listed shares in Hong Kong at fair value	**21,111**	19,838

The listed shares in Hong Kong represents an investment in a fellow subsidiary of HK$20,926,000 (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.

19. Pledged Bank Deposits

	2016		2015	
	Non-current HK$'000	**Current HK$'000**	Non-current HK$'000	Current HK$'000
Bank deposits were pledged for the following purpose:				
As guarantee to:				
— landlords for rental deposits	**27,431**	**4,510**	18,591	13,879
As requirement by the relevant PRC regulatory body for cash received from prepaid value cards sold	**—**	**14,003**	—	15,084
	27,431	**18,513**	18,591	28,963

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20. Deferred Taxation

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

	Accelerated tax depreciation HK$'000	Provision for staff costs and other expenses HK$'000	Other temporary differences HK$'000	Undistributed profits of subsidiaries HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2015	10,975	41,209	634	(4,851)	—	47,967
Exchange adjustments	(573)	(1,449)	—	—	—	(2,022)
Credit (charge) to profit or loss	9,943	(7,997)	—	(924)	—	1,022
Withholding tax paid on distributed profits of subsidiaries during the year	—	—	—	1,764	—	1,764
At 31 December 2015	20,345	31,763	634	(4,011)	—	48,731
Exchange adjustments	**(829)**	**(2,748)**	**—**	**—**	**—**	**(3,577)**
(Charge) credit to profit or loss	**(10,594)**	**12,387**	**—**	**(359)**	**18,536**	**19,970**
At 31 December 2016	**8,922**	**41,402**	**634**	**(4,370)**	**18,536**	**65,124**

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

	2016 HK$'000	2015 HK$'000
Deferred tax assets	**70,461**	52,742
Deferred tax liabilities	**(5,337)**	(4,011)
	65,124	48,731

At the end of the reporting period, the Group had unused tax losses of HK$127,176,000 (2015: HK$24,825,000) available for offset against future profits. A deferred tax asset has been recognised in respect of tax losses of HK$112,339,000 (2015: nil) of the Company. No deferred tax asset has been recognised in respect of the remaining unused tax losses due to the unpredictability of future profit streams for the relevant subsidiaries. Included in unrecognised tax losses are losses of HK$14,837,000 (2015: 24,825,000) that will expire as follows. Other losses may be carried forward indefinitely.

	2016 HK$'000	2015 HK$'000
31 December 2018	**387**	21,090
31 December 2020	**14,450**	3,735

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

21. Inventories

Inventories represent merchandise held for resale.

During the year, the directors have considered the market performance and the expected net realisable value of the inventories. As a result, the Group has written-down the inventories of HK$2,791,000 (2015: HK$744,000) and included in “Purchases of goods and changes in inventories”.

22. 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 period, which approximated the respective revenue recognition dates.

	2016 **HK$'000**	2015 HK$'000
Within 30 days	**47,298**	30,495
31 to 60 days	**215**	93
Over 60 days	**372**	345
	47,885	30,933

The Group's revenue is generated mainly from cash and credit card sales. The average credit period on credit cards sales is 10 days. The balance of trade receivables within due dates mainly represents trade receivables arising from credit card sales. No default of settlement is expected by reference to past experience. Usually, there are no significant overdue debtors at the end of reporting period. Trade receivables on overdue debtors are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience, if any.

As at 31 December 2016 and 2015, the Group does not have any trade receivable balance that were past due.

23. Time Deposits

As at 31 December 2016, time deposits represent 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 are 1.53% and 1.55% per annum, respectively. The deposits will expire within one year from the end of the reporting period. Accordingly, these amounts are classified as current assets.

As at 31 December 2015, time deposits represent 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 are 1.78%, 1.60% and 1.38% per annum, respectively. The deposits expired during the year ended 31 December 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

24. Other Assets

The Group's other assets include other receivables, prepayments and deposits, amounts due from fellow subsidiaries, and bank balances and cash.

The amounts due from fellow subsidiaries are trade-related, unsecured, interest free and with credit term of 15 to 35 days (2015: 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.

Bank balances and cash comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. Bank balances carry interest at market rates which range from 0.01% to 5.50% (2015: 0.01% to 5.50%) per annum.

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

	2016 **HK$'000**	2015 HK$'000
Hong Kong dollars	**216**	242
United States dollars	**107,412**	179,060
Japanese Yen	**9,831**	4,392
Renminbi	**4,676**	186,568

25. Trade Payables

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

	2016 **HK$'000**	2015 HK$'000
0 to 60 days	**1,118,729**	1,172,567
61 to 90 days	**92,645**	97,100
Over 90 days	**112,663**	101,783
	1,324,037	1,371,450

The average credit period on the purchases of goods is 60 days (2015: 60 days).

26. Obligation Under a Finance Lease

	Minimum lease payments		Present value of minimum lease payments	
	2016 HK$'000	2015 HK$'000	**2016 HK$'000**	2015 HK$'000
Amounts payable under a finance lease				
Within one year	**752**	1,080	**724**	960
In more than one year but not more than two years	**–**	810	**–**	780
	752	1,890	**724**	1,740
Less: Future finance charges	**(28)**	(150)		
Present value of a lease obligation	**724**	1,740		
Less: Amount due for settlement within one year (shown under current liabilities)			**(724)**	(960)
Amount due for settlement after one year			**–**	780

The obligation under a finance lease is denominated in Renminbi which carries interest at fixed rate of 9.2% (2015: 9.2%) per annum and is repayable within five years.

27. Other Liabilities

The Group's other liabilities include other payables and accrued charges, dividend payable, and amounts due to ultimate holding company and fellow subsidiaries.

Included in the Group's other payables and accrued charges are deferred revenue in relation to customer loyalty programmes and monies received from customers in relation to prepaid store-valued cards of HK$19,524,000 (2015: HK$18,166,000) and HK$481,162,000 (2015: HK$547,009,000) respectively.

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 (2015: 60 to 90 days). The amounts are aged within 60 days based on the invoice date at the end of respective reporting period.

28. Share Capital

	Number of shares	**HK$'000**
Ordinary shares of no par value	260,000,000	115,158

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29. Statement of Financial Position of the Company

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

	2016 HK$'000	2015 HK$'000
Non-current Assets		
Property, plant and equipment	**576,183**	310,796
Investments in subsidiaries	**197,137**	197,137
Available-for-sale investment	**21,111**	19,838
Loan to a subsidiary	**39,366**	12,737
Deferred tax assets	**19,312**	8,300
Rental deposits paid	**208,491**	120,665
	1,061,600	669,473
Current Assets		
Inventories	**499,661**	446,825
Trade receivables	**21,415**	14,357
Other receivables, prepayments and deposits	**76,423**	77,796
Amounts due from subsidiaries	**4,940**	19,331
Amounts due from fellow subsidiaries	**60,080**	65,858
Tax recoverable	**20,676**	17,870
Time deposits	**280,000**	672,417
Bank balances and cash	**927,172**	1,078,222
	1,890,367	2,392,676
Current Liabilities		
Trade payables	**643,821**	645,658
Other payables and accrued charges	**424,275**	396,261
Dividend payable	**505**	533
Amount due to ultimate holding company	**26,487**	51,860
Amounts due to fellow subsidiaries	**32,578**	29,028
	1,127,666	1,123,340
Net Current Assets	**762,701**	1,269,336
Total Assets Less Current Liabilities	**1,824,301**	1,938,809

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FOR THE YEAR ENDED 31 DECEMBER 2016

29. Statement of Financial Position of the Company — continued

	2016 **HK$'000**	2015 HK$'000
Capital and Reserves		
Share capital	**115,158**	115,158
Reserves	**1,538,543**	1,674,296
	1,653,701	1,789,454
Non-current Liabilities		
Rental deposits received and other liabilities	**165,263**	145,344
Deferred tax liabilities	**5,337**	4,011
	170,600	149,355
	1,824,301	1,938,809

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 22 March 2017 and is signed on its behalf by:

YUKI HABU
Director

CHAN PUI MAN CHRISTINE
Director

29. Statement of Financial Position of the Company — continued

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

	Investment revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2015	20,841	1,658,505	1,679,346
Loss on fair value changes of available-for-sale investments recognised directly in equity	(3,407)	—	(3,407)
Profit for the year	—	92,615	92,615
Total comprehensive (expense) income for the year	(3,407)	92,615	89,208
Dividends	—	(94,380)	(94,380)
Unclaimed dividends forfeited	—	122	122
At 31 December 2015	17,434	1,656,862	1,674,296
Gain on fair value changes of available-for-sale investments recognised directly in equity	**1,273**	**—**	**1,273**
Loss for the year	**—**	**(12,845)**	**(12,845)**
Total comprehensive income (expense) for the year	**1,273**	**(12,845)**	**(11,572)**
Dividends	**—**	**(124,280)**	**(124,280)**
Unclaimed dividends forfeited	**—**	**99**	**99**
At 31 December 2016	**18,707**	**1,519,836**	**1,538,543**

30. Capital Commitments

	2016 HK$'000	2015 HK$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**31,235**	13,377

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31. Operating Leases

The Group as lessee

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

	2016 HK$'000	2015 HK$'000
Within one year	**859,993**	849,375
In the second to fifth year inclusive	**1,662,228**	2,158,703
Over five years	**1,356,344**	794,339
	3,878,565	3,802,417

In addition to the above, (i) over 90% (2015: over 90%) of the leases of the Group is subject to contingent rents based on a fixed percentage of the annual gross turnover and receipts in excess of the minimum lease payments; and (ii) the Group is also subject to a maximum lease commitment of a sum of approximately HK$1,284,000 (2015: HK$3,685,000) to a landlord which is a third party under the circumstance of early termination of lease agreements between the landlord and certain related companies covering a lease period of five years starting from 2012.

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

The Group as lessor

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

	2016 HK$'000	2015 HK$'000
Within one year	**335,883**	323,580
In the second to fifth year inclusive	**289,081**	617,739
Over five years	**7,899**	120,491
	632,863	1,061,810

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

32. Retirement Benefits Schemes

The Company participates in the Mandatory Provident Fund Schemes ("MPF Schemes") registered under the Mandatory Provident Fund Ordinance in December 2001. Contributions paid or payable for the MPF Schemes for the year amounting to HK$20,583,000 (2015: HK$18,705,000) are charged to the consolidated statement of profit or loss for the year. The contributions represent contributions payable to the MPF Schemes by the Company in accordance with government regulations. In addition to the mandatory contributions, the contributions also include voluntary contributions at rates specified in the rules of the MPF Scheme for certain employees who make voluntary contributions.

The Company also operates a defined contribution provident fund scheme for all qualifying employees. The assets of the scheme are held separately from those of the Company in funds under the control of trustees. The contributions amounting to HK$3,856,000 (2015: HK$3,984,000) charged to the consolidated statement of profit or loss represent contributions payable to the funds by the Company at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Company are reduced by the amount of forfeited contributions.

The employees employed in the PRC subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute to the retirement benefits schemes based on a certain percentage of their payroll to fund the benefits. The only obligation of the Group with respect to these retirement benefits schemes is to make the required contributions under the schemes. Contributions paid or payable for these retirement benefits schemes for the year are HK$77,468,000 (2015: HK$78,615,000).

33. Capital Risk Management

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

The capital structure of the Group consists of debt, which includes the Group's obligation under a finance lease, equity attributable to owners of the Group, comprising issued share capital, reserves and retained earnings.

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

34. Financial Instruments

(a) Categories of financial instruments

	2016 HK$'000	2015 HK$'000
Loans and receivables (including cash and cash equivalents)	**2,409,699**	3,047,227
Available-for-sale financial assets	**21,111**	19,838
Financial liabilities at amortised cost	**2,087,925**	2,083,722

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

34. Financial Instruments — continued

(b) Financial risk management objectives and policies

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

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

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

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

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

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risks in 2016.

(c) Foreign currency risk management

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

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

	Assets		Liabilities	
	2016 HK$'000	2015 HK$'000	**2016 HK$'000**	2015 HK$'000
Hong Kong dollars	**216**	242	**—**	—
United States dollars	**107,412**	179,060	**4,576**	5,171
Japanese Yen	**9,831**	4,392	**11,257**	30,143
Renminbi	**4,676**	186,568	**—**	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

34. Financial Instruments — continued

(c) Foreign currency risk management — continued

Foreign currency sensitivity

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

	2016		2015	
	Increase (decrease) in foreign exchange rates	**(Increase) decrease in loss before tax**	Increase (decrease) in foreign exchange rates	Increase (decrease) in profit before tax
	%	**HK$'000**	%	HK$'000
Hong Kong dollars	**1%**	**2**	1%	2
	(1%)	**(2)**	(1%)	(2)
United States dollars	**1%**	**1,028**	1%	1,739
	(1%)	**(1,028)**	(1%)	(1,739)
Japanese Yen	**10%**	**(143)**	10%	(2,575)
	(10%)	**143**	(10%)	2,575
Renminbi	**10%**	**468**	10%	18,657
	(10%)	**(468)**	(10%)	(18,657)

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

The stated changes represent the management's assessment of reasonably possible changes in foreign exchange rates. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the group entities' profit or loss measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes. The analysis is performed on the same basis for 2015.

(d) Interest rate risk management

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

34. Financial Instruments — continued

(d) Interest rate risk management — continued

Interest rate sensitivity

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

(e) Other price risk

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

Equity price sensitivity

The sensitivity analyses below have been determined based on the exposure to equity price risks in respect of AFS equity investments at the reporting date. The measure of price sensitivity is based on the actual observed historical changes of one-year interval to estimate the 1-day historical volatility. The use of a 1-day holding period assumes that the positions can be unwound in one trading day. If the volatility of the equity price of the available-for-sale investments had been 5% (2015: 6%) higher/lower while all other variables were held constant, the investment revaluation reserve would increase/decrease by approximately HK$115,000 (2015: HK$163,000) for the Group, principally as a result of the changes in fair value of AFS equity investments.

(f) Credit risk management

The credit risk represents the pledged bank deposits, trade receivables, other receivables, amounts due from fellow subsidiaries, time deposits, and bank balances and cash. Credit risks for the trade receivables and other receivables are limited as the Group's revenue is generated mainly from cash and credit card sales. Where transactions are conducted other than on a cash basis, the Group practices stringent credit review.

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

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

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

(g) Liquidity risk management

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

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

34. Financial Instruments — continued

(g) Liquidity risk management — continued

	Weighted average effective interest rate	6 months or less	6–12 months	>1–<2 years	>2–<5 years	Total undiscounted cash flows amount	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2016							
Non-interest bearing	**—**	**2,086,350**	**1,575**	**—**	**—**	**2,087,925**	**2,087,925**
Obligation under a finance lease	**9.20**	**501**	**251**	**—**	**—**	**752**	**724**
		2,086,851	**1,826**	**—**	**—**	**2,088,677**	**2,088,649**
2015							
Non-interest bearing	—	2,081,502	2,220	—	—	2,083,722	2,083,722
Obligation under a finance lease	9.20	540	540	810	—	1,890	1,740
		2,082,042	2,760	810	—	2,085,612	2,085,462

(h) Fair value of financial instruments

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

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

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

Fair value measurements recognised in the consolidated statement of financial position

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

	2016			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Available-for-sale financial assets				
Listed equity securities	**21,111**	**—**	**—**	**21,111**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

34. Financial Instruments — continued

Fair value measurements recognised in the consolidated statement of financial position — continued

	2015			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Available-for-sale financial assets				
Listed equity securities	19,838	—	—	19,838

There were no transfers between Level 1 and 2 in the current and last year.

35. Related Party Transactions

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

Capacity	**Nature of transaction**	**2016 HK$'000**	2015 HK$'000
Fellow subsidiaries	Commission for credit facilities provided to the customers	**12,560**	13,996
	Franchise fee	**362**	296
	Other income	**9,054**	7,243
	Purchase of goods and fixed assets	**304,919**	293,975
	Rental expenses, management fees and utilities expenses	**19,281**	—
	Rental income	**19,381**	18,973
	Sales of coupons	**7,300**	—
	Service fee expense	**101,859**	97,641
Ultimate holding company	Royalty expenses	**27,159**	49,987
Non-controlling shareholders of the subsidiaries*	Advertising expenses	**3,283**	3,921
	Rental expenses, management fees and utilities expenses	**60,481**	64,828

* 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 consolidated statement of financial position except for the following balance, which is included in other receivables, prepayments and deposits:

	2016 HK$'000	2015 HK$'000
Amounts due from non-controlling shareholders of the subsidiaries (included in other receivables, prepayments and deposits)	**5,346**	6,083

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

35. Related Party Transactions — continued

Compensation of key management personnel

The Group's key management personnel are all directors, details of their remuneration are disclosed in note 12.

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

36. Particulars of Subsidiaries of the Company

(a) General information of subsidiaries

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

Name	Form of business structure	Place of registration or operation/ principal place of business	Paid up registered/ordinary share capital	Proportion of ownership interest directly held by the Company	Proportion of voting power held by the Company	Proportion of ownership interest held by a non-controlling interest	Proportion of voting power held by a non-controlling interest	Profit allocated to a non-controlling interest		Accumulated non-controlling interests		Principal activities
				2016 & 2015	2016 & 2015	2016 & 2015	2016 & 2015	**2016**	2015	**2016**	2015	
Guangdong AEON Teem Co., Ltd. ("Guangdong AEON")	Sino-foreign equity joint venture	PRC	RMB190,760,000 (2015: RMB190,760,000)	65%	66%	35%	34%	**8,215**	10,385	**153,512**	161,324	Retail stores
AEON South China Co., Ltd. ("AEON South China")	Wholly-owned foreign enterprise	PRC	RMB212,800,000 (2015: RMB212,800,000)	100%	100%	–	–	**–**	–	**–**	–	Retail stores
Jusco Stores (Hong Kong) Co., Limited	Incorporated	Hong Kong	HK$1,000 (2015: HK$1,000)	100%	100%	–	–	**–**	–	**–**	–	Inactive

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

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

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

	2016 HK$'000	2015 HK$'000
Current assets	**1,258,200**	1,402,395
Non-current assets	**312,157**	299,463
Current liabilities	**1,109,383**	1,217,013
Non-current liabilities	**15,181**	16,138
Equity attributable to owners of the Company	**292,281**	307,383
Non-controlling interest	**153,512**	161,324

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

36. Particulars of Subsidiaries of the Company — continued

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests — continued

	Year ended	
	2016 HK$'000	2015 HK$'000
Revenue	**3,629,124**	3,559,672
Expenses	**3,605,653**	3,529,999
Profit for the year	**23,471**	29,673
Profit attributable to owners of the Company	**15,256**	19,288
Profit attributable to a non-controlling interest	**8,215**	10,385
Profit for the year	**23,471**	29,673
Other comprehensive expense attributable to owners of the Company	**(10,213)**	(9,770)
Other comprehensive expense attributable to a non-controlling interest	**(11,805)**	(6,792)
Other comprehensive expense for the year	**(22,018)**	(16,562)
Total comprehensive income attributable to owners of the Company	**5,043**	9,518
Total comprehensive (expense) income attributable to a non-controlling interest	**(3,590)**	3,593
Total comprehensive income for the year	**1,453**	13,111
Dividends paid to a non-controlling interest	**4,222**	3,518
Net cash inflow from operating activities	**35,792**	39,396
Net cash outflow from investing activities	**(95,280)**	(282,537)
Net cash outflow from financing activities	**(12,352)**	(10,368)
Net cash outflow	**(71,840)**	(253,509)

FINANCIAL SUMMARY

The Group

	For the year ended 31 December				
	2012 HK$'000	2013 HK$'000	2014 HK$'000	2015 HK$'000	**2016** **HK$'000**
RESULTS					
Revenue	7,377,228	8,487,510	8,815,758	8,975,315	**9,036,609**
Profit (loss) before tax	298,238	109,732	305,999	121,712	**(10,606)**
Income tax expense	(47,393)	(22,542)	(40,034)	(18,157)	**(4,407)**
Profit (loss) for the year	250,845	87,190	265,965	103,555	**(15,013)**

	At 31 December				
	2012 HK$'000	2013 HK$'000	2014 HK$'000	2015 HK$'000	**2016** **HK$'000**
ASSETS AND LIABILITIES					
Total assets	5,055,356	5,217,040	5,239,953	5,115,104	**4,855,365**
Total liabilities	(3,192,246)	(3,287,954)	(3,156,516)	(3,042,450)	**(2,948,145)**
	1,863,110	1,929,086	2,083,437	2,072,654	**1,907,220**
Equity attributable to:					
Owners of the Company	1,689,814	1,775,760	1,922,188	1,911,330	**1,753,708**
Non-controlling interests	173,296	153,326	161,249	161,324	**153,512**
	1,863,110	1,929,086	2,083,437	2,072,654	**1,907,220**