AEON Stores (Hong Kong) Co., Limited

永旺(香港)百貨有限公司

2017 Annual Report

Stock Code: 984

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

HABU Yuki *(Chairman and Managing Director)*
IKUTA Masamitsu *(Deputy Managing Director)*
YAJIMA Hideaki
CHAK Kam Yuen
LAU Chi Sum Sam

Non-executive Director

WAKO Shinya

Independent Non-executive Directors

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

COMPANY SECRETARY

CHAN Kwong Leung Eric

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL BANKERS

Mizuho Bank, Ltd.
The Bank of Tokyo — Mitsubishi UFJ, Ltd.
Sumitomo Mitsui Banking Corporation
Standard Chartered Bank (Hong Kong) Limited
The Hong Kong and Shanghai Banking Corporation Limited

SHARE REGISTRARS

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

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

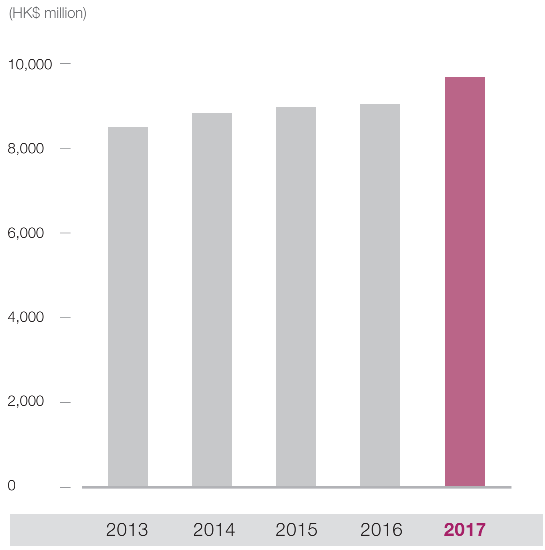
984

WEBSITE

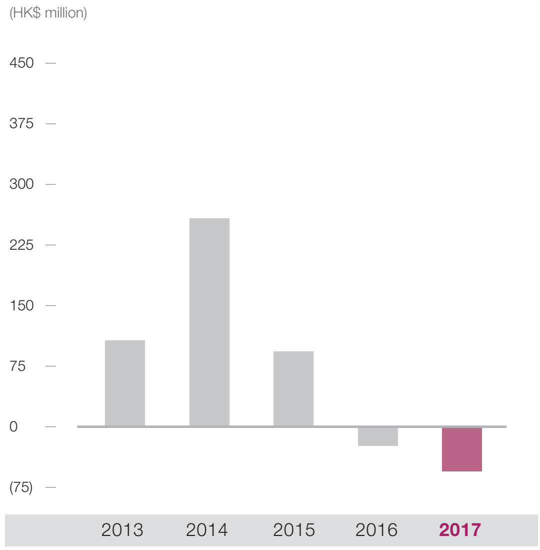
www.aeonstores.com.hk

FINANCIAL HIGHLIGHTS

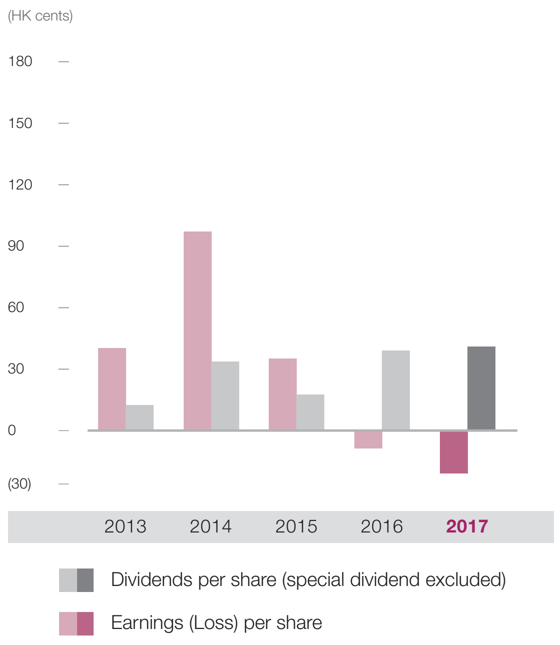
Revenue



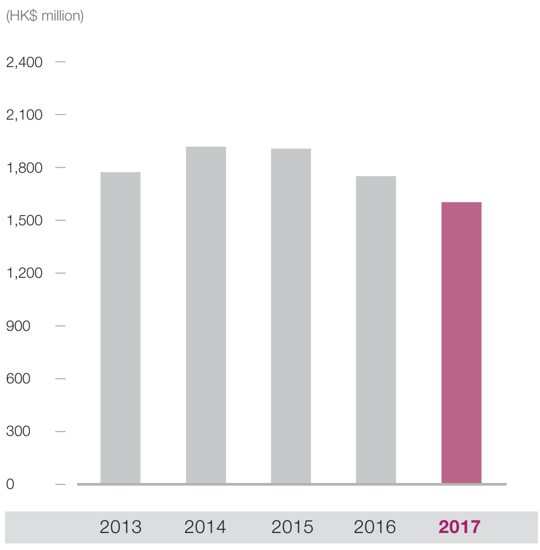
Profit (Loss) Attributable to Owners of the Company



Earnings (Loss) and Dividends per Share



Equity Attributable to Owners of the Company



MANAGEMENT DISCUSSION AND ANALYSIS

Ms. HABU Yuki
Chairman and Managing Director

In 2017, a lot of changes happened in the retail sector, with New Retail taking centre stage and online and offline integration picking up, as such, new ways and means came into play. Due to the continuous climb of living standards, transformation of retail models and merchandise portfolios needs to be implemented more quickly. During the year, AEON Stores (Hong Kong) Co., Limited (together with its subsidiaries ("AEON Stores" or the "Group")) actively carried out internal adjustments, reviewed all basic operations and strengthen retail technologies, to cement its foundation for supporting long term growth. It also continued to implement effective sales strategy. Boosted by these efforts plus the drive from the full period contribution of the renovated Kornhill and Whampoa stores that adopt the "AEON STYLE", a new business model from Japan, revenue of the Group climbed to historical high and the gross profit margin also increased. Nevertheless, the Group still faced different operational challenges, such as persistently high operating costs which posed pressure on its profit. To grasp business opportunities and overcome challenges, after reviewing the structure of its retail network and performance of individual stores, we strategically adjusted and optimised the stores while actively expanding in the market. It also reformed its supply chain and enriched its quality merchandise mix to meet ever-changing customer needs. Furthermore, the Group actively implemented a series of business strategies to improve operational performance. For example, it took reference from a similar campaign in the PRC and started the "Super Wednesday" initiative in Hong Kong, which was a great success, and as such had built for itself a new retail management model.

Business Review

Thanks to the abovementioned factors, the Group's total revenue increased by 7% to HK$9,665.5 million from HK$9,036.6 million in 2016. Gross profit margin climbed during the year to 31.3% (2016: 31.2%), owed mainly to the Hong Kong segment achieving gross profit margin growth. However, affected by the rise in operating costs, including labour and rental costs, as well as loss attributable to owners of the Company of HK$72.0 million (2016:HK$82.9 million) recorded in the first half of 2017 in addition to the one-off expenses, the Group recorded loss attributable to owners of the Company of HK$54.7 million (2016: loss of HK$23.2 million) for the full year. The Board recommended payment of a final dividend of HK22.0 cents. Together with the interim dividend of HK20.0 cents already paid during the year, total dividend for 2017 amounted to HK42.0 cents (2016: HK40.0 cents (excluding special dividend)).

Hong Kong Operations

In 2017, the Hong Kong economy improved slightly, with sales of the retail industry resuming moderate growth, which pushed up total retail sales for the full year of 2017 by 2.2%[1], putting a stop to the decline year-on-year since 2014. Driven by growth of the market and with the renovated Kornhill and Whampoa stores bringing in full period contribution, the revenue from Hong Kong operations increased by 11.5% to HK$4,267.7 million (2016: HK$3,826.6 million). Seeing the "Super Wednesday" initiative as an opportunity, the Group strengthened its operational capability and merchandise mix, which pushed up overall sales. The initiative also prompted the Group to improve supply chain management and as a result the overall gross profit margin of the Hong Kong operations grew. By implementing effective sales promotion and procurement strategies, as well as cost control measures, loss of the Hong Kong segment significantly narrowed to HK$47.8 million (2016: loss of HK$82.5 million).

[1] Census and Statistics Department of The Government of The Hong Kong Special Administrative Region

MANAGEMENT DISCUSSION AND ANALYSIS

During the year under review, the Group continued to look for suitable locations for opening new stores and added 10 new small stores. The lifestyle specialty store "ものもの (Mono Mono)", which opened last December, is a new business model tailored for local consumers craving chic style products. As at 31 December 2017, the Group had 64 (2016: 54) stores in densely populated residential and commercial districts in Hong Kong.

PRC Operations

As mainlanders' income rose and consumption sentiment grew, the retail market in the PRC gradually stabilised in 2017. During the year, the PRC segment's revenue grew by 3.6% to HK$5,397.9 million (2016: HK$5,210.0 million). Facing intensifying competition, the Group is well aware of the importance of customer relationship management and Big Data analysis to its business, so it has introduced at full force a new Customer Relationship Management (CRM) system, which will serve as a platform for subsequent precision marketing. Moreover, another important strategy of the Group is to boost gross profit margin by accelerating supply chain transformation. To achieve that goal, the Group adjusted some of its centralised procurement modes, in the hope of further reducing procurement costs and improving gross profit performance. To expedite its long term stable development in the Pearl River Delta, the Group has adjusted its store network as the vicinity of certain stores did not develop satisfactorily in the past few years and consequently incurred one-off store closure expenses. Mainly because of that, the PRC segment recorded loss of HK$41.5 million for the year (2016: a profit of HK$41.3 million). Excluding the impairment loss of property, plant and equipment and expenses incurred from store closures, the PRC segment recorded profit of HK$15.5 million.

During the period, the Group actively reviewed the performances of its stores and optimised its store portfolio by strategically closing and opening stores. In 2017, the Group closed three stores and opened four new stores in new locations. As at 31 December 2017, the Group operated 32 (2016: 31) stores in South China.

Financial Review

During the year, staff cost increased by 11.9%, mainly attributable to adjustment of staff salaries and additional labour costs incurred because of the increase in number of stores. The ratio of staff costs to revenue climbed to 12.7%. Adjustment of lease agreements resulted in a 3.3% rise in rental costs and the ratio of rental costs to revenue decreased from 12.0% to 11.6%. As for other operating expenses including advertising, promotion and selling expenses, maintenance and repair expenses, utility expenses and other expenses, as a result of the Group opening new stores to expand business, they increased by 4.3% and the ratio of these expenses to revenue declined from 11.7% to 11.4%.

As at 31 December 2017, the Group maintained a strong net cash position with no bank borrowings. Cash and bank balance and short term time deposits amounted to HK$2,216.9 million (2016: HK$2,225.4 million). Hence, the Group has sufficient internal resources to finance future business expansion.

As at 31 December 2017, deposits of HK$32.0 million (2016: HK$31.9 million) were pledged to the bank as guarantees of the rental deposits to landlords. And, deposits of HK$14.7 million (2016: HK$14.0 million) were pledged to regulatory bodies as guarantees for prepaid value cards sold.

In 2017, capital expenditure for opening new stores and store renovation in Hong Kong and the PRC amounted to HK$261.6 million. The Group will continue to finance future capital expenditure with internal resources and short-term borrowings.

Exchange rate fluctuation had no material impact on the Group's retail business during the year 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 gain of HK$3.7 million in 2017, against a loss of HK$19.7 million in the same period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Prospects

The Group operates mainly brick and mortar retail business, and in the past few years, while rapid changes happened in the PRC market, the Hong Kong market remained relatively stable. However, customers in both markets have raised the standards they require of quality of living, and to meet customers' demand, the Group has to keep refreshing its business models or services. The Group examined its business and realised that it should, on the solid foundation it has established over the years, address issues and challenges pragmatically, hasten transformation and improve efficiency, so that the resources it has accumulated over the years could be used better to foster its development. With 30 years of successful experience and commitment to innovation, AEON Stores will strive to capture opportunities to apply its "Customer-First" philosophy on the base of its fundamental principles. Its goals are to fully realise the potential of AEON Stores and take its business to new heights, and ultimately become the preferred retailer of customers.

Hong Kong Operations

Looking forward, with the overall economic environment and retail market in Hong Kong continuing to stabilise in 2017, the Group remains cautiously optimistic about the prospects of its business in 2018. In the year ahead, the Group will continue the strategy of actively opening small specialty stores, and also embark on transforming, in extent as required, some existing stores, incorporating "AEON STYLE" elements to help improve their efficiency. At the same time, the Group will actively explore opportunities of opening stores of different models in Hong Kong.

To better control costs, the Group plans to kick off the study of Robotic Process Automation (RPA), which is an attempt to fundamentally optimise workflow, reduce workload and attack the roots of the problem of escalating labour costs.

Another goal of the Group is to increase application of its information technology system in business operation, including replacing the backbone system which has been in use for 20 years, and actively bring in CRM and self-serviced cashier systems. The Group will allocate more resources to enhance the efficiency of front-line operations and improve user experience of "AEONCITY", for the purpose of boosting online sales that it may stand out in the market. On the e-commerce front, the Group also hopes to explore opportunities of cooperating with third parties, as a way to speed up its development.

In the first two months of 2018, the Group opened a new small store in Wanchai. In the future, the Group will continue to examine and timely adjust its existing store portfolio and look for opportunities to open more small stores in Hong Kong.

PRC Operations

As the PRC economy continues on the steady growth track, and the Chinese people affording stronger spending power and craving ever higher quality of living, the Group continues to be cautiously optimistic about the future performance of the PRC operations. It sees the PRC operations as one of its major future growth drivers. The Group will maintain its active store opening strategy and identify, more scientifically and prudently, store locations to expand its business in the PRC. Currently, the Group plans to open five GMS and three GMS in the PRC in 2018 and 2019 respectively, and will introduce the proven "AEON STYLE" business model to its stores in first-tier cities such as Shenzhen and Guangzhou in the second half of 2018, with the aim of providing new shopping experience to mainland customers with high spending potential. The Group will, together with "AEON MALL", strengthen development in new districts and also cooperate with other well-established shopping mall operators to open GMS in areas with potential to enlarge its market share and drive continuous business development. Moreover, the Group will set up a new business team to help it explore opportunities for opening small specialty stores in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

In addition, in view of the boom of online sales in recent years in the PRC, the Group will continue to strengthen cooperation with famous third-party online shopping platforms, such as JD.com and WeChat, to drive retail digitalization and deepen insights on consumers' patterns, thereby broaden its income streams and develop an online-to-offline (O2O) business model.

The Group expects its total capital expenditure in 2018 to reach approximately HK$500 million, which will be mainly spent on opening new stores, renovating stores and enhancing back-office support to boost business efficiency. Among which, the Group will focus on enhancing its internal information technology system comprehensively to strengthen its infrastructure and provide support to business development. Moreover, it will also further apply technologies in its daily operations, including optimising self-service checkout lanes and offering more mobile payment options to customers (e.g. WeChat Pay and Alipay), which can provide greater convenience to customers as well as allow the Group to lower labour cost.

Company Objectives

Adhering to the concept of “operating a business that can fully satisfy customer needs”, the Group endeavours to provide customers with a healthy, safe and convenient shopping environment and services to enhance their quality of living. All AEON employees share the same service concept and are dedicated to creating long-term value for the Group by gaining customers’ trust. In the future, the Group will focus on expanding its market share in the PRC and Hong Kong, and also actively drive business growth and enhance operational efficiency and lower costs. The Group truly believes the above measures will generate stable and satisfactory returns for shareholders and all stakeholders.

Human Resources

As at 31 December 2017, the Group had 8,100 full-time and 3,800 part-time employees in Hong Kong and the PRC. The Group remunerates employees based on their performance, experience and prevailing industry practices. Committed to delivering the highest standard service to all customers, the Group will continue to enhance the quality and skills of its employees by providing them with professional training and mentorship. It also strives to create a working environment that can foster comradeship among employees.

Yuki HABU
Chairman and Managing Director

Hong Kong, 23 March 2018

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

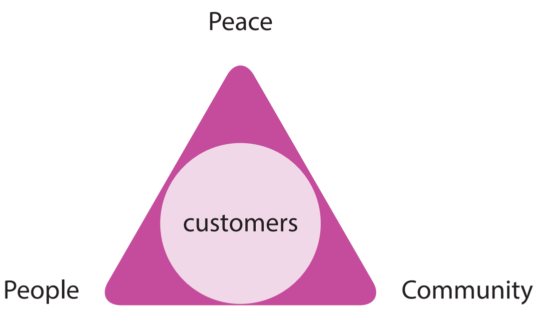
The Company is committed to the sustainable development of the environment and our society.

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 Group operates a variety of retail outlets with different characteristics or focuses ("Store Portfolios"), ranged from large scale regional shopping outlets to small scale specialty stores, to cater for different lifestyle of our customers at different locations.

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 2017, 1,052 tonnes (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 2017, 114,161 tonnes (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 2017, 4,070 tonnes (2016: 3,714 tonnes) of food waste was collected for recycling.

Aeon recycles waste cooking oil into biodiesel products. In 2017, 66,750 litres (2016: 62,864 litres) of waste oil was collected for recycling.

Different emissions data reported above are stated in the total amount of their measuring units. As the Group is operating a variety of Store Portfolios, intensity data (e.g per store or per gross sales area) are not prepared because such indicators may not be meaningful.

(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 157.6 million kWh and 17.0 million MJ respectively (2016: 152.4 million kWh and 16.4 million MJ). 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 (2016: 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 258,100 Kg (2016: 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.

Different use of resources data reported above are stated in the total amount of their measuring units. As the Group is operating a variety of Store Portfolios, intensity data (e.g per store or per gross sales area) are not prepared because such indicators may not be meaningful.

(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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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$2.4 million were donated to 126 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ii) Clean and green activities, consists of employees volunteering to plant trees, clean up areas around stores and areas surrounding public facilities. Staff volunteers contributed to visits of elderly homes, mentally handicapped centres and under-privileged families to convey love and care. Staff volunteers also jointed cleanup groups of disaster stricken area to render our support. In the year nearly 4,000 trees were planted and 2,400 sets of planting kits were distributed to customers to promote green lifestyle.

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, 49 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 250,000 books were collected and raised approximately HK$1.5 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 47,000 items valued HK$1.1 million were donated to a food bank run by charitable organization.

SENIOR MANAGEMENT PROFILE

Executive Directors

Ms. HABU Yuki

Ms. Habu (aged 50) was appointed as Non-executive Director in March 2014 and re-designated as Executive Director in May 2017. She became the Chairman in April 2015 and the Managing Director in May 2017. She is also an executive officer, chief officer of China Business of Aeon Co., Ltd. ("Aeon Co") from March 2017. 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.. Ms. Habu graduated from the Keio University with a bachelor's degree in Commerce.

Mr. IKUTA Masamitsu

Mr. Ikuta (age 51) was appointed as Executive Director and Deputy Managing Director in March 2017. He is the Director in charge of the Buying Division and Specialty Business 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. YAJIMA Hideaki

Mr. Yajima (age 57) was appointed as Executive Director in May 2015. He was also the Deputy Managing Director between January 2016 and May 2017. He is the Director in charge of the Administration Division of the Company. He joined 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. CHAK Kam Yuen

Mr. Chak (aged 55) was appointed as Executive Director in March 2013 and is in charge of Corporate Compliance 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 51) was appointed as Executive Director in March 2017 and is in charge of the Operations Division of the Company. He joined the Company in 1992 and possesses extensive experience in retail operations and buying field.

Non-executive Director

Mr. WAKO Shinya

Mr. Wako (aged 61) 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. CHAN Yi Jen Candi Anna

Ms. Chan (aged 56) was appointed as Independent Non-executive Director in May 2013. She is a practicing solicitor in Hong Kong for over 27 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 55) was appointed as Independent Non-executive Director in November 2013. She is a qualified solicitor in Hong Kong and has over 27 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 58) 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 31 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 54) 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 54) is the Assistant General Manager of Business Support 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, except for certain deviations disclosed in this report.

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 9 Directors, being 5 Executive Directors, 1 Non-executive Directors and 3 Independent Non-executive Directors. The number of Independent Non-executive Directors represents 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 14 to 15 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 the five Board meetings out of the six meetings held in the year, at least 14 days' notice is given to all Directors. One Board meeting was convened with less than 14 days' notice to facilitate the Directors' timely reaction and expeditious decision making process in respect of the affairs of the Company. All Board meetings, nevertheless, were duly convened and held in the way prescribed by the Articles of Association of the Company. 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 other Executive Directors.

CORPORATE GOVERNANCE REPORT

Directors' attendance at Board meetings are set out as follows:

	Directors	Number of attendance
Executive Directors	Yuki Habu *(Chairman and MD)* (Note 1)	6/6
	Masamitsu Ikuta *(Deputy MD)* (Note 2)	4/4
	Hideaki Yajima *(Former Deputy MD)* (Note 3)	6/6
	Chak Kam Yuen	6/6
	Lau Chi Sum Sam (Note 4)	4/4
	Chan Pui Man Christine *(Former MD)* (Note 5)	3/3
	Yoshiaki Mizushima *(Former Deputy MD)* (Note 6)	2/2
Non-executive Director	Shinya Wako	6/6
Independent Non-executive Directors	Chan Yi Jen Candi Anna	6/6
	Lo Miu Sheung Betty	6/6
	Chow Chi Tong	6/6
	Cheng Yin Ching Anna (Note 7)	2/3

Notes:

1. Ms. Yuki Habu was re-designated from a Non-executive Director to an Executive Director and appointed as the Managing Director on 31 May 2017.

2. Mr. Masamitsu Ikuta was appointed as an Executive Director and Deputy Managing Director on 22 March 2017 and there were 4 Board meetings held after his appointment.

3. Mr. Hideaki Yajima ceased as Deputy Managing Director on 31 May 2017.

4. Mr. Lau Chi Sum Sam was appointed as an Executive Director on 22 March 2017 and there were 4 Board meetings held after his appointment.

5. Ms. Chan Pui Man Christine retired as an Executive Director and resigned as the Managing Director on 31 May 2017.

6. Mr. Yoshiaki Mizushima resigned as an Executive Director and the Deputy Managing Director on 22 March 2017.

7. Ms. Cheng Yin Ching Anna retired as an Independent Non-executive Director on 31 May 2017.

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.

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 held on 31 May 2017 is as follows:

	Directors	Number of attendance
Executive Directors	Yuki Habu *(Chairman and MD)* (Note 1)	1/1
	Masamitsu Ikuta *(Deputy MD)* (Note 2)	1/1
	Hideaki Yajima *(Former Deputy MD)* (Note 3)	1/1
	Chak Kam Yuen	1/1
	Lau Chi Sum Sam (Note 4)	1/1
	Chan Pui Man Christine *(Former MD)* (Note 5)	1/1
	Yoshiaki Mizushima *(Former Deputy MD)* (Note 6)	0/0
Non-executive Director	Shinya Wako	0/1
Independent Non-executive Directors	Chan Yi Jen Candi Anna	1/1
	Lo Miu Sheung Betty	1/1
	Chow Chi Tong	1/1
	Cheng Yin Ching Anna (Note 7)	0/1

Notes:

1. Ms. Yuki Habu was re-designated from a Non-executive Director to an Executive Director and appointed as the Managing Director on 31 May 2017.

2. Mr. Masamitsu Ikuta was appointed as an Executive Director and Deputy Managing Director on 22 March 2017.

3. Mr. Hideaki Yajima ceased as Deputy Managing Director on 31 May 2017.

4. Mr. Lau Chi Sum Sam was appointed as an Executive Director on 22 March 2017.

5. Ms. Chan Pui Man Christine retired as an Executive Director and resigned as the Managing Director on 31 May 2017.

6. Mr. Yoshiaki Mizushima resigned as an Executive Director and the Deputy Managing Director on 22 March 2017.

7. Ms. Cheng Yin Ching Anna retired as an Independent Non-executive Director on 31 May 2017.

Directors' Induction and continuous Professional Development

The newly appointed Directors were given an induction after their appointment so as to ensure that they had 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 and/or external training seminars throughout the year according to the records provided by the Directors is as follows:

	Directors	Directors' participation in trainings
Executive Directors	Yuki Habu *(Chairman and MD)*	✓
	Masamitsu Ikuta *(Deputy MD)*	✓
	Hideaki Yajima *(Former Deputy MD)*	✓
	Chak Kam Yuen	✓
	Lau Chi Sum Sam	✓
	Chan Pui Man Christine *(Former MD) (*Note 1)	—
	Yoshiaki Mizushima *(Former Deputy MD)* (Note 2)	—
Non-executive Director	Shinya Wako	✓
Independent Non-executive Directors	Chan Yi Jen Candi Anna	✓
	Lo Miu Sheung Betty	✓
	Chow Chi Tong	✓
	Cheng Yin Ching Anna (Note 3)	—

Notes:

1. Ms. Chan Pui Man Christine retired as an Executive Director and resigned as the Managing Director on 31 May 2017.

2. Mr. Yoshiaki Mizushima resigned as an Executive Director and the Deputy Managing Director on 22 March 2017.

3. Ms. Cheng Yin Ching Anna retired as an Independent Non-executive Director on 31 May 2017.

Under code provision A.6.5 of the Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills, and should provide a record of the training they received to the issuer. Ms. Chan Pui Man Christine and Mr. Yoshiaki Mizushima, being former Directors, had not provided a record of the training to the Company and Ms. Cheng Yin Ching Anna, being former Director, had not attended any training during the period from 1 January 2017 to 31 May 2017.

Chairman and Chief Executive

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

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

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 Nomination 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.

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
Executive Director	Yuki Habu *(Chairman)* (Note 1)	2/2
Independent Non-executive Directors	Chan Yi Jen Candi Anna	2/2
	Lo Miu Sheung Betty	2/2
	Chow Chi Tong	2/2
	Cheng Yin Ching Anna (Note 2)	1/2

Notes:

1. Ms. Yuki Habu was re-designated from a Non-executive Director to an Executive Director on 31 May 2017.

2. Ms. Cheng Yin Ching Anna resigned as a member of the Nomination Committee of the Company on 31 May 2017.

During 2017, the Nomination Committee performed the following duties:

— reviewed the size, structure and composition of the Board;

— 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; and

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

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.

CORPORATE GOVERNANCE REPORT

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

	Directors	Number of attendance
Executive Director	Yuki Habu (Note 1)	2/2
Independent Non-executive Directors	Chan Yi Jen Candi Anna *(Chairman)*	2/2
	Lo Miu Sheung Betty	2/2
	Chow Chi Tong	2/2
	Cheng Yin Ching Anna (Note 2)	1/2

Notes:

1. Ms. Yuki Habu was re-designated from a Non-executive Director to an Executive Director on 31 May 2017.

2. Ms. Cheng Yin Ching Anna resigned as a member of the Remuneration Committee of the Company on 31 May 2017.

During 2017, 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.

— reviewed and made recommendations to the Board on the proposed remuneration of new Directors.

Details of the remuneration paid to Directors and members of senior management by band for the year ended 31 December 2017 are disclosed in the notes 15 and 16 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	5,166
Non-audit services:	
Review of interim results	754
Taxation services	2,077
Other services	340
	8,337

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.

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
Executive Director	Yuki Habu (Note 1)	2/2
Independent Non-executive Directors	Chow Chi Tong *(Chairman)* (Note 2)	4/4
	Chan Yi Jen Candi Anna	4/4
	Lo Miu Sheung Betty	4/4
	Cheng Yin Ching Anna (Note 3)	2/2

Notes:

1. Ms. Yuki Habu was re-designated from a Non-executive Director to an Executive Director and resigned as a member of Audit Committee of the Company on 31 May 2017.

2. Mr. Chow Chi Tong was appointed as the chairman of Audit Committee of the Company on 31 May 2017.

3. Ms. Cheng Yin Ching Anna resigned as the chairman of the Audit Committee of the Company on 31 May 2017.

During 2017, the Audit Committee performed the following duties:

— reviewed the audited financial statements for the year ended 31 December 2016 with a recommendation to the Board for approval;

— reviewed the un-audited financial statements for the six months ended 30 June 2017 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 the auditor's non-audit services;

— reviewed the remuneration in respect of audit and non-audit services provided by external auditor; and

— reviewed the independence and objectivity of external auditor.

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 REPORT

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 2017 and for the year ended 31 December 2017, 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 37 to 42 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 reviews and assesses if the risks are addressed and prioritized with reference to the Group's objectives. The two are put together to determine the Group's key risk areas.

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

A. Transaction and Legal Matters

B. Society and Economy

C. Natural Disaster

D. Politics

E. Technology

F. Business and Corporate Governance

F1. Finance

F2. Product and Service

F3. Employment

F4. Information Security

G. Environment

H. Health and Safety

I. Facility 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 are 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.

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 2017.

CORPORATE GOVERNANCE REPORT

Shareholders' Rights

Convening a General Meeting by Shareholders

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 a 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 2017.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017.

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 Management Discussion and Analysis on pages 4 to 7 of this annual report. Description of possible risks and uncertainties that the Group may be facing can be found in the Management Discussion and Analysis on pages 4 to 7 and in the Corporate Governance report Risk Management and Internal Controls on pages 23 to 24 of this annual report. Also, the financial risk management objectives and policies of the Group can be found in note 38 and 39 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 4 to 7 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 8 to 13 of this annual report.

Subsidiaries

Details of the Company's subsidiaries as at 31 December 2017 are set out in note 41 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 43 to 44 of this annual report.

An interim dividend of 20.0 HK cents per share amounting to HK$52,000,000 was paid to the shareholders during the year. The Board has recommended the payment of a final dividend of 22.0 HK cents per share amounting to HK$57,200,000 to the shareholders on the register of members on 8 June 2018.

Fixed Assets

During the year, the Group has incurred approximately HK$262,000,000 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 19 to the consolidated financial statements.

Distributable Reserves of the Company

The Company's reserves available for distribution to shareholders as at 31 December 2017 were the retained profits of HK$1,397,220,000 (2016: HK$1,519,836,000).

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

Yuki HABU *(Chairman and Managing Director)*	Re-designated from Non-executive Director to Executive Director, appointed as Managing Director on 31 May 2017
Masamitsu IKUTA *(Deputy Managing Director)*	Appointed on 22 March 2017
Hideaki YAJIMA	Ceased as Deputy Managing Director on 31 May 2017
CHAK Kam Yuen	
LAU Chi Sum Sam	Appointed on 22 March 2017
CHAN Pui Man Christine	Resigned on 31 May 2017
Yoshiaki MIZUSHIMA	Resigned on 22 March 2017

Non-executive Director

Shinya WAKO

Independent Non-executive Directors

CHAN Yi Jen Candi Anna	
LO Miu Sheung Betty	
CHOW Chi Tong	
CHENG Yin Ching Anna	Resigned on 31 May 2017

In accordance with Articles 85 and 101 of the Company's Articles of Association, all Directors 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, Egami HIROKI, Omoto MASATOSHI, Yoshiaki MIZUSHIMA, Hideaki YAJIMA, CHAK Kam Yuen, Masamitsu IKUTA, LAU Chi Sum Sam, Hiroyuki INOHARA, Ye Qing, YEUNG Tze Shing 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 2017, the interests of the Directors in the shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("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:

Aeon Co., Ltd., the Company's ultimate holding company

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

Notes:

1. As confirmed by Ms. Yuki Habu, her shareholding in Aeon Co., Ltd. is 8,460 shares.

2. As confirmed by Mr. Shinya Wako, his shareholding in Aeon Co., Ltd. is 7,400 shares.

Other than as disclosed above, at 31 December 2017, neither the Directors nor the chief executives of the Company had any interests or short positions in any shares and debentures of the Company or any of its associated corporations (within the meaning of PART XV of the SFO).

Directors' Interests in Contracts of Significance

Other than as disclosed under the heading "Related Party Transactions" as set out in Note 37 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 continuing 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.

DIRECTORS' REPORT

(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 rents, 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 rents, management fees, utility expenses and other charges paid and payable by GDA for the year was RMB50,375,273. 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$27,857,569. 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.

DIRECTORS' REPORT

(iii) On 13 April 2017, the Company and AEON Credit Service (Asia) Company Limited ("ACS") 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 2017 to 14 April 2020. 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 shall pay commissions to ACS in respect of (1) credit purchase facilities made available to customers of the Company for making purchases at the Company's stores with the use of the various co-branded credit cards issued by ACS; (2) card instalment plan made available to customers of the Company for making purchases of goods and/or services at the Company's stores; (3) other payment solutions made and to be made available to customers of the Company for making purchases from time to time, including the usage of any kind of credit, debit, pre-paid and/or stored value cards or other medium or facilities owned and/or operated by ACS; and (4) other related services provided to the Company or its customers which are derived from or ancillary to the transactions described above or arising out of the cards or other medium or facilities from time to time. The commissions are calculated on the basis of fixed percentages of the sales generated by the credit purchase facilities or the payment solutions provided by ACS, depending on the type of service provided. These commission rates (as may be revised from time to time) are and will be determined between the Company and ACS after arm's length negotiations. In negotiating and agreeing the commission rates and other terms of the Commission Payment Transactions with ACS, the Company takes into account the prevailing market commission rates for similar types of transactions that are provided and/or made available by independent third parties to the Company and gives credit to ACS for any ancillary services provided and to be provided to the customers of the Company by ACS. Further, the Company has compared the fees charged by other independent third parties in the market for similar services to ensure that the price and terms offered by ACS are better than those offered by such third parties. The total amount of commissions paid and payable by the Company for the year was HK$12,865,314. This amount does not exceed the aggregated cap amount of HK$19,700,000 for the same period as shown in the announcements of the Company dated 16 April 2014 and 13 April 2017.

(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 RMB65,285,853. 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 RMB1,236,777. This amount does not exceed the enlarged cap amount of RMB6,000,000 as shown in the announcement of the Company dated 14 October 2016.

DIRECTORS' REPORT

(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 RMB1,165,840. This amount does not exceed the cap amount of RMB7,100,000 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 RMB17,971,050. This amount does not exceed the cap amount of RMB27,100,000 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$4,570,000. This amount does not exceed the cap amount of HK$12,500,000 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$10,944,173. 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.

DIRECTORS' REPORT

(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 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 constitutes 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 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 constitutes 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$319,276,415. This amount does not exceed the cap amount of HK$590,000,000 as shown in the announcement of the Company dated 31 March 2016 and 5 May 2016.

(xi) On 16 June 2017 the Company entered into the Master Services Agreement with 永旺環球(北京)國際貨運代理有限公司 ("AGSCM"), pursuant to which AGSCM and its subsidiaries ("AGSCM Group") will provide consultancy and logistic services ("Services") to 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 "the Group"). The term of the Master Services Agreement shall be a period of three years from 16 June 2017 to 15 June 2020. AGSCM is a subsidiary of Aeon Co., Ltd., a controlling shareholder of the Company and the entering into the Master Services Agreement constitute continuing connected transactions of the Company.

The Group selects providers for the Services with reference to prevailing market conditions and based on a procurement process conducted on arm's length basis, and makes their selection based on normal commercial considerations. In relation to the procurement process, the relevant member of the Group may, in their sole and absolute discretion, invite the AGSCM Group to tender to provide certain Services. If the AGSCM Group is invited to tender, the relevant member of the Group will also invite quotations or tenders from at least two other independent third party suppliers for such Services. The management of the relevant member of the Group will then compare the quotations offered by the respective bidders and conduct an assessment, taking into account factors such as their background and reputation, any existing business relationship with such bidders, the price, scope and quality of services offered by the bidders. The relevant member of the Group will consider and compare the prices offered by the different bidders based on their respective monthly service fees. For logistics services, the manpower costs (based on fixed monthly rates that vary for the different personnel) and handling charges (based on fixed rates that vary depending on the type of merchandise involved and services provided) will also be considered. After considering the abovementioned factors, the management of the relevant member of the Group will then decide on which bidder to engage and enter into a service contract with for the provision of Services.

The aggregated transaction amount of the Master Services Agreement in the year was RMB4,596,760. This amount does not exceed the cap amount of RMB5,000,000 as shown in the announcement of the Company dated 16 June 2017.

(xii) On 15 August 2017, Guangdong AEON Teem Stores Co., Ltd. ("GDA"), a subsidiary of the Company and the Sublessees entered into the Sublease Agreements (as defined in the announcement dated 15 August 2017) in respect of the sublease of certain areas located at the 5th Floor Fortune Plaza West Tower, No. 118 Tiyu East Road, Tian He District, Guangzhou. Pursuant to the Sublease Agreements, each of the Sublessees pays deposits, rents, management fees, utilities charges and other fees in relation to the use of the Sublease Premises to GDA. The Sublease Agreements have a term of three years from 1 August 2017 to 31 July 2020. Each of the Sublessees is a connected person of the Company by virtue of it being a subsidiary of Aeon Co., Ltd., the controlling shareholder of the Company. Accordingly, the transactions under each of the Sublease Agreements constitute continuing connected transactions of the Company. The terms of the Sublease Agreements have been reached after arm's length negotiations between the relevant parties. The total amount of rents, management fees, utilities expenses and other fees received and receivable by GDA in the year was RMB1,060,434. This amount does not exceed the cap amount of RMB1,100,000 as shown in the announcement of the Company dated 15 August 2017.

(xiii) On 30 August 2017 the Company and AEON Integrated Business Service China Co., Limited, ("AIBS") entered into the IT Master Agreement, pursuant to which AIBS shall provide the relevant IT related Services (as defined in the announcement dated 30 August 2017) to the Company and any of its subsidiaries, each a "Member". The term of the IT Master Agreement shall be a period of three years from 30 August 2017 to 29 August 2020. AIBS is a connected person of the Company by virtue of it being a subsidiary of Aeon Co., Ltd., the controlling shareholder of the Company. Accordingly, the transactions under the IT Master Agreement constitute continuing connected transactions of the Company. Pursuant to the IT Master Agreement, the fees for the provision of Services by AIBS shall be charged on a cost-plus basis, representing the Actual Costs plus a mark-up rate of not more than 10%. The prices offered by AIBS shall be no less favourable than (i) prices available in the market for the same or similar services and (ii) the prices offered by AIBS to its other Users (i.e. parties, including the Members, who are using services provided by AIBS which are the same as or similar to the Services), if any. The total aggregated amount of service fees paid and payable by the Company Group to AIBS in the year was RMB6,398,965. This amount does not exceed the cap amount of RMB28,000,000 as shown in the announcement of the Company 30 August 2017.

(xiv) On 7 November 2017 Guangdong AEON Teem Stores Co., Ltd. ("GDA"), a subsidiary of the Company and永旺夢樂城(佛山南海)商業管理有限公司 ("AMBM") entered into the Master Agreements to govern certain transactions arising out of GDA's lease of the premises at 佛山市南海區大瀝鎮聯滘滘口路13號負一層店號0001, 一層店號1001, 二層店號2001, 三層店號3001. The term of the Master Agreement shall be a period of three years from 19 December 2017 to 18 December 2020. AMBM is a connected person of the Company by virtue of it being an indirect subsidiary of Aeon Co., Ltd., the controlling shareholder of the Company. Accordingly, the transactions under the Master Agreement constitute continuing connected transactions of the Company. GDA's leased premises are located in the Dali Mall and AMBM is the head tenant of the Dali Mall. AMBM, as head tenant, is responsible for making payment of utilities expenses and property management fees in respect of the entire Dali Mall. The amounts paid by GDA to AMBM pursuant to the Master Agreement represent GDA's proportionate contribution to such expenses and fees, which will then be paid by AMBM to relevant authorities or parties on behalf of GDA. The rates for utilities expenses and property management fees are no less favourable than those applicable to AMBM or its other tenants. The total aggregated amount of the fees paid and payable by the Company Group to AMBM in the year was RMB270,561. This amount does not exceed the cap amount of RMB1,200,000 as shown in the announcement of the Company dated 7 November 2017.

DIRECTORS' REPORT

During the year, the above continuing connected transactions were carried out within their respective applicable annual caps for the year. 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 Group; (ii) on normal commercial terms or on terms no less favorable to the Group 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.

The related party transactions as disclosed in note 37 to the consolidated financial statements also fell under the definition of "connected transaction" or "continuing connected transactions" in Chapter 14A of the Listing Rules. The Group has complied with the disclosure requirements, where applicable, in accordance with Chapter 14A of 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 2017, 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.	157,536,000 (Note 1)	60.59
Aberdeen Asset Management Plc and its Associates (together "the Aberdeen Group") on behalf of accounts managed by the Aberdeen Group	29,919,500 (Note 2)	11.51

Note 1: These shares are held as to 148,760,000 shares by AEON Co., Ltd., 7,000,000 shares by AEON (U.S.A.), Inc., and 1,776,000 shares by 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: As confirmed by Aberdeen Asset Management Plc and its associates (together "the Aberdeen Group"), these shares are held by the Aberdeen Group on behalf of accounts managed by the Aberdeen Group in the capacity of an investment manager. Aberdeen Group has the power to vote as to 29,538,500 shares representing 11.36% of the total number of issued shares of the Company.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company as at 31 December 2017.

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 approximately HK$2,102,000.

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

Save as disclosed above, based on the information that is publicly available to the Company and with the knowledge of the Directors, the Company has maintained sufficient public float since 13 June 2017 and up to the date of this report.

DIRECTORS' REPORT

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 and Managing Director

Hong Kong, 23 March 2018

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 43 to 97, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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.

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 2017, 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 notes 4 and 20 to the consolidated financial statements, determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units 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 cash-generating units by considering the budgeted sales and gross margins 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 2017 and as at 31 December 2017.	Our procedures in relation to management's impairment assessment include: • Obtaining the cash flow forecasts prepared by management, reviewing and discussing with management on the major assumptions adopted in the cash flow forecasts for each cash-generating unit and checking arithmetic accuracy of the forecast calculation; • Comparing the growth rates, budgeted sales and gross margins 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 forecasts by benchmarking against the required rate of return adjusted for industry specific factors; • Assessing the sensitivity analysis prepared by management on the significant assumptions to evaluate the extent of impact of these assumptions on the cash flow forecasts; and • Evaluating the accuracy of historical cash flow forecasts prepared by the management by comparing the historical cash flow forecasts with the actual performance.

INDEPENDENT AUDITOR'S REPORT

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 2017, property, plant and equipment comprise building fixtures, furniture, fixture and equipment, motor vehicles and construction in progress amounted to HK$881,412,000, net of accumulated impairment loss of HK$176,542,000.

As further disclosed in notes 4 and 19 to the consolidated financial statements, determining whether property, plant and equipment is impaired requires an estimation of the value in use of the cash-generating units 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 cash-generating units by considering the budgeted sales and gross margins 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$19,134,000 was recognised in profit or loss during the year ended 31 December 2017.

How our audit addressed the key audit matter

Our procedures in relation to management's impairment assessment include:

- Obtaining the cash flow forecasts prepared by management, reviewing and discussing with management on the major assumptions adopted in the cash flow forecasts for each cash-generating units and checking arithmetic accuracy of the forecast calculation;
- Comparing the growth rates, budgeted sales and gross margins to historical results and reference to the market information based on our knowledge of the retail markets to determine their reasonableness;
- Challenging the discount rates used by management in the cash flow forecasts by benchmarking against the required rate of return adjusted for industry specific factors;
- Assessing the sensitivity analysis prepared by management on the significant assumptions to evaluate the extent of impact of these assumptions on the cash flow forecasts; and
- Evaluating the accuracy of historical cash flow forecasts prepared by the management by comparing the historical cash flow forecasts with the actual performance.

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 2017, inventories comprise merchandise held for resale amounting to HK$950,925,000 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 the consideration of customer demand, condition, aging analysis and subsequent sales information. The Group carried out an 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 made allowance of HK$2,941,000 on obsolete and slow moving items to write off inventories to their NRVs during the year ended 31 December 2017.	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 the basis of inventory allowance/write down; • Testing inventory aging analysis, on a sample basis, to the goods receipt documents and assessing 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 challenged the assumption made where there are 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 aging 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.

INDEPENDENT AUDITOR'S REPORT

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 Tan Wei Ming.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
23 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTES	2017 HK$'000	2016 HK$'000
Revenue	5	**9,665,539**	9,036,609
Other income	7	**603,323**	612,465
Investment income	8	**26,155**	30,737
Purchases of goods and changes in inventories		**(6,638,768)**	(6,212,937)
Staff costs		**(1,226,873)**	(1,096,029)
Depreciation	19	**(226,127)**	(207,797)
Operating lease rental expenses		**(1,119,473)**	(1,084,050)
Other expenses	9	**(1,103,392)**	(1,058,474)
Pre-operating expenses	10	**(25,187)**	(5,133)
Other gains and losses	11	**(18,375)**	(25,881)
Finance costs	12	**(29)**	(116)
Loss before tax		**(63,207)**	(10,606)
Income tax expense	13	**(11,015)**	(4,407)
Loss for the year	14	**(74,222)**	(15,013)
(Loss) profit for the year attributable to:			
Owners of the Company		**(54,749)**	(23,228)
Non-controlling interests		**(19,473)**	8,215
		(74,222)	(15,013)
Loss per share — basic	18	**21.06 HK cents**	8.93 HK cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 **HK$'000**	2016 HK$'000
Loss for the year	**(74,222)**	(15,013)
Other comprehensive income (expense)		
Items that may be subsequently reclassified to profit or loss		
Exchange differences on translation of foreign operations	**15,003**	(23,291)
Fair value gain on available-for-sale investments	**3,047**	1,273
Other comprehensive income (expense) for the year, net of income tax	**18,050**	(22,018)
Total comprehensive expense for the year	**(56,172)**	(37,031)
Total comprehensive expense for the year attributable to:		
Owners of the Company	**(44,065)**	(33,441)
Non-controlling interests	**(12,107)**	(3,590)
	(56,172)	(37,031)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

	NOTES	2017 HK$'000	2016 HK$'000
Non-current Assets			
Property, plant and equipment	19	**881,412**	851,719
Goodwill	20	**94,838**	94,838
Available-for-sale investments	21	**24,158**	21,111
Pledged bank deposits	22	**27,026**	27,431
Deferred tax assets	23	**69,519**	70,461
Rental and related deposits paid	24	**249,029**	254,936
		1,345,982	1,320,496
Current Assets			
Inventories	25	**950,925**	973,518
Trade receivables	24	**63,671**	47,885
Other receivables, prepayments and deposits	24	**187,459**	173,671
Amounts due from fellow subsidiaries	26	**58,031**	75,224
Tax recoverable		**—**	20,676
Time deposits	27	**169,234**	455,458
Pledged bank deposits	22	**19,703**	18,513
Bank balances and cash	28	**2,047,712**	1,769,924
		3,496,735	3,534,869
Current Liabilities			
Trade payables	29	**1,384,471**	1,324,037
Other payables, accrued charges and other liabilities	29	**1,416,898**	1,293,890
Dividend payable		**472**	505
Amount due to ultimate holding company	30	**29,541**	26,487
Amounts due to fellow subsidiaries	30	**65,111**	76,047
Tax liabilities		**5,972**	22,618
Obligation under a finance lease	31	**—**	724
		2,902,465	2,744,308
Net Current Assets		**594,270**	790,561
Total Assets Less Current Liabilities		**1,940,252**	2,111,057

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

	NOTES	2017 HK$'000	2016 HK$'000
Capital and Reserves			
Share capital	32	**115,158**	115,158
Reserves		**1,490,543**	1,638,550
Equity attributable to owners of the Company		**1,605,701**	1,753,708
Non-controlling interests		**137,670**	153,512
Total Equity		**1,743,371**	1,907,220
Non-current Liabilities			
Rental deposits received and other liabilities	29	**196,054**	198,500
Deferred tax liabilities	23	**827**	5,337
		196,881	203,837
		1,940,252	2,111,057

The consolidated financial statements on pages 43 to 97 were approved and authorised for issue by the board of directors on 23 March 2018 and are signed on its behalf by:

YUKI HABU
Director

MASAMITSU IKUTA
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	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	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2016	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 of reserves	–	–	–	1,680	–	(1,680)	–	–	–
Dividends recognised as distribution (note 17)	–	–	–	–	–	(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
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(54,749)**	**(54,749)**	**(19,473)**	**(74,222)**
Other comprehensive income for the year	**–**	**3,047**	**7,637**	**–**	**–**	**–**	**10,684**	**7,366**	**18,050**
Total comprehensive income (expense) for the year	**–**	**3,047**	**7,637**	**–**	**–**	**(54,749)**	**(44,065)**	**(12,107)**	**(56,172)**
Transfer of reserves	**–**	**–**	**–**	**1,446**	**17,294**	**(18,740)**	**–**	**–**	**–**
Dividends recognised as distribution (note 17)	**–**	**–**	**–**	**–**	**–**	**(104,000)**	**(104,000)**	**–**	**(104,000)**
Unclaimed dividends forfeited	**–**	**–**	**–**	**–**	**–**	**58**	**58**	**–**	**58**
Dividend paid to non-controlling shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,735)**	**(3,735)**
At 31 December 2017	**115,158**	**21,754**	**32,621**	**33,316**	**112,352**	**1,290,500**	**1,605,701**	**137,670**	**1,743,371**

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 2017

	2017 HK$'000	2016 HK$'000
OPERATING ACTIVITIES		
Loss before tax	**(63,207)**	(10,606)
Adjustments for:		
Depreciation of property, plant and equipment	**226,127**	207,797
Finance costs	**29**	116
Impairment loss recognised in respect of property, plant and equipment	**19,134**	163
Investment income	**(26,155)**	(30,737)
Loss on disposal/written off of property, plant and equipment	**2,928**	6,024
Write-down of inventories	**2,941**	2,791
Operating cash flows before movements in working capital	**161,797**	175,548
Decrease (increase) in inventories	**44,006**	(97,926)
Increase in trade receivables	**(14,343)**	(18,578)
Increase in other receivables, prepayments and deposits	**(6,114)**	(59,434)
Decrease in amounts due from fellow subsidiaries	**17,619**	1,292
Increase in trade payables	**24,749**	4,891
Increase (decrease) in other payables, accrued charges and other liabilities	**68,894**	(24,653)
Increase (decrease) in amount due to ultimate holding company	**3,054**	(25,373)
(Decrease) increase in amounts due to fellow subsidiaries	**(13,252)**	23,582
Cash generated from (used in) operations	**286,410**	(20,651)
Hong Kong Profits Tax refund (paid)	**21,137**	(2,807)
PRC income taxes paid	**(28,240)**	(2,479)
Interest paid	**(29)**	(116)
Interest on bank deposits received	**24,634**	29,368
NET CASH FROM OPERATING ACTIVITIES	**303,912**	3,315
INVESTING ACTIVITIES		
Placement of pledged bank deposits	**—**	(1,870)
Withdrawal of pledged bank deposits	**1,524**	—
Dividends received from listed equity securities	**1,521**	1,369
Purchase of property, plant and equipment	**(256,725)**	(436,791)
Proceeds from disposal of property, plant and equipment	**112**	18
Placement of time deposits	**(837,409)**	(581,655)
Withdrawal of time deposits	**1,129,407**	962,382
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**38,430**	(56,547)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 HK$'000	2016 HK$'000
FINANCING ACTIVITIES		
Dividends paid	**(103,975)**	(124,209)
Dividends paid to non-controlling interest of a subsidiary	**(3,501)**	(4,222)
Repayment of obligation under a finance lease	**(743)**	(926)
NET CASH USED IN FINANCING ACTIVITIES	**(108,219)**	(129,357)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**234,123**	(182,589)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**1,769,924**	2,018,767
Effect of foreign exchange rate changes	**43,665**	(66,254)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash	**2,047,712**	1,769,924

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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

Except as described below, 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.

Amendments to HKAS 7 *Disclosure Initiative*

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

Amendments to HKAS 7 *Disclosure Initiative* (Continued)

Specifically, the amendments require changes from financing cash flows to be disclosed of which a reconciliation between the opening and closing balances is provided in note 40. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 40, the application of these amendments has had no impact on the Group's consolidated financial statements.

New and revised HKFRSs and interpretations in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC)—Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC)—Int 23	Uncertainty over Income Tax Treatments[2]
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]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014—2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015—2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for annual periods beginning on or after a date to be determined

Except for the new HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and revised HKFRSs and interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

New and revised HKFRSs and interpretations in issue but not yet effective (Continued)

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 fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at 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; and

- 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 *Financial Instruments: Recognition and Measurement*. 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.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement:

- Listed equity securities classified as available-for-sale investments carried at fair value as disclosed in note 21: these securities qualified for designation as measured at FVTOCI under HKFRS 9, however, the fair value gains or losses accumulated in the investment revaluation reserve amounting to HK$21,754,000 as at 1 January 2018 will no longer be subsequently reclassified to profit or loss under HKFRS 9, which is different from the current treatment. This will affect the amounts recognised in the Group's profit or loss and other comprehensive income but will not affect total comprehensive income; and

- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

New and revised HKFRSs and interpretations in issue but not yet effective (Continued)

HKFRS 9 *Financial Instruments* (Continued)

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, the directors of the Company do not anticipate that the application of HKFRS 9 in the future will have a material impact on the impairment loss to be recognised by the Group as at 1 January 2018.

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
- Step 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 of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company 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.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

New and revised HKFRSs and interpretations in issue but not yet effective (Continued)

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 finance 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.

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. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively by the Group.

In contrast to leasee 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 2017, the Group has non-cancellable operating lease commitments of HK$3,343,070,000 as disclosed in note 35. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$217,471,000 and refundable rental deposits received of HK$83,337,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

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.

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 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*.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3. Significant Accounting Policies (Continued)

Basis of consolidation (Continued)

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.

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, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) 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 cash-generating unit (or group of cash-generating units) 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 cash-generating units).

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal (or any of the cash-generating unit within group of cash-generating units in which the Group monitors goodwill).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3. Significant Accounting Policies (Continued)

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.

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 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.

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.

3. Significant Accounting Policies (Continued)

Leasing (Continued)

The Group as lessee (Continued)

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.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. 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.

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.

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).

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3. Significant Accounting Policies (Continued)

Borrowing costs

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.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

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.

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 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.

3. Significant Accounting Policies (Continued)

Taxation (Continued)

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.

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. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment (other than construction in progress as described below) 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. The estimated useful lives, residual values 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3. Significant Accounting Policies (Continued)

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 relevant 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 asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units 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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) 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 cash-generating unit) 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 cash-generating unit) 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. “Purchase of goods and changes in inventories” as reported in the consolidated statement of profit or loss are determined on a 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets

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 FVTPL.

Equity securities held by the Group that are classified as AFS financial assets 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. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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.

For AFS equity investments, 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.

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.

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

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 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.

The amount recognised as a provision, including those arising from the contractual obligation specified in the rental agreement to maintain or restore the infrastructure before it is handed over to the lessor, 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).

4. Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company 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.

4. Key Sources of Estimation Uncertainty (Continued)

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 cash-generating units 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 cash-generating units 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 2017, the carrying amount of goodwill is HK$94,838,000 (2016: HK$94,838,000). Details of the recoverable amount calculation are disclosed in note 20.

Impairment of property, plant and equipment

Determining whether property, plant and equipment is impaired requires an estimation of the value in use of the cash-generating units to which property, plant and equipment has been allocated. The amount of the impairment loss is measured as the difference between the carrying amount and the recoverable amount of the cash-generating unit. The recoverable amount is higher of value in use and fair value less costs to sell. The value in use calculation requires the Group to estimate the future cash inflows/outflows expected to arise from the cash-generating units 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 2017, the aggregate carrying amount of the property, plant and equipment is HK$881,412,000 (2016: HK$851,719,000), net the accumulated impairment loss of the property, plant and equipment of HK$176,542,000 (2016: HK$195,926,000). Details about impairment losses recognised during the year are set out in note 19.

Net realisable value of inventories

The Group's inventories with carrying amount of HK$950,925,000 (2016: HK$973,518,000) are 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 also not be recoverable if the estimated costs to be incurred to make the sale have increased. The Group has made allowance of HK$2,941,000 (2016: HK$2,791,000) on obsolete and slow moving items to write down inventories to their net realisable values during the year ended 31 December 2017.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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:

	2017 HK$'000	2016 HK$'000
Direct sales	**8,816,295**	8,198,225
Income from concessionaire sales	**849,244**	838,384
	9,665,539	9,036,609

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 in terms of nature of products, type of customers and nature of the regulatory environment. 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 2017

	Hong Kong HK$'000	**The PRC HK$'000**	**Total HK$'000**
Segment revenue — external	**4,267,653**	**5,397,886**	**9,665,539**
Segment loss	**(47,820)**	**(41,513)**	**(89,333)**
Investment income			**26,155**
Finance costs			**(29)**
Loss before tax			**(63,207)**

6. Segment Information (Continued)

Segment revenues and results (Continued)

For the year ended 31 December 2016

	Hong Kong HK$'000	The PRC HK$'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)

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 2017

	Hong Kong HK$'000	**The PRC HK$'000**	**Segment total HK$'000**
Amounts included in the measure of segment profit or loss:			
Additions to property, plant and equipment	**41,246**	**220,316**	**261,562**
Depreciation	**126,774**	**99,353**	**226,127**
Impairment loss recognised in respect of property, plant and equipment	**—**	**19,134**	**19,134**
Loss on disposal/written off of property, plant and equipment	**79**	**2,849**	**2,928**
Write-down of inventories	**2,941**	**—**	**2,941**

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6. Segment Information (Continued)

Other segment information (Continued)

For the year ended 31 December 2016

	Hong Kong HK$'000	The PRC HK$'000	Segment total HK$'000
Amounts included in the measure of segment profit or loss:			
Additions to property, plant and equipment	330,461	139,629	470,090
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

Geographical information

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

	2017 HK$'000	2016 HK$'000
Hong Kong	**694,441**	784,673
The PRC	**530,838**	416,820
	1,225,279	1,201,493

Information about major customers

None of the Group's single customer attributed to more than 10% of the Group's total external revenue for both years.

7. Other Income

	2017 HK$'000	2016 HK$'000
Rental income from sub-lease	**492,666**	494,431
Others	**110,657**	118,034
	603,323	612,465

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FOR THE YEAR ENDED 31 DECEMBER 2017

8. Investment Income

	2017 HK$'000	2016 HK$'000
Dividends from listed equity securities	**1,521**	1,369
Interest on bank deposits	**24,634**	29,368
	26,155	30,737

9. Other Expenses

	2017 HK$'000	2016 HK$'000
Advertising, promotion and selling expenses	**313,517**	324,396
Maintenance and repair expenses	**328,059**	304,603
Others	**267,362**	227,802
Utilities expenses	**194,454**	201,673
	1,103,392	1,058,474

10. Pre-operating Expenses

The amounts represent the set up costs for new stores. Included in pre-operating expenses for the year ended 31 December 2017 are staff costs of HK$19,595,000 (2016: HK$4,262,000).

11. Other Gains and Losses

	2017 HK$'000	2016 HK$'000
Exchange gain (loss), net	**3,687**	(19,694)
Impairment loss recognised in respect of property, plant and equipment	**(19,134)**	(163)
Loss on disposal/written off of property, plant and equipment	**(2,928)**	(6,024)
	(18,375)	(25,881)

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FOR THE YEAR ENDED 31 DECEMBER 2017

12. Finance Costs

	2017 **HK$'000**	2016 HK$'000
Interest on finance lease	**29**	116

13. Income Tax Expense

	2017 **HK$'000**	2016 HK$'000
The charges (credits) comprise:		
Current tax		
PRC Enterprise Income Tax	**9,952**	24,377
PRC withholding tax	**1,259**	—
	11,211	24,377
(Over)underprovision in prior years		
Hong Kong	**(461)**	—
The PRC	**313**	—
	(148)	—
Deferred tax (note 23)		
Current year	**(48)**	(19,970)
Income tax expense for the year	**11,015**	4,407

No provision for Hong Kong Profits Tax is made as the Company has no assessable profit for both years.

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 2017

13. Income Tax Expense (Continued)

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

	2017 HK$'000	2016 HK$'000
Loss before tax	**(63,207)**	(10,606)
Taxation at the applicable rate of 16.5% (Note)	**(10,429)**	(1,750)
Tax effect of expenses not deductible for tax purpose	**5,838**	7,862
Tax effect of income not taxable for tax purpose	**(8,091)**	(5,390)
Tax effect of deductible temporary difference not recognised	**22,025**	—
Utilisation of tax losses previously not recognised	**(1,222)**	(1,398)
Withholding tax on undistributed earning of a subsidiary	**(2,282)**	359
Effect of different tax rates of entities operating in the PRC	**3,971**	4,767
Overprovision in prior years	**(148)**	—
Others	**1,353**	(43)
Income tax expense	**11,015**	4,407

Note: The domestic tax rate which is Hong Kong Profits Tax rate in the jurisdiction where the operation of the Group is substantially based is used.

14. Loss for the Year

	2017 HK$'000	2016 HK$'000
Loss for the year has been arrived at after charging (crediting):		
Depreciation	**226,127**	207,797
Auditor's remuneration	**5,166**	5,359
Operating lease rental expenses in respect of rented premises		
— minimum lease payments	**1,067,176**	1,054,980
— contingent rent (Note)	**52,297**	29,070
	1,119,473	1,084,050
Retirement benefits scheme contributions	**104,841**	101,907
Rental income from sub-lease		
— minimum lease payments	**(470,081)**	(460,503)
— contingent rent (Note)	**(22,585)**	(33,928)
	(492,666)	(494,431)
Cost of inventories recognised as an expense	**6,638,768**	6,212,937
Write-down of inventories (included in purchase of goods and changes in inventories)	**2,941**	2,791

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

15. Directors' Emoluments

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

	Executive directors							Non-executive director	Independent non-executive directors				
	Yuki Habu HK$'000 (Note a)	Masamitsu Ikuta HK$'000 (Note b)	Hideaki Yajima HK$'000	Chak Kam Yuen HK$'000	Chan Pui Man, Christine HK$'000 (Note c)	Yoshiaki Mizushima HK$'000 (Note d)	Lau Chi Sum, Sam HK$'000 (Note b)	Shinya Wako HK$'000	Cheng Yin Ching, Anna HK$'000 (Note d)	Lo Miu Sheung, Betty HK$'000	Chow Chi Tong HK$'000	Chan Yi Jen, Candi Anna HK$'000	Total HK$'000
For the year ended 31 December 2017													
Fees	**58**	**–**	**–**	**70**	**91**	**–**	**55**	**140**	**83**	**170**	**176**	**180**	**1,023**
Other emoluments													
Salaries and other benefits	**827**	**1,367**	**1,717**	**1,051**	**830**	**393**	**680**	**–**	**–**	**–**	**–**	**–**	**6,865**
Performance based bonus (Note e)	**–**	**–**	**–**	**72**	**405**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**477**
Contributions to retirement benefits schemes	**–**	**–**	**–**	**72**	**43**	**–**	**51**	**–**	**–**	**–**	**–**	**–**	**166**
Total	**885**	**1,367**	**1,717**	**1,265**	**1,369**	**393**	**786**	**140**	**83**	**170**	**176**	**180**	**8,531**
For the year ended 31 December 2016													
Fees	140	–	–	70	220	–	–	140	200	170	154	180	1,274
Other emoluments													
Salaries and other benefits	–	–	1,619	1,045	1,489	1,766	–	–	–	–	–	–	5,919
Performance based bonus (Note e)	–	–	–	292	904	–	–	–	–	–	–	–	1,196
Contributions to retirement benefits schemes	–	–	–	72	103	–	–	–	–	–	–	–	175
Total	140	–	1,619	1,479	2,716	1,766	–	140	200	170	154	180	8,564

Notes:

(a) Ms. Yuki Habu has been re-designated from non-executive director to executive director and appointed as the Managing Director ("MD") of the Company with effect from 31 May 2017. 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 Listing Rules. The management would regard that the term MD will have the same meaning as the Chief Executive Officer of the Company.

(b) Directors were appointed during the year ended 31 December 2017.

(c) Ms. Chan Pui Man, Christine is the MD of the Company for the year ended 31 December 2016 and retired as an executive director and resigned as the MD of the Company with effect from 31 May 2017.

(d) Directors resigned during the year ended 31 December 2017.

(e) 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.

15. Directors' Emoluments (Continued)

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 director's 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. There is no inducement for directors to join the Group nor compensation for the loss of office as a director in connection with the management of the affairs of any member of the Group.

16. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, one (2016: one) was a director whose emolument is included in the disclosures in note 15 above. The emoluments of the remaining four individuals (2016: four) were as follows:

	2017 **HK$'000**	2016 HK$'000
Salaries and other benefits	**6,890**	6,769
Performance based bonus	**448**	823
Contributions to retirement benefit schemes	**262**	337
	7,600	7,929

	2017 **No. of** **employees**	2016 No. of employees
Their emoluments were within the following bands:		
HK$1,500,001 to HK$2,000,000	**3**	2
HK$2,000,001 to HK$2,500,000	**1**	2

There is no inducement for five highest paid employee to join the Group nor compensation for the loss of office as an employee in connection with the management of the affairs of any member of the Group.

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16. Employees' Emoluments (Continued)

Other than the emoluments of a director and four (2016: four) senior management individuals of the Group disclosed in note 15 and above, the emoluments of the remaining senior management of the Group were within the following bands:

	2017 No. of employees	2016 No. of employees
Nil to HK$1,000,000	**2**	1
HK$1,000,001 to HK$1,500,000	**–**	2

17. Dividends

	2017 HK$'000	2016 HK$'000
Final dividend paid for 2016 of 20 HK cents (2016: 7.8 HK cents for 2015) per ordinary share	**52,000**	20,280
Interim dividend paid for 2017 of 20 HK cents (2016: 20 HK cents for 2016) per ordinary share	**52,000**	52,000
Special dividend paid for 2017 of nil (2016: 20 HK cents for 2016) per ordinary share	**–**	52,000
	104,000	124,280

The Board of Directors has recommended a final dividend of 22 HK cents per share (2016: 20 HK cents) to be paid on or before 28 June 2018, subject to shareholders' approval at the forthcoming annual general meeting on 25 May 2018.

18. Loss Per Share

The calculation of basic loss per share attributable to the owners of the Company is based on the Group's loss for the year attributable to owners of the Company of HK$54,749,000 (2016: HK$23,228,000) and on 260,000,000 (2016: 260,000,000) ordinary shares in issue during the year.

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

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19. 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 2016	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
Exchange adjustments	**56,361**	**16,505**	**367**	**1,677**	**74,910**
Additions	**18,203**	**22,654**	**1,138**	**219,567**	**261,562**
Transfer	**172,250**	**42,627**	**—**	**(214,877)**	**—**
Disposals/written off	**(148,648)**	**(137,211)**	**(478)**	**—**	**(286,337)**
At 31 December 2017	**1,935,493**	**633,033**	**8,936**	**73,857**	**2,651,319**
DEPRECIATION AND IMPAIRMENT					
At 1 January 2016	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
Exchange adjustments	**45,524**	**12,660**	**293**	**—**	**58,477**
Provided for the year	**160,269**	**65,124**	**734**	**—**	**226,127**
Eliminated on disposal/ written off	**(147,952)**	**(134,866)**	**(478)**	**—**	**(283,296)**
Impairment losses recognised	**19,031**	**103**	**—**	**—**	**19,134**
At 31 December 2017	**1,313,248**	**449,711**	**6,948**	**—**	**1,769,907**
CARRYING VALUES					
At 31 December 2017	**622,245**	**183,322**	**1,988**	**73,857**	**881,412**
At 31 December 2016	600,951	181,768	1,510	67,490	851,719

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19. Property, Plant and Equipment (Continued)

The property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis 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% to 25% per annum
Motor vehicles	20% to 25% per annum

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

Certain stores of the Group have been experiencing recurring losses or performing below budget. The management considered there were impairment indicators and hence conducted impairment assessment on the relevant stores, which constitute individual cash-generating unit 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. The value in use calculations use cash flow projections based on the latest financial budgets approved by the Company's management covering a period of 5 years, together with an extension period to the end of the relevant leases of the building fixtures with zero growth rate, and at a discount rate of 7% to 10% (2016: 7% or 10%). Cash flow projections during the budget period were based on the expected gross margins during the budget period and the budgeted margins have been determined based on past performance and management's expectations for the future changes in the market. Accordingly, an impairment loss of HK$19,134,000 (2016: HK$163,000) 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 within property, plant and equipment.

During the year, accumulated impairment loss on property, plant and equipment of HK$38,518,000 (2016: HK$176,542,000) of the Group has been eliminated upon the disposal of building fixtures.

As at 31 December 2017, accumulated impairment loss on property, plant and equipment of the Group is HK$176,542,000 (2016: HK$195,926,000).

20. Goodwill

	HK$'000
CARRYING AMOUNT	
At 1 January 2016, 31 December 2016 and 31 December 2017	94,838

The amount represents goodwill arising from the acquisition of an additional 35% interest in AEON South China (as defined in note 41(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 a single cash-generating unit with synergy effects to which the goodwill of HK$94,838,000 is allocated.

20. Goodwill (Continued)

The recoverable amount of the cash-generating unit has been determined based on a value in use calculation. That calculation uses cash flow projections with average annual growth rates ranging from 0.1% to 4.3% (2016: 1% to 2%) based on financial budgets approved by management covering a 5-year period, and discount rate of 10% (2016: 10%) that reflects current market assessment of the time value of money and the risks specific to the cash-generating unit. 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 cash-generating unit past performance and management's expectations for the future changes in the market. Management believe that the aggregate recoverable amount of the cash-generating unit exceeds the aggregate carrying amount of the cash-generating unit. Accordingly, no impairment loss was recognised in the consolidated statement of profit or loss.

21. Available-for-sale Investments

	2017 **HK$'000**	2016 HK$'000
Equity securities:		
Listed shares in Hong Kong at fair value	**24,158**	21,111

The listed shares in Hong Kong represents an investment in a fellow subsidiary of HK$23,915,000 (2016: HK$20,926,000).

The fair value of equity securities have been determined based on the quoted market bid prices available on the stock exchange.

22. Pledged Bank Deposits

	2017		2016	
	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	**27,026**	**4,985**	27,431	4,510
As requirement by the relevant PRC regulatory body for cash received from prepaid value cards sold	**—**	**14,718**	—	14,003
	27,026	**19,703**	27,431	18,513

23. Deferred Taxation

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

	Decelerated 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 2016	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
Exchange adjustments	**498**	**3,022**	**–**	**–**	**–**	**3,520**
(Charge) credit to profit or loss	**–**	**(1,729)**	**–**	**3,543**	**(1,766)**	**48**
At 31 December 2017	**9,420**	**42,695**	**634**	**(827)**	**16,770**	**68,692**

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

	2017 HK$'000	2016 HK$'000
Deferred tax assets	**69,519**	70,461
Deferred tax liabilities	**(827)**	(5,337)
	68,692	65,124

At the end of the reporting period, the Group had other deductible temporary difference of HK$453,176,000 (2016: HK$308,836,000). A deferred tax asset has been recognised in respect of deductible temporary difference of HK$319,691,000 (2016: HK$308,836,000). No deferred tax asset has been recognised in respect of the remaining difference of HK$133,485,000 (2016: nil).

Furthermore, the Group had unused tax losses of HK$101,636,000 (2016: HK$119,743,000) available for offset against future profits. A deferred tax asset has been recognised in respect of tax losses of HK$101,636,000 (2016: HK$112,339,000) 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 in prior year. Included in unrecognised tax losses are losses of nil (2016: HK$7,404,000) that will expire as follows. Other losses may be carried forward indefinitely.

	2017 HK$'000	2016 HK$'000
31 December 2020	**–**	7,404

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24. Trade Receivables, Other Receivables, Prepayments and Deposits

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

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

	2017 **HK$'000**	2016 HK$'000
Within 30 days	**63,179**	47,298
31 to 60 days	**75**	215
Over 60 days	**417**	372
Trade receivables	**63,671**	47,885
Rental and related deposits paid	**266,157**	266,608
Other receivables, prepayments and other deposits	**170,331**	161,999
	436,488	428,607
Less: Rental and related deposits paid under non-current assets	**(249,029)**	(254,936)
Other receivables, prepayments and deposits	**187,459**	173,671

The Group's revenue is generated mainly from cash sales, credit card sales and sales by other electronic payment methods. The average credit period on credit cards sales and sales by other electronic payment methods are 10 days. The balance of trade receivables within due dates mainly represents trade receivables arising from credit card sales and sales by other electronic payment methods. 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.

25. 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 made allowance of HK$2,941,000 (2016: HK$2,791,000) on obsolete and slow moving items to write down inventories to their net realisable values and included in "Purchases of goods and changes in inventories".

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26. Amounts due from Fellow Subsidiaries

The amounts due from fellow subsidiaries are trade-related, unsecured, interest free and with credit term of 15 to 35 days (2016: 15 to 35 days). The amounts have an age of 0 to 35 days (2016: 0 to 35 days) since the invoice date and not yet due at the end of the respective reporting periods.

27. Time Deposits

As at 31 December 2017, time deposits represent Renminbi-denominated time deposits amounting to HK$47,287,000, Unites States dollar-denominated time deposits amounting to HK$11,747,000 and Hong Kong dollar-denominated time deposits amounting to HK$110,200,000 with an original maturity between three months and one year. The average effective interest rates of Renminbi-denominated, United States dollar-denominated and Hong Kong dollar-denominated time deposits are 1.82%, 1.72% and 1.35% 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 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 between three months and 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 expired during the year ended 31 December 2017.

28. Bank Balances and Cash

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% (2016: 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:

	2017 **HK$'000**	2016 HK$'000
Hong Kong dollars	**–**	216
United States dollars	**24,468**	107,412
Japanese Yen	**2,298**	9,831
Renminbi	**14,616**	4,676

29. Trade Payables, Other Payables, Accrued Charges and Other Liabilities

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

	2017 **HK$'000**	2016 HK$'000
0 to 60 days	**1,158,975**	1,118,729
61 to 90 days	**99,529**	92,645
Over 90 days	**125,967**	112,663
Trade payables	**1,384,471**	1,324,037
Accrued expenses and other liabilities	**685,630**	604,590
Accrued staff costs	**218,585**	181,599
Advance receipts on prepaid store-value cards	**462,328**	481,162
Deferred revenue	**34,782**	19,524
Payables for purchase of property, plant and equipment	**43,803**	43,048
Provision for reinstatement cost	**84,487**	80,405
Rental deposits received	**83,337**	82,062
	1,612,952	1,492,390
Less: Rental deposits received and other liabilities under non-current liabilities	**(196,054)**	(198,500)
Other payables, accrued charges and other liabilities	**1,416,898**	1,293,890

The average credit period on purchases of goods is 60 days (2016: 60 days).

Provision for reinstatement cost relates to the estimated cost to reinstate the stores at the end of the leases. The following is a movement of provision for reinstatement cost during the year:

	HK$'000
At 1 January 2017	**80,405**
Additional provision in the year	**5,312**
Utilisation of provision	**(1,230)**
At 31 December 2017	**84,487**

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FOR THE YEAR ENDED 31 DECEMBER 2017

30. Amounts due to Ultimate Holding Company and Fellow Subsidiaries

The amounts due to ultimate holding company and fellow subsidiaries are trade-related, unsecured, interest free and with credit term of 60 to 90 days (2016: 60 to 90 days). The amounts are aged of 0 to 60 days (2016: 0 to 60 days) since the invoice date at the end of respective reporting period.

31. Obligation under a Finance Lease

	Minimum lease payments		**Present value of minimum lease payments**	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under a finance lease				
Within one year	–	752	–	724
Less: Future finance charges	–	(28)		
Present value of a lease obligation	–	724		
Less: Amount due for settlement within one year (shown under current liabilities)			–	(724)
Amount due for settlement after one year			–	–

As at 31 December 2016, the obligation under a finance lease is denominated in Renminbi which carries interest at fixed rate of 9.2% per annum. The amount was fully repaid during the year ended 31 December 2017.

32. Share Capital

	Number of shares	HK$'000
Ordinary shares of no par value as at 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	**260,000,000**	115,158

33. 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:

	2017 **HK$'000**	2016 HK$'000
Non-current Assets		
Property, plant and equipment	**490,573**	576,183
Investments in subsidiaries	**197,137**	197,137
Available-for-sale investments	**24,158**	21,111
Loan to a subsidiary	**41,377**	39,366
Deferred tax assets	**16,577**	19,312
Rental and related deposits paid	**203,868**	208,491
	973,690	1,061,600
Current Assets		
Inventories	**446,764**	499,661
Trade receivables	**31,965**	21,415
Other receivables, prepayments and deposits	**91,549**	76,423
Amounts due from subsidiaries	**7,422**	4,940
Amounts due from fellow subsidiaries	**57,017**	60,080
Tax recoverable	**—**	20,676
Time deposits	**121,947**	280,000
Bank balances and cash	**1,135,992**	927,172
	1,892,656	1,890,367
Current Liabilities		
Trade payables	**629,579**	643,821
Other payables, accrued charges and other liabilities	**475,171**	424,275
Dividend payable	**472**	505
Amount due to ultimate holding company	**29,541**	26,487
Amounts due to fellow subsidiaries	**29,238**	32,578
	1,164,001	1,127,666
Net Current Assets	**728,655**	762,701
Total Assets Less Current Liabilities	**1,702,345**	1,824,301

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

33. Statement of Financial Position of the Company (Continued)

	2017 **HK$'000**	2016 HK$'000
Capital and Reserves		
Share capital	**115,158**	115,158
Reserves	**1,418,974**	1,538,543
	1,534,132	1,653,701
Non-current Liabilities		
Rental deposits received and other liabilities	**167,386**	165,263
Deferred tax liabilities	**827**	5,337
	168,213	170,600
	1,702,345	1,824,301

The Company's statement of financial position was approved and authorised for issue by the board of directors on 23 March 2018 and is signed on its behalf by:

YUKI HABU
Director

MASAMITSU IKUTA
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

33. Statement of Financial Position of the Company (Continued)

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

	Investment revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2016	17,434	1,656,862	1,674,296
Loss for the year	—	(12,845)	(12,845)
Fair value gain on available-for-sale investments	1,273	—	1,273
Total comprehensive income (expense) for the year	1,273	(12,845)	(11,572)
Dividends recognised as distribution	—	(124,280)	(124,280)
Unclaimed dividends forfeited	—	99	99
At 31 December 2016	18,707	1,519,836	1,538,543
Loss for the year	**—**	**(18,674)**	**(18,674)**
Fair value gain on available-for-sale investments	**3,047**	**—**	**3,047**
Total comprehensive income (expense) for the year	**3,047**	**(18,674)**	**(15,627)**
Dividends recognised as distribution	**—**	**(104,000)**	**(104,000)**
Unclaimed dividends forfeited	**—**	**58**	**58**
At 31 December 2017	**21,754**	**1,397,220**	**1,418,974**

34. Capital Commitments

	2017 HK$'000	2016 HK$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**8,037**	31,235

35. 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:

	2017 **HK$'000**	2016 HK$'000
Within one year	**659,089**	859,993
In the second to fifth year inclusive	**1,468,274**	1,662,228
Over five years	**1,215,707**	1,356,344
	3,343,070	3,878,565

In addition to the above, (i) over 90% (2016: over 90%) of the leases of the Group are 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$6,242,000 (2016: HK$1,284,000) 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 2017 (2016: 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:

	2017 **HK$'000**	2016 HK$'000
Within one year	**304,349**	335,883
In the second to fifth year inclusive	**304,134**	289,081
Over five years	**44,452**	7,899
	652,935	632,863

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.

36. 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$32,568,000 (2016: HK$20,583,000) 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$3,596,000 (2016: HK$3,856,000) 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$68,677,000 (2016: HK$77,468,000).

37. Related Party Transactions

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

Capacity	**Nature of transaction**	**2017 HK$'000**	2016 HK$'000
Fellow subsidiaries	Commission for credit facilities provided to the customers	**12,865**	12,560
	Franchise fee	**438**	362
	Other expense	**6,377**	—
	Other income	**5,592**	9,054
	Purchase of goods and property, plant and equipment	**321,849**	304,919
	Rental expenses, management fees and utilities expenses	**21,325**	19,281
	Rental income	**19,775**	19,381
	Sales of coupons	**4,570**	7,300
	Service fee expense	**93,741**	101,859
Ultimate holding company	Royalty expenses	**27,858**	27,159
Non-controlling shareholders of the subsidiaries*	Advertising expenses	**2,143**	3,283
	Rental expenses, management fees and utilities expenses	**61,678**	60,481

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

37. Related Party Transactions (Continued)

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

	2017 **HK$'000**	2016 HK$'000
Amounts due from non-controlling shareholders of the subsidiaries (included in other receivables, prepayments and deposits)	**5,535**	5,346

Amounts due from non-controlling shareholders of the subsidiaries are unsecured, interest free and no fixed repayment term.

Compensation of key management personnel

The Group's key management personnel are all directors, details of their remuneration are disclosed in note 15.

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

38. 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 equity attributable to owners of the Group, comprising issued share capital, reserves and retained profits.

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.

39. Financial Instruments

(a) Categories of financial instruments

	2017 HK$'000	2016 HK$'000
Loans and receivables (including cash and cash equivalents)	**2,400,437**	2,409,699
Available-for-sale financial assets	**24,158**	21,111
Financial liabilities at amortised cost	**2,030,570**	1,888,684

(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 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

39. Financial Instruments (Continued)

(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	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Hong Kong dollars	**230**	216	**—**	—
United States dollars	**36,215**	107,412	**5,418**	4,576
Japanese Yen	**2,298**	9,831	**10,474**	11,257
Renminbi	**14,616**	4,676	**—**	—

Foreign currency sensitivity

As Hong Kong dollars are pegged to United States dollars, it is assumed that there would be no material currency risk exposure on between these two countries.

The directors of the Company considered that the Group's exposure to Hong Kong dollars are limited. Accordingly, no sensitivity to fluctuation in Hong Kong dollars and United States dollars are presented. The Group therefore is exposed to fluctuations in Japanese Yen and Renminbi.

The following table indicates the approximate change in the Group's loss 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.

	2017		2016	
	Increase (decrease) in foreign exchange rates %	**(Increase) decrease in loss after tax HK$'000**	Increase (decrease) in foreign exchange rates %	(Increase) decrease in loss after tax HK$'000
Japanese Yen	**10%**	**(683)**	10%	(119)
	(10%)	**683**	(10%)	119
Renminbi	**10%**	**1,220**	10%	390
	(10%)	**(1,220)**	(10%)	(390)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

39. Financial Instruments (Continued)

(c) Foreign currency risk management (Continued)

Foreign currency sensitivity (Continued)

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 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 2016.

(d) Interest rate risk management

The Group is exposed to cash flow interest rate risk as the Group's bank balances are subject to floating interest rates. 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 rates 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.

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 investments in equity securities. 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 analysis below have been determined based on the exposure to equity price risks in respect of AFS equity investments at the reporting date. If the prices of the AFS equity investments had been 5% (2016: 5%) higher/lower, while all other variables were held constant, the investment revaluation reserve would increase/decrease by approximately HK$1,208,000 (2016: HK$1,056,000) for the Group, as a result of the changes in fair value of AFS equity investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

39. Financial Instruments (Continued)

(f) Credit risk management

The carrying amounts of pledged bank deposits, trade receivables, other receivables, amounts due from fellow subsidiaries, time deposits, and bank balances and cash best represent the maximum exposure to credit risk. Credit risks for the trade receivables and other receivables are limited as the Group's revenue is generated mainly from cash sales, credit card sales and sales by other electronic payment methods. Where transactions are conducted other than on a cash basis, the Group practices stringent credit reviews.

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 receivables from individual owned stores.

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

(g) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the directors of the Company, 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 the interest rate curve at the end of the reporting period.

	Weighted average effective interest rate	6 months or less	6 to12 months	1 to 5 years	Total undiscounted cash flows amount	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2017						
Non-interest bearing	**—**	**2,068,965**	**5,996**	**38,946**	**2,113,907**	**2,113,907**
2016						
Non-interest bearing	—	1,922,682	1,575	46,489	1,970,746	1,970,746
Obligation under a finance lease	9.20	501	251	—	752	724
		1,923,183	1,826	46,489	1,971,498	1,971,470

39. Financial Instruments (Continued)

(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.

	Level 1	
	2017 HK$'000	2016 HK$'000
Available-for-sale financial assets		
Listed equity securities	**24,158**	21,111

There were no transfers between levels in both years.

40. Reconciliation of Liabilities Arising from Financing Activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Dividend payable HK$'000	**Obligation under a finance lease HK$'000**	**Total HK$'000**
At 1 January 2017	**505**	**724**	**1,229**
Financing cash flows	**(107,476)**	**(743)**	**(108,219)**
Non-cash changes			
Dividends recognised as distribution	**104,000**	**—**	**104,000**
Dividend paid to non-controlling shareholders	**3,735**	**—**	**3,735**
Unclaimed dividends forfeited	**(58)**	**—**	**(58)**
Exchange realignment	**(234)**	**19**	**(215)**
At 31 December 2017	**472**	**—**	**472**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

41. 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	(Loss) profit allocated to a non-controlling interest		Accumulated non-controlling interests		Principal activities
				2017 & 2016	2017 & 2016	2017 & 2016	2017 & 2016	**2017**	2016	**2017**	2016	
Guangdong AEON Teem Co., Ltd. ("Guangdong AEON")	Sino-foreign equity joint venture	PRC	RMB215,050,000 (2016: RMB190,760,000)	65%	66%	35%	34%	**(19,473)**	8,215	**137,670**	153,512	Retail stores
AEON South China Co., Ltd. ("AEON South China")	Wholly-owned foreign enterprise	PRC	RMB212,800,000 (2016: RMB212,800,000)	100%	100%	–	–	**–**	–	**–**	–	Retail stores
Jusco Stores (Hong Kong) Co., Limited	Incorporated	Hong Kong	HK$1,000 (2016: 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.

	2017 HK$'000	2016 HK$'000
Current assets	**1,268,034**	1,258,200
Non-current assets	**399,635**	312,157
Current liabilities	**1,251,978**	1,109,383
Non-current liabilities	**14,769**	15,181
Equity attributable to owners of the Company	**263,252**	292,281
Non-controlling interest	**137,670**	153,512

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

41. Particulars of Subsidiaries of the Company (Continued)

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

	Year ended	
	2017 **HK$'000**	2016 HK$'000
Revenue	**3,883,273**	3,629,124
Expenses	**3,938,910**	3,605,653
(Loss) profit for the year	**(55,637)**	23,471
(Loss) profit attributable to owners of the Company	**(36,164)**	15,256
(Loss) profit attributable to a non-controlling interest	**(19,473)**	8,215
(Loss) profit for the year	**(55,637)**	23,471
Other comprehensive income (expense) attributable to owners of the Company	**7,120**	(10,213)
Other comprehensive income (expense) attributable to a non-controlling interest	**7,366**	(11,805)
Other comprehensive income (expense) for the year	**14,486**	(22,018)
Total comprehensive (expense) income attributable to owners of the Company	**(29,044)**	5,043
Total comprehensive expense attributable to a non-controlling interest	**(12,107)**	(3,590)
Total comprehensive (expense) income for the year	**(41,151)**	1,453
Dividends paid to a non-controlling interest	**3,735**	4,222
Net cash inflow from operating activities	**99,576**	35,792
Net cash outflow from investing activities	**(27,992)**	(95,280)
Net cash outflow financing activities	**(10,438)**	(12,352)
Net cash inflow (outflow)	**61,146**	(71,840)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

42. Comparative Figures

In order to conform with current year's presentation:

(a) operating lease rental expenses of HK$1,084,050,000 as contained in the comparative figures of "Other expenses" in the consolidated statement of profit or loss have been reclassified to "Operating lease rental expenses";

(b) net exchange loss of HK$19,694,000 as contained in the comparative figures of "Other expenses" in the consolidated statement of profit or loss have been reclassified to "Other gains and losses"; and

(c) impairment loss recognised in respect of property, plant and equipment of HK$163,000 and loss on disposal/written off of property, plant and equipment of HK$6,024,000 as contained in the comparative figures of "Other expenses" in the consolidated statement of profit or loss have been reclassified to "Other gains and losses".

FINANCIAL SUMMARY

The Group

	For the year ended 31 December				
	2013 HK$'000	2014 HK$'000	2015 HK$'000	2016 HK$'000	**2017** **HK$'000**
RESULTS					
Revenue	8,487,510	8,815,758	8,975,315	9,036,609	**9,665,539**
Profit (loss) before tax	109,732	305,999	121,712	(10,606)	**(63,207)**
Income tax expense	(22,542)	(40,034)	(18,157)	(4,407)	**(11,015)**
Profit (loss) for the year	87,190	265,965	103,555	(15,013)	**(74,222)**

	At 31 December				
	2013 HK$'000	2014 HK$'000	2015 HK$'000	2016 HK$'000	**2017** **HK$'000**
ASSETS AND LIABILITIES					
Total assets	5,217,040	5,239,953	5,115,104	4,855,365	**4,842,717**
Total liabilities	(3,287,954)	(3,156,516)	(3,042,450)	(2,948,145)	**(3,099,346)**
	1,929,086	2,083,437	2,072,654	1,907,220	**1,743,371**
Equity attributable to:					
Owners of the Company	1,775,760	1,922,188	1,911,330	1,753,708	**1,605,701**
Non-controlling interests	153,326	161,249	161,324	153,512	**137,670**
	1,929,086	2,083,437	2,072,654	1,907,220	**1,743,371**