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AEON STORES (HONG KONG) CO., LIMITED

永旺(香港)百貨有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 984)

2014 INTERIM RESULTS

The Board of Directors (the “Board”) of AEON Stores (Hong Kong) Co., Limited (the “Company”) is pleased to announce the unaudited results of the Company and its subsidiaries (the “Group” or “AEON”) for the 6 months ended 30 June 2014 together with comparative figures for the previous period as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX MONTHS ENDED 30 JUNE 2014**

	<u>NOTES</u>	Six months ended	
		<u>30.6.2014</u> HK\$'000 (unaudited)	<u>30.6.2013</u> HK\$'000 (unaudited)
Revenue	3	4,393,855	4,150,944
Other income		335,818	332,900
Investment income		12,703	11,452
Purchase of goods and changes in inventories		(3,047,514)	(2,850,690)
Staff costs		(513,144)	(514,990)
Depreciation		(97,213)	(98,701)
Impairment loss recognised in respect of property, plant and equipment		-	(93,275)
Gain on fair value change of an investment property		40,000	30,000
Loss on disposal of property, plant and equipment		(926)	(334)
Pre-operating expenses		-	(6,441)
Other expenses		(1,024,751)	(1,010,893)
Finance costs		(155)	(188)
Profit (loss) before tax		98,673	(50,216)
Income tax (expense) credit	4	(11,325)	9,992
Profit (loss) for the period		87,348	(40,224)
Profit (loss) for the period attributable to:			
Owners of the Company		81,937	(26,341)
Non-controlling interests		5,411	(13,883)
		87,348	(40,224)
Earning (loss) per share - Basic	6	31.51 HK cents	(10.13) HK cents

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2014**

	Six months ended	
	<u>30.6.2014</u>	<u>30.6.2013</u>
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit (loss) for the period	<u>87,348</u>	<u>(40,224)</u>
Other comprehensive income (expense)		
Items that may be subsequently reclassified to profit or loss:		
Fair value loss on available-for-sale investments	(2,762)	(1,400)
Exchange differences arising on translation of foreign operations	<u>(3,105)</u>	<u>7,290</u>
Other comprehensive (expense) income for the period	<u>(5,867)</u>	<u>5,890</u>
Total comprehensive income (expense) for the period	<u><u>81,481</u></u>	<u><u>(34,334)</u></u>
Total comprehensive income (expense) attributable to:		
Owners of the Company	77,537	(23,406)
Non-controlling interests	<u>3,944</u>	<u>(10,928)</u>
	<u><u>81,481</u></u>	<u><u>(34,334)</u></u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2014**

	<u>NOTES</u>	<u>30.6.2014</u> <u>HK\$'000</u> (unaudited)	<u>31.12.2013</u> <u>HK\$'000</u> (audited)
Non-current Assets			
Goodwill		94,838	94,838
Property, plant and equipment		705,041	759,211
Investment property		590,000	550,000
Available-for-sale investments		24,218	26,980
Deferred tax assets		55,074	52,634
Rental deposits		152,450	147,316
Pledged bank deposits		22,083	25,642
		<u>1,643,704</u>	<u>1,656,621</u>
Current Assets			
Inventories		715,753	811,952
Trade receivables	7	23,117	35,251
Other receivables, prepayments and deposits		176,358	210,871
Amounts due from fellow subsidiaries		101,045	138,476
Time deposits		36,389	378,704
Pledged bank deposits		22,085	18,948
Bank balances and cash		2,248,659	1,966,217
		<u>3,323,406</u>	<u>3,560,419</u>
Current Liabilities			
Trade payables	8	1,313,806	1,469,222
Other payables and accrued charges		1,308,805	1,462,668
Amount due to ultimate holding company		75,540	49,622
Amounts due to fellow subsidiaries		56,940	86,910
Obligation under a finance lease		867	836
Income tax payable		39,995	26,245
Dividend payable		631	615
		<u>2,796,584</u>	<u>3,096,118</u>
Net Current Assets		<u>526,822</u>	<u>464,301</u>
Total Assets Less Current Liabilities		<u>2,170,526</u>	<u>2,120,922</u>
Capital and Reserves			
Share capital		115,158	52,000
Share premium and reserves		1,704,657	1,723,760
Equity attributable to owners of the Company		<u>1,819,815</u>	<u>1,775,760</u>
Non-controlling interests		157,270	153,326
Total Equity		<u>1,977,085</u>	<u>1,929,086</u>
Non-current Liabilities			
Rental deposits received and other liabilities		180,281	177,575
Obligation under a finance lease		2,266	2,735
Deferred tax liabilities		10,894	11,526
		<u>193,441</u>	<u>191,836</u>
		<u>2,170,526</u>	<u>2,120,922</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and an investment property, which are measured at revalued amounts or fair values as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

In the current interim period, the Group has applied, for the first time, certain new interpretation and amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements.

Amendments to HKFRS 10,
HKFRS 12 and HKAS 27
Amendments to HKAS 32
Amendments to HKAS 36
Amendments to HKAS 39

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Investment Entities
Offsetting Financial Assets and Financial Liabilities
Recoverable Amount Disclosures for Non- financial Assets
Novation of Derivatives and Continuation of Hedge
Accounting
Levies

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

3. REVENUE AND SEGMENT INFORMATION

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

	Six months ended	
	<u>30.6.2014</u> HK\$'000	30.6.2013 HK\$'000
Direct sales	3,926,146	3,674,847
Income from concessionaire sales	467,709	476,097
Revenue	<u>4,393,855</u>	<u>4,150,944</u>

For the six months ended 30 June 2014

	<u>Hong Kong</u> HK\$'000	<u>PRC</u> HK\$'000	<u>Total</u> HK\$'000
Segment revenue - external	<u>1,935,290</u>	<u>2,458,565</u>	<u>4,393,855</u>
Segment profit (loss)	<u>44,659</u>	<u>(8,444)</u>	36,215
Gain on fair value change of an investment property			40,000
Rental income on an investment property			9,910
Investment income			12,703
Finance costs			(155)
Profit before tax			<u>98,673</u>

For the six months ended 30 June 2013

	<u>Hong Kong</u> HK\$'000	<u>PRC</u> HK\$'000	<u>Total</u> HK\$'000
Segment revenue - external	<u>1,942,844</u>	<u>2,208,100</u>	<u>4,150,944</u>
Segment profit (loss)	<u>23,834</u>	<u>(125,169)</u>	(101,335)
Gain on fair value change of an investment property			30,000
Rental income on an investment property			9,855
Investment income			11,452
Finance costs			(188)
Loss before tax			<u>(50,216)</u>

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

4. INCOME TAX EXPENSE(CREDIT)

	Six months ended	
	<u>30.6.2014</u>	<u>30.6.2013</u>
	HK\$'000	HK\$'000
The charge (credit) comprises:		
Current tax		
Hong Kong	10,800	11,500
Other regions in the PRC	4,104	6,346
	<u>14,904</u>	<u>17,846</u>
Overprovision in prior years		
Other regions in the PRC	-	(407)
Deferred tax		
Credited to profit or loss	<u>(3,579)</u>	<u>(27,431)</u>
Income tax expense (credit) for the period	<u>11,325</u>	<u>(9,992)</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

The PRC income tax is calculated at 25% of the estimated assessable profits of the subsidiaries for both periods.

Deferred tax for both periods also attributable to the temporary differences arising from accelerated tax depreciation and impairment loss in respect of property, plant and equipment and an investment property, provision for staff costs and other expenses and the withholding tax at applicable tax rate of the undistributed earnings of subsidiaries.

5. DIVIDENDS

	Six months ended	
	<u>30.6.2014</u>	<u>30.6.2013</u>
	HK\$'000	HK\$'000
Dividend recognised as distribution during the period:		
Final dividend declared and paid for 2013 of 12.9 HK cents (six months ended 30.6.2013: 9.7 HK cents for 2012 final dividend) per ordinary share	<u>33,540</u>	<u>25,220</u>

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of 8.1 HK cents per ordinary share (2013: Nil) amounting to HK\$21,060,000 (2013: Nil) and a special dividend of 20.0 HK cents per ordinary share (2013: Nil) amounting to HK\$52,000,000 (2013: Nil) will be paid to the owners of the Company whose name appear in the Register of Members on 30 September 2014. The interim dividend and the special dividend will be paid on or before 17 October 2014.

6. EARNING (LOSS) PER SHARE

The calculation of basic earning (loss) per share attributable to the owners of the Company is based on the Group's profit for the period attributable to the owners of the Company of HK\$81,937,000 (six months ended 30.6.2013: loss of HK\$26,341,000) and on 260,000,000 (six months ended 30.6.2013: 260,000,000) ordinary shares in issue during the period.

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

7. TRADE RECEIVABLES

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

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

	<u>30.6.2014</u> HK\$'000	<u>31.12.2013</u> HK\$'000
Within 30 days	<u>23,117</u>	<u>35,251</u>

8. TRADE PAYABLES

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

	<u>30.6.2014</u> HK\$'000	<u>31.12.2013</u> HK\$'000
0 – 60 days	1,094,702	1,228,223
61 – 90 days	95,991	106,112
Over 90 days	123,113	134,887
	<u>1,313,806</u>	<u>1,469,222</u>

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 29 September 2014 to 30 September 2014 (both days inclusive), for the purpose of ascertaining Shareholders' entitlement to the proposed interim dividend and the special dividend, during which period no transfers of Shares will be registered. In order to qualify for the proposed interim dividend and the special dividend, all share transfers accompanied by the relevant share certificates, must be lodged for registration with the Company's share registrar, Tricor Secretaries Limited, at Level 22 Hopewell Centre, 183 Queen's Road East Hong Kong not later than 4:30 p.m. on 26 September 2014.

BUSINESS REVIEW

The year 2014 has been a year of adjustment and consolidation for the Group. With the focus of enhancing the performance of the existing stores as a first priority, the strategy has started to bear fruit in the first half of the year with a turnaround in the financial results. For the six months ended 30 June 2014, the revenue of the Group rose by 5.9% to HK\$4,393.9 million (2013: HK\$4,150.9 million), driven by the stable growth of the Group's existing stores, including the full period contribution of the newly-opened stores. Income from direct sales increased by 6.6% while income from concessionaire sales decreased by 0.8%. As a result of the improvement of the operating results for the China business, the decrease in impairment loss recognized in respect of property, plant and equipment, and an increase

in the fair value gain of an investment property, the Group recorded a profit attributable to the owners of the Company of HK\$81.9 million (2013: loss of HK\$26.3 million).

During the first half of 2014, the Hong Kong retail market remained sluggish owing to slower economic growth and surging rental costs. Consumers continued to be cautious with their spending. During the period under review, the Group stepped up its promotional activities and further enhanced the performance of its existing stores, which successfully countered the effects of the stagnant economic environment. Therefore, despite the closure of one store in Tokwawan in July 2013 and the other in Kwun Tong in May 2014, revenue from the Group's Hong Kong operations was still maintained at HK\$1,935.3 million (2013: HK\$1,942.8 million), with segment profit surging 87.4% to HK\$44.6 million (2013: HK\$23.8 million).

In the first half of 2014, the Group opened a new store in Choi Wan and closed the stores in Yuen Long and Kwun Tong. As at 30 June 2014, the Group operated a total of 41 stores in the territory (31 December 2013: 42 stores).

The economy in the PRC has stabilised entering 2014, yet as in the previous years, customer's preferences continued to change rapidly which posed a challenge to the Group. Nonetheless, the Group quickly addressed these changes by restructuring the merchandise assortment, improving customer services and enhancing the backend service support. In addition, the Group's newly-opened stores in the previous year steadily ramped up their sales performances, which helped boost not only its revenue but also overall results. During the period under review, revenue from the PRC operations rose to HK\$2,458.6 million (2013: HK\$2,208.1 million), up by 11.3% compared to the corresponding period last year. The segment loss during the reporting period narrowed significantly to HK\$8.4 million (2013: loss of HK\$125.1 million). As at 30 June 2014, the Group operated a total of 29 stores in south China (31 December 2013: 29 stores).

During the review period, staff costs decreased by 0.4% and the ratio of staff cost to revenue dropped from 12.4% to 11.7%, as a result of the Group's effort in streamlining its operations and improving efficiency. Rental costs rose by 3.7% and the ratio of rental costs to revenue was marginally reduced from 11.8% to 11.5% due to the growth in revenue. Other operating expenses representing selling, distribution and administrative expenses after deducting rental costs, decreased by 0.8% due to the Group's successful efforts in cost control.

The Group maintained a strong net cash position with cash and bank balances and short term time deposits of HK\$2,285 million as at 30 June 2014 (31 December 2013: HK\$2,345 million). The Group had no bank borrowings as at the end of the review period.

As at 30 June 2014, deposits of HK\$29.1 million (31 December 2013: HK\$29.3 million) were pledged as guarantees to landlords for rental deposits. Deposits of HK\$15.1 million (31 December 2013: HK\$15.2 million) were pledged as guarantees to regulatory bodies for gift cards sold.

Capital expenditure for the period amounting to HK\$47.6 million was used for small-scale store renovations. The Group continues to finance capital expenditure with internal resources and short-term borrowings.

Fluctuation of exchange rates had no material impact on the Group as less than 5% of its total purchases were settled in foreign currencies.

20th ANNIVERSARY OF LISTING

The year 2014 marks the 20th anniversary of AEON Stores (Hong Kong) Company Limited's listing on the Hong Kong Stock Exchange. To celebrate this special occasion, the Group is embarking on a series of activities to celebrate and reward stakeholders for their continuous support over the years. First, in addition to the scheme to enhance communications with shareholders, the Group proposes the distribution of a special dividend to thank shareholders. As the shareholders are also its partners thus the Group is undertaking initiatives to build stronger relationships with them going forward. And to mark the bi-decennial with our customers, the Group is launching promotional activities which include the introduction of 20th anniversary limited edition products and redemption schemes together with anniversary sales promotions. The Group is also planning other activities to celebrate this special occasion with our staff.

ADOPT INITIATIVES TO BUILD STRONG RELATIONSHIP WITH CUSTOMER SHAREHOLDERS

The Company has adopted initiatives to build strong relationship with its customer shareholders.

The Company believes that our shareholders are also our partners. We incorporate this concept in our daily operations and work towards achieving the objective that our shareholders are also our loyal customers. Customer shareholders' opinions are reflected in our management through these initiatives.

Shareholders are offered a Shareholder Booklet and are encouraged to enjoy shopping at our stores, as well as relaxing in our AEON Lounge. They are welcome to share their advise about our merchandise and sales related matters with our staff while experiencing our house brand products of "AEON TOPVALU". These initiatives adopted help us to build an even stronger relationship with our customer shareholders. More information about the arrangements is posted on the corporate website, www.aeonstores.com.hk/eng/investor_relation.htm.

The Company believes that through these kinds of on site two-way communications with our customer shareholders regularly could improve the quality of our business management and ultimately benefits our business as a whole.

PROSPECTS

Looking ahead, the Group expects that the operational environment in both Hong Kong and the PRC markets will remain challenging. The retail industry and consumer sentiment in Hong Kong and south China will be adversely affected by slower economic growth, and the Group's operations in both markets encounter rising costs across various fronts. The Group will continue executing its strategy of strengthening and optimizing sales performance of its existing stores in the second half of 2014, while eyeing potential opportunities for future store expansion, for example, opening stores with higher flexibility in site locations and lower investment costs. The Group remains cautiously optimistic about its prospects and will continue to expand its business in a prudent manner.

HUMAN RESOURCES

As at 30 June 2014, the Group had approximately 8,000 full-time and 2,300 part-time employees in Hong Kong and the PRC. The Group competitively remunerates employees based on their performance, experience and the prevailing practices of the industry. As part of its commitment to delivering the highest standards of service to all of its customers, the Group intends to continue to dedicate effort on quality of its service by enhancing the skills and professionalism of its staff. Concurrently, it strives to create an environment where employees can grow through a fulfilling career development path and enjoy a sense of camaraderie as well as loyalty to the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2014, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Board of the Company has complied throughout the six months ended 30 June 2014 with the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 to the Listing Rules.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry of all Directors, all Directors have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2014.

The Audit Committee of the Company has reviewed the unaudited interim results for the six months ended 30 June 2014 with management.

PUBLICATION OF INTERIM REPORT ON THE WEBSITE OF THE STOCK EXCHANGE

The interim report for the six months ended 30 June 2014 containing all the information as required by the Listing Rules will be published on the websites of the Stock Exchange and the Company respectively and copies will be dispatched to shareholders of the Company in due course.

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

Hong Kong, 21 August 2014

As at the date of this announcement, the Executive Directors are Ms. Chan Pui Man, Christine, Mr. Junichi Suzuki, Mr. Yoshiaki Mizushima and Mr. Chak Kam Yuen; the Non-executive Directors are Mr. Yoshinori Okuno, Mr. Yutaka Agawa, Ms. Yuki Habu and Mr. Kazuhiko Yasukawa; and the Independent Non-executive Directors are Mr. Sham Sui Leung, Daniel, Ms. Cheng Yin Ching, Anna, and Ms. Chan Yi Jen Candi Anna and Ms. Lo Miu Sheung, Betty.