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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)

2015 ANNUAL RESULTS

The Board of Directors (the “Board”) of AEON Stores (Hong Kong) Co., Limited (the “Company”) is pleased to announce the results of the Company and its subsidiaries (the “Group” or “AEON”) for the year ended 31 December 2015 together with comparative figures for the previous year as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2015**

	NOTES	2015 HK\$'000	2014 HK\$'000
Revenue	3	8,975,315	8,815,758
Other income		684,258	717,280
Investment income		36,440	27,483
Purchases of goods and changes in inventories		(6,134,108)	(6,027,742)
Staff costs		(1,089,888)	(1,006,284)
Depreciation		(190,270)	(195,194)
Impairment loss recognised in respect of property, plant and equipment		(9,026)	(31,393)
Gain on fair value change of an investment property		-	79,000
Loss on disposal/written off of property, plant and equipment		(13,099)	(627)
Pre-operating expenses		(11,219)	-
Other expenses		(2,126,481)	(2,071,990)
Finance costs		(210)	(292)
Profit before tax		121,712	305,999
Income tax expense	4	(18,157)	(40,034)
Profit for the year		103,555	265,965
Profit for the year attributable to:			
Owners of the Company		93,170	257,565
Non-controlling interests		10,385	8,400
		103,555	265,965
Earnings per share	6	35.83 HK cents	99.06 HK cents

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015**

	2015	2014
	HK\$'000	HK\$'000
Profit for the year	103,555	265,965
Other comprehensive expense		
<i>Items that may be subsequently reclassified to profit or loss</i>		
Exchange differences arising on translation of foreign operations	(13,155)	(1,129)
Fair value loss on available-for-sale investments	(3,407)	(3,943)
	<u>(16,562)</u>	<u>(5,072)</u>
Other comprehensive expense for the year, net of income tax	<u>(16,562)</u>	<u>(5,072)</u>
Total comprehensive income for the year	<u>86,993</u>	<u>260,893</u>
Total comprehensive income attributable to:		
Owners of the Company	83,400	252,970
Non-controlling interests	3,593	7,923
	<u>86,993</u>	<u>260,893</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2015**

	NOTES	2015 HK\$'000	2014 HK\$'000
Non-current Assets			
Property, plant and equipment		617,254	640,750
Goodwill		94,838	94,838
Available-for-sale investments		19,838	23,245
Pledged bank deposits		18,591	29,277
Deferred tax assets		52,742	57,318
Rental deposits paid		172,216	123,160
		<u>975,479</u>	<u>968,588</u>
Current Assets			
Inventories		913,449	802,672
Trade receivables	7	30,933	33,220
Other receivables, prepayments and deposits		198,856	222,966
Amounts due from fellow subsidiaries		77,522	131,586
Tax recoverable		21,821	-
Time deposits		849,314	6,313
Pledged bank deposits		28,963	18,686
Bank balances and cash		2,018,767	2,426,922
		<u>4,139,625</u>	<u>3,642,365</u>
Asset classified as held for sale		-	629,000
		<u>4,139,625</u>	<u>4,271,365</u>
Current Liabilities			
Trade payables	8	1,371,450	1,422,786
Other payables and accrued charges		1,371,886	1,362,522
Dividend payable		533	634
Amount due to ultimate holding company		51,860	51,620
Amounts due to fellow subsidiaries		55,433	61,331
Tax liabilities		5,621	10,190
Obligation under a finance lease		960	913
		<u>2,857,743</u>	<u>2,909,996</u>
Liabilities associated with asset classified as held for sale		-	63,380
		<u>2,857,743</u>	<u>2,973,376</u>
Net Current Assets		<u>1,281,882</u>	<u>1,297,989</u>
Total Assets Less Current Liabilities		<u>2,257,361</u>	<u>2,266,577</u>
Capital and Reserves			
Share capital		115,158	115,158
Reserves		1,796,172	1,807,030
Equity attributable to owners of the Company		1,911,330	1,922,188
Non-controlling interests		161,324	161,249
Total Equity		<u>2,072,654</u>	<u>2,083,437</u>
Non-current Liabilities			
Rental deposits received and other liabilities		179,916	171,976
Obligation under a finance lease		780	1,813
Deferred tax liabilities		4,011	9,351
		<u>184,707</u>	<u>183,140</u>
		<u>2,257,361</u>	<u>2,266,577</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“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 and by the Hong Kong Companies Ordinance.

The financial information relating to the years ended 31 December 2015 and 2014 included in this preliminary announcements of annual results for the years ended 31 December 2015 and 2014 do not constitute the Company’s statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2014 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the financial statements for the year ended 31 December 2015 in due course.

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

2. APPLICATION OF NEW AND REVISED HKFRSs

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in the current year:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 - 2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 - 2013 Cycle
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions

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.

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 year. An analysis of the Group's revenue for the year is as follows:

	2015 HK\$'000	2014 HK\$'000
Direct sales	8,063,687	7,863,162
Income from concessionaire sales	<u>911,628</u>	<u>952,596</u>
	<u><u>8,975,315</u></u>	<u><u>8,815,758</u></u>

Information reported to the Group's chief operating decision makers (i.e. the executive directors) for the purposes of resource allocation and assessment of performance is focused on the retail stores of the Group located in different locations. The reportable segments represented the aggregate of operating segments with similar economic characteristics. The chief operating decision makers identify Hong Kong and the People's Republic of China ("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 2015

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

For the year ended 31 December 2014

	<u>Hong Kong</u> HK\$'000	<u>PRC</u> HK\$'000	<u>Total</u> HK\$'000
Segment revenue - external	<u>3,889,244</u>	<u>4,926,514</u>	<u>8,815,758</u>
Segment profit (loss)	<u>204,308</u>	<u>(24,320)</u>	179,988
Gain on fair value change of an investment property			79,000
Rental income from an investment property			19,820
Investment income			27,483
Finance costs			<u>(292)</u>
Profit before tax			<u><u>305,999</u></u>

The accounting policies of the reportable segments are the same as the Group's accounting policies. 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 from 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.

Other segment information

For the year ended 31 December 2015

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

For the year ended 31 December 2014

	<u>Hong Kong</u> HK\$'000	<u>PRC</u> HK\$'000	<u>Segment total</u> HK\$'000
Amounts included in the measure of segment profit or loss:			
Depreciation	80,399	114,795	195,194
Impairment loss recognised in respect of property, plant and equipment	-	31,393	31,393
Loss on disposal/written off of property, plant and equipment	482	145	627
Write-back for inventories	<u>(4,334)</u>	<u>-</u>	<u>(4,334)</u>

4. INCOME TAX EXPENSE

	2015 HK\$'000	2014 HK\$'000
The charges (credits) comprise:		
Current tax		
Hong Kong	21,578	41,100
Other regions in the PRC	13,878	11,244
	<u>35,456</u>	<u>52,344</u>
Overprovision in prior years		
Hong Kong	(3,378)	-
Other regions in the PRC	(11,135)	(5,296)
	<u>(14,513)</u>	<u>(5,296)</u>
	20,943	47,048
Deferred tax		
Current year	(2,786)	(7,014)
Income tax expense for the year	<u>18,157</u>	<u>40,034</u>

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

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

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.

5. DIVIDENDS

	2015 HK\$'000	2014 HK\$'000
Final dividend paid for 2014 of 26.2 HK cents (2014: 12.9 HK cents for 2013) per ordinary share	68,120	33,540
Interim dividend paid for 2015 of 10.1 HK cents (2014: 8.1 HK cents for 2014) per ordinary share	26,260	21,060
Special dividend paid for 2015 of nil (2014: 20.0 HK cents for 2014) per ordinary share	-	52,000
	<u>94,380</u>	<u>106,600</u>

The Board of Directors has recommended a final dividend of 7.8 HK cents per share (2014: 26.2 HK cents) to be paid on or before 16 June 2016, subject to shareholders' approval at the forthcoming annual general meeting on 20 May 2016.

6. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to the owners of the Company is based on the Group's profit for the year attributable to owners of the Company of HK\$93,170,000 (2014: HK\$257,565,000) and on 260,000,000 (2014: 260,000,000) ordinary shares in issue during the year.

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

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 at the end of the reporting period, which approximated the respective revenue recognition dates.

	2015 HK\$'000	2014 HK\$'000
Within 30 days	30,495	32,622
31 to 60 days	93	94
Over 60 days	345	504
	<u>30,933</u>	<u>33,220</u>

8. TRADE PAYABLES

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

	2015 HK\$'000	2014 HK\$'000
0 to 60 days	1,172,567	1,231,450
61 to 90 days	97,100	85,290
Over 90 days	101,783	106,046
	<u>1,371,450</u>	<u>1,422,786</u>

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 18 May 2016 to 20 May 2016 (both days inclusive), for the purpose of determining Shareholders' entitlement to attend and vote at the annual general meeting, during which period no transfers of Shares will be registered. In order to qualify for the attending and voting at the forthcoming annual general meeting, 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 17 May 2016.

The Register of Members of the Company will be closed from 26 May 2016 to 27 May 2016 (both days inclusive), for the purpose of ascertaining Shareholders' entitlement to the proposed final dividend, during which period no transfers of Shares will be registered. In order to qualify for the proposed final dividend to be approved at the forthcoming annual general meeting, all share transfers accompanied by the relevant share certificates, must be lodged for registration with the Company's share registrar, Tricor Secretaries Limited, at Level 22 Hopewell Centre, 183 Queen's Road East Hong Kong not later than 4:30 p.m. on 25 May 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The global economic situation was characterised by volatility in the year 2015. Low consumption sentiment attributed to the sluggish economy as a whole and the unusually warm winter this year have combined to adversely affect the Group's performance in the second half of the year. Nevertheless, by implementing effective strategies, the Group still maintained modest growth in revenue of 1.8% to HK\$8,975.3 million from HK\$8,815.8 million last year, mainly driven by the stable growth of the Group's existing stores in the PRC. Gross profit margin improved slightly to 31.7% (2014: 31.6%) due to the enhancement in the merchandise mix. Due to the increase in operating costs as well as pre-operating expenses incurred in opening new stores, profit attributable to owners of the Company amounted to HK\$93.2 million during the year, compared with HK\$257.6 million in the corresponding period of last year which included the fair value gain of HK\$79 million recorded then.

During the period under review, staff costs increased by 8.3% while the ratio of staff costs to revenue increased from 11.4% to 12.1%, mainly attributable to the salary adjustment driven by a more competitive labour market and the additional labour cost incurred at the start-up stage of the newly-opened stores in the PRC. Rental costs rose by 4.0% and the ratio of rental costs to revenue mildly increased from 11.5% to 11.8%. Other operating expenses representing selling, distribution and administrative expenses after deducting rental costs, increased by 1.3% is in line with the general inflation and as a result of the enlarged scale of the Group's operations brought about by the newly-opened stores.

As at 31 December 2015, the Group maintained a strong net cash position with cash and bank balance and short-term time deposits of HK\$2,868 million (2014: HK\$2,433 million). The Group had no bank borrowings at the year end date and has sufficient internal resources to finance future business expansion.

As at 31 December 2015, deposits of HK\$32.5 million (2014: HK\$31.4 million) were pledged as guarantees to landlords for rental deposits. Deposits of HK\$15.1 million (2014: HK\$16.6 million) were pledged as a guarantee to regulatory bodies for prepaid value cards sold.

In 2015, capital expenditure for opening new stores and store renovations in Hong Kong and the PRC amounted to HK\$201.8 million. The Group continues to finance future capital expenditure by internal resources and short-term borrowings.

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

BUSINESS REVIEW

Hong Kong Operations

In the second half of the year, consumers remained cautious in their spending as affected by the volatile stock market and property market. Coupled with the effect of the warm winter, the sales in the fourth quarter were inevitably affected. Nevertheless, for the year ended 31 December 2015, revenue from Hong Kong operations slightly decreased by 1.7% to HK\$3,823.4 million (2014: HK\$3,889.2 million) and has taken into account the closure of a store in Kwun Tong during May 2014, and partial closure of the Tsuen Wan Store and the Lam Tin Store during renovation. Segment profit was recorded at HK\$76.7 million in 2015 (2014: HK\$204.3 million), reflecting a relatively high increase in expenses during the year.

During the year, the Group allocated most of its efforts to boost the performance of existing stores by completing two renovation projects in the Tsuen Wan and Lam Tin. New business models from Japan

were introduced to the Tsuen Wan Store with the first launch of AEONBODY, a beauty and healthcare theme shop, and R.O.U, a popular lifestyle variety shop. In addition to the ramp up of existing stores, the Group continued to identify suitable locations for new store openings in a cautious manner. During the year, the Group opened six small-scale stores in Sai Ying Pun, Tsuen Wan, Shamshuipo, the Airport and the Peak to capture the immense opportunities within the densely-populated residential and commercial districts in Hong Kong.

As at 31 December 2015, the Group had 48 (2014: 42) stores located in densely- populated residential and commercial districts across Hong Kong.

In April 2015, disposal of the investment property in Hong Kong was completed. and the proceeds from the disposal was used as general working capital.

PRC Operations

The PRC's economy continued to experience its lowest economic growth in the last decade. In view of the challenging macroeconomic environment, the Group has undertaken a proactive approach to revamp the merchandise mix and improve back-end support services. During the year, the Group has opened a new store in Zhongshan. In addition, the stores that the Group opened in the previous year have steadily ramped up their sales performances, which helped boost its revenue. Segment revenue rose by 4.6% to HK\$5,151.9 million (2014: HK\$4,926.5 million), while profit amounted to HK\$2.2 million, a turnaround from a loss of HK\$24.3 million in 2014. If excluding the impairment loss of property, plant and equipment for both years, the PRC segment results would have registered a profit of HK\$11.2 million (2014: profit of HK\$7.1 million).

As at 31 December 2015, the Group operated 30 (2014: 29) stores in South China.

PROSPECTS

Hong Kong Operations

Looking ahead, the overall retail industry and consumer sentiment in Hong Kong is expected to remain testing due to its exposure to economic volatility, posing challenges to the Group's business in the coming year. Therefore, focusing resources on optimising sales performances of existing stores and improving merchandise mix and services are the key focus of the Group. To bring a brand new shopping experience to customers, the Group plans to transform the Kornhill Store and the Whampoa Store into new "AEON Style Stores" featuring a fresh store layout, enhanced merchandise mix and a more stylish and comfortable shopping environment. Following the successful launch of the AEONBODY and R.O.U at the Tsuen Wan Store, these business models as well as other new models including Glam Beautique are to also be introduced to the two stores after their renovation. Particularly noteworthy, the Whampoa Store is strategically situated nearby the Whampoa MTR station expected to be launched in the third quarter of 2016, enabling the new store to take advantage of the customer flow.

Another objective of the Group is to increase the contributions from the direct sales through further promoting its house brand "TOPVALU" products and products of other brands introduced by the Group to the stores. These initiatives, which will be reflected in the newly renovated stores, are aimed at reinforcing the AEON brand image and further differentiating itself from other market players.

PRC Operations

On the PRC front, the Group believes that the economy will continue to grow slowly but steadily amidst the fluctuating global economy, which would be conducive to the Group's operations. Encountering rising costs across various aspects of its business, the Group is still prudently optimistic about the overall economy of the PRC which is one of the world's largest and fastest-growing economies. Seeing the PRC operations as a major growth driver, the Group will continue to look for good opportunities in the slack market and sensibly expand in the PRC through opening of new stores in a cautious manner. In February 2016, the Group has opened one new store in Panyu and plans to open three more new stores in major cities, namely Guangzhou, Dongguan and Luohu, in Guangdong province - China's most economically prosperous region in the second half of 2016. Through this approach, the Group aims to sustain the growth momentum in the mid-to-long-run and prepare well for the market recovery.

Total capital expenditure of the Group in 2016 for new store openings and store renovations in Hong Kong and the PRC is approximately HK\$610 million.

HUMAN RESOURCES

As at 31 December 2015, the Group has approximately 8,000 full-time and 3,300 part-time employees in Hong Kong and the PRC. The Group remunerates employees based on their performance, experience and prevailing practices within the industry. Committed to delivering the highest standard of service to all of its customers, the Group continues to enhance the quality and skills of its staff by providing professional training and mentorship. It strives to create a good working environment to foster camaraderie among employees.

CREATING LONG-TERM VALUE

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

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.

SUFFICIENCY OF PUBLIC FLOAT

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

The public float of the Company remains below the minimum 25% requirement as required by Rule 8.08 (1)(a) of the Listing Rules. To the best knowledge, information and belief of the Directors, as at the date of this announcement, the public float of the Company is approximately 17.06%.

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

CORPORATE GOVERNANCE

The 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”). The Company has adopted the code provisions set out in the Code 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.

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.

The Audit Committee of the Company has reviewed the annual results for the year ended 31 December 2015 with management.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2015 as set out in this announcement have been agreed by the Group’s auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement.

PUBLICATION OF ANNUAL REPORT ON THE WEBSITE OF THE STOCK EXCHANGE

The annual report for the year ended 31 December 2015 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
CHAN Pui Man, Christine
Managing Director

Hong Kong, 18 March 2016

As at the date of this announcement, the executive Directors are Ms. Chan Pui Man, Christine, Mr. Yoshiaki Mizushima, Mr. Hideaki Yajima and Mr. Chak Kam Yuen; the non-executive Directors are Ms. Yuki Habu and Mr. Shinya Wako; and the independent non-executive Directors are Ms. Cheng Yin Ching, Anna, Ms. Chan Yi Jen Candi Anna, Ms. Lo Miu Sheung, Betty and Mr. Chow Chi Tong.