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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)

2017 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 2017 together with comparative figures for the previous period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE SIX MONTHS ENDED 30 JUNE 2017

	NOTES	**Six months ended 30.6.2017 HK$'000 (unaudited)**	30.6.2016 HK$'000 (unaudited)
Revenue	3	**4,620,696**	4,536,691
Other income		**285,082**	301,115
Investment income		**12,481**	16,451
Purchase of goods and changes in inventories		**(3,209,107)**	(3,185,911)
Staff costs		**(588,100)**	(577,135)
Depreciation		**(110,194)**	(91,744)
Loss on disposal/written off of property, plant and equipment		**(140)**	(262)
Pre-operating expenses		**(9,193)**	(3,617)
Other expenses		**(1,072,164)**	(1,068,329)
Finance costs		**(24)**	(70)
Loss before tax		**(70,663)**	(72,811)
Income tax expense	4	**(617)**	(6,515)
Loss for the period		**(71,280)**	(79,326)
(Loss) profit for the period attributable to:			
Owners of the Company		**(71,997)**	(82,916)
Non-controlling interests		**717**	3,590
		(71,280)	(79,326)
Loss per share	6	**(27.69) HK cents**	(31.89) HK cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Six months ended	
	30.6.2017	30.6.2016
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Loss for the period	**(71,280)**	(79,326)
Other comprehensive income (expense)		
Items that may be subsequently reclassified to profit or loss		
Exchange differences on translation of financial statements of foreign operations	**5,529**	(8,249)
Fair value gain (loss) on available-for-sale investments	**869**	(693)
Other comprehensive income (expense) for the period, net of income tax	**6,398**	(8,942)
Total comprehensive expense for the period	**(64,882)**	(88,268)
Total comprehensive (expense) income for the period attributable to:		
Owners of the Company	**(68,273)**	(87,541)
Non-controlling interests	**3,391**	(727)
	(64,882)	(88,268)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2017

	NOTES	30.6.2017 HK$'000 (unaudited)	31.12.2016 HK$'000 (audited)
Non-current Assets			
Property, plant and equipment		**894,044**	851,719
Goodwill		**94,838**	94,838
Available-for-sale investments		**21,980**	21,111
Pledged bank deposits		**26,160**	27,431
Deferred tax assets		**73,248**	70,461
Rental deposits paid		**241,596**	254,936
		1,351,866	1,320,496
Current Assets			
Inventories		**928,893**	973,518
Trade receivables	7	**50,030**	47,885
Other receivables, prepayments and deposits		**198,776**	173,671
Amounts due from fellow subsidiaries		**36,274**	75,224
Tax recoverable		**20,676**	20,676
Time deposits		**476,200**	455,458
Pledged bank deposits		**19,072**	18,513
Bank balances and cash		**1,674,616**	1,769,924
		3,404,537	3,534,869
Current Liabilities			
Trade payables	8	**1,343,489**	1,324,037
Other payables and accrued charges		**1,292,776**	1,293,890
Dividend payable		**31,485**	505
Amount due to ultimate holding company		**39,694**	26,487
Amounts due to fellow subsidiaries		**59,196**	76,047
Tax liabilities		**2,561**	22,618
Obligation under a finance lease		**251**	724
		2,769,452	2,744,308
Net Current Assets		**635,085**	790,561
Total Assets Less Current Liabilities		**1,986,951**	2,111,057
Capital and Reserves			
Share capital		**115,158**	115,158
Reserves		**1,518,335**	1,638,550
Equity attributable to owners of the Company		**1,633,493**	1,753,708
Non-controlling interests		**156,903**	153,512
Total Equity		**1,790,396**	1,907,220
Non-current Liabilities			
Rental deposits received and other liabilities		**191,562**	198,500
Deferred tax liabilities		**4,993**	5,337
		196,555	203,837
		1,986,951	2,111,057

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2017

1. BASIS OF PREPARATION

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

The financial information relating to the year ended 31 December 2016 that is included in the condensed consolidated financial statements as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements is as follows:

The Company has delivered the consolidated financial statements for the year ended 31 December 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

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

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

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

3. REVENUE AND SEGMENT INFORMATION

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

	Six months ended	
	30.6.2017	30.6.2016
	HK$'000	HK$'000
Direct sales	**4,219,592**	4,119,165
Income from concessionaire sales	**401,104**	417,526
	4,620,696	4,536,691

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

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

For the six months ended 30 June 2017

	Hong Kong	**PRC**	**Total**
	HK$'000	**HK$'000**	**HK$'000**
Segment revenue - external	**2,037,181**	**2,583,515**	**4,620,696**
Segment (loss) profit	**(86,116)**	**2,996**	**(83,120)**
Investment income			**12,481**
Finance costs			**(24)**
Loss before tax			**(70,663)**

For the six months ended 30 June 2016

	Hong Kong	PRC	Total
	HK$'000	HK$'000	HK$'000
Segment revenue - external	1,824,500	2,712,191	4,536,691
Segment (loss) profit	(101,396)	12,204	(89,192)
Investment income			16,451
Finance costs			(70)
Loss before tax			(72,811)

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.

4. INCOME TAX EXPENSE

	Six months ended	
	30.6.2017	30.6.2016
	HK$'000	HK$'000
The charge (credit) comprises:		
Current tax		
Other regions in the PRC	**2,826**	12,382
Underprovision in prior years		
Other regions in the PRC	**13**	-
Deferred tax	**(2,222)**	(5,867)
Income tax expense for the period	**617**	6,515

No provision for Hong Kong Profits Tax is made as the Company has no assessable profit for six months ended 30 June 2017 and 30 June 2016.

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

Deferred tax for both periods arouse from temporary differences arising from accelerated tax depreciation, provision for staff costs and other expenses, other temporary differences and the withholding tax at applicable tax rate of the undistributed profits of subsidiaries.

5. DIVIDENDS

	Six months ended	
	30.6.2017	30.6.2016
	HK$'000	HK$'000
Dividend recognised as distribution during the period:		
Final dividend declared and paid for 2016 of 20.0 HK cents (six months ended 30.6.2016: 7.8 HK cents for 2015 final dividend) per ordinary share	**52,000**	20,280

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of 20.0 HK cents (six months ended 30.6.2016: 20.0 HK cents) per ordinary share amounting to HK$52,000,000 (six months ended 30.6.2016: HK$52,000,000) and a special dividend of nil (six months ended 30.6.2016: 20.0 HK cents) per ordinary share amounting to nil (six months ended 30.6.2016: HK$52,000,000) will be paid to the owners of the Company whose names appear in the Register of Members on 27 September 2017. The interim dividend will be paid on or before 12 October 2017.

6. 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 period attributable to the owners of the Company of HK$71,997,000 (six months ended 30.6.2016: loss of HK$82,916,000) and on 260,000,000 (six months ended 30.6.2016: 260,000,000) ordinary shares in issue during the period.

No diluted loss per share has 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 at the end of the reporting periods, which approximated the respective revenue recognition dates:

	30.6.2017	31.12.2016
	HK$'000	HK$'000
Within 30 days	**48,575**	47,298
31 to 60 days	**637**	215
Over 60 days	**818**	372
	50,030	47,885

8. TRADE PAYABLES

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

	30.6.2017	31.12.2016
	HK$'000	HK$'000
0 to 60 days	**1,134,820**	1,118,729
61 to 90 days	**85,669**	92,645
Over 90 days	**123,000**	112,663
	1,343,489	1,324,037

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 26 September 2017 to 27 September 2017 (both days inclusive), for the purpose of ascertaining Shareholders' entitlement to the proposed interim dividend, during which period no transfers of Shares will be registered. In order to qualify for the proposed interim 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 25 September 2017.

BUSINESS REVIEW

The first half of 2017 has continued to be challenging for the Group, as there was no sign of strong recovery for both the economy and retail markets in Hong Kong and the PRC. Nonetheless, in the face of such adverse conditions, the Group has continued to implement its strategies of optimising the merchandise mix of existing stores as well as take advantage of the opportunity to expand its scale of business during the market downturn in order to enjoy first-mover advantage when recovery occurs in the future. For the six months ended 30 June 2017, despite the stagnant market environment, revenue of the Group reached a half-year record high of HK$4,620.7 million (2016: HK$4,536.7 million), growing 1.9% year-on-year, mainly attributable to the Hong Kong segment contributed in part by the Kornhill and Whampoa stores re-opening after transformation into "AEON STYLE" stores, a major strategic initiative moving forward. The gross profit margin rose slightly to 30.5% (2016: 29.8%), due to the contributions in part from the "AEON STYLE" stores and the higher proportion of direct sales, relatively fewer promotional activities and clearance sales compared with the same period last year prior to the partial closure of the Kornhill and Whampoa stores. However, against the backdrop of a difficult macroeconomic environment and a continuous surge in operating expenses, the Group recorded a loss attributable to the owners of the Company of HK$72.0 million (2016: HK$82.9 million).

During the period under review, while the ongoing sluggish retail environment had further dampened the Group's performance, a number of adverse factors had contributed to the difficulties it encountered. These included the uncertainties in the economy and volatile financial markets exacerbating already weak consumer sentiment, as evident by a further 0.6% year-on-year drop in overall retail sales[i] in Hong Kong during the first half of 2017. At the same time, operating costs, especially rentals, remained high during the period, adding to the pressure on the Group's profitability. As a result, although revenue from the Group's Hong Kong operations increased 11.7% to HK$2,037.2 million (2016: HK$1,824.5 million) following the re-opening and transformation of the Kornhill and Whampoa stores into "AEON STYLE" stores, a segment loss of HK$86.1 million was recorded (2016: HK$101.4 million).

As at 30 June 2017, the Group operated a total of 57 stores (31 December 2016: 54 stores) located in densely-populated residential and commercial districts across Hong Kong.

Similar to the situation in Hong Kong, the retail market in the PRC had been sluggish during the period under review. This, coupled with the depreciation of Renminbi of approximately 4.9% year-on-year, dragged revenue from the PRC operations down by 4.7% to HK$2,583.5 million (2016: HK$2,712.2 million). Affected by the market conditions, as well as with the newly opened stores there still at the investment stage, together with high operating costs, the segment profit inevitably dropped by 75.4% to HK$3.0 million (2016: HK$12.2 million) during the period. If excluded the pre-operating expenses of HK$9.2 million (2016: HK$ 3.6 million) incurred for the opening of new stores, the segment profit would have dropped by 23.0%. The Group operated a total of 30 stores (31 December 2016: 31 stores) in South China as at 30 June 2017.

During the review period, staff costs increased by 1.9% and the ratio of staff cost to revenue stayed at 12.7%, while rental costs increased by 7.0% and the ratio of rental costs to revenue went up from 11.7% to 12.3%, according to adjustments in lease agreements. Other operating expenses representing sales promotions, utilities, management fees, maintenance and administrative expenses after deducting rental costs dropped by 6.2%.

The Group has maintained a net cash position with cash and bank balances and short term time deposits of HK$2,150.8 million as at 30 June 2017 (31 December 2016: HK$2,225.4 million). The Group had no bank borrowings as at the end of the review period and it has sufficient internal resources to finance future business expansion.

[1]Census and Statistics Department HKSAR Government
(http://www.statistics.gov.hk/pub/B10800032017MM06B0100.pdf)

BUSINESS REVIEW- continued

As at 30 June 2017, deposits of HK$31.0 million (31 December 2016: HK$31.9 million) were pledged as guarantees to landlords for rental deposits. Deposits of HK$14.2 million (31 December 2016: HK$14.0 million) were pledged as guarantees to regulatory bodies for prepaid value cards sold.

Capital expenditure for the period was HK$147.2 million which was incurred for new store openings and store renovations. The Group continues to finance capital expenditure with internal resources and short-term borrowings.

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

The year 2017 marks the 30th Anniversary of the Group's founding. To celebrate this special occasion with its major stakeholders, the Group has embarked on a range of initiatives this year. Highlights include tailoring special merchandise and themed activities for customers; organising a kick-off ceremony to thank its suppliers for their support over the years, especially those with whom it has partnered for 30 years; a gala celebration dinner with its staff; as well as offering discount coupons for shareholders so that they may appreciate the happy shopping experience in its stores. As it reaches this important milestone, the Group continues to diligently strive to establish a sound business infrastructure for future growth following the AEON Basic Principles, and adhering to its "Customer-First" philosophy with an innovative spirit.

PROSPECTS

Looking ahead, the Group expects the operating environment in Hong Kong to remain difficult, as uncertainties in the economy persist and no sign of a revival in consumption sentiment can be seen. At the same time, the surge in the operating costs in various business areas is not expected to slow down, particularly labour costs and rentals. In view of the challenges ahead, the Group is well aware of the need for a more competitive cost structure in order to maintain its competitiveness and will thus step up its efforts in raising efficiency and controlling operating costs. The Group also continues to strengthen its merchandise and concessionaire mix to offer an enhanced and more enjoyable shopping experience to its customers, which includes incorporating successful elements of the newly-opened "AEON STYLE" stores into other stores in Hong Kong. Moreover, the Group is exploring opportunities to open small-scale stores there. One such store was opened in Kennedy Town in July 2017, and by the end of 2017, five more small-scale stores are to be opened, while the store in Causeway Bay is to be refurbished to re-open as a Lifestyle store, an appropriate concept for that upscale shopping district.

The Group remains cautiously optimistic about the mid-to-long term economic prospects of the PRC, especially Guangdong province, the main base of the Group's operations in Mainland China which has boasted an economic growth faster than the national average in recent years. As the Group's expansion plan is not hindered by economic fluctuations, it will continue looking for store-opening opportunities in the PRC, so as to increase its market share in areas in which consumers' purchasing power grows relatively faster. At the same time it will enhance the profitability of existing stores by modifying the merchandise mix to meet customers' preference and enhance its stores competitiveness through renovations. Towards that end, three stores have been opened in Foshan, Guangzhou and Dongguan in the province during July and August 2017, adding to the Group's growth momentum in the PRC market.

PROSPECTS- continued

To reinforce the AEON brand image and improve profitability, as a long term business strategy, the Group will increase the contributions from direct sales through further promoting its house brand “TOPVALU” products as well as products of exclusive brands introduced by the Group.

Total capital expenditure of the Group from the second half of 2017 to 2019 is expected to reach approximately HK$1 billion, which is planned for new store openings, store renovations and improvements in backend infrastructures that are aimed at bolstering efficiency to support greater sales volumes.

HUMAN RESOURCES

As at 30 June 2017, the Group had approximately 8,100 full-time and 3,700 part-time employees in Hong Kong and the PRC. The Group remunerates employees based on their performance and experience in line with prevailing practices within the industry. Committed to delivering the highest standards of service to all of its customers, the Group continues to enhance the quality and skills of its staff by providing professional training and mentorship. It also strives to create a good working environment in order to foster camaraderie and morale among employees.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2017, 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 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.

CORPORATE GOVERNANCE

The Board of the Company has complied throughout the six months ended 30 June 2017 with the code provisions set out in the Corporate Governance Code (“CG Code”) and Corporate Governance Report contained in Appendix 14 to the Listing Rules except for the deviation disclosed below:

Under code provision A.2.1 of the CG Code requires 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 Managing Director (“MD”) were no difference from that required of a chief executive stipulated under the code provision A.2.1 of the CG Code. The management would regard that the term of Managing Director 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.

CORPORATE GOVERNANCE - continued

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.

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry of all Directors, all Directors have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2017.

The Audit Committee of the Company has reviewed the unaudited interim results for the six months ended 30 June 2017 with management.

PUBLICATION OF INTERIM REPORT ON THE WEBSITE OF THE STOCK EXCHANGE

The interim report for the six months ended 30 June 2017 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
Yuki Habu
Chairman and Managing Director

Hong Kong, 23 August 2017

As at the date of this announcement, the Executive Directors are Ms.Yuki Habu, Mr.Masamitsu Ikuta, Mr. Hideaki Yajima, Mr. Chak Kam Yuen and Mr. Lau Chi Sum Sam; the Non-executive Directors is Mr. Shinya Wako; and the Independent Non-executive Directors are Ms. Chan Yi Jen Candi Anna, Ms. Lo Miu Sheung, Betty and Mr. Chow Chi Tong.