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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 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 2014 together with comparative figures for the previous year as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2014**

	NOTES	2014 HK\$'000	2013 HK\$'000
Revenue	3	8,815,758	8,487,510
Other income		717,280	689,777
Investment income		27,483	24,790
Purchases of goods and changes in inventories		(6,027,742)	(5,753,905)
Staff costs		(1,006,284)	(1,008,192)
Depreciation		(195,194)	(196,598)
Impairment loss recognised in respect of property, plant and equipment		(31,393)	(125,370)
Gain on fair value change of an investment property		79,000	40,000
Loss on disposal of property, plant and equipment		(627)	(744)
Pre-operating expenses		-	(7,230)
Other expenses		(2,071,990)	(2,039,945)
Finance costs		(292)	(361)
Profit before tax		305,999	109,732
Income tax expense	4	(40,034)	(22,542)
Profit for the year		265,965	87,190
Profit for the year attributable to:			
Owners of the Company		257,565	107,074
Non-controlling interests		8,400	(19,884)
		265,965	87,190
Earnings per share	6	99.06 HK cents	41.18 HK cents

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014**

	2014	2013
	HK\$'000	HK\$'000
Profit for the year	265,965	87,190
Other comprehensive (expense) income		
<i>Items that may be subsequently reclassified to profit or loss</i>		
Exchange differences arising on translation of foreign operations	(1,129)	12,327
Available-for-sale financial assets		
Fair value loss on available-for-sale investment	(3,943)	(2,074)
Reclassification adjustment relating to disposal of an available-for-sale investment	-	(1,264)
	<u>(3,943)</u>	<u>(3,338)</u>
Other comprehensive (expense) income for the year, net of income tax	<u>(5,072)</u>	<u>8,989</u>
Total comprehensive income for the year	<u>260,893</u>	<u>96,179</u>
Total comprehensive income (expense) attributable to:		
Owners of the Company	252,970	110,982
Non-controlling interests	7,923	(14,803)
	<u>260,893</u>	<u>96,179</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2014**

	NOTES	31.12.2014 HK\$'000	31.12.2013 HK\$'000
Non-current Assets			
Goodwill		94,838	94,838
Property, plant and equipment		640,750	759,211
Investment property		-	550,000
Available-for-sale investment		23,245	26,980
Deferred tax assets		57,318	52,634
Rental deposits paid		123,160	147,316
Pledged bank deposits		29,277	25,642
		<u>968,588</u>	<u>1,656,621</u>
Current Assets			
Inventories		802,672	811,952
Trade receivables	7	33,220	35,251
Other receivables, prepayments and deposits		222,966	210,871
Amounts due from fellow subsidiaries		131,586	138,476
Time deposits		6,313	378,704
Pledged bank deposits		18,686	18,948
Bank balances and cash		2,426,922	1,966,217
		<u>3,642,365</u>	<u>3,560,419</u>
Asset classified as held for sale		629,000	-
		<u>4,271,365</u>	<u>3,560,419</u>
Current Liabilities			
Trade payables	8	1,422,786	1,469,222
Other payables and accrued charges		1,362,522	1,462,668
Amount due to ultimate holding company		51,620	49,622
Amounts due to fellow subsidiaries		61,331	86,910
Obligation under a finance lease		913	836
Income tax payable		10,190	26,245
Dividend payable		634	615
		<u>2,909,996</u>	<u>3,096,118</u>
Liabilities associated with asset classified as held for sale		63,380	-
		<u>2,973,376</u>	<u>3,096,118</u>
Net Current Assets		<u>1,297,989</u>	<u>464,301</u>
Total Assets Less Current Liabilities		<u>2,266,577</u>	<u>2,120,922</u>
Capital and Reserves			
Share capital		115,158	52,000
Share premium and reserves		1,807,030	1,723,760
Equity attributable to owners of the Company		1,922,188	1,775,760
Non-controlling interests		161,249	153,326
Total Equity		<u>2,083,437</u>	<u>1,929,086</u>
Non-current Liabilities			
Rental deposits received and other liabilities		171,976	177,575
Obligation under a finance lease		1,813	2,735
Deferred tax liabilities		9,351	11,526
		<u>183,140</u>	<u>191,836</u>
		<u>2,266,577</u>	<u>2,120,922</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

1. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS / 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”) and comply with the applicable requirements of the Hong Kong Companies Ordinance which concern the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap.32), in accordance with the transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap.622), “Accounts and Audit”, which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. 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.

2. APPLICATION OF NEW AND REVISED HKFRSs

The Group has applied the following new and revised HKFRSs issued by the HKICPA for the first time in the current year.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) - Int21	Levies

The application of the new and revised HKFRSs in the current year has had no material impact on the Group’s financial performance and position for the current and prior years.

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:

	2014	2013
	HK\$'000	HK\$'000
Direct sales	7,863,162	7,515,082
Income from concessionaire sales	952,596	972,428
	<u>8,815,758</u>	<u>8,487,510</u>

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.

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 2014

	<u>Hong Kong</u> <u>HK\$'000</u>	<u>PRC</u> <u>HK\$'000</u>	<u>Total</u> <u>HK\$'000</u>
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>	<u>179,988</u>
Gain on fair value change of an investment property			<u>79,000</u>
Rental income from an investment property			<u>19,820</u>
Investment income			<u>27,483</u>
Finance costs			<u>(292)</u>
Profit before tax			<u><u>305,999</u></u>

For the year ended 31 December 2013

	<u>Hong Kong</u> <u>HK\$'000</u>	<u>PRC</u> <u>HK\$'000</u>	<u>Total</u> <u>HK\$'000</u>
Segment revenue - external	<u>3,983,350</u>	<u>4,504,160</u>	<u>8,487,510</u>
Segment profit (loss)	<u>182,580</u>	<u>(158,306)</u>	<u>24,274</u>
Gain on fair value change of an investment property			<u>40,000</u>
Gain on disposal of an available-for-sales investment (reclassified from other comprehensive income upon disposal)			<u>1,264</u>
Rental income from an investment property			<u>19,765</u>
Investment income			<u>24,790</u>
Finance costs			<u>(361)</u>
Profit before tax			<u><u>109,732</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, gain on disposal of an available-for-sale investment (reclassified from other comprehensive income upon disposal), 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 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 of property, plant and equipment	482	145	627
Write-back of allowance for inventories	<u>(4,334)</u>	<u>-</u>	<u>(4,334)</u>

For the year ended 31 December 2013

	<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	83,203	113,395	196,598
Impairment loss recognised in respect of property, plant and equipment	24,000	101,370	125,370
Loss on disposal of property, plant and equipment	613	131	744
Allowance for inventories	<u>436</u>	<u>506</u>	<u>942</u>

4. INCOME TAX EXPENSE

	2014 HK\$'000	2013 HK\$'000
The charges (credits) comprise:		
Current tax		
Hong Kong	41,100	40,540
Other regions in the PRC	11,244	8,431
	<u>52,344</u>	<u>48,971</u>
Overprovision in prior years		
Other regions in the PRC	(5,296)	(365)
	<u>47,048</u>	<u>48,606</u>
Deferred tax		
Current year	(7,014)	(26,064)
Income tax expense for the year	<u><u>40,034</u></u>	<u><u>22,542</u></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

	2014 HK\$'000	2013 HK\$'000
Final dividend paid for 2013 of 12.9 HK cents (2013: 9.7 HK cents for 2012) per ordinary share	33,540	25,220
Interim dividend paid for 2014 of 8.1 HK cents (2013: nil for 2013) per ordinary share	21,060	-
Special dividend paid for 2014 of 20.0 HK cents (2013: nil for 2013) per ordinary share	52,000	-
	<u>106,600</u>	<u>25,220</u>

The Board of Directors has recommended a final dividend of 26.2 HK cents per share (2013: 12.9 HK cents) to be paid on or before 18 June 2015, subject to shareholders' approval at the forthcoming annual general meeting on 20 May 2015.

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\$257,565,000 (2013: HK\$107,074,000) and on 260,000,000 (2013: 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.

	31.12.2014 HK\$'000	31.12.2013 HK\$'000
Within 30 days	32,622	35,251
31 – 60 days	94	-
Over 60 days	504	-
	<u>33,220</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 the reporting periods.

	31.12.2014 HK\$'000	31.12.2013 HK\$'000
0 – 60 days	1,231,450	1,228,223
61 – 90 days	85,290	106,112
Over 90 days	106,046	134,887
	<u>1,422,786</u>	<u>1,469,222</u>

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 18 May 2015 to 20 May 2015 (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 2015.

The Register of Members of the Company will be closed from 28 May 2015 to 29 May 2015 (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 27 May 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Despite the uncertainties in the macroeconomic environment entering 2014 which may have adversely affected consumer spending and sentiment as well as the retail markets in the PRC and Hong Kong, the Group managed to maintain a stable growth in revenue of 3.9% to HK\$8,815.8 million from HK\$8,487.5 million last year. This growth was mainly driven by the stable performance of the Group's existing stores and the full period contribution of the newly-opened stores. Gross profit margin was slightly adjusted to 31.6% (2013: 32.2%) due to the persistent growth of revenue from direct sales and launch of promotional activities to boost sales performance. Thanks to the improvement of the operating results for the PRC operations, the decreased impairment loss recognised in respect of property, plant and equipment as well as lower costs to revenue ratios as a result of effective cost control measures, profit attributable to owners of the Company more than doubled, rising to HK\$257.6 million (2013: HK\$107.1 million) during the year.

During the period under review, staff costs decreased by 0.2% and the ratio of staff costs to revenue decreased from 11.9% to 11.4%, due to the Group's efforts in streamlining its operations and improving efficiency. Rental costs rose by 3.4% while the ratio of rental costs to revenue decreased slightly from 11.6% to 11.5%. Other expenses including selling, distribution and administrative expenses excluding rental costs, decreased by 0.1% as a result of the Group's effective cost control measures.

During the year, the Company entered into a Sale and Purchase Agreement with the Purchaser to dispose its Property located at Nos. 24-28 Kung Yip Street, Kwai Chung, New Territories, Hong Kong at a Purchase Price of HK\$633.8 million. Completion of the Disposal shall take place on or before 29 April 2015 or a date to be mutually agreed between the Purchaser and the Company. More details of the Disposal and the property are contained in the Company's circular dated 25 November 2014.

As at 31 December 2014, the Group maintained a strong net cash position with cash and bank balance and short term time deposits of HK\$2,433 million (2013: HK\$2,345 million). The Group thus has sufficient internal resources to finance future business expansion.

As at 31 December 2014, deposits of HK\$31.4 million (2013: HK\$29.4 million) were pledged as guarantees to landlords for rental deposits. Deposits of HK\$16.6 million (2013: HK\$15.2 million) were pledged as a guarantee to regulatory bodies for prepaid value cards sold.

During the year under review, capital expenditure for opening new stores and store renovations in Hong Kong and the PRC amounted to HK\$110.8 million. The Group intends to finance future capital expenditure by internal resources and short-term borrowings.

As less than 5% of the Group's total purchases were settled in foreign currencies, its financial position has no significant impact by fluctuations in exchange rates.

BUSINESS REVIEW

Hong Kong Operations

The retail market remained sluggish owing to slower economic growth with the increased pressure of surging rental costs. Consumers remained cautious about spending, while the retail market was also affected by the unstable political environment in the fourth quarter of the year. The Group stepped up its promotional activities and reinforced its strategies to further enhance the sales performance of its existing stores, which to some extent countered the effects of the stagnant market environment. During the year, despite the closure of one store in Yuen Long in February and another in Kwun Tong in May, revenue from the Group's Hong Kong operations was still maintained at HK\$3,889.2 million (2013: HK\$3,983.4 million), with segment profit rising 11.9% to HK\$204.3 million (2013: HK\$182.6 million) benefiting from the enhanced operational efficiency and cost control measures and absence of impairment loss in respect of property, plant and equipment recognised during the year (2013: HK\$24.0 million).

During the year, while devoting most of its efforts in boosting the performance of existing stores, the Group continued to identify suitable locations for new store openings in a cautious manner. Apart from a new store in Choi Wan opened in March 2014, it opened the second one in Kennedy Town to capture the growing business opportunity from a rising residential population in the catchment area.

As at 31 December 2014, the Group had 42 (2013: 42) stores in densely populated residential and commercial districts across Hong Kong.

PRC Operations

While the PRC's economy maintained a relatively lower growth rate when compared with past years, the consumer sentiment continued to change rapidly. Facing these challenges, the Group took a proactive approach to revamp the merchandise mix and improve back-end support services. In addition, the Group's stores opened in the previous year steadily ramped up their sales performances, which helped boost not only its revenue but also the overall results. Therefore, despite the unfavourable operating environment, the Group managed to boost revenue by 9.4% to HK\$4,926.5 million (2013: HK\$4,504.2 million), while segment loss was markedly narrowed from HK\$158.3 million to HK\$24.3 million during the year under review. Excluding the impairment loss of property, plant and equipment for both years, the PRC segment results would have registered a profit of HK\$7.1 million, a significant turnaround from a loss of HK\$56.9 million in 2013. The Group opened one store in Guangzhou and renovated the Teem Plaza store during 2014.

As at 31 December 2014, the Group operated 29 (2013: 29) stores in south China.

PROSPECTS

Hong Kong Operations

Looking ahead, the Group remains cautiously optimistic about the retail market in 2015 as the global

economy appears to be gradually stabilizing. The overall retail industry and consumer sentiment in Hong Kong, however, remain uncertain and pose challenges to the Group's business in the coming year. Therefore, focusing resources on optimising sales performances of newly opened stores and improving merchandise offerings and services is the key focus of the Group. At the same time, the Group continues to search for suitable locations for cautious expansion, with the target to open small-scale stores in the territory.

PRC Operations

On the PRC front, as the growth of the economy continued to slow down, the Group expects that the operational environment in the market will remain challenging. In addition, the Group is also encountering rising costs across various fronts. Nevertheless, it believes that the overall economy of the PRC is healthy with growth potential, which should be beneficial to the retail industry in the long run. In view of this, it remains prudently optimistic about its operations in south China and will continue executing its strategy of strengthening and optimizing sales performance of its existing stores and consider opening new stores when opportunities arise.

HUMAN RESOURCES

As at 31 December 2014, the Group has approximately 8,100 full-time and 2,300 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. Concurrently, the Group strives to create an environment where employees can grow through a fulfilling career development path and enjoy a sense of camaraderie which would help to instill loyalty.

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.

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 2014 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 2014 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 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
CHAN Pui Man, Christine
Managing Director

Hong Kong, 17 March 2015

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