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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)

2012 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 2012 together with comparative figures for the previous period as follows:

**CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2012**

	<u>NOTES</u>	Six months ended	Six months ended
		<u>30.6.2012</u>	<u>30.6.2011</u>
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Revenue	3	3,582,372	3,243,675
Other income		284,674	241,423
Investment income		13,467	12,856
Purchase of goods and changes in inventories		(2,420,920)	(2,189,201)
Staff costs		(417,725)	(333,213)
Depreciation		(74,700)	(63,718)
Gain on fair value change of an investment property		30,000	86,264
Gain (loss) on disposal of property, plant and equipment		85	(280)
Impairment loss recognised in respect of property, plant and equipment		(9,726)	--
Pre-operating expenses		(23,770)	(4,799)
Other expenses		(786,667)	(683,402)
Finance costs		(578)	(1,289)
Profit before tax		176,512	308,316
Income tax expense	4	(27,857)	(61,759)
Profit for the period		148,655	246,557
Profit for the period attributable to:			
Owners of the Company		133,130	218,893
Non-controlling interests		15,525	27,664
		148,655	246,557
Earnings per share - Basic	6	51.20 HK cents	84.19 HK cents

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2012**

	Six months ended	
	<u>30.6.2012</u>	<u>30.6.2011</u>
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit for the period	<u>148,655</u>	<u>246,557</u>
Other comprehensive income		
Fair value gain (loss) on available-for-sale investments	3,465	(783)
Exchange differences arising on translation of foreign operations	<u>(2,174)</u>	<u>9,519</u>
Other comprehensive income for the period	<u>1,291</u>	<u>8,736</u>
Total comprehensive income for the period	<u><u>149,946</u></u>	<u><u>255,293</u></u>
Total comprehensive income attributable to:		
Owners of the Company	135,193	223,961
Non-controlling interests	<u>14,753</u>	<u>31,332</u>
	<u><u>149,946</u></u>	<u><u>255,293</u></u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2012**

	<u>NOTES</u>	<u>30.6.2012</u> <u>HK\$'000</u> (unaudited)	<u>31.12.2011</u> <u>HK\$'000</u> (audited)
Non-current Assets			
Goodwill		94,838	94,838
Property, plant and equipment		699,567	607,773
Investment property		440,000	410,000
Available-for-sale investments		27,135	23,670
Deferred tax assets		28,930	30,092
Rental deposits		146,180	132,440
Time deposits		1,529	--
Pledged bank deposits		28,385	25,196
		<u>1,466,564</u>	<u>1,324,009</u>
Current Assets			
Inventories		614,087	699,962
Trade receivables	7	28,475	33,403
Other receivables, prepayments and deposits		158,350	144,552
Amounts due from fellow subsidiaries		68,870	116,986
Time deposits		224,487	116,730
Pledged bank deposits		12,848	25,800
Bank balances and cash		1,771,189	2,178,184
		<u>2,878,306</u>	<u>3,315,617</u>
Current Liabilities			
Trade payables	8	1,176,666	1,400,591
Other payables and accrued charges		1,059,076	1,203,668
Amounts due to fellow subsidiaries		56,175	56,532
Amount due to ultimate holding company		67,918	41,440
Bank borrowings		12,236	24,571
Income tax payable		12,351	27,991
Dividend payable		1,031	770
		<u>2,385,453</u>	<u>2,755,563</u>
Net Current Assets		<u>492,853</u>	<u>560,054</u>
Total Assets Less Current Liabilities		<u>1,959,417</u>	<u>1,884,063</u>
Capital and Reserves			
Share capital		52,000	52,000
Share premium and reserves		1,568,630	1,526,777
Equity attributable to owners of the Company		1,620,630	1,578,777
Non-controlling interests		198,702	183,949
Total Equity		<u>1,819,332</u>	<u>1,762,726</u>
Non-current Liabilities			
Rental deposits received		120,037	105,541
Deferred tax liabilities		20,048	15,796
		<u>140,085</u>	<u>121,337</u>
		<u>1,959,417</u>	<u>1,884,063</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (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 (the “Listing Rules”).

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are mandatorily effective for the current interim period, except that the amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets* has been early adopted by the Group for the year ended 31 December 2011.

The application of the 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.

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective. The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application and the assessment so far had been detailed in the Group's annual financial statements for the year ended 31 December 2011.

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	
	<u>30.6.2012</u>	<u>30.6.2011</u>
	HK\$'000	HK\$'000
Direct sales	3,114,123	2,796,446
Income from concessionaire sales	468,249	447,229
Revenue	<u>3,582,372</u>	<u>3,243,675</u>

For the six months ended 30 June 2012

	<u>Hong Kong</u> HK\$'000	<u>PRC</u> HK\$'000	<u>Total</u> HK\$'000
Segment revenue - external	<u>1,668,490</u>	<u>1,913,882</u>	<u>3,582,372</u>
Segment profit	<u>60,330</u>	<u>63,577</u>	123,907
Gain on fair value change of an investment property			30,000
Rental income on an investment property			9,716
Investment income			13,467
Finance costs			<u>(578)</u>
Profit before tax			<u>176,512</u>

For the six months ended 30 June 2011

	<u>Hong Kong</u> HK\$'000	<u>PRC</u> HK\$'000	<u>Total</u> HK\$'000
Segment revenue - external	<u>1,482,825</u>	<u>1,760,850</u>	<u>3,243,675</u>
Segment profit	<u>96,598</u>	<u>105,358</u>	201,956
Gain on fair value change of an investment property			86,264
Rental income on an investment property			8,529
Investment income			12,856
Finance costs			<u>(1,289)</u>
Profit before tax			<u>308,316</u>

Segment profit represents the profit earned 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

	Six months ended	
	<u>30.6.2012</u>	<u>30.6.2011</u>
	HK\$'000	HK\$'000
The charge comprises:		
Current tax		
Hong Kong	8,600	18,200
Other regions in the PRC	<u>13,713</u>	<u>30,592</u>
	<u>22,313</u>	<u>48,792</u>
Underprovision in prior years		
Other regions in the PRC	<u>--</u>	<u>119</u>
Deferred tax		
Current year	<u>5,544</u>	<u>12,848</u>
Income tax expense for the period	<u><u>27,857</u></u>	<u><u>61,759</u></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% (six months ended 30.6.2011: 25%) of the estimated assessable profits of the subsidiaries.

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

5. DIVIDENDS

	Six months ended	
	<u>30.6.2012</u>	<u>30.6.2011</u>
	HK\$'000	HK\$'000
Dividend recognised as distribution during the period:		
Final dividend declared and paid for 2011 of 35.9 HK cents (six months ended 30.6.2011: 31.6 HK cents for 2010 final dividend) per ordinary share	<u>93,340</u>	<u>82,160</u>

The Board of Directors has recommended an interim dividend of 16.5 HK cents (six months ended 30.6.2011: 25.5 HK cents) per ordinary share amounting to HK\$42,900,000 (six months ended 30.6.2011: HK\$66,300,000), be paid to the owners of the Company whose names appear on the Register of Members on 12 October 2012. The interim dividend will be paid on or before 29 October 2012.

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 period attributable to the owners of the Company of HK\$133,130,000 (six months ended 30.6.2011: HK\$218,893,000) and on 260,000,000 (six months ended 30.6.2011: 260,000,000) ordinary shares in issue during the period.

No diluted earnings 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 at the end of respective reporting periods:

	<u>30.6.2012</u> HK\$'000	<u>31.12.2011</u> HK\$'000
Within 30 days	28,435	33,403
31 - 60 days	40	--
	<u>28,475</u>	<u>33,403</u>

8. TRADE PAYABLES

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

	<u>30.6.2012</u> HK\$'000	<u>31.12.2011</u> HK\$'000
0 – 60 days	987,580	1,296,799
61 – 90 days	122,461	64,720
Over 90 days	66,625	39,072
	<u>1,176,666</u>	<u>1,400,591</u>

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 10 October 2012 to 12 October 2012 (both days inclusive), during which period no share transfers will be effected. In order to qualify for the 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 26 Floor Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 9 October 2012.

BUSINESS REVIEW

For the six months ended 30 June 2012, the Group sustained the growth momentum and achieved a revenue of HK\$3,582.4 million (2011: HK\$3,243.7 million), representing a year-on-year growth of 10.4%.

Gross profit was adjusted slightly from 32.5% to 32.4% due to the increased share of the food sales and rising costs over the period. Profit attributable to the owner of the Company was recorded at HK\$133.1 million (2011: HK\$218.9 million) as affected by the decrease of the fair value gain from the Group's investment property, the increase in pre-operating expenses of new stores and impairment loss recognised, as well as a larger increment of operating expenses versus the increment of operating income. Excluding the change in the fair value of the investment property in both periods, profit would have only dropped by 22.2% to HK\$103.1 million.

In the first half of 2012, Hong Kong experienced a slight slowdown of economic growth due to the global financial instability. In addition, the rising prices of consumer products and luxury goods, as well as uncertain economic prospects weakened consumption sentiment. Nonetheless, driven by the contributions from newly opened stores, the revenue from the Hong Kong operations managed to grow 12.5% to HK\$1,668.5 million. Segment profit, however, dropped to HK\$60.3 million compared with HK\$96.6 million recorded in the last corresponding period under the impact of surging costs and pre-operating expenses of certain new stores.

During the review period, a store at Tuen Mun underwent renovation and expansion. To better accommodate the needs of customers, the store has an enlarged supermarket and a new apparel section, as well as featuring a variety of specialised restaurants. Another store in Kowloon City has partially opened during May with the supermarket the first section to welcome customers, offering quality food and health products from around the world as well as AEON's own TOPVALU brand product series. Also, a new store was opened at Tseung Kwan O MTR station in March, which strengthened the Group's presence along the MTR network. As at 30 June 2012, the Group operated a total of 36 stores in Hong Kong.

The PRC market encountered a similar situation as Hong Kong with slower economic growth and weaker market sentiment. The segment revenue rose from HK\$1,760.9 million to HK\$1,913.9 million, an 8.7% rise thanks to the expanded store network. Nonetheless, the soaring operating cost aggravated by inflation, the pre-operating expenses for certain new stores together with some new stores at the investment stage reduced the segment profit to HK\$63.6 million (2011: HK\$105.4 million). During the period, the Group opened two stores, one in Guangzhou and the other in Shenzhen. As at 30 June 2012, the Group operated a total of 22 stores in south China.

During the review period, the ratio of staff cost to revenue rose from 10.3% to 11.7%. The Group enhanced its remuneration package to retain competitive staff and enlarged its workforce to prepare for its business expansion plan. The ratio of rental cost to revenue increased to 10.6% from 9.9%. This ratio is expected to improve when the new stores are fully operational and the full period contributions are recorded.

The Group maintained a strong net cash position with cash and bank balances of HK\$1,996 million as at 30 June 2012 (31 December 2011: HK\$2,295 million) and bank borrowings of HK\$12.2 million (31 December 2011: HK\$24.6 million). The borrowings were denominated in Renminbi, bearing interest calculated with reference to the lending rate of the People's Bank of China. The Group's low gearing level leaves it with sufficient financial resources to fund future expansion efforts.

As at 30 June 2012, deposits of HK\$12.8 million (31 December 2011: HK\$25.8 million) and HK\$28.4 million (31 December 2011: HK\$25.2 million) were pledged as guarantees to banks for banking facilities and to landlords for rental deposits respectively.

Capital expenditure for the period amounting to HK\$178 million was used for opening new stores and store renovations. The Group will continue 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.

Prospects

Hong Kong Operations

Looking ahead, the unsettled European debt crises and slow-growing US economy will continue to drag the economic growth of other markets, including Hong Kong. Based on its rich experience in the local market and confidence in its long-term future growth, the Group remains cautiously optimistic about its operations in Hong Kong and is continuing its expansion plan. In the second half of 2012, apart from a new store in Causeway Bay opened in August to capture opportunities from the growing affluent consumer segment seeking a quality and trendy lifestyle in the district, the Group will open two more stores at Tsuen Wan, one in October and the other in December. As for the store in Kowloon City, a fashion section, a “Children’s Corner,” and other sections along with well-known licensees are soon to be opened and the store will be fully operational in early 2013. Smaller stores are also opening in Admiralty, Tai Wai, etc, from July until the end of the year.

As for the investment property in Hong Kong, the Group plans to extend a short-term lease with its existing single tenant. This enables the Group to have adequate time to plan for the establishment of new headquarters and centralised distribution and processing facilities there.

PRC Operations

Despite the slowdown in its rapid economic growth, the PRC economy remains relatively healthy when compared with other countries. The Group believes the PRC will be a market of significant potential in the medium-to-long term and is diligently preparing to tap the exciting opportunities. Five additional stores are planned to be opened by the end of 2012 and one more store will be opened in early 2013. Moreover, the Group is studying the feasibility to develop the business beyond Guangdong Province, such as in Fujian Province, and will expand its retail footprint when suitable locations are identified.

HUMAN RESOURCES

As at 30 June 2012, the Group had approximately 7,900 full-time and 1,500 part-time employees in Hong Kong and the PRC. The Group competitively remunerates employees based on their performance, experience and prevailing practices of the industry. As part of its commitment to delivering the highest standard of service to all its customers, the Group intends to continue to place efforts on enhancing the quality and skills 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 2012, 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 2012 with the code provisions set out in the Corporate Governance Code and Corporate Governance Report 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 2012.

The Audit Committee of the Company has reviewed the unaudited interim results for the six months ended 30 June 2012 with management.

PUBLICATION OF INTERIM REPORT ON THE WEBSITE OF THE STOCK EXCHANGE

The interim report for the six months ended 30 June 2012 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, 24 August 2012

As at the date of this announcement, the executive Directors of the Company are Ms. Chan Pui Man, Christine, Mr. Junichi Suzuki and Ms. Chan Suk Jing; the non-executive Directors are Mr. Yoshinori Okuno, Mr. Haruyoshi Tsuji, Mr. Yutaka Agawa and Mr. Takashi Komatsu; and the independent non-executive Directors are Prof. Lam Pei Peggy, Mr. Sham Sui Leung, Daniel, Ms. Cheng Yin Ching, Anna and Dr. Shao Kung Chuen.