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

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012**

	NOTES	2012 HK\$'000	2011 HK\$'000
Revenue	3	7,377,228	6,686,387
Other income		614,948	514,237
Investment income		25,444	30,774
Purchase of goods and changes in inventories		(4,933,232)	(4,442,635)
Staff costs		(906,192)	(705,518)
Depreciation		(164,113)	(132,005)
Impairment loss recognised in respect of property, plant and equipment		(49,845)	--
Gain on fair value change of an investment property		100,000	86,264
Loss on disposal of property, plant and equipment		(1,749)	(291)
Pre-operating expenses		(80,596)	(27,215)
Other expenses		(1,682,792)	(1,437,872)
Finance costs		(863)	(2,264)
Profit before tax		298,238	569,862
Income tax expense	4	(47,393)	(115,457)
Profit for the year		<u>250,845</u>	<u>454,405</u>
Profit for the year attributable to:			
Owners of the Company		238,912	405,918
Non-controlling interests		11,933	48,487
		<u>250,845</u>	<u>454,405</u>
Earnings per share	6	<u>91.89 HK cents</u>	<u>156.12 HK cents</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012**

	2012	2011
	HK\$'000	HK\$'000
Profit for the year	250,845	454,405
Other comprehensive income		
Fair value gain (loss) on available-for-sale investments	8,384	(3,166)
Exchange differences arising on translation of foreign operations	6	22,055
Other comprehensive income for the year, net of income tax	8,390	18,889
Total comprehensive income for the year	259,235	473,294
Total comprehensive income attributable to:		
Owners of the Company	247,277	416,572
Non-controlling interests	11,958	56,722
	259,235	473,294

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2012**

	NOTES	31.12.2012 HK\$'000	31.12.2011 HK\$'000
Non-current Assets			
Goodwill		94,838	94,838
Property, plant and equipment		873,445	607,773
Investment property		510,000	410,000
Available-for-sale investments		32,054	23,670
Time deposits		1,535	--
Deferred tax assets		33,543	30,092
Rental deposits		151,751	132,440
Pledged bank deposits		28,496	25,196
		<u>1,725,662</u>	<u>1,324,009</u>
Current Assets			
Inventories		769,666	699,962
Trade receivables	7	37,344	33,403
Other receivables, prepayments and deposits		152,067	144,552
Amounts due from fellow subsidiaries		113,723	116,986
Time deposits		180,207	116,730
Pledged bank deposits		--	25,800
Income tax recoverable		16,378	--
Bank balances and cash		2,060,309	2,178,184
		<u>3,329,694</u>	<u>3,315,617</u>
Current Liabilities			
Trade payables	8	1,451,899	1,400,591
Other payables and accrued charges		1,417,257	1,203,668
Amount due to ultimate holding company		45,045	41,440
Amounts due to fellow subsidiaries		74,078	56,532
Bank borrowings		--	24,571
Obligation under a finance lease		800	--
Income tax payable		9,856	27,991
Dividend payable		867	770
		<u>2,999,802</u>	<u>2,755,563</u>
Net Current Assets		<u>329,892</u>	<u>560,054</u>
Total Assets Less Current Liabilities		<u>2,055,554</u>	<u>1,884,063</u>
Capital and Reserves			
Share capital		52,000	52,000
Share premium and reserves		1,637,814	1,526,777
Equity attributable to owners of the Company		1,689,814	1,578,777
Non-controlling interests		173,296	183,949
Total Equity		<u>1,863,110</u>	<u>1,762,726</u>
Non-current Liabilities			
Rental deposits received and other liabilities		169,211	105,541
Obligation under a finance lease		3,409	--
Deferred tax liabilities		19,824	15,796
		<u>192,444</u>	<u>121,337</u>
		<u>2,055,554</u>	<u>1,884,063</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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”). 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 the Hong Kong Companies Ordinance.

2. APPLICATION OF NEW AND REVISED HKFRSs

In the current year, the Group has applied Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* issued by the HKICPA.

The application of the amendments to HKFRS 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.

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective.

The Directors of the Company anticipate that the application of these new and revised HKFRSs will have no material impact on the 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:

	2012 HK\$'000	2011 HK\$'000
Direct sales	6,413,148	5,766,163
Income from concessionaire sales	964,080	920,224
	<u>7,377,228</u>	<u>6,686,387</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 by reportable segment:

For the year ended 31 December 2012

	<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>3,525,214</u>	<u>3,852,014</u>	<u>7,377,228</u>
Segment profit	<u>136,698</u>	<u>17,444</u>	<u>154,142</u>
Gain on fair value change of an investment property			<u>100,000</u>
Rental income from an investment property			<u>19,515</u>
Investment income			<u>25,444</u>
Finance costs			<u>(863)</u>
Profit before tax			<u><u>298,238</u></u>

For the year ended 31 December 2011

	<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>3,071,373</u>	<u>3,615,014</u>	<u>6,686,387</u>
Segment profit	<u>233,764</u>	<u>203,164</u>	<u>436,928</u>
Gain on fair value change of an investment property			<u>86,264</u>
Rental income from an investment property			<u>18,160</u>
Investment income			<u>30,774</u>
Finance costs			<u>(2,264)</u>
Profit before tax			<u><u>569,862</u></u>

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit represents the profit earned 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 2012

	<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	66,659	97,454	164,113
Impairment loss recognised in respect of property, plant and equipment	38,754	11,091	49,845
Loss on disposal of property, plant and equipment	1,568	181	1,749
Write-down of inventories	<u>3,918</u>	<u>1,349</u>	<u>5,267</u>

For the year ended 31 December 2011

	<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	46,288	85,717	132,005
Loss on disposal of property, plant and equipment	32	259	291
Write-down of inventories	<u>1,601</u>	<u>1,978</u>	<u>3,579</u>

4. INCOME TAX EXPENSE

	2012 HK\$'000	2011 HK\$'000
The charges comprise:		
Current tax:		
Hong Kong	22,572	41,595
Other regions in the PRC	<u>24,530</u>	<u>61,244</u>
	<u>47,102</u>	<u>102,839</u>
(Over)underprovision in prior years		
Hong Kong	(2,600)	(1,095)
Other regions in the PRC	<u>84</u>	<u>4,065</u>
	<u>(2,516)</u>	<u>2,970</u>
	<u>44,586</u>	<u>105,809</u>
Deferred tax:		
Current year	<u>2,807</u>	<u>9,648</u>
Income tax expense for the year	<u><u>47,393</u></u>	<u><u>115,457</u></u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit 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

	2012 HK\$'000	2011 HK\$'000
Final dividend paid for 2011 of 35.9 HK cents (2011: 31.6 HK cents for 2010) per ordinary share	93,340	82,160
Interim dividend paid for 2012 of 16.5 HK cents (2011: 25.5 HK cents for 2011) per ordinary share	42,900	66,300
	<u>136,240</u>	<u>148,460</u>

The Board of Directors has recommended a final dividend of 9.7 HK cents per share (2011: 35.9 HK cents) to be paid on or before 19 June 2013, subject to shareholders' approval at the forthcoming annual general meeting on 24 May 2013.

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\$238,912,000 (2011: HK\$405,918,000) and on 260,000,000 (2011: 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.

	31.12.2012 HK\$'000	31.12.2011 HK\$'000
Within 30 days	<u>37,344</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 reporting date.

	31.12.2012	31.12.2011
	HK\$'000	HK\$'000
0 - 60 days	1,206,831	1,296,799
61 - 90 days	103,571	64,720
Over 90 days	141,497	39,072
	<u>1,451,899</u>	<u>1,400,591</u>

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 22 May 2013 to 24 May 2013 (both days inclusive), during which period no share transfers will be effected. In order to qualify for the entitlement to attend and vote 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 26 Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 21 May 2013.

The Register of Members of the Company will be closed from 31 May 2013 to 3 June 2013 (both days inclusive), during which period no share transfers will be effected. In order to qualify for the 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 26 Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 30 May 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

In 2012, the global economy was only recovering slowly after the outbreak of European debt crises, thus negatively affecting consumer sentiment. Yet, the Group continued to achieve growth despite the adverse economic environment with revenue increasing 10.3% to HK\$7,377.2 million from HK\$6,686.4 million last year, mainly attributable to the continued expansion in both the Hong Kong and PRC markets. Gross profit margin slightly adjusted from 33.6% to 33.1% due to the increased share of food sales and rising costs over the period. Profit attributable to owners of the Company was recorded at HK\$238.9 million (2011: HK\$405.9 million) due to the increase in pre-operating expenses of new stores, impairment loss recognised in respect of property, plant and equipment, as well as a larger increment of operating expenses versus the rise of operating income. Excluding the change in the fair value of the investment property in both years, profit would have dropped by 56.5% to HK\$138.9 million.

During the period under review, the ratio of staff cost to revenue increased from 10.6% to 12.3%, mainly because of the enhanced remuneration package for retaining competitive staff and the expansion of store network. The ratio of rental cost to revenue increased from 9.9% to 11.1% due to the opening of several stores in the second half of 2012.

As at 31 December 2012, the Group maintained a strong net cash position with cash and bank balance and short term time deposits of HK\$2,241 million (2011: HK\$2,295 million). Bank borrowings were all repaid as at the end of the year. The Group has sufficient internal resources to finance future business

expansion.

As at 31 December 2012, deposits of HK\$28.5 million (2011: HK\$25.2 million) were pledged as guarantees to landlords for rental deposits. There is no deposit pledged as at 31 December 2012 (2011: HK\$25.8 million) as a guarantee to any bank for banking facilities.

During the year under review, capital expenditure for opening new stores and store renovation in Hong Kong and the PRC amounted to HK\$482 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 not been materially affected by fluctuations in exchange rates.

BUSINESS REVIEW

Hong Kong Operations

Following the trend of 2011, recovery of the economy in Hong Kong further slowed down in 2012, and consumers remained cautious about spending due to the rising consumer prices throughout the year. Driven by the Group's strategic expansion and opening of new stores, revenue from Hong Kong operations increased by 14.8% to HK\$3,525.2 million (2011: HK\$3,071.4 million). Segment profit was adjusted to HK\$136.7 million from HK\$233.8 million last year due to rising costs, pre-operating expenses of certain new stores, impairment loss recognised in respect of property, plant and equipment of HK\$38.7 million (2011: Nil), and the fact that contributions from the newly opened stores, especially those opened in the second half of the year, have not yet been fully reflected in this fiscal year.

During the year, the Group continued implementing its expansion plan in Hong Kong according to schedule. Apart from the store that was opened in Kowloon City Plaza and the Tuen Mun Store that was reopened after renovation during the first half of the year, a new store in Causeway Bay also was opened in August aimed at capturing the opportunity from the growing consumer segment seeking a quality and trendy lifestyle. Seeing the growing residential and working population in Tsuen Wan, the Group opened two more stores in the district during the fourth quarter of the year – one at Tsuen Wan Skyline Plaza and the other at Panda Place in Tai Wo Hau – to grasp the business opportunity. To extend the network across the MTR system, the Group opened three more stores at the Tseung Kwan O station, Tai Wai station and Lohas Park station, all with a high pedestrian traffic flow.

As at 31 December 2012, the Group had 43 (2011: 38) stores in densely populated residential and commercial districts in Hong Kong.

PRC Operations

The PRC market experienced an economic slowdown similar to that in the Hong Kong market. In addition to the unsatisfactory economic conditions, the operational environment was further deteriorated by the September issue. Nonetheless, the Group managed to maintain revenue growth of 6.6% to HK\$3,852.0 million (2011: HK\$3,615.0 million) during the year under review. Segment profit dropped to HK\$17.4 million (2011: HK\$203.2 million) due to the soaring operating costs, the pre-operating expenses of certain new stores, impairment loss recognised in respect of property, plant and equipment of HK\$11.1 million (2011: Nil). The Group opened three stores in the second half of the year in addition to two in the first half.

As at 31 December 2012, the Group operated 25 (2011: 20) stores in south China.

PROSPECTS

Hong Kong Operations

The global economy is slowly recovering, yet the European debt crises remains unsettled and consumer sentiment all over the world may not improve significantly in the short run. Economic condition in Hong Kong would inevitably be dragged by the slowly-growing US economy. With quite a number of stores already opened in the past two years, the Group is focusing its efforts mainly on optimising the performance of these newly opened stores. Having said that, aiming for sustainable long-term growth, the Group is keeping a close eye on the market in order to capture opportunities that may arise. While the store at Kowloon City Plaza will be fully operated in the first half of 2013, the Group may open more stores when suitable locations are identified.

As for the investment property in Hong Kong, the Group has entered into a short-term lease with its single existing tenant. This enables the Group to have adequate time to plan for the establishment of its new headquarters and centralised distribution and processing facilities that will eventually be located there.

PRC Operations

Despite the decelerating growth rate of the PRC economy in comparison with previous years, the PRC market still remains healthy with growth potential relative to other countries. Therefore, the Group is prudently optimistic about its operations in south China, and will continue to expand its retail network there by adding five stores in Guangzhou, Shenzhen, Dongguan and Huizhou. The Group is actively exploring new initiatives to further expand in the PRC market. The Group is opening more stores to cater for the various needs of customers and is still exploring the opportunities to expand its business in Fujian Province though no commitment has been made for any specific project to date.

HUMAN RESOURCES

As at 31 December 2012, the Group had approximately 9,300 full-time and 1,400 part-time employees in Hong Kong and the PRC. The Group remunerates employees based on their performance, experience and prevailing practices of the industry. Committed to delivering the highest standard of service to all its customers, the Group will continue to place efforts on enhancing the quality and skills of its staff by providing professional trainings and mentorship. It will also seek to create an environment where employees can grow and feel a sense of belonging and loyalty to the Group.

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 Stock Exchange has enhanced the Code on Corporate Governance Practices (the “Former Code”) as set out in Appendix 14 of the Listing Rules, where the revised code, namely Corporate Governance Code (the “Revised Code”) has become effective from 1 April 2012.

In the opinion of the Directors, the Company has complied with the applicable code provisions of the Former Code and the Revised Code throughout the respective periods from (i) 1 January 2012 to 31 March 2012; and (ii) 1 April 2012 to 31 December 2012.

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 year.

The Audit Committee of the Company has reviewed the annual results for the year ended 31 December 2012 with management.

PUBLICATION OF ANNUAL REPORT ON THE WEBSITE OF THE STOCK EXCHANGE

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

Hong Kong, 15 March 2013

As at the date of this announcement, the executive Directors of the Company are Ms. Chan Pui Man, Christine, Mr. Junichi Suzuki, Ms. Chan Suk Jing and Mr. Chak Kam Yuen; 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.