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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTES	**2017 HK$'000**	2016 HK$'000
Revenue	3	**9,665,539**	9,036,609
Other income	4	**603,323**	612,465
Investment income		**26,155**	30,737
Purchases of goods and changes in inventories		**(6,638,768)**	(6,212,937)
Staff costs		**(1,226,873)**	(1,096,029)
Depreciation		**(226,127)**	(207,797)
Operating lease rental expenses		**(1,119,473)**	(1,084,050)
Other expenses	5	**(1,103,392)**	(1,058,474)
Pre-operating expenses		**(25,187)**	(5,133)
Other gains and losses	6	**(18,375)**	(25,881)
Finance costs		**(29)**	(116)
Loss before tax		**(63,207)**	(10,606)
Income tax expense	7	**(11,015)**	(4,407)
Loss for the year		**(74,222)**	(15,013)
(Loss) profit for the year attributable to:			
Owners of the Company		**(54,749)**	(23,228)
Non-controlling interests		**(19,473)**	8,215
		(74,222)	(15,013)
Loss per share - basic	9	**21.06 HK cents**	8.93 HK cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	2017	2016
	HK$'000	HK$'000
Loss for the year	**(74,222)**	(15,013)
Other comprehensive income (expense)		
Items that may be subsequently reclassified to profit or loss		
Exchange differences on translation of foreign operations	**15,003**	(23,291)
Fair value gain on available-for-sale investments	**3,047**	1,273
Other comprehensive income (expense) for the year, net of income tax	**18,050**	(22,018)
Total comprehensive expense for the year	**(56,172)**	(37,031)
Total comprehensive expense for the year attributable to:		
Owners of the Company	**(44,065)**	(33,441)
Non-controlling interests	**(12,107)**	(3,590)
	(56,172)	(37,031)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2017

	NOTES	**2017**	2016
		HK$'000	HK$'000
Non-current Assets			
Property, plant and equipment		**881,412**	851,719
Goodwill		**94,838**	94,838
Available-for-sale investments		**24,158**	21,111
Pledged bank deposits		**27,026**	27,431
Deferred tax assets		**69,519**	70,461
Rental and related deposits paid		**249,029**	254,936
		1,345,982	1,320,496
Current Assets			
Inventories		**950,925**	973,518
Trade receivables	10	**63,671**	47,885
Other receivables, prepayments and deposits		**187,459**	173,671
Amounts due from fellow subsidiaries		**58,031**	75,224
Tax recoverable		**-**	20,676
Time deposits		**169,234**	455,458
Pledged bank deposits		**19,703**	18,513
Bank balances and cash		**2,047,712**	1,769,924
		3,496,735	3,534,869
Current Liabilities			
Trade payables	11	**1,384,471**	1,324,037
Other payables, accrued charges and other liabilities		**1,416,898**	1,293,890
Dividend payable		**472**	505
Amount due to ultimate holding company		**29,541**	26,487
Amounts due to fellow subsidiaries		**65,111**	76,047
Tax liabilities		**5,972**	22,618
Obligation under a finance lease		**-**	724
		2,902,465	2,744,308
Net Current Assets		**594,270**	790,561
Total Assets Less Current Liabilities		**1,940,252**	2,111,057
Capital and Reserves			
Share capital		**115,158**	115,158
Reserves		**1,490,543**	1,638,550
Equity attributable to owners of the Company		**1,605,701**	1,753,708
Non-controlling interests		**137,670**	153,512
Total Equity		**1,743,371**	1,907,220
Non-current Liabilities			
Rental deposits received and other liabilities		**196,054**	198,500
Deferred tax liabilities		**827**	5,337
		196,881	203,837
		1,940,252	2,111,057

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The financial information relating to the years ended 31 December 2017 and 2016 included in this preliminary announcements of annual results for the years ended 31 December 2017 and 2016 do not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the 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 and will deliver the consolidated financial statements for the year ended 31 December 2017 in due course.

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

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

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

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS12	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 *Disclosure Initiative*

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs - continued

Specifically, the amendments require changes from financing cash flows to be disclosed of which a reconciliation between the opening and closing balances will be provided in the notes to consolidated financial statements for the year ended 31 December 2017 in the annual report. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in the notes to consolidated financial statements in the annual report, the application of these amendments has had no impact on the Group's 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:

	2017	2016
	HK$'000	HK$'000
Direct sales	**8,816,295**	8,198,225
Income from concessionaire sales	**849,244**	838,384
	9,665,539	9,036,609

Information reported to the Group’s chief operating decision makers (i.e. the executive directors) for the purposes of resource allocation and assessment of performance is focused on the retail stores of the Group located in different locations. The reportable segments represented the aggregate of operating segments with similar economic characteristics in terms of nature of products, type of customers and nature of the regulatory environment. 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 2017

	Hong Kong	**PRC**	**Total**
	HK$'000	**HK$'000**	**HK$'000**
Segment revenue - external	**4,267,653**	**5,397,886**	**9,665,539**
Segment loss	**(47,820)**	**(41,513)**	**(89,333)**
Investment income			**26,155**
Finance costs			**(29)**
Loss before tax			**(63,207)**

3. **REVENUE AND SEGMENT INFORMATION** - continued

Segment revenues and results - continued

For the year ended 31 December 2016

	Hong Kong HK$'000	PRC HK$'000	Total HK$'000
Segment revenue - external	3,826,626	5,209,983	9,036,609
Segment (loss) profit	(82,505)	41,278	(41,227)
Investment income			30,737
Finance costs			(116)
Loss before tax			(10,606)

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

Other segment information

For the year ended 31 December 2017

	Hong Kong HK$'000	**PRC HK$'000**	**Segment total HK$'000**
Amounts included in the measure of segment profit or loss:			
Additions to property, plant and equipment	**41,246**	**220,316**	**261,562**
Depreciation	**126,774**	**99,353**	**226,127**
Impairment loss recognised in respect of property, plant and equipment	**-**	**19,134**	**19,134**
Loss on disposal/written off of property, plant and equipment	**79**	**2,849**	**2,928**
Write-down of inventories	**2,941**	**-**	**2,941**

For the year ended 31 December 2016

	Hong Kong HK$'000	PRC HK$'000	Segment total HK$'000
Amounts included in the measure of segment profit or loss:			
Additions to property, plant and equipment	330,461	139,629	470,090
Depreciation	99,584	108,213	207,797
Impairment loss recognised in respect of property, plant and equipment	-	163	163
Loss on disposal/written off of property, plant and equipment	5,498	526	6,024
Write-down of inventories	2,791	-	2,791

4. OTHER INCOME

	2017 HK$'000	2016 HK$'000
Rental Income from sub-lease	**492,666**	494,431
Others	**110,657**	118,034
	603,323	612,465

5. OTHER EXPENSES

	2017 HK$'000	2016 HK$'000
Advertising, promotion and selling expenses	**313,517**	324,396
Maintenance and repair expenses	**328,059**	304,603
Others	**267,362**	227,802
Utilities expenses	**194,454**	201,673
	1,103,392	1,058,474

6. OTHER GAINS AND LOSSES

	2017 HK$'000	2016 HK$'000
Exchange gain (loss), net	**3,687**	(19,694)
Impairment loss recognised in respect of property, plant and equipment	**(19,134)**	(163)
Loss on disposal/written off of property, plant and equipment	**(2,928)**	(6,024)
	(18,375)	(25,881)

7. INCOME TAX EXPENSE

	2017 HK$'000	2016 HK$'000
The charges (credits) comprise:		
Current tax		
PRC Enterprise Income Tax	**9,952**	24,377
PRC withholding tax	**1,259**	-
	11,211	24,377
(Over)underprovision in prior years		
Hong Kong	**(461)**	-
PRC	**313**	-
	(148)	-
Deferred tax		
Current year	**(48)**	(19,970)
Income tax expense for the year	**11,015**	4,407

7. INCOME TAX EXPENSE - continued

No provision for Hong Kong Profits Tax is made as the Company has no 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.

8. DIVIDENDS

	2017	2016
	HK$'000	HK$'000
Final dividend paid for 2016 of 20 HK cents (2016: 7.8 HK cents for 2015) per ordinary share	**52,000**	20,280
Interim dividend paid for 2017 of 20 HK cents (2016: 20 HK cents for 2016) per ordinary share	**52,000**	52,000
Special dividend paid for 2017 of nil (2016: 20 HK cents for 2016) per ordinary share	**-**	52,000
	104,000	124,280

The Board of Directors has recommended a final dividend of 22 HK cents per share (2016: 20 HK cents) to be paid on or before 28 June 2018, subject to shareholders' approval at the forthcoming annual general meeting on 18 May 2018.

9. 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 year attributable to owners of the Company of HK$54,749,000 (2016: HK$23,228,000) and on 260,000,000 (2016: 260,000,000) ordinary shares in issue during the year.

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

10. TRADE RECEIVABLES

The Group does not have a defined fixed credit policy as its major trade receivables arise from credit card sales and sales by other electronics payment methods.

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

	2017	2016
	HK$'000	HK$'000
Within 30 days	**63,179**	47,298
31 to 60 days	**75**	215
Over 60 days	**417**	372
	63,671	47,885

11. TRADE PAYABLES

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

	2017	2016
	HK$'000	HK$'000
0 to 60 days	**1,158,975**	1,118,729
61 to 90 days	**99,529**	92,645
Over 90 days	**125,967**	112,663
	1,384,471	1,324,037

12. COMPARATIVE FIGURES

In order to conform with current year's presentation:

(a) operating lease rental expenses of HK$1,084,050,000 as contained in the comparative figures of "Other expenses" in the consolidated statement of profit or loss have been reclassified to "Operating lease rental expenses";

(b) net exchange loss of HK$19,694,000 as contained in the comparative figures of "Other expenses" in the consolidated statement of profit or loss have been reclassified to "Other gains and losses"; and

(c) impairment loss recognised in respect of property, plant and equipment of HK$163,000 and loss on disposal/written off of property, plant and equipment of HK$6,024,000 as contained in the comparative figures of "Other expenses" in the consolidated statement of profit or loss have been reclassified to "Other gains and losses".

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 11 May 2018 to 18 May 2018 (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 10 May 2018.

The Register of Members of the Company will be closed from 7 June 2018 to 8 June 2018 (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 6 June 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2017, a lot of changes happened in the retail sector, with New Retail taking centre stage and online and offline integration picking up, as such, new ways and means came into play. Due to the continuous climb of living standards, transformation of retail models and merchandise portfolios needs to be implemented more quickly. During the year, AEON Stores (Hong Kong) Co., Limited (together with its subsidiaries ("AEON Stores" or the "Group")) actively carried out internal adjustments, reviewed all basic operations and strengthen retail technologies, to cement its foundation for supporting long term growth. It also continued to implement effective sales strategy. Boosted by these efforts plus the drive from the full period contribution of the renovated Kornhill and Whampoa stores that adopt the "AEON STYLE", a new business model from Japan, revenue of the Group climbed to historical high and the gross profit margin also increased. Nevertheless, the Group still faced different operational challenges, such as persistently high operating costs which posed pressure on its profit. To grasp business opportunities and overcome challenges, after reviewing the structure of its retail network and performance of individual stores, we strategically adjusted and optimised the stores while actively expanding in the market. It also reformed its supply chain and enriched its quality merchandise mix to meet ever-changing customer needs. Furthermore, the Group actively implemented a series of business strategies to improve operational performance. For example, it took reference from a similar campaign in the PRC and started the "Super Wednesday" initiative in Hong Kong, which was a great success, and as such had built for itself a new retail management model.

BUSINESS REVIEW

Thanks to the abovementioned factors, the Group's total revenue increased by 7% to HK$9,665.5 million from HK$9,036.6 million in 2016. Gross profit margin climbed during the year to 31.3% (2016: 31.2%), owed mainly to the Hong Kong segment achieving gross profit margin growth. However, affected by the rise in operating costs, including labour and rental costs, as well as loss attributable to owners of the Company of HK$72.0 million (2016:HK$82.9 million) recorded in the first half of 2017, in addition to the one-off expenses, the Group recorded loss attributable to owners of the Company of HK$54.7 million (2016: loss of HK$23.2 million) for the full year. The Board recommended payment of a final dividend of HK22.0 cents. Together with the interim dividend of HK20.0 cents already paid during the year, total dividend for 2017 amounted to HK42.0 cents (2016: HK40.0 cents (excluding special dividend)).

Hong Kong Operations

In 2017, the Hong Kong economy improved slightly, with sales of the retail industry resuming moderate growth, which pushed up total retail sales for the full year of 2017 by 2.2%[1], putting a stop to the decline year-on-year since 2014. Driven by growth of the market and with the renovated Kornhill and Whampoa stores bringing in full period contribution, the revenue from Hong Kong operations increased by 11.5% to HK$4,267.7 million (2016: HK$3,826.6 million). Seeing the "Super Wednesday" initiative as an opportunity, the Group strengthened its operational capability and merchandise mix, which pushed up overall sales. The initiative also prompted the Group to improve supply chain management and as a result the overall gross profit margin of the Hong Kong operations grew. By implementing effective sales promotion and procurement strategies, as well as cost control measures, loss of the Hong Kong segment significantly narrowed to HK$47.8 million (2016: loss of HK$82.5 million).

During the year under review, the Group continued to look for suitable locations for opening new stores and added 10 new small stores. The lifestyle specialty store "ものもの (Mono Mono)", which opened last December, is a new business model tailored for local consumers craving chic style products. As at 31 December 2017, the Group had 64 (2016: 54) stores in densely populated residential and commercial districts in Hong Kong.

[1] Census and Statistics Department of The Government of The Hong Kong Special Administrative Region

BUSINESS REVIEW - continued

PRC Operations

As mainlanders' income rose and consumption sentiment grew, the retail market in the PRC gradually stabilised in 2017. During the year, the PRC segment's revenue grew by 3.6% to HK$5,397.9 million (2016: HK$5,210.0 million). Facing intensifying competition, the Group is well aware of the importance of customer relationship management and Big Data analysis to its business, so it has introduced at full force a new Customer Relationship Management (CRM) system, which will serve as a platform for subsequent precision marketing. Moreover, another important strategy of the Group is to boost gross profit margin by accelerating supply chain transformation. To achieve that goal, the Group adjusted some of its centralised procurement modes, in the hope of further reducing procurement costs and improving gross profit performance. To expedite its long term stable development in the Pearl River Delta, the Group has adjusted its store network as the vicinity of certain stores did not develop satisfactorily in the past few years and consequently incurred one-off store closure expenses. Mainly because of that, the PRC segment recorded loss of HK$41.5 million for the year (2016: a profit of HK$41.3 million). Excluding the impairment loss of property, plant and equipment and expenses incurred from store closures, the PRC segment recorded profit of HK$15.5 million.

During the period, the Group actively reviewed the performances of its stores and optimised its store portfolio by strategically closing and opening stores. In 2017, the Group closed three stores and opened four new stores in new locations. As at 31 December 2017, the Group operated 32 (2016: 31) stores in South China.

FINANCIAL REVIEW

During the year, staff cost increased by 11.9%, mainly attributable to adjustment of staff salaries and additional labour costs incurred because of the increase in number of stores. The ratio of staff costs to revenue climbed to 12.7%. Adjustment of lease agreements resulted in a 3.3% rise in rental costs and the ratio of rental costs to revenue decreased from 12.0% to 11.6%. As for other operating expenses including advertising, promotion and selling expenses, maintenance and repair expenses, utility expenses and other expenses, as a result of the Group opening new stores to expand business, they increased by 4.3% and the ratio of these expenses to revenue declined from 11.7% to 11.4%.

As at 31 December 2017, the Group maintained a strong net cash position with no bank borrowings. Cash and bank balance and short term time deposits amounted to HK$2,216.9 million (2016: HK$2,225.4 million). Hence, the Group has sufficient internal resources to finance future business expansion.

As at 31 December 2017, deposits of HK$32.0 million (2016: HK$31.9 million) were pledged to the bank as guarantees of the rental deposits to landlords. And, deposits of HK$14.7 million (2016: HK$14.0 million) were pledged to regulatory bodies as guarantees for prepaid value cards sold.

In 2017, capital expenditure for opening new stores and store renovation in Hong Kong and the PRC amounted to HK$261.6 million. The Group will continue to finance future capital expenditure with internal resources and short-term borrowings.

Exchange rate fluctuation had no material impact on the Group's retail business during the year as less than 5% of the Group's total purchases were settled in foreign currencies other than its functional currencies in Hong Kong and in the PRC. The Group recorded an exchange gain of HK$3.7 million in 2017, against a loss of HK$19.7 million in the same period last year.

PROSPECTS

The Group operates mainly brick and mortar retail business, and in the past few years, while rapid changes happened in the PRC market, the Hong Kong market remained relatively stable. However, customers in both markets have raised the standards they require of quality of living, and to meet customers' demand, the Group has to keep refreshing its business models or services. The Group examined its business and realised that it should, on the solid foundation it has established over the years, address issues and challenges pragmatically, hasten transformation and improve efficiency, so that the resources it has accumulated over the years could be used better to foster its development. With 30 years of successful experience and commitment to innovation, AEON Stores will strive to capture opportunities to apply its "Customer-First" philosophy on the base of its fundamental principles. Its goals are to fully realise the potential of AEON Stores and take its business to new heights, and ultimately become the preferred retailer of customers.

Hong Kong Operations

Looking forward, with the overall economic environment and retail market in Hong Kong continuing to stabilise in 2017, the Group remains cautiously optimistic about the prospects of its business in 2018. In the year ahead, the Group will continue the strategy of actively opening small specialty stores, and also embark on transforming, in extent as required, some existing stores, incorporating "AEON STYLE" elements to help improve their efficiency. At the same time, the Group will actively explore opportunities of opening stores of different models in Hong Kong.

To better control costs, the Group plans to kick off the study of Robotic Process Automation (RPA), which is an attempt to fundamentally optimise workflow, reduce workload and attack the roots of the problem of escalating labour costs.

Another goal of the Group is to increase application of its information technology system in business operation, including replacing the backbone system which has been in use for 20 years, and actively bring in CRM and self-serviced cashier systems. The Group will allocate more resources to enhance the efficiency of front-line operations and improve user experience of "AEONCITY", for the purpose of boosting online sales that it may stand out in the market. On the e-commerce front, the Group also hopes to explore opportunities of cooperating with third parties, as a way to speed up its development.

In the first two months of 2018, the Group opened a new small store in Wanchai. In the future, the Group will continue to examine and timely adjust its existing store portfolio and look for opportunities to open more small stores in Hong Kong.

PRC Operations

As the PRC economy continues on the steady growth track, and the Chinese people affording stronger spending power and craving ever higher quality of living, the Group continues to be cautiously optimistic about the future performance of the PRC operations. It sees the PRC operations as one of its major future growth drivers. The Group will maintain its active store opening strategy and identify, more scientifically and prudently, store locations to expand its business in the PRC. Currently, the Group plans to open five GMS and three GMS in the PRC in 2018 and 2019 respectively, and will introduce the proven "AEON STYLE" business model to its stores in first-tier cities such as Shenzhen and Guangzhou in the second half of 2018, with the aim of providing new shopping experience to mainland customers with high spending potential. The Group will, together with "AEON MALL", strengthen development in new districts and also cooperate with other well-established shopping mall operators to open GMS in areas with potential to enlarge its market share and drive continuous business development. Moreover, the Group will set up a new business team to help it explore opportunities for opening small specialty stores in the PRC.

PROSPECTS - continued

In addition, in view of the boom of online sales in recent years in the PRC, the Group will continue to strengthen cooperation with famous third-party online shopping platforms, such as JD.com and WeChat, to drive retail digitalization and deepen insights on consumers' patterns, thereby broaden its income streams and develop an online-to-offline (O2O) business model.

The Group expects its total capital expenditure in 2018 to reach approximately HK$500 million, which will be mainly spent on opening new stores, renovating stores and enhancing back-office support to boost business efficiency. Among which, the Group will focus on enhancing its internal information technology system comprehensively to strengthen its infrastructure and provide support to business development. Moreover, it will also further apply technologies in its daily operations, including optimising self-service checkout lanes and offering more mobile payment options to customers (e.g. WeChat Pay and Alipay), which can provide greater convenience to customers as well as allow the Group to lower labour cost.

COMPANY OBJECTIVES

Adhering to the concept of "operating a business that can fully satisfy customer needs", the Group endeavours to provide customers with a healthy, safe and convenient shopping environment and services to enhance their quality of living. All AEON employees share the same service concept and are dedicated to creating long-term value for the Group by gaining customers' trust. In the future, the Group will focus on expanding its market share in the PRC and Hong Kong, and also actively drive business growth and enhance operational efficiency and lower costs. The Group truly believes the above measures will generate stable and satisfactory returns for shareholders and all stakeholders.

HUMAN RESOURCES

As at 31 December 2017, the Group had 8,100 full-time and 3,800 part-time employees in Hong Kong and the PRC. The Group remunerates employees based on their performance, experience and prevailing industry practices. Committed to delivering the highest standard service to all customers, the Group will continue to enhance the quality and skills of its employees by providing them with professional training and mentorship. It also strives to create a working environment that can foster comradeship among employees.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

SUFFICIENCY OF PUBLIC FLOAT

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

The public float of the Company 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 announcement.

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 2017 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 2017 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 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 March 2018

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.