



# 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)

### 2006 INTERIM RESULTS

The Board of Directors 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 Stores") for the 6 months ended 30 June 2006 together with comparative figures for the previous period as follows:

#### CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

		Six months ended	
		30.6.2006	30.6.2005
	NOTES	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Turnover		2,831,340	2,605,943
Other income		128,658	111,967
Investment income		15,899	4,128
Purchase of goods and changes in inventories		(2,154,934)	(1,958,804)
Staff costs		(236,829)	(214,956)
Depreciation		(65,781)	(61,113)
Pre-operating expenses		-	(917)
Loss on disposal of property, plant and equipment		(557)	(1,732)
Other expenses		(471,152)	(434,253)
Finance costs		(331)	(4)
Profit before taxation		46,313	50,259
Income tax expenses	4	(17,092)	(14,578)
Profit for the period		29,221	35,681
Attributable to:			
Equity holders of the parent		28,027	37,273
Minority interest		1,194	(1,592)
		29,221	35,681
Interim dividend	5	14,300	14,300
Earnings per share	6	10.78 cents	14.34 cents

**CONDENSED CONSOLIDATED BALANCE SHEET**

AT 30 JUNE 2006

	<b>30.6.2006</b> <i>HK\$'000</i> <b>(unaudited)</b>	31.12.2005 <i>HK\$'000</i> <b>(audited)</b>
<b>Non-current Assets</b>		
Property, plant and equipment	<b>281,103</b>	317,613
Available-for-sale investments	<b>24,911</b>	24,861
Deferred taxation	<b>14,600</b>	11,625
Rental deposits and prepayments	<b>86,116</b>	78,756
	<b>406,730</b>	432,855
<b>Current Assets</b>		
Inventories	<b>328,366</b>	383,051
Trade receivables	<b>9,025</b>	23,413
Other receivables, prepayments and deposits	<b>21,564</b>	19,772
Amounts due from ultimate holding company	<b>514</b>	–
Amounts due from fellow subsidiaries	<b>36,200</b>	42,569
Bank balances and cash	<b>1,123,802</b>	1,042,294
	<b>1,519,471</b>	1,511,099
<b>Current Liabilities</b>		
Trade payables	<b>759,631</b>	796,116
Other payables and accrued charges	<b>282,247</b>	318,781
Amounts due to fellow subsidiaries	<b>14,582</b>	10,636
Amount due to ultimate holding company	<b>105,958</b>	84,512
Bank borrowings	<b>13,517</b>	14,351
Income tax payable	<b>23,433</b>	14,220
Dividend payable	<b>26,237</b>	169
	<b>1,225,605</b>	1,238,785
<b>Net Current Assets</b>	<b>293,866</b>	272,314
	<b>700,596</b>	705,169
<b>Capital and Reserves</b>		
Share capital	<b>52,000</b>	52,000
Share premium and reserves	<b>584,132</b>	591,551
Equity attributable to equity holders of the parent	<b>636,132</b>	643,551
Minority interests	<b>41,650</b>	40,066
<b>Total Equity</b>	<b>677,782</b>	683,617
<b>Non-current Liabilities</b>		
Deposits received and accrued charges	<b>22,814</b>	21,552
	<b>700,596</b>	705,169

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS****1. BASIS OF PREPARATION**

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

**2. PRINCIPAL ACCOUNTING POLICIES**

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

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA that are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The application of the new HKFRSs has had no material effect on how the results for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustments is required.

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 “Financial Reporting in Hyperinflationary Economies” <sup>2</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC) – INT 9	Reassessment of embedded derivatives <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1 May 2006.

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2006.

### 3. SEGMENT INFORMATION

The Group is principally engaged in the operation of general merchandise stores. No business segment analysis is presented as the management considers that the Group has one single business segment. The Group’s operations are located in Hong Kong and the People’s Republic of China (“PRC”), other than Hong Kong.

An analysis of the Group’s revenue and results by geographical segment is as follows:

#### Six months ended 30 June 2006

	Hong Kong <i>HK\$’000</i>	PRC <i>HK\$’000</i>	Consolidated <i>HK\$’000</i>
TURNOVER			
External sales	<u>1,903,584</u>	<u>927,756</u>	<u>2,831,340</u>
SEGMENT RESULT			
Profit before taxation	<u>44,702</u>	<u>1,611</u>	46,313
Income tax expenses			<u>(17,092)</u>
Profit for the period			<u>29,221</u>

#### Six months ended 30 June 2005

	Hong Kong <i>HK\$’000</i>	PRC <i>HK\$’000</i>	Consolidated <i>HK\$’000</i>
TURNOVER			
External sales	<u>1,822,109</u>	<u>783,834</u>	<u>2,605,943</u>
SEGMENT RESULT			
Profit (loss) before taxation	<u>52,574</u>	<u>(2,315)</u>	50,259
Income tax expenses			<u>(14,578)</u>
Profit for the period			<u>35,681</u>

#### 4. INCOME TAX EXPENSES

	Six months ended	
	30.6.2006	30.6.2005
	HK\$'000	HK\$'000
Current tax		
Hong Kong Profits Tax	10,730	10,095
PRC income tax	6,122	3,292
	<u>16,852</u>	<u>13,387</u>
Underprovision in prior year		
PRC income tax	3,215	–
	<u>20,067</u>	<u>13,387</u>
Deferred tax		
(Credit) charge for the period	(2,975)	1,191
	<u>17,092</u>	<u>14,578</u>

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the period.

The PRC income tax is calculated at 33% of the estimated assessable profits of the subsidiaries.

#### 5. DIVIDENDS

	Six months ended	
	30.6.2006	30.6.2005
	HK\$'000	HK\$'000
Final dividend paid in respect of the year ended 31 December 2005 of 14.0 HK cents (year ended 31 December 2004: 8.5 HK cents) per ordinary share	<u>36,400</u>	<u>22,100</u>

The directors have declared that an interim dividend of 5.5 HK cents (six months ended 30.6.2005: 5.5 HK cents) per share amounting to HK\$14,300,000 (six months ended 30.6.2005: HK\$14,300,000) be paid to the shareholders of the Company whose names appear on the Register of Members on 10 October 2006. The interim dividend will be paid on or before 18 October 2006.

#### 6. EARNINGS PER SHARE

The calculation of earnings per share attributable to the equity holders of the parent is based on the Group's profit for the period attributable to the equity holders of the parent of HK\$28,027,000 (six months ended 30.6.2005: HK\$37,273,000) and on 260,000,000 (six months ended 30.6.2005: 260,000,000) ordinary shares in issue during the period.

#### CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 10 October 2006 to 12 October 2006 (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 registrars, Secretaries Limited, at 26 Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 9 October 2006.

#### BUSINESS REVIEW

Turnover of the Group rose 9% to HK\$2,831 million for the six months ended 30 June 2006 against HK\$2,606 million for the corresponding period of last year. The rise in turnover is mainly attributable to the increase in sales of our existing and newly opened stores. Gross profit margin slightly decreased from 24.8% to 23.9% as a result of the Group enlarging its food sector to meet changing customer needs and affected by stock clearance during the review period. Profit attributable to equity holders of the parent dropped 25% to HK\$28 million (2005: HK\$37 million). This was mainly due to the rise in rental expenses in Hong Kong as well as increase in operating expenses of AEON (China) Co., Ltd. ("AEON China").

Although the local economy continued to grow during the review period and unemployment rate dropped and salary level increased, rounds of interest rate rise had seen local consumers become more cautious in spending. The Group's Hong Kong turnover for the six months ended 30 June 2006 rose slightly by 5% to HK\$1,904 million (2005: HK\$1,822 million). Profit before tax for the period dropped 15% to HK\$45 million from HK\$53 million, mainly as a result of rising rental expenses, even though the rise was not as steep as the increase in market rate. The stock clearance exercise also contributed to the drop of profit before tax.

In April 2006, the Group partially closed the Whampoa Store for renovation. To keep abreast with the changing needs of customers and community development in the district, the Group renovated the store to adopt the “Healthy Living” concept and enlarged its Supermarket, Fashion Section, and Household and Furniture Section to provide customers with a diverse merchandise mix and a convenient one-stop shopping environment. The store resumed operation in late June.

Encouraged by the successful experience of the first JUSCO Supermarket in apm, Kwun Tong, the Group is exploring suitable locations to expand the network of this new business model. Since the JUSCO Supermarket requires relatively smaller space, finding suitable locations for store development is easier.

The economy in South China continued to thrive and that benefited the retail market. For the six months ended 30 June 2006, the turnover from PRC operations was up 18% to HK\$928 million compared with HK\$784 million for the same period in 2005. The growth in turnover was attributable to satisfactory growth in existing stores and new stores. It takes time, however, for the new stores to adapt to local needs before they can generate considerable contribution. Furthermore, AEON China was still in its investment stage. The opening of the shopping mall in Shunde, under AEON China, originally scheduled to open in the second half of 2006, will be postponed to the first half of 2007 due to construction delay. Under these circumstances, the Group’s PRC operations recorded HK\$2 million in profit before tax for the period (2005: loss HK\$2 million).

During the review period, staff cost against turnover was up from 8.2% to 8.4% while rental cost against turnover fell from 8.0% to 7.9%.

The Group maintained a stable net cash position with cash and bank balance of HK\$1,124 million as at 30 June 2006 (31 December 2005: HK\$1,042 million) and short-term bank borrowings remained HK\$14 million (31 December 2005: HK\$14 million). The borrowings were denominated in Renminbi and bearing interest at 4.86% per annum.

Capital expenditure during the period amounted to HK\$29 million, which was used for renovation of existing store and opening of new stores. The Group will continue to finance capital expenditure by internal resources and short-term borrowings.

Exchange rate fluctuations had no material impact on the Group as less than 5% of its total purchases were settled in foreign currencies.

## **PROSPECTS**

### **Hong Kong Operations**

The Group is cautiously optimistic about the Hong Kong economy and expects it to grow steadily, not barring the negative impact of increasing rental costs on the retail market. The Group opened its second JUSCO Supermarket in Lam Tin in early September 2006 and will open one more in Tokwawan by mid-2007. Putting JUSCO Supermarket in highly populated residential areas or commercial districts not covered by its GMS network is part of the Group’s business development strategy. The emphasis is on selling fresh food of superior quality and providing wide selections to satisfy food lovers.

Moreover, the Group opened one JUSCO \$10 Plaza in Fanling in August and a new one will be opened in Shamshuipo by the end of September 2006. To strengthen the Group’s retail outlets, we will continue to look for suitable locations to open more GMS, JUSCO \$10 Plaza and independent supermarkets.

### **PRC Operations**

The Group expects the economy in South China to continue to prosper, which will benefit our existing stores and new stores. To capture the lucrative opportunities ahead, AEON China will open a shopping mall in Shunde, Guangdong Province in the first half of 2007. The Group will continue to increase retail outlets when we can identify suitable locations.

## **HUMAN RESOURCES**

As at 30 June 2006, the Group employed about 3,900 full-time and 2,800 part-time staff in Hong Kong and the PRC. The Group remunerates its employees based on their performance, experience and prevailing industry practice. Committed to providing quality service to our customers, we will continue to invest resources in enhancing staff quality and knowledge, and foster among employees a sense of loyalty to the Group.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

During the six months ended 30 June 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

## CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied throughout the six months ended 30 June 2006 with the code provisions set out in the Code on Corporate Governance Practices 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 2006.

The Audit Committee of the Company has reviewed the unaudited interim results for the six months ended 30 June 2006 with management.

By Order of the Board  
**LAM Man Tin**  
*Managing Director*

Hong Kong, 15 September 2006

*As at the date of this announcement, the directors of the Company are:*

<i>Executive:</i>	<i>Mr. Lam Man Tin, Mr. Yutaka Fukumoto and Mr. Wong Mun Yu</i>
<i>Non-Executive:</i>	<i>Mr. Toshiji Tokiwa, Mr. Akihito Tanaka, Mr. Tatsuichi Yamaguchi and Mr. Naoyuki Miyashita</i>
<i>Independent Non-Executive:</i>	<i>Mdm. Lam Pei Peggy, Mr. Sham Sui Leung, Daniel and Ms. Cheng Yin Ching, Anna</i>

Please also refer to the published version of this announcement in The Standard.