



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)

2004 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 six months ended 31 August 2004 together with comparative figures for the previous period as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	NOTES	Six months ended	
		31.8.2004 HK\$'000 (Unaudited)	31.8.2003 HK\$'000 (Unaudited)
Turnover		2,242,996	2,085,478
Other operating income		99,240	101,233
Investment income		994	2,041
Changes in inventories		(1,668,992)	(1,549,502)
Staff costs		(204,325)	(198,512)
Depreciation		(49,699)	(51,256)
Pre-operating expenses		(1,843)	–
Loss on disposal of property, plant and equipment		(2,139)	(11)
Other operating expenses		(378,210)	(380,832)
Profit from operations		38,022	8,639
Finance costs		(8)	(13)
Profit from operating activities before taxation		38,014	8,626
Income tax expenses	4	(9,122)	(8,525)
Profit before minority interest		28,892	101
Minority interest		(2,181)	5,752
Net profit for the period		26,711	5,853
Interim dividend	5	10,400	2,600
Earnings per share	6	10.27 cents	2.25 cents

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 AUGUST 2004

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 on The Stock Exchange of Hong Kong Limited and SSAP No. 25 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those adopted by the Group in its annual financial statements for the year ended 29 February 2004.

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 PRC, other than Hong Kong.

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

2004

	Hong Kong HK\$'000	PRC HK\$'000	Consolidated HK\$'000
TURNOVER	1,630,587	612,409	2,242,996
SEGMENT RESULT			
Profit from operations	25,336	12,686	38,022
Finance costs	(8)	–	(8)
Profit from ordinary activities before taxation	25,328	12,686	38,014
Income tax expenses	(7,138)	(1,984)	(9,122)
Profit before minority interest	18,190	10,702	28,892

2003

	Hong Kong HK\$'000	PRC HK\$'000	Consolidated HK\$'000
TURNOVER	1,602,085	483,393	2,085,478
SEGMENT RESULT			
Profit (loss) from operations	21,677	(13,038)	8,639
Finance costs	(13)	–	(13)
Profit (loss) from ordinary activities before taxation	21,664	(13,038)	8,626
Income tax (expenses) credit	(8,583)	58	(8,525)
Profit (loss) before minority interest	13,081	(12,980)	101

4. INCOME TAX EXPENSES

	Six months ended	
	31.8.2004 HK\$'000	31.8.2003 HK\$'000
Current tax:		
Hong Kong Profits Tax	7,300	8,265
PRC income tax	1,984	863
Overprovision of PRC income tax in previous periods	–	(921)
	9,284	8,207
Deferred tax in Hong Kong:		
(Credit) charge for the current period	(162)	1,241
Attributable to a change in tax rate in Hong Kong	–	(923)
	(162)	318
	9,122	8,525

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profit for the six months ended 31 August 2004.

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

5. DIVIDENDS

On 28 July 2004, a dividend of 13.0 HK cents (2003: 9.0 HK cents) per share amounting to HK\$33,800,000 (2003: HK\$23,400,000) was paid to shareholders as the final dividend for the year ended 29 February 2004.

The Board of Directors has declared that an interim dividend of 4.0 HK cents (2003: 1.0 HK cent) per share amounting to HK\$10,400,000 (2003: HK\$2,600,000) be paid to the shareholders of the Company whose names appear on the Register of Members of the Company on 19 November 2004. The interim dividend will be paid on or before 30 November 2004.

6. EARNINGS PER SHARE

The calculation of earnings per share is based on the Group's net profit for the period of HK\$26,711,000 (2003: HK\$5,853,000) and on 260,000,000 (2003: 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 16 November 2004 to 19 November 2004 (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 Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 15 November 2004.

BUSINESS REVIEW

The Group managed an increase in both turnover and profit for the six months ended 31 August 2004. During the review period, turnover grew 7.6% to HK\$2,243 million when compared with HK\$2,085 million recorded in the corresponding period the previous year. Gross profit margin maintained at 25.6% as compared to 25.7% in the same period in 2003. Profit attributable to shareholders increased by 356.4% to HK\$26.7 million. This substantial growth was mainly attributable to the overall satisfactory performance of our stores in Hong Kong and the PRC.

With market sentiment in Hong Kong picking up since the second half of 2003, customers have been more willing to spend, putting the local retail market on the road of recovery during the period. Hong Kong at large is benefiting from the PRC relaxing its restrictions on individual travellers to the territory. Hong Kong sales rose 1.8% to HK\$1,631 million. Profit from operations increased 16.9% to HK\$25.3 million. The slight sales increment was due to the closure of the Tsz Wan Shan Store in January 2004. The Group opened its fifth JUSCO \$10 Plaza in Tseung Kwan O in April 2004. The Group partially closed its Tseung Kwan O Store from March to May 2004 for renovation. Based on survey findings of the needs and preferences of customers in Tseung Kwan O and neighbouring districts, a “new-concept” JUSCO, with an expanded supermarket (the largest among all JUSCO Stores in Hong Kong) and a comprehensive children corner “Kids Land”, reopened by the end of May. The renovated store received positive feedback from customers. The Group will consider applying the same model when renovating existing stores and in enhancing product displays in other General Merchandise Store (“GMS”) to ensure that customers are provided with excellent services.

Strong economic growth in the PRC during the period was the catalyst that boosted the overall performance of the Group’s GMS network in the South China Region. Smoother daily operations and increasing popularity of our brand led to overall improvement of our results. China sales increased 26.7% to HK\$612 million when compared with HK\$483 million recorded in 2003. Profit from operations recorded HK\$12.7 million, successfully turned around from HK\$13.0 million loss last year. Our Zhongshan Store was in full operation during the period as compared to 2 months of operation in the corresponding period in 2003. The Teem Plaza Store resumed full operation after renovation last year with a bigger supermarket to satisfy the needs of customers in Guangzhou.

With services enhanced and the ability to promptly respond to customers’ needs, the operation of the PRC stores picked up and business began to grow at a steady yet faster rate, generating contribution to the Group. The management believes that the opening of more GMS will on the one hand further boost sales and on the other allow the Group to enjoy economies of scale in the long term.

To maintain its leading position, the Group is committed to enriching and diversifying its product mix, while strengthening its promotional campaigns to enhance its competitive edges. Additional promotional campaigns were mounted to create momentum, attract and retain loyal customers.

During the period, staff cost against turnover dropped from 9.5% to 9.1% while rental cost against turnover also fell from 8.8% to 8.4%. These were due to the lower staff and rental cost ratio in the PRC operations, slashing the overall cost ratio in staff and rental.

The Group maintained a strong and healthy financial position with no bank borrowings and a net cash balance of HK\$626 million as at 31 August 2004 (29 February 2004: HK\$832 million).

Capital expenditure during the period amounted to HK\$39 million (2003: HK\$44 million), which was used on renovations and opening of new stores. The Group will continue to fund its capital expenditure by internal resources.

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

With a slight inflation rate reflected in a 0.8% increase of the latest Consumer Price Index, benefits from the PRC relaxing its restrictions on individual travellers to the territory, and unemployment rate improving, local market sentiment has continued to pick up and the general outlook of the retail market is optimistic.

The Group has built a solid foundation in the Hong Kong market with 7 GMS and 5 independent JUSCO \$10 Plaza in major residential areas with high customer traffic. The Group will open two new JUSCO \$10 Plaza in North Point and Jordan in October and December 2004 respectively. Looking ahead, the Group will continue to seek suitable locations to open new GMS and JUSCO \$10 Plaza so as to further boost its share in the retail market in Hong Kong.

PRC Operations

The consumption power of cities in the Pearl River Delta remains strong and major cities in the region are reporting significant economic growth. With established market presence in the region, the Group sees unlimited opportunities for exploring and developing its business.

Benefiting from the Closer Economic Partnership Arrangement (CEPA), the Group has been granted the permit to establish a wholly-owned subsidiary – AEON (China) Co., Ltd. (“AEON China”), in Shenzhen, the PRC in September 2004. The establishment of AEON China will speed up our expansion plan, strengthen our backbone for merchandise sourcing, logistics support and development of information technology system for our operations, equipping us for entering the retail market laden with great potentials in the South China Region.

In September 2004, the Group opened its new GMS in Foshan. The new store not only brings a new shopping experience to citizens of Foshan and nearby cities, but also further expanded the Group’s GMS network in the South China Region to 7 stores. We also target to open a second GMS in Shenzhen by the end of 2004. To effectively capitalise on the enormous growth potential of the PRC, the Group will take a prudent approach in monitoring the operations of its existing GMS and reviewing its expansion rate in the region.

HUMAN RESOURCES

As at 31 August 2004, the Group employed 3,100 full-time and 2,700 part-time staff in Hong Kong and the PRC. The Group remunerates its employees based on their performance, experience and prevailing industry practices. We also offer benefits such as professional tuition and training subsidies to staff to enhance their personal development while fostering a sense of loyalty. All employees of the Group will strictly follow the "AEON Code of Conduct" to provide the best of our best to our customers, hence fulfilling our motto "Everything we do, we do for our customers".

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 31 August 2004, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 31 August 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

REVIEW OF INTERIM RESULTS

The unaudited interim results of the Group for the six months ended 31 August 2004 have been reviewed by the Audit Committee.

PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE WEBSITE

A detailed results announcement containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules in force prior to 31 March 2004 will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

By Order of the Board
Kazumasa ISHII
Managing Director

Hong Kong, 21 October 2004

As at the date of this announcement, the Board of the Company comprises Mr. Kazumasa Ishii, Mr. Kozo Murata, Mr. Wong Mun Yu and Mr. Lam Man Tin as executive directors, Mr. Toshiji Tokiwa, Mr. Motoya Okada, and Mr. Tatsuichi Yamaguchi as non-executive directors, and Dr. Shao You Bao, Mdm. Lam Pei Peggy, and Mr. Sham Sui Leung, Daniel as independent non-executive directors.

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