

# 20<sup>th</sup> Anniversary

AEON Stores (Hong Kong) Co., Limited

Interim Report

# 07

**AEON**

Stock code : 984



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 2007 together with comparative figures for the previous period as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	NOTES	Six months ended	
		30.6.2007 HK\$'000 (unaudited)	30.6.2006 HK\$'000 (unaudited)
Revenue	3	2,359,195	2,052,117
Other income		149,626	128,658
Investment income		21,549	15,899
Purchase of goods and changes in inventories		(1,567,298)	(1,375,711)
Staff costs		(256,215)	(236,829)
Depreciation		(73,087)	(65,781)
Loss on disposal of property, plant and equipment		(183)	(557)
Pre-operating expenses	4	(2,531)	–
Royalty fee savings	5	64,080	–
Other expenses		(526,279)	(471,152)
Finance costs	6	(1,608)	(331)
Profit before taxation		167,249	46,313
Income tax expenses	7	(32,559)	(17,092)
Profit for the period		134,690	29,221
Attributable to:			
Equity holders of the parent		128,423	28,027
Minority interest		6,267	1,194
		134,690	29,221
Dividends	8	45,500	36,400
Earnings per share	9	49.39 HK cents	10.78 HK cents
Interim and special dividend per share proposed after balance sheet date	8	28.00 HK cents	5.50 HK cents

**CONDENSED CONSOLIDATED BALANCE SHEET**

AT 30 JUNE 2007

	NOTES	30.6.2007 HK\$'000 (unaudited)	31.12.2006 HK\$'000 (audited)
<b>Non-current Assets</b>			
Property, plant and equipment	10	300,774	304,617
Available-for-sale investments	11	27,784	24,862
Deferred taxation		11,533	14,486
Rental deposits and prepayments		85,227	79,014
		<b>425,318</b>	<b>422,979</b>
<b>Current Assets</b>			
Inventories		344,279	367,282
Trade receivables	12	14,074	39,215
Other receivables, prepayments and deposits		46,778	41,310
Amounts due from fellow subsidiaries		35,919	45,159
Pledged bank deposits	17	6,858	–
Bank balances and cash		1,669,940	1,540,766
		<b>2,117,848</b>	<b>2,033,732</b>
<b>Current Liabilities</b>			
Trade payables	13	1,121,284	1,040,423
Other payables and accrued charges		350,055	378,096
Amounts due to fellow subsidiaries		21,018	24,754
Amount due to ultimate holding company		14,944	127,534
Bank borrowings	14	91,980	59,712
Income tax payable		31,529	9,359
Dividend payable		456	236
		<b>1,631,266</b>	<b>1,640,114</b>
<b>Net Current Assets</b>		<b>486,582</b>	<b>393,618</b>
		<b>911,900</b>	<b>816,597</b>
<b>Capital and Reserves</b>			
Share capital	15	52,000	52,000
Share premium and reserves		781,644	693,424
Equity attributable to equity holders of the parent		833,644	745,424
Minority interests		56,724	49,089
<b>Total Equity</b>		<b>890,368</b>	<b>794,513</b>
<b>Non-current Liabilities</b>			
Deposits received		21,532	22,084
		<b>911,900</b>	<b>816,597</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Attributable to equity holders of the parent									
	Share capital	Share premium	Investment revaluation reserve	Translation reserve	The People's Republic of China ("PRC") statutory reserves	Non-distributable reserve	Retained profits	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2006	52,000	63,158	20,906	2,578	2,456	-	502,453	643,551	40,066	683,617
Gain on fair value changes of available-for-sale investments	-	-	50	-	-	-	-	50	-	50
Exchange differences arising on translation of overseas operations	-	-	-	904	-	-	-	904	390	1,294
Income recognised directly in equity	-	-	50	904	-	-	-	954	390	1,344
Profit for the period	-	-	-	-	-	-	28,027	28,027	1,194	29,221
Total recognised income for the period	-	-	50	904	-	-	28,027	28,981	1,584	30,565
Dividend	-	-	-	-	-	-	(36,400)	(36,400)	-	(36,400)
At 30 June 2006 (unaudited)	52,000	63,158	20,956	3,482	2,456	-	494,080	636,132	41,650	677,782
Gain on fair value changes of available-for-sale investments	-	-	(49)	-	-	-	-	(49)	-	(49)
Exchange differences arising on translation of overseas operations	-	-	-	3,321	-	-	-	3,321	1,324	4,645
(Expense) income recognised directly in equity	-	-	(49)	3,321	-	-	-	3,272	1,324	4,596
Profit for the period	-	-	-	-	-	-	120,320	120,320	7,164	127,484
Total recognised (expense) income for the period	-	-	(49)	3,321	-	-	120,320	123,592	8,488	132,080

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Attributable to equity holders of the parent									
	Share capital	Share premium	Investment revaluation reserve	Translation reserve	The People's Republic of China ("PRC") statutory reserves	Non-distributable reserve	Retained profits	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Transfer, net of minority interests share	-	-	-	-	423	2,587	(3,010)	-	-	-
Dividend	-	-	-	-	-	-	(14,300)	(14,300)	-	(14,300)
Dividends paid to minority shareholders	-	-	-	-	-	-	-	-	(1,049)	(1,049)
At 31 December 2006	52,000	63,158	20,907	6,803	2,879	2,587	597,090	745,424	49,089	794,513
Gain on fair value changes of available-for-sale investments	-	-	2,922	-	-	-	-	2,922	-	2,922
Exchange differences arising on translation of overseas operations	-	-	-	2,375	-	-	-	2,375	1,368	3,743
Income recognised directly in equity	-	-	2,922	2,375	-	-	-	5,297	1,368	6,665
Profit for the period	-	-	-	-	-	-	128,423	128,423	6,267	134,690
Total recognised income for the period	-	-	2,922	2,375	-	-	128,423	133,720	7,635	141,355
Dividend	-	-	-	-	-	-	(45,500)	(45,500)	-	(45,500)
At 30 June 2007 (unaudited)	52,000	63,158	23,829	9,178	2,879	2,587	680,013	833,644	56,724	890,368

PRC statutory reserves are reserves required by the relevant PRC laws applicable to the subsidiaries of the Company in the PRC.

Non-distributable reserve is the reserve arising from the capitalisation of retained profits as registered capital of a subsidiary in the PRC.

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	<b>Six months ended</b>	
	<b>30.6.2007</b>	30.6.2006
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
NET CASH FROM OPERATING ACTIVITIES	<b>203,043</b>	145,096
NET CASH USED IN INVESTING ACTIVITIES		
Purchase of property, plant and equipment	<b>(63,596)</b>	(28,590)
Other investing activities	<b>(6,743)</b>	–
	<b>(70,339)</b>	(28,590)
NET CASH USED IN FINANCING ACTIVITIES		
Dividend paid	<b>(45,279)</b>	(38,357)
New bank loans raised	<b>30,659</b>	833
	<b>(14,620)</b>	(37,524)
NET INCREASE IN CASH AND CASH EQUIVALENTS	<b>118,084</b>	78,982
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<b>1,540,766</b>	1,042,294
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<b>11,090</b>	2,526
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY Bank balances and cash	<b>1,669,940</b>	1,123,802

## **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE SIX MONTHS ENDED 30 JUNE 2007

### **1. BASIS OF PREPARATION**

The condensed consolidated 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 Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

### **2. PRINCIPAL ACCOUNTING POLICIES**

The condensed consolidated 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 consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006.

In the current interim period, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning 1 January 2007.

**2. PRINCIPAL ACCOUNTING POLICIES (continued)**

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>
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment <sup>5</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

<sup>5</sup> Effective for annual periods beginning on or after 1 November 2006

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

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

HKAS 23 (Revised)	Borrowing costs <sup>1</sup>
HKFRS 8	Operating segments <sup>1</sup>
HK(IFRIC) – INT 11	HKFRS 2 – Group and treasury share transactions <sup>2</sup>
HK(IFRIC) – INT 12	Service Concession Arrangements <sup>3</sup>

<sup>1</sup> Effective annual periods beginning on or after 1 January 2009.

<sup>2</sup> Effective annual periods beginning on or after 1 March 2007.

<sup>3</sup> Effective annual periods beginning on or after 1 January 2008.



### 3. TURNOVER AND SEGMENT INFORMATION

Turnover represents the invoiced value of goods, net of discounts, sold to customers, and income from concessionaire sales during the year.

	<b>Six months ended</b>	
	<b>30.6.2007</b>	30.6.2006
	<b>HK\$'000</b>	HK\$'000
Income from concessionaire sales	<b>343,670</b>	291,774
Direct sales	<b>2,015,525</b>	1,760,343
Revenue	<b>2,359,195</b>	2,052,117

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 2007

	<b>Hong Kong</b>	<b>PRC</b>	<b>Consolidated</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
REVENUE	<b>1,574,771</b>	<b>784,424</b>	<b>2,359,195</b>
SEGMENT RESULT	<b>155,719</b>	<b>13,137</b>	<b>168,856</b>
Dividend income			1
Finance costs			<b>(1,608)</b>
Profit before taxation			<b>167,249</b>
Income tax expenses			<b>(32,559)</b>
Profit for the period			<b>134,690</b>

**3. TURNOVER AND SEGMENT INFORMATION (continued)**

Six months ended 30 June 2006

	Hong Kong HK\$'000	PRC HK\$'000	Consolidated HK\$'000
REVENUE	1,404,626	647,491	2,052,117
SEGMENT RESULT	44,706	1,937	46,643
Dividend income			1
Finance costs			(331)
Profit before taxation			46,313
Income tax expenses			(17,092)
Profit for the period			29,221

**4. PRE-OPERATING EXPENSES**

The amounts represent the set up costs for new stores. Included in pre-operating expenses were staff costs of HK\$1,317,000.

## 5. ROYALTY FEE SAVINGS

On 12 December 2006, the Board of Directors announced that the Company entered into a conditional amendment agreement (“Amendment Agreement”) with AEON Co., Ltd., the ultimate holding company, to amend the technical assistance agreement which was entered into on 31 December 1993 for the provision by AEON Co., Ltd. to the Company of technical assistance including the right to use certain trade marks of AEON Co., Ltd. and the system of information and know-how in consideration of an annual fee paid by the Company to AEON Co., Ltd. (“Technical Assistance Agreement”). Pursuant to the Amendment Agreement and in lieu of calculation provisions in the existing Technical Assistance Agreement, the Group shall pay a royalty fee to AEON Co., Ltd. for each financial year in the amount of 0.4% (the “New Royalty Rate”) of the audited consolidated Total of Revenue of the Company and its Affiliates as defined in the Amendment Agreement for the relevant financial year. The New Royalty Rate will be adopted retrospectively with effect from 1 January 2003.

Details of the above are set out in the circular issued by the Company on 3 January 2007. The resolution of adopting the Amendment Agreement was duly approved by the shareholders of the Company (AEON Co., Ltd. and its affiliates having abstained from voting) and passed on the extraordinary general meeting held on 26 January 2007.

Under the Amendment Agreement, the New Royalty Rate is to be applied retrospectively with effect from 1 January 2003. This gives rise to royalty fee savings of HK\$64,080,000, which is recognised in the condensed consolidated income statement during the current period. The royalty fee savings are computed based on the difference between the royalty fee incurred by the Company and its Affiliates from 1 January 2003 to 31 December 2006 pursuant to the Technical Assistance Agreement, and the royalty fee which would have been incurred by the Company and its Affiliates on the basis that the New Royalty Rate has been adopted during the corresponding years.

Another supplementary agreement (“Supplementary Agreement”) was entered into between AEON Co., Ltd. and the Company to amend the definition of the Total of Revenue, and there is no effect on the royalty fee savings. Details are set out in the circular issued by the Company on 24 April 2007. The resolution of adopting the Supplementary Agreement was duly approved by the shareholders of the Company (AEON Co., Ltd. and its affiliates having abstained from voting) and passed on the extraordinary general meeting held on 23 May 2007.

## 6. FINANCE COSTS

The finance costs represent interest on bank borrowings wholly repayable within five years.

## 7. INCOME TAX EXPENSES

	Six months ended	
	30.6.2007 HK\$'000	30.6.2006 HK\$'000
Current tax:		
Hong Kong Profits Tax	16,000	10,730
PRC income tax	13,606	6,122
	<b>29,606</b>	16,852
Underprovision in prior year		
PRC income tax	–	3,215
	<b>29,606</b>	20,067
Deferred tax:		
Charge (credit) for the period	2,953	(2,975)
	<b>32,559</b>	17,092

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

The PRC income tax is calculated at 15% to 33% of the estimated assessable profits of the subsidiaries.

**8. DIVIDENDS**

	<b>Six months ended</b>	
	<b>30.6.2007</b>	30.6.2006
	<b>HK\$'000</b>	HK\$'000
Final dividend paid in respect of the year ended 31 December 2006 of 17.5 HK cents (year ended 31 December 2005: 14.0 HK cents) per ordinary shares	<b>45,500</b>	36,400

The directors have declared on 15 September 2007 that an interim dividend of 8.0 HK cents (six months ended 30.6.2006: 5.5 HK cents) per share amounting to HK\$20,800,000 (six months ended 30.6.2006: HK\$14,300,000) and a special dividend of 20.0 HK cents (six months ended 30.6.2006: nil) per share amounting to HK\$52,000,000 (six months ended 30.6.2006: nil) be paid to the shareholders of the Company whose names appear on the Register of Members on 12 October 2007. The interim dividend and special dividend will be paid on or before 18 October 2007.

**9. 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\$128,423,000 (six months ended 30.6.2006: HK\$28,027,000) and on 260,000,000 (six months ended 30.6.2006: 260,000,000) ordinary shares in issue during the period.

**10. PROPERTY, PLANT AND EQUIPMENT**

During the period, the Group spent approximately HK\$65 million (six months ended 30.6.2006: HK\$29 million) on property, plant and equipment to expand its operations.

**11. AVAILABLE-FOR-SALE INVESTMENTS**

	<b>30.6.2007</b>	31.12.2006
	<b>HK\$'000</b>	HK\$'000
Equity securities:		
Listed shares in Hong Kong at fair value	<b>25,759</b>	22,922
Debt securities:		
Unlisted club debenture at fair value	<b>2,025</b>	1,940
	<b>27,784</b>	24,862

The fair value of the investments in equity securities have been determined by reference to bid prices quoted in active markets.

The listed securities detailed above include an investment in a fellow subsidiary of HK\$25,731,000 (31.12.2006: HK\$22,893,000).

**12. 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 at the balance sheet date:

	<b>30.6.2007</b>	31.12.2006
	<b>HK\$'000</b>	HK\$'000
Within due dates	<b>14,074</b>	39,129
Overdue under 30 days	–	86
	<b>14,074</b>	39,215

**13. TRADE PAYABLES**

The following is an aged analysis of trade payables at the balance sheet date:

	<b>30.6.2007</b>	31.12.2006
	<b>HK\$'000</b>	HK\$'000
Within due dates	<b>967,348</b>	923,196
Overdue under 30 days	<b>76,326</b>	64,803
Overdue over 30 days	<b>77,610</b>	52,424
	<b>1,121,284</b>	1,040,423

**14. BANK BORROWINGS**

During the period, the Group obtained new bank loans amounting to HK\$32,268,000. The loans bear interest at market rates and are repayable within one year. The proceeds were used to finance the Group's operation over the period.

**15. SHARE CAPITAL**

	<b>Number of shares</b>	<b>Amount HK\$'000</b>
Ordinary shares of HK\$0.20 each		
Authorised:		
At 30 June 2007 and 31 December 2006	350,000,000	70,000
Issued and fully paid:		
At 30 June 2007 and 31 December 2006	260,000,000	52,000

**16. CAPITAL COMMITMENTS**

	<b>30.6.2007</b>	31.12.2006
	<b>HK\$'000</b>	HK\$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	<b>16,724</b>	22,463
Capital expenditure in respect of acquisition of property, plant and equipment authorised but not contracted for	<b>846</b>	–

**17. PLEDGED BANK DEPOSITS**

As at 30 June 2007, bank deposits of HK\$6,542,000 (31.12.2006: nil) and HK\$316,000 (31.12.2006: nil) were pledged to a bank which provides bank guarantee in favour of a landlord for a sum equivalent to three months rent payable by the Group under tenancy agreement, and a guarantee to a supplier for trade purchase respectively.



## 18. RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following material transactions with related parties:

Nature of transaction		Six months ended	
		30.6.2007 HK\$'000	30.6.2006 HK\$'000
Fellow subsidiaries	Commission expenses	6,506	5,676
	Purchase of goods	36,415	29,192
	Rental income from licensees	3,081	3,313
Ultimate holding company	Royalty expenses	13,936	21,702
	Royalty fee savings	64,080	–
Minority shareholders of the subsidiaries	Rental expenses and management fees	19,187	18,873

Outstanding balances as at the balance sheet date arising from the above transactions with related parties were as set out in the condensed consolidated balance sheet except for the following balance, which is included in other receivables, prepayments and deposits:

	30.6.2007 HK\$'000	31.12.2006 HK\$'000
Amounts due from minority shareholders of the subsidiaries	5,012	4,827

## 19. COMPARATIVE FIGURES

Income from concessionaire sales is presented net of gross sales made under such arrangement and amounts paid/payable to concessionaires so as to conform better presentation, and the current accounting practice.

Accordingly, revenue and purchases of goods for the period ended 30 June 2006 has decreased from HK\$2,831,340,000 to HK\$2,052,117,000 and from HK\$2,154,934,000 to HK\$1,375,711,000 respectively.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from 10 October 2007 to 12 October 2007 (both days inclusive), during which period no share transfers will be effected. In order to qualify for the interim dividend and special 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 2007.

## **BUSINESS REVIEW**

For the six months ended 30 June 2007, the Group's revenue was up 15% to HK\$2,359 million against HK\$2,052 million for the last corresponding period, reflecting the rise in sales of our existing and newly opened stores. Our gross profit margin, however, increased only slightly from 33.0% in the last corresponding period to 33.6%, mainly because we embarked on stock clearance last year. Profit attributable to shareholders, including a one-off write back of royalty savings of HK\$64 million according to an amendment agreement made with AEON Co., Ltd., surged by almost 3.6 times from HK\$28 million to HK\$128 million, reflecting mainly the significant growth in revenue and improvement in gross profit margin.

Declining unemployment rate and an overall reviving economy stimulated consumption sentiment in Hong Kong in the first half of 2007. Against this backdrop, the Group's operations in Hong Kong delivered encouraging results with revenue up by 12% from HK\$1,405 million to HK\$1,575 million. Hong Kong segment profit for the period rose 2.5 times from HK\$45 million to HK\$156 million, with costs incurred by the closure of JUSCO Tseung Kwan O Store taken into account. Excluding the one-off write-back for the royalty savings, the profit would still have doubled to HK\$92 million resulting from strong operating performance.

## **BUSINESS REVIEW (continued)**

In Hong Kong, the Group now operates 6 General Merchandise Stores (“GMS”), 12 independent JUSCO \$10 Plaza and 3 independent supermarkets in major residential districts. During the period, the existing stores recorded satisfactory results, contributing to the excellent performance of the Group’s Hong Kong operation.

The rapid growth of economies in southern China continued to present business opportunities to the Group’s mainland operation, which reported a 21% growth in revenue from HK\$647 million in the last corresponding period to HK\$784 million in the period under review. Segment profit for the period increased six folds to HK\$13 million from HK\$2 million in the last corresponding period.

In January 2007, the Group opened its first shopping centre AEON Shunde Shopping Centre (“Shopping Centre”) in Shunde, Guangdong. The over 47,000 sq. m. Shopping Centre includes a 18,500 sq. m. GMS and over 90 retail outlets. Within 10 minutes’ ride for 438,000 residents and near residential projects soon to be completed, the Shopping Centre has yet to fully realise its business potential.

To capture vast market opportunities in the region, the Group introduced another GMS in Shenzhen in April 2007. In the Coco Park, Shenzhen, the store’s design is based on the concept of “growing with customers” and it targets nuclear families in the district. As at 30 June 2007, the Group operated 10 GMS and 1 shopping centre in southern China.

During the review period, staff cost and rental cost relative to revenue was down from 11.5% to 10.9% and from 10.9% to 10.0% respectively.

## **BUSINESS REVIEW (continued)**

The Group maintained a stable net cash position with cash and bank balance of HK\$1,670 million as at 30 June 2007 (31 December 2006: HK\$1,541 million) and short-term bank borrowings of HK\$92 million (31 December 2006: HK\$60 million). The borrowings were denominated in Renminbi bearing interest at around 5.2% per annum.

Capital expenditure during the period amounted to HK\$65 million, which was used to fund renovation of existing stores and opening of new stores. 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**

Although the stock market in Hong Kong has been volatile, the Hong Kong economy at large has continued to revive benefiting the retail market. However, heeding possible adverse impact of rising inflation rate and rental cost, the Group holds a cautiously optimistic view about the operational environment in Hong Kong.

Encouraged by the success of the two JUSCO Supermarket in Kwun Tong and Lam Tin, the Group opened a third independent supermarket in August 2007. The about 31,000 sq. ft. new supermarket in Grand Waterfront Plaza is the largest in To Kwa Wan. It provides over 8,000 food and grocery items, over 40% of which are directly imported from Japan. As more people are moving into this new estate and new private housing estates are expected to be completed for occupation in the next few years, the Group sees abundant opportunities for the new store in coming years.

## **PROSPECTS (continued)**

### **Hong Kong Operations (continued)**

To meet the ever-changing needs of customers, the Group is going to introduce a new business model, named Bento Express, to Hong Kong and targets to open the first store in Wan Chai by the end of September 2007. "Bento" is a single-portion takeout or home-packed meal common in Japanese cuisine. This new store will mainly provide "low fat, low salt, low sugar and high fibre" healthy Japanese food and beverages take-away service. It will also carry TOPVALU merchandises including a wide spectrum of snacks and drinks. With Japanese food gaining popularity and healthy lifestyle becoming prevalent in Hong Kong, the Group is confident that Bento Express will be well-received in the market.

Besides introducing this new business model, the Group will continue to look for suitable locations to open more GMS, JUSCO \$10 Plaza and JUSCO Supermarket to strengthen its retail network.

### **PRC Operations**

The economy in southern China region continues to flourish and drives the growth of the retail industry. The Group believes that both the new and existing stores will benefit from customers' robust demand for quality merchandise and services. To grasp the emerging opportunities, the Group is going to open one more GMS in Nanshan, Shenzhen by the end of 2007. The investment cost is expected to be around RMB36 million. The Group will strive to identify more suitable locations for new stores to accelerate its expansion plan in the PRC.

## HUMAN RESOURCES

As at 30 June 2007, the Group had about 4,700 full-time and 2,600 part-time employees in Hong Kong and the PRC. The Group remunerates employees based on their performance, experience and prevailing industry practice. Committed to providing quality services to our customers, we will continue to invest in enhancing the quality and skills of our staff and also foster among our employees a sense of loyalty to the Group.

## DIRECTORS' INTERESTS IN SHARES

At 30 June 2007, the interests of the directors and their associates in the shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

### (a) The Company

Name of directors	Number of ordinary shares held as personal interests	Approximate percentage of the issued share capital of the Company %
LAM Man Tin	20,000	0.008
Yutaka FUKUMOTO	70,000	0.027
WONG Mun Yu	18,000	0.007
Akihito TANAKA	50,000	0.019
Kazumasa ISHII	40,000	0.015
LAM PEI Peggy	200,000	0.077

**DIRECTORS' INTERESTS IN SHARES (continued)****(b) AEON Co., Ltd., the Company's ultimate holding company**

Name of directors	Number of ordinary shares held as personal interests	Approximate percentage of interest %
Akihito TANAKA	13,900	0.0017
Masaaki TOYOSHIMA	9,300	0.0012
Kazumasa ISHII	9,000	0.0011

**(c) Other associated corporations**

	<b>Akihito TANAKA</b>	
	Number of shares	Approximate percentage of interest %
AEON Fantasy Co., Ltd.	3,801	0.021
AEON Thana Sinsap (Thailand) Plc.	20,000	0.008
Aeonmall Co., Ltd.	4,000	0.003
AEON Co. (M) Bhd.	300,000	0.171
Ryukyu JUSCO Co., Ltd.	100	0.018

All the shares held are personal interests.

Other than as disclosed above, at 30 June 2007, none of the directors, chief executives nor their associates had any interests or short positions in any shares, underlying shares and convertible bonds of the Company or any of its associated corporations.

## SUBSTANTIAL SHAREHOLDERS

At 30 June 2007, shareholders (other than directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or had otherwise notified the Company were as follows:

Name of substantial shareholders	Long Positions Number of shares	Approximate percentage of the issued share capital %
AEON Co., Ltd.	186,276,000 (Note 1)	71.64
Aberdeen Asset Management Plc and its Associates (together "the Aberdeen Group") on behalf of Accounts managed by the Aberdeen Group	26,002,000 (Note 2)	10.00



## **SUBSTANTIAL SHAREHOLDERS (continued)**

Note 1: These shares are held as to 177,500,000 shares by AEON Co., Ltd., 7,000,000 shares by AEON (U.S.A.), Inc., and 1,776,000 shares by AEON Credit Service (Asia) Company Limited ("ACS").

AEON (U.S.A.), Inc. is a wholly-owned subsidiary of AEON Co., Ltd. and AEON Co. Ltd. is deemed to be interested in the 7,000,000 shares owned by AEON (U.S.A.), Inc.

ACS is owned by AEON Co., Ltd., AEON Credit Service Co., Ltd. and the Company as to 55,990,000 shares representing 13.37%, 217,514,000 shares representing 51.94%, and 3,784,000 shares representing 0.90% respectively of the issued share capital of ACS.

By virtue of its ownership of 45.28% and 71.64% of the issued share capital of AEON Credit Service Co., Ltd. and the Company respectively, AEON Co., Ltd. is deemed to be interested in the 1,776,000 shares owned by ACS.

Note 2: These shares are held by Aberdeen Asset Management Plc and its Associates (together "the Aberdeen Group") on behalf of Accounts managed by the Aberdeen Group in the capacity of an investment manager.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company as at 30 June 2007.

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

During the six months ended 30 June 2007, neither the Company nor 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 2007 with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules, save that in the interim review of the effectiveness of the system of internal control of the Group, the directors identified a weakness in a subsidiary's reporting system which led to the late announcement of a tenancy agreement entered into between the subsidiary and the joint venture partner of that subsidiary. Under the Listing Rules, the tenancy agreement constituted a continuing connected transaction of the Company and should have been announced when it was entered into by the parties. The late announcement was caused by a change of management of the subsidiary in April 2006 and the new management had not notified the Company of the tenancy agreement when it was entered into in November 2006. Upon becoming aware of the execution of the tenancy agreement in June 2007, the Company took immediate steps to engage an independent financial adviser and valuer to review and opine on the terms of the tenancy agreement. In addition, the Company has stepped up its monitoring and reporting procedures by (i) carrying out discussions with the management of the subsidiary in question and other subsidiaries with a particular emphasis on the importance of adhering to the requirements stipulated in the Listing Rules; (ii) reviewing the internal reporting and compliance system within the Group; (iii) arranging for seminars and training sessions for management of the Group to ensure that they are up-to-date with the requirements stipulated in the Listing Rules; and (iv) requiring all subsidiaries involved in continuing connected transactions to report to the management on a regular basis. The Company will continuously monitor and review the connected transactions and will comply with the requirements set out in Chapter 14A of the Listing Rules.

## **CORPORATE GOVERNANCE (continued)**

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 2007.

The Audit Committee of the Company has reviewed the unaudited interim results for the six months ended 30 June 2007 with management.

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

Hong Kong, 15 September 2007