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)

2008 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") for the 6 months ended 30 June 2008 together with comparative figures for the previous period as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

		Six months ended	
	NOTES	**30.6.2008** *HK$'000* **(unaudited)**	30.6.2007 *HK$'000* (unaudited)
Revenue	3	**2,602,316**	2,359,195
Other income		**172,974**	149,626
Investment income		**19,217**	21,549
Purchases of goods and changes in inventories		**(1,717,108)**	(1,567,298)
Staff costs		**(285,755)**	(256,215)
Depreciation		**(60,720)**	(73,087)
Loss on disposal of property, plant and equipment		**(4,876)**	(183)
Pre-operating expenses		**(194)**	(2,531)
Royalty fee savings		**—**	64,080
Other expenses		**(554,018)**	(526,279)
Finance costs		**(2,729)**	(1,608)
Profit before taxation		**169,107**	167,249
Income tax expenses	4	**(33,460)**	(32,559)
Profit for the period		**135,647**	134,690
Attributable to:			
Equity holders of the Company		**111,570**	128,423
Minority interests		**24,077**	6,267
		135,647	134,690
Dividends	5	**67,600**	45,500
Earnings per share	6	**42.91 HK cents**	49.39 HK cents
Interim and special dividend per share proposed after balance sheet date	5	**19.30 HK cents**	28.00 HK cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2008

	30.6.2008 *HK$'000* (unaudited)	31.12.2007 *HK$'000* (audited)
Non-current Assets		
Property, plant and equipment	**348,144**	335,692
Available-for-sale investments	**31,929**	29,395
Callable and structured deposits	**233,994**	—
Deferred taxation	**13,981**	13,129
Rental deposits and prepayments	**105,361**	94,986
	733,409	473,202
Current Assets		
Inventories	**397,883**	412,173
Trade receivables	**19,887**	34,323
Other receivables, prepayments and deposits	**51,634**	31,499
Amounts due from fellow subsidiaries	**31,553**	51,645
Pledged bank deposits	**80,549**	78,523
Bank balances and cash	**1,329,313**	1,651,084
	1,910,819	2,259,247
Current Liabilities		
Trade payables	**910,001**	1,036,747
Other payables and accrued charges	**432,736**	497,131
Amounts due to fellow subsidiaries	**28,402**	30,837
Amount due to ultimate holding company	**15,644**	27,816
Bank borrowings	**121,706**	100,387
Other liabilities	**107,488**	—
Income tax payable	**30,959**	25,445
Dividend payable	**700**	383
	1,647,636	1,718,746
Net Current Assets	**263,183**	540,501
	996,592	1,013,703
Capital and Reserves		
Share capital	**52,000**	52,000
Share premium and reserves	**810,614**	865,534
Equity attributable to equity holders of the Company	**862,614**	917,534
Minority interests	**103,256**	71,857
Total Equity	**965,870**	989,391
Non-current Liabilities		
Deposits received	**28,951**	24,312
Deferred tax liabilities	**1,771**	—
	30,722	24,312
	996,592	1,013,703

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

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 2007.

In the current interim period, the Group has applied, for the first time, the following new interpretations ("new Interpretations") issued by the HKICPA, which are effective for the Group's financial year beginning on 1 January 2008.

HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new Interpretations 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 adopted the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[3]
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate[1]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation[4]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 July 2008
[4] Effective for annual periods beginning on or after 1 October 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

The application of HK(IFRIC)-Int 13 will result in change to the revenue recognition policy of the Group for its customer loyalty programme. The customer privilege programmes operated for the benefit of its customers falls within the scope of HK(IFRIC)-Int 13. Under the customer privilege programmes, the customers are entitled to receive bonus points which can be used to redeem cash coupon. Presently, the Group has accounted for the customer privilege programmes by recognising the full consideration from sales as revenue and cost of bonus points as expenses. However, HK(IFRIC)-Int 13 requires that such transactions be accounted for as "multiple element revenue transactions" and that the consideration received in the initial sales transaction be allocated between the sales of goods and the cost of bonus points that are earned by the customers. The Directors of the Company have assessed the potential impact and confirm that the application of HK(IFRIC)-Int 13 will not have material impact on the results and financial position of the Group.

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 period.

	Six months ended	
	30.6.2008	30.6.2007
	HK$'000	*HK$'000*
Direct sales	**2,218,226**	2,015,525
Income from concessionaire sales	**384,090**	343,670
Revenue	**2,602,316**	2,359,195

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 2008

	Hong Kong	**PRC**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***
REVENUE	**1,487,728**	**1,114,588**	**2,602,316**
SEGMENT RESULT	**85,302**	**67,317**	**152,619**
Dividend income			**568**
Interest income			**18,649**
Finance costs			**(2,729)**
Profit before taxation			**169,107**
Income tax expenses			**(33,460)**
Profit for the period			**135,647**

Six months ended 30 June 2007

	Hong Kong *HK$'000*	PRC *HK$'000*	Consolidated *HK$'000*
REVENUE	1,574,771	784,424	2,359,195
SEGMENT RESULT	141,178	6,130	147,308
Dividend income			1
Interest income			21,548
Finance costs			(1,608)
Profit before taxation			167,249
Income tax expenses			(32,559)
Profit for the period			134,690

4. INCOME TAX EXPENSES

	Six months ended	
	30.6.2008 ***HK$'000***	30.6.2007 *HK$'000*
Current tax:		
Hong Kong Profits Tax	**15,613**	16,000
PRC income tax	**16,687**	13,606
	32,300	29,606
Underprovision in prior year		
PRC income tax	**241**	—
	32,541	29,606
Deferred tax:		
Current year	**169**	2,953
Attributable to change in tax rate	**750**	—
	33,460	32,559

Hong Kong Profits Tax is calculated at 16.5% (six months ended 30.6.2007: 17.5%) of the estimated assessable profit for the period.

The PRC income tax is calculated at 18% and 25% (six months ended 30.6.2007: 15% and 33%) of the estimated assessable profits of the subsidiaries.

On 16 March 2007, the National People's Congress of the PRC concluded that the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and has become effective since 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25% progressively with certain grandfathering provisions and preferential provisions. The PRC income tax rate for the current period has been changed in accordance with the New Corporate Income Tax Law. For those subsidiaries without preferential tax rates, the new tax rate for domestic and foreign enterprises is unified at 25% and will be effective from 1 January 2008 and for those subsidiaries enjoying a preferential tax rate, the new tax rate will increase from 15% over 5 years to 25% as a result of the grandfathering provisions.

According to a joint circular issued by the Ministry of Finance and State Administration of Taxation Cai Shui [2008] No. 1, dividend distributed of the profits generated since 1 January 2008 shall be subject to PRC income tax and which held by the PRC entity pursuant to Articles 3 and 27 of the Enterprise Income Tax Law and Article 91 of the Detailed Implementation Rules. Deferred tax liability in respect of the withholding tax on the undistributed earnings of subsidiaries during the six months ended 30 June 2008 has been provided at the applicable tax rate.

5. DIVIDENDS

	Six months ended	
	30.6.2008	30.6.2007
	HK$'000	*HK$'000*
Final dividend paid in respect of the year ended 31 December 2007 of 26.0 HK cents (year ended 31 December 2006: 17.5 HK cents) per ordinary share	**67,600**	45,500

The Directors have declared on 19 September 2008 that an interim dividend of 19.3 HK cents (six months ended 30.6.2007: 8.0 HK cents and a special dividend of 20.0 HK cents) per share amounting to HK$50,180,000 (six months ended 30.6.2007: HK$20,800,000 and a special dividend amounting to HK$52,000,000) be paid to the shareholders of the Company whose names appear on the Register of Members on 14 October 2008. The interim dividend will be paid on or before 22 October 2008.

6. EARNINGS PER SHARE

The calculation of earnings per share attributable to the equity holders of the Company is based on the Group's profit for the period attributable to the equity holders of the Company of HK$111,570,000 (six months ended 30.6.2007: HK$128,423,000) and on 260,000,000 (six months ended 30.6.2007: 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 13 October 2008 to 14 October 2008 (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 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 10 October 2008.

BUSINESS REVIEW

For the six months ended 30 June 2008, the Group recorded revenue of HK$2,602.3 million, representing a 10% increase against HK$2,359.2 million for the last corresponding period. Although inflation pushed up overall cost during the review period, the Group managed to improve its gross profit margin slightly from 33.6% in the last corresponding period to 34.0%. Profit attributable to shareholders amounted to HK$111.6 million (2007: HK$128.4 million). Excluding the HK$64 million one-off write back of royalty savings in the same period last year, profit attributable to shareholders for the review period would have jumped by 73%. The key factors contributing to the increase were growth in revenue and improvement in gross profit margin.

Although unemployment rate improved during the review period, the Hong Kong economy was uncertain feeling the impact of the volatile stock market and climbing inflation. This in turn affected the consumer market. Also, the Group had one General Merchandise Stores ("GMS") (Tseung Kwan O Store) less and the Kornhill Store partially closed for renovation in the review period than the last corresponding period. Taken into account of all these factors, the Hong Kong operation had a 6% drop in revenue to HK$1,487.7 million (2007: HK$1,574.8 million). Profit of the Hong Kong segment for the period was HK$85.3 million against HK$141.2 million of the last corresponding period. Excluding the write-back of royalty savings of HK$64 million in the last corresponding period, the segmental profit would have risen 11% this year owed to improved operational efficiency of the stores.

During the review period, the Group opened three independent JUSCO $10 Plaza, bringing the total number of stores to six GMS, 15 independent JUSCO $10 Plaza, three independent supermarkets and two Bento Express in major residential districts. Those stores performed satisfactorily during the review period and contributed to the strong operational performance in Hong Kong.

For the PRC operations, the Group continues to benefit from the sustained strong economic growth in south China. Although inflation rate has also been climbing in the country, business of the Group had not been affected during the review period. Revenue of the segment soared 42% from HK$784.4 million in the same period last year to HK$1,114.6 million. The robust performance was attributable to the full period contributions from the two new GMS in Shenzhen and better performance of existing stores when compared with last year. Segmental profit for the period grew by a phenomenal about 10 times from HK$6.1 million to HK$67.3 million, thanks to the exceptional performance of existing stores and enhanced cost effectiveness enabled by economies of scale.

At the end of the review period, the Group operated 11 GMS and one shopping centre in south China.

During the review period, staff cost and rental cost relative to revenue was up slightly from 10.9% to 11.0% and from 10.0% to 10.1% respectively.

The Group maintained a stable net cash position with cash and bank balance of HK$1,329 million as at 30 June 2008 (31 Dec 2007: HK$1,651 million) and short-term bank borrowings of HK$122 million (31 Dec 2007: HK$100 million). The borrowings were denominated in Renminbi bearing interest at around 5.4%–5.9% per annum.

The Group's bank deposit of HK$68 million (31 Dec 2007: HK$64 million) was pledged to a bank for borrowings. Other bank deposits of HK$12 million (31 Dec 2007: HK$14 million) were pledged to banks for guarantee in favour of landlords for rental deposits and to a supplier for purchases.

Capital expenditure during the period amounted to HK$64 million, which was incurred for the renovation of 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

With the stock market still volatile and inflation showing no sign of calming, consumers are expected to be more cautious in spending in the second half of the year and the local economy is likely to head for a gradual slow down. Nevertheless, the Group completed renovation of the Kornhill Store in July 2008 and enhanced the store by adding a number of innovative Japanese eateries and desserts, some of which are first time arrivals in the city. The Group hopes to position the Store as a "Japanese dining centre" in the Eastern District on Hong Kong Island. The renovated supermarket in the Kornhill Store offers a wide spectrum of quality cuisines and cooked food. The store also has counters serving Japanese Bento and cooked dishes, and a private-brand TOPVALU section with over 1,000 product choices.

The newly renovated Store carries more quality products imported from Japan and other countries. Customers can find at the Store of brands brought into Hong Kong for the first time. We believe these new initiatives would attract younger generation consumers in Hong Kong who are fond of Japanese cultures. The Group intends to replicate the many special and new features of the Store in other appropriate stores so as to live up to its promise of unique shopping experiences to customers.

Furthermore, the Kornhill Store has an in-door amusement centre — MooRry Fantasy — featuring colourful decoration and an array of entertaining game machines. The innovative business model complements and brings synergies to the Group's GMS operation by giving parents and their children pleasant shopping and recreational experiences.

In addition to these initiatives, the Group will continue to look for suitable locations to open more GMS, JUSCO $10 Plaza and JUSCO Supermarket to strengthen its retail network. The Group will remain vigilant and prepared to overcome the tougher operational environment in Hong Kong.

PRC Operations

Although the country including south China was affected by tightening government economic austerity measures, harsh weather and high inflation during the review period, some local economies were not affected as much as others. The management believes the economies in south China will continue to prosper in the second half year and benefit the business of the Group. To grasp emerging opportunities, the Group will open one shopping centre in Huizhou and one GMS in Foshan in late 2008. Also, another two GMS will be added in Shenzhen and Dongguan in 2009. The management believes that both the new and existing stores of the Group will do well with demand for quality merchandise and services rising among Chinese consumers. The Group will look for more suitable locations for new stores to accelerate expansion of its business in the PRC.

In July 2008, the Group has completed the acquisition of an additional 35% interest in the registered capital of Shenzhen AEON Friendship Co., Ltd. ("AEON Shenzhen") at an aggregate consideration of RMB94.5 million. AEON Shenzhen operates five GMS in Shenzhen. The acquisition made AEON Shenzhen a 100%-owned subsidiary of the Group, giving the Group optimum flexibility in capturing opportunities in the booming retail market in Shenzhen and its vicinity areas.

HUMAN RESOURCES

As at 30 June 2008, the Group had about 6,000 full-time and 1,700 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 service 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2008, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company has complied throughout the six months ended 30 June 2008 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 2008.

The Audit Committee of the Company has reviewed the unaudited condensed consolidated financial statements for the six months ended 30 June 2008 with management.

PUBLIC FLOAT

On 15 April 2008, the Company made an announcement that its public float was approximately 16.46% which was less than the percentage threshold required under Rule 8.08 of the Listing Rules.

The Company is in the process of considering all possible steps to restore the public float to 25% in compliance with Rule 8.08 of the Listing Rules.

By Order of the Board
Lam Man Tin
Managing Director

Hong Kong, 19 September 2008

As at the date of this announcement, the executive Directors of the Company are Mr. Lam Man Tin, Mr. Yutaka Fukumoto, Mr. Wong Mun Yu and Mr. Yutaka Agawa; the non-executive Directors are Mr. Akihito Tanaka, Mr. Masaaki Toyoshima, Mr. Kazumasa Ishii and Mr. Susumu Inoue; and the independent non-executive Directors are Prof. Lam Pei Peggy, Dr. Shao Kung Chuen, Mr. Sham Sui Leung, Daniel and Ms. Cheng Yin Ching, Anna.