



AEON Stores (Hong Kong) Co., Limited

永旺(香港)百貨有限公司

Stock Code : 984



Interim Report 2008

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

| | NOTES | Six months ended | |
|--|-------|--------------------------------------|--------------------------------------|
| | | 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 | 4 | (194) | (2,531) |
| Royalty fee savings | | – | 64,080 |
| Other expenses | | (554,018) | (526,279) |
| Finance costs | 5 | (2,729) | (1,608) |
| Profit before taxation | | 169,107 | 167,249 |
| Income tax expenses | 6 | (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 | 7 | 67,600 | 45,500 |
| Earnings per share | 8 | 42.91 HK cents | 49.39 HK cents |
| Interim and special dividend per share proposed after balance sheet date | 7 | 19.30 HK cents | 28.00 HK cents |

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2008

| | NOTES | 30.6.2008 HK\$'000 (unaudited) | 31.12.2007 HK\$'000 (audited) |
|--|-------|--------------------------------------|-------------------------------------|
| Non-current Assets | | | |
| Property, plant and equipment | 9 | 348,144 | 335,692 |
| Available-for-sale investments | 10 | 31,929 | 29,395 |
| Callable and structured deposits | 11 | 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 | 12 | 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 | 17 | 80,549 | 78,523 |
| Bank balances and cash | | 1,329,313 | 1,651,084 |
| | | 1,910,819 | 2,259,247 |
| Current Liabilities | | | |
| Trade payables | 13 | 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 | 14 | 121,706 | 100,387 |
| Other liabilities | 19 | 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 | 15 | 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 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2008

| | Attributable to equity holders of the Company | | | | | | | | | | |
|--|---|-------------------------|--|-------------------------------|---|-------------------------------------|-------------------------|----------------------------|-----------------|------------------------------|-----------------|
| | Share capital HK'000 | Share premium HK'000 | Investment revaluation reserve HK'000 | Translation reserve HK'000 | The People's Republic of China ("PRC") statutory reserves HK'000 | Non-distributable reserve HK'000 | Other reserve HK'000 | Retained profits HK'000 | Total HK'000 | Minority interests HK'000 | Total HK'000 |
| At 1 January 2007 | 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 foreign 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 |
| Dividends | - | - | - | - | - | - | - | (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 |
| Gain on fair value changes of available-for-sale investments | - | - | 1,640 | - | - | - | - | - | 1,640 | - | 1,640 |
| Exchange differences arising on translation of foreign operations | - | - | - | 3,423 | - | - | - | - | 3,423 | 3,074 | 6,497 |
| Income recognised directly in equity | - | - | 1,640 | 3,423 | - | - | - | - | 5,063 | 3,074 | 8,137 |
| Profit for the period | - | - | - | - | - | - | - | 151,633 | 151,633 | 15,138 | 166,771 |
| Transfer to profit or loss on disposal of available-for-sale investments | - | - | (6) | - | - | - | - | - | (6) | - | (6) |
| Total recognised income for the period | - | - | 1,634 | 3,423 | - | - | - | 151,633 | 156,690 | 18,212 | 174,902 |
| Transfer, net of minority interests share | - | - | - | - | 1,143 | - | - | (1,143) | - | - | - |
| Dividends | - | - | - | - | - | - | - | (72,800) | (72,800) | - | (72,800) |
| Dividend paid to minority shareholders | - | - | - | - | - | - | - | - | - | (3,079) | (3,079) |
| At 31 December 2007 (audited) | 52,000 | 63,158 | 25,463 | 12,601 | 4,022 | 2,587 | - | 757,703 | 917,534 | 71,857 | 989,391 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2008

| | Attributable to equity holders of the Company | | | | | | | | | | |
|---|---|---------------|--------------------------------|---------------------|---|---------------------------|------------------|------------------|----------------|--------------------|----------------|
| | Share capital | Share premium | Investment revaluation reserve | Translation reserve | The People's Republic of China ("PRC") statutory reserves | Non-distributable reserve | Other 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 | HK'000 |
| Gain on fair value changes of available-for-sale investments | - | - | 2,535 | - | - | - | - | - | 2,535 | - | 2,535 |
| Exchange differences arising on translation of foreign operations | - | - | - | 6,063 | - | - | - | - | 6,063 | 5,520 | 11,583 |
| Income recognised directly in equity | - | - | 2,535 | 6,063 | - | - | - | - | 8,598 | 5,520 | 14,118 |
| Profit for the period | - | - | - | - | - | - | - | 111,570 | 111,570 | 24,077 | 135,647 |
| Total recognised income for the period | - | - | 2,535 | 6,063 | - | - | - | 111,570 | 120,168 | 29,597 | 149,765 |
| Contribution from a minority shareholder | - | - | - | - | - | - | - | - | - | 1,802 | 1,802 |
| Capitalisation of profits | - | - | - | - | - | 7,646 | - | (7,646) | - | - | - |
| Dividends | - | - | - | - | - | - | - | (67,600) | (67,600) | - | (67,600) |
| Forward contract to acquire additional interest in a subsidiary | - | - | - | - | - | - | (107,488) | - | (107,488) | - | (107,488) |
| At 30 June 2008 (unaudited) | 52,000 | 63,158 | 27,998 | 18,664 | 4,022 | 10,233 | (107,488) | 794,027 | 882,614 | 103,256 | 965,870 |

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.

Other reserve is a reserve arising from entering into a forward contract to acquire 35% of the entire registered capital of a subsidiary in the PRC.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2008

| | Six months ended | |
|--|---|---|
| | 30.6.2008 HK\$'000 (unaudited) | 30.6.2007 HK\$'000 (unaudited) |
| Operating cash flows before movements in working capital | 218,017 | 217,319 |
| (Decrease) increase in trade payables | (154,486) | 72,715 |
| Decrease in other payables and accrued charges | (80,667) | (33,662) |
| Decrease in amount due to ultimate holding company | (12,144) | (112,583) |
| Others | 33,327 | 46,876 |
| Cash generated from operations | 4,047 | 190,665 |
| People's Republic of China income tax paid | (27,815) | (7,562) |
| Interest on bank deposits received | 18,649 | 21,548 |
| Interest paid | (2,729) | (1,608) |
| Net Cash (used in) from Operating Activities | (7,848) | 203,043 |
| Investing Activities | | |
| Increase in callable and structured deposits | (233,994) | – |
| Other investing activities | (61,856) | (70,339) |
| Net Cash used in Investing Activities | (295,850) | (70,339) |
| Financing Activities | | |
| Dividend paid | (67,283) | (45,279) |
| New bank loans raised | 14,787 | 30,659 |
| Contribution from a minority shareholder | 1,802 | – |
| Net Cash used in Financing Activities | (50,694) | (14,620) |
| Net (Decrease) Increase in Cash and Cash Equivalents | (354,392) | 118,084 |
| Cash and Cash Equivalents at Beginning of the Period | 1,651,084 | 1,540,766 |
| Effect of Foreign Exchange Rate Changes | 32,621 | 11,090 |
| Cash and Cash Equivalents at End of the Period, represented by Bank balances and cash | 1,329,313 | 1,669,940 |

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.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

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 HK\$'000 | 30.6.2007 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 HK\$'000 | PRC HK\$'000 | Consolidated 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 |

3. TURNOVER AND SEGMENT INFORMATION (continued)

| | Six months ended 30 June 2007 | | |
|------------------------|-------------------------------|----------|--------------|
| | Hong Kong | PRC | Consolidated |
| | HK\$'000 | HK\$'000 | 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. PRE-OPERATING EXPENSES

The amounts represent the set up costs for new stores. Included in pre-operating expenses were staff costs of HK\$155,000 (six months ended 30.6.2007: HK\$1,317,000).

5. FINANCE COSTS

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

6. INCOME TAX EXPENSES

| | Six months ended | |
|------------------------------------|-------------------------|-----------|
| | 30.6.2008 | 30.6.2007 |
| | HK\$'000 | 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 period | 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.

6. INCOME TAX EXPENSES (continued)

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.

7. 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.

8. 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.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group has incurred approximately HK\$64 million (six months ended 30.6.2007: HK\$65 million) on property, plant and equipment to expand its operations.

10. AVAILABLE-FOR-SALE INVESTMENTS

| | 30.6.2008 | 31.12.2007 |
|--|------------------|------------|
| | HK\$'000 | HK\$'000 |
| Equity securities: | | |
| Listed shares in Hong Kong at fair value | 29,704 | 27,245 |
| Debt securities: | | |
| Unlisted club debenture at fair value | 2,225 | 2,150 |
| | 31,929 | 29,395 |

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 represent an investment in a fellow subsidiary of HK\$29,704,000 (31.12.2007: HK\$27,245,000).

11. CALLABLE AND STRUCTURED DEPOSITS

Callable deposits (the "Deposits") represent principal protected 5 years United States dollars-denominated deposits, which carry predetermined interest rates. The bank (i.e. the issuer) which issues the Deposits has an option to early redeem the Deposits quarterly or semi-annually at the par value. The Group is entitled to interest payments due on the early redemption date. The early redemption option is considered to be closely related embedded derivative.

Structured deposit (the "Structured Deposit") represents principal protected 5 years United States dollars-denominated deposit. The Structured Deposit carries predetermined fixed rate for the first quarter and thereafter, its interest rate is calculated with reference to the United States dollars 3 months LIBOR. The bank (i.e. the issuer) which issues the Structured Deposit has an option to early redeem the Structured Deposit quarterly at the par value. The Structured Deposit contains embedded derivative (i.e. the early redemption option held by the bank) which is not closely related to the host contract. The Directors consider that the fair value of the Structured Deposit is not materially different from its carrying amount.

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:

| | 30.6.2008 | 31.12.2007 |
|-----------------------|------------------|------------|
| | HK\$'000 | HK\$'000 |
| Within due dates | 19,887 | 32,071 |
| Overdue under 30 days | - | 1,433 |
| Overdue over 30 days | - | 819 |
| | 19,887 | 34,323 |

13. TRADE PAYABLES

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

| | 30.6.2008 | 31.12.2007 |
|-----------------------|------------------|------------|
| | HK\$'000 | HK\$'000 |
| Within due dates | 741,215 | 845,449 |
| Overdue under 30 days | 86,564 | 79,538 |
| Overdue over 30 days | 82,222 | 111,760 |
| | 910,001 | 1,036,747 |

14. BANK BORROWINGS

During the period, the Group increase the bank borrowings amounting to HK\$21,319,000 (six months ended 30.6.2007: 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

| | Number of shares | Amount HK\$'000 |
|--------------------------------------|---------------------|--------------------|
| Ordinary shares of HK\$0.20 each | | |
| Authorised: | | |
| At 30 June 2008 and 31 December 2007 | 350,000,000 | 70,000 |
| Issued and fully paid: | | |
| At 30 June 2008 and 31 December 2007 | 260,000,000 | 52,000 |

16. CAPITAL COMMITMENTS

| | 30.6.2008 HK\$'000 | 31.12.2007 HK\$'000 |
|---|-----------------------|------------------------|
| Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements | 33,839 | 378 |
| Capital expenditure in respect of acquisition of property, plant and equipment authorised but not contracted for | 152,502 | 165,501 |

17. PLEDGED BANK DEPOSITS

As at 30 June 2008, bank deposits of HK\$68.2 million (31.12.2007: HK\$64.1 million), HK\$7.8 million (31.12.2007: HK\$14.1 million) and HK\$4.5 million (31.12.2007: HK\$0.3 million) were pledged to a bank which provides bank guarantee in favour of bank borrowing, guarantee in favour of landlords for rental deposits, 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:

| | | Six months ended | |
|---|--|-------------------------|---------------|
| Nature of transaction | | 30.6.2008 | 30.6.2007 |
| | | HK\$'000 | HK\$'000 |
| Fellow subsidiaries | Commission expenses | 5,533 | 6,506 |
| | Purchase of goods | 57,190 | 36,415 |
| | Rental income from licensees | 3,520 | 3,081 |
| | Dividend income | 568 | 1 |
| Ultimate holding company | Royalty expenses | 15,287 | 13,936 |
| | Royalty fee savings | – | 64,080 |
| Minority shareholders of the subsidiaries | Rental, management fees and utility expenses | 24,217 | 21,703 |
| Related party | Purchase of goods | 354 | 66 |

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:

| | 30.6.2008 | 31.12.2007 |
|--|------------------|------------|
| | HK\$'000 | HK\$'000 |
| Amounts due from minority shareholders of the subsidiaries | 5,568 | 5,012 |

19. OTHER LIABILITIES

On 18 January 2008, the Company entered into a conditional agreement (“S&P Agreement”) with Shenzhen Friendship Trading Center Limited (“Friendship”) and Shenzhen Centralcon City Plaza Company Limited (“Centralcon”) pursuant to which the Company has conditionally agreed to acquire from Friendship and Centralcon their equity interests, which represent 35% of the entire registered capital of Shenzhen AEON Friendship Co., Ltd. (“AEON Shenzhen”) of which the Company currently holds 65% equity interest already, at an aggregate consideration of RMB94.5 million (equivalent to HK\$107,488,000). Upon the completion of the acquisition, AEON Shenzhen will become a wholly-owned subsidiary of the Company. Details of the above were set out in the circular issued by the Company on 6 February 2008.

As at 30 June 2008, the Company is still pending for obtaining all the necessary approval(s) or consent(s) from all relevant authorities in the PRC for the acquisition contemplated under the S&P Agreement.

The S&P Agreement constituted an equity derivative contract over the registered capital of AEON Shenzhen and was accounted for as equity. At inception such contract is recorded at the present value of the obligation inherent in the contract of HK\$107,488,000. The Directors consider that fair value of other liabilities of HK\$107,488,000 is not materially different from the carrying amount as at 30 June 2008.

The relevant approvals and consent(s) have been granted to the Company on 23 July 2008. In the opinion of the Directors, the acquisition of the 35% equity interest was completed on 23 July 2008.

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, during the review period, the Group had one General Merchandise Stores ("GMS") (Tseung Kwan O Store) less in operation than the last corresponding period and the Kornhill Store partially closed for renovation. 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 period 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.

BUSINESS REVIEW (continued)

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.

PROSPECTS (continued)

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.

DIRECTORS' INTERESTS IN SHARES

At 30 June 2008, 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 Issuers, were as follows:

(a) The Company

| Name of Directors | Number of ordinary shares held as personal interest | Number of ordinary shares held as family interest | Approximate percentage of interest in 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 |
| Yutaka AGAWA | 12,000 | – | 0.005 |
| Akihito TANAKA | 50,000 | – | 0.019 |
| Kazumasa ISHII | 40,000 | – | 0.015 |
| LAM PEI Peggy | 200,000 | – | 0.077 |
| SHAO Kung Chuen | 4,000 | 4,000 | 0.003 |

(b) AEON Co., Ltd., the Company's ultimate holding company

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

DIRECTORS' INTERESTS IN SHARES (continued)**(c) Other associated corporations**

| | Akihito TANAKA | |
|--------------------------------------|---------------------------|---|
| | Number of shares | Approximate percentage of interest % |
| AEON Fantasy Co., Ltd. | 3,801 | 0.021 |
| AEON Thana Sinsap (Thailand) Plc. | 20,000 | 0.008 |
| AEON Mall Co., Ltd. | 4,000 | 0.003 |
| AEON Co. (M) Bhd. | 400,000 | 0.110 |
| Ryukyu JUSCO Co., Ltd. | 100 | 0.018 |

All the shares held are personal interest.

Other than as disclosed above, at 30 June 2008, 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 2008, 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 ordinary 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 | 28,552,000 (Note 2) | 10.98 |

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.

SUBSTANTIAL SHAREHOLDERS (continued)

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 2008.

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