



AEON Stores (Hong Kong) Co., Limited

永旺(香港)百貨有限公司

# 2011 Interim Report

Stock Code: 984



The Board of Directors (the "Board") 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 2011 together with comparative figures for the previous period as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	NOTES	Six months ended	
		30.6.2011 HK\$'000 (unaudited)	30.6.2010 HK\$'000 (unaudited)
Revenue	3	3,243,675	3,062,679
Other income		241,423	222,932
Investment income		12,856	11,078
Purchase of goods and changes in inventories		(2,189,201)	(2,096,664)
Staff costs		(333,213)	(298,978)
Depreciation		(63,718)	(60,130)
Gain on fair value change of an investment property		86,264	—
Loss on disposal of property, plant and equipment		(280)	(206)
Impairment loss recognised in respect of property, plant and equipment		—	(9,525)
Pre-operating expenses	4	(4,799)	(4,215)
Other expenses		(683,402)	(651,248)
Finance costs	5	(1,289)	(3,351)
Profit before tax		308,316	172,372
Income tax expense	6	(61,759)	(37,987)
Profit for the period		246,557	134,385
Profit for the period attributable to:			
Owners of the Company		218,893	114,848
Non-controlling interests		27,664	19,537
		246,557	134,385
Earnings per share	8	84.19 HK cents	44.17 HK cents

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	<b>Six months ended</b>	
	<b>30.6.2011</b>	30.6.2010
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Profit for the period	<b>246,557</b>	134,385
Other comprehensive income		
Fair value loss on available-for-sale investments	<b>(783)</b>	(1,817)
Exchange differences arising on translation of foreign operations	<b>9,519</b>	2,247
Other comprehensive income for the period	<b>8,736</b>	430
Total comprehensive income for the period	<b>255,293</b>	134,815
Total comprehensive income attributable to:		
Owners of the Company	<b>223,961</b>	114,122
Non-controlling interests	<b>31,332</b>	20,693
	<b>255,293</b>	134,815

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2011

	NOTES	30.6.2011 HK\$'000 (unaudited)	31.12.2010 HK\$'000 (audited)
<b>Non-current Assets</b>			
Goodwill		94,838	94,838
Investment property	9	410,000	—
Property, plant and equipment	9	492,748	494,847
Available-for-sale investments	10	26,053	26,836
Long term time deposit	11	—	117,118
Deferred tax assets		22,000	25,800
Rental deposits		124,595	109,086
Deposit paid for acquisition of investment property		—	31,000
Pledged bank deposits	13	36,790	—
		<b>1,207,024</b>	899,525
<b>Current Assets</b>			
Inventories		504,536	585,117
Trade receivables	12	13,807	21,003
Other receivables, prepayments and deposits		150,829	63,163
Amounts due from fellow subsidiaries		64,827	90,957
Short term time deposit	11	116,867	—
Pledged bank deposits	13	23,953	12,143
Bank balances and cash		1,771,038	2,168,383
		<b>2,645,857</b>	2,940,766
<b>Current Liabilities</b>			
Trade payables	14	1,041,947	1,212,876
Other payables and accrued charges		926,597	929,562
Amounts due to fellow subsidiaries	15	35,372	45,303
Amount due to ultimate holding company	15	58,683	39,422
Bank borrowings	16	23,953	23,410
Income tax payable		33,828	34,540
Dividend payable		916	614
		<b>2,121,296</b>	2,285,727
<b>Net Current Assets</b>			
		<b>524,561</b>	655,039
<b>Total Assets Less Current Liabilities</b>			
		<b>1,731,585</b>	1,554,564
<b>Capital and Reserves</b>			
Share capital		52,000	52,000
Share premium and reserves		1,400,466	1,258,665
Equity attributable to owners of the Company		<b>1,452,466</b>	1,310,665
Non-controlling interests		176,859	145,527
<b>Total Equity</b>			
		<b>1,629,325</b>	1,456,192
<b>Non-current Liabilities</b>			
Rental deposits received		78,348	71,407
Deferred tax liabilities		11,935	3,555
Bank borrowings	16	11,977	23,410
		<b>102,260</b>	98,372
		<b>1,731,585</b>	1,554,564

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Attributable to owners of the Company									
	Share capital	Share premium	Investment revaluation reserve	Translation reserve	The People's Republic of China ("PRC") statutory reserves	Non-distributable reserve	Retained profits	Total	Non-controlling 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 2010 (audited)	52,000	63,158	23,949	17,189	9,159	25,923	952,085	1,143,463	110,627	1,254,090
Profit for the period	—	—	—	—	—	—	114,848	114,848	19,537	134,385
Other comprehensive income for the period	—	—	(1,817)	1,091	—	—	—	(726)	1,156	430
Total comprehensive income for the period	—	—	(1,817)	1,091	—	—	114,848	114,122	20,693	134,815
Dividends	—	—	—	—	—	—	(58,760)	(58,760)	—	(58,760)
At 30 June 2010 (unaudited)	52,000	63,158	22,132	18,280	9,159	25,923	1,008,173	1,198,825	131,320	1,330,145
Profit for the period	—	—	—	—	—	—	164,370	164,370	21,275	185,645
Other comprehensive income for the period	—	—	772	4,158	—	—	—	4,930	3,464	8,394
Total comprehensive income for the period	—	—	772	4,158	—	—	164,370	169,300	24,739	194,039
Transfer, net of non-controlling interests share	—	—	—	—	2,525	8,811	(11,336)	—	—	—
Dividends	—	—	—	—	—	—	(57,460)	(57,460)	—	(57,460)
Dividend paid to non-controlling shareholders	—	—	—	—	—	—	—	—	(10,532)	(10,532)
At 31 December 2010 (audited)	52,000	63,158	22,904	22,438	11,684	34,734	1,103,747	1,310,665	145,527	1,456,192
Profit for the period	—	—	—	—	—	—	<b>218,893</b>	<b>218,893</b>	<b>27,664</b>	<b>246,557</b>
Other comprehensive income for the period	—	—	<b>(783)</b>	<b>5,851</b>	—	—	—	<b>5,068</b>	<b>3,668</b>	<b>8,736</b>
Total comprehensive income for the period	—	—	<b>(783)</b>	<b>5,851</b>	—	—	<b>218,893</b>	<b>223,961</b>	<b>31,332</b>	<b>255,293</b>
Dividends	—	—	—	—	—	—	<b>(82,160)</b>	<b>(82,160)</b>	—	<b>(82,160)</b>
At 30 June 2011 (unaudited)	<b>52,000</b>	<b>63,158</b>	<b>22,121</b>	<b>28,289</b>	<b>11,684</b>	<b>34,734</b>	<b>1,240,480</b>	<b>1,452,466</b>	<b>176,859</b>	<b>1,629,325</b>

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 STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Six months ended	
	30.6.2011 HK\$'000 (unaudited)	30.6.2010 HK\$'000 (unaudited)
<b>Operating cash flows before movements in working capital</b>	<b>274,646</b>	234,798
Decrease in trade payables	<b>(185,465)</b>	(215,533)
Decrease in rental deposits received, other payables and accrued charges	<b>(13,638)</b>	(69,491)
Increase (decrease) in amount due to ultimate holding company	<b>13,492</b>	(14,525)
Others	<b>9,778</b>	97,337
<b>Cash generated from operations</b>	<b>98,813</b>	32,586
People's Republic of China income taxes paid	<b>(50,359)</b>	(20,507)
Interest paid	<b>(1,289)</b>	(3,351)
Interest on bank deposits, callable time deposits and long term/short term time deposit received	<b>12,856</b>	11,078
<b>Net Cash from Operating Activities</b>	<b>60,021</b>	19,806
<b>Investing Activities</b>		
Decrease in callable time deposits	—	77,641
Purchase of property, plant and equipment	<b>(48,019)</b>	(64,542)
Purchase of an investment property	<b>(292,736)</b>	—
Increase in pledged bank deposits	<b>(47,756)</b>	(1,202)
<b>Net Cash from (used in) Investing Activities</b>	<b>(388,511)</b>	11,897
<b>Financing Activities</b>		
Dividend paid	<b>(81,858)</b>	(58,587)
Repayment of bank borrowings	<b>(11,851)</b>	(158,765)
Bank borrowings raised	—	90,723
<b>Net Cash used in Financing Activities</b>	<b>(93,709)</b>	(126,629)
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(422,199)</b>	(94,926)
<b>Cash and Cash Equivalents at 1 January</b>	<b>2,168,383</b>	1,903,696
<b>Effect of Foreign Exchange Rate Changes</b>	<b>24,854</b>	7,510
<b>Cash and Cash Equivalents at 30 June</b> represented by Bank balances and cash	<b>1,771,038</b>	1,816,280

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

## 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 on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting".

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment property, 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 2010. In addition, the Group has acquired an investment property during the period. The respective accounting policy is as follows:

### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

In the current interim period, the Group has applied, for the first time, the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1 January 2011.

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 (Amendments)	Classification of Rights Issues
HK(IFRIC)-Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the above new or revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

The Group has not early applied the following new or revised Standards that have been issued but are not yet effective:

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income <sup>4</sup>
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets <sup>1</sup>
HKAS 19 (as revised in 2011)	Employee Benefits <sup>2</sup>
HKAS 27 (as revised in 2011)	Separate Financial Statements <sup>2</sup>
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures <sup>2</sup>
HKFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets <sup>3</sup>
HKFRS 9	Financial Instruments <sup>2</sup>
HKFRS 10	Consolidated Financial Statements <sup>2</sup>
HKFRS 11	Joint Arrangements <sup>2</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>2</sup>
HKFRS 13	Fair value measurement <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2012.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2013.

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2011.

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2012.

The amendments to HKAS 12 titled Deferred Tax: Recovery of Underlying Assets mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 Investment Property. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The amendments to HKAS 12 are effective for annual periods beginning on or after 1 January 2012, with earlier application permitted. The Directors of the Company consider the application of the amendments will have no material financial impact to the Group as the presumption is rebutted. If the presumption is not rebutted, based on the balances at 30 June 2011, the application of the amendments would result in the Group's income tax expense being reduced by HK\$14 million and profit for the six months ended 30 June 2011 being increased by HK\$14 million.

The Directors of the Company are in the process of assessing the potential impact of the other new or revised standards and so far anticipate that the application of these new or revised standards will have no material financial impact on the results and the financial position of the Group other than as disclosed above.

### 3. REVENUE AND SEGMENT INFORMATION

Revenue represents the invoiced value of goods, net of discounts, sold to customers, and income from concessionaire sales during the period. An analysis of the Group's revenue for the period is as follows:

	<b>Six months ended</b>	
	<b>30.6.2011</b>	30.6.2010
	<b>HK\$'000</b>	HK\$'000
Direct sales	<b>2,796,446</b>	2,647,191
Income from concessionaire sales	<b>447,229</b>	415,488
<b>Revenue</b>	<b>3,243,675</b>	3,062,679

#### For the six months ended 30 June 2011

	<b>Hong Kong</b>	<b>PRC</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Segment revenue — external	<b>1,482,825</b>	<b>1,760,850</b>	<b>3,243,675</b>
Segment profit	<b>96,598</b>	<b>105,358</b>	<b>201,956</b>
Gain on fair value change of an investment property			<b>86,264</b>
Rental income on an investment property			<b>8,529</b>
Investment income			<b>12,856</b>
Finance costs			<b>(1,289)</b>
<b>Profit before tax</b>			<b>308,316</b>

#### For the six months ended 30 June 2010

	Hong Kong	PRC	Total
	HK\$'000	HK\$'000	HK\$'000
Segment revenue — external	1,682,652	1,380,027	3,062,679
Segment profit	98,220	66,425	164,645
Investment income			11,078
Finance costs			(3,351)
<b>Profit before tax</b>			<b>172,372</b>

The following is an analysis of the Group's assets by reportable segments:

	<b>30.6.2011</b>	31.12.2010
	<b>HK\$'000</b>	HK\$'000
Hong Kong	<b>1,017,726</b>	656,564
PRC	<b>743,616</b>	738,609
<b>Total segment assets</b>	<b>1,761,342</b>	1,395,173

Segment profit represents the profit earned by each segment without allocation of gain on fair value change of an investment property, rental income on an investment property, dividend income, interest income and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

#### 4. PRE-OPERATING EXPENSES

The amounts represent the set up costs for new stores. Included in pre-operating expenses were staff costs of HK\$3,201,000 (six months ended 30.6.2010: HK\$2,365,000).

#### 5. FINANCE COSTS

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

#### 6. INCOME TAX EXPENSE

	Six months ended	
	30.6.2011 HK\$'000	30.6.2010 HK\$'000
The charge comprises:		
Current tax		
Hong Kong	18,200	19,400
Other regions in the PRC	30,592	18,861
	<b>48,792</b>	38,261
Under(over)provision in prior years		
Hong Kong	—	—
Other regions in the PRC	119	(3,752)
	<b>119</b>	(3,752)
Deferred tax		
Current year	12,848	3,478
Income tax expense for the period	<b>61,759</b>	37,987

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

The PRC income tax is calculated at 25% (six months ended 30.6.2010: 22% or 25%) of the estimated assessable profits of the subsidiaries.

During the period, the Group has recognised a deferred tax liability of HK\$14 million which attributable to the temporary differences arising from the gain on changes in fair value of investment property.

Deferred tax for both periods also attributable to the temporary differences arising from accelerated tax depreciation in respect of property, plant and equipment, provision for staff costs and the withholding tax at applicable tax rate of the undistributed earnings of subsidiaries.

No withholding tax has been paid as there was no distributed profits of subsidiaries for both periods.

**7. DIVIDENDS**

	<b>Six months ended</b>	
	<b>30.6.2011</b>	30.6.2010
	<b>HK\$'000</b>	HK\$'000
Dividend recognised as distribution during the period:		
Final dividend for 2010 of 31.6 HK cents		
(2010: 22.6 HK cents for 2009 final dividend)		
per ordinary share	<b>82,160</b>	58,760

The Board has recommended an interim dividend of 25.5 HK cents (six months ended 30.6.2010: 22.1 HK cents) per share amounting to HK\$66,300,000 (six months ended 30.6.2010: HK\$57,460,000), be paid to the shareholders of the Company whose names appear on the Register of Members on 13 October 2011. The interim dividend will be paid on or before 28 October 2011.

**8. EARNINGS PER SHARE**

The calculation of basic earnings per share attributable to the owners of the Company is based on the Group's profit for the period attributable to the owners of the Company of HK\$218,893,000 (six months ended 30.6.2010: HK\$114,848,000) and on 260,000,000 (six months ended 30.6.2010: 260,000,000) ordinary shares in issue during the period.

No diluted earnings per share have been presented as there were no potential ordinary shares in issue for both periods.

**9. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY**

During the period, the Group acquired property, plant and equipment of approximately HK\$53 million (six months ended 30.6.2010: HK\$65 million) to expand its operations.

During the six months ended 30 June 2010, the Directors conducted a review of the Group's building fixtures during the period and determined that a number of those building fixtures were impaired, as the performance of some stores were below the budget. The recoverable amount of the relevant assets was based on the discounted future cash flows expected to be derived from the assets and was less than the corresponding carrying amount. Accordingly, an impairment loss of HK\$9,525,000 was recognised in the condensed consolidated statement of comprehensive income (six months ended 30.6.2011: nil).

During the period, the Group acquired a property in Hong Kong for a cash consideration of HK\$323,736,000. The property is held to earn rentals and is classified and accounted for as investment property under fair value model.

The fair value of the Group's investment property at 30 June 2011 has been arrived at on the basis of valuation carried out on that date by Savills Valuation and Professional Services Limited, independent qualified professional valuers not connected with the Group. Savills Valuation and Professional Services Limited are members of Institute of Valuers. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in the same locations and conditions.

The resulting increase in fair value of the investment property of HK\$86,264,000 has been recognised directly in profit or loss for the six months ended 30 June 2011.

**10. AVAILABLE-FOR-SALE INVESTMENTS**

	<b>30.6.2011</b>	31.12.2010
	<b>HK\$'000</b>	HK\$'000
Available-for-sale investments comprise:		
Equity securities:		
Listed shares in Hong Kong at fair value	<b>23,763</b>	24,596
Debt securities:		
Unlisted club debenture at fair value	<b>2,290</b>	2,240
	<b>26,053</b>	26,836

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

The listed securities detailed above represent an investment in a fellow subsidiary of HK\$23,763,000 (31.12.2010: HK\$24,596,000).

**11. LONG TERM TIME DEPOSIT AND SHORT TERM TIME DEPOSIT**

Long term time deposit represents 3 year United States dollars-denominated time deposit due on 20 April 2012 which carry predetermined fixed interest rate. The effective interest rate is 4% per annum. The amount is classified as current asset in the current period.

**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 presented based on the invoice date at the end of respective reporting periods:

	<b>30.6.2011</b>	31.12.2010
	<b>HK\$'000</b>	HK\$'000
Within 30 days	<b>13,120</b>	21,003
31–60 days	<b>687</b>	—
	<b>13,807</b>	21,003

**13. PLEDGED BANK DEPOSITS**

As at 30 June 2011, bank deposits of HK\$37 million (31.12.2010: nil) were pledged for its bank borrowings and HK\$24 million (31.12.2010: HK\$12 million) were pledged to banks for guarantee to landlords for rental deposits. Bank deposits which are expected to be realised more than twelve months after the end of the reporting periods are classified as non-current.

**14. TRADE PAYABLES**

The following is an aged analysis of trade payables presented based on the invoice date at the end of respective reporting periods:

	<b>30.6.2011</b> <b>HK\$'000</b>	31.12.2010 HK\$'000
0-60 days	<b>923,423</b>	1,110,217
61-90 days	<b>85,259</b>	86,763
Over 90 days	<b>33,265</b>	15,896
	<b>1,041,947</b>	1,212,876

**15. AMOUNTS DUE TO FELLOW SUBSIDIARIES/ULTIMATE HOLDING COMPANY**

The amounts due to fellow subsidiaries and ultimate holding company are trade-related, unsecured and interest free. The amounts are aged within 60 days based on the invoice date at the end of respective reporting periods.

**16. BANK BORROWINGS**

The bank borrowings represent secured bank borrowings denominated in Renminbi which carry interest at floating rates and are repayable within three years. During the period, the Group has repaid bank borrowings of HK\$11,851,000.

**17. CAPITAL COMMITMENTS**

	<b>30.6.2011</b> <b>HK\$'000</b>	31.12.2010 HK\$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements		
— in respect of acquisition of property, plant and equipment	<b>48,746</b>	144,343
— in respect of acquisition of an investment property	<b>—</b>	292,175
	<b>48,746</b>	436,518
Capital expenditure in respect of acquisition of property, plant and equipment authorised but not contracted for	<b>263,503</b>	91,850

## 18. RELATED PARTY TRANSACTIONS

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

Capacity	Nature of transaction	Six months ended	
		30.6.2011 HK\$'000	30.6.2010 HK\$'000
Fellow subsidiaries	Franchise fee, consumable expenses and purchase of machines	170	187
	Commission for credit facilities provided to customers	4,448	5,966
	Purchase of goods	72,604	67,279
	Rental income	3,726	4,178
	Outsourcing service fee	2,909	2,244
	Other income	222	3,845
	Service fee income	377	—
	Reimbursement income of administrative expenses	3,241	—
	Recharge of administrative expenses	591	—
	Other expenses	—	101
Ultimate holding company	Royalty expenses	19,022	17,874
Non-controlling shareholders of the subsidiaries	Rental expenses, management fees and utilities expenses	24,964	24,787
	Advertising expenses	1,120	565
Related company (Note)	Purchase of goods	41	64
Directors and key management	Remuneration	6,032	5,738

Note: One of the Directors of the Company has control in the related company.

Outstanding balances as at the end of respective reporting periods arising from the above transactions with related parties were as set out in the condensed consolidated statement of financial position except for the following balance, which is included in other receivables, prepayments and deposits:

	30.6.2011 HK\$'000	31.12.2010 HK\$'000
Amounts due from non-controlling shareholders of the subsidiaries	5,896	5,778

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 11 October 2011 to 13 October 2011 (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 2011.

## BUSINESS REVIEW

For the six months ended 30 June 2011, the Group recorded revenue of HK\$3,243.7 million (2010: HK\$3,062.7 million), representing a year-on-year growth of 5.9%. Even though revenue from the Hong Kong segment receded due to closure of two stores in 2010, strong growth from the PRC segment helped sustain and further drive overall revenue growth. Gross profit margin rose to 32.5% from 31.5% recorded in the last corresponding period owing to an improved merchandise mix and no store removal sales held during the review period. In the first half year, driven by improved operations in the PRC and a fair value gain from an investment property in Hong Kong, profit attributable to shareholders surged by 90.6% to HK\$218.9 million (2010: HK\$114.8 million). Excluding the fair value gain from the investment property, profit would still have achieved growth of 15.5% to HK\$132.6 million.

During the first six months of 2011, Hong Kong's economy remained robust and consumer sentiment stayed positive. Consequently, despite the closure of two stores in 2010, revenue from the Group's Hong Kong operations only decreased by 11.9% from HK\$1,682.7 million in the last corresponding period to HK\$1,482.8 million. Segment profit only dropped by 1.6% from HK\$98.2 million in the last corresponding period to HK\$96.6 million.

During the period, the Group opened one new store in Tsim Sha Tsui, Hong Kong in June. Occupying an area of approximately 26,000 sq. ft., the store targets customers seeking quality living and a trendy lifestyle. Apart from carrying the best and specially sourced food, fresh produce, and merchandise from different countries, it has also introduced many licensed franchisees, including Okinawa Route 58, Star Chefs Selection and AMIKO Gelato, which all made their debut in Hong Kong. The Group further opened one more store at the Tsing Yi MTR Station, which is connected to Maritime Square — one of the busiest MTR stations along the Tung Chung Line — and have benefited from strong pedestrian flow. As at the end of the review period, the Group had 34 stores operating in densely populated residential and commercial districts of Hong Kong.

In spite of relatively slower economic growth than in the preceding year, the Chinese economy continued to expand at an impressive rate during the first six months of 2011. With two new stores in Guangzhou and Dongguan contributing revenue since commencing operations in late 2010, combined with continuously rising revenue contributions from existing stores, the PRC operations recorded revenue of HK\$1,760.9 million, up by 27.6% when compared with HK\$1,380.0 million in the last corresponding period. In addition, benefiting from improving operational performance of the stores, segment profit jumped by 58.6% to HK\$105.4 million, up from HK\$66.4 million reported in the last corresponding period. As at 30 June 2011, the Group operated a total of 18 stores in south China.

During the review period, the ratio of staff cost to revenue rose from 9.8% to 10.3%, which was mainly due to the closure of two stores in Hong Kong in 2010 while retaining all of the staff from the affected stores. This ratio is expected to improve once more new stores are opened. The ratio of rental cost to revenue declined from 10.4% to 9.9%.

The Group maintained a stable net cash position with cash and bank balances of HK\$1,771 million as at 30 June 2011 (31 December 2010: HK\$2,168 million) and bank borrowings of HK\$36 million (31 December 2010: HK\$47 million). The borrowings were denominated in Renminbi, bearing interest calculated with reference to the People's Bank of China lending rate. As the Group has a low gearing level, it has sufficient financial resources to fund future expansion efforts.

The Group's bank deposits of HK\$61 million (31 December 2010: HK\$12 million) were pledged to banks as guarantee for banking facilities, as well as guarantee to landlords for rental deposits.

## **BUSINESS REVIEW** (Continued)

Capital expenditure for the period, amounting to HK\$377 million, was used for acquiring an investment property, opening new stores and renovation of an existing store. The Group will continue to finance capital expenditures 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**

Looking ahead, the local economy is expected to remain healthy. However, with uncertainties hovering over the global economy and other factors such as inflationary pressure drawing greater concern, the Group foresees consumers becoming more cautious with their spending in the second half year. Consequently, the management is prudently optimistic about the Group's prospects in Hong Kong in the near future.

To further leverage emerging business opportunities and extend the Group's reach within local communities, the management has charted an expansion roadmap for the coming 18 months. Apart from opening its second largest store in Hong Kong in Lai Chi Kok by December 2011, three more stores will be opened in Ho Man Tin, Tsz Wan Shan and Kwai Chung by end of the year. In addition, two more stores are set for opening in Tsuen Wan — one will open by mid-2012 and the other by the end of 2012, while an additional store will also be opened in Kowloon City during that time. The Group is planning to open one more new store in Causeway Bay by mid-2012 to capture opportunities from the growing affluent consumer segment seeking quality living and a trendy lifestyle in the district. Moreover, encouraged by the performance of the store at Tsing Yi MTR Station, the Group will consider opening new stores at MTR stations when appropriate.

On a separate note, the Group will rename all of its "JUSCO \$10 PLAZA" stores to "JUSCO Living PLAZA" during the fourth quarter of this year and enrich the merchandise mix to better cater for customers' needs.

### **PRC OPERATIONS**

Domestic consumption in China is expected to surge ahead, propelled by strong economic growth and an increase in the individual income tax allowance. This has filled management with optimism toward the outlook of the retail market in south China. In order to strengthen its foothold and tap tremendous opportunities that are arising, the Group will seek to open six new stores in Guangzhou in the coming 18 months, where consumers are enjoying a steep rise in disposable income and where the AEON and JUSCO brands are well established and received. There are other projects in the pipeline that help accelerate the Group's retail network expansion in south China, and the Group will make further announcement in due course.

## **HUMAN RESOURCES**

As at 30 June 2011, the Group had approximately 6,900 full-time and 1,200 part-time employees in Hong Kong and the PRC. The Group remunerates employees based on their performance, experience and prevailing practices of the industry. Committed to delivering the highest standard of service to all its customers, the Group intends to continue to place efforts at enhancing the quality and skills of its staff. Concurrently, it strives to create an environment where employees can grow and enjoy a sense of camaraderie as well as loyalty to the Group.

## CASH-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

The Company's cash-settled share-based payment scheme was adopted for the primary purpose of providing incentives to Directors and eligible employees. The Company issued to eligible persons under the scheme share appreciation rights (the "SARs") that require the Company to pay the intrinsic value of the SARs to the employee at the date of exercise.

Details of the SARs are as follows:

Date of grant	Exercise price HK\$	Vesting period	Exercisable period	Number of underlying SARs					
				Outstanding at 1.1.2011	Granted during the period	Exercised during the period	Cancelled during the period	Forfeited during the period	Outstanding at 30.6.2011
<b>Directors</b>									
25.9.2009	15.236	1.6.2008 to 31.5.2009	1.6.2009 to 31.5.2015	54,000	—	—	—	—	54,000
	15.236	1.6.2008 to 31.5.2010	1.6.2010 to 31.5.2015	54,000	—	—	—	—	54,000
	15.236	1.6.2008 to 31.5.2011	1.6.2011 to 31.5.2015	72,000	—	—	—	—	72,000
	13.500	25.9.2009 to 24.9.2010	25.9.2010 to 24.9.2016	88,800	—	—	—	—	88,800
	13.500	25.9.2009 to 24.9.2011	25.9.2011 to 24.9.2016	88,800	—	—	—	—	88,800
	13.500	25.9.2009 to 24.9.2012	25.9.2012 to 24.9.2016	118,400	—	—	—	—	118,400
1.9.2010	14.260	1.9.2010 to 31.8.2011	1.9.2011 to 31.8.2017	94,200	—	—	—	—	94,200
	14.260	1.9.2010 to 31.8.2012	1.9.2012 to 31.8.2017	94,200	—	—	—	—	94,200
	14.260	1.9.2010 to 31.8.2013	1.9.2013 to 31.8.2017	125,600	—	—	—	—	125,600
<b>Employees</b>									
25.9.2009	15.236	1.6.2008 to 31.5.2009	1.6.2009 to 31.5.2015	4,800	—	—	—	—	4,800
	15.236	1.6.2008 to 31.5.2010	1.6.2010 to 31.5.2015	4,800	—	—	—	—	4,800
	15.236	1.6.2008 to 31.5.2011	1.6.2011 to 31.5.2015	6,400	—	—	—	—	6,400
	13.500	25.9.2009 to 24.9.2010	25.9.2010 to 24.9.2016	10,200	—	—	—	—	10,200
	13.500	25.9.2009 to 24.9.2011	25.9.2011 to 24.9.2016	10,200	—	—	—	—	10,200
	13.500	25.9.2009 to 24.9.2012	25.9.2012 to 24.9.2016	13,600	—	—	—	—	13,600
1.9.2010	14.260	1.9.2010 to 31.8.2011	1.9.2011 to 31.8.2017	12,000	—	—	—	—	12,000
	14.260	1.9.2010 to 31.8.2012	1.9.2012 to 31.8.2017	12,000	—	—	—	—	12,000
	14.260	1.9.2010 to 31.8.2013	1.9.2013 to 31.8.2017	16,000	—	—	—	—	16,000
				880,000	—	—	—	—	880,000

The fair value of the SARs is determined using the Binomial model based on the following assumptions:

- Risk free interest rate based on the Hong Kong government bond with maturity matches with the contractual term of the SARs
- Expected volatility based on the historical share price movement of the Company over the period that consistent with the remaining contractual life of the SARs
- Dividend yield 3% as referenced to the past dividend yields
- Number of steps 100 nodes
- Exercise multiple 2.2 times

At 30 June 2011, the market value per share was HK\$16.80.

## DIRECTORS' INTERESTS IN SHARES AND CASH-SETTLED SHARE-BASED PAYMENTS PURSUANT TO THE COMPANY'S STOCK APPRECIATION RIGHTS SCHEMES

As at 30 June 2011, the interests of the Directors 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 of Hong Kong Limited (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	Number of ordinary shares held as family interests	Number of underlying shares held as personal interests (Note)	Approximate aggregate percentage of interests in the issued share capital of the Company %
LAM Man Tin	20,000	—	738,000	0.292
CHAN Pui Man Christine	6,000	—	52,000	0.022
LAM PEI Peggy	200,000	—	—	0.077
SHAO Kung Chuen Daniel	4,000	4,000	—	0.003

Note: This column represents interests in Stock Appreciation Rights, details of which are set out in paragraph (C) below.

### (B) AEON CO., LTD., THE COMPANY'S ULTIMATE HOLDING COMPANY

Name of Directors	Number of shares held as personal interests	Approximate percentage of interests %
Yoshinori OKUNO	300	0.00004
Yujji YONETA	800	0.00010
Haruyoshi TSUJI	3,109	0.00039
Akio YOSHIDA	5,718	0.00071
Takashi KOMATSU	2,000	0.00025

### (C) STOCK APPRECIATION RIGHTS

- i. The Stock Appreciation Rights of the Company are a form of cash-settled equity derivative. Particulars of the Stock Appreciation Rights Schemes of the Company are set out in the section Cash-settled Share-based Payment Transactions above.
- ii. As at 30 June 2011, certain Directors had interests in Stock Appreciation Rights granted under the Company's Stock Appreciation Rights Schemes as follows:

Name of Directors	Capacity	Number of underlying shares of the Company
LAM Man Tin	Beneficial owner	738,000
CHAN Pui Man Christine	Beneficial owner	52,000

## DIRECTORS' INTERESTS IN SHARES AND CASH-SETTLED SHARE-BASED PAYMENTS PURSUANT TO THE COMPANY'S STOCK APPRECIATION RIGHTS SCHEMES (continued)

### (C) STOCK APPRECIATION RIGHTS (CONTINUED)

- iii. The particulars of Stock Appreciation Rights granted to the Directors and the movement during the period were as follows:

Name of Directors and date of grant	Exercise price HK\$	Exercisable period	Number of underlying shares of the Company					Outstanding at 30.6.2011
			Outstanding at 1.1.2011	Granted during the period	Exercised during the period	Cancelled during the period	Forfeited during the period	
<b>LAM Man Tin</b>								
25.9.2009	15.236	1.6.2009 to 31.5.2015	54,000	—	—	—	—	54,000
	15.236	1.6.2010 to 31.5.2015	54,000	—	—	—	—	54,000
	15.236	1.6.2011 to 31.5.2015	72,000	—	—	—	—	72,000
	13.500	25.9.2010 to 24.9.2016	82,800	—	—	—	—	82,800
	13.500	25.9.2011 to 24.9.2016	82,800	—	—	—	—	82,800
	13.500	25.9.2012 to 24.9.2016	110,400	—	—	—	—	110,400
1.9.2010	14.260	1.9.2011 to 31.8.2017	84,600	—	—	—	—	84,600
	14.260	1.9.2012 to 31.8.2017	84,600	—	—	—	—	84,600
	14.260	1.9.2013 to 31.8.2017	112,800	—	—	—	—	112,800
<b>CHAN Pui Man Christine</b>								
25.9.2009	13.500	25.9.2010 to 24.9.2016	6,000	—	—	—	—	6,000
	13.500	25.9.2011 to 24.9.2016	6,000	—	—	—	—	6,000
	13.500	25.9.2012 to 24.9.2016	8,000	—	—	—	—	8,000
1.9.2010	14.260	1.9.2011 to 31.8.2017	9,600	—	—	—	—	9,600
	14.260	1.9.2012 to 31.8.2017	9,600	—	—	—	—	9,600
	14.260	1.9.2013 to 31.8.2017	12,800	—	—	—	—	12,800

Other than as disclosed above, at 30 June 2011, neither the Directors nor the chief executives of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of PART XV of the SFO).

## SUBSTANTIAL SHAREHOLDERS

At 30 June 2011, 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 held	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	25,998,000 (Note 2)	9.99
Commonwealth Bank of Australia	12,990,000	5.00

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 2011.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2011, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## CORPORATE GOVERNANCE

The Board of the Company has complied throughout the six months ended 30 June 2011 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 2011.

The Audit Committee of the Company has reviewed the unaudited interim results for the six months ended 30 June 2011 with management.

## UPDATED INFORMATION OF DIRECTORS

The changes in the information of Directors are set out below pursuant to Rule 13.51B(1) of the Listing Rules:

### CHANGES IN DIRECTORS' EMOLUMENTS

The emoluments of the Directors are determined by the Board with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

With effect from 1 January 2011, Mr. LAM Man Tin is entitled to the director's fee, emolument and benefits of HK\$2,683,000 for the year ending 31 December 2011.

With effect from 1 January 2011, Ms. CHAN Pui Man Christine is entitled to the director's fee, emolument and benefits of HK\$1,338,000 for the year ending 31 December 2011.

With effect from 1 January 2011, Mr. Yuji YONETA is entitled to the director's emolument of HK\$1,820,000 for the year ending 31 December 2011.

Mr. Takashi KOMATSU will be entitled to the director's emolument of HK\$1,821,000 (which will be pro-rata to the period of services in the year of his appointment) for the year ending 31 December 2011.

By order of the Board of  
**AEON Stores (Hong Kong) Co., Limited**  
**LAM Man Tin**  
*Managing Director*

Hong Kong, 24 August 2011