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)

2010 INTERIM RESULTS

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 2010 together with comparative figures for the previous period as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2010

	NOTES	Six months ended 30.6.2010 HK$'000 (unaudited)	30.6.2009 HK$'000 (unaudited)
Revenue	3	**3,062,679**	2,815,716
Other income		**222,932**	192,534
Investment income		**11,078**	13,060
Purchase of goods and changes in inventories		**(2,096,664)**	(1,917,972)
Staff costs		**(298,978)**	(292,730)
Depreciation		**(60,130)**	(71,304)
Loss on disposal of property, plant and equipment		**(206)**	(22)
Impairment loss recognized in respect of property, plant and equipment		**(9,525)**	(2,935)
Pre-operating expenses		**(4,215)**	(6,696)
Other expenses		**(651,248)**	(624,886)
Finance costs		**(3,351)**	(3,553)
Profit before tax		**172,372**	101,212
Income tax expense	4	**(37,987)**	(30,945)
Profit for the period		**134,385**	70,267
Profit for the period attributable to:			
Owners of the Company		**114,848**	55,694
Non-controlling interests		**19,537**	14,573
		134,385	70,267
Earnings per share	6	**44.17 HK cents**	21.42 HK cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Six months ended	
	30.6.2010	30.6.2009
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Profit for the period	**134,385**	70,267
Other comprehensive income		
Fair value (loss) gain on available-for-sale investments	**(1,817)**	4,515
Exchange differences arising on translation of foreign operations	**2,247**	(1,014)
Other comprehensive income for the period	**430**	3,501
Total comprehensive income for the period	**134,815**	73,768
Total comprehensive income attributable to:		
Owners of the Company	**114,122**	59,529
Non-controlling interests	**20,693**	14,239
	134,815	73,768

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2010

	NOTES	30.6.2010 HK$'000 (unaudited)	31.12.2009 HK$'000 (audited)
Non-current Assets			
Goodwill		**94,838**	94,838
Property, plant and equipment		**486,856**	487,775
Available-for-sale investments		**26,064**	27,881
Callable time deposits		**--**	77,641
Long term time deposit		**117,148**	116,461
Deferred tax assets		**10,594**	11,739
Rental deposits and prepayments		**75,929**	85,975
		811,429	902,310
Current Assets			
Inventories		**457,737**	558,450
Trade receivables	7	**15,555**	19,443
Other receivables, prepayments and deposits		**99,173**	92,548
Amounts due from fellow subsidiaries		**65,138**	65,238
Tax recoverable		**--**	8,182
Pledged bank deposits		**13,956**	12,470
Bank balances and cash		**1,816,280**	1,903,696
		2,467,839	2,660,027
Current Liabilities			
Trade payables	8	**1,013,394**	1,224,119
Other payables and accrued charges		**668,354**	754,843
Amounts due to fellow subsidiaries		**33,439**	45,951
Amount due to ultimate holding company		**20,625**	35,156
Bank borrowings		**68,501**	124,432
Income tax payable		**22,293**	16,357
Dividend payable		**693**	520
		1,827,299	2,201,378
Net Current Assets		**640,540**	458,649
Total Assets Less Current Liabilities		**1,451,969**	1,360,959
Capital and Reserves			
Share capital		**52,000**	52,000
Share premium and reserves		**1,146,825**	1,091,463
Equity attributable to owners of the Company		**1,198,825**	1,143,463
Non-controlling interests		**131,320**	110,627
Total Equity		**1,330,145**	1,254,090
Non-current Liabilities			
Rental deposits received		**82,327**	58,708
Deferred tax liabilities		**5,246**	2,913
Bank borrowings		**34,251**	45,248
		121,824	106,869
		1,451,969	1,360,959

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2010

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, 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 2009 except as described below.

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 1 January 2010.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) - Int 17	Distributions of Non-cash Assets to Owners

The Group applies HKFRS 3 (Revised) *Business Combinations* prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) *Consolidated and Separate Financial Statements* in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The adoption of other new and revised HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods.

2. PRINCIPAL ACCOUNTING POLICIES - continued

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKAS 24 (Revised)	Related Party Disclosures[2]
HKAS 32 (Amendment)	Classification of Rights Issues[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[4]
HKFRS 9	Financial Instruments[5]
HK(IFRIC) - Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[2]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[4]

[1] Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
[2] Effective for annual periods beginning on or after 1 January 2011
[3] Effective for annual periods beginning on or after 1 February 2010
[4] Effective for annual periods beginning on or after 1 July 2010
[5] Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group’s financial assets.

The Directors of the Company are in the process of assessing the potential impact of the other new or revised Standards, Amendments or Interpretations and so far anticipate that the application of these new or revised Standards, Amendments or Interpretations will have no material financial impact on the results and the financial position of the Group.

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:

	Six months ended	
	30.6.2010	30.6.2009
	HK$'000	HK$'000
Direct sales	**2,647,191**	2,440,128
Income from concessionaire sales	**415,488**	375,588
Revenue	**3,062,679**	2,815,716

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**
Interest income			**11,078**
Finance costs			**(3,351)**
Profit before tax			**172,372**

For the six months ended 30 June 2009

	Hong Kong	PRC	Total
	HK$'000	HK$'000	HK$'000
Segment revenue - external	1,585,856	1,229,860	2,815,716
Segment profit (loss)	94,902	(3,197)	91,705
Interest income			13,060
Finance costs			(3,553)
Profit before tax			101,212

Segment profit / (loss) represents the profit earned by / loss incurred by each segment without allocation of 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. INCOME TAX EXPENSE

	Six months ended	
	30.6.2010	30.6.2009
	HK$'000	HK$'000
The charge comprises:		
Current tax		
Hong Kong	**19,400**	12,000
Other regions in the PRC	**18,861**	14,075
	38,261	26,075
(Over)underprovision in prior years		
Hong Kong	**--**	646
Other regions in the PRC	**(3,752)**	(1,240)
	(3,752)	(594)
Deferred tax		
Current year	**3,478**	5,464
Income tax expense for the period	**37,987**	30,945

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

The PRC income tax is calculated at 22% or 25% (six months ended 30.6.2009: 20% or 25%) of the estimated assessable profits of the subsidiaries.

Deferred tax liabilities in respect of the temporary differences arising from accelerated tax depreciation in respect of property, plant and equipment and of the withholding tax at applicable tax rate of the undistributed earnings of subsidiaries has been provided for both periods.

5. DIVIDENDS

	Six months ended	
	30.6.2010	30.6.2009
	HK$'000	HK$'000
Dividend recognised as distribution during the period:		
Final dividend for 2009 of 22.6 HK cents (2009: 27.9 HK cents for 2008 final dividend) per ordinary share	**58,760**	72,540

The Board of Directors has recommended an interim dividend of 22.1 HK cents (six months ended 30.6.2009: 9.6 HK cents) per share amounting to HK$57,460,000 (six months ended 30.6.2009: HK$24,960,000), be paid to the shareholders of the Company whose names appear on the Register of Members on 15 October 2010. The interim dividend will be paid on or before 28 October 2010.

6. 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$114,848,000 (six months ended 30.6.2009: HK$55,694,000) and on 260,000,000 (six months ended 30.6.2009: 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.

7. 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:

	30.6.2010	31.12.2009
	HK$'000	HK$'000
Within 30 days	**15,555**	19,443

8. TRADE PAYABLES

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

	30.6.2010	31.12.2009
	HK$'000	HK$'000
0 – 60 days	**831,601**	1,041,589
61 – 90 days	**94,860**	96,983
Over 90 days	**86,933**	85,547
	1,013,394	1,224,119

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 13 October 2010 to 15 October 2010 (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 12 October 2010.

BUSINESS REVIEW

For the six months ended 30 June 2010, the Group recorded revenue of HK$3,062.7 million, representing a 9% growth against HK$2,815.7 million for the last corresponding period. The growth was mainly attributable to improved performance of both newly opened stores and existing stores as the economy revived spurring better consumer sentiment in both Hong Kong and the PRC. The gross profit margin slightly lowered from 31.9% in the last corresponding period to 31.5%. Profit attributable to shareholders achieved a substantial increase of 106% to HK$114.8 million as compared to HK$55.7 million in the last corresponding period. Besides a strong performance, the significant growth was due to the dragging down of the last corresponding period's performance by the one-off impairment loss arising from certain refundable prepaid rentals not being accepted in arbitration.

For the first half of 2010, the global economy has been recovering from the downturn brought on by the financial tsunami in the last corresponding period. The gradually improving income and employment conditions amidst an ongoing economic recovery have been providing continual support to retail business. Boosted by the improved consumer sentiment, the Group's Hong Kong operations recorded HK$1,682.7 million in revenue, a 6% growth against HK$1,585.9 million in the last corresponding period. Segment profit also rose moderately by 3% from HK$94.9 million to HK$98.2 million, mainly attributable to the improved economic conditions.

During the period, the Group closed the store in Lok Fu in February and relocated it to MegaBox, Kowloon Bay. Opened in June, the new Kowloon Bay Store is the Group's largest store in Kowloon East, which continues to serve the tremendous demand in the district. The Group opened two more stores in Tsim Sha Tsui and Ngau Tau Kok all of which delivered satisfactory performances. As at the end of the review period, the Group had 34 stores operating in densely populated residential districts in Hong Kong.

Backed by the economic stimulus measures launched by the Chinese Government and the revival of exports, the economy in south China has recorded a significant growth in the first half of 2010 after the rebound in late 2009. The Group recorded a 12% increase in revenue from the PRC market, rising from

HK$1,229.9 million in the last corresponding period to HK$1,380.0 million in the reviewing period. The increase is attributable to the improved performance of existing stores and a new store opened in Guangzhou Jiayu Sun City Plaza, as well as a full six months contribution from the stores in Foshan (opened since May 2009), Shenzhen (opened since July 2009) and Guangzhou (opened since October 2009). This strong growth is even better than indicated, given that one store in China Plaza in Guangzhou was closed during the review period. Benefiting from the strong growth in domestic demand and consumption, and improved performance of the newly opened stores, the PRC operations achieved segmental profit for the period of HK$66.4 million as compared to loss of HK$3.2 million in the last corresponding period. Excluding the effect from changing the expected useful lives of building fixtures which had saved HK$14.2 million from depreciation during the period, the segment still recorded a profit of HK$52.2 million for the reviewing period.

During the review period, the Group opened one store and closed one in south China, operating a total of 15 stores as at 30 June 2010.

During the review period, the ratio of staff cost to revenue improved from 10.4% to 9.8%, a result of effective cost-trimming measures, whereas that of rental cost to revenue also declined from 11.3% to 10.4%. Excluding the impairment loss of prepaid rental in the last corresponding period, the ratio of rental cost to revenue would have also recorded an improvement from 10.9% to 10.4%.

The Group maintained a stable net cash position with cash and bank balances of HK$1,816 million as at 30 June 2010 (31 December 2009: HK$1,904 million) and bank borrowings of HK$103 million (31 December 2009: HK$170 million). The borrowings were denominated in Renminbi, bearing interest calculated with reference to the People's Bank of China lending rate. The Group has sufficient financial resources to fund future expansion.

The Group's bank deposits of HK$14 million (31 December 2009: HK$12 million) were pledged to banks as guarantee to landlords for rental deposits.

Capital expenditure for the period amounting to HK$65 million was used for the opening of new stores and renovation of existing stores. 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 was settled in foreign currencies.

Prospects

Hong Kong Operations

Looking ahead, the local economy is expected to continue to thrive. The current positive consumer sentiment is likely to be maintained. However, the recently increased level of uncertainty in the global economic environment, together with consolidation in the asset markets, may temper somewhat the growth momentum of local consumer demand. Therefore, the Group believes the performance of retail sales in the second half of the year may not be as robust as in the first half, but remains cautiously optimistic about the prospects of its operations in Hong Kong in the years to come.

In early June, the Group opened its largest store in Kowloon East at MegaBox, Kowloon Bay. The new store is decorated in a young, energetic and fresh manner to convey a modern Japanese lifestyle. It also carries a great variety of products that best serve the needs of the different family types in the district. Supported by the huge population in the area as well as growing working population and visitors, the Group has recorded an excellent performance from the new store, and is confident about the business potential of the outlet.

To further leverage the emerging business opportunities in the improving economy, and expand the reach of its retail network within the local community, the Group will continue to look for suitable locations to open more stores. The Group will also explore new business models so as to speed up business expansion and address the changing needs of customers.

PRC Operations

Through the support of the Chinese Government's economic stimulus plan and continued strong economic growth, rising domestic demand and consumption in the PRC are expected. The Group is optimistic about the outlook of the retail market in south China. In order to strengthen its foothold and tap the tremendous business potential, the Group plans expansion in 2010 at its fastest pace to date. The Group has introduced a new store in Shenzhen, the PRC in August with a modern style and décor. Subsequently, there will be two-to-three more stores during the second half of 2010 in Guangzhou and the Group also plans to open one more store in Dongguan by 2010. The Group will continue to extend the reach of its retail outlets when suitable locations are identified.

HUMAN RESOURCES

As at 30 June 2010, the Group had approximately 6,200 full-time and 1,500 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2010, 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 2010 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 2010.

The Audit Committee of the Company has reviewed the unaudited interim results for the six months ended 30 June 2010 with management.

PUBLICATION OF INTERIM REPORT ON THE WEBSITE OF THE STOCK EXCHANGE

The interim report for the six months ended 30 June 2010 containing all the information as required by the Listing Rules will be published on the websites of the Stock Exchange and the Company respectively and copies will be dispatched to shareholders of the Company in due course.

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

Hong Kong, 25 August 2010

As at the date of this announcement, the executive Directors of the Company are Mr. Lam Man Tin, Ms. Chan Pui Man, Christine, Mr. Yuji Yoneta and Mr. Kenji Fujita; the non-executive Directors are Mr. Akihito Tanaka, Mr. Jerome Thomas Black, Mr. Kazumasa Ishii and Mr. Fumiaki Origuchi; and the independent non-executive Directors are Prof. Lam Pei Peggy, Mr. Sham Sui Leung, Daniel, Ms. Cheng Yin Ching, Anna and Dr. Shao Kung Chuen.