



## AEON STORES (HONG KONG) CO., LIMITED

永旺(香港)百貨有限公司

(Incorporated in Hong Kong with limited liability)

### 2003 INTERIM RESULTS

The Board of Directors of AEON Stores (Hong Kong) Co., Limited (the "Company") (previously known as JUSCO Stores (Hong Kong) Co., Limited) is pleased to announce the unaudited results of the Company and its subsidiaries (the "Group"/"AEON Stores") for the six months ended 31 August 2003 together with comparative figures for the previous period as follows:

#### CONDENSED CONSOLIDATED INCOME STATEMENT

	NOTES	Six months ended	
		31.8.2003 (Unaudited) HK\$'000	31.8.2002 (Unaudited and restated) HK\$'000
Turnover		2,085,478	1,801,257
Other operating income		101,233	99,303
Investment income		2,041	2,397
Changes in inventories		(1,549,502)	(1,309,133)
Staff costs		(198,512)	(185,619)
Depreciation		(51,256)	(43,384)
Loss on disposal of property, plant and equipment		(11)	(404)
Other operating expenses		(380,832)	(351,383)
Profit from operations		8,639	13,034
Finance costs		(13)	(9)
Profit from operating activities before taxation		8,626	13,025
Income tax	3	(8,525)	(9,671)
Profit before minority interest		101	3,354
Minority interest		5,752	1,470
Net profit for the period		5,853	4,824
Interim dividend	4	2,600	—
Earnings per share	5	2.25 cents	1.86 cents

#### NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 AUGUST 2003

##### 1. ADOPTION OF STATEMENT OF STANDARD ACCOUNTING PRACTICE

The accounting policies adopted are consistent with those adopted by the Group in its annual financial statements for the year ended 28 February 2003 except that the Group had adopted Statement of Standard Accounting Practice (SSAP) 12 (Revised) "Income taxes" which is effective for accounting periods commencing on or after 1 January 2003.

##### Income taxes

The principal effect of the adoption of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method under which a liability was recognized in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognized in respect of all temporary differences between the carrying amounts of assets and liabilities in the interim financial report and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly.

As a result of this change in policy, the opening balance on retained profits at 1 March 2003 has been increased by HK\$9,846,000 (1 March 2002: HK\$5,401,000). The profit for the six months ended 31 August 2003 has been decreased by HK\$318,000 (31 August 2002: increased by HK\$1,261,000).

##### 2. SEGMENT INFORMATION

The Group is principally engaged in the operation of general merchandise stores. No business segment analysis is presented as 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:

2003	Hong Kong		PRC		Consolidated	
	HK\$'000		HK\$'000		HK\$'000	
TURNOVER	1,602,085	483,393	2,085,478			
SEGMENT RESULT						
Profit (loss) from operations	21,677	(13,038)	8,639			
Finance costs	(13)	—	(13)			
Profit (loss) from ordinary activities before taxation	21,664	(13,038)	8,626			
Income tax	(8,583)	58	(8,525)			
Profit (loss) before minority interest	13,081	(12,980)	101			
2002 (Restated)						
TURNOVER	1,507,087	294,170	1,801,257			
SEGMENT RESULT						
Profit from operations	9,991	3,043	13,034			
Finance costs	(9)	—	(9)			
Profit from ordinary activities before taxation	9,982	3,043	13,025			
Income tax	(3,365)	(6,306)	(9,671)			
Profit (loss) before minority interest	6,617	(3,263)	3,354			

##### 3. INCOME TAX

	Six months ended	
	31.8.2003 HK\$'000	31.8.2002 (restated) HK\$'000
Current tax:		
Hong Kong Profits Tax	8,265	4,626
PRC income tax	863	6,306
Overprovision of PRC income tax in previous period	(921)	—
	8,207	10,932
Deferred tax:		
Current period	1,241	(1,261)
Attributable to change in tax rate in Hong Kong	(923)	—
	318	(1,261)
	8,525	9,671

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit for the six months ended 31 August 2003.

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

##### 4. DIVIDENDS

On 19 June 2003, a dividend of 9.0 HK cents (2002: 9.5 HK cents) per share amounting to HK\$23,400,000 (2002: HK\$24,700,000) was paid to shareholders as the final dividend for the year ended 28 February 2003.

The Board of Directors has declared that an interim dividend of 1.0 HK cent (2002: Nil) per share amounting to HK\$2,600,000 (2002: Nil) be paid to the shareholders of the Company whose names appear on the Register of Members of the Company on 28 November 2003. The interim dividend will be paid on or before 8 December 2003.

##### 5. EARNINGS PER SHARE

The calculation of earnings per share is based on the Group's net profit for the period of HK\$5,853,000 (2002: HK\$4,824,000) and on 260,000,000 (2002: 260,000,000) ordinary shares in issue during the period.

##### CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 26 November 2003 to 28 November 2003 (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 registrars, Secretaries Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 25 November 2003.

##### BUSINESS REVIEW

The retail industry has gone through a challenging time during the first half of 2003. The outbreak of the Severe Acute Respiratory Syndrome and the Iraqi war led to an adverse impact both on business activities and economic growth, regionally and globally. The persistent high unemployment rate in Hong Kong further depressed market sentiment and affected retail consumption.

Despite the negative impact on the retail industry in Hong Kong and the PRC, the Group managed an increase in both turnover and profit for the six months ended 31 August 2003. During the review period, turnover recorded a growth of 15.8% to HK\$2,085 million when compared with the HK\$1,801 million recorded in the corresponding period in the previous year.

Profit attributable to shareholders reached HK\$5.9 million, representing an increase of 21.3%. The encouraging results were mainly attributable to the Group's successful operating strategies which provide value-for-money products at reasonable prices and quality services. The Group's diversified merchandise mix and effective cost measures were additional critical factors contributing to these satisfactory results.

During the period under review, the Group's gross profit margin decreased slightly from 27.3% to 25.7%. This was due to the change in the sales mix as the Group geared up growth in the food sector.

For the six months ended 31 August 2003, sales in Hong Kong recorded a 6.3% increase to HK\$1,602 million. The Group's well-established leadership position also contributed to its success during this difficult period. Profit from operations recorded at HK\$21.7 million, an increase of 117%. The increase was attributable to the excellent sales performance as well as the successful rent deductions, which came into effect at certain stores during the period.

Apart from its Hong Kong operations, the operations in the PRC also reported growth in sales of 64.3%. The increased in sales was attributable to the operation of 6 General Merchandise Store ("GMS") in South China as compared to only 3 GMS in the same period last year. However, the operating results recorded a loss of HK\$13 million as our new stores were still in an initial investment stage as well as our Teem Plaza Store was partially closed for three months for renovation. The management believes that the opening of more GMS will further boost sales on the one hand and allow the Group to enjoy economies of scale on the other in the long term. The Group's position in the PRC retail market will then be strengthened, presenting a strong driver for future growth.

In July 2003, the Group changed its English name to AEON Stores (Hong Kong) Co., Limited and Chinese name to 永旺(香港)百貨有限公司, which carries the "AEON" brand in line with other subsidiaries under the AEON Group's umbrella. Moreover, the new image will help to gain immediate publicity and corporate recognition for the giant Japanese retail group. The Group's retailing business continues to be carried out under "JUSCO" as it has established such a strong foothold in the retail industry.

The Group maintained a strong and healthy financial position with no bank borrowings and a net cash balance of HK\$551 million (28 February 2003: HK\$409 million) as at 31 August 2003.

The management believes that adopting prudent financial measures will enable it to enhance its competitiveness and catch opportunities as they arise. Apart from strengthening its revenue streams, the Group is committed to reducing its overheads. During the review period, the Group obtained rental reductions from the Housing Authority in Hong Kong. Further negotiations have also been carried out with other landlords.

Staff costs against turnover dropped from 10.3% to 9.5% while rental costs against turnover also fell from 9.7% to 8.8%. Capital expenditure during the period amounted to HK\$44 million (2002: HK\$60 million), which was mainly incurred for the opening of new stores.

Exchange rate fluctuations had no material impact on the Group as less than 5% of its total purchases were settled in foreign currencies.

##### PROSPECTS

##### Hong Kong Operations

The Group has built solid foundations in the Hong Kong market with 8 GMS and two "\$10 Plaza" outside GMS spread across major residential areas with high customer flows. Looking ahead, the Group is currently seeking suitable locations to open more GMS to further enlarge its market share in the retail industry in Hong Kong.

Overall market sentiment has improved especially after the relaxation of the travel restriction to mainland travelers and the announcement of the Closer Economic Partnership Arrangement ("CEPA"), even though the Group does not directly benefit from this arrangement. However, the pick up of the general economy will benefit the Group as a whole.

##### PRC Operations

With regard to the enormous growth and booming opportunities in the PRC, the Group will undertake a prudent approach to closely monitor the operations of its existing GMS and review its expansion pace in the region. The Group plans to set up an additional GMS in Shenzhen in view of the growth potential in this rapidly developing PRC city. This second GMS in Shenzhen is expected to commence operations by the end of 2004. As mentioned before, the Foshan Store will open in mid 2004, bringing a new shopping experience to Foshan citizens. The Group expects to maximize its economies of scale in the long term, ultimately benefiting the Group's returns.

##### HUMAN RESOURCES

As at 31 August 2003, the Group employed 3,300 full-time and 2,500 part-time staff in Hong Kong and the PRC. The Group remunerates its employees based on their performance, experience and prevailing industry practices. It also offers benefits such as professional tuition and training subsidies to staff to enhance their personal development while fostering a sense of loyalty.

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

During the six months ended 31 August 2003, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

##### COMPLIANCE WITH CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 31 August 2003, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

##### REVIEW OF INTERIM RESULTS

The unaudited results of the Group for the six months ended 31 August 2003 have been reviewed by the Audit Committee.

##### PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE WEBSITE

A detailed results announcement containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be subsequently published on the website of The Stock Exchange of Hong Kong Limited in due course.

By Order of the Board  
Kazumasa ISHII  
Managing Director

Hong Kong, 24 October 2003