AEON STORES (HONG KONG) CO., LIMITED

永旺(香港)百貨有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 984)

2008 ANNUAL RESULTS

The Board of Directors of AEON Stores (Hong Kong) Co., Limited (the "Company") is pleased to announce the results of the Company and its subsidiaries (the "Group" or "AEON") for the year ended 31 December 2008 together with comparative figures for the previous financial year as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	NOTES	**2008** *HK$'000*	2007 *HK$'000*
Revenue	*3*	**5,376,567**	4,759,947
Other income		**358,649**	316,421
Investment income		**40,200**	46,593
Purchases of goods and changes in inventories		**(3,498,040)**	(3,104,046)
Staff costs		**(586,501)**	(517,900)
Depreciation		**(121,079)**	(136,004)
Loss on disposal of property, plant and equipment		**(5,287)**	(829)
Impairment loss recognised in respect of property, plant and equipment		**(11,334)**	–
Pre-operating expenses		**(7,691)**	(6,338)
Royalty fee savings		**–**	64,080
Other expenses		**(1,158,179)**	(1,040,844)
Finance costs		**(6,254)**	(4,250)
Profit before taxation		**381,051**	376,830
Income tax expenses	*4*	**(74,528)**	(75,369)
Profit for the year		**306,523**	301,461
Attributable to:			
Equity holders of the Company		**272,955**	280,056
Minority interests		**33,568**	21,405
		306,523	301,461
Dividends	*5*	**117,780**	118,300
Earnings per share	*6*	**104.98 cents**	107.71 cents
Final dividend per share proposed after balance sheet date	*5*	**27.90 cents**	26.00 cents

CONSOLIDATED BALANCE SHEET
At 31 December 2008

	NOTES	2008 HK$'000	2007 HK$'000
Non-current Assets			
Goodwill		**94,838**	–
Property, plant and equipment		**444,062**	335,692
Available-for-sale investments		**15,425**	29,395
Callable deposits		**155,486**	–
Deferred tax assets		**13,508**	13,129
Rental deposits and prepayments		**137,455**	94,986
		860,774	473,202
Current Assets			
Inventories		**549,091**	412,173
Trade receivables	7	**20,345**	34,323
Other receivables, prepayments and deposits		**47,707**	31,499
Amounts due from fellow subsidiaries		**57,830**	51,645
Pledged bank deposits		**12,265**	78,523
Bank balances and cash		**1,618,932**	1,651,084
		2,306,170	2,259,247
Current Liabilities			
Trade payables	8	**1,062,598**	1,036,747
Other payables and accrued charges		**638,620**	497,131
Amounts due to fellow subsidiaries		**56,502**	30,837
Amount due to ultimate holding company		**31,692**	27,816
Bank borrowings		**151,946**	100,387
Income tax payable		**9,565**	25,445
Dividend payable		**448**	383
		1,951,371	1,718,746
Net Current Assets		**354,799**	540,501
Total Assets Less Current Liabilities		**1,215,573**	1,013,703
Capital and Reserves			
Share capital		**52,000**	52,000
Share premium and reserves		**1,011,962**	865,534
Equity attributable to equity holders of the Company		**1,063,962**	917,534
Minority interests		**93,362**	71,857
Total Equity		**1,157,324**	989,391
Non-current Liabilities			
Deposits received		**55,675**	24,312
Deferred tax liabilities		**2,574**	–
		58,249	24,312
		1,215,573	1,013,703

NOTES TO THE FINANCIAL STATEMENTS

1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group and the Company have applied, for the first time, the following amendments and new interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
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 HKFRSs had no material effect on the results or financial position of the Group and the Company for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

The Group and the Company have not early applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[6]

[1] Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 July 2009
[4] Effective for annual periods beginning on or after 1 July 2008
[5] Effective for annual periods beginning on or after 1 October 2008
[6] Effective for transfer on or after 1 July 2009

The application of HK(IFRIC) – Int 13 will result in change to the revenue recognition policy of the Group and the Company 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 and the Company have 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 bonus points that are earned by the customers.

The Directors of the Company have assessed the potential impact and believe that the application of HK(IFRIC) – Int 13 and the other standards, amendment or interpretations will not have material impact on the results and financial position of the Group and the Company.

2. BASIS OF PREPARATION

The financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and the Hong Kong Companies Ordinance.

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 year.

	2008	2007
	HK$'000	*HK$'000*
Direct sales	**4,599,898**	4,054,818
Income from concessionaire sales	**776,669**	705,129
Revenue	**5,376,567**	4,759,947

Geographical segments

The Group's operations are located in Hong Kong and the People's Republic of China ("PRC"), other than Hong Kong. The locations of operations are the basis on which the Group reports its primary segment information.

Geographical segment information by location of assets is presented below:

For the year ended 31 December 2008

	Hong Kong	**PRC**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***
Revenue	**3,108,704**	**2,267,863**	**5,376,567**
Segment result	**249,158**	**97,947**	**347,105**
Dividend income			**1,741**
Interest income			**38,459**
Finance costs			**(6,254)**
Profit before taxation			**381,051**
Income tax expenses			**(74,528)**
Profit for the year			**306,523**

For the year ended 31 December 2007

	Hong Kong *HK$'000*	PRC *HK$'000*	Consolidated *HK$'000*
Revenue	3,090,709	1,669,238	4,759,947
Segment result	295,936	38,545	334,481
Dividend income			665
Interest income			45,928
Gain on disposals of available-for-sale investments			6
Finance costs			(4,250)
Profit before taxation			376,830
Income tax expenses			(75,369)
Profit for the year			301,461

Business segments

No analysis for business segments has been presented by principal activities because the Group is engaged in the operation of general merchandise stores, concessionaire sales and related business.

4. INCOME TAX EXPENSES

	2008 ***HK$'000***	2007 *HK$'000*
The charges comprise:		
Current tax		
Hong Kong	**44,106**	44,800
Other regions in the PRC	**29,100**	26,595
	73,206	71,395
(Over) underprovision in prior years		
Hong Kong	**(893)**	–
Other regions in the PRC	**20**	2,617
	(873)	2,617
	72,333	74,012
Deferred taxation		
Current year	**1,445**	1,357
Attributable to change in tax rate	**750**	–
Income tax expenses for the year	**74,528**	75,369

Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year. The PRC income tax is calculated at 18% or 25% (2007: 15% or 33%) of the estimated assessable profits of the subsidiaries.

5. DIVIDENDS

	2008	2007
	HK$'000	*HK$'000*
Final dividend paid for 2007 of 26.0 HK cents (2007: 17.5 HK cents for 2006) per ordinary share	**67,600**	45,500
Interim dividend paid for 2008 of 19.3 HK cents (2007: 8.0 HK cents) per ordinary share	**50,180**	20,800
Special dividend paid for 2007 of 20.0 HK cents per ordinary share	**–**	52,000
	117,780	118,300

The Board of Directors has recommended a final dividend of 27.9 HK cents per share (2007: 26.0 HK cents) to be paid on or before 18 June 2009, subject to shareholders' approval at the forthcoming annual general meeting on 22 May 2009 ("AGM").

6. EARNINGS PER SHARE

The calculation of earnings per share attributable to the equity holders of the Company is based on the Group's profit for the year attributable to the equity holders of the Company of HK$272,955,000 (2007: HK$280,056,000) and on 260,000,000 (2007: 260,000,000) ordinary shares in issue during the year.

7. TRADE RECEIVABLES

The Group does not have a defined fixed 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:

	2008	2007
	HK$'000	*HK$'000*
Within due dates	**20,345**	32,071
Overdue under 30 days	**–**	1,433
Overdue over 30 days	**–**	819
	20,345	34,323
Overdue but not impaired		
0 – 30 days	**–**	1,433
31 – 180 days	**–**	819
	–	2,252

8. TRADE PAYABLES

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

	2008	2007
	HK$'000	*HK$'000*
Within due dates	**971,176**	845,449
Overdue under 30 days	**43,257**	79,538
Overdue over 30 days	**48,165**	111,760
	1,062,598	1,036,747

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 19 May 2009 to 22 May 2009 (both days inclusive), during which period no share transfers will be effected. In order to qualify for the proposed final dividend and to attend and vote at the AGM, 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 18 May 2009. The proposed final dividend, if approved, will be paid to the shareholders whose names appear on the Register of Members of the Company on 22 May 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

2008 was an exceptionally challenging year as economic uncertainties rocked the world. Despite the difficult environment, the Group demonstrated resilience and achieved satisfactory performance. The Group's revenue increased by 13% to HK$5,376.6 million (2007: HK$4,759.9 million), mainly attributed to the fast growth of its stores in the PRC. Gross profit margin increased slightly from 34.8% to 34.9%. Profit attributable to shareholders for the year was HK$273.0 million, representing a 3% drop from previous year's HK$280.1 million. If a one-off write back of royalty savings of HK$64 million in 2007 were excluded, the Group would have recorded a significant 26% surge in attributable profit this year. Earnings per share of 2008 were 104.98 HK cents, against 107.71 HK cents in the previous year.

During the year under review, staff costs to revenue remained unchanged at 10.9% while rental costs to revenue was down from 10.2% to 9.7% year-on-year.

As at 31 December 2008, the Group maintained a stable net cash position with cash and bank balance of HK$1,619 million (2007: HK$1,651 million). The Group had short-term bank borrowings of HK$152 million (2007: HK$100 million). The borrowings were denominated in Renminbi bearing interest at around 4.5%-5.8%. By preserving a low gearing level, the Group still has sufficient resources to finance future expansion initiatives.

The Group's bank deposits of HK$12 million (2007: HK$14 million) were pledged to banks for guarantee to landlords for rental deposits as well as suppliers for trade purchases, whereas nil (2007: HK$64 million) for guarantee in favour of a bank borrowing respectively.

In July 2008, the Group completed the acquisition of an additional 35% interest in the registered capital of Shenzhen AEON Co., Ltd. ("Shenzhen AEON") at an aggregate consideration of HK$107.9 million. Shenzhen AEON operates five General Merchandise Store ("GMS") and one shopping centre in Shenzhen. The acquisition made Shenzhen AEON a 100%-owned subsidiary of the Group.

Other capital expenditure during the past 12 months amounted to HK$232 million, arising from the renovation of existing operations as well as the opening of new stores. The Group will continue to finance capital expenditures in the future by way of internal resources and short-term borrowings.

Though exchange rates continued to fluctuate, the Group was not materially affected by such movements as less than 5% of its total purchases were settled in foreign currencies.

Business Review

The global financial crisis, which became particularly apparent in September 2008, has severely affected the economic wellbeing of countries and territories around the world. Not immune to the negative influence of the downturn, the PRC and Hong Kong financial markets have experienced severe contractions, which in turn have directly eroded the confidence of the general public. With unemployment rates gradually creeping up and consumer sentiment on the wane, the retail industry duly entered a period of instability.

Hong Kong Operations

Indicative of a slowing down in economic growth towards the end of the year, Hong Kong's GDP declined by 2.5% year-on-year in real terms in the fourth quarter of 2008. Similarly, net output in the wholesale, retail and import and export trades, restaurants and hotels sector increased by a relatively modest 4.3% year-on-year in real terms in the third quarter of 2008, compared with 7.1% rise recorded in the second quarter. Despite increasingly sluggish consumer spending as fears over the global financial crisis intensified, the Group was still able to record an increase in revenue of 1% to HK$3,108.7 million (2007: HK$3,090.7 million) for the year. Such growth is significant when taking into consideration that the Kornhill Store was partially closed for three months for renovation work while one GMS in Tseung Kwan O ceased operation since June 2007. The overall segmental result of the Hong Kong business was HK$249.2 million, down 16% from HK$295.9 million. If the write-back of royalty savings of HK$64 million had been excluded, actual growth of 7% would have been achieved. This extraordinary performance during the economic turmoil attests to the Group's operational efficiency and acumen in catering for local customers' needs.

In the past year, the Group introduced more initiatives to enhance its business portfolio, specifically the MooRry Fantasy (an indoor amusement centre) and JUSCO Living Plaza, a new business model applicable for stores of around 7,000 sq. ft. to 15,000 sq. ft., a smaller area required than GMS. Apart from fitting easily into various densely populated districts, JUSCO Living Plaza allows for tailoring merchandise to meet the specific needs of customers in different districts.

During the year under review, the Group expanded its Hong Kong operations with the net increase of three JUSCO $10 Plaza, one Bento Express (Japanese take-away shop) and one JUSCO Living Plaza. Currently, the Group has six GMS, 15 independent JUSCO $10 Plaza, one JUSCO Living Plaza, three independent supermarkets and three Bento Express in operation in densely populated districts. The enlarged distribution network enabled the Group to maintain a strong presence in Hong Kong.

PRC Operations

The southern region of China continued to enjoy strong economic growth and a prosperous retail market. The strong sales performance of the stores, and the new shopping centre that opened in December in Huizhou, Guangdong Province, together contributed to robust performance of the Group in the PRC. Specifically, the Group recorded segmental revenue of HK$2,267.9 million, representing a year-on-year rise of 36% (2007: HK$1,669.2 million). Even more impressive, PRC segmental result for the year was HK$97.9 million, up by 154% over last year (2007: HK$38.5 million). Yet a further reason for the solid performance can be attributed to better economies of scale.

As at 31 December 2008, the Group operated 11 GMS and two shopping centres in south China. Since Shenzhen AEON became its 100%-owned subsidiary, the Group is thereby in a strong position from which to extend its geographical footprint.

Prospects

Hong Kong Operations

Though the local economy is expected to slowdown still further in the first half of 2009, the Group is hopeful that the market will stabilise for the second half year. The gloomy economy has not dampen the Group's enthusiasm for consolidating its presence in Hong Kong. Having established strong relations with the communities it serves, and by operating a well diversified business that sensibly addresses the needs and wants of local customers; the Group is well suited to confront the challenges ahead.

With the current economic climate expected to drive rental rates downward, the Group will prudently look for prospects to expand its operation. In the future, it expects to open one JUSCO Living Plaza in Lai Chi Kwok in the first half of 2009, and two independent supermarkets in Sha Tin and Tseung Kwan O in the second half of 2009 and early 2010 respectively. The Group will certainly look for more locations to establish retail outlets as opportunities develop.

PRC Operations

While the PRC has not been able to avoid the grip of the global financial tsunami, it has not been as severely impacted by the downturn as nations in the West. With the Chinese Government continuing to institute economic policies designed to stimulate domestic consumption, the PRC looks set to be among the first to recover from the decline. Anticipating a turnaround towards the latter half of 2009, and taking into consideration the fairly good economic climate in south China, management intends to open a GMS in Foshan. The new store is scheduled for opening in the first half of 2009. Not ignoring other parts of the country a further GMS will be opened in Shenzhen within the year. This expanded network will enable the Group to further capitalise on economies of scale and expand the brand name in the south China region.

Despite a decline in economic health in Hong Kong and the PRC, the Group has proven its ability to still achieve growth amidst challenging conditions. Reflecting perceptiveness in addressing the changing needs of customers in both markets, management will continue to exercise this strength to drive the Group's retail operations forward.

Human Resources

As at 31 December 2008, the Group had approximately 6,200 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 practices of the industry. Committed to delivering the highest standard of service to all its customers, the Group will continue to place efforts at enhancing the quality and skills of its staff. Concurrently, it will seek 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 year, 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 year 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 year.

The Audit Committee of the Company has reviewed the consolidated financial statements for the year ended 31 December 2008 with management.

PUBLIC FLOAT

The Company's public float as at 13 March 2009 was approximately 17.21% which was less than the percentage threshold required under Rule 8.08 of the Listing Rules. The Company is still in the process of considering 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, 13 March 2009

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