The United Kingdom's largest supermarket chain, Tesco, reported a 23.5% drop in the group's profit, down to £1.387 million (US$2.25 million) for the first half of the financial year.

The company cited a reduction in property related items, while chief executive Philip Clarke described a difficult European market.

"The challenging retail environment in Europe has continued to affect the performance and profitability of our businesses there. The investments we have made to improve our offer for customers in the region are already starting to take effect and we expect a stronger second half as a result," Clarke said.

Like-for-like sales in Europe declined 5%, attributed in part to a poor economic environment, strong competition and a consumer preference for smaller store formats. Losses were most marked in Turkey, with decline in profit also reported across the company's businesses in Central Europe.

Decline in Europe has prompted the company to readjust its focus for the remainder of the year, including reduced plans for new store space. Given the rising preference for smaller store formats, the company will move away from plans for new hypermarkets.

"The second half of the year will see each of our Central European and Turkish markets benefit from change programmes that we have already started to implement," the company said.

"Our European business as a whole will also be trading against a softer comparative base, following the impact of deteriorating external conditions on like-for-like sales and profitability in the second half of 2012/13."

In the U.K., group sales increased by 1.1% to just over £24 billion (US$39 billion) and trading profit increased 1.5% to £1.131 million (US$1.85 million).

"Our performance in the UK has strengthened through the half, particularly in our food business, as we have continued our work to Build a Better Tesco. More and more customers are benefiting from a better shopping environment, as our store refresh programme has gathered momentum," Clarke said.

In Asia, total sales increased 7.7% at actual rates and 2% at constant rates. The market was impacted by regulatory restrictions in Korea and recession in Thailand.

"Thailand remains a very profitable, high-returning business which, together with Korea and Malaysia, offers Tesco significant potential for further growth from the continued development of modern retail alone," the company said.

Partnership in China

The company also announced a new partnership with China Resources Enterprise Ltd., the largest retail business in China. The self-funded venture will give Tesco a 20% stake in the company. The combined business will have over 3,000 stores.

Tesco will make an initial cash contribution of £185 million (US$300 million) and pay an additional £160 million (US$260 million) down the road.

"The joint venture, which will be self-funding, will secure significant cost and operational synergies from combining the two operations and for Tesco, will move us more quickly to profitability in China," the company said.

"The deal is immediately beneficial to Group returns on capital employed, due in part to removing the impact of our Chinese business’s trading losses, which were £(72)m (US$117 million) for the year ending February 2013, in addition to other, property-related losses."

Photo: Tesco Metro - Tills, U.K.

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