INTERIM DIVIDEND

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.

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 ("SARS") 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. During the SARS epidemic, the entire retail industry was under serious attack as consumption patterns radically changed. Concerned about their health, people stayed and ate at home. Being a caring company, the Group made prompt adjustments to respond to customer needs. More resources were put into the food sector, providing diversified food categories to satisfy customers taste and requirements. To reassure customers, AEON Stores also implemented a strict hygiene policy, providing a safe and comfortable shopping environment where customers are able to purchase all their daily necessities including food under one roof. The prompt replenishment and steady supply of personal and home cleaning products at reasonable prices also guaranteed valued customers of the best protection. Therefore, SARS had little impact on the Group's daily operations and business performance. Among the various departments, the food section recorded significant growth and outperformed other sections during the review period.

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.

The Group opened its second "$10 Plaza" outside our General Merchandise Stores ("GMS") in Kowloon in August, proving the tremendous success of the "$10 Plaza" concept with the introduction of mainly quality Japanese and overseas imported goods at bargain prices in popular shopping areas which attract high customer flows.

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 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 has always been committed to building its own brand of products, unique and quality products at reasonable prices, introducing these products regularly to satisfy ever-increasing customer demand. Over 600 items under its well-received in-house brand, "TOPVALU", were on offer during the review period. The Group is also committed to procuring specific products to fulfill the Group's stringent standards, and source comparatively lower price products for the Group, further enhancing its competitive strengths.

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 2 "$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.

Apart from its GMS operations, the satisfactory results of the niche "$10 Plaza" offer expansion opportunities for the Group to open additional "$10 Plaza" both inside its GMS and in other favourable locations outside existing stores to provide superior and trendy products to valued customer. The Group aims to open a new "$10 Plaza" in Yuen Long in the second half of the year.

To maintain its leading position, the Group is committed to enriching and diversifying its product mix, while also strengthening its promotional campaigns to enhance its competitive edge among industry players. Additional promotional campaigns will be created to drive momentum, attract and retain its loyal customer base.

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.