

BUSINESS REVIEW

This is the Group's first interim results after its change of financial year end date from end of February to 31 December. Turnover for the six months ended 30 June 2005 grew 16% to HK\$2,606 million when compared with HK\$2,243 million for the six months ended 31 August 2004. The rise in turnover was mainly due to the increase in sales of our existing stores and the growth strategies of expanding the Group's retail network through opening more GMS and JUSCO \$10 Plaza as well as diversifying into the new business mode of operating an independent supermarket. Gross profit margin slightly decreased to 24.8% compared with 25.6% for the six months ended 31 August 2004. This was due to the lower margin of food items and our enlarged food sector which accounted for 35% of sales. Profit for the period rose 24% to HK\$36 million. The satisfactory results were mainly attributable to the outstanding performance of our stores in Hong Kong.

The Hong Kong economy has been improving greatly in the past six months. With the further relaxation of the Individual Travellers Scheme by the PRC Government, the retail market in Hong Kong has been greatly boosted by the spending spree of Mainland tourists. Besides, the declining unemployment rate and the reviving property market have enhanced overall consumption sentiment in Hong Kong. During this period, the Group's Hong Kong sales rose 12% to HK\$1,822 million and profit for the period increased 127% to HK\$41 million.

One significant strategic move of the Group during the review period was its venture into independent supermarket operation, a strategic attempt to diversify its business mode. In April 2005, JUSCO Supermarket, AEON Stores' first supermarket in Hong Kong detached from its GMS, was opened in apm in Kwun Tong. Also in May 2005, the Group partially closed the Tai Po Store for renovation. To better cater for the needs of the residents in Tai Po, which are mostly made up of working couples and nuclear families, the newly renovated store adopts the "Home Sweet Home" concept, which not only provides a wider range of quality products but also creates a pleasing shopping environment for the customers. The store resumed full operation in early August.

BUSINESS REVIEW (continued)

PRC turnover for the six months ended 30 June 2005 recorded a rise of 28% to HK\$784 million, compared with HK\$612 million for the six months ended 31 August 2004. Our PRC segment nevertheless recorded a loss of HK\$6 million mainly due to the initial stages of operations of two newly opened stores in Foshan and Shenzhen and the increase in operating expenses of AEON (China).

During the period, staff cost against turnover dropped from 9.1% to 8.2% while rental cost against turnover fell from 8.4% to 8.0%.

The Group maintained a strong and healthy financial position with no bank borrowings and a net cash balance of HK\$720 million as at 30 June 2005 (31 December 2004: HK\$776 million).

Capital expenditure during the period amounted to HK\$50 million (six months ended 31 August 2004: HK\$39 million), which was used for renovation of existing stores and opening of new stores. The Group will continue to finance its future capital expenditure by internal resources and short-term bank borrowings.

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

PROSPECTS

Hong Kong Operations

The Group expects that our Hong Kong business will continue to benefit from the economic growth in Hong Kong and in the PRC. Backed by its solid foundation in Hong Kong, the Group is well-positioned to fully seize the enormous opportunities ahead. Subsequent to the period end date, in August 2005, the Group opened two more independent JUSCO \$10 Plaza, one in Tsuen Wan and the other in Wan Chai. In future, the Group will continue to look for appropriate locations to open more new GMS, JUSCO \$10 Plaza and independent supermarkets.

PROSPECTS (continued)

PRC Operations

The Group expects that the PRC economy will continue to flourish and the consumption power of the local people will remain strong. To capitalize on such lucrative opportunities, the Group is determined to further penetrate into the PRC market by identifying suitable locations to open new stores. Our Group's third store in Shenzhen, the Dragon Hill Store, started operations in September while another GMS is scheduled to open in Shunde in 2006. Besides, the Group will strive to control the merchandise cost and operating expenses to improve its operations in the PRC.

HUMAN RESOURCES

As at 30 June 2005, the Group employed 3,400 full-time and 3,000 part-time staff in Hong Kong and the PRC. The Group remunerates its employees based on their performance, experience and prevailing industry practices. The Group provides training for staff to equip them for future store development. The Group also offers benefits such as professional tuition and training subsidies to enhance the personal development of its staff and their sense of loyalty to the Group.

DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

At 30 June 2005, the interests of the directors and their associates in the shares, underlying shares and convertible bonds of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

DIRECTORS' INTERESTS IN SHARES AND DEBENTURES (continued)

(a) The Company

Name of directors	Number of ordinary shares held as personal interests	Approximate percentage of the issued share capital of the Company %
WONG Mun Yu	18,000	0.007
LAM Man Tin	20,000	0.008
Motoya OKADA	100,000	0.038
Tatsuichi YAMAGUCHI	22,000	0.008
Kazumasa ISHII	80,000	0.031
SHAO You Bao	200,000	0.077
LAM PEI Peggy	200,000	0.077
	640,000	0.246

(b) AEON Co., Ltd., the Company's ultimate holding company

Name of directors	Number of shares held			Approximate percentage of interest %
	Personal interests	Family interests	Total	
Toshiji TOKIWA	12,000	–	12,000	0.0017
Motoya OKADA (Note)	413,996	8,742	422,738	0.0583
Tatsuichi YAMAGUCHI	23,000	–	23,000	0.0030
Kazumasa ISHII	14,000	–	14,000	0.0019
	462,996	8,742	471,738	0.0649

Note:

The family interest of Mr. Motoya OKADA is held by his spouse.

DIRECTORS' INTERESTS IN SHARES AND DEBENTURES (continued)

(c) Other associated corporations

	Toshiji TOKIWA		Motoya OKADA		SHAO You Bao	
	Approximate		Approximate		Approximate	
	Number of shares	percentage of interest %	Number of shares	percentage of interest %	Number of shares	percentage of interest %
AEON Credit Service (Asia) Company Limited	-	-	110,000	0.026	330,000	0.079
AEON Fantasy Co., Ltd.	-	-	26,620	0.211	-	-
AEON Forest Co., Ltd.	-	-	3,000	0.038	-	-
AEON Kyushu Co., Ltd.	-	-	2,400	0.015	-	-
AEON Techno Service Co., Ltd.	-	-	15,000	0.139	-	-
AEON Thana Sinsap (Thailand) Plc.	500,000	0.200	1,500,000	0.600	-	-
Aeonmall Co., Ltd.	-	-	2,400	0.004	-	-
Certo Co., Ltd.	-	-	2,000	0.030	-	-
AEON Co. (M) Bhd.	-	-	150,000	0.085	-	-
Laura Ashley Japan Co., Ltd.	-	-	10	0.119	-	-
Maxvalu Tohoku Co., Ltd.	-	-	6,000	0.050	-	-
Maxvalu Tokai Co., Ltd.	5,000	0.043	10,000	0.086	-	-
Reform Studio Co., Ltd.	-	-	5	0.208	-	-
Ryukyu JUSCO Co., Ltd.	-	-	500	0.089	-	-
The Talbots, Inc.	-	-	48,000	0.089	-	-
Zwei Co., Ltd.	1,000	0.025	4,000	0.103	-	-

All the shares held are personal interests.

Other than as disclosed above, at 30 June 2005, none of the directors, chief executives nor their associates had any interests or short positions in any shares, underlying shares and convertible bonds of the Company or any of its associated corporations.