

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 10 October 2006 to 12 October 2006 (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 26 Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 9 October 2006.

## BUSINESS REVIEW

Turnover of the Group rose 9% to HK\$2,831 million for the six months ended 30 June 2006 against HK\$2,606 million for the corresponding period of last year. The rise in turnover is mainly attributable to the increase in sales of our existing and newly opened stores. Gross profit margin slightly decreased from 24.8% to 23.9% as a result of the Group enlarging its food sector to meet changing customer needs and affected by stock clearance during the review period. Profit attributable to equity holders of the parent dropped 25% to HK\$28 million (2005: HK\$37 million). This was mainly due to the rise in rental expenses in Hong Kong as well as increase in operating expenses of AEON (China) Co., Ltd. ("AEON China").

Although the local economy continued to grow during the review period and unemployment rate dropped and salary level increased, rounds of interest rate rise had seen local consumers become more cautious in spending. The Group's Hong Kong turnover for the six months ended 30 June 2006 rose slightly by 5% to HK\$1,904 million (2005: HK\$1,822 million). Profit before tax for the period dropped 15% to HK\$45 million from HK\$53 million, mainly as a result of rising rental expenses, even though the rise was not as steep as the increase in market rate. The stock clearance exercise also contributed to the drop of profit before tax.

## **BUSINESS REVIEW (continued)**

In April 2006, the Group partially closed the Whampoa Store for renovation. To keep abreast with the changing needs of customers and community development in the district, the Group renovated the store to adopt the "Healthy Living" concept and enlarged its Supermarket, Fashion Section, and Household and Furniture Section to provide customers with a diverse merchandise mix and a convenient one-stop shopping environment. The store resumed operation in late June.

Encouraged by the successful experience of the first JUSCO Supermarket in apm, Kwun Tong, the Group is exploring suitable locations to expand the network of this new business model. Since the JUSCO Supermarket requires relatively smaller space, finding suitable locations for store development is easier.

The economy in South China continued to thrive and that benefited the retail market. For the six months ended 30 June 2006, the turnover from PRC operations was up 18% to HK\$928 million compared with HK\$784 million for the same period in 2005. The growth in turnover was attributable to satisfactory growth in existing stores and new stores. It takes time, however, for the new stores to adapt to local needs before they can generate considerable contribution. Furthermore, AEON China was still in its investment stage. The opening of the shopping mall in Shunde, under AEON China, originally scheduled to open in the second half of 2006, will be postponed to the first half of 2007 due to construction delay. Under these circumstances, the Group's PRC operations recorded HK\$2 million in profit before tax for the period (2005: loss HK\$2 million).

During the review period, staff cost against turnover was up from 8.2% to 8.4% while rental cost against turnover fell from 8.0% to 7.9%.

## **BUSINESS REVIEW (continued)**

The Group maintained a stable net cash position with cash and bank balance of HK\$1,124 million as at 30 June 2006 (31 December 2005: HK\$1,042 million) and short-term bank borrowings remained HK\$14 million (31 December 2005: HK\$14 million). The borrowings were denominated in Renminbi and bearing interest at 4.86% per annum.

Capital expenditure during the period amounted to HK\$29 million, which was used for renovation of existing store and opening of new stores. The Group will continue to finance capital expenditure by internal resources and short-term borrowings.

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 is cautiously optimistic about the Hong Kong economy and expects it to grow steadily, not barring the negative impact of increasing rental costs on the retail market. The Group opened its second JUSCO Supermarket in Lam Tin in early September 2006 and will open one more in Tokwawan by mid-2007. Putting JUSCO Supermarket in highly populated residential areas or commercial districts not covered by its GMS network is part of the Group's business development strategy. The emphasis is on selling fresh food of superior quality and providing wide selections to satisfy food lovers.

Moreover, the Group opened one JUSCO \$10 Plaza in Fanling in August and a new one will be opened in Shamshuipo by the end of September 2006. To strengthen the Group's retail network, we will continue to look for suitable locations to open more GMS, JUSCO \$10 Plaza and independent supermarkets.

## **PROSPECTS (continued)**

### **PRC Operations**

The Group expects the economy in South China to continue to prosper, which will benefit our existing stores and new stores. To capture the lucrative opportunities ahead, AEON China will open a shopping mall in Shunde, Guangdong Province in the first half of 2007. The Group will continue to increase retail outlets when we can identify suitable locations.

## **HUMAN RESOURCES**

As at 30 June 2006, the Group employed about 3,900 full-time and 2,800 part-time staff in Hong Kong and the PRC. The Group remunerates its employees based on their performance, experience and prevailing industry practice. Committed to providing quality service to our customers, we will continue to invest resources in enhancing staff quality and knowledge, and foster among employees a sense of loyalty to the Group.

## **DIRECTORS' INTERESTS IN SHARES**

At 30 June 2006, the interests of the directors and their associates in the shares 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 (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
		%
LAM Man Tin	20,000	0.008
Yutaka FUKUMOTO	70,000	0.027
WONG Mun Yu	18,000	0.007
Akihito TANAKA	50,000	0.019
Tatsuichi YAMAGUCHI	22,000	0.008
LAM PEI Peggy	200,000	0.077

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

Name of directors	Number of shares held		Total	Approximate percentage of interest
	Personal interests	Family interests		
				%
Toshiji TOKIWA	17,700	–	17,700	0.0024
Akihito TANAKA	13,900	–	13,900	0.0019
Tatsuichi YAMAGUCHI	24,000	–	24,000	0.0033

**DIRECTORS' INTERESTS IN SHARES (continued)****(c) Other associated corporations**

	Toshiji TOKIWA		Akihito TANAKA	
	Number of shares	Approximate percentage of interest %	Number of shares	Approximate percentage of interest %
ACS Credit Management Co., Ltd.	10	0.083	–	–
AEON Credit Service (M) Sdn. Bhd.	20,000	0.167	–	–
AEON Fantasy Co., Ltd.	–	–	3,194	0.021
AEON Thana Sinsap (Thailand) Plc.	500,000	0.200	20,000	0.008
Aeonmall Co., Ltd.	–	–	2,000	0.003
AEON CO. (M) BHD	–	–	300,000	0.017
Maxvalu Tokai Co., Ltd.	7,500	0.043	–	–
Ryukyu JUSCO Co., Ltd.	–	–	100	0.018
Zwei Co., Ltd.	1,000	0.026	–	–

All the shares held are personal interests.

Other than as disclosed above, at 30 June 2006, 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.