

# Management Discussion and Analysis

## Market Overview

The Hong Kong retail sector enjoyed a robust first half of 2005 on the heels of growth momentum which was carried forward from 2004. The positive market conditions were further fuelled by several catalysts, including a healthy labor market, growing inbound tourism, as well as buoyant property and stock markets. Strength in consumer sentiment, however, waned half way into the third quarter amid prolonged interest rate increases, a softening property market and higher oil prices. The majority of

retailers were also confronted with profit margin squeeze as a result of higher rental, energy, and labor costs. The change in consumer sentiment and economic pressure in the second half was

offset by a successful Christmas season which delivered a resurgence of consumer traffic and spending. Inbound tourism was on the rise and according to the Hong Kong Tourism Board, 2005 was another record year with a total of more than 23 million visitor arrivals, representing a 7.1% increase from the previous year. The Hong Kong Tourism Board is expecting tourism arrivals to further grow in 2006 that will fuel the strength of the Hong Kong retail market.

China achieved 9.9% growth in GDP in 2005 and it is widely expected that 2006 will also reach high single digit growth. This prosperous economic expansion has contributed to the increase in the number of high income consumers who are more brand-aware and image conscious. Consumer spending habits are shifting from the basic consumer staples to more discretionary products. High GDP growth couple with the consumption boom provide exceptional business opportunities for the sector.

**OUTPERFORMING  
IN THE SECTOR**  
**斐然業績 傲視同儕**

## 管理層研討及分析

### 市場概況

香港零售業承接二零零四年之增長勢頭，於二零零五年上半年度繼續表現強勁。良好的市場環境進一步受多項因素帶動，包括勞工市場穩健、訪港旅客人數與日俱增以及樓市及股市暢旺。然而，在息率持續上升、樓市轉弱及油價高企的影響下，消費氣氛於第三季減弱。租金、能源及勞工成本上漲，影響大部分零售商的邊際利潤。聖誕節的節日氣氛令人流及消費回升，抵銷了下半年度消費氣氛及經濟壓力之轉變。訪港旅客人數亦有所增長，根據香港旅遊發展局資料顯示，二零零五年旅客人數再創新高，合共超過23,000,000人次，較去年增加7.1%。香港旅遊發展局預期二零零六年旅客人數持續增長，並將進一步推動香港零售市場發展。

於二零零五年，中國國民生產總值增長9.9%，並預期二零零六年將有高單位數字增幅。隨著經濟蓬勃發展，注重品牌及形象之高收入人士數目增加，消費習慣亦由生活必需品轉為購買更多奢華用品。國民生產總值高增長及消費暢旺的情況將為零售業帶來前所未有的商機。

## Financial Review

### Turnover and Sales Proceeds

Turnover grew to HK\$2,094.3 million for the year ended 31st December, 2005 (the "Year"). This represents a 30.2% increase over HK\$1,608.7 million recorded last year. In 2005, the Group generated net sales proceeds received and receivable worth HK\$4,579.2 million as a result of goods sold as either direct sales or via concessionaire sales. Sales proceeds for the Year represent a 28.7% increase over the figure of HK\$3,558.3 million achieved last year. The increase represents same-store sales growth at the Group's Causeway Bay flagship store (SOGO CWB) as well as inclusion of sales proceeds from the Group's newly-opened Tsimshatsui store (SOGO TST) and the Group's Jiuguang Store in Shanghai.

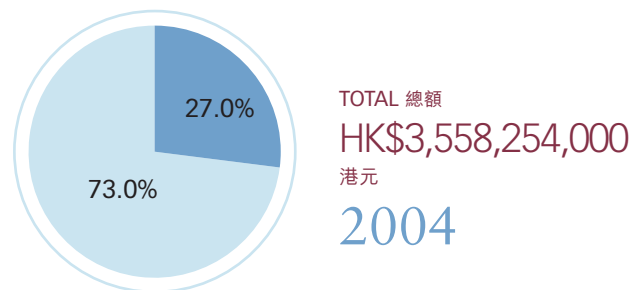
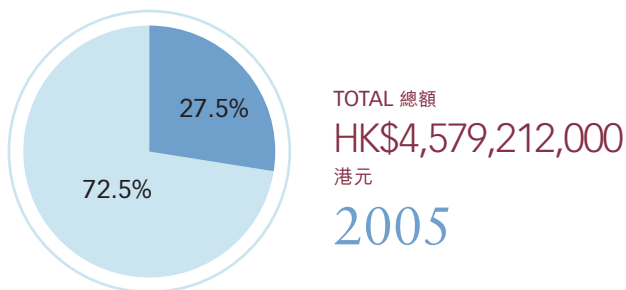


## 財務回顧

### 營業額及銷售所得款項

截至二零零五年十二月三十一日止年度(「本年度」)營業額增至2,094,300,000港元，較去年之1,608,700,000港元增加30.2%。二零零五年本集團的直接銷售或透過特許專櫃銷售售出貨品所產生已收及應收銷售所得款淨額達4,579,200,000港元，本年度銷售所得款較去年之3,558,300,000港元增長28.7%。有關增加乃來自本集團銅鑼灣旗艦店(銅鑼灣崇光)同店銷售增長，亦包括本集團新開設之尖沙咀百貨店(尖沙咀崇光)及本集團之上海久光百貨店的銷售所得款。

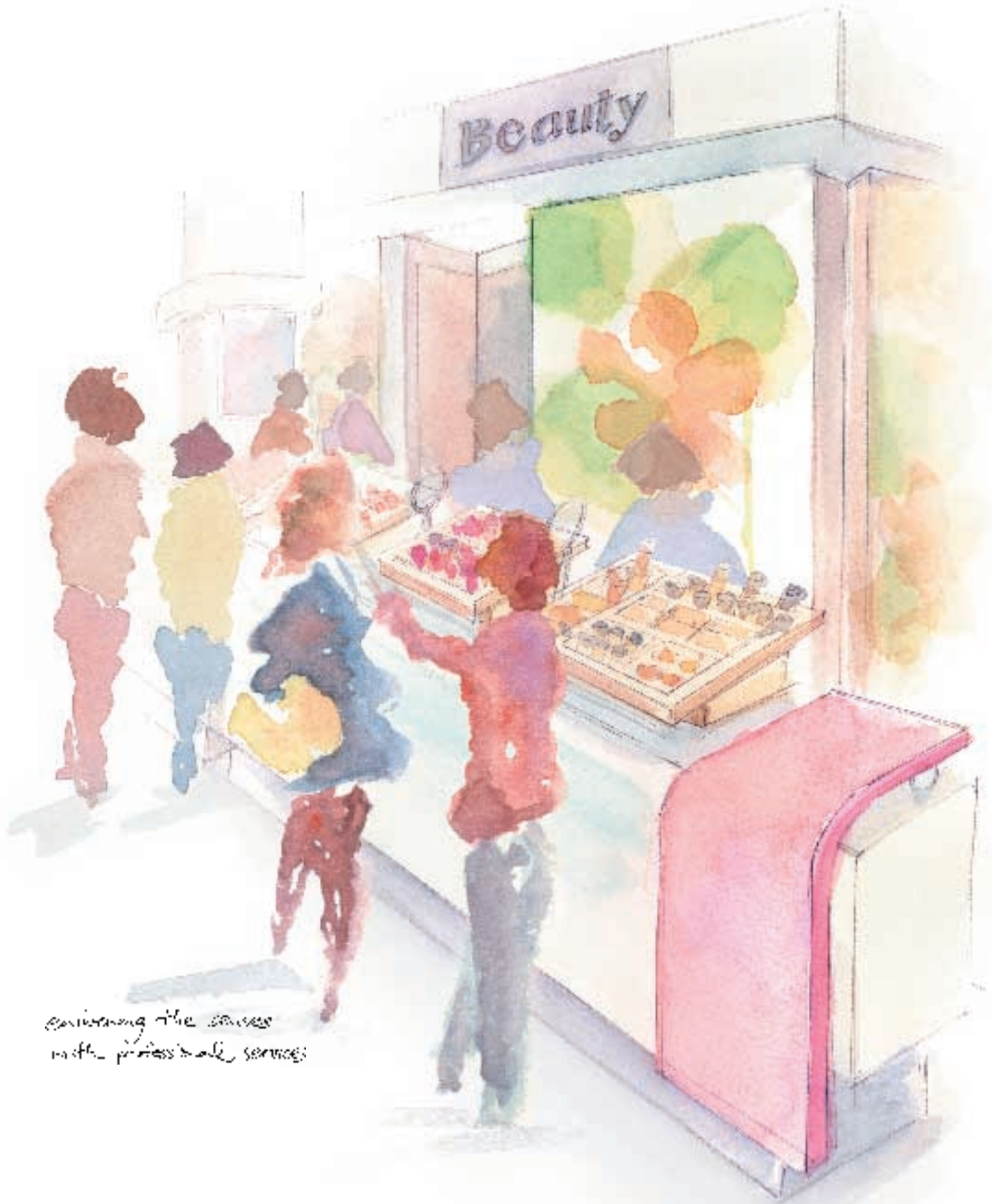
### Total sales proceeds and sales mix 銷售所得總額及銷售組合



- Proceeds from direct sales  
直接銷售所得款
- Proceeds from concessionaire sales (gross value)  
特許專櫃銷售所得款(總值)

- Proceeds from direct sales  
直接銷售所得款
- Proceeds from concessionaire sales (gross value)  
特許專櫃銷售所得款(總值)

for the year ended 31 December, 2005 截至二零零五年十二月三十一日止年度



*enhancing the services  
with professional services*

### Gross Profit and Gross Margin

The Group's gross profit margin for the Year in terms of gross profit to turnover was 53.1% (2004: 54.9%). Gross profit increased to HK\$1,112.7 million for the Year, a 26.1% increase over the HK\$882.5 million recorded for the previous financial year. The slight decrease in gross profit margin was a result of inclusion of the start-up operations of the Jiuguang Store.

### EBITDA and Net Profit

During the year under review, the Group's EBITDA (earnings before interest, taxation, depreciation and amortization) reached HK\$817.7 million, an increase of 39.4% over the HK\$586.6 million (as restated) in 2004. The Group's EBITDA margin, calculated based on turnover, for the Year was 39.0% compared to 36.5% (as restated) for the previous year. While the Group's SOGO CWB continued to enjoy improving operating leverage on the back of the relatively fixed operating costs and efforts in containing costs, the improvement of the Group's EBITDA margin was only marginal as the operating leverage has been somewhat off-set by the two new stores. The Group will continue its efforts in improving operating efficiency at all locations.

The Group's net profit attributable to shareholders for the Year was HK\$539.4 million, an increase of 30.2% over the HK\$414.1 million (as restated) recorded in the previous year.

### Finance Costs

Finance costs of HK\$51.0 million represented mainly interest expenses on the Group's bank loans. The significant increase in interest expense was due to higher interest rates during the year when comparing to the previous year as a result of the prolonged interest rate rise which was started from the second quarter of the year. At the same time, the higher interest rates have led to a higher interest income for the Group given its high level of cash and bank balances.

### 毛利及毛利率

本集團於本年度按營業額計算之毛利率為53.1% (二零零四年: 54.9%)。本年度之毛利上升至1,112,700,000港元, 較對上財政年度錄得之882,500,000港元增加26.1%。毛利率微跌乃由於計入新開業之久光百貨店所致。

### EBITDA及純利

於回顧年度, 本集團之EBITDA (除利息、稅項、折舊及攤銷前之盈利) 為817,700,000港元, 較二零零四年之586,600,000港元 (經重列) 增加39.4%。本集團按營業額計算之本年度EBITDA比率為39.0%, 而去年則為36.5% (經重列)。本集團的銅鑼灣崇光經營成本相對較為穩定, 加上積極減省成本, 經營效益繼續獲得改善, 但在兩家新店投入的影響下, 抵銷了部分經營利潤的增幅, 故本集團之EBITDA比率僅獲輕微改善。本集團將繼續致力改善各百貨店之營運效率。

本集團於本年度之股東應佔純利為539,400,000港元, 較去年錄得之414,100,000港元 (經重列) 增長30.2%。

### 融資成本

融資成本51,000,000港元主要包括本集團銀行貸款之利息開支。利息開支大幅增加, 歸因於利率自本年度第二季開始持續上升。與此同時, 由於本集團持有較高現金及銀行結存, 故高利率亦同時為本集團帶來利息收入的增加。

### Liquidity and Financial Resources

The Group was at net cash position at 31st December, 2005 with approximately HK\$2,500.2 million of cash and bank balances (including a structured deposit of HK\$50 million) and approximately HK\$1,265.7 million of bank loans. The cash and bank balances, mostly in US dollars and Hong Kong dollars, were mainly held at banks as short-term deposits for earning interest income. The Group's bank loans included Hong Kong dollar term loan of HK\$1,260.0 million, repayable semi-annually at HK\$80.0 million. This loan bears interest at HIBOR plus 0.4% per annum. The remaining loan balance represents working capital Renminbi loan bearing interest rate at approximately 4.7% per annum. The substantial increase in cash and bank balances was a result of the approximately HK\$1.23 billion proceeds received from the placement of new shares of the Company in September 2005.

### Pledge of Assets

As at 31st December, 2005, the Group's investment properties, land and buildings with book value of HK\$1,769.0 million (2004: HK\$1,848.4 million) were pledged to banks to secure general banking facilities of the Group.

### 流動資金及財務資源

於二零零五年十二月三十一日，本集團之現金及銀行結存約為2,500,200,000港元（包括為數50,000,000港元的結構性存款），而銀行貸款則約1,265,700,000港元，處於淨現金狀況。現金及銀行結存主要以美元及港元列值，大部分存放於銀行為短期存款，以賺取利息收入。本集團銀行貸款包括港元定期貸款1,260,000,000港元，須每半年還款80,000,000港元。該筆貸款按香港銀行同業拆息加年利率0.4厘計息。其餘貸款為人民幣營運資金貸款，按年利率約4.7厘計息。現金及銀行結存大幅增加乃由於本公司於二零零五年九月配售新股份獲取所得款項約12.3億港元所致。

### 資產抵押

於二零零五年十二月三十一日，本集團賬面值1,769,000,000港元（二零零四年：1,848,400,000港元）之投資物業、土地及樓宇已抵押給銀行，作為本集團取得一般銀行融資抵押之保證。

### Performance indicators of SOGO CWB 銅鑼灣崇光業務指標

	2005 二零零五年	2004 二零零四年	Change (%) 變動 (%)
Average daily traffic (persons) 平均每日顧客流量 (人次)	92,455	90,835	+1.8
Average sales per ticket (HK\$) 每宗平均銷售額 (港元)	396	363	+9.1
Stay and buy ratio (%) 逗留購買比率 (%)	28.3	28.9	-2.1

for the year ended 31st December 截至十二月三十一日止年度



## Operational Review

The Group successfully managed to sustain its profitability and maintained reasonable growth through superior execution and steadfastly adhering to its strategy of paving the way for medium to long-term growth. During the year under review, the Group's Causeway Bay flagship store (SOGO CWB) remained the Group's major revenue, profit and cash source and continued to benefit from operating leverage as same store sales continued to grow.

### SOGO CWB

The average daily traffic for the Year at SOGO CWB reached 92,455, an increase of 1.8% over the 90,835 recorded during the previous year. The "stay and buy" ratio SOGO CWB achieved during the Year remained at a stable level of 28.3% while the average individual sales per ticket of HK\$396 represented a 9.1% increase over the HK\$363 in 2004.

For the year in review, SOGO CWB accounted for 1.9% of the total retail sales generated across the territory and increased its market share from 18.3% in 2004 to 18.7% in 2005. This represents an increase of 2.2% over the previous year and is primarily attributable to the unique business model, superior product and brand mix, and innovative marketing strategies. SOGO CWB reached a dramatic milestone in 2005 by achieving the highest daily sales record on 19th November, 2005.

Sales growth was moderately impacted in December as a result of the week-long WTO conference that led to road closure and traffic diversion in the Wanchai and Causeway Bay areas due to anti-WTO protests. This event had a one-time impact on our profit due to the loss of sales during the week. Seasonal Christmas shopping contributed to make up part of the shortfall and year-on-year sales growth for December was maintained. SOGO CWB continues to develop not only as the premier department store for local consumers, but also magnet for international visitors to Hong Kong.

## PREMIUM SHOPPING EXPERIENCE 優質購物體驗

## LIVING WITH STYLE 品味時尚生活

## 業務回顧

本集團本著堅定之態度及超卓之執行能力，實踐其為中長期發展鋪路之策略，成功維持盈利能力及合理增長。於回顧年度，本集團位於銅鑼灣之旗艦店銅鑼灣崇光仍然為本集團主要收入、溢利及現金來源，並繼續因該店之同店銷售持續上升而受惠於營運效益。

### 銅鑼灣崇光

本年度，銅鑼灣崇光之每日平均顧客人流達92,455人次，較去年錄得之90,835人次上升1.8%。本年度銅鑼灣崇光之「逗留與購物」比率維持於28.3%之穩定水平，而平均每宗銷售額為396港元，較二零零四年之363港元增加9.1%。

於回顧年度，銅鑼灣崇光佔全港零售總額1.9%，其市場份額亦由二零零四年之18.3%增至二零零五年之18.7%，增長2.2%，主要歸因於其獨特經營模式、優質產品與品牌組合以及創新市場推廣策略。銅鑼灣崇光之單日銷售於二零零五年十一月十九日創新高，標誌著二零零五年一大進程。

由於舉行長達一週之世貿會議及為應付反世貿示威行動，灣仔及銅鑼灣一帶實施封路及交通改道措施，十二月之銷售增長因而略受影響，令該星期銷售有所下跌，對本集團溢利造成一次性影響。聖誕節日之購物情況尚算滿意，彌補部分銷售的損失，十二月份之銷售仍較去年有所增加。銅鑼灣崇光持續發展，不單是本地消費者之購物熱點，亦吸引不少世界各地旅客惠顧。





*an enticing ambience with  
a wide variety of choices*

The attraction of SOGO CWB has been further enhanced by maintaining closer relationships with our concessionaire counters coupled with a more effective brand and merchandising mix to create an exciting experience for consumers. Additional attractions which have helped increase popularity, traffic and customer loyalty include the introduction of the SOGO CLUB and the SOGO BOOK CLUB. These features became fully operational in 2005 and provided members with an unprecedented upscale shopping experience in Hong Kong. Members enjoy the privilege of access to a 55,000 square foot club offering premier services and facilities including an organic restaurant, a spa, hair and beauty salons and a cultural centre.

#### Shanghai Jiuguang Department Store (Jiuguang)

Our Jiuguang store in Shanghai ended its first full year of operation with record high monthly sales in December, thanks to the increasing popularity of the store and the growing importance of the Christmas shopping season in China.

Average sales per ticket in 2005 was RMB215. Gross sales revenue of Jiuguang was on an upward trend following the traditional slow month of March as was the traffic number. Average daily customer flow for the year was over 32,000 with the December's average finishing at over 37,000. This early achievement provides further confidence that the Lifestyle International business model is capable of successful replication to additional locations in China.

### FUTURE GROWTH DRIVER 未來增長動力

In order to further enhance the premier shopping experiences, in 2005 the Shanghai store added extra food and beverages outlets, additional car parking spaces, and a garden terrace for special sales and promotion events to better meet the needs of discriminating clientele.

The uptrend in Shanghai is expected to be sustainable in the long-term given the rising population of high income individuals, the change in consumer behavior towards discretionary consumption as well as the growing recognition of the Jiuguang store as the premium shopping location for quality and branded products.

銅鑼灣崇光透過與特許專櫃緊密合作，加上採用更有效之品牌及商品組合，不斷為消費者帶來新驚喜，令其吸引力能大大增加。新增的特色包括引進SOGO CLUB及SOGO BOOK CLUB，有助提高其受歡迎程度、人流及顧客忠誠度。此等設施已於二零零五年全面投入服務，為會員帶來在香港前所未有之高檔次消費體驗。會員可享用55,000平方呎之豪華會所設施，包括有機食品餐廳、水療按摩室、髮廊及美容院以及文化中心等卓越服務及設施。

#### 上海久光百貨店 (久光)

由於店舖越來越受顧客歡迎及消費者對聖誕節購物日益重視，本集團於上海之久光百貨店首個全年經營年度在十二月份錄得最高單月銷售額。

於二零零五年，平均每宗銷售額為人民幣215元。經過三月份之傳統淡季後，久光之銷售收入總額一直處於升勢。本年度之平均每日顧客人流

超過32,000人次，而十二月份內更平均錄得逾37,000人次。久光在短時間內取得如此顯著成果將使本集團對在中國其他地區成功沿用利福國際之經營模式擴展業務更具信心。

為進一步提高優越購物體驗，本集團於二零零五年在上海店舖增添更多食肆、額外泊車位以及專為特別銷售及推廣活動而改建之花園平台，務求更能迎合高品味顧客的要求。

鑑於高收入人士數目不斷上升、消費者對消費觀念的轉變，加上久光百貨店作為優質品牌產品購物熱點之知名度日增，預期上海店之業務將能長期維持升勢。





## SOGO TST

The Group's second store in Tsimshatsui, Hong Kong was opened on 30th September, 2005 and marked the first addition to retail properties in Hong Kong in twenty years since its opening of the Causeway Bay location. The glass dome design provides an alternative upscale retail format that focuses on younger generation customers. The store introduced a few selected brands to Hong Kong for the first time, including accessories that entice impulse buying by the consumer. The new store has been well received and it will be

## GAINING MARKET SHARE THROUGH EXPANSION

### 拓展業務 擴充市場

able to capture a different segment in order to further enhance the Group's leading position as a lifestyle business operator, gain market share, expand visibility, reinforce brand image, and generate additional revenue and profits. The initial indication of foot traffic and sales at this newest Lifestyle International venue

is in line with expectations of the management.

While the Group is optimistic regarding a reasonable growth rate for the new location, there will be challenges which the management team is prepared to overcome. Specifically, the adjacent area will experience infrastructure improvement projects which may intermittently hamper consumer traffic. While the Group is fully aware of this challenge, promotional events and consumer incentives will be initiated to combat and minimize any such negative influences.

## Prospects

China's economy surged 9.9% in 2005, further establishing itself as the fastest growing economy in the world. Average income and living standards are on the rise and the retail market is poised to capitalize on the changes in taste and shopping habits. The growth momentum of the Jiuguang store will be

## 尖沙咀崇光

本集團位於香港尖沙咀之第二家店舖在二零零五年九月三十日開幕，此乃自銅鑼灣店啟業二十年來於香港增設之首個零售點。尖沙咀崇光採用玻璃圓頂設計，為年輕一代消費者提供高檔次零售模式之另一選擇。該店舖首次於香港引進多個精選品牌，包括能激發消費者購物意念之配飾。尖沙咀崇光獲市場受落，將能抓緊另一階層消費者，從而進一步鞏固本集團作為生活時尚業務營運商之領先地位、擴大市場份額、增加知名度、提高品牌形象以及增闊額外收入及利潤。新店之初步人流及銷售數字與管理層預期相符。

本集團對新店能達致合理增長率持樂觀態度，而管理隊伍亦已準備就緒，應付多項挑戰，特別是鄰近地區將進行多項基建改善工程，或會間歇影響人流。本集團將正視此項挑戰，推行多項宣傳活動及刺激消費措施，盡量減輕任何負面影響。



## 展望

中國經濟於二零零五年激增9.9%，進一步確立其為全球增長最迅速經濟體系之地位。中國的平均收入及生活水平不斷上升，零售市場亦已準備就緒把握客戶品味及購物習慣之變化。久光百貨之增長勢頭將會持續，

maintained and the 2006 full year profit and loss breakeven target is likely to be achieved with additional promotion and marketing initiatives. Given the extensive growth potential of the retail sector in China and the initial success of the Shanghai store, the Group will carefully consider expansion in additional cities. The Group's strong balance sheet and net cash position provide the flexibility to capitalize on expansion opportunities when the circumstances are appropriate.

Although the strong economic growth in China in 2005 did not translate to the quantity of tourist traffic for Hong Kong retailers as was initially anticipated, the growth has been steady. The continued influx of tourists will remain a significant source of consumer spending in Hong Kong retail sector and SOGO stores will benefit as premier destinations for shoppers.

The Group's long-term goal is to deliver industry-leading performance and growth. The success in achieving this goal is based on providing superior services in a unique environment while delivering compelling products. These key elements of the business will be an ongoing focus for the Group as progress is made in sustaining medium and long-term growth. The Group continues to improve operational efficiencies and has been disciplined in cost containment and cautious in the area of capital expenditure. While already enjoying operating leverage at SOGO CWB, the management will be vigilant and continue to look for ways to improve operating efficiency to further improve profit margins.

While competition is extensive both in Hong Kong and China, the Group is confident that each location will remain a premier shopping destination and continue to grow at a reasonable pace. The Group will work diligently to reinforce its leadership position through improving customer loyalty, further enhancing brand awareness and implementing additional creative marketing.

在更多推廣及市場推廣活動的推動下，可望達到二零零六年全年收支平衡之目標。鑑於中國零售業極具增長潛力，加上上海百貨店初步成績理想，本集團將會審慎考慮在其他城市擴展業務。以本集團雄厚的財務狀況及淨現金狀況，必能在適當的情況下靈活地把握擴展業務之商機。

儘管中國經濟於二零零五年的強勁增長未能如當初預計般為香港零售業帶來大量旅客，旅客人數仍然穩步遞增。旅客持續來港將繼續為香港零售業帶來重大的消費來源，而崇光百貨作為購物人士之首選地點亦將大大受惠。

本集團之長期目標為取得傲視同儕之業績表現及增長。能否成功達到此目標將取決於本集團能否在獨特環境下提供卓越服務及推出優質的貨品，而該等業務元素一直為本集團的經營理念，維持本集團中長期的增長。本集團將繼續提升營運效率，嚴謹控制成本，並於資本開支方面審慎行事。管理層在受惠於銅鑼灣崇光的經營優勢的同時，以審慎態度，繼續尋求提升營運效率之方法，進一步提高邊際利潤率。

儘管中港市場競爭劇烈，本集團有信心旗下各店舖將會繼續成為首選購物熱點，並能以合理步伐繼續增長。本集團致力透過提高顧客忠誠及支持度，進一步提升品牌知名度及推行更多富創意性的市場推廣活動，積極鞏固其市場領導地位。