

Managing Director's *Business Review*

Results

JUSCO Stores (Hong Kong) Co., Limited (the "Company") and the subsidiary (the "Group") recorded a turnover of HK\$3,394 million for the year ended 28 February 2001, representing an increase of 3.6% against the previous year. The increase in turnover was achieved despite the temporary closure of the Kornhill Store for renovation during the year. In line with our recorded turnover, we managed to set a new record profit of HK\$92 million, 2.8 times of last year's figure of HK\$33 million. Earnings per share were 35.48 HK cents (2000: 12.51 HK cents).

Dividends

The Board of Directors has recommended a final dividend of 13.0 HK cents (2000: 4.0 HK cents) per share to be paid on or before 8 August 2001, subject to shareholders' approval at the forthcoming annual general meeting to be held on 21 June 2001. The total dividend for the year will be 14.0 HK cents (2000: 4.0 HK cents) as an interim dividend of 1.0 HK cent was declared during the year.

Financial Review

As a result of disciplined cost management and focused efforts to enrich our merchandise mix, the Group's profit rose 1.8 times amounting to HK\$92 million. This notable outstanding achievement sets a new record for the Group.

During the year under review, we kept on negotiating for favourable terms in leasing contracts with landlords with the aim of further lowering operation overheads. In the meantime, the interest expense dropped from HK\$5.9 million to HK\$1.2 million while interest income increased from HK\$1.3 million to HK\$4.8 million.



The Group is committed to maintaining a healthy financial position as we believe that it will enable us to take off once the economic recovery takes on full strength. As at 28 February 2001, the Group reported net cash of HK\$281 million, representing a significant improvement when compared with last year's figure of HK\$157 million.

With the back up of ample resources, the Group is well equipped to capture every future business opportunity and accelerate its business growth. The renovation of the flagship store in Hong Kong, the Kornhill Store, in 2000 and the commencement of operation of the second General Merchandise Store ("GMS"), the China Plaza Store, in Guangzhou, the People's Republic of China (the "PRC") are good examples. The total renovation costs of the Kornhill Store and the investment costs of the China Plaza Store approximated at HK\$90 million and HK\$33 million respectively and were financed by internal resources mainly as well as short-term bank borrowings.

In the future, the Group will renovate and expand the Lok Fu Store. We are confident that the new Lok Fu Store will repeat the success of the Kornhill Store. The cost of the renovation is estimated at HK\$63 million and will also be financed by internal resources. Of the HK\$63 million, HK\$10 million was incurred in this financial year while the remaining will be incurred in the next financial year.

The Group's strong financial position with copious liquidity provides a sturdy foundation for its core business growth and at the same time enables it to actively seek and exploit possible expansion opportunities. Recognising the tremendous potential of the retail market in the PRC, we plan to open a GMS in Shenzhen, the PRC in the coming calendar year.

Exchange rate fluctuations had no material impact on the Group as imported items invoiced in foreign currencies comprised less than 5% of our total purchases.

Business Review

The year 2000 presented us with many challenges as well as opportunities. With both the domestic and external market environment improving, the Hong Kong economy revived further from the downturn following the Asian financial turmoil. Hong Kong recorded a total retail sales of HK\$186.7 billion in 2000, an increase of 3.8% over the previous year. The volume index also grew by 8.1%. Global demand, however, slackened substantially in the latter half of 2000, and inevitably affected the Hong Kong economy. Consequently, dampening local consumer sentiment and the Hong Kong retail industry was suffered from the cautious spending attitude and seeking value-for-money merchandise and services.

JUSCO, one of the market leaders in the retail industry, has performed better than the industry average. Despite the four-month temporary closure of the Kornhill Store for renovation, the Group was able to maintain turnover in Hong Kong at the same level as the previous year. We are glad to report that the re-opening of the Kornhill Store in June 2000 also marked the Group's achievement of another remarkable milestone - the introduction of the up-to-date GMS concept from Japan. The concept has also been proven successful in Hong Kong.

The Kornhill Store was opened in 1987 and has been one of the most successful stores in Hong Kong. It was renovated to provide a more comfortable shopping environment for our valued customers. The Store itself also benefited from the new and more spacious designs, the clear product displays as well as the new merchandise mix. The Group is planning to introduce this up-to-date GMS concept to other JUSCO stores in Hong Kong.

Other than embarking on expansion plans in Hong Kong, we also opened our second GMS - China Plaza Store - in Guangzhou in June 2000. The China Plaza Store, also located near the Guangzhou Metro railway stations as our first GMS at Teem Plaza, delivered

satisfactory performance. The two GMSs together recorded significant results, boosting an increase of 52% in turnover during the year under review.

JUSCO is devoted to ensuring that customers enjoy a diverse merchandise mix from its stores. More than 500 items sourced from Japan carrying the Group's own brandname, "Top Valu", were introduced in our stores. These unique products received warm response from customers in the Hong Kong market.

In September 2000, the first "\$10 Plaza" was opened in the Tuen Mun Store. Over 4,000 items are directly imported from Japan and are sold at a unit price of HK\$10. The opening of the "\$10 Plaza" emblems the relentless efforts of the Group to provide customers with comprehensive merchandise while at the same time further strengthen our foothold in the niche market. Prompted by the remarkable customer response to the "\$10 Plaza" in our Tuen Mun Store, we opened another one in the Tseung Kwan O Store in March 2001. The Group is also considering opening more "\$10 Plaza" in other JUSCO stores or at prime locations near to JUSCO to serve this specific market need.

In December 2000, JUSCO introduced an on-line virtual shopping mall concept – JUSCOCITY. Information regarding JUSCO stores, the community and other fascinating features such as entertainment, travel, finance and banking, e-magazines, news and weather can be obtained at www.juscocityhk.com. JUSCOCITY is designed to serve as a platform to facilitate effective communication between JUSCO and its customers, thus nurturing long-term customer relationships.

As at 28 February 2001, the Group employed about 2,200 full-time and 1,900 part-time staff in Hong Kong and in the PRC. The Group remunerates its employees based on their performance, experience and prevailing industry practice. It also offers benefits like professional tuition and training subsidies to its staff in order to enhance their sense of loyalty.

Prospects

The Hong Kong economy saw signs of recovery in 2000. However, the pace of recovery dropped towards the end of the year as a result of a dramatic dampening of global demand. According to Government statistics, retail sales growth had further slow-down, indicating a moderate local consumer demand. Total retail sales declined by 1.1% in the first two months of 2001 when compared against the corresponding period of the previous year. The figure for the department store sector, compared with that in the same period, dropped further by 6.7%. These were attributed by the relatively high unemployment rate, volatile financial market and deteriorating global economic situation.

Even though the statistics showed that the retail sales dropped, JUSCO is still optimistic in the prospects of the retail industry. Following the several rounds of interest cuts in the past few months, we expect consumers' purchasing power to gradually increase with more significant gain to result after three to six months.

In the past 14 years we have operated in the local retail industry, and have built a strong foundation which supports our development today. Our unmatched experience and strengths in the industry plus the continuous and strong support from AEON Group, we have full confidence in our ability to secure future business growth.

JUSCO recognises that total customer satisfaction is the critical factor in creating a loyal customer base vital for achieving success in the retail industry. In the coming years, achieving high customer satisfaction will therefore be our prime emphasis. In line with our ongoing commitment to providing excellent customer service, we are pleased to announce the establishment of the Customer Service & Store Support Department ("CSSSD") and the Service Improvement Team ("SIT") in April 2001. The formation of our CSSSD and the SIT fall in line with our ongoing strategy to enhance customer relationship

and cater for our customers' needs and expectations. All management have and will continue to undergo intensive training to ensure they keep abreast of market trend. Other training programmes such as JUSCO University, Language Training Programme, Management Trainee ("MT") Programme and Educational Assistance Plan are offered to ensure that our staff provide service of the highest standard in the market and hence boost the competitiveness of the Group among our competitors.

The Group will also introduce a Service Ambassador Programme ("SAP") subsequent to the successful completion of the "5-Star Campaign" programme. SAP is established to recognise the staff with remarkable achievement in the aspect of customer service.

With achieving total customer satisfaction and providing customers with a comfortable shopping experience as our principle objective, JUSCO will continue to introduce the up-to-date GMS concept to other JUSCO stores in Hong Kong. Renovation of the Lok Fu Store started in March 2001 and, with the Group having leased additional space at the Lok Fu Shopping Centre, store expansion work is also underway. The Store will be re-opened in June 2001 with a total new leased floor area of approximately 148,000 square feet. The Group is confident that customers will enjoy this new shopping environment.

Currently there is no GMS in Shenzhen, the PRC. However, with a population of four million enjoying persistently improving living standards and comprehensive infrastructure, Shenzhen is emerging as a market with huge potential for JUSCO. The Company signed a Letter of Intent on 29 March 2001 with interested parties in the PRC to explore opportunities for the development of GMS in Shenzhen.

Throughout the years, JUSCO has remained dedicated to helping to protect the environment and also serving the local community through organising and participating in related programmes and activities. JUSCO has demonstrated itself as a responsible

corporate citizen and has helped to arouse public concern in preserving the environment. The Group has won different awards honouring its efforts to promote environmental protection, including the "Environmental Protection Creativity Award", the "Environmental Protection Ambassador Award" and the "Environmental Protection Decoration Award" from the Hong Kong Housing Authority.

With the goal of achieving total customer satisfaction in mind and a well-mapped out development plan, we look forward with confidence to fulfilling the needs of our valued customers. Building on our sound financial position and the sizable operations of the Group's 10 GMSs in Hong Kong and the PRC, we are all geared to pursue arising opportunities as the economy and retail market continue to improve.

Last but not least, I would like to take this opportunity to express our sincere gratitude to our customers, suppliers and shareholders for their continuous support. Our thanks also go to our dedicated staff. They are our precious assets, invaluable to the quest of the Group to achieve the highest customer satisfaction. During the year under review, we have not encountered any major difficulties in recruiting and retaining our professional personnel. We have enjoyed a harmonious staff relations during the year. As we move forward into the future, the Group will continue to work closely with its management and staff to bring JUSCO's business to yet another new height.



Sozaburo YAMAZAKI, Managing Director
Hong Kong, 18 May 2001