Business Review

Market sentiment for the retail market for the first half of 2001 remained stagnant. The unemployment rate maintained a high of approximately 4.5% for the first eight months of 2001. Although several interest rate cuts have taken place, the impact on consumer spending was not significant. Total retail sales volume of Hong Kong for the three months ended 31 July 2001 dropped 0.6% compared to the three months ended 30 April 2001, while the total retail sales value dropped 1.4%.

Despite the deterioration in market conditions, the Group recorded an increase of 20% in turnover over the same period last year. The Group's total turnover reached HK$1,723 million, rising from HK$1,440 million. The Group is also delighted to report that profit attributable to shareholders increased 99%, reaching HK$15.3 million, compared to the corresponding figure of HK$7.7 million last period. The surge in profit was mainly attributable to the 6 months operation of the Kornhill Store in Hong Kong and the China Plaza Store in Guangzhou City for the period ended 31 August 2001, compared to their 2 months and 3 months operations respectively in the same period last year. Additionally, both the Group's effective cost control as well as its diversified merchandise mix were key factors to generate profit.

The Group maintained gross profit margins at 27.8%. Interest expenses decreased to less than HK$0.1 million from last period's figure of approximately HK$1 million, while interest income increased 122% to HK$2.5 million. Rental costs against turnover slightly increased from 8.7% to 9.4%. The staff costs against turnover decreased from 11.0% to 10.6%. As at 31 August 2001, the Group maintained a healthy financial position with no bank borrowings and had a net cash balance of HK$236 million, which is in line with the management's objective to pursue future expansion. Having sufficient cash on hand, the management does not expect any material bank borrowings in the coming half year.

Following the success of the Kornhill Store, the Lok Fu Store has also undergone renovation and expansion in the first half of the financial year. Apart from providing a more comfortable shopping environment, the Group has continued its strategy to introduce a wide range of merchandise including the most popular Japanese food items. The supermarket in the Lok Fu Store has almost doubled its size to 16,000 sq. ft. More fresh food, produce and Japanese merchandise are being introduced into the enlarged supermarket, which has received an overwhelming response from customers. Ensuring customer convenience and allowing customers to have an enjoyable shopping experience, different departments have been re-arranged and re-structured.

Apart from the Hong Kong operations, the stores in the PRC also reported stable growth in sales and profit. Sales increased 35% and profit from operations before taxation increased 77% for the period under review. The Group believes that Guangzhou, with its high residential density and accessible transport, is an ideal hub for expansion.

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

As at 31 August 2001, the Group employed about 2,500 full-time and 1,900 part-time staff in Hong Kong and the PRC. The Group remunerates employees based on performance, experience and prevailing industry practices. It also offers benefits such as professional tuition and training subsidies to staff to enhance their sense of loyalty.

Prospects

The full impact of the tragic attacks on the US in September cannot be measured at the moment. However, they are expected to create a negative impact on the global economy. Local consumer spending is expected to further hang back. The retail market in turn will take longer period of time to recover.

Despite the adverse situation, the Group is well positioned for future development. Internally, the Group will enrich and diversify its product mix and strengthen promotional campaigns to enhance its competitive edge in the retail industry and tighten up expense control. Externally, the Group will continue to explore potential markets to capture the business opportunities ahead.

Currently, the Group is considering further expansion of its market share in Hong Kong through the opening of more new GMSs. The Group is open to opportunities to establish new stores when market conditions are favorable and as prime locations become available.

In addition to Hong Kong's operations, the Group has also been actively developing the PRC market. In view of the huge market potential and promising future in the PRC, the Company entered into an agreement with Shenzhen Centralcon The City Plaza Co. Ltd. and Shenzhen Modern Friendship Co., Ltd. ("Shenzhen JUSCO") to set up its third GMS in PRC, Shenzhen JUSCO Friendship Stores Co., Ltd., at The City Plaza in Shenzhen in August 2001. The Group has full confidence that the new Shenzhen GMS will generate a positive contribution to the Group in the future. Shenzhen JUSCO is expected to commence operations in the third quarter of 2002. The Company will finance its share of the capital contribution from internal resources which amounted to about HK$33.7 million.

Facing the worsening market environment, the management believes that the growth of the retail industry in Hong Kong will slow down. However, through the introduction of a wide range of product mix and maintaining effective cost control, together with the successful operation of the two GMSs in Guangdong Province and eight GMSs in Hong Kong, the Group is well positioned to grasp new business opportunities once the market rebounds.