

Management Discussion

and Analysis



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RESULTS

JUSCO Stores (Hong Kong) Co., Limited (the "Company") and its subsidiary (the "Group") recorded a turnover of HK\$3,721 million for the year ended 28 February 2002, representing a rise of 9.6% in comparison to last year's figure of HK\$3,394 million. Profit attributable to shareholders recorded a fall of 16.6% to HK\$77 million due to the increase in income tax expenses which amounted to HK\$32 million. Earnings per share were 29.60 HK cents. (2001: 35.48HK cents)

DIVIDENDS

The Board of Directors has recommended a final dividend of 9.5 HK cents per share (2001: 13.0 HK cents) to be paid on or before 8 August 2002, subject to shareholders approval at the forthcoming annual general meeting on 20 June 2002. The total dividend for the year will be 11.5 HK cents (2001: 14.0 HK cents) as an interim dividend of 2.0 HK cents were declared during the year.

FINANCIAL REVIEW

In spite of the stagnant retail market, the Group's turnover increased 9.6% to HK\$3,721 million in the review year. Profit from operations also recorded a growth of 12.2% from last year's figure of HK\$97 million to this year's figure of HK\$109 million. This is partly attributable to the rise in the Group's gross profit margins from 27.8% last year to 28.2% this year. Our Group's proven strategy of sourcing a wide range of quality goods at low costs was one of the reasons for the increase in gross profit margins during the year.

However, during the review year, the Group recorded a drop in net profit of 16.6% to HK\$77 million. This is because income tax expenses increased significantly to HK\$32 million compared with HK\$2 million last year. This was due to a write back in deferred taxation and over-provision for profits tax totaling HK\$16 million last year.

Staff costs against turnover dropped from last year's 9.8% to this year's 9.7% while rental costs against turnover recorded a slight increase from 8.5% to 8.9% because the Kornhill Store has enjoyed certain months of free rent during its renovation in 2000 and some of the lease agreements have been renewed during the year under the review.

Owing to the interest rate cuts during the past financial year, interest income saw a small drop of 4% to reach HK\$4.6 million this year. Interest expenses fell to the relatively insignificant amount of HK\$125,000 as compared to HK\$1.2 million in the previous year.

The Group maintained a solid financial position with no bank borrowings and cash on hand of over HK\$350 million as at the year-end date.

Capital expenditure during the year amounted to HK\$76 million, which was mainly incurred for the renovation of the Lok Fu Store in Hong Kong and the opening of the Dongguan Store in the PRC.

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

BUSINESS REVIEW

Hong Kong Operations

2001 was a year of daunting challenges for Hong Kong's retail sector. The operating environment remained difficult as the local economy continued to suffer sluggish growth brought about by the downturns in the stock and property markets, prevalent salary cuts and mounting unemployment rates. All these depressing factors in turn led to consumers' reluctance to spend. In spite of these adverse circumstances, JUSCO continued to thrive with the support of our successful business strategies and solid experience in the retail market.

Reviewing last year's performance, our Hong Kong stores succeeded in recording a rise in sales of 8.8% to HK\$3,178 million. Profit from operations also recorded an impressive growth of 18.7% to reach HK\$75 million because of effective cost control and rise in gross profit margin. Compared with the previous financial year whereby our Kornhill Store was closed for four months for renovation, the review year saw the 12-month operations of the Store, which made full contributions to the Group all the year round. During the year, our Lok Fu Store also underwent renovation and expansion. Different departments were re-arranged and re-structured, which gave customers a fresh shopping experience and a more comfortable shopping environment. Besides, the Store's supermarket almost doubled its size to 16,000 sq.ft. With more fresh food, produce and Japanese merchandise introduced, it succeeded in attracting higher customer flows, thus enhancing the sales performance of the Store.

During the financial year, a series of promotional campaigns were launched to attract our customers. For instance, American, Japanese, Korean, Taiwanese and Thai food fairs were held. During those promotional periods, not only was unique native food introduced at our stores, but we also organised traditional dances and performances to lure in customers. Among all the campaigns held last year, the "Towards 15th Anniversary" Lucky Draw signified the climax of the programs as a total of 15 luxury cars and 15 grand apartments worth over HK\$6 million were presented to our lucky customers. Following this tide was the Grand Lucky Draw held at the Chinese New Year when a total of HK\$1.9 million worth of gold was presented to reward our regular patrons. These attractive promotional campaigns succeeded in increasing customer flows in our stores, which not only boosted our sales through attracting new customers but also further consolidated our loyal customer base.

PRC Operations

Having gained entry into WTO, the PRC will play an increasingly important role in the global economy. With spectacular GDP growth of over 7% last year and the continuously rising living standard of its people, the PRC presents a market with tremendous opportunities. In view of this, our Group has increasingly focused on developing this market to strengthen our foothold in the retail industry.



Currently, the concept of GMS is still not very common in the PRC. As a pioneer in establishing GMS in the PRC, JUSCO has already created a successful niche market. During the year under review, the two PRC stores recorded a surge in turnover of 14.4%, against last year's HK\$475 million to HK\$543 million. Our China Plaza Store enjoyed full-year operations as compared to its nine month operations in the previous financial year, leading to the contribution of year-round sales incomes. Profit from operations at HK\$34 million was slightly higher than the previous year, however improved results from increased sales were offset by the increase in overhead operating costs.

The past financial year also saw JUSCO's signing of an agreement with Shenzhen Centralcon The City Plaza Co. Ltd and Shenzhen Modern Friendship Co., Ltd to set up a joint venture in Shenzhen. The Company will finance its share of the capital contribution of HK\$33 million from internal resources and short term bank borrowings. Apart from this new store which is targeted to commence operations in the third quarter of 2002, we opened the Dongguan Store on 8 May 2002 and will also open one more GMS at Zhuhai by the end of 2002. These strategic moves will allow us to further strengthen our position in the PRC retail market and to present a strong driver for the Group's future growth.

JUSCO'S IN-HOUSE BRAND

Over the years, JUSCO has been dedicated to providing customers with an extensive merchandise mix at reasonable prices at our stores. Our in-house brand, "Top Valu" is the practical realisation of our "value-for-money" concept. During the review year, a great variety of "Top Valu" products,

covering food, fashion, household products, etc were introduced. Among which, recycled products with the brand name 「共環宣言」 and high quality merchandise sold under "The Select" brand were rolled out. Not only were these in-house private labels very popular but they also strengthened JUSCO's product differentiation from our competitors.





COMMUNITY CONTRIBUTION

Apart from striving to enhance earnings and maximising returns for our shareholders, JUSCO remained committed to the community during the year. In 2001, the annual “Old Book Recycling Campaign” was held again, which raised a record HK\$1.65 million which was donated to support the “Jingning Special Education Project” in Gansu Province in the PRC. Further fuelling our efforts to save the planet, we organised the “JUSCO Environmental Protection Outing Trip” and also held joint programs like “Green Shopping” with AEON JUSCO Education & Environment Fund and Eco Living Club to motivate the public to make our environment a better and greener place to live in. JUSCO is also a member of the Environmental Campaign Committee of the Environmental Protection Department of the Hong Kong SAR Government. Last year, JUSCO participated in World Environmental Day and helped to organise environmental protection and education workshops as well as exhibitions. Additionally, JUSCO also made regular contributions to sponsor green groups and green projects of local district councils.

HUMAN RESOURCES

As at 28 February 2002, the Group employed about 2,600 full-time and 1,700 part-time staff in Hong Kong and the PRC. The Group remunerates employees based on their 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

Although Hong Kong’s economy has yet to fully recover, with JUSCO’s established market position and our proven business strategies, we are well prepared to take off once the retail industry rebounds. On the other hand, the booming economic growth in the PRC presents us with very bright prospects for future expansion. Though the management still remain cautiously optimistic about the retail market, we are well positioned to grasp the opportunities ahead.



Hong Kong Operations

Given the present economic situation with falling disposable income and lower purchasing power, Hong Kong consumers expect JUSCO to provide a broad range of daily necessities and quality products at bargain prices. The weak economic conditions actually provide us with a golden opportunity to expand and consolidate our position in our niche market – the “\$10 Plazas”. Last year, three “\$10 Plazas” were opened in our GMS.

Leveraging the successful experience of the existing “\$10 Plazas”, we opened one “\$10 Plaza” in March 2002 in the Tsuen Wan Store and we will open one more “\$10 Plaza” in May 2002 in the Whampao Store. Apart from this, we are now adopting a more aggressive strategy of setting up “\$10 Plazas” at other favourable locations with high customer flows. Our first “\$10 Plaza” outside JUSCO’s GMS is expected to commence operations in June 2002.

In addition, we will continue to look for suitable locations to open more GMS to further enlarge our market share in the local retail market. We plan to open two to three GMS within three years.

In addition to strengthening JUSCO’s in-house branding strategy is our ceaseless passion for launching attractive promotional campaigns. 2002 is a new chapter in JUSCO’s history as it marks our 15th anniversary. To reward our customers for their support over the years, we will soon launch a promotional campaign series from June to November. In line with this campaign, regular “Tea Party” and an appreciation dinner for the “Best J Card Members” will be organised to further enhance communications, gather customers’ opinions and to maintain closer relationships with our loyal patrons.

PRC Operations

In view of the PRC’s great development potential, JUSCO will increase its tempo and power to expand its retail market. In the next five years, we target to open at least 10 GMS in Southern China and are devoting tremendous effort to establishing our JUSCO brand in the PRC. We opened the





Dongguan Store on 8 May 2002 and two more GMS at Shenzhen and Zhuhai will be opened in the year 2002. We will continue to further propel our unique GMS concept, aiming to bring one-stop shopping convenience to our customers. Total investment costs of these three GMS amounted to HK\$112 million will be financed by internal resources mainly as well as short term bank borrowings. With solid financial foundations, JUSCO is well positioned to further strengthen our foothold and targets to become one of the market leaders in the PRC retail industry.

BRANDING STRATEGY

One of the important strategies JUSCO is pursuing is the establishing and popularising of our own brand name. This will be achieved through stepping up the promotions for our in-house "Top Valu" items. Besides, we are planning to introduce other JUSCO's in-house brand products which are currently not covered by "Top Valu". We aim to realise our brands as "high quality at bargain prices" among our customers. Not only does this help us sustain a loyal customer base but it also secures regular patrons for JUSCO's in-house brands.

CONCLUSION

Last but not least, I would like to take this opportunity to express my gratitude to the support of our customers and our shareholders during the year. I would also like to express my sincere thanks to our dedicated staff who have devoted such tremendous effort on JUSCO's behalf. In the years to come, JUSCO will continue to commit itself to providing the best service to our valued customers, maximising returns for our shareholders and making our contribution to the well-being of the society.

Kazumasa ISHII

Managing Director

Hong Kong, 10 May 2002