

Chairman's Statement



Toshiji TOKIWA,
Chairman

Further growth utilizing group synergy

The tough economy in 2002 has created a very challenging business environment for the entire retail industry around the world. Market sentiment was dampened by downgrading economic forecasts and negative economic data while equity markets fluctuated and underperformed during the past year. All these depressing factors have deterred shoppers' purchasing intent, which in turn discouraged consumption. On the other hand, the PRC economy seemed able to override this volatile situation and sustained remarkable GDP growth. As such, JUSCO Stores (Hong Kong) Co., Limited ("JUSCO"), the core member of AEON Group ("AEON"), continued its expansion plan in the south China region and opened three new stores last year. Store expansion in the Pearl River Delta, centre of the south China region, is a strategic move for the growth of JUSCO. This year, JUSCO has set a milestone in establishing foundation for chain-store operation in the Pearl River Delta.

The retail market in the south China region is regarded as one of the highly competitive regions in China with aggressive expansion by both international and local retailers. In order to achieve our vision, "Becoming the No.1 retailer in south China", the enhancement of our group's competitive power to become a global retailer and the adaptability of our local entity to the regional markets are the key factors to win the increasingly intense competition.

AEON Group generated its record revenue of 3,086 billion Japanese Yen (approximately HK\$200 billion) in the fiscal year 2002. In the long run, AEON's target is to become one of the top 10 retailers in the world by year 2010, and we are striving to realise the transparency and high efficiency of corporate management befitting a global retailer.

In the aspects of financial, personnel and store development, AEON will establish a system under which management resource allocation will be optimised by supervision conducted on the whole group. Regarding financial strategy, we will strengthen control on the investment of the whole group, thoroughly execute cash flow management and reduce interest-bearing debt. Furthermore, the reduction of merchandise inventory will be given the first priority. This will be achieved through innovating merchandising process, establishing efficient supply chain as well as sharing best practices amongst group companies, which target to improve inventory efficiency.

Additionally, on the assumption that the global competition will become keener, AEON will accelerate its conversion into a low cost structure. We aim at achieving competitive merchandise cost by enhancing direct sourcing, own merchandise development and increasing demand aggregation through the full utilisation of the group's scale merit. This will also be attained through the improvement of the group's business infrastructure to facilitate the sharing of facilities such as IT and logistics networks amongst group companies.

To our shareholders, AEON together with JUSCO as a "GLOCAL Retailer" would like to make a firm commitment that all of our management and associates will work as a group for further growth based on the spirit of "Customer First", which is our everlasting fundamental philosophy since foundation. With AEON's competitiveness aforesaid, our ability to understand the local market and our brand equity which have been cultivated through our operation of 13 GMS in Hong Kong and south China, we are confident to achieve flying colours in future.



Toshiji TOKIWA

Chairman

Hong Kong, 16 May 2003