

Management Discussion and Analysis



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RESULTS

JUSCO Stores (Hong Kong) Co., Limited (the "Company") and its subsidiaries (the "Group" or "JUSCO") recorded a turnover of HK\$3,961 million for the year ended 28 February 2003, representing a rise of 6.5% over last year's figure of HK\$3,721 million. The increase in turnover was partly contributed by the opening of new GMS in the PRC. Profit attributable to shareholders fell 26.1% to HK\$57 million. This was mainly due to the increase in pre-operational expenses incurred for the new stores, which amounted to HK\$14 million and an income tax expenses of HK\$30 million. Earnings per share were 21.88 HK cents. (2002: 29.60 HK cents)

DIVIDENDS

The Board of Directors has recommended a final dividend of 9.0 HK cents per share (2002: 9.5 HK cents) to be paid on or before 8 August 2003, subject to shareholders' approval at the forthcoming annual general meeting on 19 June 2003. No interim dividend was declared during the year (2002: 2.0 HK cents).

FINANCIAL REVIEW

During the year under review, the total turnover increased to HK\$3,961 million partly because of the Group's expansion in the south China region. However, profit from operations recorded a drop of 27.4% to HK\$83 million while profit attributable to shareholders was recorded at HK\$57 million.

Despite a harsh retail environment in the past year, JUSCO was able to maintain a similar level of gross profit margin at 27.2% (2002: 28.2%) as the Group strove to enhance merchandise mix and product quality while exercise stringent cost control simultaneously.

Staff costs against turnover decreased slightly from 9.7% to 9.6% while rental costs against turnover recorded a small increase from 8.9% to 9.2%.

Owing to the falling interest rates during the year, interest income recorded a slight decrease of 6.7% at HK\$4.3 million this year.

As at the year-end date, the Group maintained a solid financial position with no bank borrowings and cash on hand of over HK\$400 million as compared to HK\$350 million last year.

Capital expenditure during the year amounted to HK\$100 million, which was mainly incurred for the opening of the Dongguan, Shenzhen and Zhuhai Stores in the PRC.

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

BUSINESS REVIEW

Hong Kong Operations

The economic backdrop in 2002 remained a subdued growth scenario. This created a very tough environment for the entire retail industry as the downturns in the stock and property markets, lingering high unemployment rates as well as the prevalent wage freeze and salary cuts had severely depressed consumer confidence. Despite these adverse circumstances, JUSCO was able to maintain stable performance which was backed by our proven business strategies and solid experience in the retail market.

Reviewing last year's performance, JUSCO's Hong Kong stores recorded a rise of 1.5% in sales to reach HK\$3,224 million. Profit from operations grew 1.1% to HK\$80 million. Faced with the harsh operating environment last year, JUSCO strove to enhance business performance through implementing successful corporate and product branding strategies, further consolidating our position in the local retail industry through expansion in the niche \$10 shop market, launching attractive promotional campaigns as well as actively enlarging our loyal customer scheme through J CARD programme.

With the aim of enhancing our corporate branding, JUSCO has been committed to providing customers with merchandise and a shopping environment which guarantee "safety", "confidence" and "trust". Even though large-scale renovation was not carried out last year, we regularly conducted betterments of store layout and improved merchandise display methods to make our GMS setting more customer-friendly. JUSCO's commitment to constantly providing customers with quality service was widely commended. Elected by the Hong Kong citizens, JUSCO won the 13th "Top Service Award" organised by Next Magazine in November 2002 and was chosen as the best service provider in the department store category.

As for its product branding, JUSCO's merchandise has long been recognised as "value-for-money" and the Group's dedication to providing customers with rich merchandise mix at reasonable prices has been continuing. In the past year, over 600 items under our famous in-house brand, "Top Valu", were carried at the Group's GMS in a great variety, which covered food, fashion and household products. Not only were these items well received in the market but they also strengthened JUSCO's product differentiation from our competitors. More importantly, this also helped sharpen the Group's competitiveness and implanted deeply our realisation of providing "value-for-money" merchandise in customers' minds.

The lingering weak economic conditions in the review year provided the Group with an opportunity to expand and consolidate our position in the niche \$10 shop market. Last year saw the breakthrough development of our "\$10 Plazas" as the Group opened the first shop outside our GMS. Located at the hot shopping spot in Causeway Bay, JUSCO's flagship "\$10 Plaza" has been attracting heavy customer flows and recording satisfactory sales.

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During the financial year, we launched a series of promotional campaigns to attract and reward our customers. For instance, “Theme Marketing Campaigns”, such as Japanese, Korean, Taiwanese and Thai food fairs were organised. During those promotional periods, not only did we introduce unique native food at the GMS, but we also organised traditional dances and cultural performances to lure customers. Among all the campaigns held last year, the “15th Anniversary” Lucky Draw signified the climax of the programmes as free travel packages to Japan, luxury cars and other grand prizes worth over HK\$8.8 million were given away to our lucky customers. These attractive promotional programmes succeeded in increasing customer flows at our stores, which helped boost our sales.

Apart from organising promotions to attract customers, JUSCO also relentlessly sought to enlarge a loyal customer base through actively expanding J CARD membership. Besides, we also extended the formerly exclusive J CARD promotional benefits to holders of AEON JUSCO affiliated credit cards. Not only did this tactic enhance customers’ loyalty through encouraging them to shop more frequently in JUSCO but it also successfully expanded our loyal customer base. As at the year-end date, the number of J CARD members had already climbed to 160,000 while the number of AEON JUSCO affiliated credit card holders reached more than 310,000.

PRC Operations

China’s role in the global market will continue to ascend as it has already entered the international economic arena of WTO. With a spectacular GDP growth that outperformed most markets worldwide and the continuously rising living standard of its people, the PRC undoubtedly represents a market with extensive opportunities. In view of this, JUSCO has continued its footsteps to expand in this surging market in the past year.

During the past financial year, the PRC stores recorded a surge in turnover of 35.6%, against last year’s HK\$543 million to this year’s HK\$737 million. The year had seen the opening of three new GMS in China. Because of this, the Group had to incur an increase in pre-operating expenses which amounted to HK\$14 million. As these new stores were still in the initial investment stage, profit from operations for the PRC stores was lower than last year, recording at HK\$4 million for the year under review. However, the opening of new stores allowed the Group to further strengthen our position in the PRC retail market, which presented us a strong driver for future growth.



Community Contribution

Being a responsible corporate citizen, JUSCO has been committed to community causes during the year. To align with the philosophy of our parent company, AEON, environmental protection was given paramount concern. The annual "Old Book Recycling Campaign" was held again last year. Further fuelling our efforts to save the planet, we organised environmental protection programmes such as "Eco Drawing Competition for Children", "Tree Caring Programme", "Organic Garden Tour", etc. to arouse the general public's environmental protection awareness and make our living environment a greener place to live in. Recognised as a social caring and environment concerned company, JUSCO was awarded "Caring Company" by the Hong Kong Council of Social Service, which acknowledged companies with active participation in social services and made great contribution to the Hong Kong community.

Human Resources

As at 28 February 2003, the Group employed about 3,300 full-time and 2,400 part-time staff in Hong Kong and the PRC. The Group remunerates employees based on their performance, experience and prevailing practices in the industry.

One of the key factors for our success as a high-quality company is our commitment to staff training. Apart from offering staff benefits such as professional tuition and training subsidies, our JUSCO University, which has been established for many years, will be upgraded to South China AEON University. Staff training will then be extended to cover the whole southern PRC region. The University will also dedicate to expanding its courses and providing more training seminars so as to continuously enhance the knowledge and techniques of our staff and equip them to better serve our customers.

PROSPECTS

In Hong Kong, consumption sentiment was dampened by the downgrading economic environment, which was further aggravated by the recent outbreak of Severe Acute Respiratory Syndrome ("SARS") or atypical pneumonia. However, as the reported cases of SARS in Hong Kong are already on a downward trend, the Group expects consumption confidence to gradually pick up. In future, JUSCO will continue to implement a strict hygiene policy to ensure a safe and comfortable shopping environment for our customers as well as a safe and clean working environment for our staff. Despite the aforesaid harsh



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economic environment, JUSCO has been treating it as a normal situation and devising suitable strategies to further consolidate our market position.

The spread of the rampant atypical pneumonia also affected most of the south China region, which severely deterred tourists from visiting the country. It is beyond estimation as to how long the outbreak will be under control. However, JUSCO's management is optimistic about the booming economic growth of China in the long run, which in turn presents us with great opportunities in future.

To strengthen JUSCO's product branding strategy, a China Sourcing Team has been set up to identify appropriate manufacturers in the PRC for the production of food, household and fashion items based on JUSCO's specific requirements. In future, the China Sourcing Team will dedicate to developing JUSCO's in-house brands, which allows us to better control merchandise cost and quality on one hand and enjoy higher margins on the other.

Hong Kong Operations

Given the present economic conditions, Hong Kong consumers will continue to rely on JUSCO's ability to provide them with a broad range of daily necessities and quality products at bargain prices. Besides, the maintenance of hygiene and quality control will be given paramount concern as it is crucial to live up to our promise of ensuring an ideal shopping environment for our customers.

The aforesaid unfavourable situation undoubtedly presents the Group with the opportunity to further expand in the \$10 shop market. In future, we will continue to pursue an aggressive strategy of setting up "\$10 Plazas" outside GMS. Targeted locations will be highly populated commercial or residential areas along major mass transportation networks.

In the year to come, JUSCO will continue to devise attractive promotional campaigns to attract customers. Market research will be conducted to identify customer needs and market trends. The information collected will be fully utilised for the execution of our "Theme Marketing Programmes", which will help enhance the effectiveness of our promotions. Besides, we will continue to dedicate ceaseless effort to enlarging J CARD membership, with the aim of expanding our loyal customer base. Exclusive activities will be organised for J CARD holders to further enhance communications and maintain close relationships with our loyal patrons.



PRC Operations

In view of the PRC's great development potential, the Group's continuous expansion is moving in the right direction. However, there exist certain factors which will affect our expansion tempo, which include the intensity of competitions, prevalent market conditions as well as the availability of suitable locations to open new stores. As such, the Group will adopt a prudent approach to regularly monitor and review our pace of development.

2003 and 2004 will see the opening of two new GMS in Zhongshan and Foshan, aiming to bring one-stop shopping convenience to customers in the PRC. In the long run, we aim at establishing our JUSCO brand name in the PRC through developing chain-store operation. This will in turn lead to the achievement of economies of scale in logistics and merchandise sourcing. It is expected that the time required for the new GMS to break-even is around 12 months. However, the Group will keep on conducting market research and store supervision to regularly change our store layout, merchandise mix, and product assortment presentation so as to better suit the changing tastes and real needs of local customers as well as bringing returns to the Group.

Backed by our strong financial foundations, JUSCO is well-positioned to further consolidate our foothold in the PRC retail market.

Conclusion

Last but not least, on behalf of JUSCO, I would like to express my sincere gratitude to the support of our customers and our shareholders in the past year. I would also like to thank our dedicated staff who have devoted ceaseless effort to improve JUSCO's performance. In the years to come, we will continue to commit ourselves to providing quality service for our valued customers, maximising returns for our shareholders and making contribution to the well-being of the society.



Kazumasa ISHII

Managing Director

Hong Kong, 16 May 2003

