



MANAGEMENT DISCUSSION &
ANALYSIS



Management Discussion & Analysis



MIYASHITA Naoyuki
Managing Director

SUMMARY OF RESULTS

This is the Group's first full year results after its change of financial year end date in 2004. Turnover grew by 38% to HK\$5,503 million (10 months ended 31 December 2004: HK\$3,981 million). Profit attributable to shareholders and earnings per share increased 57% to HK\$125 million (10 months ended 31 December 2004: HK\$79 million) and 47.90 HK cents (10 months ended 31 December 2004: 30.56 HK cents) respectively.

DIVIDENDS

The Board of Directors has recommended a final dividend of 14.0 HK cents per share (10 months ended 31 December 2004: 8.5 HK cents) to be paid on or before 19 June 2006, subject to shareholders' approval at the forthcoming annual general meeting to be held on 19 May 2006. Together with the interim dividend of 5.5 HK cents (10 months ended 31 December 2004: 4.0 HK cents) distributed in October 2005, this represented a total dividend of 19.5 HK cents (10 months ended 31 December 2004: 12.5 HK cents) per share for the year.

FINANCIAL REVIEW

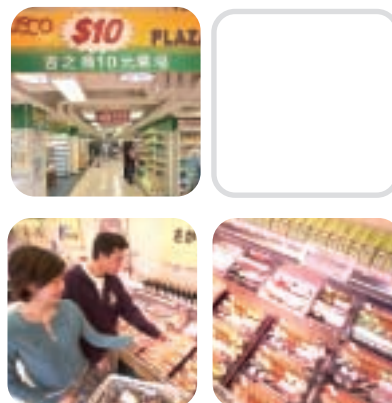
Turnover of the Group increased 38% to HK\$5,503 million, which was mainly attributable to the satisfactory sales of existing stores together with the newly opened stores. Gross margin slightly decreased

from 26.1% to 25.2% as the Group enlarged its food sector that poses a lower margin in response to the changing customer needs.

Staff costs to turnover ratio dropped from 8.8% to 8.2% while rental costs to turnover ratio also decreased from 7.9% to 7.0%.

At the year end, the Group maintained a net cash position with cash and bank balances of HK\$1,042 million (31 December 2004: HK\$776 million) and short-term bank loans of HK\$14 million (31 December 2004: Nil). The loans were denominated in Renminbi bearing interest at 4.7% per annum.

Capital expenditure during the year amounted to HK\$99 million, mainly incurred for the renovation of existing stores, opening of an independent supermarket, two independent JUSCO \$10 Plaza and a GMS.



The Group had sufficient financial resources and will continue to finance its capital expenditure by internal resources and short-term bank borrowings.

Exchange rate fluctuations had no material impact on the Group as less than 5% of the Group's total purchases are settled in foreign currencies.

BUSINESS REVIEW

The reviving property market and increasing salary level propelled overall growth of the local economy during 2005. Consumer sentiment picked up for the retail markets in Hong Kong, and was also strong in the flourishing PRC. Promising economic indicators encouraged consumers to purchase greater variety of quality merchandise, in turn giving the retail sector a strong boost. In Hong Kong, improving employment figures and record number of inbound tourists, in particular individual travellers from the PRC, contributed to good market sentiment during 2005. In the PRC, the retail market continued to expand healthily as consumers became increasingly conscious of the benefits of buying from reputable and reliable retailers. Being able to answer to this consumption trend with improved merchandising, quality customer services and enhanced shopping environment, the Group achieved remarkable performance.

Hong Kong Operations

As overall economic prospects brightened, the people of Hong Kong have been more ready to consume. For the year ended 31 December 2005, our sales in Hong Kong were HK\$3,836 million (10 months ended 31 December 2004: HK\$2,878 million), up 33% while net profit rose 90% to HK\$138 million (10 months ended 31 December 2004: HK\$72 million).

During the year, the first JUSCO Supermarket was opened in April 2005 in apm, Kwun Tong. It was a new operational model that detached the supermarket from our GMS. The supermarket carries a wide range of specialties including fresh imported food, and hot and cold delicatessens to target the business executives and residents of the district.

In addition, we have further strengthened our JUSCO \$10 Plaza network with the opening of two outlets in Tsuen Wan and Wan Chai during the year. We now operate a total of nine JUSCO \$10 Plaza, which represent our "value-for-money" commitment to provide quality, innovative commodities to customers at a reasonable price.

Meanwhile, our GMS in Tai Po underwent a two-month renovation and re-opened in August 2005. Transformed based on the “Home Sweet Home” concept, the Tai Po Store incorporated a variety of new features including new branded counters, an expanded section for household goods and furniture, a larger diversity of fashion items, clothing and toys, and an enriched selection of delicatessens – all to better serve the expanding population of working couples and nuclear families in the district.

TOPVALU, our in-house brand of quality and good-value products, continued to play a key role in our success. During the period, we actively developed and introduced new products under the brand, ranging from household goods, food products to daily accessories. Now a synonym for top quality, safety, environmental friendliness and customer satisfaction, TOPVALU was welcomed and well received in the market.

PRC Operations

During the past year, the retail sector in the southern China continued to see significant growth. For the year ended 31 December 2005, we achieved sales of HK\$1,667 million, a 51% increase compared with that of the ten months last year. It was attributable to the full-period operation of the East Lake Store, the opening of the Dragon Hill Store and the sales growth of existing stores.

During the year, AEON (China) Co., Ltd. (“AEON China”) actively prepared to realise the Group’s plans for the market, including developing a shopping mall with a new GSM in Shunde, Guangdong Province. As it was still in the investment stage, resources were allocated to AEON China for establishing a solid foundation. On the other hand, the newly established stores, which the Group strategically put at locations farther from city centres yet laden with potential, were also in the teething stage. These two factors collectively turned the PRC operations to a net loss of HK\$14 million (10 months ended 31 December 2004: HK\$10 million profit).

Achievements and Corporate Social Responsibility

AEON Stores received a number of awards in the past year for its commitment to fulfilling its motto “Everything we do, we do for our customers”. For instance, the Group received the Bronze Award of the “Top Retailer 2005” in Hong Kong organised by the Retail Asia Magazine. In addition, for three consecutive years, AEON Stores has been a winner of the “Hong Kong and Macau Merchants of Integrity Award” in the “Department Stores and Gifts” category and the “My Favourite Top 10 Brands of Hong Kong” organised by the Guangzhou Daily.





As a good corporate citizen, AEON Stores is committed to community service and has over the years been engaged in various activities to help the underprivileged. In 2005, AEON Stores organised and participated in a number of events for different charitable causes, including the "Asian Earthquake & Tidal Waves Relief", which raised HK\$600,000, half of which donated by patrons of our stores and half by the Group; and the "2006 Wall Calendar Charity Sale", which raised HK\$600,000 for Fu Hong Society, St. James' Settlement and the Hong Kong Society for the Deaf to support their projects and help those who are really in need.

Human Resources

As at 31 December 2005, the Group employed about 3,500 full-time and 3,300 part-time staff in Hong Kong and the PRC. The Group remunerates employees based on their performance, experience and prevailing practices in the industry.

The Group's success rests on its staff that can deliver high quality services. We fully understand the importance of staff training, and are committed to providing only the best. The Group will continue to invest resources in human resources to boost service quality and staff knowledge. More exchange programmes will be organised with AEON Co., Ltd., the parent company of AEON Stores, to facilitate sharing of best practices and synergy.

PROSPECTS

Hong Kong Operations

Recent studies showed that with Hong Kong's unemployment rate lowering, its property market recovering, healthy inflation and the city continuing to offer the world's freest market conditions, public confidence in the economy is returning. Local people are rediscovering the joy of shopping. At the same time, Hong Kong's reputation as Asia's shoppers' paradise and dining capital continues to draw an ever-growing influx of tourists, especially individual travellers from the PRC. These factors, we believe, will accelerate consumer spending and further invigorate Hong Kong's retail market.

In the coming year, the Group will continue to find suitable locations with high consumer traffic for opening more GMS, JUSCO \$10 Plaza and independent supermarket. We will also actively enhance our existing stores to present a shopping environment that fits the needs of customers in respective districts. Our private brand "TOPVALU" will be featured prominently in all our stores as an inexpensive and original choice of quality merchandise.

In the meantime, our supermarkets will continue to offer a unique blend of fresh foods and varieties of commodities including distinctive goods and delicatessens. We will also organise more campaigns to promote goods and foods of different cultural roots or countries and thematic events to please the palate of diverse customers and match market changes.

PRC Operations

The Chinese economy continues to see robust growth. Its industries are thriving, in particular the retail industry. With the consumption power boosted, more mainlanders are looking to shop in stores that carry not only a good variety of quality and novel merchandise, but also give enjoyable shopping experiences. To meet this need, we will focus on creating in our stores an environment that promises convenience and comfort to all customers regardless of their age or gender. We continue to look for suitable locations to open new stores, aiming at capturing this new class of affluent shoppers with one-stop shopping services.

We see full-scale shopping malls assuming importance in retail market in the PRC as urbanisation continues to progress rapidly, population shifts, consumer purchasing habits change, and more families own cars. Under AEON China, a new shopping mall employing a new operational model will be set up by the Group in Shunde, Guangdong Province, by the end of 2006. The location of the mall was selected strategically in Daliang, with residence and sightseeing destinations nearby and served by main highways. This well-serviced shopping mall, of which over 45,000 square metres will be managed by AEON China with an investment budget of RMB60 million, will house another new GMS. The mall itself will house indoor shopping streets, restaurants and various shopping outlets, and

about 2,000 parking spaces. Upon opening, it is expected to become a leisure hotspot in Shunde, where local people can enjoy one-stop shopping convenience and great shopping experiences.

In addition to pursuing business expansion and quality excellence, we put forward "The AEON Code of Conduct" which aims to create value for customers at all times. In full embrace of the philosophy "everything we do, we do for our customers", we are confident that we can add great value to the every life of our customers, realising not only our tradition, but also our mission.



MIYASHITA Naoyuki

Managing Director

Hong Kong, 24 March 2006

