



# **Management Discussion & Analysis**

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### Summary of Results

**For the year ended 31 December 2006, the Group's revenue grew by 9% to HK\$4,287 million (2005: HK\$3,920 million). Profit attributable to shareholders and earnings per share rose by 19% to HK\$148 million (2005: HK\$125 million) and 57.06 HK cents (2005: 47.90 HK cents) respectively.**

### Dividends

The Board of Directors has recommended a final dividend of 17.5 HK cents per share (2005: 14.0 HK cents) which will be payable on or before 18 June 2007, subject to shareholders' approval at the forthcoming annual general meeting to be held on 23 May 2007. Together with the interim dividend of 5.5 HK cents (2005: 5.5 HK cents), the total dividend for the year will amount to 23.0 HK cents (2005: 19.5 HK cents) per share.

### Financial Review

Revenue increased by 9% to HK\$4,287 million largely driven by the sales growth of our stores in the PRC. Gross margin was slightly down from 35.3% to 34.7% as the food segment of the Group's business was enlarged. The opening of additional independent supermarkets also placed a greater emphasis on the food sector, hence affecting gross margin as well. The Group's net profit attributable to shareholders for the year rose by 19% to HK\$148 million.

Staff costs to revenue ratio dipped slightly from 11.4% to 11.3% while rental costs to revenue ratio increased from 9.8% to 10.6%.

As at 31 December 2006, the Group maintained a net cash position with bank balances and cash of HK\$1,541 million (2005: HK\$1,042 million) and short-term bank loans of HK\$60 million (2005: HK\$14 million). The loans were denominated in Renminbi, bearing interest at 5.02% per annum.

Capital expenditures during the year amounted to HK\$106 million, mainly used for the renovation of existing stores, opening of an independent supermarket, three JUSCO \$10 Plaza as well as a shopping centre in the PRC.

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

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

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### Business Review

Strong retail market sentiment in the PRC and steady growth in Hong Kong provided a positive backdrop for the Group's business. During the year under review, the Hong Kong economy made noticeable improvements and the unemployment rate declined continuously. Encouraged by a general increase in disposable income and a prosperous stock market, consumers were more willing to spend, particularly on quality merchandise, which boosted growth of the retail sector. The PRC retail market also benefited from the favourable macroeconomic environment as consumer confidence surged during the year.

### Hong Kong Operations

2006 is a year which presented favourable conditions for the retail industry; hence, Hong Kong operations recorded increased revenue of 5% to HK\$2,903 million (2005: HK\$2,770 million), while the profit grew by 16% to HK\$195 million (2005: HK\$168 million).

To replicate the success of the first JUSCO Supermarket in apm, Kwun Tong, the Group opened its second independent supermarket at the Kai Tin Shopping Centre in Lam Tin in September 2006. The roughly 31,000 sq. ft. JUSCO Supermarket adopts the theme: "Fun for the Whole Family", and features a mix of quality merchandise imported from Japan along with diverse commodities under the Group's TOPVALU private brand. As one of the largest supermarkets in Lam Tin, the JUSCO Supermarket will help satisfy the needs of residents of a highly populated district.

In the second half of the year, the Group opened three more JUSCO \$10 Plaza outlets, increasing the total number of stores to 11. Following the Fanling and Shamshuipo outlets opened in August and September, the Group opened its Kowloon JUSCO \$10 Plaza flagship store in December. Located in Mongkok, one of the busiest and most exciting districts in Hong Kong, the store comprises of commercial, residential and entertainment elements. Moreover, a brand new "J Valor Corner" was set up to provide premium value products that are priced from HK\$15 to HK\$200, thus offering more choices for customers with greater means and are interested in more



than "value-for-money" goods and services. This is in keeping with the Group's development strategy to broadening its product mix.

To keep pace with the changing needs of customers and the community, the Group partially closed the Whampoa Store for renovation work in April 2006. Embracing the "Healthy Living" concept, the store now boasts an enlarged Supermarket, Fashion Section, and Household and Furniture Section; hence an ideal shopping destination for nuclear families in the district.

### PRC Operations

In 2006, the PRC operations recorded revenue totalling HK\$1,384 million (2005: HK\$1,150 million), up 20%, and was mainly attributed to the growth of existing stores operating in a burgeoning retail sector.

As the retail industry in southern China continued to prosper, most of the stores operated by the Group in Guangdong Province duly recorded satisfactory sales performance. With the Dragon Hill Store operated for a full financial year, it too contributed to PRC sales. However, there were some stores that remained in an investment stage of development, consequently taking greater time to adapt to local residents' tastes and needs, hence affecting profit contributions. In addition, costs arising from the operation of AEON (China) Co., Ltd. ("AEON China"), which is currently in a developmental stage, was also incurred. Of

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further note, opening of the shopping mall in Shunde under AEON China was postponed until January 2007 due to construction delays. In all, the PRC operations generated a profit of HK\$14 million (2005: HK\$5 million loss).

### Achievements and Corporate Social Responsibility

Throughout the year, AEON Stores remained committed to further enhancing the quality of merchandise and services it provides and to fulfilling the motto: "Everything we do, we do for our customers". Such an endeavour duly gained recognition and support from the public. Also in 2006, the Group secured "The Third Hong Kong and Macau Merchants of Integrity Award" under the "Department Stores and Gifts" category for the third consecutive year and was named "My Favourite Top Ten Brands of Hong Kong" as well. Both awards were organised by the Guangzhou Daily.

As an extension of its commitment to the public, AEON Stores played an active role in community services, helping the underprivileged. Reflecting this, the Group earned the "Caring Company Award" for the fifth straight year. During the period under review, the Group jointly organised the "Used Book Recycling Campaign" with World Vision Hong Kong – its fifteenth year of involvement. The activity led to the collection of 280,000 books and the raising of HK\$1,530,000 which will go towards educating and training disabled children in Ningxia Province, China. Moreover, the Group coordinated a year-long "Corporate Volunteer Campaign". Staff members assisted the community groups by way of personal visits, serving the elderly, children's homes, disabled and new immigrants and hosting celebratory events.

AEON Stores is also committed to being a model of good corporate citizenship, continuing to run the "Wall Calendar Charity Sale". With regards to the calendar sale, all proceeds raised were subsequently donated to five charitable organisations in the territory.

### Human Resources

As at 31 December 2006, the Group employed about 4,100 full-time and 2,800 part-time staff in Hong Kong and the PRC. The Group remunerates employees based on their performance, experience and prevailing practices in the industry.

A team of excellent employees is vital to the success of a corporation. The Group fully understands the importance of staff training, and are committed to providing the very best. The Group will continue to invest in human resources in order to boost service quality and staff knowledge. By providing the necessary mechanisms for upgrading the professionalism and competence of staff members of all levels, and creating a platform for knowledge exchanges and experience sharing, synergy among the Group and its parent company, AEON Co. will therefore be amplified.

### Prospects

#### Hong Kong Operations

With an improving unemployment rate, rising salary levels and healthy inflation, Hong Kong's economy appears to be on the way back to steady growth. Holding a more optimistic view towards the economy, consumers tend to enhance their quality of life through the purchase of quality merchandise. These factors will thereby facilitate continuous growth of the retail sector in Hong Kong. Taking into account that there may be other factors affecting the economy including adjustments in the financial markets, the Group is cautiously optimistic about its Hong Kong operations for the near future.

The steady progress achieved in 2006 has added to the positive spirit of the Group as it celebrates its 20th anniversary in Hong Kong in 2007. Following the success of the first two JUSCO Supermarket outlets, a third supermarket is scheduled to open in Tokwawan by mid-2007. Located in the Grand Waterfront Plaza, the roughly 31,000 sq. ft. supermarket will be the largest of its kind in the district and will be fully capable of catering to the daily needs of customers. Leveraging the Group's strengths in operating "Japanese Supermarket", it will feature high quality merchandise at reasonable prices, thus satisfying the customers' needs.

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The Group will continue its efforts to offer a diverse range of high quality products to consumers. Towards this goal is the “TOPVALU” private brand which covers a broad spectrum of goods ranging from food to clothing and will be featured prominently in stores.

As an extension of its commitment to patrons, the Group will search for suitable locations to open more new stores, especially JUSCO \$10 Plaza and JUSCO Supermarket which are more flexible in space requirements. To provide more comprehensive services and further strengthen its presence in Hong Kong, when opportunities arise, the Group will also consider opening stores operated under new business models so as to expand its sales network.

### PRC Operations

Notwithstanding macroeconomic measures, the Chinese economy maintained its remarkable growth. China's GDP continued to improve as did total retail sales of consumer goods. Under an improving economic environment, consumers were more motivated to shop, not only for daily necessities, but also for quality products and services. This duly opened exciting business prospects for the Group.

With the renowned “JUSCO” brand and solid experience of AEON Co. in the PRC, the Group is well equipped to extend its business interests exponentially. To provide an innovative shopping experience to customers, AEON Shunde Shopping Centre, which has a GMS under AEON China, started operations in January 2007. Occupying over 47,000 sq. m., the Centre represents the first complex of its kind to be opened by the Group. The 18,500 sq. m. GMS is the focus of the Centre, offering a pleasurable one-stop leisure shopping experience. Among the attractions that visitors can look forward to is the presence of several retailers that are in Shunde for the first time. Indeed, 40 per cent of the 93 retail outlets present are new to the city. The Group is confident that the Centre will become an important landmark for the region and will further enhance JUSCO's brand status in southern China.



Apart from setting up the first shopping centre in Shunde, the Group will introduce the first ever independent supermarket and one additional GMS in Shenzhen in April and late 2007 respectively, thus capturing vast market opportunities available in the region.

While committed to uncovering new prospects, the Group will continue its efforts to respond promptly to the needs and concerns of customers, thus providing excellent products and services that exceed all expectations.

**LAM Man Tin**  
*Managing Director*

Hong Kong, 3 April 2007