



your

LIFESTYLE



REVIEW OF OPERATIONS

For the year ended March, 2001, the Group recorded a 22% increase in turnover to HK\$892 million and a turnaround net profit of HK\$14 million. Parallel to the gradual recovery of the Hong Kong economy during the year 2000, the Group embarked on a series of dynamic programs to build business momentum, revitalize the operational structure and streamline workflow, with the objectives of expanding sales and reducing operating expenses.

Sales Breakdown

From total sales of HK\$892 million for the financial year, household products and furniture account for HK\$535 million or 60% and HK\$357 million or 40% respectively.

Turnover of household products increased by 17% over the same period of last year. The five largest product categories by value are Self-assembled Furniture, Bathroom and Laundry, Electrical Products, Tools & Racks and Home Movable Storage Products. According to a recent market survey conducted by AC Nielsen, our Tools & Racks and Home Movable Storage Products enjoy leading market shares in terms of value in Hong Kong.

For furniture products, turnover increased by 32%. The tremendous increase was the result of our product development efforts and new pricing strategy. According to the same AC Nielsen study, Pricerite ranks first in both Sofas and Dining Tables and Chairs sets by market share in terms of value in Hong Kong.



Merchandising

- **Product Development:** During the year, we have strengthened our product development function through global sourcing and product research. Our sources of supply are now well-diversified and include Europe (Italy, UK and Sweden), US and



Asia (Japan, South Korea, Thailand, Malaysia, India, Taiwan and China). Our energetic merchandising team makes frequent visits to local and international trade fairs and exhibitions to develop new supply channels and source new products. In addition, our in-house design team and marketing department co-operate closely on new product design and functionality to meet the changing needs of the market. Home Fashion, a new product line highlighting lifestyle and fashion was introduced during the year. It offers a wide range of home decoration products such as carpets, bath mats and cushions. The modern designs based on a flexible mix-and-match concept appeal to customers wishing to enhance their home lifestyle.

our sources of supply are now well diversified and include Europe, US and Asia

- **Category Management:** Together with our vendors, we have been reviewing the range and depth of our product categories so as to design a more targeted range of products for our customers. This exercise is helping Pricerite to avoid product duplication, improving the sales and gross profit mixes.



price value choice





- **Product Replenishment:** We have set up a Replenishment Division to give specialized support in the area of stock replenishment. Its main task is to increase the order fulfilment rate in relation to suppliers and to achieve optimum levels of inventory by providing timely sales forecasts and monitoring closely supplier fulfilment. We have made good progress in this area during the year by reducing stock turnover days substantially.
- **Quality Assurance (“QA”):** Our QA team performs regular quality testing on our products to ensure compliance with local and international consumer laws and safety standards. To ensure quality of supply, our production orders are placed mainly with manufacturers with the ISO9000 qualification. The resulting confidence in our product standard allows us to offer a “7 days return and refund” guarantee, enhancing customer satisfaction.

the bar-code system being implemented will greatly enhance store efficiency

Store Operation

- **Brand Image Revamp:** The Group has retained Rodney Fitch, a well-known international designer, to re-design the brand image in our stores. Different color tones have been used to highlight different product sections, providing clearer product direction. Stores have also benefited from a more convenient layout, further improving the quality of the shopping experience.
- **Location Strategy:** We give active consideration to location, customer traffic, store layout and rental terms in relation to possible future store openings. During the year, upon lease expiry we closed five stores with low business potential and opened eight new stores in better locations including Aberdeen, Lok Fu and Tsuen Wan, resulting in a total of 41 stores as at 31 March 2001.
- **Store Re-Merchandising:** During the year, we completed our store re-merchandising program. This has re-designed the merchandising mix and re-classified our retail outlets according to size and space into four model types - full "Stock Keeping Unit" (SKU) stores, full section stores, core section stores and mini stores. This is allowing us to achieve optimal use of shop space, offer a better product mix and maximize the return per square foot.
- **Bar-code System:** A bar-code system is being implemented gradually throughout our outlets in Hong Kong. The new system will greatly enhance store efficiency since it replaces tedious price-labeling work and improves productivity at our check-out counters. Resources released will be re-invested to strengthen our customer services. Currently, all of our stores have already launched the bar-code system.



Marketing

- **Brand Building:** By increasing advertising spend and media exposure such as TV commercials during the year, the Group has successfully conducted various promotion campaigns that have increased the profile of the Pricerite brand. This has been one of the major factors in the substantial increase in turnover during the year.
- **Everyday-Lowest-Price Program (“ELP”):** To reinforce our price leadership status in the market and pull further ahead of our peers, we have launched our ELP program. We now offer a lowest price guarantee on all ELP items through daily price monitoring of other major retail chains in Hong Kong. Response has been encouraging with strong sales of ELP items.
- **Market Positioning:** Using independent market research agencies, we have conducted regular “mystery shopper” and other market surveys to improve customer service and market positioning. Based on the results of the market survey done by AC Nielsen recently, we will review our pricing, product and advertising strategies to meet better the changing requirements of the market.

Supply Chain Management

- **Just-In-Time Inventory Management:** During the past two years, Pricerite has developed a just-in-time inventory management system together with logistics partners, providing transitional stocking facilities based on our sales forecasts. Following order consolidation by these partners, fulfilment can be effected within a very short time and our inventory holding cost thus reduced significantly.
- **Logistics Technology:** The Group is one of the pioneers in Hong Kong investing in and introducing radio-frequency technology to warehouse management. This is a computerized system that provides space allocation, stock pick and put away





functions via electronic scanners using radio frequencies. It also includes labour control and work scheduling functions that have improved stock flow efficiency among vendors, warehouse and retail outlets. The technology also shortens the inventory cycle and helps maintain optimum stock levels.

- **Warehouse Consolidation:** The Group has managed to achieve remarkable sales growth during the year even though we consolidated the warehouse operation in Sai Kung by closing down the Kwai Chung warehouse, which reduced warehouse space by approximately 50% . Not only did this achieve substantial rental savings, it also enabled us to improve logistic efficiency through centralization of warehouse operations.

Information Technology

- **Intranet:** 2001 saw the development of our own intranet system to improve internal communication. In particular, communications between head-office and our retail outlets have benefited from this efficient, paperless channel.
- **Internal Systems Upgrade:** Through the application of the latest technology, we have reviewed and upgraded our internal operations systems including accounting, human resources and product systems, to streamline operations and improve reporting and analysis functions.

we achieved remarkable sales growth, despite consolidating warehousing to reduce rental costs and raise efficiency

E-commerce

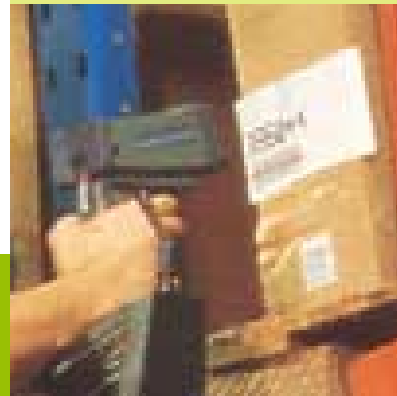
- **www.pricerite.com.hk:** The Group appreciates the growing importance of e-commerce and is one of the early-movers in retail e-business in Hong Kong. In June 2000, we launched *www.pricerite.com.hk*, one of the first “clicks-and-mortar” B2C bilingual websites in the SAR specializing in retailing furniture and household products. It offers all major product categories carried by the Group’s physical stores, currently numbering over 3,000 items. Response has been encouraging with over 15,000 member registrations and more than one million page-views per month.
- **Clicks-and-mortar Model:** Notwithstanding waning momentum in internet development, the “clicks-and-mortar” model of our e-shop has proven to be successful, since our virtual and physical shops complement each other. Capitalizing on the Group’s long-established brand name, strong logistics support, extensive retail network and substantial customer base, our e-shop stands in a strong position versus competitors starting and operating stand-alone e-businesses. Our virtual shop is able to increase customer traffic in the physical stores in the form of on-line shoppers who choose to collect their goods at these stores. The e-shop also reaches a customer base

with different demographics from our existing family-based customers, as web-customers largely come from the younger segment of the society.

Proposed Redevelopment Project

- The application for the redevelopment of our Sai Kung warehouse into residential use is still being processed. Although the procedure is quite involved, we have made progress. Nevertheless, it is still pending approval from the respective government departments.

Our computerized warehouse system provides automated work scheduling and space allocation resulting in substantially manpower savings, enhanced distribution capacity and increased space efficiency.



Looking Ahead

Hong Kong

As the market leader in furniture and household products retailing in Hong Kong, Pricerite remains committed to exceeding customer expectations and will strive to improve customer service, product quality, product range and product depth in order to excel in this competitive environment.

We will continue to strengthen our merchandising and product development function and to diversify our product range, such as creating higher-end product lines to cater to the modern lifestyles of our customers. We intend to increase our market coverage by opening new stores in strategic locations such as Wong Tai Sin and Tai Po in coming months. To enhance customer satisfaction, we will provide better training to front-line sales staff, especially as regards customer service and selling techniques.

The Group plans to upgrade further our technology infrastructure. This will include adding data-warehousing and data-mining to our system, to enhance reporting and analysis functions and so improve operational efficiency.

the vast mainland China market offers tremendous growth opportunities, which Pricerite aims to fully exploit

China

The possible entry of China to the WTO presents a golden opportunity for Pricerite to enter the vast China retail market. We have set up a China Project Team to conduct feasibility studies examining areas such as market analysis, market positioning, product strategy, tax implications, logistics infrastructure and technological requirements in preparation for possible investments in the mainland. Target cities for our first foothold

include Shanghai, Beijing, Guangzhou and Shenzhen. With our long-established vendor relationships, strong supply chain management and long experience in retail operations, we are confident of seeing good returns in this challenging market.

building on our existing “clicks-and-mortar” model, we believe there is substantial room to grow our e-business further

E-commerce

The Group is optimistic about the future potential of e-commerce in Hong Kong. Building on our existing “clicks-and-mortar” model, we believe there is substantial room to grow our e-business further. We will continue to upgrade our business model through the application of the latest technology such as e-CRM (electronic customer relationship management) systems and personalized marketing software. We have formed business partnerships with global internet giants to increase marketing momentum. To complement our physical retail operation further, the e-shop is exploring the opportunities to enter B2B (business-to-business) markets by targeting corporate customers.

Our **FUTURE,**
your **FUTURE...**