chairman's and managing director's review

OVERVIEW

As we indicated in our previous annual report, "our focus going forward" would be on "rebuilding, diversifying and solidifying Joyce's portfolio". We followed through in the ensuing year; consequently we are prepared to absorb the systemic shock of the regional public-health crisis that began to play out in the first quarter of our new financial year and which will inevitably color future results. While Joyce's much-improved performance in this past year has been gratifying, especially in the context of very difficult market conditions, the outbreak of and international response to SARS has complicated Hong Kong's much-anticipated economic recovery and thereby set us back. Moreover, the medium-term outlook for mainland China and Taiwan remains unclear at this time.

If it is not business as usual, we do, however, have reason to look to the future with confidence in our strategy and core strengths and to proceed sensibly with carefully laid development plans.

This past year saw improvements made to our business model. In Hong Kong, we continued to divest non-core units and to cultivate winning brands and categories, to trim overheads and, taking advantage of lower rents and construction costs, to seek opportunities to grow earnings. We continue to fine-tune the balance of our activities across Greater China. We believe we have adopted a judicious and promising distribution-led approach to the mainland market, and are satisfied with the pace of development of our business there; and we are finetuning our strategy and adapting to the evolution of the Taiwan market.

The successful combination of tight fiscal discipline, tough rationalisation measures and aggressive marketing and promotion programmes produced improved results for the year ended 31 March 2003. Joyce reported a loss of HK$35.0 million, 58.8% lower than the previous year's. Turnover increased by 4.8% to HK$511.1 million. If factoring out the Joyce Café and Ad Hoc divisions, which were wound down in the second quarter of the year, the increase in Group turnover jumped to 13.5%. Hong Kong fashion retail operations turnover increased by 6.6%.

Losses before non-recurring costs were reduced to HK$17.0 million. Non-recurring costs related to the restructuring of Hong Kong and Taiwan shops, and the closure of Joyce Café in July totalled HK$18.0 million.

HONG KONG

The improved results turned in by our Hong Kong operations were mainly due to reductions in company headcount and salaries implemented in the first half of the year, rental savings achieved by the relocation of our head office, and increased sales per square foot realised from the relocation of the 29,000 square-foot Joyce store on Nathan Road to 15,000 square-foot premises on Canton Road in March 2002. We are seeing sales gradually climb back as the impact of the January 2001 termination of the Armani franchise wanes.

Hugo Boss, an important principal, has undertaken a global brand-strengthening programme focused on a select few capitals such as Hong Kong, London, Paris and Tokyo. Joyce as a key participant in Hugo Boss' global retail network is supporting the push with plans to close existing shops and open three new flagship stores in Hong Kong for the 2003 fall/winter season. These larger, newly designed stores will feature Hugo Boss' expanding men's and women's collections and enhanced product lines such as performance sportswear and luggage.

The 2,600 square-foot Hugo Boss and 1,500 square-foot Boss Woman shops at Ocean Terminal will be closed at the end of September 2003. In October 2003, a new 5,600 square-foot store will open on Canton Road, as well as a 3,000 square-foot store at the International Finance Center 2 in Central, the new mixed-use complex dominating the Central waterfront skyline. The 1,500 square-foot Hugo Boss store at Pacific Place will also be closed at the end of October 2003, and replaced with a new 4,600 square-foot store from November 2003. The 800 square-foot Hugo Boss shop in Lane Crawford's Central department store was closed in January 2003. The 1,300 square-foot Hugo shop in Causeway Bay will be closed at the end of July 2003.

Retailers at the Landmark in Central will be closing their stores at the end of calendar 2003 for an undetermined period of time due to the planned redesign and reconfiguration of the complex. Collections sold through Joyce's highly successful Dries Van Noten and Dolce & Gabbana boutiques at the Landmark – will be moved to Joyce's Central flagship at nearby New World Tower.

Several other shops were closed as leases expired or premises refurbishment programmes were undertaken, with their operations terminated or their collections relocated. The Costume National boutique at Lee Gardens was closed in September 2002. The Jil Sander boutique at Alexandra House and the System boutique at Festival Walk were also closed, the former due to a premises refurbishment programme, in September 2002, with their collections moved temporarily to Joyce at New World Tower and to the Galleria retail arcade in Central respectively. Joyce Warehouse at Russell Street in Causeway Bay was closed in February 2003.

The unprofitable Ad Hoc division ceased operating in August 2002, posting an operating loss of HK$3.1 million for the fiscal period, with related closure costs fully accounted for in our previous fiscal year. Joyce Café ceased operating in July 2002 upon the expiry of its lease at Exchange Square, incurring a closure cost of HK$2.7 million and an operating loss before closure cost of HK$1.2 million, as reported at mid-year. Joyce Flowers closed its 1,400 square-foot shop and ceased operating in September 2002 as Alexandra House underwent a redesign and reconfiguration programme.

JOYCE BEAUTY

The Joyce Beauty division's 61.1% increase in turnover was attributable to the full year's contribution of its newest shops at Pacific Place and Festival Walk in Kowloon, opened in September and November 2001 respectively, and to the steady performance of other shops at Joyce Canton Road and Joyce New World Tower. The Russell Street outlet will be relocated in the first half of the new fiscal year.

TAIWAN

Joyce's Taiwan division posted a loss before non-recurring costs of HK$6.8 million (2002: HK$2.4 million). We believe that there will be growth potential for Marc Jacobs and Marc by Marc Jacobs, for which Joyce was granted exclusive country franchise rights, as we fully roll out these brands over the next two years.

The first of a projected five shops for these brands, a 600 square-foot Marc Jacobs boutique, opened in Taipei's Regent Hotel in August 2002. In April 2003, two Marc by Marc Jacobs shops, 800 and 1,300 square feet respectively, opened at the Breeze Center in Taipei and the Sogo department store in Tai Chung. In May 2003, a 2,300 square-foot Marc by Marc Jacobs flagship store opened in the exclusive retail area adjacent to the Taipei Regent, and an 1,100 square-foot Marc by Marc Jacobs boutique is scheduled to open in September 2003 at the Isetan department store in Kaohsiung.

A 700 square-foot Commes des Garcons corner was also opened in Taipei's Sogo department store in March 2003.

These store openings herald a modification of strategy for the Taiwan market, which Joyce entered in 1993. We are adapting to changes in fashion consumption and trends, with an increasing emphasis on department stores and single-label boutiques. The Group has reported non-recurring costs of HK$9 million for the restructuring of its Taiwan business to reflect the above mentioned modification of its retailing strategy.

MAINLAND CHINA

The Group's planning for the mainland China market has been guided by prudence and by exploitation of its greatest strengths: extensive relationships with leading fashion designer houses in Europe, Japan and the United States, and expertise in merchandising which by reputation is unequalled in the region. Joyce will carefully manage the risks of participation in the mainland's retail sector by operating as a distributor, on a non-wholesale basis, to select sub-franchisees and developing a mono-brand shop-based retail network.

Given Joyce's expertise in brand building and positioning, merchandising, pricing and marketing, this distribution strategy is proving to be an attractive turnkey solution both to fashion principals and prospective mainland retailers. Principals are assured that the buying process is attuned to Chinese customers' preferences, and that their image and collections are properly positioned, with their brands' values upheld to the highest standards under Joyce's seasoned direction. Retailers receive valuable support and transfer of expertise in buying, visual merchandising, staff training, store furnishing and other areas in which Joyce excels.

Initially, mainly exclusive sub-franchising rights are being secured for Commes des Garcons, Diane von Furstenberg, Etro, Issey Miyake, Missoni/Missoni Sport, Anna Sui, Versace and Versus. The first boutiques – an 1,100 square-foot Missoni shop in Beijing's Palace Hotel and a 1,200 square-foot Versace shop at the Lane Crawford department store in Harbin – opened in spring 2003. Joyce will sub-franchise a significant number of retail shops in key first and second-tier cities for these brands, with the main thrust beginning in the Spring/Summer 2004 season.

MARKETING

The Joyce Card, a key component of the Group's promotional programme and a valuable target-marketing and data-collection tool, was converted in September 2001 from a bank-administered credit card to an in-house privilege card. It has since gone from strength to strength, with the number of Cardholders now totalling approximately 40,000, compared with approximately 13,000 at the time of the re-launch. Several levels of participation have been added; the portfolio now comprises four tiers: Pre-Members' Cards (customers whose full card memberships are pending the accumulation of sufficient spending amounts); Platinum Cards; Black Cards and "By Invitation" Cards for Joyce's exceptionally high-spending customers.

OPERATING COSTS

Cost reductions achieved during the year represent our continuous effort to control operating overheads. The ratios of premises and staff costs to sales decreased by 6.4 percentage points and 1.9 percentage points respectively, mainly due to the relocation of the Joyce flagship store in Kowloon, the relocation of the Group's head office and logistics departments, and streamlining of manpower in 2002.

The Company will emphasise staff productivity, as well as revision of contract terms with various service providers, in the coming year.

FINANCIAL RESOURCES

The Group's net cash position is HK$217.0 million.

Each year brings new, ever-greater opportunities and challenges to our Group and to the communities where we operate. Likewise, each year, the Board's gratitude to our shareholders, employees, customers and partners grows ever deeper.

Walter K. W. Ma
Chairman

12 June 2003

Adrienne M. Ma
Managing Director

12 June 2003