Chairman's and Managing Director's Review

OVERVIEW

The Group showed markedly improved full-year results in the fiscal year under review. As a result of the various re-engineering and streamlining programs the Group has undertaken since the Asian economic crisis, it is in a strong position to prosper during an economic upturn and the return of more robust market conditions.

Following the SARS crisis, which was felt most keenly in the first quarter, local consumer sentiment improved significantly, buoyed by a rebound in the international and local stock markets and tourism in Hong Kong. The second quarter sales performance in the Group's Hong Kong retail division offset the poor performance in the first quarter. The Group's profitability in this fiscal year was mainly derived from organic growth.

Barring precipitous, adverse global developments – and the risks, from escalating conflicts to interest rate increases to uncertainty surrounding China's economic growth, are not inconsequential – the Group is guardedly optimistic about its prospects in the short and medium terms.

Joyce was exceptionally well prepared to benefit from an economic upturn – and to ride out the SARS-induced downturn; our dedicated staff deserves full credit for the Group's hard-earned success. Not least importantly, we have continued to build on Joyce's most important strengths: superior merchandising skills and capabilities; an unrivalled international fashion brand mix and portfolio, most of which are exclusive to the Group; and an ability to identify, secure and nurture enduring fashion and cosmetics brands.

While Hong Kong, which is re-establishing its identity as Asia's luxury goods and designer fashion retailing capital, continued to be the engine of our profitability, we remain committed to our Greater China strategy and the objective of achieving a balanced regional portfolio. The first quarter of the 2004/05 financial year saw the Group complete the restructuring of its Taiwan business, the non-recurring cost of which was posted to last year's books. Our sub-franchising distribution approach to the mainland China market, which plays to our strengths in buying, visual merchandising, staff training and store furnishing, is proving to be an optimal business model for Joyce.

For the year ended 31 March 2004, the Group reported a profit attributable to shareholders of HK$30.3 million (including HK$13.6 million non-recurring realized exchange gains on forward foreign exchange contracts), compared to a loss of HK$35.0 million reported last year. Basic earnings per share were 1.9 cents (2003: 2.2 cents loss). Group turnover for the year was HK$543.9 million (2003: HK$511.1 million), representing a 6.4% growth year-on-year.

The Directors do not recommend the payment of any dividend for the year.

HONG KONG

The Group's short to medium term expectation is for the Hong Kong division to continue to be the main top and bottom line contributor to earnings. Future growth and improvements in profitability are expected to be generated organically, through the opening of new shops, and through the acquisition of rights to represent additional leading brands.

While the main selling period of the Spring/Summer 2003 season was abruptly and severely cut short by the SARS crisis, a strong second half of the season compensated for the loss of sales turnover. Featuring a highly sought-after brand portfolio, the launch of the Fall/Winter 2003 collections coincided with the economic upturn, and the Group's Hong Kong retail division enjoyed an exceptionally profitable and robust season. In addition to the favorable business conditions, we benefited from an aggressive program of effective, high-profile marketing initiatives which further boosted sales. This combination of positive external factors and corporate pro-activity helped the Group achieve higher margins, better sell-through performance, shorter sale periods and lower stock provisions. Amongst our many strong-performing shops, Joyce New World Tower by far turned in the best performance, and contributed significantly to the Group's bottom line.

As part of both Hugo Boss's and Joyce's strategic brand building programs, the second half of the 2003/04 fiscal year saw a complete upgrade and revamp of the Hugo Boss retail representation and network in Hong Kong. All Hugo Boss shops in Hong Kong were expanded and/or relocated within a span of six months. Three newly expanded Hugo Boss shops, all carrying both the men's and women's collections and the growing range of lines including sports and performance wear, opened in October 2003, including shops at Canton Road (5,700 square feet), Pacific Place (4,600 square feet on the lower level of Joyce Pacific Place) and International Finance

Center 2 (3,100 square feet). April 2004 saw the opening of the Hugo Boss Central flagship store at 8 Queen's Road Central (4,800 square feet). The Hugo Boss and Boss Woman shops at Pacific Place and Ocean Terminal, Kowloon were simultaneously closed as the new stores opened. The largest project undertaken by the Group in the 2003/04 fiscal year, its fruition was duly celebrated with a large-scale event, "The Hugo Boss Affair", in the Grand Hall of the Hong Kong Convention and Exhibition Centre. Peter Lindbergh, the celebrated fashion photographer closely associated with the brand's global image, lent his presence to the occasion.

As mentioned earlier, two of the key factors in the Group's success are its unrivalled brand mix and portfolio and its ability to acquire leading international fashion brands. Looking forward to the 2004/05 fiscal year, the Group has acquired rights to represent several additional major brands, including Etro, Donna Karan, and Michael Kors, among others, commencing with the Fall/Winter 2004 season, further enhancing its brand portfolio. There are plans to open several new shops in the coming year as certain brands mature and attain a higher level in their marketing cycle.

The 1,750 square-foot Dries Van Noten boutique at The Landmark has temporarily closed for expansion and renovation in June 2004, and will re-open in August 2004 in newly renovated 3,000 square-foot premises. In the second quarter of the 2004/05 financial year, the first Anna Sui shop in Hong Kong will open its doors at Times Square in Causeway Bay. At the same time, the Group will assume operation of the Etro shops in Hong Kong as its exclusive franchise rights for Hong Kong and China come into effect. In the third quarter, Joyce, collaborating with Lane Crawford for the first time, will present several of its key brands – Comme des Garcons, Costume National, Dries Van Noten, Etro, Emilio Pucci, Junya Watanabe, Marni, Martin Margiela and Y's – through single-label corners, totaling 3,800 square feet, in the new Lane Crawford flagship department store at International Finance Center 2. Other new shop projects are under discussion.

THE JOYCE CARD

The Joyce Card program, the Group's most valuable target marketing and data-collection tool, was converted in September 2001 from a bank-administered credit card to an in-house privilege card. The Card program comprises four tiers: "By Invitation" Cards, Black Cards, Platinum Cards and Pre-Members' Cards. The Joyce Card base grew from 40,000 to 52,000 during the year under review.

The primary objective of the Joyce Card program is to groom loyalty amongst core customers. The Card program rewards its Cardholders with special shopping privileges and features, and third-party-affiliation benefits. To further build customer loyalty, a new feature entitling Cardholders to bonus points redeemable for merchandise was introduced in the second quarter of the year. This Card program has been very successful and the results are evident from the significant sales turnover contributed by our core customer base.

JOYCE BEAUTY

Joyce Beauty's strategy is to focus on non-mainstream, high quality brands in the categories of color, skin and hair care, and fragrance within a multi-label environment. The majority of the brands carried by Joyce Beauty are exclusive to the Group. With changing lifestyles, natural and alternative niche cosmetic brands have come into vogue. Since its establishment in 1991, Joyce Beauty has created a large and solid customer following. Joyce Beauty currently operates freestanding stores at Festival Walk and Times Square and in-store shops at Joyce New World Tower and Joyce Canton Road.

Joyce Beauty posted better than expected results in the first half of the fiscal year, despite the SARS crisis. Customers were attracted by Joyce Beauty's reputation for premium-quality natural-ingredient-based products.

To sustain this performance, Joyce Beauty acquired rights to sell several important new brands, including Stephane Marais, B. Kamins Chemist and Korres. These new brands, together with the many new products Joyce Beauty launched for key vendors such as Annick Goutal, Chantecaille, Creed, Laura Mercier and Nars, further contributed to the performance and profitability of the division. A robust marketing program also played an important role in driving sales.

TAIWAN

The Group's Taiwan business was also seriously affected by the SARS crisis throughout the first half of the fiscal year. However, its recovery was not as rapid as that of Hong Kong's.

The Group continued to modify its strategy in response to the evolution of the Taiwan market and to lay the groundwork for the closure of the multi-label Joyce store at Taipei Metro Mall, whose lease expired in the first quarter of the 2004/05 financial year. Non-recurring costs related to the closure were reported in last year's results. Joyce opened several mono brand shops and department store corners during the 2003/04 fiscal year.

Continuing to build out the retail networks established for Marc Jacobs and Marc by Marc Jacobs, for which the Group holds exclusive country franchise rights, we opened two Marc by Marc Jacobs stores in Taipei and one Marc by Marc Jacobs shop in Taichung in the first quarter of the fiscal year under review. In April 2003, a 1,260 square-foot Marc by Marc Jacobs shop at the Taichung Sogo department store and a 2,300 square-foot flagship store in the exclusive retail area adjacent to the Taipei Formosa Regent Hotel were opened. May 2003 saw the opening of a 760 square-foot shop at the Breeze Center.

In October 2003, the Group also opened several department store corners for several other key brands – Comme des Garcons, Dries Van Noten, Marni and Martin Margiela – at the new Shin Yi Mitsukoshi.

The Group intends to open additional freestanding shops and department store corners during the 2004/05 fiscal year.

MAINLAND CHINA

Joyce operates on the Chinese mainland as a distributor, on a non-wholesale basis, for select sub-franchisees. This long-term-growth oriented, manageable-risk distribution strategy has found ready acceptance among leading international fashion houses.

The Group is undertaking an aggressive retail build-out program in first and second tier cities on behalf of its principals. During the 2003/04 fiscal year, the Group opened three Versace shops, in Guangzhou, Chengdu and Xian; three Versus shops, in Guangzhou, Chengdu and Xian; and a Missoni Sport shop in Wenzhou. In the 2004/05 fiscal year, plans call for additional shops to be opened for Versace and Versus, as well as shops for Etro.

Mainland China is growing steadily in importance as a domestic market for foreign ready-to-wear brands and, much more rapidly, as an outbound tourism market. For many brands, Hong Kong serves as the image-building gateway to the mainland and remains a strong magnet for mainland Chinese consumers, accounting for the large number of flagship stores that continue to be opened in the city.

Restrictions on group and individual travel abroad are being incrementally relaxed while travelers' disposable income levels rise; this wealth effect is not only enabling more Chinese to travel but causing them to do so more frequently. Moreover, the gradual introduction of paid holidays should increase the average length of time mainland Chinese spend abroad. Domestically, the number of individuals with incomes qualifying them as truly viable consumers of high-end designer fashion brands is growing, albeit from a small base.

While committed to developing its sub-franchising business, the Group takes a long-term view with respect to the China operation's contribution to Group profit, particularly in comparison with the contribution from sales in Hong Kong to mainland tourists. It should be remembered that VAT, import duties and other forms of tax, as well as counterfeiting and parallel importing, or gray marketeering, continue to impede the development of the mainland market for foreign brands. Over time, in accordance with WTO rules, some of these impediments will be removed and others more gradually overcome, and we are duly optimistic about our prospects on the mainland.

OPERATING COSTS

We continued to achieve cost reductions during the year. The ratios of premises and staff costs to sales decreased by 2.3 percentage points to 20.4% and 1.2 percentage points to 14.9% respectively. These improved ratios are mainly due to the successful restructuring of the retail operation in Hong Kong and an increase in staff productivity resulting from training and incentive programs. The ratio of advertising and promotion expenses to sales rose slightly, by 1.2 percentage points to 3.2%, and this was mainly due to our robust marketing initiatives implemented throughout the year.

FINANCIAL RESOURCES

The Group's net cash position is HK$261.5 million, an increase of over 20% on the previous year.

Some industry observers will express pleasant surprise at this past year's results, given the ongoing challenges facing our sector and the communities where we operate. Given that the Group has attained many of its re-engineering goals, the Board remains cautiously optimistic that it will continue to achieve positive results in the 2004/05 fiscal year. We do not take our employees' and partners' commitment for granted. Our gratitude to them continues to grow.

Walter K. W. Ma
Chairman

23 June 2004

Adrienne M. Ma
Managing Director

23 June 2004