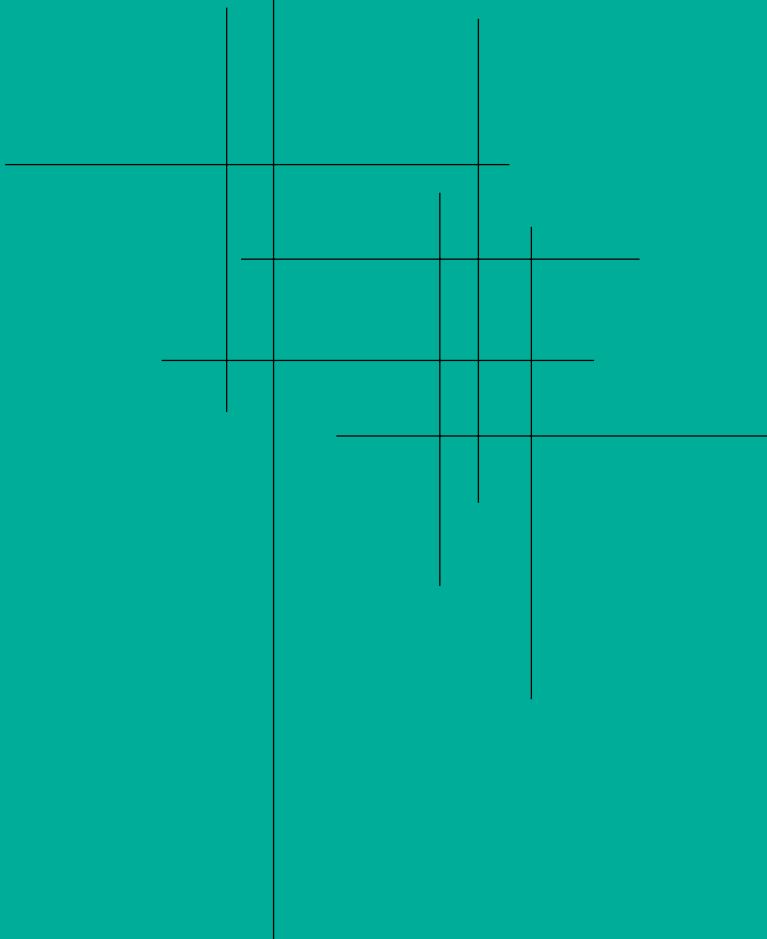


MANAGEMENT

DISCUSSION AND ANALYSIS



MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group recorded a consolidated turnover of HK\$1,554,567,000 for the year ended 31 March 2001, representing a 23% increase compared to the previous year's turnover of HK\$1,264,605,000. Net profit attributable to shareholders was HK\$16,655,000, 79% down from last year's HK\$79,237,000.

The retail and distribution business in Hong Kong remained the largest contributor to the Group's turnover, accounting for 65% (2000: 76%) of the Group's turnover for the year. The rest of the turnover was contributed by the Mainland China, Taiwan and Singapore markets.

During the year, the Group invested substantial resources to increase the value of the **bossini** brand and strengthen its market position through various measures including advertising campaigns, shop renovation and

investment in human resources. In the short term, these expenditures inevitably would have an adverse impact on profits. In the long run, however, continued improvements in brand image and service quality will further consolidate the business base of the Group, strengthening its ability to fully develop the potential of Asian markets.

Hong Kong

During the year, the local retail market remained sluggish, and there was a lack of public confidence in the economic outlook. In addition, the property market was still weak, while the unemployment rate remained high. These factors have led people to be generally prudent in their spending. The Hong Kong business of the Group recorded an operating profit of HK\$2,053,000 for the year (2000: HK\$49,878,000). In spite of a 5% increase in turnover to HK\$1,007,795,000 and a 1.6 percentage points improvement in gross margin compared to last year, the Group's strategic increase in investment in advertising programmes, shop renovation and staff recruitment and human resources during the year affected overall profits.



Operating costs in the Hong Kong market remained high, with shop rents accounting for a major share of the total. Though rents for retail premises have fallen significantly from their peak in 1997, they are still very high when compared against other countries, particularly in view of the current economic situation. The high level of rents puts considerable pressure on retailers.

The Group had gradually increased its outlets from 36 shops at the end of the previous year to 41 as at 30 September 2000. However, considering the continuous sluggishness of the retail market, the Group then adjusted its strategy by consolidating a number of outlets. Accordingly, the number of outlets run by the Group had returned to the earlier total of 36 as at 31 March 2001.

Mainland China

The investment environment in Mainland China steadily improved during the year. The retail market is growing, presenting many business opportunities. The Group believes that the pace of entry of imported brands into the China market will speed up rapidly.

During the year, the Group was proactive in expanding the market. The number of shops directly managed by the Group increased from 9 at last year end to 33 at this year end. In addition, the Group also developed its authorised dealer business. A turnover of HK\$200,371,000 was recorded, representing a 19% increase compared to last year's HK\$168,579,000. The operating profit was HK\$12,417,000, a 31% decrease compared to last year's profit of HK\$17,989,000. The reduction in profit was mainly due to the increase in

expenditure on various investments such as expanding the staff team and improving operational facilities and equipment. Furthermore, the Group was still adjusting the operating structure of its business during the year, and the resulting improvement in operating efficiency has not yet been fully reflected in the Group's results at this stage.

Taiwan

The Taiwan market was served by a licensee prior to 1 September 2000, when the Group acquired the retail operations and business assets from the licensee and began running the retail business directly. At the end of the year, the Group operated 55 outlets, covering the whole territory of Taiwan.

Despite the weak economic environment, the Taiwan market has contributed a profit to the Group. During the year, the Taiwan operations contributed 7 months' operating results to the Group, with a turnover of HK\$160,733,000.

Singapore

Following the remarkable recovery of the Singapore economy last year, the pace of economic growth started to slow down this year. Despite this, the Group still achieved a turnover of HK\$185,668,000, a 40% increase. The operation continued to be profitable.

In view of the slowdown of the economy, the Group strategically slowed down its shop expansion plan accordingly. The expansion plan will be reconsidered when the market rebounds. As at 31 March 2001, the Group had 24 outlets in Singapore (31 March 2000: 19 outlets).

Outlook

Looking ahead, the Group believes the forthcoming year will be a year of challenges as well as opportunities.

In response to the downturn of the Hong Kong economy, the Group will adopt a relatively more prudent approach to running its retail business in the territory, adjusting its scale of operation where appropriate.

The clothing market in Mainland China will be the major focus of expansion in the coming year. A 30% growth in turnover is expected. In addition to running directly managed shops in major cities, namely Guangzhou, Shanghai, Shenzhen and Beijing, the Group plans to open additional shops in four other major cities. Meanwhile, the Group will continue to expand its authorised dealer business.



Taiwan is now effectively a new market served directly by the Group. However, given the current adverse and unstable economic climate there, the Group will develop the market cautiously, maintaining its scale of operation at around 55 to 60 outlets. Nevertheless, the Group believes that market potential for the **bossini** brand in the Taiwan market is enormous. In the forthcoming year, Taiwan is expected to become the Group's second largest market, and business there will continue to make a solid contribution to the Group's profits.

Although economic growth in Singapore shows signs of slowing down, the Group is confident of running its business there at a profitable level, with double-digit growth in turnover next year.

With the expected substantial growth of other major markets outside Hong Kong in the coming year, the Group expects that the turnover generated by the retail and distribution business in Hong Kong will reduce to 50% of the Group's total.

Overall, the Group will continue to develop the existing Hong Kong, Mainland China, Taiwan and Singapore businesses while exploring other new markets in Asia in the coming few years. With this expansion strategy, the business of the Group will become more international, which will be beneficial to maintaining the stability and growth capability of the Group.

Financial Position

The Group has relied on its internally generated cash flows, bank borrowings, and import and export-related banking facilities to finance its business development during the year. As at 31 March 2001, the Group had unused banking facilities (including trade finance, revolving loans and guarantees) totalling HK\$276,854,000 (31 March 2000: HK\$190,365,000). To finance the acquisition of the Taiwan business, the Group obtained a long term bank loan of HK\$45,000,000 during the year.

As at 31 March 2001, the Group's total assets amounted to HK\$526,060,000 (31 March 2000: HK\$514,384,000). Goodwill of HK\$20,982,000 arising from the acquisition of the Taiwan business was written off to the Group's reserves during the year. Taking into account the effect of this write-off, shareholders' equity as at 31 March 2001 was HK\$322,387,000 (31 March 2000: HK\$330,640,000).

The Group has maintained a healthy financial position. As at 31 March 2001, the Group's current ratio was 1.98 (31 March 2000: 1.85) while its total debt to equity ratio was 0.63 (31 March 2000: 0.56). The latter was calculated by dividing the total debt of HK\$203,673,000 (31 March 2000: HK\$183,744,000) by the total shareholders' equity of HK\$322,387,000 (31 March 2000: HK\$330,640,000). In addition, there was a significant improvement in inventory turnover, with inventory days dropping from last year's 48 days to this year's 40 days.

