

*Management  
Discussion and  
Analysis*



## FINANCIAL RESULTS AND BUSINESS REVIEW

The consolidated turnover for the year ended 31 March 2002 was HK\$1,588,473,000, representing an increase of 2.2% as compared to HK\$1,554,567,000 for the previous year. However, there was a net loss attributable to shareholders of HK\$38,769,000, compared with a net profit attributable to shareholders of HK\$16,655,000 recorded last year.

Included in the net loss attributable to shareholders reported for the year was a provision for impairment of HK\$13,408,000 in respect of warehouse premises used for inventory storage in Hong Kong. Excluding the above impairment loss, the net loss attributable to shareholders was HK\$25,361,000.

Due to the overall adverse economic climate in major markets except Mainland China, the Group took a prudent approach and adopted a series of specific measures to extract the maximum returns. These steps included:

- (a) the strategic consolidation of operation scale in Hong Kong;
- (b) a cost-cutting programme including the closure of some small, under-performing outlets;
- (c) the continued expansion of operations in Mainland China; and
- (d) the restructuring of the design team to ensure fresh, upbeat, modern and easy-to-wear fashions are offered.

### Hong Kong

	For the year ended 31 March		
	2002	2001	2000
Net retail sales (HK\$'000)	<b>740,133</b>	870,956	827,594
Retail floor area (sq. ft.) – <i>Note (a)</i>	<b>121,541</b>	119,629	105,814
Net sales per sq. ft. (HK\$'000) – <i>Note (b)</i>	<b>5,933</b>	7,434	9,070
No. of outlets – <i>Note (a)</i>	<b>32</b>	36	36

*Notes:*

(a) as at 31 March

(b) on weighted average basis

Hong Kong remained the Group's largest market with sales of HK\$851,120,000, included retail and wholesale business, which represented 53.6% (last year : 64.8%) of the Group's total turnover. The Hong Kong portion as a percentage of total turnover was lower than the previous year as a result of the consolidation of Hong Kong operations and the expansion and increased sales in other markets like Mainland China and Taiwan.

**FINANCIAL RESULTS AND BUSINESS REVIEW** *(continued)***Hong Kong** *(continued)*

During the year, the local retail market remained sluggish with consumers generally very prudent about spending. To counteract the effects of such a difficult business environment, the Group decided to consolidate operations by cutting some small, under-performing outlets. At year end, the Group had 32 outlets, compared with a total of 36 last year.

**Mainland China**

	<b>For the year ended 31 March</b>		
	<b>2002</b>	2001	2000
Net sales from directly managed outlets (HK\$'000)	<b>181,845</b>	129,234	33,275
Retail floor area (sq. ft.) – <i>Note (a)</i>	<b>120,819</b>	39,276	13,686
Net sales per sq. ft. (HK\$'000) – <i>Note (b)</i>	<b>2,373</b>	3,979	2,005
No. of directly managed outlets – <i>Note (a)</i>	<b>103</b>	33	9

*Notes:*

*(a)* as at 31 March

*(b)* on weighted average basis

The more buoyant market in Mainland China saw a substantial growth in sales by 33.4% compared with last year's HK\$200,371,000, and the total number of outlets there increased to 175 from the 61 in operation at the end of last year. The benefits were seen in the results for the second half of the year when most of the new outlets came into operation.

To develop and expand the business in Mainland China, the Group focused on two modes of operations: directly managed establishments and authorised dealer ventures. By the end of the year, the Group conducted business in 103 directly managed stores and 72 authorised dealer ventures compared with 33 and 28, respectively, last year.

During the year, the Group also implemented the key strategies necessary to build an extensive and strong sales network so as to benefit from economies of scale and increased brand awareness. The key element was to aggressively increase the number of directly managed stores in major cities to better build a solid foundation in the casual wear market. Thereafter, the Group will accelerate the expansion of its authorised dealer business and, through those dealers, develop the market in other areas in China.

**FINANCIAL RESULTS AND BUSINESS REVIEW** *(continued)***Singapore**

	<b>For the year ended 31 March</b>		
	<b>2002</b>	2001	2000
Net retail sales (HK\$'000)	<b>171,802</b>	185,670	132,595
Retail floor area (sq. ft.) – <i>Note (a)</i>	<b>31,320</b>	27,811	17,728
Net sales per sq. ft. (HK\$'000) – <i>Note (b)</i>	<b>5,678</b>	7,780	7,904
No. of outlets – <i>Note (a)</i>	<b>28</b>	24	19

*Notes:*

(a) as at 31 March

(b) on weighted average basis

At year end, the Group operated 28 outlets in Singapore compared with 24 last year. Due to the continued economic downturn, sales dropped by 7.5% compared with last year. The operating results for the second half of the year improved which led to a whole year profit from operating activities of HK\$10,241,000.

**Taiwan**

	<b>For the year ended 31 March</b>		
	<b>2002</b>	2001	2000
Net retail sales (HK\$'000)	<b>298,205</b>	160,731	–
Retail floor area (sq. ft.) – <i>Note (a)</i>	<b>119,835</b>	85,332	–
Net sales per sq. ft. (HK\$'000) – <i>Note (b)</i>	<b>2,954</b>	3,735	–
No. of outlets – <i>Note (a)</i>	<b>68</b>	55	–

*Notes:*

(a) as at 31 March

(b) on weighted average basis

Taiwan was another major market and contributed 18.8% to the Group's turnover. Operations in Taiwan have continued to develop since the business was acquired from the former licensee in September 2000.

Sales improved but fell short of expectations mainly due to the poor state of the economy. In addition, the weakened value of the New Taiwan dollar against the US dollar had put pressure on costs of purchases as goods were sourced mainly from Hong Kong. As a result, the gross margin was squeezed.

Despite these short term difficulties, the Group has continued to invest in the market in the firm belief that lucrative business opportunities exist. During the year, the Group gradually increased the number of outlets to 68 compared with 55 at the end of last year.

## LIQUIDITY AND FINANCIAL RESOURCES

During the year, the Group generally financed its operations with internally generated cash flows and banking facilities provided by its principal bankers.

Net assets at 31 March 2002 amounted to HK\$332,188,000, compared with HK\$322,387,000 last year. Net proceeds of HK\$62,210,000 raised from a Rights Issue were received in mid-March 2002 and remained unused and were put into bank deposits at the end of the financial year. At 31 March 2002, the Group had a net cash balance, being total cash on hand minus total bank borrowings, of HK\$58,428,000. In addition, there was a remarkable improvement in inventory turnover, with the number of inventory turnover days dropping from 40 last year to 29 this year.

With its cash holdings and available banking facilities, the Group believes that sufficient funds are available to pursue its planned business development opportunities.

The current ratio improved from last year's 1.98 to 2.19 while the quick ratio improved from last year's 0.90 to 1.49. These ratios indicate that the Group has maintained a sound working capital and liquidity position. The debt to equity ratio was 0.70 while it was 0.63 last year. The ratio was calculated by dividing the total liabilities of HK\$233,334,000 (31 March 2001: HK\$203,673,000) by the total shareholders' equity of HK\$332,188,000 (31 March 2001: HK\$322,387,000).

During the year, the Group entered into a limited number of forward contracts to hedge its foreign currency denominated receivables against the fluctuation of exchange rates, and interest rate swap contracts to reduce the exposure of interest rate fluctuation.

## HUMAN CAPITAL

As at 31 March 2002, the Group employed 2,528 full-time staff in Hong Kong, Macau, Mainland China, Singapore and Taiwan. The Group remunerates its employees based on their performance, experience and prevailing industry practices. Benefits such as staff insurance, retirement scheme and discretionary bonus are provided. It also provides both in-house and external training programmes to strengthen the Group's human resources.

## OUTLOOK

In view of the ongoing difficult economic climate, the Group will continue to run its business in a pragmatic and prudent manner.

While consumers are not willing to spend as freely as in the past, the Group is set to bring them high quality and value-for-money merchandise. The Group will continue to seek to increase its market share and enhance its image with fresh and attractive designs, supplemented by targeted advertising and promotion campaigns. The Group will also remain alert to new opportunities that may occur as and when economic conditions improve.

Notwithstanding this year's strategic consolidation of retail operations, Hong Kong will continue to serve as the Group's main operating country. Strategically, while the scale of operations in the near future is likely to be maintained at present levels, Hong Kong will still be the predominant market in the year to come.

The market in Mainland China looks to be highly promising, and the Group will continue to focus on expanding its operations there. Building and developing an extensive sales network and achieving stronger brand recognition are key to the Group in achieving its goals. The Group plans to open an additional 40 directly managed stores in the coming year. Besides, the Group will establish 240 more outlets through the venture of authorised dealers. The ultimate goal of these expansion measures is to achieve a total of 450 outlets throughout Mainland China by the end of March 2003 selling bossini brand products. The Group is optimistic that, having achieved its goals, sales in the Mainland China market will eventually increase to about 30% of the Group's turnover compared with 16.8% this year.

In Singapore, the Group is exercising caution in view of the current economic uncertainty and will maintain its existing scale of operations.

There are undoubted opportunities for growth in Taiwan, especially as the Group's scale of operations is still not large compared with major competitors. The room to grow is enormous given that the Group now runs all bossini operations in Taiwan and can thus allocate greater resources to develop its business there and build an extensive sales network.

The Group will progressively continue to develop and diversify its operations in a careful, structured manner while simultaneously exploring new markets and business opportunities in the Asia-Pacific region. The Group is confident that this strategic framework will prove beneficial to maintaining long term stability, growth, and profitability.