

Management Discussion and Analysis



FINANCIAL RESULTS AND BUSINESS REVIEW

For the year ended 31 March 2003, the Group recorded a consolidated turnover of HK\$1,691.4 million, representing an increase of 6.5% compared to the HK\$1,588.5 million for the previous year. The increase was attributable to continuous growth in sales in Mainland China as a result of the opening of new outlets and the launch of a new casual wear brand, whereas sales in other major markets declined during the year.

The Group recorded a net loss attributable to shareholders of HK\$74.1 million, compared with a net loss of HK\$38.8 million last year. The principal reasons for this loss were: (i) serious problems encountered with the design of products in those deliveries launched during the year which resulted in a poor response from consumers; (ii) a larger than expected loss incurred for the new brand, Sparkle; (iii) the poor performance of Taiwan operations and the writing-off of fixed assets due to the closure of 13 outlets there during the first quarter of 2003; and (iv) the impact of "SARS" on sales in Hong Kong and Singapore during March 2003.

There was a drop of 2.1 percentage points in the Group's gross margin to 41.4%, compared to last year's 43.5%. This resulted from the pressure that occurred in Mainland China to clear inventory at the end of each season, as well as the lower gross margin on sales of Sparkle brand products. A change in the Group's inventory provision policy during the year resulted in a reduction of inventory provision charged for the year of HK\$16.4 million. Excluding the effect of the change in the inventory provision policy, the gross margin declined by 3 percentage points.

Operating costs for the year ended 31 March 2003 totalled HK\$775.3 million, an increase of 7% compared to HK\$724.5 million for the previous year. This was mainly brought about by the expansion of the Group's retail network in Mainland China, and the percentage more or less aligned with the increase in the Group's turnover.

Hong Kong

	For the year ended 31 March		
	2003	2002	2001
Net retail sales (HK\$'000)	639,254	740,133	870,956
Retail floor area (sq.ft.) – <i>Note (a)</i>	112,705	121,541	119,629
Net sales per sq.ft. – <i>Note (b)</i>	5,463	5,933	7,434
No. of outlets – <i>Note (a)</i>	31	32	36

Notes:

(a) As at 31 March

(b) On weighted average basis

Management Discussion and Analysis

The Group maintained a conservative approach in its business activities in Hong Kong during the year, due to the weak economic conditions and intense market competition. As at 31 March 2003, the Group had a total of 31 outlets in Hong Kong and Macau, compared to last year's 32. Retail sales for the year amounted to HK\$639.3 million (last year: HK\$740.1 million), a decline of 13.6%. The outbreak of "SARS" began to affect business in mid-March 2003, resulting in a fall of about 30% in sales compared to last year's level. Apart from retail operations, the wholesale business contributed a turnover of HK\$119.1 million, an increase of 16.7% compared to last year's figure of HK\$102.1 million.

The Hong Kong operations recorded an operating loss of HK\$17.1 million, mainly incurred during the first half of the year; whereas business actually turned around during the second half.

Mainland China

	For the year ended 31 March		
	2003	2002	2001
Net sales from directly managed outlets (HK\$'000)	321,420	181,845	129,234
Retail floor area (sq.ft.) – <i>Note (a)</i>	308,126	120,819	39,276
Net sales per sq.ft. – <i>Note (b)</i>	1,273	2,373	3,979
No. of directly managed outlets – <i>Note (a)</i>	257	103	33

Notes:

(a) As at 31 March

(b) On weighted average basis

This market was the focus for the Group's expansion during the year. It became the Group's second largest market, with turnover of HK\$484.4 million, an increase of 81.2% compared to last year's figure of HK\$267.3 million. The operations in Mainland China recorded a loss of HK\$22.7 million. As at 31 March 2003, the Group operated 257 directly managed outlets on the Mainland, compared with the previous year's figure of 103. Of these, 170 (last year: 103) were Bossini brand outlets, while 87 (last year: Nil) were for Sparkle brand. In addition, there were 161 outlets operating under authorised dealer arrangements as at 31 March 2003 (last year: 72).

As a newly launched venture, Sparkle required substantial initial investment, particularly in large-scale advertising and promotional activities for building brand awareness. In addition, delays were encountered in the schedule for shop openings and sales did not increase at the planned rate, resulting in an accumulation of inventory. The pressure to clear this inventory caused a substantial fall in gross margin of its sales. The operating loss on the Sparkle venture amounted to HK\$29.7 million, which was much greater than expected. Excluding the operating loss from the Sparkle brand, the Bossini brand's business recorded an operating profit of HK\$7 million.

Singapore

	For the year ended 31 March		
	2003	2002	2001
Net retail sales (HK\$'000)	151,984	171,802	185,670
Retail floor area (sq.ft.) – <i>Note (a)</i>	32,167	31,320	27,811
Net sales per sq.ft. – <i>Note (b)</i>	4,735	5,678	7,780
No. of outlets – <i>Note (a)</i>	28	28	24

Notes:

(a) As at 31 March

(b) On weighted average basis

The continued economic downturn affected the results of the Group's operation in Singapore. Sales declined by 11.5%, from the previous year's figure of HK\$171.8 million to HK\$152 million. The operating profit was HK\$6.7 million, compared to the previous year's HK\$10.2 million. The business maintained approximately the same operating scale as last year.

Taiwan

	For the year ended 31 March		
	2003	2002	2001
Net retail sales (HK\$'000)	287,676	298,205	160,731
Retail floor area (sq.ft.) – <i>Note (a)</i>	135,040	119,835	85,332
Net sales per sq.ft. – <i>Note (b)</i>	2,107	2,954	3,735
No. of outlets – <i>Note (a)</i>	76	68	55

Notes:

(a) As at 31 March

(b) On weighted average basis

During the first half of the year, the Group began to explore further business opportunities by gradually increasing the number of outlets, with the objective of building a more extensive sales network to maintain long-term growth and improve its competitive advantage. However, the economy deteriorated further and competitors aggressively marked down prices to clear inventory, which put pressure on the Group's business. An operating loss of HK\$35.2 million was recorded for the year. In early 2003, the Group started to consolidate its network of outlets by closing 13 poorly performing stores. This resulted in the writing-off of fixed assets of HK\$5.9 million. As at 31 March 2003, the Group had 76 outlets (last year: 68) in Taiwan.

USE OF RIGHTS ISSUE PROCEEDS

In March 2002, the Group raised HK\$62.2 million from a rights issue. Of this, approximately HK\$50 million was utilised to expand its business in Mainland China, while the remaining proceeds of approximately HK\$12 million were used for general working capital, as planned.

LIQUIDITY AND FINANCIAL RESOURCES

Other than the HK\$62.2 million proceeds raised from the rights issue in March 2002, the Group relied on internally generated cash flows, bank borrowings and import and export-related banking facilities in order to finance its business development during the year.

Increased investment in Mainland China, the poorer than anticipated performance of the Sparkle brand and the businesses downturn increased the Group's total debt to equity ratio to 1.26 as at 31 March 2003 (31 March 2002: 0.72). The ratio was calculated by dividing total liabilities of HK\$322.3 million (31 March 2002: HK\$237.3 million, as restated) by the total shareholders' equity of HK\$256.8 million (31 March 2002: HK\$328.2 million, as restated). The current ratio dropped to 1.42 from the previous year end figure of 2.14. As at 31 March 2003, the Group had net bank borrowings (total bank borrowings minus total cash on hand) of HK\$53.4 million (31 March 2002: net cash balance of HK\$58.4 million).

10

In order to improve its financial position and achieve future growth, the Group raised another rights issue in May 2003. This generated approximately HK\$55.7 million in net proceeds. The Group plans to apply about HK\$30 million of the net proceeds to repay bank borrowings, and about HK\$10 million to finance the expansion of its authorised dealer business in Mainland China. The balance of approximately HK\$15.7 million will be utilised as general working capital for the Group.

During the year, the Group entered into forward contracts to hedge its foreign currency denominated receivables against fluctuations in exchange rates. As at 31 March 2003, the Group had commitments amounting to approximately HK\$31.1 million in respect of foreign exchange contracts entered into with a bank.

HUMAN CAPITAL

As at 31 March 2003, the Group employed 3,425 full-time staff in Hong Kong, Macau, Mainland China, Singapore and Taiwan. It remunerates employees according to their performance, experience and prevailing industry practices. Benefits such as staff insurance, retirement schemes and discretionary bonuses are provided.

OUTLOOK

The Group faces another tough year. The economic downturn experienced in most Asian markets where the Group has major operations (other than Mainland China) is likely to continue. The widespread outbreak of “SARS” put more pressure on its businesses.

To counteract these difficulties, the Group has taken the following actions: (i) to refocus its product strategy to meet the needs of its core customers by offering more basic clothing items; (ii) to increase sales through optimum utilisation of retail floor space and improvement in the selling skills of frontline staff; (iii) to improve gross margin by increasing the percentage of products sourced from lower-cost areas, better management of product mix, and more effective formulation of discount policies; and (iv) to reduce operating expenses through cost-cutting measures and restructuring outlets.

The Hong Kong retail market is expected to remain soft during the coming year. Unemployment figures will stay at high levels, and deflation will persist. People are concerned about the security of their jobs, and more careful about their spending. In view of these factors, it is important for the Group to continue running its business in a prudent manner. The Group will explore every avenue to reduce operating costs. Measures are being implemented to minimise staff costs and increase the variable weighting in salary structures. Two more outlets have been closed since the year end date, and the Group expects to maintain its operating scale at approximately the current level in both Hong Kong and Macau during the coming year. Even so, Hong Kong will remain the Group's largest market.

The Group's long-term focus is to expand its business in Mainland China. Its two brands (Bossini and Sparkle) will be run in parallel. Following last year's expansion, the Group is now focusing on strengthening the foundations already built for its businesses, and driving results. The locations of outlets are being consolidated to improve operational efficiency. In view of the Sparkle brand's poor performance since its launch in September 2002, the Group has started to restructure its management and operating team, and to re-position its marketing and pricing strategies. Expenditure on advertising and promotional activities will be substantially curtailed. Nevertheless, the Group began to recruit authorised dealers to develop the brand in 2003. Approximately HK\$10 million from the rights issue in May 2003 has been put aside to finance the expansion of the Group's authorised dealer business.

Singapore faced similar difficulties to Hong Kong. Even so, the Group's operation there is still profitable, due to the effective cost-trimming measures it has implemented. The Group believes that its business performance in Singapore will continuously improve.

In view of the unsatisfactory results of the Taiwan operation, the Group has started to close unprofitable outlets, and to keep the operating scale at around 70 outlets. In order to reduce the cost of goods sold, the Group has adopted a local purchasing arrangement, with a target to purchase about 20% of its inventory from local suppliers by the end of next year. At the same time, local management will adopt a micro-marketing approach to increase sales, handle sales discounts and launch promotional activities.

Although 2003/04 will be a difficult year, the Group is confident that its results will substantially improve following the implementation of the above measures, which are already beginning to yield positive results.