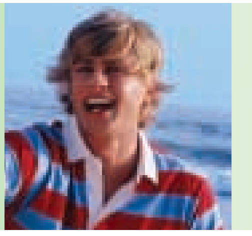
# Growth


bossini

# Management discussion and analysis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## FINANCIAL PERFORMANCE

The Group recorded impressive performance for the year ended 31 March 2004. The consolidated turnover amounted to approximately HK$1.8 billion, representing a year-on-year increase of 5.4%. Contributed by a series of new inventory and margin management measures, the Group's gross margin increased considerably to 47.3% (2003: 41.4%). Net profit from ordinary activities attributable to shareholders also reached a record high of approximately HK$118 million (2003: HK$74 million net loss).

The Group strategically consolidated its retail outlets, closing down under-performing stores to increase the overall retail floor usage efficiency. As a result, the total retail floor space decreased by 17.9% to 482,600 sq. ft. Customers were thus directed to remaining stores, leading to a 7.7% improvement in efficiency with weighted average sales of HK$2,800 per sq. ft. per annum (2003: HK$2,600 per sq. ft. per annum).

Simultaneously, the Group's operating costs showed an improvement of 8.5% or a reduction of approximately HK$66 million, testimony to the effectiveness of cost-cutting measures and the restructuring of outlets.

## BUSINESS REVIEW

As a leading apparel brand owner, retailer, licensor and supplier, the Group has established a global business network through directly managed outlets, authorised dealer and licensed outlets in Mainland China and overseas. Setting our ultimate goals on rewards and profits rather than focusing on sales growth, the Group thus underwent network consolidation during the year. As of 31 March 2004, the Group's network reduced to 678 (2003: 691) outlets worldwide. The total number of directly managed outlets was reduced from 392 to 314 in Hong Kong, Mainland China, Taiwan and Singapore while 34 authorised dealer outlets in Mainland China were newly established, resulting in a total of 195 authorised dealer outlets spreading all over Mainland China under the brands of "**bossini**" and "**sparkle**". The overseas brand presence was established through 169 overseas licensed outlets operated by its business partners in 16 countries.

The encouraging performance for the year ended 31 March 2004 was the result of: (1) stringent cost control, inventory and margin management, leading to substantial profitability improvement; (2) a refined brand positioning and product offering that improved aggregate sales; and (3) the successful boost in morale and development of corporate culture, which nurtured quality and effective staff, and ultimately their efficiency.

## REVIEW OF OPERATIONS

### Segmental market performance

Headquartered in Hong Kong, the Group operates on a global platform, with businesses in Hong Kong, Mainland China, Taiwan and Singapore forming the four key revenue streams.

Hong Kong continued to form the major revenue source, accounting for 46.8% of total sales, followed by Mainland China which accounted for 25.8% of the total sales, while Taiwan and Singapore accounted for 17.7% and 9.7% respectively.

**Sales by geographical markets:**

| | Hong Kong | | Mainland China | | Taiwan | | Singapore | |
|---|---|---|---|---|---|---|---|---|
| Year ended 31 March | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 |
| Total sales (in HK$ million) | **835** | 767 | **459** | 484 | **315** | 288 | **174** | 152 |
| Net retail sales (in HK$ million) | **678** | 639 | **309** | 321 | **315** | 288 | **174** | 152 |
| Retail floor area (sq. ft.) *(a)* | **98,600** | 112,700 | **235,600** | 308,100 | **119,500** | 135,000 | **28,900** | 32,200 |
| Net sale per sq. ft. (in HK$) *(b)* | **6,800** | 5,500 | **1,200** | 1,300 | **2,600** | 2,100 | **5,400** | 4,700 |
| Number of outlets | **27** | 31 | **189** | 257 | **71** | 76 | **27** | 28 |

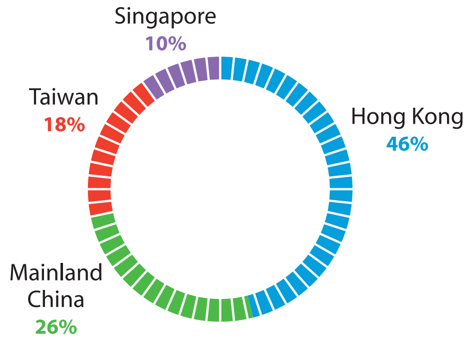
Notes:

(a) As at 31 March

(b) On weighted average basis

**Sales by geographical markets**

Year ended 31 March 2004



# focus on apparel business

**Operating cost analysis:**

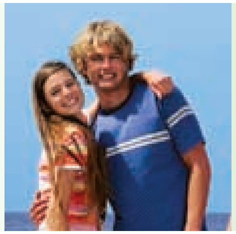
| | 2004 | | 2003 | | |
|---|---|---|---|---|---|
| | HK$ million | % of total turnover | HK$ million | % of total turnover | Improved |
| **Turnover** | **1,783** | **100.0%** | 1,691 | 100.0% | **5.4%** |
| Selling and distribution costs | **509** | **28.5%** | 563 | 33.3% | **9.6%** |
| Administrative expenses | **158** | **8.9%** | 160 | 9.5% | **1.5%** |
| Other operating expenses | **43** | **2.4%** | 52 | 3.0% | **17.3%** |
| **Total operating expenses** | **710** | **39.8%** | 775 | 45.8% | **8.5%** |

## Hong Kong

The retail environment in Hong Kong experienced drastic change in the year. The overall market economy was affected by the SARS epidemic in April and May 2003 which led to lowered consumption and reduced purchasing power. Fortunately, the market picked up rapidly in the second half of the year. This was driven by rising tourist arrivals along with the relaxation of restrictions on the entry of mainland tourists into Hong Kong. Reformed banking regulations to allow RMB trading in Hong Kong also served as a catalyst for Mainlanders' spending in Hong Kong. As a result of these factors, retail demand in Hong Kong surged rapidly.

During the year, the Group consolidated its local network in Hong Kong to 27 outlets (2003: 31) and thus reducing the total retail floor space to 98,600 sq. ft. (2003: 112,700 sq. ft.). Despite this, with the well-established "**bossini**" brand and the prime location of its stores, the Group successfully captured the arising opportunities. Retail sales from Hong Kong increased by 6.1% to HK$678 million (2003: HK$639 million), while distribution sales to overseas licensees increased to HK$148 million (2003: HK$119 million). Total sales from this market increased by 8.8% to HK$835 million (2003: HK$767 million).

Benefiting from a lowered rental cost and enhanced efficiency, the Group is pleased to report that the Hong Kong operations finally turned around with a highly encouraging operating profit of HK$96 million (2003: HK$17 million loss). The Group is confident of sustaining this strong growth momentum in the forthcoming years in view of the strengthening economy ahead.



## Mainland China

The Group's Mainland China operations also marked a turning point in the year. As the aggressive expansion plans in the past year turned out to be unfruitful, the Group has decisively consolidated its network. The total number of directly managed outlets were reduced to 189 (2003: 257) on one hand while the number of authorised dealer outlets was increased to 195 stores (2003: 161) on the other hand. Total floor area of directly managed outlets decreased by 23.5% to 235,600 sq. ft.

The reduced floor area resulted in a 3.7% decline in retail sales from Mainland China to HK$309 million (2003: HK$321 million), while distribution sales to authorised dealers decreased to HK$129 million (2003: HK$137 million). Total turnover from the market decreased by 5.2% to HK$459 million (2003: HK$484 million). On the contrary, the operating profit from Mainland China recorded a high level of HK$15 million (2003: HK$23 million loss).

The launch of the "**sparkle**" brand in 2002 suffered from various operational issues arising from management ineptness. After a series of rectifications and cultivation with devoted efforts, "**sparkle**" started to breakeven in the second half of the year. Driven by the combined power of the two brands, the outlook of the Mainland China market is highly promising.

## Taiwan

Despite the many uncertainties that prevailed in Taiwan in the past year, the Group recorded very outstanding operational and financial performance during the year.

Sales from Taiwan amounted to HK$315 million (2003: HK$288 million), an increase of 9.4% achieved against a reduction of floor area from 135,000 sq. ft. to 119,500 sq. ft. , or by 11.5%, as a result of the Group's swift decision of closing down 5 stores with poor performances. In addition, intensive staff training contributed to substantial improvements in operational efficiencies and productivity. The Taiwan operations, therefore, achieved a turnaround with an exhilarating result, recording an operating profit of HK$17 million (2003: HK$35 million loss).



The management will focus on upholding operational efficiencies and profitability. The strategy is to boost both turnover and profit levels by strengthening Bossini's foothold in existing markets and extending our reach to other overseas markets.

### Singapore

Singapore, as one of the major commercial hubs in Asia, is a strategic location for companies seeking regional expansion. The Group's strategy is to maintain its competitiveness in this market via a flexible and prudent approach. During the year, the total retail floor area in Singapore was reduced by 10.2% to 28,900 sq. ft.

In this highly competitive market, "**bossini**" differentiates itself from other brands with its comfortable and easy to mix-and-match products that offer good value-for-money. As such, sales in Singapore surged by 14.5% to HK$174 million (2003: HK$152 million). Together with the positive impact of the cost saving measures, an impressive operating profit growth was shown, which represented a significant improvement of 152.1% to HK$16.9 million (2003: HK$6.7 million).

### Use of rights issue proceeds

In May 2003, the Group raised net proceeds (after deducting expenses) of HK$55.7 million from a rights issue. The proceeds were fully utilized and applied as follows:

- Approximately HK$10 million for financing the expansion of the Group's authorised dealer business in Mainland China;
- Approximately HK$30 million for repayment of bank borrowings;
- Approximately HK$15.7 million for general working capital of the Group.

### Liquidity and financial resources

As at 31 March 2004, the Group's current ratio improved to 2.72 times from prior year's level of 1.42 times. Total liability to equity ratio improved considerably to 43%, as compared to 118% in the previous year end date. The Group's total liabilities were HK$192 million (2003: HK$322 million) with equity amounting to HK$446 million (2003: HK$274 million).

The Group had net cash balance (total cash on hand minus total bank borrowings) of HK$190 million at 31 March 2004, as compared to the net bank borrowings of HK$53 million at the previous year end date.

# target for double-digit growth

## Human capital

As at 31 March 2004, the Group employed 3,230 full-time equivalent staff in Hong Kong, Macau, Mainland China, Taiwan and Singapore. It employs a performance-based remuneration system and offers benefits such as insurance, retirement schemes as well as discretionary performance bonuses.

## Outlook

Looking ahead, the Group will continue to leverage its six key competitive advantages: visionary and experienced management, profit-driven business model, worldwide distribution network, comprehensive product offering, effective retail management and inspiring corporate culture imbued with "The 7 Habits of Highly Effective People®".

The Board is optimistic of the Group's future development. Driven by envisaged rising tourist arrivals, the retail environment in Hong Kong will be characterised by rapid growth in the coming years. Moreover, many of the factors that have depressed local consumption sentiment in recent years are fading. The rebound in the property market and improvement of unemployment rate both led to increased local consumer spending. Capitalising on the growth opportunities, the Group plans to strategically expand its operations in prime areas in Hong Kong with the opening of 5 new stores this year.

The outlook of the Mainland China market is equally promising. Mainland China's retail market is the fourth largest in the world. The strong growth in retail sales in recent years has been driven by rising incomes. On one hand, Bossini is well placed to leverage this trend with two complimentary brands targeting different markets. On the other hand, owing to the increasingly severe competition in this huge market, the Group will adopt a prudent approach, making use of both directly operated and authorised dealer outlets to mitigate risks and capital expenditures. The Group's target is to add 100 outlets to its current network in Mainland China in the coming year.

Despite Taiwan's economic and political uncertainties in recent years, the Group has managed and will continue to grow its sales and profit in the region. Further leveraging on the effective cost management and the successful turnaround in its operation, the Group will maintain its existing business model in the area. Along with the gradual improvement of the Taiwan economy, it is believed that the Taiwan operation will show improving performance in the years ahead.

# a brighter future

The Singapore market will continue to be characterised by keen competition. Though a saturated market, the outlook for the Singapore retail market has improved on the back of the strengthening economy, leading to an improved operating environment for the Group in the coming year. The Group will leverage its brand presence in the region to optimise productivity of existing stores through restructuring of under-performed outlets, while keeping its eyes open for synergistic expansion opportunities.

The Group will endeavour to improve its profitability through further enhancing the qualities of people, product and system, strengthening the corporate and brand images, together with the following strategies:

- leveraging on the growing strength of Bossini's sales and marketing resources
- prudent and diligent expansion plans
- swift closure of unprofitable outlets
- stringent cost control
- enhancing management technique

To further hone its competitive edge, Bossini has invited management consultants to review its merchandise planning, supply chain and logistic operations. It is now considering investing in world class and enterprise wide information systems, which will enable the Group to conduct comprehensive and strategic planning in finance, merchandising, store management, in-season monitoring and timely product replenishment. This will be major infrastructure investments of the Group in the forthcoming years.

Looking ahead, a key mission of management is to deliver steady growth in the years to come. The management will focus on upholding operational efficiencies and profitability. The strategy is to boost both turnover and profit levels by strengthening our foothold in existing markets and extending Bossini's reach to other overseas markets. Leveraging the "**bossini**" brand which has proven to be a successful apparel brand in many countries, the Group will explore the potential of exporting to overseas markets via licensed outlets, boosting its sales while minimising the cash outlay and capital risk involved in business expansion. Therefore, the Board has every confidence in delivering continually encouraging double-digit growth in the years ahead.