

## Operations Review



**D**uring its first year of trading as a listed company, the Group strengthened its position within the Asian casualwear retail market through expansion into a new market, Japan, the largest retail market in Asia. In addition, the Group further penetrated existing markets by strengthening its retail network and enhancing its manufacturing capability. As a result, Giordano enjoyed growing recognition as a retailer of value for money casualwear garments.

### RETAIL AND DISTRIBUTION

#### Introduction

**G**iordano retail outlets are becoming a common sight in the key Asian city centres of Hong Kong, Taiwan and Singapore, as well as suburban areas within Taiwan and Japan. During 1991, the Group opened a further 88 outlets, bringing the Group's total number of outlets to 236 at the end of 1991.

While attention is given to expanding the number of outlets and securing prime high-traffic locations, the Group's growth strategy is also aimed at increasing the size and efficiency of existing sites. Success in this objective was reflected in the 12% growth in average shop size and 9% growth in average sales per sq. ft. to HK\$10,900 in 1991.

<b>Hong Kong</b>	<b>1991</b>	<b>1990</b>
Retail Sales (HK\$m)	<b>544.7</b>	407.8
Profit before tax (HK\$m)	<b>48.3</b>	32.6
Sales per sq. ft. (HK\$)	<b>18,400</b>	15,700
Comparable store sales increase (%)	<b>35</b>	19
Retail floor area ( sq. ft.)	<b>30,600</b>	28,700
Number of sales associates	<b>402</b>	393
Number of outlets	<b>36</b>	35
	( 32 shops 4 counters )	( 31 shops 4 counters )

During a successful year of growth, the Group developed its position as one of Hong Kong's leading retailers of casualwear. By year end, the Group managed a total of 36 retail outlets in the territory. While the retail floor space increased 7 % to 30,600 sq. ft., total retail sales rose 34% to HK\$544.7 million, thanks to a 17 % increase in sales per sq. ft. , showing that the increase in sales was mostly due to improved operating efficiency.

The Group's shops and department store counters in Hong Kong are well located in prime and highly visible sites. Shop locations are regularly re-assessed to ensure they provide the greatest visibility for Giordano products and convenience for customers. Operational efficiency improved with the upgrading of the electronic point-of-sale (EPOS) system which allows better inventory and shop operation management.

Priority will be given to enhancing the ability of our network to increase sales by securing better locations and increasing the size of our shops and counters. With an average size of only 850 sq. ft. per outlet at the end of 1991, there is great potential for sales growth by enlarging existing outlets.





Taiwan	1991	1990
Retail Sales (HK\$m)	353.3	221.9
Profit before tax (HK\$m)	44.4	31.6
Sales per sq. ft. (HK\$)	6,800	6,500
Comparable store sales increase (%)	34	49
Retail floor area (sq. ft.)	58,400	43,000
Number of sales associates	288	220
Number of outlets	114	95
	( 45 shops 69 counters )	( 35 shops 60 counters )

After a strong sales increase of 59% in 1991, Taiwan is still expected to register the strongest growth for our retail operations in the next two years, due to its larger population, bigger geographical area and high consumption power. We see good potential for opening more outlets particularly in major cities in the central and southern areas of the island where only a small network of outlets has been established.

During 1991, there were 10 shops and 9 counters opened in Taiwan, boosting the total number of outlets to 114. Preference will be given to shops in the expansion of the retail operation in Taiwan in light of the higher visibility and profit potential of independent outlets.

Operational efficiency has been greatly enhanced as a result of installing the EPOS system in our shops in Taiwan last September. The EPOS system will be expanded to link up the more than 60 department store counters by the middle of 1992. The improved efficiency in our Taiwan operation is reflected in the 34% increase in comparable store sales and the 5% increase in average sales per square foot in 1991. While the increase in average sales per square foot in Taiwan was modest compared to the figures for Hong Kong and Singapore, it is expected to improve significantly as the new outlets opened in the last two years begin to mature.

<b>Singapore</b>	<b>1991</b>	<b>1990</b>
Retail Sales (HK \$m)	<b>123.8</b>	91.8
Profit before tax (HK\$m)	<b>9.7</b>	5.2
Sales per sq. ft. (HK\$)	<b>10,700</b>	8,100
Comparable store sales increase (%)	<b>39</b>	4
Retail floor area (sq. ft.)	<b>10,800</b>	13,100
Number of sales associates	<b>104</b>	87
Number of outlets	<b>10</b>	13
	( 8 shops 2 counters )	( 10 shops 3 counters )

Singapore's affluent population responds well to Giordano's emphasis on quality, value for money and service. The Group's outlets in the city are concentrated in prime shopping areas such as Orchard Road, Chinatown, Marina Square and East Coast where they cater mostly to local customers.

There was an impressive increase in sales of 35% to HK\$123.8 million in 1991, despite a reduction in the number of outlets. Outlets in less preferred locations were closed down. Two shops will be opened this year to replace those closed in 1991.



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### **Philippines**

A modest but growing chain of shops has been established in the Philippines through a locally-based franchise. This comprises eight shops in Manila at the end of 1991, an increase of three shops over the previous year. Further expansion is expected in 1992 as the Philippines economy improves.

### **Japan**

In November 1990, Giordano entered into a distribution agreement with Aoyama, a chain store operator specialising in menswear, and Itoman, an established general trading firm. Under this agreement, Aoyama purchases through Itoman Giordano products from the Group for sales in Aoyama's stores in Japan. At 31st December, 1991, there were 68 Giordano counters in Aoyama stores and this number is expected to increase to 150 this year.

Distributing through the Aoyama chain offers the Group widespread visibility within suburban and rural areas throughout Japan. In addition, the Group is exploring other channels to market Giordano products to city centre customers. The Group views Japan as a market of substantial long-term significance.

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## MANUFACTURING

### Introduction

The Group's manufacturing operations continued to support Giordano's retail operations, through ensuring a reliable supply of high quality, efficiently-produced garments. This manufacturing capability constitutes an integral part of Giordano's success in the market.

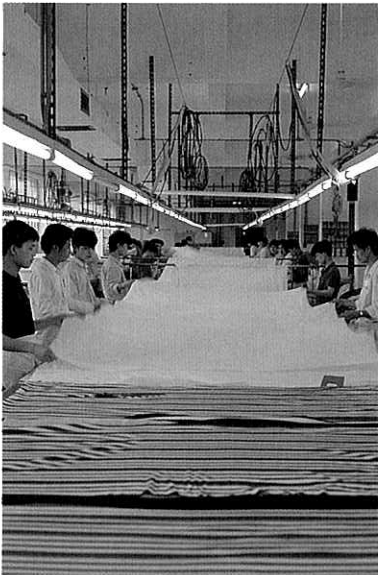
During 1991, the Group's two factories, based in Guangdong province in the People's Republic of China (PRC), together supplied 68% their output to Giordano shops throughout the region. These comprised a knitwear factory operated under Group subsidiary Cohin Knitting & Garment Manufacturers Ltd and a jean factory under Group subsidiary CG Ltd. (formerly Comitex Garments Ltd). In January 1992, the Group acquired Gloss Mind Ltd. which operates a woven apparel factory located at Yan Tian, in the eastern part of the Shenzhen Special Economic Zone, the PRC. It is expected that this acquisition will further enhance the competitiveness of the Group's retailing business by providing a more flexible and efficient replenishment capability for cotton shirts, casual pants and jackets.

Apart from supplying Giordano shops, the Group's manufacturing operations also sell to outside customers, ensuring that they remain in touch with the trends and needs of the international garment industry.

Significantly, the majority of these outside customers were Japanese, whose quality requirements match those of Giordano shops. Owing to the low dependence upon the US market, the effect on the Group of any deterioration in trading relations between the US and the PRC will be minimal.



<b>Knitwear Division</b>	<b>1991</b>	<b>1990</b>
Sales (HK\$m)	325.6	254.7
Profit/(loss) before tax (HK\$m)	13.8	(3.6)
Monthly capacity at year end (000'dozen)	51	45
Workers	2,342	2,021
Percentage of sales to:		
Giordano	66	54
Japan	19	16
U. S. A.	5	23
Korea	2	1
Taiwan	6	1
Others	2	5



Cohin Knitting & Garment Manufacturers Ltd., which manufactures polo and T-shirts at a factory in Buji, the PRC, refocussed its strategy to primarily supply the Group's retail operations and Japanese customers . Further production capacity will be added this year to meet increasing demand from Giordano and outside customers.

<b>Woven Division</b>	<b>1991</b>	<b>1990</b>
Sales (HK\$m)	48.8	87.1
Profit/(loss) before tax (HK\$m)	0.3	(3.8)
Monthly capacity at year end (000'pieces)	47	60
Workers	198	559
Percentage of sales to:		
Giordano	82	52
Japan	4	5
U. S. A.	1	1
Korea	3	7
Others	10	35

In 1991, C G Limited was restructured to put emphasis on supporting the Group's retail operations. As a result, production facilities in Hong Kong were moved to the PRC. With the acquisition of the factory in Yan Tian at the beginning of 1992, the woven division's production capability has been strengthened. Apart from supplying Giordano, it will also aim to sell to Japanese customers whose demand for quality is in line with the Group's objective of constantly upgrading product quality.



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## FUTURE PROSPECTS

**T**he management is confident of the future development of the Group. With a widely recognised image in the market as a value-for-money casualwear retailer and a staff deeply committed to continuously improving product quality and customer service, the Group is strongly positioned to expand in the Asia Pacific region, which is the focus of our business development over the next few years.



Programmes have been started to enhance our strengths in customer service, stock replenishment, training and management development. Investments are being made to upgrade our information system to allow our retail and production teams to work more closely together in order to respond faster to market demand. Production capacity will be expanded to cope with increasing retail sales so that the greatest flexibility and cost effectiveness in inventory replenishment can be achieved. Where necessary, our well established production system will be extended to other Asian countries to support retail operations in the local markets.

Developments in Japan and, more recently in Malaysia, should add strength to the Group's growth in the next two years. Enlarged distribution through counters set up in Aoyama stores will boost awareness of the GIORDANO brand and sales of our products in Japan. Furthermore, independent shops to be opened in major city centres in the near future will enable us to further penetrate the enormous Japanese consumer market. We also see great potential in Malaysia in light of its economic boom. Plans have already been carried out to build a retail network in Malaysia and up to 5 outlets will be opened in Kuala Lumpur in the first half of 1992.

Studies are being conducted on other potential markets such as China, South Korea and Indonesia to prepare ourselves for the next phase of our expansion in Asia.