
Chief Executive's Statement

The Group benefited from continued growth in sales in all its major markets in 1992.

During the year, the Group opened an additional 31 directly managed outlets, mostly in Taiwan, to a total of 191, thereby expanding the total retail square footage under the Group's direct management by 39,700 to 139,500. Sales in comparable stores, i.e. those outlets which were open for the full 12 months as of 31st December, 1991 and 1992, increased by 25 percent.

Amongst our three major markets, Taiwan recorded the strongest growth with a 74 percent increase in sales in 1992. The remarkable performance was attributable to the implementation of our plan to expand the retail network in that market and the improvement in operational efficiency as a result of installing the electronic point of sales system in our units in Taiwan. There were a total of 13 additional independent shops and 2 additional counters opened in Taiwan in 1992, taking the total number of Giordano outlets in the country to 129 at 31st December, 1992. We expect to see even better results in Taiwan this year in light of the enlarged network and improved operation system.

The units in Hong Kong and Singapore also registered satisfactory increases in sales in the year under review. In Hong Kong, sales increased by 20 percent, largely contributed by improvement in comparable store sales. There was only one outlet added bringing the total to 37 at the end of last year. However, total square footage increased by 2,500 to 33,100 due to replacement of several smaller shops by larger ones. Our present strategy is to obtain more selling space in Hong Kong instead of opening more new outlets, as in Taiwan. In Singapore, sales increased by 36 percent due mainly to rises in sales per square foot as the management focused on fine tuning the operation. The opening of new shops towards the end of 1992 will enable the Singapore unit to maintain its satisfactory growth in 1993.

In terms of new market development, we entered Malaysia and expanded market coverage in Japan in 1992. A total of three shops and four counters were set up in Kuala Lumpur. In Japan, nearly all of Aoyama's over 400 stores are selling our products. While sales in these two markets are not expected to grow significantly in

the immediate future due to high tariffs or a sluggish economy, we believe a solid base has been established for our retail operations in the two countries.

A very major move in 1992 was the formation of a joint venture to expand into the China market. Tiger Enterprises Limited, the joint venture company has successfully launched Giordano products in Guangdong with the opening of four stores since last September. Sales have been extremely encouraging, demonstrating a strong reception of the Giordano brand in China. However, due to the high start up costs and a low mark-up policy designed to quickly establish a reasonable market share before other similar foreign brands are introduced into China, Tiger suffered considerable losses in its first year of operation. Moreover the results were further hit by the devaluation of the Renminbi during last year and by provisions made on a number of product items developed to test customer preference in China, a market basically unknown to any foreign retailer. Our results in 1992 have been impacted by the sum of HK\$10.4 million because of Tiger's losses on an equity accounting basis according to our 20 percent shareholding. Despite the losses in 1992, we are still confident of the future of Tiger as it expands its retail and distribution network and strengthens its operations in China.

On the production side, our two manufacturing units further expanded capacities to cope with increasing demand and made satisfactory contribution to group results in 1992. Co-operation with the retail division resulted in starting a just-in-time production scheme last year which has reduced significantly the replenishing time for some of our core products. The in-house manufacturing capability will remain an important factor in maintaining the Group's competitiveness as a value-for-money casual wear retailer in Asia.

We must never forget that our employees, at all levels of the company - from sales associates to designers, to those who work so hard to put Giordano quality into every garment we produce - are the base for our success. I would like to thank all our staff throughout the company for their excellent performance in 1992.

LEE KWOK CHEUNG, BRIAN

26th March, 1993