
Operations Review

INTRODUCTION

In 1992, the Group made considerable progress in the businesses in its major markets and entered a number of new markets in Asia. Sales in Hong Kong, Taiwan and Singapore, presently our three major markets, together grew 40.6 percent to HK\$1,437 million as a result of the continued expansion of our retail network and further improvements in operational efficiency. During the year, a total of seven directly managed outlets were opened in Kuala Lumpur, Malaysia. Also, through a joint venture, three shops - two in Guangzhou and one in Shenzhen, were set up in China.

On the manufacturing side, our production facilities were further expanded and fine tuned to meet demands from both internal and external customers. Total output in 1992 increased 10 percent to 8.7 million garments.

RETAIL & DISTRIBUTION

After entering China and Malaysia in 1992, the Group is now operating in seven countries in Asia. A total of 191 directly managed outlets - 108 shops and 83 counters - were in operation as of the end of 1992, up from 160 outlets a year ago. If the 411 counters in the stores of Aoyama Trading Company, which sells our products in Japan under a distribution agreement, together with the nine franchisee stores in the Philippines and the three stores in China, which were operated by our joint venture, were included, there would have been a total of 614 Giordano outlets in operation in all seven countries as at 31st December, 1992. Total square footage under management by us increased 39.8 percent to 139,500.

Service, quality and value for money are the basic principles of our business. The management at all times does its best to ensure these principles are applied in the day to day work of our people. During 1992, tremendous efforts were made in strengthening training for staff at all levels to preserve and upgrade our ability to deliver excellent service and quality to our customers. Substantial investments were made in information technology to enable our people to obtain speedy information to respond quickly to market demand. We looked at every way possible to reduce costs so that savings could be passed to our customers. As a result of our efforts we were able to maintain or lower the prices of most of our products in 1992 despite high inflation rates in some of the countries we were operating in.



Hong Kong

	1992	1991	1990
Net Sales (HK\$m)	652.8	544.7	407.8
Sales per sq. ft. (HK\$)*	21,100	18,400	15,700
Comparable store sales increase (%)**	16	34	24
Retail floor area (sq. ft.)***	33,100	30,600	28,700
Number of sales associates***	497	402	393
Number of outlets***	37 (33 shops) (4 counters)	36 (32 shops) (4 counters)	35 (31 shops) (4 counters)

* On weighted average basis.

** Regarding those outlets which were open for the full 12 months in each of the two financial years under comparison.

*** As at 31st December, 1992.

Our well established retail operation in Hong Kong was further expanded by the opening of one additional shop and the replacement of several smaller shops with larger ones. As a result total square footage increased by 8 percent to 33,100 from 30,600 a year ago. Sales rose 19.9 percent to HK\$652.8 million due to the increase in retail floor area and the improvement in operational efficiency - sales per square foot and comparable store sales increased by 14.7 percent and 16 percent respectively.

Hong Kong is one of the busiest markets in the world in terms of the movement of consumer goods. In order to cope with the extremely high turnover, we replaced the electronic point of sale terminals in our Hong Kong outlets with the most up-to-date models available on the market. This enables our sales associates to handle transactions faster. The EPOS system is currently being upgraded from a batch to an on-line basis to provide immediate information to allow an even quicker response to market demands. The central warehouse in Hong Kong was expanded to cope with the expanding turnover. Satellite warehouses, on an experimental basis, were set up in major locations to facilitate inventory replenishment of the shops.

Taiwan

	1992	1991	1990
Net Sales (HK\$m)	615.1	353.3	221.9
Sales per sq. ft. (HK\$)*	8,800	6,800	6,500
Comparable store sales increase (%)**	37	10	21
Retail floor area (sq. ft.)***	81,800	58,400	43,000
Number of sales associates***	484	288	220
Number of outlets***	129 (58 shops) (71 counters)	114 (45 shops) (69 counters)	95 (35 shops) (60 counters)

* On weighted average basis.

** Regarding those outlets which were open for the full 12 months in each of the two financial years under comparison.

*** As at 31st December, 1992.

1992 saw another record growth in our operations in Taiwan as sales increased by 74 percent to HK\$615.1 million. In line with our plan, the retail network in Taiwan continued to expand with 13 additional shops and 2 counters opened, bringing the total number of outlets to 129 at the end of 1992, an increase of 15 from the previous year. Shop floor area rose 40 percent to 81,800 sq. ft. from 58,400 sq. ft.. In addition to physical expansion, the remarkable growth was also attributable to the improved operational efficiency reflected in a 29 percent increase in sales per square foot and a 37 percent rise in comparable store sales. Installation of the EPOS system in our outlets in Taiwan and the strengthened training program were key factors contributing to the improved efficiency of our operations.

The Taiwan operation is expected to continue to grow and there should still be considerable room to open new outlets especially in the central and southern part of the island. We expect to maintain our strong performance in the medium term as the market matures. Taiwan should soon become our largest market in Asia.

Singapore

	1992	1991	1990
Net Sales (HK\$m)	168.9	123.8	91.8
Sales per sq. ft. (HK\$)*	13,200	10,700	8,100
Comparable store sales increase (%)**	27	27	14
Retail floor area (sq. ft.)***	16,900	10,800	13,100
Number of sales associates***	186	104	87
Number of outlets***	16 (13 shops 3 counters)	10 (8 shops 2 counters)	13 (10 shops 3 counters)

* On weighted average basis.

** Regarding those outlets which were open for the full 12 months in each of the two financial years under comparison.

*** As at 31st December, 1992.

The operation in Singapore was streamlined and expanded with the closing of several shops in fringe areas at the end of 1991 and the opening of six new outlets in more preferred locations in 1992. The result was a 36.4 percent increase in sales to HK\$168.9 million. Sales per square foot increased by 23 percent and comparable store sales were up by 27 percent.

We plan to open a few more shops in Singapore's booming residential districts. As the Singapore economy continues to flourish, our operation there is expected to maintain growth at a satisfactory rate for the coming year.

China

A joint-venture was formed in July 1992 with Mr. Jimmy Lai, our chairman, to expand into the China market. We decided to limit Giordano's initial shareholding to 20 percent but have an option to increase our stake to 51 percent at any time up to July 1995 by converting into equity a loan extended to the joint-venture. Such a capital structure was designed to minimize Giordano's exposure to the business in the early stages of its development.



The strategy employed by Tiger Enterprises Ltd., the joint venture company, was to achieve a reasonable market share as quickly as possible before other brands enter the market, and to establish customer preference for casual wear in China. Therefore, a very aggressive pricing policy was adopted with retail prices kept at a very affordable level. Also a wider range of products was introduced, including a ladies line, which we do not stock in other markets.

This strategy has enabled Tiger to successfully launch Giordano products in China. However, due to the high start-up costs, low margins and write-offs on those products introduced for testing customer preference, Tiger incurred a loss of HK\$52 million in 1992, resulting in a loss of HK\$10.4 million for the Group on an equity accounting basis. After going through the learning curve, Tiger is making adjustments to its strategy. With these adjustments, we believe there will be significant improvements in its results this year.

The first two stores, with 20,000 and 16,000 sq. ft. of floor space respectively, were opened in Guangzhou at the beginning of last September. Since then two more stores have been opened, one each in Shenzhen and Guangzhou. Tiger's plan for 1993 is to focus on the Pearl River Delta area in south Guangdong with the opening of six to ten stores, mostly of 10,000 sq. ft. or bigger, in major cities like Foshan, Zhuhai, Chungshan, Shunde and Dongguan, in addition to Guangzhou and Shenzhen. The primary form of distribution will be retailing through a chain of directly managed Giordano stores, but a wholesale operation has also been started in order to have wider coverage.

Malaysia

We opened our first outlet in Kuala Lumpur at the beginning of 1992. Since then a total of three shops and four counters have been set up in the city. While the market will offer substantial long term potential due to its relatively large population and surging economy, we only expect moderate growth in the short term due to the high tariffs imposed by the

Malaysian Government. The operation in Malaysia showed a small loss in 1992 but is expected to turn around this year.

Philippines

The retail operation in the Philippines is conducted under a franchise. There were a total of nine shops in operation in Manila in 1992, up from eight shops in 1991. The strong recognition of the Giordano brand in the Philippines contributed to a 56 percent increase in our sales to the franchisee last year. The franchised operation is expected to expand as the political and economic situation in the country improves.

Japan

With the slowing down of the Japanese economy, our activities in Japan in 1992 remained small and unspectacular, although our relationship with Aoyama Trading Company Ltd. continued to expand. Aoyama is currently carrying our products in almost all of its more than 400 stores in Japan. The wider coverage resulted in a 78 percent increase of our sales to Aoyama last year.

We opened a small shop in Tokyo last June. However, due to its limited size and the difficult trading conditions in Japan, it was not profitable. Plans to establish a directly managed retail network have been shelved and no more shops will be opened until a significant improvement in the market conditions in Japan becomes evident.

MANUFACTURING

The Group's two production units further expanded their capacities last year to cope with increased demand, in particular from the retail division. Total output increased 10 percent from 7.9 million garments in 1991 to 8.7 million in 1992 while sales grew 20 percent from HK\$374.4 million to HK\$449.4 million. Of the sales in 1992, 77 percent were taken up by the retail division (including the joint-venture in China) as compared to 68 percent in 1991.

Our internal capability to efficiently produce quality garments remains a significant factor in maintaining our competitive position in the casual wear retail market in Asia.

The co-operation between the retail and manufacturing divisions resulted in the establishment of a just-in-time (JIT) production scheme in 1992 whereby the lead time for producing and delivering certain core products was substantially reduced. This enabled us to respond faster and more effectively to market demands. The JIT scheme will be extended to include more items this year to provide even greater flexibility.

Knitwear Division

	1992	1991	1990
Sales (HK\$m)	347.5	325.6	254.7
Monthly capacity at year end (000' dozen)	62	51	45
Workers	2,696	2,342	2,021
Percentage of sales to:			
Giordano	64	66	54
Japan	14	19	16
China	12	-	-
USA	1	5	23
Korea	1	2	1
Taiwan	3	6	1
Others	5	2	5

Cohin Knitting & Garment Manufacturers Ltd., which produces knitwear garments, increased productivity by focusing more on core products in 1992. A just-in-time production scheme was also established in co-operation with the retailing units. Cohin is now able to produce and deliver basic polo shirts and T-shirts within five days of receiving an order from a customer.

Woven Division

	1992	1991	1990
Sales (HK\$m)	101.9	48.8	87.1
Monthly capacity at year end (000' pieces)	130	47	60
Workers	692	198	559
Percentage of sales to:			
Giordano	56	82	52
China	24	-	-
Japan	11	4	5
USA	-	1	1
Taiwan	3	-	-
Korea	1	3	7
Others	5	10	35

With the acquisition of Gloss Mind Ltd., a woven garment factory located in Shenzhen, China, the Group has strengthened its capability in supporting the sourcing of jeans and woven shirts required by the retailing operation. This directly managed production facility allows better control on both quality and cost. Coupled with expanded capacity, the unit has been producing satisfactory results since the middle of 1992. Following Cohin, it has also started a JIT production scheme to cope with the requirements of the retailing division.

FUTURE PROSPECTS

With a stronger penetration of existing major markets and with our entry into new markets, the Group is firmly positioned in the casual wear retail market in Asia. Continued satisfactory growth is expected in the years to come. The firm commitment of our people to always do the best to deliver the greatest value possible to our customers will further strengthen our value-for-money image.

In the short term, the continued expansion of operations in our existing major markets, in particular Taiwan, will sustain a satisfactory rate of growth. Beyond that, we believe our concept of retailing and distributing value for money casual wear with excellent service will be well received by the new markets we are establishing. These new markets will sustain our growth in the longer term.

In order to cope with this anticipated growth, we will, as much as possible, direct our resources to develop and train our people and to invest in the latest information technology. Our production facilities will be expanded and upgraded to enable the greatest volume and cost benefits to be achieved to meet market competition.

