

Management Discussion and Analysis

OVERVIEW

The year under review witnessed an expansion of the Company's activities in its major markets, as well as the planned entry into the South Korean market and the upgrading of our Philippine operation.

The Group achieved record turnover of HK\$2,334.1 million in 1993, an increase of 40 percent over 1992. The total turnover comprised HK\$2,150.0 million from the Retail and Distribution division and HK\$184.1 million from the Manufacturing division, representing an increase of 44 percent and 9 percent respectively.

The Group's operating profit amounted to HK\$180.5 million, an increase of 16 percent. Contributions from the Retail and Distribution division amounted to HK\$150 million and from the Manufacturing division amounted to HK\$30.5 million, representing an increase of 13 percent and 30 percent respectively. Profit for the year attributable to shareholders amounted to HK\$137.6 million, an increase of 20 percent over last year.

The increase in turnover was mainly a result of increased sales from the retailing division, with a 15 percent increase in comparable shop sales over 1992 and a 35 percent increase in the number of own-managed retail outlets, from 191 to 257, with a total floor area of 209,500 square feet.

Profit growth for the year did not reach our original expectations due to a disappointing first six months. However, in the second half of the year, performance has been strong, giving an overall increase for the year of 20 percent. The improved performance in the second half of the year is mainly due to a revised policy on profit margins, improved operating efficiency, strengthened control of operating and overhead expenses, and a reduction of inventory carrying costs.

RETAILING

The Company's retailing network spans eight countries in the Pacific Rim, including Taiwan, Hong Kong, Singapore, Malaysia, Japan, Philippines, China and the latest addition in October 1993, New Zealand. Out of the 738 retail outlets, 257 are managed directly by the Company. Retail floor area directly managed by Giordano increased by 50 percent, to 209,500 square feet. In support of our retailing network, we carried out a regional advertising campaign on television and in magazines that cover all of our major markets.

Despite the disappointing first half results, the retailing division recovered strongly in the second half, achieving an overall 13 percent increase in operating profit for the year. As a result of the revision in pricing policy and other measures taken to improve operating efficiency, it is expected that the upward trend will be maintained in 1994.

While simplicity continues to be considered as an important factor in formulating our successful product lines, we have plans to revitalise the look of our outlets and introduce new product lines. The new designs will not change our image as a casual wear retailer and the Company will continue to focus on value for money retailing.

Management Discussion and Analysis

Taiwan

	1993	1992	1991	1990
Net sales (HK\$m)	1,003.3	615.1	353.3	221.9
Sales per sq. ft. (HK\$)*	9,900	8,800	6,800	6,500
Comparable store sales increase (%)**	28	37	10	21
Retail floor area (sq. ft.)***	134,900	81,800	58,400	43,000
Number of sales associates***	780	484	288	220
Number of outlets***	174 (89 shops) (85 counters)	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

Taiwan is the Company's largest retailing market. Sales increased by 63 percent in 1993, to HK\$1,003.3 million, exceeding Hong Kong for the first time. The number of outlets expanded to 174 at the end of the year, compared to 129 a year ago and retail floor area increased by 65 percent to 134,900 square feet.

The increased profit was largely a result of increased comparable shop sales, up 28 percent, and the opening of new outlets in areas not previously covered by the Company.

During the year, the distribution network has been strengthened to cope with the expanding number of outlets, which now cover all the major cities of the entire island. The new outlets, which were mainly completed in the second half of the year, are expected to contribute significantly towards profit in 1994.

Management Discussion and Analysis

Hong Kong

	1993	1992	1991	1990
Net sales (HK\$m)	777.7	652.8	544.7	407.8
Sales per sq. ft. (HK\$)*	21,200	21,100	18,400	15,700
Comparable store sales increase (%)**	6	16	34	24
Retail floor area (sq. ft.)***	41,900	33,100	30,600	28,700
Number of sales associates***	479	497	402	393
Number of outlets***	46 (42 shops 4 counters)	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

Retail sales in Hong Kong amounted to HK\$777.7 million, an increase of 19 percent. The modest increase reflects the level of Giordano's development in this market. Outlets increased from 37 to 46 and retail floor area increased to 41,900 square feet from 33,100 square feet in 1992.

The increase in the number of outlets has resulted from the need to open shops in new shopping malls and to set up new outlets to cope with the change in shopping traffic, as well as the opening of certain new shops to replace old outlets in inferior locations. Some of these old outlets are due to be closed.

In order to cope with the escalating operating costs, particularly rental and staff costs, the streamlining of operational procedures and the promotion of operational efficiency are being actively pursued. During the second half of 1993, we have seen the benefits from this policy. We expect conditions to remain static and we believe the Hong Kong operations will provide a steady income flow in 1994.

Management Discussion and Analysis

Singapore

	1993	1992	1991	1990
Net sales (HK\$m)	277.5	168.9	123.8	91.8
Sales per sq. ft. (HK\$)*	15,100	13,200	10,700	8,100
Comparable store sales increase (%)**	11	27	27	14
Retail floor area (sq. ft.)***	23,600	16,900	10,800	13,100
Number of sales associates***	206	186	104	87
Number of outlets***	29 (21 shops 8 counters)	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

Sales turnover in Singapore rose sharply to HK\$277.5 million, an increase of 64 percent. The number of outlets totalled 29, from 16 a year ago. Sales floor area increased 40 percent to 23,600 square feet, as a result of our policy of opening shops in residential estates. The Singapore government has been encouraging the movement of shopping traffic away from the city centre and Giordano's move into residential areas has been very successful. Rental costs are lower, contributing to a higher overall profitability.

In support of the move into residential areas, the Company undertook a major advertising campaign in both print and broadcast media. We expect the growth trend to continue in 1994 as many of the new outlets were opened in the latter part of the year.

China

The joint venture company, Tiger Enterprises Limited, opened three additional shops in Guangdong in 1993, bringing the total number of shops under its direct management to six. In order to avoid further capital investment required for the opening of shops, Tiger's management decided to pursue expansion through franchise shops in the latter part of the year. A total of fifteen franchise shops have been opened, making up 11 percent of the Company's turnover.

Tiger has also made a series of adjustments to improve efficiency and profitability, including streamlining the organisational structure and the replacement of Hong Kong personnel with trained local staff.

Management Discussion and Analysis

Pricing policy was also revised to increase the gross margin, enabling Tiger to breakeven at a lower sales volume. We are optimistic that the price revisions, together with the other measures taken to strengthen the operation, will improve Tiger's performance in 1994.

Malaysia

Sales turnover increased by 117 percent in 1993, from a total of five shops and two counters directly managed by the Company. High import tariffs remained a problem in the first half of the year, but the situation improved with the use of local sourcing towards the end of the year. A small loss was reported, but we are confident that a small profit can be realised in 1994.

Philippines

Sales to the Philippines went up by 90 percent from a total of fifteen franchise shops, a net increase of six from 1992. A new joint venture agreement has been entered into with Tokyo Fashion Boutique and we believe the Giordano brand will increase its profile through a rapidly expanding network of shops.

South Korea

We are due to enter into a joint venture with Ilshin Investment Company Limited in May 1994. Giordano is planning to take an initial 30 percent stake in the joint venture, with an option to increase this stake to 50 percent in five years. The first shop is due to be opened in May 1994. In view of South Korea's rapidly growing economy, we believe the Giordano brand will be successful through the building up of a network of shops over the next two years.

Other Markets

In Japan, the distribution agreement with Aoyama Trading Company was renewed for a further three years. Aoyama is confident that sales of Giordano's products will increase in 1994, following the successful launch of their casualwear outlets offering the complete range of Giordano products. Sales to Sansukai were also promising during the year and we expect these to increase in 1994.

Our first shop in New Zealand was opened in October 1993, under a joint venture agreement, giving Giordano an 80 percent stake. While the operation is not expected to be substantial, it does provide us with an opportunity to test a market outside Asia.

MANUFACTURING

Both production units within the manufacturing division performed well in 1993. Sales turnover increased to HK\$493.7 million, an improvement of 10 percent. Turnover includes sales to third parties and the Company's retailing division, including the joint venture in China.

The Just-In-Time Replenishment scheme launched in 1992 has proved to be very successful. Increased product sourcing from the retailing division has helped to reduce the Company's inventory from 86 days in 1992 to 59 days in 1993. The JIT scheme has reduced carrying costs and allowed the retailing operation to respond quicker to market changes.

In the second half of the year, the Company acquired a 100,000 square metre industrial site in Dongguan, China. We have plans to build factory buildings for the two divisions over the next three years. The construction project will be divided into three phases, with the first phase due to be completed by the end of 1994.

Management Discussion and Analysis

Knitwear Division

	1993	1992	1991	1990
Sales (HK\$m)	349.3	347.5	325.6	254.7
Monthly capacity at year end (000' dozen)	68	62	51	45
Workers	2,591	2,696	2,342	2,021
Percentage of sales to:				
Giordano	57	64	66	54
Japan	19	14	19	16
China	15	12	–	–
USA	–	1	5	23
Korea	–	1	2	1
Taiwan	1	3	6	1
Others	8	5	2	5

Cohin Knitting & Garment Manufacturers Limited, who are responsible for the knitwear division, closed down its Hong Kong factory early in the year and expanded its production in China by 25 percent. As a result, manufacturing costs for the year were lower. With the acquisition of the new Dongguan site, the division will be able to increase production as the retailing business expands.

Woven Division

	1993	1992	1991	1990
Sales (HK\$m)	144.4	101.9	48.8	87.1
Monthly capacity at year end (000' pieces)	200	130	47	60
Workers	758	692	198	559
Percentage of sales to:				
Giordano	77	56	82	52
Japan	8	11	4	5
China	12	24	–	–
USA	–	–	1	1
Korea	–	1	3	7
Taiwan	–	3	–	–
Others	3	5	10	35

Management Discussion and Analysis

Significant improvements have been achieved in the running of the Shenzhen factory by Gloss Mind Casual Wear Limited. Turnover has increased by 42 percent, to HK\$144.4 million. The factory is now working at full capacity and the new Dongguan site will enable the division to support the increasing number of orders from overseas customers, in addition to the retailing division.

OUTLOOK

Retailing

Whilst we believe that there is potential for further growth within our present markets, the Company is looking elsewhere in the region to expand our network. As the economies of many Asian countries develop, Giordano will continue to focus on the region, capitalising on the growing awareness of the Giordano brandname. As quota restrictions and import tariffs become more relaxed outside Asia, the Company will consider further expansion.

1994 will be a year of consolidation, building on the rapid expansion of 1993. The number of new outlets opened in 1993 will, we believe, provide the foundation for another year of growth. We will continue to improve the location and size of outlets where necessary, as well as continuing with our policy of cost effectiveness.

Manufacturing

We plan to increase the proportion of products manufactured under the Just-In-Time Replenishment scheme, in view of its success. The Company has also linked up certain third party suppliers to the system to enable them to contribute towards the scheme.

As the retailing network grows in the region, so the manufacturing division has to adapt. Certain markets are becoming increasingly difficult due to high transportation costs, transportation time and high import tariffs. In view of these disadvantages, the Company has sourced products locally. Local sourcing has not been easy, due to our insistence on consistent high quality products. The Company is therefore looking at setting up production facilities outside China in the coming year.

The 100,000 square metre site in Dongguan, China, will enable us to expand capacity when it is needed. Construction work has started and the first phase consists of a jeans washing factory, to be completed in late 1994, at an estimated cost of HK\$25 million. The second and third phases of construction will follow on, depending upon the needs of the manufacturing division. The facility will improve the Company's manufacturing capability and therefore, enhance the Company's profitability.