Management's Discussion and Analysis

OVERVIEW

For the year ended 31st December 1994, the Group succeeded in consolidating its position as a leading retailer and distributor of "value for money" casual wear in the Asia-Pacific region. Two new markets have been added during the year to the Group's regional retail and distribution network. In China, the Group's operations began to generate profit for the first time.

The Group continued to enjoy satisfactory growth in turnover and profit for 1994, with significant improvement in profit margins. Turnover for the year amounted to HK$2,863.7 million, representing a 22.7% increase over 1993. Profit after taxation and minority interests rose 41.9% to HK$195.3 million. Earnings per share surged from 22.0 cents in 1993 to 30.9 cents.

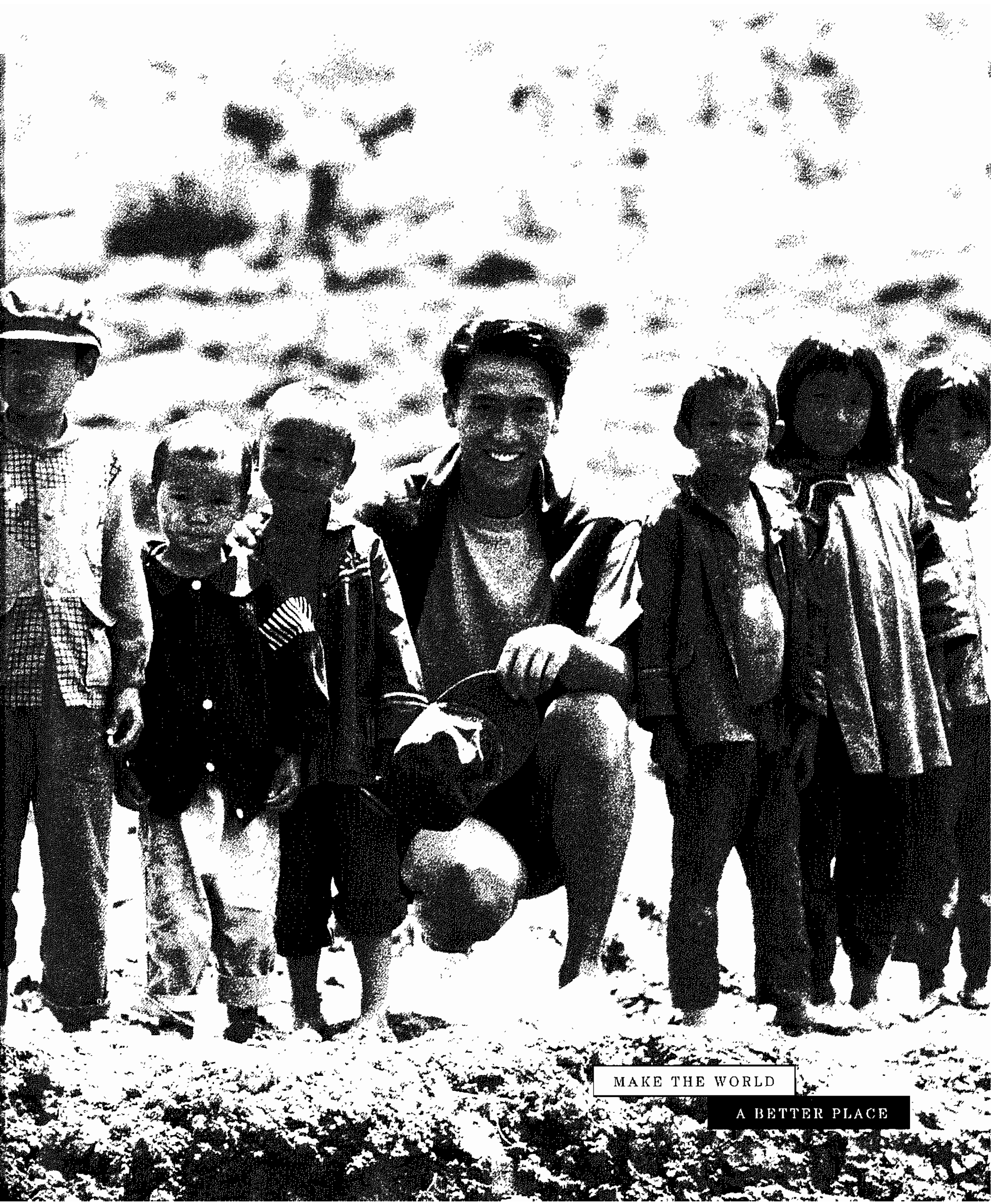
During the year under review, the Group's performance continued to benefit from its streamlining of operations. In addition, the turnaround of the Group's China operations also contributed to the enhanced profit. The higher rate of profit growth was mainly due to the improvement of operation efficiency.

RETAIL AND DISTRIBUTION

Sales turnover from the Retail and Distribution Division increased to HK$2,616.1 million, up 22% from 1993. Profit contribution to the Group amounted to HK$199.9 million, an increase of 33%.

Approximately 33% of the merchandise sold by the Retail and Distribution Division was supplied by the Company's Manufacturing Division in 1994.

Giordano's retail and distribution operations now span twelve territories including, Hong Kong, Taiwan, Singapore, China, Malaysia, Japan, the Philippines, New Zealand, Australia, with two additions in 1994, Korea and Thailand, and recently extending to Dubai in the Middle East. 283 outlets are now directly managed by the Group, occupying an aggregate saleable floor area of 282,700 sq. ft., an increase of 10% and 35% respectively over 1993.


MAKE THE WORLD
A BETTER PLACE

Management's Discussion and Analysis

HONG KONG

	1994	1993	1992	1991	1990
Net sales *(HK$m)*	**845.4**	777.7	652.8	544.7	407.8
Sales per sq. ft. *(HK$)**	**21,100**	21,200	21,100	18,400	15,700
Comparable store sales increase (%)**	**1**	6	16	34	24
Retail floor area *(sq. ft.)****	**40,800**	41,900	33,100	30,600	28,700
Number of sales associates***	**461**	479	497	402	393
Number of outlets***	**45** (42 shops, 3 counters)	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*

The Group's Hong Kong operations enjoyed the highest profit growth in 1994, making the operations the largest profit contributor to the Group in 1994. The significant improvement in profit contribution from the Hong Kong operations was attributable to effective cost control and enhancement of profit margins.

There were 45 retail outlets in Hong Kong as at 31st December, 1994. The number of outlets in the territory remained stable after a significant expansion in 1993. The total saleable floor area they occupied amounted to 40,800 sq. ft. as at the end of 1994. The focus of the Hong Kong operations in 1994 was to consolidate its expanded retail network and re-engineer its operating procedures.


WORLD WITHOUT
STRANGERS

TAIWAN

	1994	1993	1992	1991	1990
Net sales *(HK$m)*	**1,120.2**	1,003.3	615.1	353.3	221.9
Sales per sq. ft. *(HK$)**	**7,700**	9,900	8,800	6,800	6,500
Comparable store sales (decrease)/ increase (%)**	**(17)**	28	37	10	21
Retail floor area *(sq. ft.)****	**161,300**	134,900	81,800	58,400	43,000
Number of sales associates ***	**801**	780	484	288	220
Number of outlets ***	**182** (109 shops 73 counters)	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*

While sales turnover grew modestly in Taiwan during 1994, there was no improvement in profit contribution to the Group due to escalating operating expenses. As a result of the relocation of retail shops to city outskirts where the shops are generally larger, sales per sq. ft. dropped 22% in comparison with the 1993 figure. Comparable store sales also dropped by 17%, as the Group discontinued its price reduction practice to improve gross margins. The situation is expected to improve upon the successful completion of the relocation program and due to enhanced profit margins.

SINGAPORE

	1994	1993	1992	1991	1990
Net sales *(HK$m)*	**335.1**	277.5	168.9	123.8	91.8
Sales per sq. ft. *(HK$)**	**14,800**	15,100	13,200	10,700	8,100
Comparable store sales (decrease)/ increase (%)**	**(14)**	11	27	27	14
Retail floor area *(sq. ft.)****	**23,200**	23,600	16,900	10,800	13,100
Number of sales associates ***	**208**	206	186	104	87
Number of outlets ***	**29** (22 shops 7 counters)	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*

In Singapore, 1994 was the first full year following completion of the Group's relocation of its outlets to residential areas. Sales and profits of the Singapore operations have shown significant improvement as a result of the relocation.

Despite overall improvement in the Singapore operations, sales per sq. ft. decreased to HK$14,800 per sq. ft. from HK$15,100 as a result of our campaign to improve margins which had a dampening affect on sales. Comparable store sales also dropped by 14% in 1994; this was attributed to the shortening of shopping hours in the Orchard Road area due to traffic restrictions. In addition, the massive increase of shopping area led to dilution of shopping traffic and thus affected comparable store sales. However, with the stabilisation of profit margins and continued opening of new shops in residential areas, the directors expect that the net profit and sales turnover will continue to strengthen in 1995.

Management's Discussion and Analysis

CHINA

	1994	1993	1992
Net sales *(HK$m)*	**338.5**	338.1	102.3
Sales per sq. ft. *(HK$)**	**10,200**	11,200	3,800
Comparable store sales decrease (%)**	**(9)**	–	–
Retail floor area *(sq. ft.)****	**33,000**	33,800	26,500
Number of sales associates ***	**338**	499	600
Number of outlets ***	**40** (6 shops, 34 franchisees)	21 (6 shops, 15 franchisees)	3 (3 shops)

* *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*

The Group's operations in China, its most important emerging market, began to turn around in 1994. Tiger Enterprises Limited ("Tiger"), the Group's China arm, generated a net profit of HK$22 million for the whole year, compared to a loss of HK$69 million in 1993.

In view of the improved performance of Tiger in the first half of 1994, the directors believed it to be in the best interest of the shareholders to increase the Company's equity interest in that company. In August 1994, the Company exercised its option to increase its shareholding in Tiger to 51%.

Since the increase in shareholding, the Company has been actively involved in further strengthening the financial position of Tiger. Tiger has also adopted the strategy of penetrating the vast China market through franchise agreements. The increased number of franchisees enabled Tiger to enhance the visibility and coverage of Giordano with minimum operating costs.

The new strategy has led to a surge in sales and increased orders for our manufacturing operations. Since the Company secured its 51% interest in Tiger in August 1994, a further 15 franchised outlets have been added, raising the current total number of outlets in China to 44. Sales to franchisees and distributors in China increased by 59% over 1993.

As a further step to strengthen Giordano's position in China, the Group acquired the premises occupied by its Shenzhen retail store in December 1994 for RMB77.5 million. The purchase is of strategic importance to the Group's business development in China. The Shenzhen retail store, which is situated in a prime location in the fast growing special economic zone, was the first outlet established by Tiger in China. The directors believe it is more cost-effective in the long run to acquire the premises considering the movement of property rentals and prices in Shenzhen.

OTHER MARKETS

In Japan, the Group entered into a distribution agreement with Senshukai, a leading mail order distributor. Under the agreement, Senshukai will distribute Giordano products in Japan through its extensive catalogue sales network. The directors believe that this additional distribution arrangement with Senshukai can help to rapidly enhance the profile of Giordano products among Japanese consumers.

The Group's distribution arrangement with Aoyama Trading Company entered its fourth year in 1994. Sales of Giordano products to Aoyama continued to increase in the year under review as a result of gradual expansion of Aoyama causal wear outlets in Japan.

Considering the significant trade barriers and complex retail system in Japan, the directors believe that entering into distribution agreements with established retailers and distributors in Japan is the most cost-effective way to penetrate Japan's consumer market.

During the year under review, the Group succeeded in broadening its geographical reach through the establishment of joint-ventures in Thailand and South Korea. In Thailand, the Group entered into a joint-venture with Pichayakorn Holdings Company Limited to set up the first Giordano outlet in Bangkok in November 1994. Currently, the joint-venture had opened a total of five outlets in the Thai capital and is planning to further expand its network in the coming year.

The Company currently owns a 49% interest, which is the maximum shareholding allowed for foreign investors, in the Thailand joint-venture. However, the Company maintains majority control of the board. The joint-venture combines Giordano's experience in retail and distribution and the Thai partner's local knowledge and connections in the development of this emerging market.

In Korea, the Group entered into a 30% owned joint-venture with Ilshin Investment Company Limited in May 1994, with an option to increase its shareholding to 50%. The joint-venture has, so far, set up 20 outlets in Seoul, including 13 directly managed outlets and 7 franchised shops.

MANUFACTURING

The Manufacturing Division's turnover and profit contribution generated from sales to outside purchasers rose to HK$247.6 million and HK$35.4 million respectively, representing respective increases of 34% and 16% over 1993. The Division's sales to outside purchasers accounted for 38% of its total output in 1994.

The Manufacturing Division experienced significant increases in both sales and profit in 1994 while output prices remained stable. The enhanced margins were a result of economies of scale in production and the streamlining of operations.

On the other hand, the effective implementation of the Group's "Just-In-Time" stock replenishment scheme, particularly in the PRC, enabled the Group to increase inventory turnover and to reduce costs, which in turn contributed to higher profit margins.

As the Group's PRC manufacturing plants operated at full capacity throughout the year under review, the Group plans to beef up its manufacturing operation and to extend its present capacity to meet the growing demand of the retailing operation. The expansion plan for the Dongguan plant is part of the Manufacturing Division's continuing program to cope with the Group's future growth.

In 1994, approximately one third of the products sold through Giordano's retail and distribution network was supplied by the Manufacturing Division. To meet growing demand from its Retail and Distribution Division, the Group had to increase its sourcing of merchandise from outside suppliers. This gives the Group greater flexibility in the operation of its Manufacturing Division in response to changing market demands.

To cope with the expansion in the Retailing and Distribution Division, a new knitwear factory was set up in the Philippines in late 1994. The new plant has a floor area of 50,000 sq. ft. with space for expansion to 200,000 sq. ft. This is part of the Group's expansion programme on decentralisation of manufacturing bases. To complement the rapid expansion of the Group's retail network, it will consider to have additional production bases established in the proximity to the local markets in order to ensure speedy replenishment and to reduce logistics costs.

KNITWEAR DIVISION

	1994	1993	1992	1991	1990
Sales *(HK$m)*	**406.7**	349.3	347.5	325.6	254.7
Monthly capacity at year end *(000' dozen)*	**70**	68	62	51	45
Workers	**2,198**	2,591	2,696	2,342	2,021
Percentage of sales to:					
Giordano*	**57**	57	64	66	54
Japan	**23**	19	14	19	16
Tiger*	**3**	–	–	–	–
China	**7**	15	12	–	–
USA	**1**	–	1	5	23
Korea	**–**	–	1	2	1
Taiwan	**–**	1	3	6	1
Others	**9**	8	5	2	5

* *as fellow subsidiaries*

WOVEN DIVISION

	1994	1993	1992	1991	1990
Sales *(HK$m)*	**246.2**	144.4	101.9	48.8	87.1
Monthly capacity at year end *(000' pieces)*	**300**	200	130	47	60
Workers	**1,310**	758	692	198	559
Percentage of sales to:					
Giordano*	**62**	77	56	82	52
Japan	**26**	8	11	4	5
Tiger*	**4**	–	–	–	–
China	**2**	12	24	–	–
USA	**–**	–	–	1	1
Korea	**4**	–	1	3	7
Taiwan	**–**	–	3	–	–
Others	**2**	3	5	10	35

* *as fellow subsidiaries*

LIQUIDITY AND CAPITAL RESOURCES

The Group's major source of funds comes from the revenue generated from its operations and is supplemented by banking facilities. The total net cash generated from operations in 1994 amounted to HK$297.4 million.

The Group had a total of HK$416.5 million in revolving banking loan facilities, of which approximately HK$354.8 million was available and unused as at 31st December, 1994.

The Company has also secured trade finance facilities from 11 major banks totalling HK$340 million. As at 31st December, 1994, such facilities utilized and included in the accounts amounted to HK$13 million.

Total indebtedness of the Group amounted to HK$494 million as at 31st December, 1994. Total interest payment by the Group amounted to HK$8.2 million in 1994 at an average interest rate of approximately 6.5%. As at 31st December, 1994, the Group's total equity and total assets amounted to HK$544.5 million and HK$1,040.9 million respectively. The debt to equity ratio was 0.9. Based on the Group's results for the year ended 31st December, 1994, its return on total assets and return on average equity were respectively 18.8% and 39.1%.

PROSPECTS

It is the Group's ongoing strategy to strengthen its position as a "value for money" retailer and distributor in the Asian Pacific Region, which will continue to be the focus of the Group's development in the next few years. The Group is actively planning for entry into other markets in this region.

In Korea, the Group plans to further extend its retail network in 1995. In Thailand, we envisage that there is potential for a more aggressive outlet expansion.

To maintain a geographically diversified income base, the Group is also reaching out to other regions. It has recently entered into a 20% owned joint-venture in Dubai with one of its franchisees in the Middle East. The Dubai joint-venture will be a foothold for the Group's penetration of the Middle East markets. The joint-venture covers the major developing markets in the region.

In Southeast Asia, many emerging markets are going through a period of political stabilization and experiencing significant economic changes. We anticipate that these economies, with their enormous populations and improving living standards, will become potential markets for Giordano's "value for money" causal wear.

A Regional Product Development Department has recently been established to develop new products or designs in response to changing customer needs and fashion trends. The department monitors the stock and sales of various product lines on a regional level to assess market reception of these products. Based on their findings, popular product lines will be extended to meet market needs.

It is expected that the formation of this department will enable the Group to keep abreast of latest fashion trends and customer preferences. The close monitoring of market demands also allows the Group to reduce the production of slow-moving lines and thus further tighten its inventory control.

In 1994, the Group successfully enhanced its profitability under a challenging market environment. Despite escalated competition and a weakened consumer market, the Group managed to increase its profit margins in Hong Kong without any price adjustment. In China, the Group's new strategy began to pay off and helped to strengthen its position in the enormous market.

In the coming year, the Group is expected to continue to benefit from a strengthened financial position and streamlined operations. New markets developed in 1994 will become additional income sources to support the Group's further penetration into these markets and expansion into others.

The successful implementation of the concept of decentralising the Group's manufacturing bases from Hong Kong and China to other Asian countries where it has an established retail network will allow the Group to realize its "Just-In-Time" stock replenishment scheme on a regional basis. This decentralisation measure will help the Group to overcome the hurdles presented by the logistics of supplying Giordano products across the region and by trade barriers between territories in the Asian Pacific Region.