

# **“Hong Kong – Your Fast Track To China”**

Hong Kong and the Pearl River Delta:  
The Heart of China's Selling and Sourcing Boom

Speaker: Mr. Peter Lau

Chairman and CEO

Giordano International Limited

April, 2004

GIORDANO

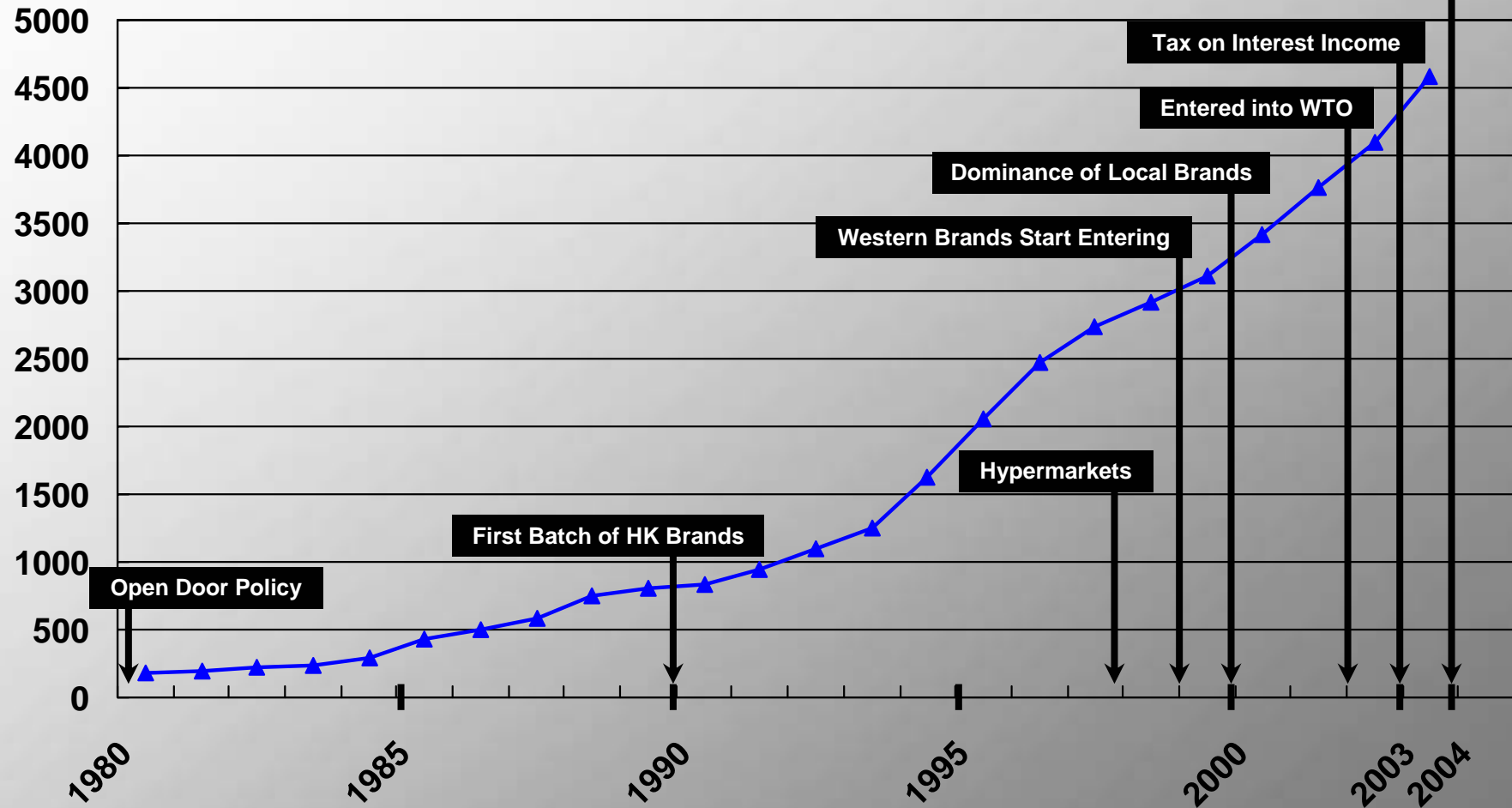
BLUE STAR

giordano/ladies

GIORDANO  
Junior

# Evolution of the Consumer Market in China

Retail Sales Value  
(in RMB billion)



GIORDANO

BLUE STAR

giordano/ladies

GIORDANO  
Junior

# Evolution of the Consumer Market in China

- Open door policy in 1979
- Less government intervention in the marketplace
- Hong Kong founded brands entering the market in early 90's
- Western brands tapping into the market in late 90's
- Domestic brands still dominate the market, with Sino-foreign and imported brands gaining shares
- Market share of retail chain stores continues to increase

# Chinese Consumer Market in 2003

- Retail sales reached US\$552 billion, up 9.1% YOY
- Retail sales accounted for 39.3% of GDP
- Widening gap between retail sales growth in urban and rural areas. Urban grew 10.3% YOY while rural grew 6.8%
- Eastern China accounted for 57.3% of total retail sales, while central and western regions accounted for 29.0% and 13.7%, respectively. Guangdong province alone accounted for 12.2%.
- Consumer price increased 1.2% YOY

# The Chinese Consumers

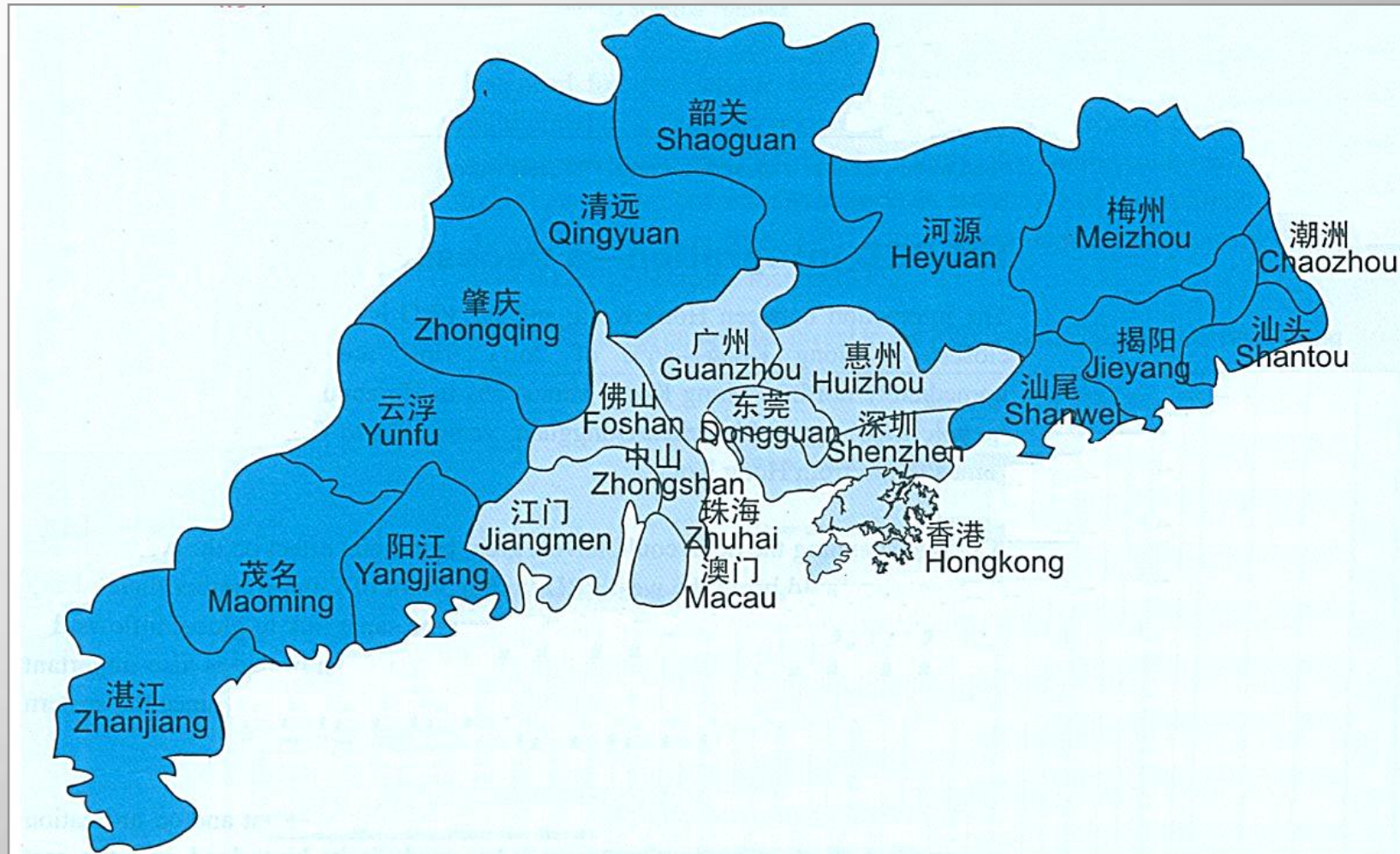
- Receptive to Western influences, e.g. fashion trends, fast food culture, foreign movies and music
- In the past, tended to save more and spend less; now spend more
- Government started to tax interest income
- Average annual expenditure for an urban dweller was US\$784
- Spending growth exceeded income growth for the first time among rural dwellers last year
- Spiral course → moving up spending ladder

# **Stable Consumption Growth Environment**

- **Policy of stimulating domestic demand**
- **Stable income growth of urban and rural citizens**
- **Improved employment and increased welfare expenditure**
- **Government to boost agricultural household's income**
- **Rising credit spending; personal loans increased 47.5% YOY**



# Guangdong Province and main cities / countries in the Pearl River Delta (light blue)



# Pearl River Delta (PRD)- the Booming Sourcing Hub

- The delta benefits from its infrastructure; ability to attract talent from all over China; early opening; experience at world quality and cost standards; and flexibility in administration
- Early opening made PRD more oriented towards international markets and private-sector development
- Absence of large state subsidies forces companies to stay commercially competitive
- Proximity to HK provides the delta with capital, management, technology, market knowledge and access to international market



# How does the PRD compare with its peers?

	World Ranking	Population (m)	GDP (US\$bn)	Goods export (US\$bn)
Pearl River Delta		50.0	101	90.8
Hong Kong		6.8	164	189.9*
Macau		0.4	6	2.2
'Greater PRD'		57.2	271	200
GPRD's world ranking		(23 <sup>rd</sup> )	(17 <sup>th</sup> )	(9 <sup>th</sup> )

## Countries immediately above and below Greater PRD

Italy	22	57.5		
Taiwan	16		310	
Holland	8			216
Mexico	10			158
Korea	11			150
Singapore	17			122

Source: The Economist, IMF

\* Includes trans-shipments

# Economic Landscape of Regional Economies

(% of China and HK, 2002)	GDP	Pvt Con'm	Govt Con'm	Investment	Net Ex of G&S	Exports of Goods*	Agriculture	Industrial	Services
<b>Mainland China + HK</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Mainland China</b>	<b>88.9</b>	<b>86.3</b>	<b>90.9</b>	<b>93.1</b>	<b>71.5</b>	<b>95.1</b>	<b>99.9</b>	<b>97.1</b>	<b>74.9</b>
<b>Beijing/Tianjin</b>	<b>4.4</b>	<b>3.0</b>	<b>6.5</b>	<b>6.3</b>	<b>-12.6</b>	<b>5.7</b>	<b>1.1</b>	<b>3.8</b>	<b>6.3</b>
Beijing	2.7	1.9	4.3	4.2	-12.7	2.4	0.6	2.0	4.3
Tianjin	1.7	1.2	2.2	2.0	0.1	3.2	0.5	1.8	2.1
<b>Greater Shanghai</b>	<b>19.6</b>	<b>14.1</b>	<b>20.2</b>	<b>21.2</b>	<b>52.5</b>	<b>29.7</b>	<b>11.8</b>	<b>21.9</b>	<b>21.0</b>
Shanghai	4.5	3.4	3.6	5.2	13.9	9.0	0.5	4.7	5.9
Jiangsu	8.7	6.2	8.7	8.8	23.6	11.4	6.9	10.1	8.4
Zhejiang	6.4	4.5	7.8	7.2	15.0	9.2	4.3	7.2	6.7
<b>South China</b>	<b>20.8</b>	<b>21.7</b>	<b>23.9</b>	<b>15.5</b>	<b>51.9</b>	<b>39.7</b>	<b>6.5</b>	<b>13.7</b>	<b>35.3</b>
Guangdong	9.7	7.9	14.8	8.6	23.3	34.8	6.4	10.8	10.2
Hong Kong	11.1	13.7	9.1	6.9	28.5	4.9	0.1	2.9	25.1

\* Hong Kong exports include domestic exports only

Source: CEIC, China Statistical Yearbook 2003

# China PRD – Potential for International Operators

## Selling

- According to Chinese Academy of Social Sciences (CASS), about 60 million out of its 1.3 billion population could be classified as middle income class earners.
- Local companies are still dominating China's retail industry.
- In 2003, total sales of top six (2%) foreign operated chain stores amounted to US\$6 billion, or 18% of top 30 retailers' sales.
- Many foreign companies are reluctant to operate in less developed cities.
- Foreign retailers gaining market share; accounting for 10+% of total retail market or 60%+ of hypermarket sales
- Keen on branded items; top ten brands accounted for 65% of total consumer goods sales in 2003

# China PRD – Potential for International Operators

## Sourcing

- Efficiency
- General cost advantage
- Infrastructure
- Speed
- The Hong Kong Connection

# Giordano in China

- Went public in 1991 and entered into China in 1992
- Nationwide distribution
- About 600 outlets marketed under *Giordano*, *Giordano Ladies*, *Giordano Junior* and *Bluestar Exchange*
- Nerve Centre (Design, Marketing, Corporate) in HK; whilst market and sourcing in Mainland China with emphasis on PRD
- Develop 2nd and 3rd tier cities of PRD with *Bluestar Exchange*
- 82% goods sourced in China
- 79% goods sourced in PRD

# Giordano in China



Heng Bao Plaza, Guangzhou

Beijing Road, Guangzhou



GIORDANO

BLUE STAR

giordano/ladies

GIORDANO  
Junior



# Giordano in China



Xiajiu Road, Guangzhou

Baihua Store, Beijing



GIORDANO

BLUE STAR

giordano/ladies

GIORDANO Junior

# Giordano in Hong Kong



Capitol Centre, Causeway

Queensway Plaza,  
Admiralty



GIORDANO

BLUE STAR

giordano/ladies

GIORDANO  
Junior



# Giordano at the HK International Airport



GIORDANO

BLUE STAR

giordano/ladies

GIORDANO  
Junior



# Best Small Companies by Forbes



COMPANY/COUNTRY	BUSINESS	RECENT PRICE \$	2002 P/E	PRICE/ BOOK	PRICE/ SALES	LATEST ROE%	EARNINGS GROWTH*	SALES US\$MIL	NET INC. US\$MIL	MKT CAP US\$MIL
<b>ASIA PACIFIC</b>										
BridgeDFS / AU	financial publishing/services	1.11	17.1	20.3	6.7	148.2	NA	18.3	5.4	111
Challenger Intl / AU	financial services	1.45	4.4	1.4	1.8	36.2	168.7	225.5	78.7	360
Cochlear / AU	healthcare	23.96	46.9	44.4	11.1	63.4	30.4	112.4	15.9	1,246
Perpetual Trust / AU	financial services	19.53	24.4	6.4	4.5	25.4	26.7	164.6	28.0	732
Tempo Services / AU	business services	1.36	17.6	13.1	0.4	61.6	NA	242.3	4.9	119
Asiainfo Hldgs / CN	internet software	13.40	27.9	3.2	2.8	NM	NA	176.1	-2.8	560
Beijing Centregate / CN	packaged software	1.76	54.7	5.2	5.9	9.6	NA	183.0	19.2	1,196
Chaoda Modern / CN	agricultural commodities	0.28	4.4	NA	17.6	103.2	NA	18.6	8.1	446
China Rare Earth / CN	industrial specialties	0.24	6.6	2.4	1.9	34.9	NA	71.6	18.1	165
China Vanke / CN	real estate	1.78	NA	3.1	2.5	12.3	22.5	447.4	37.4	675
Datang Telecom / CN	telecom equipment	2.41	46.9	4.1	3.5	10.8	NA	287.6	21.6	1,058
Euro-Asia / CN	agricultural	0.18	4.1	NA	NA	112.7	NA	72.9	22.1	285
Global Bio-Chem / CN	agricultural commodities	0.25	6.0	NA	1.5	92.5	NA	155.0	29.5	320
Greencool Tech / CN	refrigeration services	0.35	9.7	2.6	7.2	35.2	NA	43.9	32.5	353
Lucky Film / CN	film products	1.73	22.3	4.9	6.4	23.9	NA	91.1	26.0	590
Phoenix Satellite / CN	cable/satellite tv	0.10	20.8	4.3	6.3	NA	NA	91.5	6.9	512
Sun Television / CN	television	0.01	6.8	2.9	5.1	NM	NA	12.3	-16.1	69
UTStarcom / CN	internet services	15.97	28.0	3.4	3.4	9.3	NA	368.7	27.0	1,736
Wah Sang Gas / CN	energy	0.09	7.8	7.4	6.3	50.0	NA	26.9	8.6	174
Xiniao Gas Holdings / CN	energy	0.27	11.5	NA	7.5	NA	NA	14.8	4.5	160
Arts Optical / HK	consumer sundries	0.17	3.5	1.0	0.8	31.4	25.6	77.3	15.6	61
Cafe de Coral / HK	restaurants	0.59	8.1	2.1	1.0	21.9	19.1	325.7	32.6	321
Giordano Intl / HK	apparel/footwear retail	0.44	9.1	3.2	1.4	31.4	101.1	439.9	53.3	624
Global Sources / HK	business services	3.50	37.1	12.2	0.9	NM	NM	105.2	-68.2	92
Hung Hing Printing / HK	pulp & paper	0.37	4.9	1.2	0.9	20.8	12.6	230.8	35.1	210
Kingboard Chemical / HK	electrical products	0.46	3.1	1.1	0.7	28.8	56.6	309.8	52.4	218
Kingmaker Footwear / HK	footwear and apparel	0.19	5.3	1.9	0.9	33.6	NA	135.7	19.1	120

\*Annualized 3-year EPS growth. Stock prices as of Oct. 5. NA: Not available or not applicable. NM: Not meaningful.

Sources: Bloomberg; Exshare, Worldscope, and Thomson Financial/IBES via FactSet Research Systems.

GIORDANO

BLUE STAR

giordano/ladies

GIORDANO  
Junior



# Asia's Top 20 Brands by Media

**media**

## ASIA'S TOP 20 BRANDS

Rank	Brand	Know it very well	Value for money	Good quality	Popular for the future	Strong vision	Innovative	Youthful	Up-to-date	Most successful	Total score
1	Singapore Airlines	37	30	39	32	39	40	30	39	39	325
2	Cathay Pacific	39	23	36	39	38	38	29	40	38	320
3	HSBC	40	20	35	36	40	39	26	38	40	314
4	Giordano	38	40	26	38	28	28	39	36	30	303
5	Espirit	35	27	27	37	27	25	40	35	35	288
6	ParkNShop	34	38	29	35	29	30	25	31	37	288
7	Acer	25	37	24	27	32	36	31	34	31	277
8	Star	28	9	22	33	34	33	37	37	36	269
9	San Miguel	31	32	21	40	17	27	36	28	17	249
10	SingTel	17	10	28	22	37	37	28	32	33	244

GIORDANO

BLUE STAR

giordano/ladies

GIORDANO Junior



# Awarded by FEER in 8 Consecutive Years



## INNOVATIVE IN RESPONDING TO CUSTOMER NEEDS

'01 ('00) ('99)

- 1 (1) (1) Giordano Holdings
- 2 (-) (-) Sunday
- 3 (28) (-) Next Media
- 4 (-) (-) Wellcome Supermarkets
- 5 (2) (11) Cathay Pacific Airways

## Innovative in Responding To Customer Needs

'98 ('97) ('96)

- 1 (1) (1) Giordano Holdings
- 2 (3) (2) Hongkong Telecom
- 3 (2) (3) Cathay Pacific Airways
- 4 (5) (5) Dickson Concepts
- 5 (4) (4) Mass Transit Railway Corp.

## Innovative in Responding To Customer Needs

'96 ('95)

- 1 (1) Giordano Holdings
- 2 (2) Hongkong Telecom
- 3 (4) Cathay Pacific Airways
- 4 (3) Mass Transit Railway Corp.
- 5 (6) Dickson Concepts

## COMPANIES THAT OTHERS TRY TO EMULATE

'01 ('00) ('99)

- 1 (5) (2) Giordano Holdings
- 2 (3) (1) Cheung Kong Holdings
- 3 (1) (5) Hutchison Whampoa
- 4 (6) (3) Mandarin Oriental
- 5 (12) (10) Li and Fung

## Companies That Others Try to Emulate

'98 ('97) ('96)

- 1 (1) (3) Cathay Pacific Airways
- 2 (3) (6) Cheung Kong (Holdings)
- 3 (5) (4) Mandarin Oriental
- 4 (2) (5) Sun Hung Kai Properties
- 5 (6) (2) Giordano Holdings

## Companies That Others Try to Emulate

'96 ('95)

- 1 (1) Hongkong Bank
- 2 (2) Giordano Holdings
- 3 (3) Cathay Pacific Airways
- 4 (5) Mandarin Oriental
- 5 (4) Sun Hung Kai Properties

GIORDANO

BLUE STAR

giordano/ladies

GIORDANO Junior



A survey done by the Market Insights Group revealed that GIORDANO is one of the best-liked apparel brands among the Mainland Chinese tourists.

蘋果財經 2990-8968

### 自由行旅客最愛品牌

排名	服裝	化妝品/護膚品	電子產品	手提電話
1	G2000/U2	Olay	Canon	Nokia
2	Giordano	SKII	Sony	Sony Ericsson
3	Baleno	Lancome	Panasonic	Samsung/Motorola
4	Esprit	Shiseido	Olympus/Casio/Nikon	

資料來源：市場調查機構 Market Insights Group

Source: Apple Daily , January 20, 2004



GIORDANO

BLUE STAR

giordano/ladies

GIORDANO  
Junior