bossini

BOSSINI INTERNATIONAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)
(Stock Code: 592)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

FINANCIAL RESULTS

The board of directors (the "Board") of **Bossini International Holdings Limited** (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2004. The results, together with the comparative figures for the corresponding period in 2003, are summarised as follows:

Condensed consolidated profit and loss account

	Notes	Six months ended 30 September 2004 (Unaudited) *HK$'000*	2003 (Unaudited) *HK$'000* (Restated)
TURNOVER	2	**879,028**	790,681
Cost of sales		**(431,058)**	(441,829)
Gross profit		**447,970**	348,852
Other revenue	3	**5,076**	3,541
Selling and distribution costs		**(266,191)**	(247,865)
Administrative expenses		**(87,635)**	(80,051)
Other operating expenses		**(18,342)**	(18,351)
PROFIT FROM OPERATING ACTIVITIES	4	**80,878**	6,126
Finance costs	5	**(464)**	(2,865)
PROFIT BEFORE TAX		**80,414**	3,261
Tax	6	**(17,596)**	(228)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		**62,818**	3,033
DIVIDENDS	7	**27,773**	–
EARNINGS PER SHARE	8		
Basic		**4.07 cents**	0.21 cents
Diluted		**3.91 cents**	N/A

Notes:

1. Basis of preparation and accounting policies

The unaudited condensed consolidated interim financial statements are prepared in accordance with the Hong Kong Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and basis of preparation used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2004.

2. Segment information

An analysis of the Group's revenue and profit by business segment is not presented as the Group's revenue and results are predominantly derived from retailing and distribution of garments.

An analysis of the Group's revenue and profit by geographical segment for the six months ended 30 September 2004, together with the comparative figures for the corresponding period in 2003, is as follows:

	Hong Kong 2004 *HK$'000*	2003 *HK$'000*	Mainland China 2004 *HK$'000*	2003 *HK$'000*	Taiwan 2004 *HK$'000*	2003 *HK$'000*	Singapore 2004 *HK$'000*	2003 *HK$'000*	Consolidated 2004 *HK$'000*	2003 *HK$'000*
Segment revenue:										
Sales to external customers	**460,345**	369,309	**185,916**	213,785	**149,805**	131,942	**82,962**	75,645	**879,028**	790,681
Other revenue	**445**	937	**2,676**	851	**1,171**	1,346	**18**	30	**4,310**	3,164
Total	**460,790**	370,246	**188,592**	214,636	**150,976**	133,288	**82,980**	75,675	**883,338**	793,845
Segment results	**57,603**	12,663	**5,750**	(16,468)	**9,987**	5,638	**6,772**	3,916	**80,112**	5,749
Interest income									**766**	377
Profit from operating activities									**80,878**	6,126
Finance costs									**(464)**	(2,865)
Profit before tax									**80,414**	3,261
Tax									**(17,596)**	(228)
Net profit from ordinary activities attributable to shareholders									**62,818**	3,033

3. Other revenue

	Six months ended 30 September 2004 *HK$'000*	2003 *HK$'000*
Interest income	**766**	377
Royalty income	**2,168**	426
Gross rental income	**1,262**	1,289
Others	**880**	1,449
	5,076	3,541

4. Profit from operating activities

Profit from operating activities is arrived at after charging:

	Six months ended 30 September 2004 *HK$'000*	2003 *HK$'000*
Depreciation	**23,228**	25,388

5. Finance costs

	Six months ended 30 September 2004 *HK$'000*	2003 *HK$'000*
Interest on bank loans and overdrafts wholly repayable within five years	**464**	2,865

6. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the six months ended 30 September 2004. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 September 2004 *HK$'000*	2003 *HK$'000*
Current tax:		
Hong Kong	**8,973**	1,150
Elsewhere	**5,661**	54
Under/(over) provision in prior periods	**931**	(976)
Deferred tax	**2,031**	–
Tax charge for the period	**17,596**	228

7. Dividends

	Six months ended 30 September 2004 *HK$'000*	2003 *HK$'000*
Interim dividend – HK1.8 cents (2003: nil) per ordinary share	**27,773**	–

8. Earnings per share

The basic earnings per share is calculated based on the net profit from ordinary activities attributable to shareholders for the six months ended 30 September 2004 of HK$62,818,000 (2003: HK$3,033,000) and the weighted average of 1,542,923,394 (2003: 1,410,908,732 as restated) ordinary shares in issue during the period, as adjusted to reflect the bonus shares issued during the period.

The calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders for the six months ended 30 September 2004 of HK$62,818,000. The weighted average number of ordinary shares used in the calculation is the 1,542,923,394 ordinary shares in issue during the period, as used in the basic earnings per share calculation; and the weighted average of 63,183,564 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period.

A diluted earnings per share amount for the six months ended 30 September 2003 has not been disclosed as no diluting events existed during that period.

9. Post balance sheet event

In October 2004, a Taiwan branch of one of the Group's subsidiaries (the "Taiwan branch") received a notice of claim from the Taipei National Tax Administration, Ministry of Finance (the "TNTA") relating to the underpayment of business tax on sales made through certain retail stores which are operated under co-operative arrangement with third parties during the period from January 2001 to May 2003 together with penalties of approximately NTD27.9 million in aggregate (equivalent to HK$6.5 million).

The directors, based on the advice from the local tax representative of the Taiwan branch, believe that the branch has a valid ground to object the claims from the TNTA, and accordingly, have not made any provision for the tax claim as at 30 September 2004.

INTERIM DIVIDEND

The Board of Directors has declared an interim dividend of HK1.8 cents (2003: nil) per ordinary share to members whose names appear on the principal or branch Register of Members of the Company in Bermuda or Hong Kong respectively as at the close of business on 20 December 2004. The interim dividend will be paid on or about 30 December 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 21 December 2004 (Tuesday) to 23 December 2004 (Thursday), both days inclusive, during the period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited of Shops 1712-6, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 20 December 2004 (Monday).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

The Group is pleased to announce its impressive results for the six months ended 30 September 2004. Net profit substantially increased to HK$63 million (2003: HK$3 million), riding on a double-digit turnover growth of 11%.

The encouraging performance was attributable to the low profit base as a consequence of the severe SARS impact last year as well as the continuing momentum of a series of successful reforms including distribution network restructuring, enhancements in inventory management, product designs, service standards, staff quality and branding, together with the stringent cost and budgetary controls.

Double Digit Turnover Growth

The Group's consolidated turnover for the six months ended 30 September 2004 recorded a year-on-year increase of 11% to HK$879 million (2003: HK$791 million). The satisfactory growth was the result of the revitalisation in local consumption power in various core markets coupled with our multi-faceted promotion strategies.

Since the distribution network restructuring last year, the Group's total retail sales area decreased to 504,700 sq. ft. (2003: 524,800 sq. ft.). Nevertheless, net retail sales per sq. ft. increased to HK$2,900 (2003: HK$2,300), an improvement of 25%, while same store sales growth *(Remarks: same store sales is the comparison of sales of the same stores having full month operations in comparable periods)* surged to 16% (2003: 10%) with much enhanced operating efficiencies and effectiveness.

The Group's total number of outlets worldwide as at 30 September 2004 was 710 (2003: 733), comprising 352 retail outlets (2003: 347) and 358 franchised outlets (2003: 386).

Improved Gross Profit Margin
The Group's gross profit for the six months ended 30 September 2004 amounted to HK$448 million, representing an increase of 28% over the level of the same period last year. Gross profit margin improved by 7 percentage points from 44% to 51%, which evidenced the effectiveness of our inventory and margin management.

Enhanced Cost Effectiveness
The Group is committed to improving its profitability through strong emphasis on cost effectiveness. The Group's operating costs for the six months ended 30 September 2004 amounted to HK$372 million (2003: HK$346 million), representing a mild increase of 7%, well below the 11% turnover growth. The total operating expenses accounted for 42% of the total turnover, illustrating a satisfactory improvement from 44% for the same period prior year and progressing well towards our full year target of 40%.

Quantum Leap Profitability
The consolidated net profit attributable to shareholders surged to HK$63 million (2003: HK$3 million), representing a robust growth of about 20 times as compared to the corresponding period last year. Operating margin and net margin for the period under review achieved 9% (2003: 1%) and 7% (2003: 0.4%), respectively. Earnings per share also surged 18 times to HK4.07 cents (2003: HK0.21 cents).

Consistent Dividend Policy
The Group intends to maintain a consistent dividend policy as one of the measures to enhance our shareholders' value. In view of the strong financial performance for the period under review, the Board of Directors is pleased to declare an interim dividend of HK1.8 cents (2003: nil) per ordinary share, equivalent to a payout ratio of 44%.

Hong Kong
The Group's performance in Hong Kong showed continual improvements. During the period under review, Hong Kong's economy demonstrated a healthy rebound, boosted by the individual travel scheme and a steady revival of the property market. The Group's Hong Kong retail sales grew 18% to HK$348 million (2003: HK$296 million). Same store sales also recorded a satisfactory growth of 19%, though a slower growth than the level of 23% same period prior year when cutthroat discounts were offered mostly around the SARS period.

Total retail outlets in Hong Kong reached 30 (2003: 27) as of 30 September 2004. In line with our corporate plan, the Group opened 3 new outlets in prime locations during the period under review. Its flagship store in Causeway Bay, Hong Kong, with a floor area of 6,200 sq. ft., had its grand opening in September this year. Total retail floor area in Hong Kong increased by 8% to 106,100 sq. ft. (2003: 98,500 sq. ft.).

Capitalising on the well-established "bossini" brand, the Group proactively engaged in developing its overseas export business. By strengthening the partnership with our existing franchisees, sales from overseas distribution posted a strong growth of 56% to HK$106 million (2003: HK$68 million). The Group's franchised outlets outside its four core markets increased to 176 (2003: 169), under a global network of about 20 countries.

In view of the outstanding performance in both retail and export business, operating profits from the Hong Kong operations increased dramatically by 3 times to HK$57 million (2003: HK$13 million) with an operating margin of 13% (2003: 3%).

Mainland China
The Group's operations in Mainland China were still undergoing substantial restructuring with further consolidation taking place during the period under review. Nevertheless, the Mainland China market recorded an encouraging turnaround with an operating profit of HK$6 million (2003: HK$16 million loss), though turnover experienced a decline of 13% to HK$186 million (2003: HK$214 million). Operating margin of 3% (2003: 8% loss) was achieved.

Retail sales amounted to HK$132 million (2003: HK$133 million), almost leveling that in the same period last year. The total number of directly managed outlets increased to 224 (2003: 218) with 35 outlets more than the level of 189 as at 31 March 2004. Same store retail sales recorded an 11% growth (2003: 25% decrease) albeit the decrease in total floor area by 7% to 249,100 sq. ft. (2003: 269,100 sq. ft.).

The franchise business in Mainland China was undergoing reshuffling, both in terms of operations and organisational structure, but at a slower pace than expected. As a result, the total number of franchised outlets decreased to 182 (2003: 217) stores during this transitional period, a slight decrease of 13 stores as compared to the level of 195 stores as at 31 March 2004. Distribution sales to franchisees thus decreased to HK$45 million (2003: HK$68 million).

In light of the highly complex and competitive environment, the Group has thus revised its full year target of increasing 100 outlets in this fiscal year to 70 in Mainland China.

Taiwan
The progressive growth in Taiwan's economy after the devastating effects of SARS last year, coupled with the continuing efforts in enhancing staff quality and inventory management, contributed a lot to the outstanding performance of our operations in Taiwan. Turnover from Taiwan amounted to HK$150 million (2003: HK$132 million), an increase of 14% over same period last year. As in other markets, stores with poor performance were closed or relocated, leading to a 3% decrease in the total floor area to 121,400 sq. ft. (2003: 124,600 sq. ft.) though the total number of outlets was maintained at 72 stores (2003: 72). Nevertheless, same store sales growth posted a surge to 14% (2003: 8%).

The Group's Taiwan business recorded an operating profit of HK$10 million (2003: HK$5 million), an excellent improvement of 77% over the same period last year with an operating margin of 7% (2003: 4%).

In October 2004, the Taiwan branch of one of the Group's subsidiaries (the "branch") received a notice of claim from the Taipei National Tax Administration, Ministry of Finance relating to the underpayment of business tax on sales together with penalties of approximately NTD27.9 million in aggregate (equivalent to HK$6.5 million). This claim was disclosed in the post balance sheet event as contingent liabilities of the Group as the directors believe that the branch has a valid ground to object the claims based on the advice from the local tax representative.

Singapore
The Group's operations in Singapore, a highly competitive and saturated market, also improved steadily. Turnover in Singapore recorded a year-on-year growth of 10% to HK$83 million (2003: HK$76 million) despite the reduction in floor area to 28,100 sq. ft. (2003: 32,600 sq. ft.), 14% lower than the same period previous year. The number of outlets also decreased to 26 stores (2003: 30). On the contrary, same store sales growth improved to 12% (2003: 10%). With enhanced effectiveness and efficiencies, operating profit during the period under review increased considerably by 73% to HK$7 million (2003: HK$4 million) with an operating margin of 8% (2003: 5%).

Outlook
Subsequent to various reforms in the past two years, it is believed that the relevant benefits were largely reflected in the Group's performance during the second half of last fiscal year and first half of this fiscal year. With the mild expansion strategy in current year, moderate growth is thus expected in the second half of the year.

Going forward, the Group's growth momentum will be largely driven by its organic growth and market expansion, with franchise business being its growth engine. It is expected that the growth pace in profitability will be relatively stable and steady as compared to the robust one in the past year.

The Group's business segments are well positioned to take advantage of opportunities arising from Hong Kong's economic recovery at a healthy pace, as witnessed by increased consumer spending and upsurge in tourism. We will strive for excellence in maintaining our leading position in the chosen market segment.

The distribution network restructuring process in Mainland China will persist in the coming months. During this transitional phase, though Mainland China being a vibrant and profitable market, there will be a short-term impact on the growth momentum of profitability. The Group intends to exploit a combination of directly managed stores and franchised outlets to tap opportunities in this enormous and high potential market. Thus, both turnover and profitability are expected to grow with more prominent pace in the coming years.

In Taiwan, the Group will continue to exercise caution in capturing any synergistic expansion opportunities. After a year of gainful restructuring, it envisages Taiwan market's profitability to enter an era of steady growth.

Our Singapore operation is relatively stable. The Group will keep abreast of market trends by reviewing its Singapore business from time to time, making adjustments wherever necessary and will continue to explore untapped opportunities in the nearby markets.

With globalisation in mind, the Group intends to expand into new markets in Eastern Europe and the Asia-Pacific Region, while opening franchised outlets in Indonesia and Nepal in the second half of this year.

Conclusion
Along with the gradual recovery of the global economy, mild inflation will resume. The Group is well positioned to benefit from the improving market environment despite the expected upward trend in operating and production costs. Relentless efforts will be devoted to further enhancing our inventory management and sales performance for offsetting any external adverse impact. We also target to control and maintain the total operating expenses at a level within 40% of the total turnover. Therefore, focusing on strengthening brand image, enriching existing product offerings, developing new product lines, reinforcing system controls to ensure high operational efficiency, improving service standards, providing intensive staff training and expanding distribution network in existing and new markets will be our strategies for sustaining the growth momentum of the Group's turnover and profitability.

To further enhance our operating efficiency and knowledge management, the Group will select and invest in world-class information technology systems to keep apace with worldwide development, laying a solid foundation for our long term growth.

Our ultimate goal is to achieve sustainable double-digit growth in both turnover and profitability and to reward our shareholders with consistent dividend payout ratio of no less than 30%. The Group remains cautiously optimistic about its business performance over time and is confident that Bossini will become a high performance retailer in the industry.

LIQUIDITY AND FINANCIAL RESOURCES
As at 30 September 2004, the Group's cash and bank balances amounted to HK$200 million (31 March 2004: HK$225 million), subsequent to the payment of a final dividend of HK$46 million in September 2004 for last fiscal year and the purchase of additional inventory for the upcoming season. As at 30 September 2004, the Group's total credit facilities provided by banks amounted to HK$302 million (31 March 2004: HK$332 million). It is believed that there are adequate financial resources to fund the Group's current business growth and future requirements in the coming year.

The Group's net cash inflow from operating activities was HK$58 million for the six months ended 30 September 2004 (full year ended 31 March 2004: HK$220 million).

As at 30 September 2004, the Group's inventory amounted to HK$304 million (31 March 2004: HK$182 million), a 67% increase as compared to the stock level of last yearend date, representing an inventory turnover period of 63 days (31 March 2004: 37 days). The much higher inventory balance consisted of about 88% (31 March 2004: 78%) new stocks for the 2004 fall/winter collection. This was actually a seasonal phenomenon as the unit cost of the fall/winter collection was generally higher than that of spring/summer collection and the Group intended to increase its stock level to pave way for the expected growth during the upcoming winter season.

As at 30 September 2004, the Group's current ratio was 2.05, as compared with 2.72 as at 31 March 2004. The total liabilities to equity ratio was 62% (31 March 2004: 43%). The ratio was calculated by dividing total liabilities of HK$287 million (31 March 2004: HK$192 million) by the total shareholders' equity of HK$460 million (31 March 2004: HK$446 million).

During the period under review, the Group incurred total capital expenditure of HK$29 million (2003: HK$17 million), which was mainly used on renovations for both new and old stores. The Group will continue to fund capital expenditure through its internal resources.

HUMAN CAPITAL
As at 30 September 2004, the Group employed 3,704 (2003: 3,373) full-time equivalent staff, remunerating employees in accordance with their performance, experience and prevailing industry practices. Benefits such as staff insurance, retirement schemes, discretionary bonuses and share options are provided.

During the period, the Group continued to provide various kinds of training to different levels of staff including leadership and management training to its middle and top management team and also intensive training programmes to enhance the customer service skills of frontline staff.

CODE OF BEST PRACTICE
None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 September 2004, in compliance with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), except that one of the independent non-executive directors of the Company is not appointed for a specific term as required under paragraph 7 of the Code. Each of the other two independent non-executive directors of the Company has been appointed for a term of one year which will be automatically renewed subject to early termination by mutual consent or three months' prior notice. All the independent non-executive directors of the Company are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's bye-laws.

AUDIT COMMITTEE
The Company has an audit committee which was established in accordance with the requirements of the Listing Rules, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee has reviewed the unaudited interim financial statements for the six months ended 30 September 2004. The audit committee comprises three independent non-executive directors of the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES
Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

PUBLICATION OF INTERIM RESULTS ON THE STOCK EXCHANGE'S WEBSITE
A detailed interim results announcement containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

By Order of the Board
LAW Ka Sing
Chairman

Hong Kong, 30 November 2004

At the date of this announcement, the Board comprises six executive directors, namely Mr. LAW Ka Sing, Ms. CHAN So Kuen, Ms. Pansy CHAU Wai Man, Mr. FUNG Ping Chuen, Mr. Dickie FU Shing Kwan and Mr. Simon ORR Kuen Fung and three independent non-executive directors, namely Madam LEUNG Mei Han, Mrs. Winnie LEUNG WONG Wing Yue and Mr. Raymond LEE Man Chun.

The full text of this announcement will be available on the Internet at http://www.irasia.com/listco/hk/bossini.