

Business Review

The Group achieved a turnover of HK\$637.58 million representing an increase of 14.5% over last year. The audited consolidated profit attributable to shareholders decreased by 14.6% to HK\$42.52 million.

The betterment in turnover is resulted from the increase in number of outlets in Hong Kong and Mainland China. The decrease in profit attributable to shareholders is mainly due to the poor consumer sentiment faced during the year and fierce competition in both Hong Kong and Mainland China market which heightened price promotion activities, and consequently eroded the gross profit margin of the Group. In addition, substantial up-front cost incurred in expanding retail network and promoting brand names in Mainland China, sharp cut in bank deposit interest rates and impairment loss on properties located in Hong Kong have further reduced the Group's profit for the year.

Hong Kong and Macau market

In the year under review, Hong Kong's retail environment is full of uncertainty and challenge. With worsen economic conditions, high unemployment rate, and sluggish property and stock markets, the public confidence in the economic outlook has hit the bottom which led people to be even more prudent in their spending. Unavoidably, the Group was adversely affected by these unfavorable factors. To survive and minimize the effect on the Group's performance, the Group continued to use different brand names to capture different market segments and was successful in gaining more market shares during the year. Turnover of the Hong Kong and Macau markets increased by 9.7% to HK\$529.35 million and inevitably operating profit decreased by 21.6% to HK\$32.59 million.

The Group remains as the largest footwear chain stores in the local market. At the end of May 2002, the Group operated 90 outlets in Hong Kong and Macau under 4 brand names of Mirabell, Joy & Peace, teenmix and INshoesnet.

Mainland China market

Turnover rose 45.5% to HK\$108.24 million. The significant increase was largely attributed by the continual building up of retail outlets in Mainland China. The number of retail outlets has increased by 26 during the year. The Group now operates 65 self-operated outlets, including Mirabell, Joy & Peace, teenmix, INshoesnet and K•Swiss in Shenzhen, Guangzhou, Shanghai and Beijing. In addition, there are 49 and 142 franchised outlets of Joy & Peace and teenmix respectively in over 24 provinces of Mainland China which strengthen our tradenames throughout the Mainland Market.

On the other hand, the operating profit for Mainland China decreased by 58.0% to 2.01 million. The decrease in contribution is mainly due to the significant up-front cost incurred in expanding our retail outlets in the prime shopping districts during the year, the heavy advertising program launched to enhance the brand image of the Group and the special provision for bad and doubtful debts in relation to the closure of a department store in Shenzhen.

Management Discussion and Analysis

With the Mainland China's accession to the World Trade Organisation and its winning the bid to host the 2008 Olympic Games, the domestic retail market is expected to grow in the coming few years. At the same time, more severe competition is anticipated. The management believes that the short-term scarifying of contribution for the intensive investment in distribution networks and brand promotion is worthwhile as these can contribute to the long term benefits for the Group to capture the tremendous growth opportunities in the Mainland China market.

Best Quality Investments Limited ("Best Quality")

Year 2001 represents a remarkable era for Best Quality, the associated company of the Group, with its annual production volume nearly double to 2.20 million pairs of shoes. The consolidated turnover and profit attributable to shareholders increased from HK\$274.69 million to HK\$438.73 million and from HK\$28.11 million to HK\$45.70 million respectively.

To cope with the future expansion, Best Quality invested a new factory in Shenzhen in 2001. Together with the existing two factories, Best Quality now operates 8 production lines with a production capacity of approximately 3.00 million pairs of shoes per year. After the completion of the investment, it is expected the annual production capacity will achieve 5.00 million pairs of shoes.

Since the acquisition of Best Quality in 1999, the cumulative profits contributed by Best Quality amounted to HK\$25.56 million which represent approximately 88.8% of the Group's total cost of investment. Certainly, it has proven to be a promising investment.

Liquidity and Financial Resources

The Group's working capital declined from HK\$159.36 million to HK\$142.77 million for the year while its current ratio and quick ratio were maintained at a healthy level of 2.44 and 1.55 times respectively.

At year end, the Group's inventory amounting to HK\$88.66 million, at a fairly steady level as compared to the HK\$90.39 million in 2001. At 28 February 2002, the Group had cash and bank deposits of HK\$80.12 million and outstanding bank borrowing of HK\$43.26 million. During the year, the Group has raised new bank borrowings of HK\$20.00 million and RMB6.50 million which were used to finance the acquisition of the property in Shenzhen and the working capital for Mainland China operation respectively.

At 28 February 2002, the gearing ratio of the Group is 0.15 (2001: 0.09) which is calculated based on the Group's total borrowings of HK\$43.26 million (2001: 21.96 million) and the shareholders' funds of HK\$285.77 million (2001: HK\$236.42 million).

With low gearing and strong financial position, Management believes that the Group is well placed to avail itself to future expansion and investment opportunities.

Human Resources

At 28 February 2002, the Group has a total of 1,105 employees. The Group offers a competitive remuneration package to its employees, including insurance and medical benefits. In addition, discretionary bonus and share options may be granted to eligible employees based on the Group's performance and individual performance.