Business Review

The Group recorded a turnover of HK$625.62 million, representing a decrease of 1.88%, compared with last year. The audited consolidated profit attributable to shareholders increased by 14.50% to HK$48.69 million.

During the year, the economy remained sluggish and the retail market was confronted with fierce competition. Accordingly, the management reformulated the strategies on its Hong Kong retail business, and decided to fade out the juvenile brand of teenmix out of the Hong Kong market. As a result, the Group's turnover recorded a slight decrease, compared with last year. Nevertheless, some slow-moving and obsolete stocks with provision made previously were sold out at special discounts in certain of the Hong Kong retail outlets and warehouses. Besides, the Group recorded increments in the contribution from the PRC retail business, rental income from Shenzhen properties, royalties income and share of profit of an associated company. Hence, the profit attributable to shareholders increased, compared with last year.

The Hong Kong and Macau market

During the year, the adverse economic climate of Hong Kong persisted, the unemployment rate remained high, consumer sentiment was adversely affected, and intense price competition increased amongst competitors, the operating environment of retail industry was very tough. Owing to the above-mentioned unfavorable factors, the Group's business was inevitably affected.

In light of the present stringent economic climate, the Group has been bargaining with landlords for rent reduction. Furthermore, the Group has been reviewing whether to close down those under-performing retail outlets with lease expiry soon. In order to counteract the unfavorable impact caused by the economy, the Group has adopted a series of cost control measures and flexible merchandizing strategies. Moreover, based on the management's solid experience in professional retail management, the Group has been providing a variety of products and high quality services to satisfy customers' needs and expectations. Apart from making more effort on launching marketing campaigns and renovation of retail outlets by stages, the Group has been adjusting its product mix from time to time with reference to the increasing number of the PRC tourists.

Compared with last year, turnover decreased by 4.75% to HK$504.19 million, whereas operating profit decreased by 9.24% to HK$30.63 million. At the end of May 2003, the Group operated 96 retail outlets in Hong Kong and Macau under four brand names of Mirabell, Joy & Peace, INshoesnet and Fiorucci.

The PRC market

Given that the PRC economy continues to grow steadily and living standards of residents improve, the room to grow is enormous. During the year, the Group recorded an increment in the contribution from the PRC retail business. With the accession to the World Trade Organization, the PRC market will continue to grow and provide more business opportunities for retailers. The market in the PRC is expected to be highly promising, the Group will continue to focus on expanding its operations and increasing its market share. The Group will reformulate the business strategies in accordance with the characteristics of consumption markets in different regions of the PRC.

Compared with last year, turnover increased by 12.19% to HK$121.43 million, whereas operating profit increased by 418.84% to HK$10.44 million. At the end of May 2003, the Group operated 45 retail outlets in Shenzhen, Guangzhou, Shanghai and Beijing under the brand names of Mirabell, Joy & Peace and K•Swiss. In addition, there were 46 franchised retail outlets under the brand name of Joy & Peace.

Outlook

The economic downturn, worsened by the recent outbreak of SARS, has a seriously negative impact on the consumption sentiment in the Hong Kong retail market. However, as the number of SARS cases has recently shown a trend of decline, the consumer confidence is expected to pick up gradually.

In January 2003, the Group set up a footwear wholesaling company, Senses Marketing, in Hong Kong focusing on the distribution of international brands of footwear. Senses Marketing is currently the exclusive footwear distributor of the U.S. brands of Caterpillar and Merrell in Hong Kong, Macau and the PRC. The management believes that Senses Marketing will be able to reduce the purchase costs and increase gross profit accordingly. Senses Marketing has been negotiating with various corporations possessed with international brands for exclusive distribution rights in Hong Kong, Macau and the PRC, so as to reinforce the brand development in the market.

The development of footwear wholesaling business is a vital part of the Group's operating strategies. Despite the fact that the present operating scale of Senses Marketing is comparatively small, the management believes that it possesses a high growth potential. In addition, the management also considers that Senses Marketing can provide a synergy effect to the Group so as to further strengthen the product mix, brand development and promotion. The operating effectiveness is thereupon expected to increase, and thus making contribution to the Group.

The Group has launched the Italian brand of Fiorucci in the spring/summer of 2003. Fiorucci is an international renowned brand and its products, including footwear and handbags, are specially designed for trendy and fashion conscious young ladies. The initial market response is encouraging.

The Group has been devising the operating strategies in the PRC. For the purposes of managing resources more effectively, the Group disposed of the teenmix trademark in March 2003 in order to provide more fund for the expansion plan in the PRC. The Group will concentrate on the expansion of the retail networks under the brand names of Mirabell and Joy & Peace in major cities of the PRC. To cope with the rapid business growth in the PRC, especially in the eastern and northern regions, the Group set up a wholly foreign-owned enterprise in Wai Gaoqiao Free Trade Zone of Shanghai in March 2003. To better manage the PRC business, the Group purchased an office in Guangzhou for the PRC headquarters in April 2003. In addition, the Group has been seeking experienced professionals in retail management to increase the pace of business expansion in the PRC.

Looking ahead, retail operations in Hong Kong and the PRC are still the principal business of the Group, and the Group strategically fortifies the wholesaling business. Even though the tough operating environment is expected to persist in the near future, the management believes that the implementation of the total quality management, unique product merchandizing strategies, stringent cost controls and strategic business process reengineering could further solidify the Group's base for future business expansion and development. In accordance with the Group's enduringly conservative investment policies and sound financial position, the management expects to strive for greater return for shareholders.

Liquidity and Financial Resources

Working capital of the Group increased from HK$106.14 million to HK$122.60 million, and the current ratio and quick ratio remained at a steady level of 2.19 and 1.37 times, respectively.

The inventory balance as at 28 February 2003 amounted to HK$84.19 million. Compared with the inventory balance of HK$88.66 million as at 28 February 2002, a moderate decrease was recorded. As at 28 February 2003, the Group had bank balances and cash of HK$96.70 million and outstanding bank borrowings of HK$31.07 million. During the year, the Group raised new bank loans of HK$5.12 million for the financing of wholesale business.

As at 28 February 2003, the gearing ratio of the Group was 0.10 (2002: 0.15) which was calculated on the Group's total borrowings of HK$31.07 million (2002: HK$43.26 million) and the shareholders' fund of HK$320.62 million (2002: HK$285.71 million).

Treasury Policies

The Group continued to adopt a conservative approach to financial risk management. The Group's borrowings were in Hong Kong dollars and Renminbi and were arranged on a floating rate basis. For the year ended 28 February 2003, the Group was not subject to any significant exposures in foreign exchange rates risk. Hence, no financial instrument for hedging was employed. The Group's treasury management policy is not to engage in any highly leveraged or speculative derivative products.

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

Charge on Assets

As at 28 February 2003, the carrying amount of fixed assets pledged as security amounted to approximately HK$24.24 million (2002: HK$25.50 million) and the carrying amount of fixed assets subject to negative pledge were approximately HK$96.73 million (2002: HK$99.30 million).

Contingent Liabilities

As at 28 February 2003, the Group had contingent liabilities in respect of guarantees issued for banking facilities granted to subsidiaries of an associated company amounting to HK$12.90 million (2002: HK$14.40 million).

Human Resources

As at 28 February 2003, the Group had a total of 1,023 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.