

Dear Shareholders,

I am pleased to present this annual report for the year ended 29 February 2004.

Results and dividend

The turnover of the Group for the year ended 29 February 2004 was HK\$645,617,000 whereas the profit attributable to shareholders was HK\$66,090,000.

The board of directors has recommended a final dividend of HK6.3 cents per share which, subject to the approval of shareholders, will be paid on 13 August 2004 to shareholders whose names appear on the Register of Members of the Company on 6 August 2004. This together with the interim dividend of HK1.5 cents per share will make a total dividend of HK7.8 cents per share for the year.

Solidify the market share in local retail market

The year of 2003/2004 was the most challenging year for the Group in its history. During the year, the outbreak of Severe Acute Respiratory Syndrome (the "SARS") seriously disrupted the normal business and devastated the tourism and retail industry. The adverse effects of SARS and its aftermath were substantial resulting in very weak economic conditions as reflected by deflation, high unemployment rate and low consumer consumption rate. To alleviate the effects of SARS, the management implemented stringent measures to control the costs and expenditures in all aspects. Unavoidably, the operating result for the local market in the first half of the year was badly affected.

However, after the launch of various economy stimulation programs and measures by the Government of Hong Kong with the full support from the Central People's Government of the People's Republic of China (the "PRC") including the signing of the Mainland/Hong Kong Closer Economic Partnership Arrangement and the relaxation of the travel restriction to the PRC residents visiting Hong Kong, the economy of Hong Kong has been going to recover and the consumer sentiment has gradually improved. The domestic economy rebound was spreading across all sectors particularly in tourism and retail industry. The surge increase in the local consumption is contributed by the rising consumer confidence, the soaring stock and property markets, and the falling unemployment rate. As a result, the Group achieved an encouraging operating result for the local market in the second half of the year.

The Group is still faced with a highly competitive retail business environment. To stand out from the crowd, the management has placed greater emphasis on providing excellent customer service and a multi-brand comprehensive product range to capture different market segments. Furthermore, the management actively reviews the operating strategies to encounter the changing economic conditions and market competition from time to time. The Group has already been renovating and redesigning the shops so as to provide a fresh image and more comfortable environment to the customers. The Group conducts market research regularly to identify customers' needs and market trends.

Strengthen the wholesale business

The development of wholesale business is a vital part of the Group's operating strategies. At present, the Group owns some exclusive distributorship rights of international brands in Hong Kong, Macau and the PRC. The first year operating result for the wholesale business was encouraging. The management is in the process of negotiation with some corporations possessing with international well-known brands for exclusive distribution rights. In addition to the Hong Kong market, the Group would like to expand the wholesale business to the PRC in the short run. Recently, the management has signed some wholesale agreements with the PRC retailers. We are of the view that the wholesale business has a high growth potential and will make a considerable contribution to the Group in the near future.

Take a forward leap in the PRC market

To capture the huge business opportunities arising in the PRC, the Group's continuous expansion in retail outlets is our future business direction. During the year, we opened 9 specialty shops selling the three U.S. brands of Caterpillar, Merrell and K•Swiss in Shanghai. Because of the remarkably positive response, the management plans to open more such specialty retail outlets in other major PRC cities in the near future. Having accumulated several years of retail operations experience in the PRC, the Group is well-positioned to consolidate our foothold and further increase the pace of business development in the market. The management plans to open more retail outlets in other major cities to further intensify the market penetration.

The management expects that the business environment in the PRC will remain highly competitive. In order to compete with local and international footwear companies in the market, the Group will upgrade the standard of customer service for frontline retail staff. A greater emphasis is placed on staff training to equip our frontline staff with all-rounded product knowledge and excellent customer service skills. A broad range of classroom training and field coaching is provided. We aim at providing first class service for all valuable customers and to foster a culture of continuous improvement in customer service so as to increase our competitive advantage in the marketplace.

In addition, the merchandising plans are revised regularly in order to provide a product mix matching the ever-changing customer needs. The management continues to adopt stringent cost control measures so as to further improve the effectiveness and efficiency. The Group foresees that the year ahead to be a challenging year and the management has made well-devised plans to take on the challenges.

Our commitments

For the purposes of further increasing the competitive advantage of the Group in the marketplace, we are fully committed:–

- To pursue continuous quality improvement of products;
- To provide a comprehensive product mix to meet different customers' needs;
- To provide our clients with excellent customer service well beyond their expectations;
- To emphasise on innovation, employee training and teamwork building;
- To re-engineer the work processes to further enhance effectiveness and efficiency; and
- To strengthen our presence in the PRC market.

Future business strategies

The Group seeks to foster long-term sustainable business growth. In particular, our strategies for future business growth are mainly as follows:–

- To identify value-enhancing opportunistic acquisitions;
- To look for high margin business, especially arising from exclusive international brand licensing agreements;
- To expand customer base through diversification of product mix;
- To initiate the wholesale business in the PRC;
- To increase the pace of opening retail outlets in the major cities of the PRC; and
- To look for business opportunities in other Asian countries.

Acknowledgement

On behalf of the board of directors, I would like to take this opportunity to express my gratitude to all shareholders and business partners for their support and to all employees for their hard work.

Tang Wai Lam*Chairman*