Business Review

During the year, the Group recorded a turnover of HK$645.62 million, representing an increase of 3.20%, compared with last year. The audited consolidated profit attributable to shareholders increased by 34.88% to HK$66.09 million.

The Group recorded an increase in the gross profit, remarkable increments in the contribution from the retail business in the People's Republic of China (the "PRC") and share of profit of an associated company, coupled with an extraordinary income from the disposal of trademark "teenmix". Hence, the consolidated profit attributable to shareholders increased, compared with last year.

The Hong Kong and Macau market

During the first half of the year, the economy of Hong Kong remained stagnant as reflected by the unremitting deflationary environment and persistently high unemployment rate. The outbreak of Severe Acute Respiratory Syndrome (the "SARS") further hampered the local retail market with a weakened consumer sentiment and a sharp decrease in the number of tourists. To counteract the adverse impact, the management imposed a number of measures such as revising staff salary packages, negotiation with the landlords for rent reduction, revising the buying budget, decreasing the inventory level, reviewing the marketing strategies and further strengthening cost controls.

During the second half of the year, the implementation of various economic stimulation programs and measures by the Government of Hong Kong with the full support of the Central People's Government of the PRC resulted in a surge domestic economy rebound spreading across all sectors particularly in tourism and retail industry. Leveraged on the improved economic conditions as reflected by the rising consumer confidence, soaring stock and property markets and falling unemployment rate, the local retail business achieved a remarkable result in the second half of the financial year. Sales performance in the local market showed encouraging signs of improvement.

During the year, although there was keen competition in the retail industry, the gross profit margin still recorded an increase which was mainly due to the synergy effect of the vertical integration of the newly acquired wholesale business with the existing retail business of the Group. Presently, the wholesale business is conducted by Senses Marketing International Limited ("Senses Marketing"), a wholly-owned subsidiary of the Company. In addition to reducing the purchase costs and increasing the gross profit of the Group, Senses Marketing could provide contribution to the Group in terms of further strengthening the product mix, brand development, marketing and promotion. Currently, Senses Marketing is the exclusive footwear distributor of the U.S. brands of Caterpillar, Merrell and Royal Elastics in Hong Kong, Macau and the PRC, the Italian brand of Geox in Hong Kong and Macau, and the exclusive footwear, bags and apparel distributor of the U.K. brand of Gola in Hong Kong and Macau as well as the exclusive footwear and apparel distributor of the U.S. brand of K•Swiss in the PRC.

Compared with last year, the turnover increased by 1.60% to HK$512.26 million, whereas the operating profit decreased by 19.82% to HK$24.56 million. At the end of May 2004, the Group operated 93 retail outlets in Hong Kong and Macau under the brand names of Mirabell, Joy & Peace, Fiorucci, INshoesnet and Geox.

The PRC market

The economy of the PRC recorded consistent growth over the years. To seize the enormous business opportunities, the Group opened 9 specialty retail outlets selling three U.S. brands of Caterpillar, Merrell and K•Swiss products in Shanghai during the year. The market response has been very encouraging.

During the year, the Group implemented the PRC market redevelopment strategy in order to improve operational efficiency. The management ceased the operations of some fixed rental shops where the traffic was low and opened more counters at well-positioned department stores where we pay turnover rent. In addition, the management further tightened cost controls, increased promotion activities and provided a more comprehensive staff training in store management.

In addition to a sino-foreign cooperative joint venture in Guangzhou, the Group set up two wholly foreign-owned enterprises in Shanghai during the year to further support the rapid expansion of retail outlets. The newly set up enterprises in Shanghai not only speed up the time for stock replenishment as well as pave the way to further support our business expansion. All in all, the Group achieved a notable growth in operational profit in the PRC market.

Compared with last year, the turnover increased by 9.82% to HK$133.36 million, whereas the operating profit increase by 165.88% to HK$27.76 million. At the end of May 2004, the Group operated 79 retail outlets in Shenzhen, Guangzhou, Shanghai, Beijing, Tianjin and Zhuhai under the brand names of Mirabell, Joy & Peace, Caterpillar, Merrell and K•Swiss. In addition, there were 59 franchised retail outlets under the brand of Joy & Peace.

Outlook

As the economy steadily picks up and the relaxation of travel restriction to the PRC residents visiting Hong Kong, the overall economy of Hong Kong has been rebounding since the fourth quarter of 2003 and continuing towards the first quarter of 2004 as reflected by the soaring stock and property markets and the increasing number of the PRC visitors, the sales for the retail outlets located in the tourist regions are particularly well. For the months of March and April of 2004, because the consumer sentiment has improved, the Group achieved a good result, compared with last year on the same store basis, which was significantly contrasting with those of the stagnant conditions during the last two years. In view of that, the Group is optimistic and confident about the prospects for the business in the remaining three quarters of 2004/2005.

Notwithstanding the keen competition in the PRC retail market, the management truly believes that there is still a huge potential for business development. The focus for the PRC business will be on expanding the retail outlets and networks, with full effort to attentively promote products of Mirabell and Joy & Peace and in the meantime to actively explore the market for casual footwear products of Caterpillar, Merrell and K•Swiss.

On the other hand, the Group is cautious for the rapidly changing market conditions. After the relaxation of travel restriction to the PRC residents and the signing of the Mainland/Hong Kong Closer Economic Partnership Arrangement, there are speculators for property investment in retail shops. Consequently, some property developers and owners have unreasonably high expectations on rentals. The surge boost in rentals undoubtedly increases the operating costs of retailers. However, the Group adopts a conservative and practical approach consistently to run the business and will not recklessly bear any unreasonably high rentals in order to minimise the business risks.

Looking ahead, the Group will continue to reinforce the brand development, sales and distribution network as well as pursue continuous quality improvement of products, increase the staff efficiency coupled with a clear business development direction and a professional teamwork, we are able to bring values to our shareholders and customers. The Group is confident to achieve a satisfactory growth in turnover and profit in the year of 2004/2005.

Liquidity and Financial Resources

Working capital of the Group increased from HK$122.60 million to HK$140.38 million, and the current ratio and quick ratio remained at a steady level of 2.16 and 1.29 times, respectively.

The inventory balance as at 29 February 2004 amounted to HK$104.88 million. Compared with the inventory balance of HK$84.19 million as at 28 February 2003, a increase was recorded. As at 29 February 2004, the Group had bank balances and cash of HK$96.14 million and outstanding bank borrowings of HK$32.77 million. During the year, the Group raised new short-term bank loans of HK$72.22 million for the financing of working capital and short-term bank loans of HK$70.52 million were settled.

As at 29 February 2004, the gearing ratio of the Group was 0.09 (2003 (as restated): 0.10) which was calculated on the Group's total borrowings of HK$32.77 million (2003: HK$31.07 million) and the shareholders' funds of HK$374.17 million (2003 (as restated): HK$321.32 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 29 February 2004, the Group has entered two foreign exchange contracts with expiry date in 2005 and 2006 respectively to hedge with potential revaluation of Renminbi. Except these two foreign exchange contracts, no other financial instrument has been 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 29 February 2004, the carrying amount of fixed assets pledged as security amounted to approximately HK$11.10 million (2003: HK$24.24 million) and no assets were subject to negative pledge (2003: HK$96.73 million).

Contingent Liabilities

As at 29 February 2004, the Group had contingent liabilities in respect of guarantees issued for banking facilities granted to subsidiaries of an associated company amounting to HK$15.30 million (2003: HK$12.90 million).

Human Resources

As at 29 February 2004, the Group had a total of 1,077 employees. The Group offers a competitive remuneration package to its employees, including insurance and medical benefits. In addition, discretionary bonus may be granted to eligible employees based on the Group's performance and individual performance.