Business Review

During the year, the Group recorded a turnover of HK$747.84 million, representing an increase of 15.83%, compared with last year. The profit attributable to shareholders increased by 15.59% to HK$76.40 million.

The Group recorded increases in the contribution from the retail business in Hong Kong, Macau and Mainland China as well as the wholesale business. In addition, the share of profit of an associated company also increased. Accordingly, the profit attributable to shareholders increased, compared with last year.

The Hong Kong and Macau market

During the year, the local retail environment was full of challenge. On the one hand, the economy of Hong Kong has been rapidly recovering as reflected by the soaring stock and property markets, falling in unemployment rate, the increase in consumer sentiment and the increasing number of the Mainland China visitors, and the local retail business has picked up considerably. On the other hand, the local economy recovery has increased operating costs, especially in rental expenses. Nonetheless, the Group recorded a satisfactory operating result as a whole in the local market.

Meanwhile, the wholesale business also achieved a promising result during the year. At present, we are the exclusive footwear distributor of the U.S. brands of Caterpillar, Merrell, Royal Elastics and Sebago in Hong Kong, Macau and Mainland China, and the Italian brand of Geox in Hong Kong and Macau; the exclusive footwear, bags and apparel distributor of the U.K. brand of Gola in Hong Kong, Macau and Mainland China; the exclusive footwear distributor of the U.S. brand of Harley-Davidson in Hong Kong as well as the exclusive footwear and apparel distributor of the U.S. brand of K•Swiss in Mainland China.

Compared with last year, the turnover increased by 7.99% to HK$553.19 million whereas the operating profit increased by 48.78% to HK$36.54 million. At the end of May 2005, the Group operated 104 retail outlets in Hong Kong and Macau under the brands of Mirabell, Joy & Peace, Fiorucci, Inshoesnet and Geox.

The Mainland China market

During the year, the Mainland China retail market was buoyant. The Group captured huge opportunities arising in the Mainland China market and continued to develop the business. As the economy of Mainland China continues to grow and the living standards of residents are raised continuously, the management believes that the room to grow in the retail market is enormous. The Mainland China market offers considerable potential for further retail business expansion.

During the year, the Group actively developed the Mainland China business by opening additional retail outlets and strived for increasing the market share. The management believes that opening more retail outlets would not only boost sales but also allow the Group to achieve the benefit of economies of scale. However, the Group was faced with fierce competition with international footwear players as well as local retailers. Consequently, the management managed vigilantly the existing retail outlets and concurrently reviewed regularly the business expansion plan from time to time.

Compared with last year, the turnover increased by 45.96% to HK$194.65 million whereas the operating profit increased by 3.75% to HK$28.80 million. At the end of May 2005, the Group operated 133 retail outlets in Shenzhen, Guangzhou, Shanghai, Beijing, Tianjin, Dalian, Chengdu, Chongqing, Zhuhai, Xi'an, Wuhan, Wuxi, Ningbo, Dongguan, Harbin and Shijiazhuang under the brands of Mirabell, Joy & Peace, Innet, Caterpillar, Merrell, K•Swiss and Fiorucci. In addition, there were 63 franchised retail outlets under the brand of Joy & Peace.

Outlook

Given that the economy of Hong Kong has picked up, the local market demand for footwear products is expected to increase. With an increase in consumer sentiment and the ongoing relaxation of travel policy restrictions imposed by the Government of the People's Republic of China for the mainland residents visiting Hong Kong and Macau, the local retail environment has shown a marked improvement. Tourism is expected to get another big boost when Hong Kong Disneyland is opened in September 2005. It is expected that the number of visitors as well as their spending will continue to increase. The management is of the view that the growth momentum of the local retail market will continue. However, as the economy of Hong Kong has recovered, the operating costs particularly rental expenses unavoidably increase. The management will control strictly the increase in operating costs in order to minimise the business risks.

The management is of the view that the wholesale business has a high growth potential in Hong Kong and Mainland China and will make a considerable contribution. The Group expects to obtain more exclusive distribution rights of international footwear brands in the Greater China region.

In addition to the Group's existing exclusive footwear and handbags distribution rights of the Italian brand of Fiorucci in Hong Kong and Macau, we have also obtained the exclusive distribution rights of footwear and handbags in Mainland China and footwear in Taiwan. At the end of May 2005, the Group operated four Fiorucci retail outlets in Mainland China and five in Taiwan. For the purposes of achieving the benefit of economies of scale and in response to the market demand, the management plans to open more Fiorucci retail outlets in the coming year.

In the foreseeable future, the Mainland China market continues to be the Group's major growth driver. The management believes that the economy will be able to sustain a high growth rate in the coming year. In order to increase our presence and market share, the Group plans to further expand the retail network. The Group seeks to accelerate the expansion pace in the Mainland China market by opening retail outlets and in the meantime to develop the wholesale business vigorously in Mainland China.

Looking ahead, the Group will focus on increasing further market share in the highly competitive Hong Kong, Macau and Mainland China markets and is pursuing geographical expansion through entrance to the Taiwan market as well as seeking business opportunities in other Asian countries. The Group plans to increase the number of retail outlets in Mainland China and Taiwan as a vital part of its growth strategies. The management adopts a proactive approach to the operation and development of the business in order to face the future challenge. The management will continue to strive for improvements in all business areas so as to further increase our competitive advantage in the marketplace. All in all, in light of the positive economic outlook in the Greater China region, the management is cautiously optimistic about the business performance in the coming year.

Liquidity and Financial Resources

Working capital of the Group increased from HK$140.38 million to HK$168.51 million, and the current ratio and quick ratio remained at a steady level of 2.15 and 1.23 times, respectively.

The inventory balance as at 28 February 2005 amounted to HK$135.02 million. Compared with the inventory balance of HK$104.88 million as at 29 February 2004, an increase was recorded. As at 28 February 2005, the Group had bank balances and cash of HK$86.36 million and outstanding bank borrowings of HK$31.08 million. During the year, the Group raised new short-term bank loans of HK$74.00 million for the financing of working capital and short-term bank loans of HK$75.69 million were settled.

As at 28 February 2005, the gearing ratio of the Group was 0.07 (2004: 0.09) which was calculated on the Group's total borrowings of HK$31.08 million (2004: HK$32.77 million) and the shareholders' funds of HK$435.89 million (2004: HK$374.17 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. As at 28 February 2005, the Group had two previously signed foreign exchange contracts with expiry dates in September 2005 and September 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 28 February 2005, the net book values of fixed assets pledged as security amounted to approximately HK$11.80 million (2004: HK$11.10 million).

Contingent Liabilities

As at 28 February 2005, the Group had contingent liabilities amounting to HK$61.80 million (2004: HK$15.30 million) in respect of pro-rated share, in accordance with its interest in an associated company, of guarantees issued for general banking facilities of subsidiaries of the associated company. HK$8.21 million (2004: HK$11.38 million) of these banking facilities were utilised.

Human Resources

As at 28 February 2005, the Group had a total of 1,583 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.