

To Shareholders:

I am pleased to present the 2001/2002 annual report of Le Saunda Holdings Limited and its subsidiaries.

COMPANY RESULTS

Turnover of the Group for the year ended 28 February 2002 was HK\$335 million and loss attributable to shareholders was HK\$64 million.

DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 28 February 2002.

FOREWORD

In the past year, the global retail industry kept on struggling through rigorous market conditions due to continued economic slowdown. The 911 events in particular had hampered the consumer market. With tightened financial resources and shrunk consumption sentiment, the Group's results for the year ended 28 February 2002 reported unsatisfactory performance. Comparing with the previous year, the Group's turnover and gross profit margin fell by 6 per cent and 13 percentage points to HK\$335 million and 39 per cent in the reported year. The substantial decline in gross profit margin was a result of the Group's price cutting measures to mitigate adverse impact of slack market demand and to reduce its inventory level. In the light of reduced turnover and gross profit margin, the Group reported a loss attributable to shareholders of HK\$64 million for the year.

Facing with harsh market conditions, the Group has devised responsive strategy by upholding its four core values: uncompromising quality; assuming the role as a fashion guru; provision of best value for money; and first-rate customer service.

Uncompromising quality: The Group is proud of its commitment to excellency, and its application of supreme quality Italian leather to make **le saunda** shoes. In addition to quality raw materials, excellencies in workmanship are maintained by a team of Italian engineers and technicians, who have previously worked for top Italian brands. Together with sophisticated imported machinery from Italy, high-grade leather and craftsmanship have contributed to the superb quality, durability and comfort that have earned wide acclamation for **le saunda** shoes.

Fashion guru: The Group has a group of creative designers based in Italy. In addition to their talent, they also provide the latest fashion and market trends prevailing in Europe, enabling the Group to bring to its customers the hottest designs of the world's fashion centres.

Best value for money: Notwithstanding the perseverance with fashion and style, the Group strives to provide the "best value for money" products to customers.

First-rate customer service: Maintaining good and effective customer relationship is one of the Group's top priorities. As such, our shop assistants are well-trained to become all-round footwear experts as well as fashion consultants on shoes.

By integrating its four core values in its business operation, the Group will be able to capitalise on market conditions, its exquisite craftsmanship and its innovative strength in product design to intensify market penetration and strengthen its brand name, **le saunda**. These objectives will be achieved through a new customer-oriented supply chain management, with the focus on four development areas for year 2002: product innovation, market expansion, corporate image enhancement and provision of value-added services at retail sales. The Group's new focal areas for development is expected to capture the opportunities arisen from consumers' increasing brand consciousness and pursuit of new and quality products, as well as low rents and relatively stable wages in the sagging economy of Hong Kong.

To achieve quick response to fashion trends and to customers' pursuit of new styles, the Group will regularly introduce new designs by outsourcing Italian design houses, in addition to its in-house designers. With the commission of Italian designers, the Group's products will be able to capture the elegance and style of one of world's leading fashion creators. On the production front, the Group will perpetuate Italian craftsmanship by keeping in-house Italian footwear experts and engineers as the head of the manufacturing unit. In addition to its tenacity in Italian shoe-making art, the Group will maintain high production flexibility by increasing its outsource manufacturing, which will be under close monitoring by the Group's quality control team. All this is expected to enhance the image of **le saunda** and portrays it as exquisite craftsmanship and style.

In the meantime, the Group will continue to enlarge its market coverage in Asia, which currently includes the Philippines, Indonesia, Thailand, the Mainland China and Hong Kong. In Hong Kong, the Group will leverage the economic downturn to open more retail stores and, in Mainland China continue to look for strategic partners to increase franchise shops. Through its prudent expansion strategy during the year, the Group strives to augment its brand name publicity while intensifying its market penetration.

Another focal point for the Group in 2002 is improvement in sales services. The Group aims to strengthen its brand name as a footwear expert via the provision of value-added services such as professional footwear advice to customers. Towards this end, the Group will continue to intensify sales training and implement a sales incentive scheme, in order to equip our sales staff with necessary professional knowledge and motivation to achieve the Group's sales target.

Despite sluggish market conditions, the Group will strive to enhance its profit margins through improving the overall operation and management efficiency. Instead of raising retail prices, the Group will expand its sourcing network, streamline its procurement processes, implement effective cost control and leverage its operational scale to enjoy greater profits. The Group will also strengthen its staff's sense of belonging by implementing decentralisation of management, allowing mid level management to take part in the decision making process.

On behalf of the Group, I would like to express my deepest gratitude to shareholders and parties who have been rendering continued support to the Group, as well as our staff for their dedication.

Chan Kui Tim, Jimmy
Chairman

Hong Kong, 3 June 2002

