# Managing Director's Review of Operations

## DEVELOPMENT OBJECTIVES

The overall direction of business development that formulated last year proved to be correct and the Group will continue to follow the stated strategies, while making necessary changes for better achievement. Due to the rapid subsiding of the overheated e-commerce business globally, the performance of our e-commerce operation was unsatisfactory. In view of this, the Group has made some arrangements according to the actual situation and abandoned the separate development of e-commerce business and integrated the original mode of production and sales business of Le Saunda shoes with the expertise and experience of on-line shopping in order to minimise structural redundancy and avoid further loss from e-commerce operation. "Nat's" is originally a separate e-commerce business, yet, based on the above factors, such business has been proposed to merge into the Group's Hong Kong retailing business. The Group is also evaluating the feasibility of exporting products under the new brandname of "Nat's" to other Southeast Asian countries through traditional wholesale channel.

In the coming year, the Group will capitalise the current strengths, such as the outstanding quality of brandname products and the valuable experience in product promotion, and given the various favourable benefits to the retailing and franchising businesses brought forth by setting up an Italian shoes-making factory in Mainland China as well as the valuable experience and information on technology, design and fashion obtained in our interactions with leading market players of the shoes-making industry in Italy, to pursue the following development objectives: (1) achieve product diversification; (2) introduce high-quality brandnames or continue to explore its own brandnames; (3) sell products directly to consumer with lowest "ex-Factory Price"; (4) explore new markets so as to obtain a larger market share and raise the level of business.

Regarding the Group's property development business, the market in Shunde is more satisfactory than expected and the Group will make use of the profits generated from this business in the past for "re-investment" in order to achieve a higher return.

On the whole, although the Group has given up the separate development of e-commerce, it would still follow closely the technology development for the sake of further enhancing its competitiveness. The Group will put more efforts to develop the related business in Mainland China in preparing for the challenges and business opportunities that will arise from the PRC's admission to the WTO.

# MANAGING DIRECTOR'S REVIEW OF OPERATIONS

## BUSINESS REVIEW

For the financial year ended 28 February, 2001, the Group's turnover was approximately HK$356,823,000, a slight increase of 2.8% as compared to HK$347,091,000 for the same period last year. The consolidated profit attributable to shareholders was approximately HK$5,157,000 as compared to approximately HK$27,096,000 for the same period last year.

The decrease of Group's profit for the current year was mainly caused by the operating loss of the e-commerce business and the special provision made for terminating the business which generated an aggregate loss of HK$11,878,000. Meanwhile, due to the alteration of the method of charging income tax on the property development business in Mainland China, the Group's jointly controlled entities had to make a provision of HK$7,232,000 for the income tax payables on the profits made over the past years. If the two exceptional items were excluded, the Group's operating performance for the current financial year is roughly the same as last year.

The Group's Hong Kong retailing business was restructured in Fall/Winter and such change was favourable. The turnover for the current financial year was approximately HK$168,085,000, an increase of 6% as compared to HK$158,723,000 for the same period last year. With respect to operating loss, the current financial year recorded a loss of approximately HK$9,873,000, a decrease of 31% as compared to HK$14,277,000 for the same period last year. On the whole, the loss for the current financial year was mostly incurred in the first half year before such change took place.

The turnover of the shoes business in Mainland China for the current financial year was approximately HK$177,772,000, a slight increase of 0.3% as compared to HK$177,306,000 for the same period last year. In respect of operating profit, although costs and expenses increased due to the localisation of middle-level management and the preparation works for future business expansion, it still recorded an operating profit of HK$33,675,000, an increase of 9% as compared to HK$30,842,000 for the same period last year.

The Group's shoes business in other countries was undergoing a reorganisation. Despite a similar level of turnover as compared to last year, the operating profit decreased to HK$70,000.

In respect of property development business in Mainland China, Shunde Shuang Qiang Property Development has recorded a profit attributable to jointly-controlled entity of HK$8,373,000 in the current financial year, as compared to approximately HK$9,470,000 for the same period last year, maintaining the high profit level achieved in previous years. Regarding the "Foshan Country Garden", it has been formally renamed as "Flower Community Country Garden". The Group's 25% of interest in the project was accounted for as long-term investment and the profit would only be recognised when dividend was distributed. Since no dividend is distributed for the current financial year, no dividend income was recorded. "Flower Community Country Garden" was launched for sales during the past Chinese New Year holidays, and more than half of the total units for the initial phrases were sold up to June 2001. The turnover exceeded RMB800,000,000 and the performance was far better than expected.

# MANAGING DIRECTOR'S REVIEW OF OPERATIONS

## LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to follow the practice of prudent financial management during the year. Cash reserves as at the beginning of the financial year were mainly utilized in "Flower Community Country Garden"; adding raw materials and inventories due to the restructuring of Hong Kong's retail business; and as working capital for the new business in e-commerce. As explained above, it is expected there will not be substantial additional capital requirement in these three aspects for the coming year. The retailing and franchising businesses in Mainland China will require an addition of new raw materials and new finished goods, due to the increase of market share and product diversification. The current level of working capital and banking facilities should be able to meet the extra capital requirement and therefore, no separate equity financing has been planned. The gearing ratio and stock turnover rate will resume to a more satisfactory level after new products and new brandnames are launched in the coming Fall/ Winter.

Bank loans and overdraft were borrowed in Hong Kong Dollars, Renminbi, Italian Lire and European Currency Unit. The annual interest rate of the borrowings at the current financial year end ranged from 6% to 8%. Forward contracts were used, if necessary, for hedging of purchases from overseas, related debts and bank borrowings. With regards to Renminbi currency exposures on revenues generated or assets located in the Mainland China, surplus cash were remitted to Hong Kong and converted to Hong Kong dollars, our base currency as soon as possible. In addition, working capital requirement for business in the Mainland China were financed by local banks loans dominated in Renminbi as far as possible for hedging purpose.

The Group's gearing ratio at the year end was 0.093 (29th February 2000: 0.031), basing on the bank borrowing of HK$40,087,000 (29th February 2000: HK$13,216,000) and net worth of HK$430,097,000 (29th February 2000: HK$428,326,000).

$$\text{Gearing ratio} = \frac{\text{Bank Borrowings}}{\text{Net worth}}$$

In addition, other financial indicators were maintained at a relatively safe and healthy level.

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## PROSPECT

Looking forward to shoes business of next year, the Group will continue to capitalize on its prestigious brandname and sales network and diversify its products with a view to stimulating the consumption of its customers. The retailing business in Hong Kong began restructuring from the Fall/Winter of the current financial year. The Group adopted a new marketing strategy of maximizing turnover with lower profit margin by applying the "ex-Factory Price" in order to expand the market share. The strategy has shown signs of initial success. In the coming year, the Group will continue the strategy and it is expected that more promising results would be attained and the operation will achieve a financial breakeven in the future.

Regarding the shoes business in Mainland China, the same strategy of maximizing turnover with lower profit margin would be followed and a new middle-end brandname will be launched in Fall/Winter in order to increase market share and prepare for the PRC's admission to WTO. The new brandname and the existing brandname of "萊爾斯丹" will complement each other and will help to lower the Group's fixed costs and overhead per unit.

With respect to Mainland China property development business, the Group will launch larger scale residential projects of the Shunde Shuang Qiang Property Development, such as Nanyuan Garden in Beijiao Town of Shunde City and Fengnan Garden in Daliang Town of Shunde City to meet the strong demand for residential properties from the area. "Flower Community Country Garden" has made a sales record far better than expected in only four to five months and arrangements had been made for dividend distribution. Not only can such arrangement facilitate a more appropriate allocation of funds, but it can also help the real situation be appropriately reflected in the Group's results.

In view of above business development and the relieve of burden from the loss-making e-commerce operation, the performance of the Group will be more promising in the coming year which will lead to a major breakthrough for the Group.

**Chui Kwan Ho Jacky**
*Managing Director*

Hong Kong, 11th June 2001