



FINANCIAL RESULT AND REVIEW

During the year, healthy growth in both revenues and net profits was recorded. Average selling price was marginally down by 3.46% reflecting the shift in product mix towards the mid range. The Group continued to maintain a balanced portfolio in terms of geographical spread and product categories. The US and European market contributed 63.23% and 30.49% respectively of Group's turnover. The three main product categories – baby and children, casual and rugged footwear – also produced a healthy segment balance of 44.15%, 31.33% and 22.86% respectively.

The Group's main facilities in Zhuhai, China were upgraded and re-organized to optimize production efficiency and working environment for staff in compliance with the strictest human rights requirements of the US and Europe. As a result, administrative expenses rose 19.68% during the year. This, coupled with increased freight costs during the US port lock-out and the decline in interest income about HK\$10 million, had a considerable negative impact on the overall net margin of the Group.

After a series of necessary downsizing and restructuring exercises, the Group has successfully narrowed the loss from its wholesale and retail operations in China and Hong Kong to HK\$9,247,000. During the year, the Group consolidated its operations platform into a more condensed distribution network in Southern China. With the outlook of the market still clouded by the aftermath of the SARS outbreak, management considers it appropriate to confine the Group's exposure and stay focused in a less extensive and manageable battleground.

Basic earning per share for the year increased to HK18.53 cents from HK17.43 cents last year representing a 6.31% of growth and net assets value per share has been increased to HK\$0.96 representing a 6% growth over last year.

As a result of strengthening the relationship with the customers, terms to several top customers have been changed to account credit which caused the debtors turnover increased to 37 days (2002: 22 days) this year. Inventories turnover has also been increased to 70 days from 60 days last year as a result of the commencement of the new Zhongshan factory and the picking up of the productivity of the Vietnam factory.

Skechers

FINANCIAL POSITION

As at 31 March 2003, the Group continued maintaining a healthy cash position which included cash and bank deposits of approximately HK\$166 million after the capital expenditure spent in the Zhongshan 1st phase projects. Most of the cash and bank deposits were denominated in US dollars as the denominated currency of the Group's trading activities was US dollars. As at 31 March 2003, the Group had aggregate banking facilities of approximately HK\$486 million (2002: HK\$460 million) with approximately HK\$444 million (2002: HK\$435 million) being unused. Based on the cash and bank deposits and the unused banking facilities, the Directors are of the opinion that the anticipated capital investments in the coming years should be contentedly met.

The Group does not have any significant exposure to fluctuation in exchange rates and contingent liabilities.

During the year, the Group obtained a long-term bank loan of HK\$6 million (2002: HK\$Nil) for the Zhongshan project, resulting in a gearing ratio of approximately 6.66% (2002: 4.3%) which was calculated based on the total bank borrowings over total equity.

EMPLOYMENT, TRAINING AND REMUNERATION POLICIES

The Group, including its subsidiaries employed approximately 18,000 employees as at 31 March 2003. The Group's remuneration policies are primarily based on prevailing market salary levels and the performance of the respective companies and individuals concerned. Fringe benefits which include provident fund, medical insurance and training are provided. In addition, share options may also be granted in accordance to the terms of the Group's approved share option scheme.

AUDIT COMMITTEE

The Company has an Audit Committee (the "Committee") which has established in accordance with the requirements of the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Committee comprises the two independent non-executive directors of the Company. The Group's financial statements for the year ended 31 March 2003 have been reviewed by the Committee, who are of the opinion that such statements comply with the applicable accounting standards and legal requirements, and that adequate disclosures have been made.