OPERATING ENVIRONMENT

The year 2004 marked a year of exceptional high growth in GDP in the Group's major markets – Mainland China and Hong Kong. In particular, the Hong Kong retail market made a full-fledged rebound with a 9.1% growth year-on-year, after bearing the full brunt of the adverse impacts from the SARS outbeak in 2003.

OPERATING RESULTS

Against strong economic growth and increase in consumers' confidence, the Group saw its total turnover for the year ended 28 February 2005 (the "Year") surged by 22% to HK$568 million when compared to that of the previous year. This growth was mainly due to a strong year-on-year growth of 40% in the Group's core business – shoes operations, which helped to mitigate the impacts of the Group's withdrawal from the cosmetic business in May 2004 and a substantial decline in turnover contribution from the property development segment.

During the Year, the Group succeeded in controlling its cost of production mainly through efficient allocation of resources on the production front. During the Year, the Group increased output through the efficient use of its own production facilities in Shunde, Mainland China as well as contracting out some of the production work to other factories. Together with the growth in turnover, the lower production costs contributed to a 55% increase in gross profit to HK$313 million as compared with that of the previous year.

For the Year, the Group reported a substantial upsurge of 97% in profit attributable to shareholders to HK$70 million when compared with that of the previous year. The remarkable growth was mainly attributed to a substantial increase of HK$111 million in gross profit as mentioned above and a comparatively moderate increase of HK$76 million in selling and distribution costs and general and administrative expenses; out of the HK$76 million, HK$18 million was derived from the rise in staff cost and the increase in other expenses which were in line with the increment of the turnover and the gross profit.

BUSINESS REVIEW

During the Year, the Group principally engaged in shoes operations, with some investments in property development and the starting up of the clothing business. Shoes operations remained as the core business of the Group, accounting for 96% of the Group's total turnover during the Year.

Shoes Operations

Turnover from shoes operations amounted to HK$547 million, representing an increase of HK$155 million or 40% from that of the previous year. Operating profit and profit attributable to shareholders from this segment increased by 99% and 99% respectively from those of the previous year. The exponential growth in profit was mainly attributed to the Group's continued brand enhancement, maintaining sufficient quantities and styles to meet demand at any given time and implementation of an effective staff incentive scheme.

Hong Kong

This market continued to report strong growth in turnover and operating profit, which amounted to HK$176 million and HK$38 million, representing an increase of 23% and 387% respectively. The sharp increase in operating profit was much attributed to greater sales and lower rental expenses as a result of a smaller number of shops.

During the Year, the Group continued to streamline its sales network. With the aim of brand enhancement and creating “showrooms”, the Group closed smaller shops, renovated existing retail outlets and opened concept stores during the Year. The completion of refurbishment at certain shops and the opening of concept stores could not have come at a better time. Capitalising on the improved retail sentiment, the Group’s newly renovated shops and concept stores succeeded in attracting more people.

For the Year, the Hong Kong market continued to grow and accounted for 31% and 53% of the Group’s total turnover and operating profit.

Mainland China

During the Year, the Group operated its shoes business under two different brands, namely *Le Saunda 萊爾斯丹* and *Comfort and Easy (CnE)*. The Group aims at extending its market coverage through the two brands, which target different customer groups: *Le Saunda 萊爾斯丹* targets at mid to high-end market and *CnE* targets at young people.

Mainland China remained as the largest market for the Group’s shoes business. During the Year, the Group had market presence in major cities including Shenzhen, Guangzhou, Shanghai, Beijing, Tianjin, Chengdu, Chongqing through self-operated outlets and in second-tier cities such as Hangzhou, Wenzhou, Shenyang, Dalian and Fuzhou through franchising.

The Group continued to strengthen its sales network for *Le Saunda 萊爾斯丹* by closing under-performed or smaller shops and by refusing to renew franchising agreements with franchisees who were not operating up to standard. Meanwhile, the Group also looked for more suitable locations such as shopping malls to open new stores. With respect to *CnE*, the Group continued to increase the number of retail outlets for this brand, as the Group believed that there would be greater room for products of this line, which target at young people and are sold at comparatively lower prices than those of *Le Saunda 萊爾斯丹*, to grow in developing second-tier markets.

Other markets

Apart from Mainland China and Hong Kong, the Group also engaged in export sales through its original equipment manufacturing (“OEM”) business and retailing in Macau. Turnover from shoes operations outside Mainland China and Hong Kong rose by 62% to HK$84 million and accounted for 15% of the Group’s total turnover.

Other markets (Continued)

The OEM business continued to report increase in turnover during the Year. The Group's production facilities are located in Shunde and provide production services to both intra-group operations and independent third parties. During the Year, the Group's OEM business reported export sales to Japan, Russia, Italy, the US, Australia, Spain and Germany.

Property Development

During the Year, the property development segment reported a turnover of HK$20 million, representing a 72% decline from that of the previous year. For the Year, the Group's jointly controlled entity in Mainland China – 佛山市順德區雙強房地產開發有限公司 – contributed a profit of HK$6 million (2004: HK$6 million) and net profit after taxation of HK$4 million (2004: HK$3 million).

Others

The cosmetic business ceased operation in May 2004 after the Group announced its intention to phase out this business in the 2003/2004 annual report. The decision was made in the light of severe market competition and requirements for special technology and expertise.

During the Year, the Group diversified into the apparel business under the brand name *Antinori*. This brand goes for the high-end fashion market for elegant, sexy and avant-garde clothing. The Group believes that this market segment has not been fully explored and there is great potential for it to develop. The Group opened new shops in Shanghai and Shenzhen at the end of the Year. As the apparel business was in its early development stage and commenced operation only in late 2004, its earning ability and growth potential were yet to be fully reflected in the Year's financial statements.

FINANCIAL POSITION

During the Year, the Group's cash position remained sound. Its cash and bank balances amounted to HK$139 million as at 28 February 2005, as compared with HK$92 million at the start of the financial year. The Group obtained total banking facilities of HK$74 million (29 February 2004: HK$64 million). The Group's investment properties and other properties with net book value amounting to HK$43 million (29 February 2004: HK$43 million) had been pledged to secure bank loan facilities of HK$68 million (29 February 2004: HK$64 million) granted to certain subsidiaries of the Group. Out of such facilities, the Group's total short term bank borrowings were HK$3 million as of 28 February 2005, compared with HK$6 million as of 29 February 2004. The Group's net worth amounted to HK$492 million (29 February 2004: HK$387 million). The Group's gearing ratio stood at 0.005 as at 28 February 2005, against 0.017 as at the start of the Year. The calculation of the Group's gearing ratio was based on the total bank borrowings of HK$3 million and net worth of HK$492 million as at 28 February 2005.

FINANCIAL POSITION (Continued)

The Group's liquidity position also remained healthy, with a current ratio of 3.9 times (29 February 2004: 3.5 times) and a quick ratio of 1.7 times (29 February 2004: 1.6 times) as at 28 February 2005.

During the Year, the Group increased its inventory level to ensure sufficient quantities and styles were available to meet market demand. As a result, the Group's inventory turnover rose from 88 days to 123 days, and the amount of inventory increased from HK$64 million to HK$106 million during the Year.

Bank loans and overdrafts of the Group were taken out in Hong Kong dollars, US dollars and Euro. The annual interest rate of the borrowings during the Year ranged from 2.55% to 5.37%. Forward contracts were used, if necessary, for hedging of purchases from overseas, related debts and bank borrowings. During the Year, the Group was not exposed to material foreign exchange risk regarding Renminbi currency exposures on revenues generated or assets located in Mainland China as the exchange rate of Hong Kong dollars against Renminbi was relatively stable. In addition, working capital requirements for business in Mainland China were financed, if necessary, by local bank loans denominated in Renminbi as far as possible for hedging purpose.

The Group believes that its cash holding, liquid asset value, future revenue and available banking facilities will be sufficient to fund the working capital requirements.

During the Year, the Group did not have material acquisitions or disposals of subsidiaries or associated companies. For the current financial year, other than the establishment of a number of shoes and apparel retail outlets in certain parts of Mainland China and Hong Kong, the Group does not have plan for material investments or change of capital assets.

CONTINGENT LIABILITIES

In conjunction with the annual accounts for the year ended 29 February 2004, the local tax authorities in Mainland China had completed investigations in connection with certain tax payments made by the Group's subsidiaries operating in Mainland China. All further payments for taxes were made to the local tax authorities in Mainland China during the Year. The Directors consider that there are no further liabilities.

Details of the contingent liabilities of the Group at the balance sheet date are set out in note 25 to the accounts.

EMPLOYEES AND REMUNERATION POLICIES

As at 28 February 2005, the Group had a total of 2,202 employees of which 185 were based in Hong Kong and 2,017 were based in Mainland China. Total staff costs including directors' emoluments and net pension contributions for the Year amounted to HK$93 million (2004: HK$75 million). The Group has structured training programmes provided for all employees. Outside consultants are also invited as lecturers to enrich the scope of the programmes.

Competitive remuneration packages commensurate with individual responsibilities, qualifications, experience and performance are structured. In addition, the Group has adopted a share option scheme and discretionary bonus policy for eligible employees of the Group.

PROSPECTS

For the 2005/2006 financial year, the Group will press on with its prudent expansion plans in both Hong Kong and mainland markets. Following two years of consolidation, the Group intends to leverage the enhanced brand image and strengthened sales network to increase sales further and to provide support for its expansion in shoes business.

In Hong Kong, the Group plans to stretch its market reach from medium-to-high end market as represented by *Le Saunda* to young people's market under *CnE*. The Group has recently opened its first *CnE* store in Hong Kong. Initial market response has been positive, indicating the Group's attempt at opening the young market with *CnE* has been successful. The Group is now planning to open more *CnE* stores and a few new larger *Le Saunda* outlets in Hong Kong. In the light of soaring rentals, the Group will look for suitable shopping malls to house its new retail outlets.

In Mainland China, the Group will put more efforts to develop the *CnE* line, which is expected to carry the same weight as *Le Saunda 萊爾斯丹* within the Group within the next two years. The Group has already started to franchise *CnE* in second-tier cities in the mainland and will increase the number of self-operated *CnE* outlets in major cities for the current financial year. The Group hopes to have significant increase in the number of *CnE* outlets by the end of the 2005/2006 financial year. As to *Le Saunda 萊爾斯丹*, the Group will concentrate on existing operations and may open some additional stores when it sees fit.

PROSPECTS (Continued)

With respect to the apparel operations, the Group sees it the right time to introduce *Antinori* in the Hong Kong market after establishing a presence in the major cities of Mainland China. The new *Antinori* shops, which are to be opened during the 2005/2006 financial year, are preliminarily set to serve as the showcase for the mainland stores. As such, the Group intends to house the two stores in prestigious shopping malls in prime shopping districts. The Group will closely monitor the local market response and proceed cautiously with expansion of this business in Hong Kong. Meanwhile, the Group will continue to expand its *Antinori* sales network in Mainland China, with additional shops to be opened to capture the business opportunities offered by the vast market. And with the launch of the Hong Kong stores, the Group expects to leverage the "showcase" shops to enhance and consolidate the market positioning of *Antinori* in Mainland China.

During the current financial year, the Group will also strengthen its design capabilities in handbags by establishing an independent handbag design team. This move will not only enhance handbag quality and increase styles for each collection, but will also provide great support to the Group's plan to establish separate counters for shoes and handbags.

Beyond Hong Kong and Mainland China, the Group is also eyeing the Macau market, which has been experiencing enormous growth in recent years. Apart from an existing *Le Saunda* store, the Group is planning to open a *CnE* outlet. And in view of the large number of visitors going to the area, the Group sees that there is great potential for men's shoes and is exploring the opportunities to open a *Le Saunda* store selling exclusively men's shoes.