MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Year 2007 was another challenging yet fruitful year as the Group successfully devised deliberate strategies in enhancing product quality, expanding market presence, heightening brand visibility and awareness, and consolidating and maximizing resources despite intensified market competition and unfavourable trade climate in both Mainland China and Hong Kong that affected the entire industry.

Focusing on developing our mainline footwear business, we single-mindedly stressed on quality product and service delivery to our customers in China, Hong Kong and overseas. With our efforts spent, we delivered satisfactory results to our shareholders.

In the financial year ended 28 February 2007, the Group's turnover from continuing operations increased by 12% to HK$739,722,000. Profit attributable to shareholders reached HK$105,726,000, a significant increase of 17%. Operating profit from continuing operations amounted to HK$97,594,000, and earnings per share was HK18.10 cents, compared to HK17.80 cents in 2006.

Footwear

Undoubtedly, footwear segment remained the Group's primary development focus. As the China retail market continued to grow at a rapid pace coupled with elevating purchasing power of people in Mainland China, we have leveraged on the market opportunities in achieving further expansion and profitability.

At Le Saunda, our two brands, targeting distinguished market segments, continued to show encouraging market performance and customer acceptance:

- Le Saunda - Italian style dress footwear catering for mid to high end markets
- CnE - Fashionable and casual footwear appealing to trend-conscious young ladies

Quality is pivotal. With the launch of the new production line, Le Saunda would be at full gear to capture more market shares and extend its reach to a broader clientele. In addition, we have opened more new stores for *CnE,* which will be a new drive to our uninterrupted growth.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

Footwear (continued)

During the year, footwear remained as the largest contributor to the Group's turnover. Turnover amounted to HK$724,285,000, representing an increase of 11% from the previous year.

Hong Kong

Our operation in Hong Kong achieved sustainable growth despite the negative impact brought by the increasing rental expenses and discounted sales stemmed from intensified market competition. Turnover amounted to HK$192,798,000 approximately, representing an increase of 3.7%.

During the year under review, the Group succeeded in its continual implementation of distribution network plan by further consolidating small street stores and opening new stores in shopping malls at popular locations including Shatin, Tsuen Wan and Tsing Yi. As part of the cost control initiatives, this strategy has not only reinforced our reach to customers, it has also given more display space for our new products, which helped in achieving higher sales.

The introduction of *CnE* to the Hong Kong market has received enthusiastic response. This new brand, created by Le Saunda, is our answer to the younger consumers who are trendy yet price-sensitive. Last year, the Group has opened more new *CnE* outlets in Hong Kong to further explore market potentials. With *CnE*, the Group is now more ready to tap to a wider spectrum of customers.

Mainland China

Mainland China remained the Group's largest market for its footwear business with continuous robust growth in terms of sales volume and operation profit.

The Group has taken a series of marketing initiatives to proactively promote the brand of *Le Saunda*. Such initiatives include launching new TV advertising campaign which was broadcasted on regional TV channels and outdoor mega TV walls in Shanghai aiming at extending our market reach in a cost-effective way and boosting brand image that converted store visits into sales.

BUSINESS REVIEW (continued)

Mainland China (continued)

In addition to the TV advertising campaign and as part of our brand loyalty programme in China, the Group launched a fashion show in Shanghai for our VIP customers and business partners in October 2006, which had an enthusiastic market response and impact on both footwear brands and apparel *Antinori* as well.

Observing a changing trend in consumer behavior, the Group has begun looking for new store locations in shopping malls in residential and commercial areas with high traffic. New store opening never stops. Our foothold in the first tier cities was even stronger, enabling us to have a deeper market penetration and higher brand visibility. All new stores adopted the unified construction standard nationwide with shop design in strict compliance with our internal codes and manuals and this is a deliberate measure to enhance the brand value and influence that is important to our sustainable success.

Apparel & Accessory products

In addition to the further enhancement of core business, the Group's newly established apparel brand *Antinori*, which targets mid to high-end niche markets with young and smart casual fashion trends, was experiencing its possibilities.

Despite representing only a small fraction of the total turnover, the accessory products served well as a complement to our footwear line to underline the contemporary living life styles that we offered.

OEM Expansion

During the year, the Group continued optimizing production capacity for its original equipment manufacturing ("OEM") business. Leveraging on the existing long term clientele, the Group has achieved outstanding results in its OEM operation. Turnover from footwear operations outside Hong Kong and Mainland China amounted to HK$124,856,000 representing an increase of 24% from the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

OEM Expansion (continued)

Our OEM customers are mostly renowned up-market brands or among the biggest department stores in Europe and other parts of the world, covering Russia, Spain, Italy, Germany, Japan, Australia and New Zealand.

The Group invested and opened a production line in Shunde, Guangdong Province, China which commenced operation in July 2006. All the major facilities and machineries were newly imported from Italy. The production procedures have been reexamined and organized in such a way to enable the highest quality and efficiency of production while giving us flexibility to adapt to the needs of our customers. This investment undoubtedly saw our sturdy commitment to quality and style.

OTHERS

During the year, the Group recognized a dividend income of HK$14,694,000 from available-for-sale financial asset in Mainland China.

FINANCIAL POSITION

During the year, the Group's cash position continued to remain sound and healthy as a result of our prudence in financial control. Cash and bank balances amounted to HK$157,049,000 of which HK$147,853,000 from continuing operations and HK$9,196,000 from discontinued operation as at 28 February 2007, as compared with HK$117,500,000 at the start of the financial year. The Group obtained total banking facilities of HK$50,000,000 (28 February 2006: HK$65,000,000). The Group's properties and leasehold land with net book value amounting to HK$26,445,000 (28 February 2006: HK$27,142,000) had been pledged to secure bank loan facilities of HK$50,000,000 (28 February 2006: HK$45,000,000) granted to certain subsidiaries of the Group. Out of such facilities, the Group's short-term bank borrowings were HK$3,409,000 as of 28 February 2007, compared with HK$4,462,000 as of 28 February 2006. The Group's net worth amounted to HK$735,663,000 (28 February 2006: HK$557,096,000). The Group's gearing ratio stood at 0.005 as at 28 February 2007, against 0.008 as at the start of the financial year. The calculation of the Group's gearing ratio was based on the total bank borrowings of HK$3,409,000 and net worth of HK$735,663,000 as at 28 February 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL POSITION (continued)

The Group's liquidity position also remained healthy, with a current ratio of 6.7 times (28 February 2006: 3.7 times) and a quick ratio of 3.1 times (28 February 2006: 1.3 times) as at 28 February 2007.

During the year, the inventory level has increased due to the need for ensuring sufficient quantities and styles were available to meet growing market demand. The Group's inventory turnover dropped slightly from 160 days to 159 days, and the amount of inventory increased from HK$161,671,000 to HK$188,871,000 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 3.00% to 8.12%. 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 asset located in Mainland China. 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 disposal of subsidiaries or associates. For the current financial year, other than the establishment of a number of footwear and apparel outlets in certain parts of Mainland China and Hong Kong, the Group does not have plan for material investments or change of capital assets.

MANAGEMENT DISCUSSION AND ANALYSIS

CONNECTED TRANSACTON

On 26 March 2007 the Group has entered into an agreement with the purchaser for the disposal of the entire equity interest in the registered and paid-up capital of佛山市順德區信達房地產開發有限公司 (Fo Shan City Shun De District Xin Da Property Development Company Limited*) at a consideration of HK$32,395,000. The shareholder resolution for the disposal has been approved at the special general meeting held on 17 May 2007 (Note 40(ii)).

We believe that the disposal represents a good opportunity for the Group to realize its investment in Mainland China properties in order to rationalise its business scope, allowing us to further focus solely on our footwear related operation. The sale proceeds from the disposal are intended for use as general working capital of the Group.

* *For identification purposes only*

EMPLOYEES AND REMUNERATION POLICIES

As at 28 February 2007, the Group had a staff force of 2,893 people. Of this, 226 were based in Hong Kong and 2,667 in Mainland China. The remuneration of employees was in line with the market trend and commensurable to the level of pay in the industry. Remuneration of the Group's employees comprises basic salaries, bonuses and long-term incentives. Total staff costs for the year, including directors' emoluments and net pension contributions, amounted to HK$121,372,000 of which HK$118,618,000 from continuing operations and HK$2,754,000 from a discontinued operation (2006: HK$116,370,000). The Group has all along organized structured and diversified training programmes for staff of different levels. Outside consultants would be invited to broaden the content of the programmes.

PROSPECTS

In the upcoming 2007/08 financial year, the Group will continue to strengthen its presence in the first tier cities and further expand its development in the second tier cities in China. To capture the strategic competitive market advantages in the future, the Group has a series of initiatives in place to drive the future growth.

We predict that the consumer model is undergoing change, and a number of large scale, modernized and well managed shopping centres will be opened in major cities in China in the next 12 months and after. These new shopping facilities will bring fresh shopping experiences to the Mainland consumers, at the same time offer the retail industry choices of high quality venue.

To further strengthen its foothold in the China market, the Group is anticipating to open more self-owned stores in the new shopping malls, which will also give us more flexibility in operation. An estimated higher customer traffic with substantial purchasing power, coupled with lower rental expenditure as compared to counter concession, will enable higher gross profit margin for the *Le Saunda*, *CnE* and *Antinori* brands to be achieved.

Customer taste is changing fast. This presents us both challenge and opportunity. Our self-owned production line and in-house design team are giving us the competitive edge over our peers. Leveraging on this advantage, we will adopt strategic adjustment in new design launch with the aim for a shortened reordering cycle, which will optimize capital resources and improve inventory control to further enhance our revenue and profit.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS (continued)

The well established *Le Saunda* brand gives us room for aggressive pricing. We are planning to launch new product lines with premier quality at a higher price in order to broaden our target customers as well as distinguish ourselves from other competitors. This strategy will contribute to a higher profit margin for a selection of products, and will also enhance the brand image of *Le Saunda*.

With further maximizing production capability and capacity for the Group's OEM business segment, we will focus on targeting high net-worth overseas customers in order to achieve higher wholesale prices, which will increase our future turnover continually.

As a pioneer in venturing into the Mainland China market, we have been reaping fruitful results. Looking ahead, the Group endeavours to make strides in China market, aiming to capture the numerous business opportunities presented to us and create value to our customers.

CONTINGENT LIABILITIES

The Company and several subsidiaries have jointly given guarantees in favour of banks for banking facilities granted to certain subsidiaries to the extent of HK50,000,000 (2006: HK$65,000,000) of which HK$14,753,000 (2006: HK$14,110,000) was utilised as at 28 February 2007.