

Dear Shareholders,

I am pleased to present the annual report of Mirabell International Holdings Limited for the year ended 28 February 2001.

Results and dividend

During the year, we made progress in delivering value to shareholders. Turnover of the Group for the year ended 28 February 2001 increased by 5.1% to HK\$556.92 million. Profit attributable to shareholders was HK\$49.76 million representing an increase of 18.4% over the last year.

The directors have recommended the payment of a final dividend of HK3.2 cents per share which, subject to approval by shareholders, will be paid on 1 August 2001 to shareholders whose names appear on the Register of Members of the Company on 18 July 2001. This, together with the interim dividend of HK2.8 cents per share, results in a total dividend of HK6.0 cents per share for the year under review.

Business philosophy

The Group's business philosophy is to provide excellent services so as to ensure "TOTAL CUSTOMER SATISFACTION". The Group has a retail team of more than 650, all of whom undergo intensive and continued training when they first join the Group and throughout their employment with the Group.

At the Group's training centres, employees are trained and educated on service standards, corporate value, professional selling techniques, product knowledge and presentation skills. Senior sales staff and shop managers receive regular advanced training in service goal setting and team building, as well as updates on product trends.

Moreover, the Group regularly employs university students to act as "mysterious customers" to evaluate the service standards at the Group's outlets with a view to identify areas in which its service to customers can be improved.

Risks Control and P2P management

In the past decade, the Group was successfully established itself as a major footwear retailer in the region with the adoption of dynamic risks control and P2P (Path-to-Profitability) management.

Risks Control: Geographic diversification

We started our business in Hong Kong in 1989 under the tradename of Mirabell with first two Mirabell outlets opened in Nathan Road and the Park Lane Shopper's Boulevard, Tsim Sha Tsui. Since then, additional Mirabell outlets have been established in prime shopping districts, shopping arcades and department stores.

In order to penetrate and explore the retail market in Macau, the Group opened a Mirabell outlet in Macau in April 1994. By the end of June 2001, there are 4 outlets, namely Mirabell, Joy & Peace and INshoesnet, in Macau.

In late 1996, the management identified the growth in household income and purchasing power of the PRC consumers. To cope with the sustained economic growth together with a growing retail market in the PRC, in April 1997, the first Joy & Peace outlet was opened in Guangzhou and followed by Mirabell and Joy & Peace outlets in both Beijing and Shenzhen.

It is always our long-term strategy – to expand our geographical coverage step by step in considering of our internal resources and external market situations.

Risks Control: Customer differentiation

In terms of tradename, we have five different chain stores catering specific customer groups. Mirabell targets at the young and brandnames conscious footwear market by offering its customers the convenience of having access to a wide range of international brandname casual shoes without having to go to different speciality shops for such brandnames.

In 1995, the management recognised the potential market for executive shoe products catering specifically for young professionals and executives. A new chain of stores, under the name of Joy & Peace, with most of the products being European made and style, was established with its first outlets opened in September 1995.

After the financial turmoil in 1998, some small to medium size shoe retailers have been squeezed out of the market. The management recognised that there was another market gap for a new chain stores, teenmix, catering specifically for young and fashion conscious customers with stylish and trendy footwear products. In order to cope with such economic environment, the new concept is offering a variety of hi-quality yet "value for money" products. The first teenmix outlet was opened in Festival Walk in late March 1999.

In the 21st century, Internet and eCommerce are set to dominate the business arena and the management recognise that eCommerce will be a part of our business. After a thorough study and planning, the web site, www.IN-shoesnet.com, and the first INshoesnet outlet in New Town Plaza, Shatin, were successfully launched in early September 2000. Being a leading player in the industry, the Group is now operating the largest local footwear e-tail chain in "Clicks-and-Mortars" model.

In view of the tremendous market in the PRC, the management identify the name of international brandname caught the focus of potential customers easily. In April 2000, the Group was appointed as the sole and exclusive distribution agent in the PRC for K•Swiss footwear and apparel products. K•Swiss is our first step to advance our footwear business with apparel products.

By the end of May 2001, there were 36, 20, 12 and 17 outlets of Mirabell, Joy & Peace, teenmix and INshoesnet respectively in Hong Kong and Macau. In the PRC, there were 47 and 131 self-operated and franchised chain stores. With combination of these five chain stores and extensive network, we do believe that the Group is one of the major footwear retailers, providing the widest range of products, in the region.

It is always our long-term strategy – to invest for growth in new market segments and drive for greater efficiency with specific tactics.

Risks Control: Market penetration

The expected entry of the PRC into the World Trade Organisation in the near future will potentially bring opportunities for the retail industry through a gradual opening of the market. In order to capture the potential growth of the PRC market with minimum capital investment, by the end of September 1999, the Group has granted the franchise right of Joy & Peace and teenmix in the northern part of PRC to Best Quality Investments Limited (Best Quality), an associated company of the Group. In turn, Best Quality sub-licensed the right to its business partners. During the year under review, 28 and 63 Joy & Peace and teenmix franchised stores were opened.

By the end of May 2001, there were 47 and 131 self-operated and franchised chain stores in the PRC. We do believe that this strategic market penetration model is the most efficiency way to explore the PRC retail market. We will continue to work more closely with our business partners to build on the competitive position we have established. Taking advantage of its abundant resources and network connections in the PRC, the Group is confident of its ability to penetrate the PRC market with limited investment.

It is always our long-term strategy – to maximise our market share and speed up the level of penetration with limited investment.

P2P (Path-to-Profitability) management

Before committing a new outlet, the Group will conduct a thorough feasibility study which takes into accounts various factors including shopping traffic, estimated sales analysis and operating costs. By the result of the feasibility study, an estimated break-even sales amount is derived. In all circumstances, new outlet will be opened only if the management do believe that, in the first year operation, the forecast sales amount will exceed the estimated break-even sales amount.

It is always our long-term strategy - to invest on new outlet with stringent control of overall costs aiming at a path to profitability.

Our commitments

Today, the combined effects of pervasive customer service culture, strong corporate management and strategic risks control and development model enable the Group to maintain its position as a leading operator, delivering solid value to shareholders and quality products and services to an intensively competitive marketplace.

Whatever the achievements in the past years, we must have clear vision and objectives for future success. In the coming years, we will closely commit to:

- provide high quality services and products to customers
- maintain and enhance the Group's leading role in the local footwear retail market
- grow the Group in size and popularity within the Great China region

Acknowledgment

Finally, I would like to extend my appreciation to all the shareholders for their support and to thank the directors for their guidance and the staff members for their dedication and hard work.

Tang Wai Lam

Chairman