Business and financial review

The Group achieved a turnover of HK$556.92 million representing an increase of 5.1% over the last year. The audited consolidated profit attributable to shareholders increased by 18.4% to HK$49.76 million. The increase in both the turnover and profit attributable to shareholders resulted from launching of INshoesnet, strategic restructuring of China operation, and contribution from an associated company.

Hong Kong and Macau market

During the year, the Hong Kong economy was capricious and still under acute deflationary pressure. With the strategy in capturing different market segments with different tradenames, we have delivered a fair performance in our local market.

Turnover of the Hong Kong and Macau markets increased by 5.6% to HK$482.54 million and respectively operating profit decreased by 1.2% to HK$41.57 million. At the end of May 2001, there were 36, 20, 12 and 17 outlets of Mirabell, Joy & Peace, teenmix and INshoesnet respectively.

PRC market

Subsequent to the strategic restructuring of Mainland China operation in October 1999, a number of outlets were transformed to franchised outlets. With country-wide promotional programs in brands positioning, turnover increased by 1.8% to HK$74.38 million. Under the new operation model, the Group achieved a greater efficiency with significant increase in profit by 118.5% to HK$4.79 million.

Since the setting up of franchise system in Mainland China through the associated company, our retail network is substantially expanded in terms of number and geographic. Recently, there are 47 and 83 franchised outlets of Joy & Peace and teenmix respectively in over 20 provinces and cities of Mainland China. Under the franchise system, a regular and stable return is promised in form of royalty. In addition, the Group now operates another 47 self-operated outlets, including Mirabell, Joy & Peace, teenmix, INshoesnet and K•Swiss in Shenzhen, Guangzhou, Shanghai and Beijing.

In April 2000, the Group was appointed as the sole and exclusive distribution agent in China for K•Swiss footwear and apparel products. At the end of May 2001, there were 12 K•Swiss concept stores and counters in business.

Best Quality Investments Limited (“Best Quality”)

During the year, Best Quality, the associated company of the Group, has achieved a satisfactory growth. The consolidated turnover and profit attributable to shareholders increased from HK$173.97 million to HK$274.69 million and from HK$22.50 million to HK$28.11 million respectively.

Best Quality operates 6 production lines with a production capacity amounting to 1.20 million pairs of shoes per year. To cope with the continuing growth, it is planned that 2 more production lines will be launched in second half of 2001.

In June 2000, Laikong Footwear (Shenzhen) Co., Ltd. and Shenzhen Belle Footwear Co., Ltd., wholly-owned manufacturing subsidiaries of Best Quality, were accredited the ISO9001 Standard of the International Organisation for Standardisation which demonstrates Best Quality’s continuous efforts for quality improvement.

In respect of Hong Kong retail business, Best Quality now operates 17 retail outlets in name of Staccato. Since its operation from 1998, Staccato, which strengthens the Group’s local market share, achieved a steady growth over the past years.

Acquisition of properties

In view of the decrease in interest rate and maximisation of shareholders value and strengthening the Group’s earning base, the Group acquired 3 industrial premises with saleable area of approximately 61,000 square feet whereas 18,000 square feet is used by the Group as warehouse. The remaining is leased out with yield rate at approximately 13.3%. The acquisition cost amounted to HK$15.00 million and was financed by internal resources and bank loan.

On 28 December 2000, the Group entered into an agreement to acquire a property located in the heart of Shenzhen. The Group will occupy part of the property as a key outlet in that prime commercial district of Shenzhen. The consideration of approximately HK$53.72 million will be paid out of the Group’s internal financial resources and bank borrowing. As at 31 May 2001, HK$30.00 million has been paid as deposit.

Liquidity and borrowings

At year end, the Group's working capital amounted to HK$151.22 million representing an increase of HK$21.18 million as compared with last year.

At year end, the Group's inventory increased by HK$31.85 million to HK$90.39 million, and the accounts payable increased by HK$22.03 million to HK$45.82 million, in anticipation of an earlier change of spring/summer season and due to an expanded retail networks in both Hong Kong and Mainland China.

At year end, the Group had cash and bank deposits of HK$76.44 million (2000: HK$101.88 million) and outstanding bank borrowings and overdraft of HK$21.96 million (2000: HK$12.43 million). During the year, the Group has raised new bank borrowings amounting to HK$17.04 million. At 28 February 2001, the net book values of fixed assets pledged as security for the Group's bank loans amounted to HK$28,159,000 (2000: HK$16,333,000).

At year end, the gearing ratio of the Group is 0.1 (2000: 0.07) which is calculated based on the Group's total borrowings of HK$21.96 million (2000: HK$12.43 million) and the shareholders' funds of HK$228.28 million (2000: HK$188.82 million). The Group has adopted a prudent borrowing policy with a gearing ratio being maintained at a maximum of 0.3.

Management is comfortable that existing financial resources will be sufficient for future expansion plans. Should other opportunities arise requiring additional funding, management also believes that the Group is in a good position to obtain financing on favourable terms.

Employees and remuneration policy

As at 28 February 2001, the Group had 899 employees. The Group remunerates its employees largely based on industry practice, including insurance and medical benefits. The Group has also adopted a discretionary bonus program and a share option scheme, which award its employees according to the performance of the Group and individual employees.