

Dear Shareholders,

I am pleased to present this annual report for the year ended 28 February 2005.

Results and dividend

The turnover of the Group for the year ended 28 February 2005 was HK\$747,839,000 whereas the profit attributable to shareholders was HK\$76,395,000.

The board of directors has resolved to recommend a final dividend of HK6.6 cents per share which, subject to the approval of shareholders, will be paid on 12 August 2005 to shareholders whose names appear on the Register of Members of the Company on 5 August 2005. This together with the interim dividend of HK2.5 cents per share will make a total dividend of HK9.1 cents per share for the year.

Capture growth of tourism and customers' spending in the local market

During the year, the local economy rebound was spreading across all sectors predominantly in tourism and retail industry. The business for the retail outlets located in the tourist regions was particularly good. To capitalise on the recovering domestic economy, the local retail business achieved a satisfactory growth in the turnover and operating profit.

The Group has a solid foundation in the local retail market. In terms of product management, through the multi-brand business model, the Group offers a wide range of footwear products sold at varied retail prices and targeted at different customer segments. The Group shall continue to keep abreast of changing market trend and identify footwear products that are distinctive in the market to differentiate itself from competitors. The Group has been reviewing the product mix from time to time with reference to the ever-changing needs of customers. We aim to develop closer relationships with suppliers as well as to further expand the exclusive distributorship business.

In order to maintain and further increase our competitive advantage in the marketplace, the Group is committed to striving for customer service excellence by persistently improving the level of our customer service. Meanwhile, we shall renovate and refresh the retail outlets through the introduction of new store design concepts aiming at providing customers with a more comfortable and enjoyable environment for shopping.

Solidify the wholesale business

The development of wholesale business is a vital part of the Group's operating strategy. During the year, the wholesale business achieved a promising result. In addition to reducing purchase costs and increasing gross profit of the Group, the wholesale operation can provide a synergy effect to the Group in terms of further strengthening the product mix, brand development and promotion. The operation effectiveness is thereupon improved and thus making further contribution to the Group. During the year, the Group obtained new exclusive distribution rights for some international well-known footwear brands in Hong Kong, Macau and Mainland China. Apart from our wholesale business in Hong Kong, the Group signed some distribution agreements with the retailers in major cities of Mainland China. The Group will expand the wholesale business aggressively in Mainland China shortly.

Accelerate the expansion pace in the Mainland China market

Over the past few years, Mainland China has been one of the world's fastest growing economies. This growth has contributed to the improvement of living standards of the Mainland China residents as evidenced by the substantial increase in the per capita annual income. This represents a substantial potential growth for the retail industry. The continuous economic growth in Mainland China boosts the demand for high-end consumer products. We trust that the increase in retail sales in Mainland China would provide ample opportunities for our business. In view of the ever-rising demand for high quality and trendy footwear products in the Mainland China market, the management plans to strengthen and further expand the sales and distribution network in the coming years with a view to further increasing the market share.

In determining where to open retail outlets, the Group will evaluate detailed demographic information, the availability of prime locations, logistic and distribution matters, economies of scale as well as the existing and potential competitors. The Group is currently exploring more business opportunities.

Entry into the Taiwan market

The Group opened the first Fiorucci retail outlet in Taiwan in April 2005. The market response is encouraging. At present, we have five Fiorucci retail outlets in Taiwan. Aiming at achieving economies of scale, the Group plans to open more retail outlets there. We expect that the retail business in Taiwan will make a considerable contribution to the Group in the near future.

Future business strategies*1. To strengthen brand awareness and customer loyalty*

We believe that one of the most valuable assets of the Group is our unique brand image for different business lines. The Group is fully committed to strengthening the market position and image of our brands so as to retain customer loyalty. The Group will continue to actively review the operating strategies in response to the changes in economic conditions and market competition.

2. To upgrade merchandising and sourcing capabilities

We trust that the expertise of the merchandising team is crucial for the Group to preserve the cutting edge in the highly competitive footwear industry. With the extensive distribution networks in Hong Kong, Macau, Mainland China and Taiwan, we are of the view that further investment in merchandising and sourcing capabilities from time to time.

3. To look for high margin business

The Group is actively looking for high margin business, especially arising from exclusive footwear distribution. The management is presently negotiating with some multinational corporations to obtain exclusive footwear distribution rights.

4. To control strictly the increase in operating costs

In the foreseeable future, the Group expects that operating costs particularly rental expenses increase. The management will control strictly the increase in operating costs in order to minimise the business risks.

5. To expand distribution networks in Mainland China and Taiwan

We consider that there is immense room for expansion in the Mainland China market and plan to open more retail outlets in the coming year. As to the Taiwan market, the Group will increase market penetration by opening retail outlets under the brand of Fiorucci so as to achieve the economies of scale in the near future.

6. To increase production capacity in Mainland China

To cope with the business expansion scheme, the Group is going to increase the production capacity and upgrade the factory facilities by installing additional machines.

Acknowledgement

On behalf of the board of directors, I would like to take this opportunity to express my gratitude to all shareholders and business partners for their support and to all employees for their hard work.

Tang Wai Lam*Chairman*