

Chairman's Statement



Chairman Lim Por Yen

OVERVIEW OF RESULTS

The Group reported a consolidated net profit attributable to shareholders of HK\$20,058,000 for the year ended 31st July, 2002, which represented a satisfactory increase of 241% compared with the profit for the previous year.

Total turnover of the Group fell by 12.4% to HK\$595,320,000 but due to implementation of effective cost control, aggregate operating expenses had been reduced by HK\$50,101,000 to HK\$291,514,000 and profit from operating activities improved by HK\$11,930,000 to HK\$24,109,000 for the year. After deducting the reduced finance costs and the slightly increased taxation charge, net profit attributable to shareholders jumped from HK\$5,877,000 to HK\$20,058,000 for the year under review.

OPERATION IN HONG KONG

Given the relatively high operating and rental cost environment confronting the retail operation of the Group in Hong Kong, the Group had adhered to the policy of closing down unprofitable retail shops. A total of 6 shops for Crocodile brand products and another 3 shops for Lacoste brand products had been closed down during the year. The Group continued to operate 26 shops for Crocodile products and 6 shops for Lacoste products as at 31st July, 2002. Plans are in hand to close down a further 7 shops for the Crocodile line in the coming year.

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In addition to exercising tight control on rental expenses, the Group had actively curtailed other operating costs. Following an evaluation of the Group's investment properties, a property previously occupied by Group companies was let during the year for rental income, which helped offset the loss arising from the retail operation in Hong Kong. As a result, the loss recorded for the Hong Kong operation had been reduced to HK\$10,538,000 from the loss of HK\$14,202,000 reported for the previous year.

OPERATION IN THE MAINLAND OF CHINA (THE "MAINLAND")

The Groups' operation in the Mainland had benefitted from the continuous growth and vibrancy in the economy of the Mainland, and the wide recognition of the Crocodile brand. An increase of 25% in operating profit for the year under review had been reported by the Mainland operation, which had become the principal generator of profit.

Franchisees of the Group had begun establishing sales networks covering whole provinces on an exclusive basis since the previous financial year. Through vigorous development efforts of the franchisees, the number of the Group's sales outlets increased from 700 in the previous year to the current total of over 800. This rapid expansion of the sales network had laid solid foundations for the Group's revenue growth in the coming years. The Group is also inspecting the decor and product display designs at all sales outlets to maintain a standardised and distinct image of the Crocodile brand.

PROSPECTS

The Group remains cautious on the economic environment of Hong Kong in the coming year. As for the retail operation in Hong Kong, it is anticipated that total sales will decrease following the closure of a number of retail shops. The Group aims, nevertheless, to at least maintain the revenue level of each retail shop still in operation. Plans are in hand to renovate the decor of local flagship retail shops, and to further enhance quality of service in order to upgrade the image of the shops.

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Considering the prevailing market conditions in Hong Kong, the Group will continue to focus on developing its operations in the Mainland. The Crocodile ladies line for the fall/winter season has been launched in the Mainland and initial results are expected to be satisfactory. Marketing of products for the spring/summer season is underway and this should help generate additional revenue from the Mainland market.

The Group will be launching a new line, "CrocoSport", targeting at teenagers and experimental shops will be opened in Beijing, Shanghai and Guangzhou in 2003. In view of the firm foothold established by the Group in the menswear market, resources will be diverted to the development of garments made with new materials to further improve the Group's profit margin.

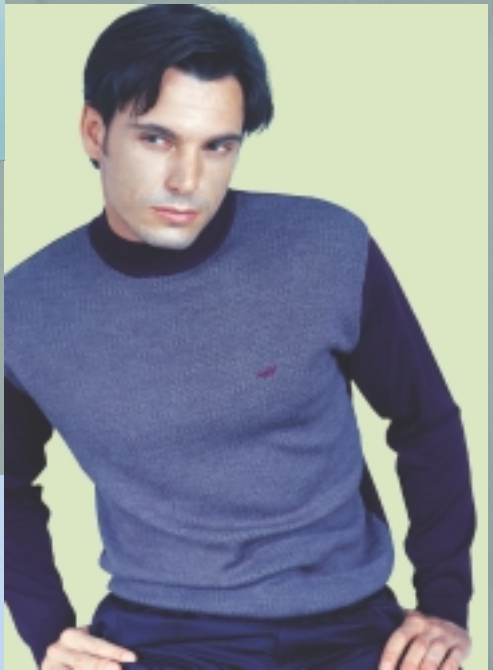
LIQUIDITY AND FINANCIAL RESOURCES

As at 31st July, 2002, total bank borrowings of the Group amounted to HK\$47,245,000. The Group's gearing was considered to be at a reasonable level, as the debt to equity ratio at 31st July, 2002 was only 15%, expressed as a percentage of total bank borrowings to total net assets. The cash and bank balances of the Group as at 31st July, 2002 were HK\$81,711,000.

As at 31st July, 2002, the Group had pledged assets of the value of HK\$211,333,000 to its bankers to secure banking facilities granted to the Group.

Out of the total bank borrowings of HK\$47,245,000 as at 31st July, 2002, HK\$2,288,000 was a secured term loan repayable by instalments, HK\$24,250,000 represented secured short-term bank loans and HK\$17,787,000 was trust receipt loans. The secured term loan of HK\$2,288,000 is repayable within one year and the other bank borrowings are repayable on demand.

The Group's bank borrowings are made mainly in Hong Kong dollars or United States dollars. Exchange risk is minimal because the exchange rate between the two currencies is pegged. Interest on the bank borrowings is charged at floating rates.



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The Group's cash and bank balances are mainly denominated in Hong Kong dollars, Renminbi and United States dollars. Sales receipts in Renminbi are sufficient to cover the Group's Renminbi payments for the business operations and further expansion in the Mainland. Surplus funds are placed as short-term deposits with maturities matching the requirements of the Group's daily operations as well as its expansion plans in the Mainland.

Most of the Group's sales and purchases are made in Hong Kong dollars, Renminbi, United States dollars and Euro. Foreign purchases in Euro are mostly hedged with forward contracts to minimise exchange risk and therefore are subject only to negligible exchange risk.

EMPLOYEES AND REMUNERATION POLICY

The total number of employees of the Group, including part time sales staff, was approximately 1,250 as at 31st July, 2002. Remuneration of the employees was largely based on industry practice and the performance of individual employee. In addition to salary and bonus payments, other staff benefits include subsidised medical care, free hospitalisation insurance plans, provident fund benefits, subsidised meals, staff discount on purchases, internal training for sales staff and external training programme subsidies.

CONTINGENT LIABILITIES

As at 31st July, 2002, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	—	—	3,000	3,500



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Apart from the above, the Company is involved in legal disputes with a supplier, who alleges that the Company has infringed its trademark in the Mainland and is seeking orders from the courts in the Mainland for compensation of RMB3,500,000. In the opinion of the Directors, having taken legal advice, there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources arising from the claim for compensation against the Company.

MANAGEMENT AND STAFF

Management and staff members of all Group companies have achieved highly encouraging results under very competitive and difficult market conditions in Hong Kong and the Mainland. On behalf of the Board, I would like to record my appreciation of the dedication and hard work of Management and all staff members during the year, and to thank our shareholders and business associates for their support.

Lim Por Yen

Chairman

Hong Kong

8th November, 2002