

## Chairman's Statement



Chairman LAM Kin Ming

### IN MEMORIAM

Mr. Lim Por Yen, the founder of the Lai Sun Group, passed away in February 2005. He was a man of energy, vision and perseverance and dedicated to work and family. His contribution to the Group is immeasurable and his death an irreplaceable loss.

### BUSINESS REVIEW

#### Overview

For the year ended 31st July, 2005, turnover of the Group decreased from HK\$459,562,000 in 2004 to HK\$396,862,000 in 2005, representing a year-on-year drop of 14%. This was mainly attributable to the consolidation of our sales outlets on the Mainland.

Despite the drop in turnover, the Group saw an increase in gross profit margin from 48% in 2004 to 52% in 2005. The rise was principally due to the change in sales mix on the Mainland, where a higher proportion of high premium goods were sold.

The Group achieved an encouraging profit before tax of HK\$145,980,000 for the year ended 31st July, 2005 (2004: HK\$44,541,000). Income from our property investment business accounted for a major part of this profit, which included a gain of HK\$77,009,000 on disposal of an investment property in Tsimshatsui (2004: Nil) and a surplus of HK\$36,300,000 from the revaluation of unsold investment properties in Hong Kong (2004: HK\$1,000,000).

## Chairman's Statement

Profit attributable to equity holders of the parent company increased by 166% to HK\$127,205,000 compared with last year.

### Operations in Hong Kong

It has been more than a year since the Group launched its new Crocodile logo. Strong marketing campaigns have been launched to promote the new brand through billboards and event sponsorships. Billboards were displayed on buses and erected at prominent locations such as train stations, cross harbour tunnel entrance and key buildings. Extensive promotional campaigns will continue this year to further enhance the desirability and strength of the Crocodile brand in the minds of our customers.

Despite the increase in brand awareness, we did not see a corresponding rise in the sales of our products mainly because we have held back on renting outlets in Hong Kong with unacceptably high rents.

On the other hand, the Lacoste line, which offers stylish and fashionable high-end products, saw sales increase during the year under review.

The Group currently operates 20 Crocodile outlets and 7 Lacoste outlets in Hong Kong.

The Group's involvement in both retail and property investment business has allowed us to mitigate the impact of property market fluctuations. During the year under review, the Group benefited from the resurgence of the property market with a significant increase in profit generated from the property investment business compared with last year.

### Operations on the Mainland

The drop in sales on the Mainland, resulting from a reduction in sales outlets, has prompted the Group to reconsider its strategy for developing the apparel business. During the year under review, the Group began to establish its own retail network in major cities of China to complement its nationwide franchising strategy on the Mainland.

The number of retail outlets run by the Group has increased from 11 at 31st July, 2005 to approximately 30 as of today, and cover Shanghai, Chengdu, Wuhan, Changsha and Fuzhou. These retail outlets have interior designs that are similar to those of our Hong Kong retail shops.

## Chairman's Statement

There are a total of approximately 600 sales channels on the Mainland, including our own retail outlets and those operated by our franchisees.

Counterfeit Crocodile products remain a concern on the Mainland. Proactive measures are being taken by the Group to address this problem, including frequent and sudden shop inspections, reporting infringements to the local authorities and confiscation of fake products. We will continue to take all actions necessary to deal with the counterfeit problem.

### PROSPECTS

The reduction in the unemployment rate in Hong Kong and a moderate rise in wages have helped boost the purchasing power of Hong Kong people. Coupled with the recovery of the property market, we expect this to translate into improved market sentiment and increased spending. This year, we saw a rebound of the overall Hong Kong economy to levels not seen since the SARS outbreak in 2003. If this trend continues, more sectors, the retail sector in particular, will benefit.

China's economy continues to grow at a remarkable pace. The Group is well positioned to capitalize on the opportunities in the apparel market on the Mainland. After close to two years of consolidating sales outlets on the Mainland, the Group expects sales to improve in the coming years. Building our own sales network on the Mainland is key to jump-starting sales. Although sales at each outlet on the Mainland is relatively small compared to those in Hong Kong, these new stores, which offer eye-catching displays and a relaxed lifestyle store ambience, will have a positive and demonstrative effect on our franchisees on the Mainland.

In order to centralise the design and development of all garment-related products on the Mainland, the Group will stop granting rights to produce these products under the Crocodile brand. Recently, we have terminated a licensee's rights to produce polyamide garments on the Mainland. The Group intends to use its own resources to develop the high-end polyamide garment market.

The Group is committed to further shortening design lead-times in order to be able to respond more quickly to market changes. The number of collections per year will also be increased. This will keep the Group on top of the latest trends and gives us more pricing power.

鳄鱼恤  
**CROCODILE**  
SINCE 1952



## Chairman's Statement

Hong Kong celebrity Mr. Miu Kiu Wai was appointed as the Group's spokesmodel for the Crocodile brand this fall/winter. His healthy, energetic and family man image is a perfect fit with the appeal of our products. The appointment received significant press coverage and serves as a strong endorsement of our products and the Crocodile brand.

Looking ahead, the Group is optimistic about its future development and is committed to achieving quality and service excellence.

### LIQUIDITY, FINANCIAL RESOURCES, GEARING, CHARGES ON ASSETS AND CAPITAL COMMITMENTS

Cash and cash equivalents held by the Group amounted to HK\$276,796,000 as at 31st July, 2005 and were mainly denominated in Hong Kong dollars, Renminbi, Euro and United States dollars.

As at 31st July, 2005, total bank borrowings of the Group amounted to HK\$43,867,000 which were due for renewal within one year. Of the total bank borrowings, HK\$24,250,000 represented secured short-term bank loans, HK\$17,192,000 was trust receipt loans and the balance was secured overdrafts. Interest on bank borrowings is charged at floating rates. All of the Group's bank borrowings are denominated in Hong Kong dollars. No financial instruments for hedging purposes were employed by the Group during the year under review.

The Group's gearing was considered to be at a reasonable level, as the debt to equity ratio at 31st July, 2005 was only 10%, expressed as a percentage of total bank borrowings to total net assets.

As at 31st July, 2005, the Group had pledged investment properties with carrying values of HK\$161,000,000 to its bankers to secure banking facilities granted to the Group.

The Group had no contracted capital commitments as at 31st July, 2005 and believes that there will be sufficient resources to fund its working capital requirements.

### CONTINGENT LIABILITIES

As at 31st July, 2005, the Company had contingent liabilities for the amount of HK\$3,000,000 in respect of guarantees provided by the Company for banking facilities granted to its subsidiaries.



## Chairman's Statement

### EMPLOYEES AND REMUNERATION POLICIES

The total number of employees of the Group, including part-time sales staff, was slightly above 900 as at 31st July, 2005. Pay rate of the employees is 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.

### MANAGEMENT AND STAFF

On behalf of the Board, I wish to pay tribute to all members of the staff and Management for their commendable contribution to the Company under competitive and challenging circumstances. I would also like to thank our shareholders and business partners and associates for their continuing support during the year.

**Lam Kin Ming**

*Chairman*

Hong Kong

18th November, 2005