Chairman's Statement

Chairman LIM Por Yen

OVERVIEW OF OPERATING RESULTS

The Group reported a turnover of HK$728 million for the year, representing an increase of 12% compared with the previous year, whilst consolidated net loss attributable to shareholders had been significantly reduced by 82% to under HK$36 million. During the year under review, operations of the Group in the Mainland of China reported encouraging growth, which was attributable to the strong demand for products of the Group.

RETAIL OPERATION IN HONG KONG

There had been a mild improvement in market conditions for the retail industry in Hong Kong during the financial year. The Group capitalised on the cold weather towards the end of 1999 and reduced inventory level aggressively. As a result, an increase of 12% in total turnover for the Hong Kong operation had been achieved. During the year, the Group continued to pursue the rationalisation of the geographical mix of retail shops of the Group. Premises expenses for the "Crocodile" brand products had therefore been cut from over HK$8 million per month to around HK$7 million at present.

Chairman's Statement

The "Croco Ladies" line has been revitalised and has been promoted in the fall/winter season under a new image, targeting the younger generation. Management is confident that, following aggressive development of this brand, it should grow into a formidable competitor to other brands. Following in-depth market pricing research and a product enhancement programme, noticeable growth in sales had been achieved during the year for the "Crocodile" brand men's wear and "Croco Kids" children's wear.

OPERATION IN THE MAINLAND OF CHINA

Growth in the Mainland operation of the Group had been encouraging during the year, with turnover jumping to HK$220 million from HK$170 million in the previous year. Such results could only be made possible by the concerted efforts and enthusiasm of all staff. Results for the mercerised cotton tee-shirts line were particularly pleasing. Apart from the high gross profit margin, it is also a steady contributor of earnings.

The Group had been actively expanding the franchise network during the year with good results, and an extensive sales network had been set up within a short time frame. Increase in the number of franchisees will be beneficial to the Group as inventory level can be kept to a minimum, thereby reducing the risk of holding obsolete stock. At the same time, sales and administrative expenses can be contained within reasonable limits, contributing to the profitability of the Group.

The number of retail shops and franchised outlets in the Mainland currently stands at about 300. The Group intends to focus on developing the sales network in provinces and cities north of the eastern coastal region, starting from the middle of 2001.

To promote the profile and brand awareness of the "Crocodile" brand in the Mainland, the Group has been actively participating in large trade fairs, in order to display new products of the Group to current and potential clients with the aim of increasing sales for the Mainland operation.




Chairman's Statement

IMPORTED LABELS BUSINESS

Following adjustments in the Hong Kong economy in 1999, demand for high-end consumer products by local consumers appeared to be recovering. Profitability for the "LACOSTE" brand distributed by the Group was showing signs of recovery and turnover had also increased noticeably.

Overall, the imported labels business of the Group spearheaded by the "LACOSTE" brand should continue to contribute stable earnings to the Group.

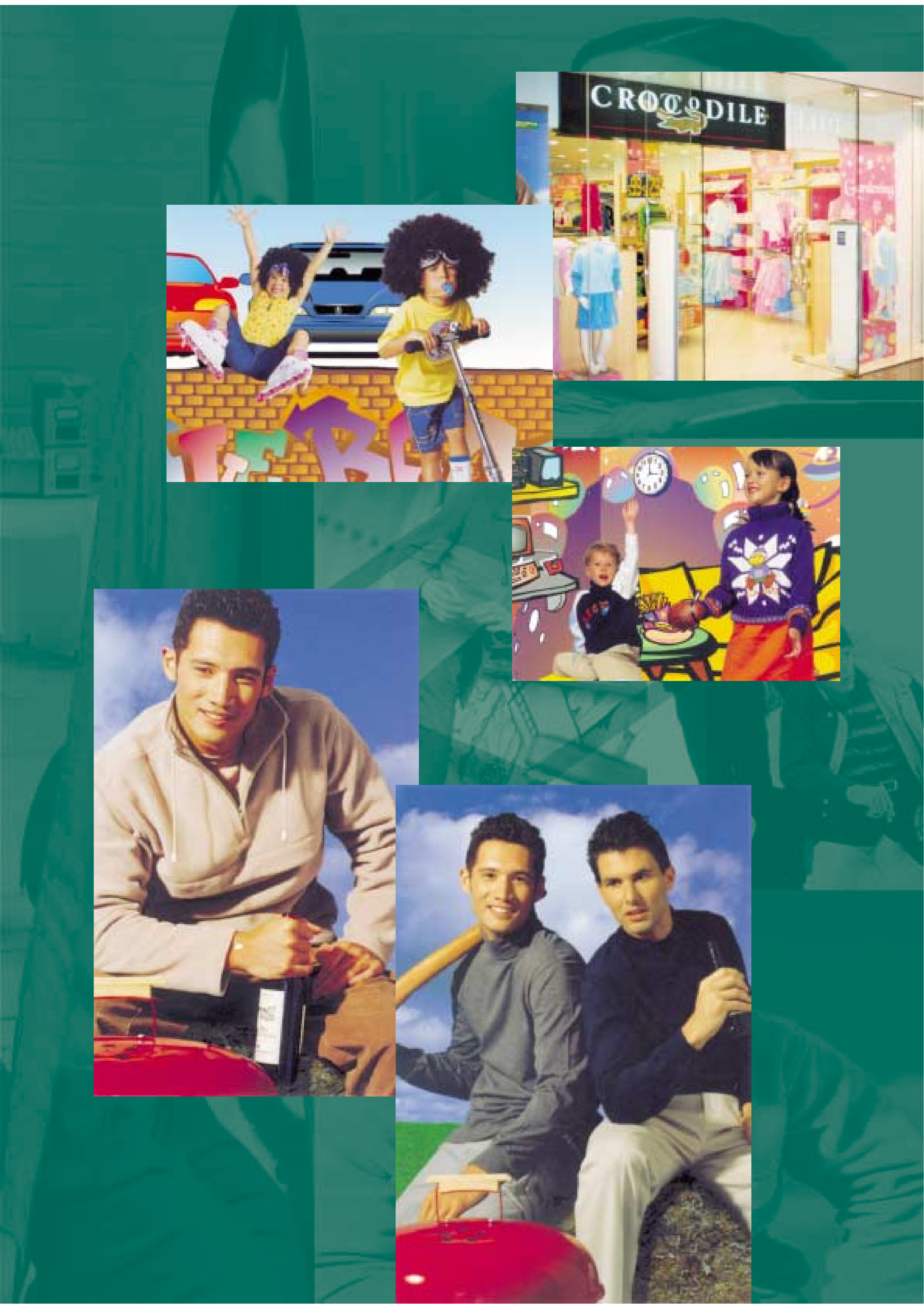
PROSPECTS

With the potential growth in both the Hong Kong and Mainland markets, the Group will time its moves to capitalise on the projected rise in consumer spending. The Group will place special emphasis on the development of the market in the Mainland, in view of the potentially strong consumer spending power. It is expected that the Group's operation in the Mainland will undergo a speedy expansion, and will make significant contributions to the Group's earnings. However, due to the foreseeable intense competition in the Mainland market, the Group will closely monitor changes in market conditions to formulate appropriate strategies.

When the anticipated recovery in the Hong Kong economy materialises, the Hong Kong retail operation of the Group should benefit from the inherent rise in overall consumer spending. Operating expenses of the Group, particularly rental expenses, had been stringently controlled. In the coming year, the Group anticipates the Hong Kong operation to break even and expects to attain an overall profitable position for the Group.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st July, 2000, total bank borrowings of the Group amounted to HK$70,488,000 (1999: HK$84,013,000). The Group's gearing was considered to be at a reasonable level, as the debt to equity ratio on 31st July, 2000 was only 16% (1999: 18%), expressed as a percentage of total bank borrowings to total net assets. The cash and bank balances of the Group as at 31st July, 2000 were HK$45,395,000 (1999: HK$20,049,000).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Chairman's Statement

Out of the total bank borrowings of HK$70,488,000 as at 31st July, 2000, HK$12,381,000 was a secured long term loan repayable by instalments, HK$27,600,000 represented secured short term bank loans and HK$28,507,000 was trust receipt loans. HK$4,782,000 out of the secured long term loan is repayable within one year, HK$5,257,000 will be repayable in the second year and the balance will be repayable in the third to fifth years. 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.

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

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

PLEDGE OF ASSETS

At the balance sheet date, the Group had pledged investment properties with carrying values of HK$67,000,000 (1999: HK$67,000,000) and certain land and buildings with net book values of HK$300,552,000 (1999: HK$307,444,000) to bankers to secure banking facilities granted to the Group.

EMPLOYEES AND REMUNERATION POLICY

The total number of employees of the Group, including part time sales staff, was approximately 1,430 as at 31st July, 2000.

Chairman's Statement

Remuneration packages are normally reviewed annually with adjustments compatible to those in the market. In addition to salary payments, other staff benefits include subsidised medical care, free hospitalisation insurance plans, non-contributory retirement benefits, subsidised meals, staff discounts on purchases, internal training for sales staff and external training programme subsidies. Double pay is normally made each year around Chinese New Year. Total staff costs including retirement scheme contributions for the year were approximately HK$98 millions.

CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2000	1999	**2000**	1999
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**—**	—	**3,500**	3,500

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 PRC and is seeking orders from the courts in Hong Kong to prohibit the Company from registering certain trademarks in the PRC and orders from the courts in the PRC for a compensation of RMB3,500,000.

The High Court and the Court of Appeal ruled in favour of the supplier and the Company is considering to appeal against the judgements to the Court of Final Appeal. The courts in the PRC have not delivered their judgement as at the date of this report. In the opinion of the directors, having taken legal advice, the claim for compensation against the Company is unlikely to be successful and, therefore, no provision has been made in these financial statements.

Lim Por Yen
Chairman