

Chairman's Statement



Chairman LIM Por Yen

OVERVIEW OF OPERATING RESULTS

The Group reported a turnover of HK\$680 million for the year ended 31st July, 2001. Although this represented a decline of 7% from the figure of HK\$728 million recorded for the previous year, the Group had been able to reverse the unfavourable impact of the Asian financial turbulence in October 1997 on the Group's operations through the conscientious and prudent control by Management on cost of sales and operating costs. As a result, the Group achieved a consolidated net profit attributable to shareholders of approximately HK\$6 million for the year, compared with the net loss attributable to shareholders of HK\$36 million recorded for the previous year.

OPERATION IN THE MAINLAND OF CHINA

During the year under review, the Group continued to develop actively the Mainland operation. Strong growth in sales had been maintained, with turnover further increased significantly to HK\$297 million from the HK\$229 million recorded for the previous year, an increase of close to 30%. Contribution to profit before tax for the year also increased by around 30%.

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To capitalise on the steady upward trend in consumer spending and potential consumer demand, the Group had been vigorously developing the mercerised cotton tee shirts line in the medium-to top-end price range. Building on the existing line, a series of different designs appealing to different consumer tastes and preferences had been marketed. Response to these new designs had been promising, resulting in significant contribution to the profitability of the Group.

On the business development front, the Group had taken the initiative of expanding to the north-western region of the Mainland, and the progress so far had been satisfactory. The Group will continue to identify potential franchise partners with substantial resources to commit for franchises covering whole provinces on an exclusive basis, in order to expand the sales network expeditiously. The result to date has been most encouraging and the total number of retail shops and franchised outlets in the Mainland now exceeds 700.

RETAIL OPERATION IN HONG KONG

In contrast to the rapid growth in the Group's operations in the Mainland, the retail operation in Hong Kong continued to operate under constraint as local consumer sentiment remained weak. The Group adopted the policy of closing down loss-incurring retail shops as early as two years ago, and the total number of shops for "Crocodile" brand products in Hong Kong had been reduced to 29. Plans are on hand to close down four to five shops with tenancies expiring in the coming year. At the same time, continuing efforts had been made to streamline aggressively the operational structure and systems of the Hong Kong operation to further reduce operating costs, with the objective of providing customers with products which are good value for money and thereby turning around the loss-making situation of the Hong Kong operation.

IMPORTED LABEL BUSINESS

Due to the contraction of the local retail industry as a whole, a decline in turnover of the LACOSTE products distributed by the Group had been recorded. However, this business continued to contribute to the profitability of the Group.



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PROSPECTS

The Hong Kong retail industry had been adversely affected by a downturn in the local economy and the situation had been further aggravated by recessionary trends in the global economy. It is not anticipated that any significant upturn for the local retail operation of the Group will be attained. However, the Group had established a foothold in the Mainland, and results achieved so far have been satisfactory.

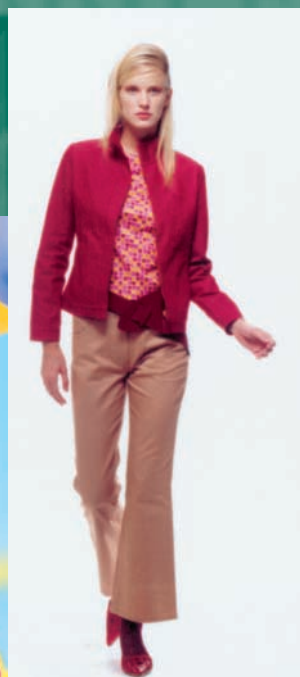
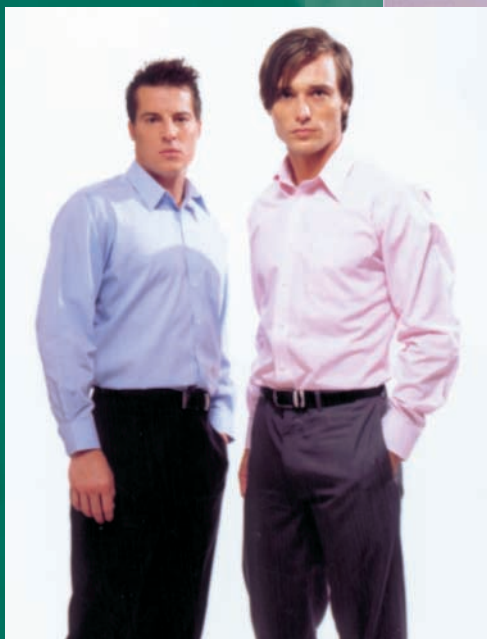
The Group will continue to develop the Mainland market with vigour, and will at the same time, further strengthen the management and control procedures of supporting offices in the Mainland. Systems will be put in place to monitor closely changes in market trends, to control cost of sales and distribution expenses, and to maintain an optimum inventory level. Appropriate measures will also be implemented to tighten control on debt collection to improve cashflow, so as to support the development of the Mainland operation and to enhance profitability.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st July, 2001, total bank borrowings of the Group amounted to HK\$66,009,000. The Group's gearing was considered to be at a reasonable level, as the debt to equity ratio at 31st July, 2001 was only 17%, expressed as a percentage of total bank borrowings to total net assets. The cash and bank balances of the Group as at 31st July, 2001 were HK\$68,919,000.

Out of the total bank borrowings of HK\$66,009,000 as at 31st July, 2001, HK\$7,570,000 was a secured term loan repayable by instalments, HK\$24,250,000 represented secured short term bank loans and HK\$31,270,000 was trust receipt loans. HK\$5,268,000 out of the secured term loan is repayable within one year and the balance will be repayable in the second year. The other bank borrowings was 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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As at 31st July, 2001, the Group had pledged investment properties with carrying value of HK\$125,000,000 and certain land and buildings with a net book value of HK\$194,615,000 to bankers to secure banking facilities granted to the Group.

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. 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 dollars. Foreign purchases in Euro dollars are mostly hedged with forward contracts to minimise exchange risk and therefore are subject only to negligible exchange risk.

EMPLOYEES AND REMUNERATION POLICY

The Group's total number of employees in Hong Kong and the Mainland, including part-time sales staff, was approximately 1,270 as at 31st July, 2001.

Remuneration packages are normally reviewed annually with adjustments compatible to those in the market. In addition to salary and discretionary bonus payments, other staff benefits include subsidised medical care, free hospitalisation insurance plans, defined contribution retirement benefits, subsidised meals, staff discounts on purchases, internal training for sales staff and external training programme subsidies.

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CONTINGENT LIABILITIES

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

	Group		Company	
	2001	2000	2001	2000
	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 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, the claim for compensation against the Company is unlikely to be successful and, therefore, no provision has been made in the financial statements.

On behalf of the Board, I would like to thank all staff members and Management of the Company for achieving this encouraging turnaround in results for the year through their hard work and perseverance.

Lim Por Yen
Chairman

Hong Kong
9th November, 2001