

Chairman's Statement



Chairman Lim Por Yen

OVERVIEW OF RESULTS

Due to the unfavourable impact of the Severe Acute Respiratory Syndrome ("SARS"), the Group recorded a turnover of HK\$484,063,000, representing a decrease of 19% over the previous financial year. The Group reported a consolidated net loss attributable to shareholders of HK\$58,130,000 as a result of a reduction in turnover and gross profit margin.

OPERATION IN HONG KONG

The local economy remained weak during the year under review. The outbreak of SARS in early 2003 had brought about a significant drop in inbound tourists arrivals and the demoralization of local consumer sentiment. As a result, the Group recorded a substantial decline in turnover. To alleviate the effects of this impact, a decision was taken by the Group to defer the planned expansion of local retail shops in tourist areas, and to reduce headcount in supporting departments. However, since the direct effects of SARS in Hong Kong lasted for over 100 days, the profit achieved by the Hong Kong operation of the Group for the first six months of the year had been reversed to a loss. This is a vivid example of the severity of the SARS impact on the Group.

As for the investment properties of the Group, rental levels of certain properties had to be adjusted downwards on lease renewal at the beginning of the year due to unfavourable market conditions. Furthermore, as a consequence of the uninspiring state of the local property market as at the end of the financial year under review, a deficit on revaluation of the investment properties amounting to HK\$22,000,000 had been provided for.

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

The economy in the Mainland continued to grow during the year under review, and this had facilitated the marketing and sale of Crocodile products of the Group. However, sales at various provinces and cities had been significantly affected following the outbreak of SARS in early 2003. Effective counter-measures and contingency arrangements were promptly introduced by the Group to help relieve the difficulties of the Group's franchisees. Following the abatement of SARS, sales by all franchisees recorded a quick upswing, with certain franchisees managing to recoup part of their loss in revenue.

During the year under review, the Group had actively dealt with slow-moving and out-of-season inventories. During the SARS period, sale of these products at a substantial discount was aggressively pursued with a view to increasing cashflow and laying the groundwork for the marketing strategy for the next season. The Group had, therefore, made a provision of approximately HK\$30,000,000 for slow-moving inventories as at the end of the financial year.

PROSPECTS

With the signing of the Closer Economic Partnership Arrangement between the Mainland and Hong Kong, the Group anticipates that greater opportunities for development of the Mainland operation will arise and this will be advantageous to the Group in formulating its future strategy. With the relaxation of travel restrictions for individuals in specified provinces and cities to travel to Hong Kong, the Group is optimistic about future prospects for Hong Kong. Although the likelihood of a recurrence of SARS still exists, the Group is confident the relevant government authorities will be capable of resolving this problem.

The Group had reached a settlement agreement with La Chemise Lacoste S.A. ("Lacoste") to resolve the dispute concerning the "Crocodile" design trademark, culminating in a win-win situation. Pursuant to the agreement, the Group will cease to use the "Crocodile" design previously in dispute after 31st March, 2006, and will instead use a new "Crocodile" design to which Lacoste has given its exclusive consent. The new trademark, which will be launched in the fall of 2004, signifies a milestone for the Group and should help consolidate the Group's market share in the Mainland, Hong Kong and Macau.

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To capitalise on the encouraging response to the sale and marketing of the new line of polyamide garments, the Group will continue to search for other unique clothing materials to provide a wider choice of products made with a more diverse range of materials, thus creating more marketing opportunities for the Group.

The sales networks set up by the various exclusive provincial franchisees are becoming more established and the number of sales outlets now totalled around 900. Based on the current trend, further expansion of the sales network is expected. Noticeable improvements to the decor of the premises and the display of goods in the sales outlets have been made. This should help enhance the image of the Crocodile brand and its appeal to a wider customer base.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st July, 2003, total bank borrowings of the Group amounted to HK\$44,509,000. The Group's gearing was considered to be at a reasonable level, as the debt to equity ratio at 31st July, 2003 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, 2003 were HK\$64,445,000.

As at 31st July, 2003, the Group had pledged assets of a value of HK\$189,239,000 to its bankers to secure banking facilities granted to the Group.

Out of the total bank borrowings of HK\$44,509,000 as at 31st July, 2003, HK\$24,250,000 represented secured short-term bank loans and HK\$17,929,000 was trust receipt loans. The 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. 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.



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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 920 as at 31st July, 2003. 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, 2003, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees given				
to banks in connection				
with facilities granted				
to subsidiaries	—	—	3,000	3,000

Apart from the above, as referred to in the prior year financial statements, the Company was involved in legal disputes with a supplier, who alleged that the Company had infringed its trademark in the Mainland and sought orders from the courts in the Mainland for compensation of RMB3,500,000. Subsequent to the balance sheet date, on 23rd October, 2003, a joint declaration was announced by both parties pursuant to which the Company agreed to use a new trademark device in the Mainland and the supplier agreed to abandon all of the claims against the Company. In the opinion of the Directors, no losses have arisen from this settlement and accordingly, no further costs have to be provided at the balance sheet date.



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MANAGEMENT AND STAFF

Management and staff members of the Group and our business associates have demonstrated their commendable capability and spirit of co-operation in containing the unprecedented impact of SARS on the operations of the Group.

On behalf of the Board, I would like to record my appreciation of the hard work and perseverance of Management and all staff members during this eventful year, and to thank our shareholders and business associates for their continuing support.

Lim Por Yen
Chairman

Hong Kong
7th November, 2003