Chairman's Statement

Chairman Lim Por Yen

OVERVIEW OF RESULTS

The Group recorded a consolidated turnover of HK$459,562,000 for the year ended 31st July, 2004 (2003: HK$484,063,000), representing a year-on-year decline of 5.1%. The decrease was mainly due to the Group's continued consolidation of the number of its outlets in both Hong Kong and the mainland of China (the "Mainland"). Nevertheless, the Group managed to capitalise on the rebounding consumption as a result of the resurgent economy after the containment of SARS and the launching of the relaxed individual travellers scheme by the Mainland authority. This, coupled with the effective implementation of stricter gross profit margin policies, saw gross profit increase to HK$220,406,000 (2003: HK$198,441,000). In line with management's efforts to generate more income and to reduce operating expenses, the Group satisfactorily achieved a net profit from ordinary activities attributable to shareholders of HK$47,896,000 (2003 (Restated): net loss of HK$58,768,000).

HONG KONG OPERATIONS

In accordance with the Group's plans to consolidate the number of sales outlets in Hong Kong, the Group closed three Crocodile outlets and one Lacoste store during the year ended 31st July, 2004. This network consolidation has proved to be positive as the Crocodile and Lacoste brands together achieved a segment profit before interest and tax of HK$23,079,000 in the current year

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compared to the previous year's loss of HK$6,824,000. The Group maintained 12 Crocodile outlets and 6 Lacoste stores in Hong Kong as at 31st July, 2004.

In September 2004, the Group launched another trademark in Hong Kong. The new trademark features the word "**Crocodile**" adjacent to an energetic golden crocodile symbolising wealth and luck. The existing classic green crocodile trademark will also remain in use, resulting in two product lines in Hong Kong. The new trademark has attracted enormous attention and two new image outlets have since been opened. Existing stores that were selected to use the new golden label will be renovated in the coming year.

The imported brand, Lacoste, continued to contribute positively to the Group. A new image store that combines a white background with a dynamic modern look was opened recently at Times Square, Causeway Bay. The store has been well received by customers. The Group's remaining stores will be refurbished when existing leases are renewed. We expect the revamped look to bring new life and energy to the Lacoste brand.

Rental income from investment properties is a significant profit contributor to the Group. With the rebound in property prices and rental income in Hong Kong, the property investment section generated a segment profit before interest and tax of HK$10,771,000 as against a loss of HK$11,344,000 in the previous year.

MAINLAND OPERATIONS

For the year ended 31st July, 2004, net sales recorded on the Mainland dropped to HK$217,914,000 (2003: HK$233,220,000), representing a decrease of 6.6% compared to last year. The decrease was mainly due to the decline in consumer spending following the imposition of restraining fiscal measures by the Mainland Government to regulate the overheated economy. Although the Group's turnover on the Mainland will continue to adjust downwards in the coming year because of the continued implementation of restraining fiscal measures, the Group will be more cautious in setting recommended retail prices for its products so as to achieve better gross profit margins.

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Management's determination to reduce stock levels continues as demonstrated by the Group's recent policy of allowing our franchisees to return inferior quality goods only. Since quality is key to the brand image and also affects the level of return goods, the Group will continue to focus on quality enhancement in the future.

In addition to quality enhancement, the Group is also placing more emphasis on product design. Regular trips to Europe are made by product planners and designers to keep abreast of new fashion trends. Concept meetings with franchisees are regularly held to encourage acceptance of European designs. In September 2004, the Group also launched its new golden Crocodile trademark on the Mainland. Since most of the retail outlets on the Mainland are run by franchisees, renovation of outlets to reflect the new brand will take place phase by phase. Refurbishment of Mainland outlets and stores to reflect the new image is expected to be completed by March 2006.

The Group has successfully recruited distributors on the Mainland to distribute certain Crocodile brand products such as leather shoes, bags and polyamide garments. These distributors pay a fixed fee for the distribution rights, and they are responsible for production and distribution of these products on the Mainland. With the strong increase in this type of fee income, other revenue on the Mainland significantly rose from HK$5,687,000 for the year ended 31st July, 2003 to HK$18,263,000 in 2004.

PROSPECTS

Both Hong Kong and the Mainland were affected by the SARS epidemic in the second quarter of last year, which led to inactivity in the market. With the containment of SARS and the increase in Mainland tourists due to the introduction of the individual travellers scheme from the Mainland, market sentiment has improved and consumer spending has risen significantly.

The Group believes that the momentum of the current economic rebound will continue and will provide a positive operating environment for the Group. Revival of consumer confidence in Hong Kong is evident in the rebound in property prices and improvements in employment rate. Driven by the rising number of inbound tourists, the local retail market is expected to achieve rapid growth in the coming years.






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The positive operating environment is expected to bring in more product sales and rental revenue for the Group. Though there is a rebound in the property market which drives up rental expenses, it is still a good time for business development. In line with this, the Group will open another new image flagship store in Causeway Bay, Hong Kong.

The Group's franchisees on the Mainland will gradually renovate retail outlets to reflect the new store image and design. The Group will take this opportunity to review and reassess the operating environment and outlet location of franchisee outlets. The number of outlets on the Mainland as at 31st July, 2004 was approximately 900 and is expected to go down during the renovation period.

Looking ahead, the Group is optimistic about its future development. The management also believes that the Group's improving fundamentals will foster the growth of its Crocodile brand, in particular the new golden Crocodile trademark.

The Group is committed to achieving quality and service excellence.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st July, 2004, total bank borrowings of the Group amounted to HK$43,102,000. The Group's gearing was considered to be at a reasonable level, as the debt to equity ratio at 31st July, 2004 was only 14%, expressed as a percentage of total bank borrowings to total net assets. Out of the total bank borrowings of HK$43,102,000 as at 31st July, 2004, HK$24,250,000 represented secured short-term bank loans, HK$16,621,000 was trust receipt loans and the other bank borrowings were repayable on demand. Interest on bank borrowings is charged at floating rates.

The cash and bank balances of the Group as at 31st July, 2004 were HK$156,476,000 and were mainly denominated in Hong Kong dollars, Renminbi and United States dollars.

As at 31st July, 2004, the Group had pledged investment properties with carrying values of HK$190,700,000 to its bankers to secure banking facilities granted to the Group.

Sales are mainly conducted in Hong Kong dollars and Renminbi. The sales receipts in Renminbi are sufficient to cover the Group's Renminbi payments for the business operations and further expansion on the Mainland. Surplus funds are placed as short-


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term deposits with maturities matching the requirements of the Group's daily operations as well as its expansion plans on the Mainland.

Most of the Group's purchases are made in Hong Kong dollars, Renminbi, United States dollars and Euro. Exchange risk between Hong Kong dollars and United States dollars is minimal because the exchange rate between the two currencies is pegged. 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 904 as at 31st July, 2004. Remuneration 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.

CONTINGENT LIABILITIES

As at 31st July, 2004, 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.

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 achieving excellent result 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 year, and to thank our shareholders and business associates for their continuing support.

Lim Por Yen
Chairman

Hong Kong
12th November, 2004