Chairman's Statement

Chairman and Chief Executive Officer **LAM Kin Ming**

OVERVIEW OF OPERATING RESULTS

For the year ended 31st July, 2006, turnover of the Group decreased from HK$396,862,000 in 2005 to HK$385,809,000 in 2006, representing a year-on-year drop of 2.8%. Despite retail sales in Hong Kong seeing an increase of 8.3% during the year, this was not enough to offset the 15.4% drop in sales on the mainland of China (the "Mainland") due to intense competition in that market.

The Group achieved an encouraging profit before tax of HK$150,550,000 for the year ended 31st July, 2006 (2005: HK$145,980,000). In both years, income from the property business was the major contributor to profit. This was mainly attributable to a net revaluation surplus for investment properties of HK$146,593,000 in the current financial year (2005: HK$36,300,000) and a gain on the disposal of an investment property of HK$77,009,000 in the last financial year.

Profit attributable to equity holders of the parent company decreased by 13.5% to HK$110,019,000 compared with the last financial year.

OPERATIONS IN HONG KONG

The Group currently operates 19 Crocodile outlets and 7 Lacoste outlets in Hong Kong. In order to further strengthen the image of the new Crocodile logo, ongoing promotional campaigns including billboard advertising and event sponsorships are frequently organized. We sponsored, among others, the "Crocodile Squash Challenge Cup 2006" during the current financial year and the "Crocodile Hong Kong Beach Festival 2006" in November 2006. The Lacoste line, which offers stylish and fashionable high-end products, also recorded an increase in sales during the year under review.

Chairman's Statement

The rebound in the Hong Kong property market has brought a significant revaluation surplus to the Group during the year ended 31st July, 2006. However, it has also driven up rental expenses of our retail shops. Rental expenses relating to our retail shops in Hong Kong increased by more than 20% compared with last financial year despite the fact that we have held back on renting outlets with unacceptably high rents.

The Group has accepted an offer from the Lands Department in respect of the lease modification from industrial to non-industrial use of our investment property in Kwun Tong at a land premium of HK$274,070,000. The Group is jointly redeveloping the site with Lai Sun Garment (International) Limited ("LSG") into a retail and office commercial complex. The redevelopment is expected to be completed by the end of 2009.

OPERATIONS ON THE MAINLAND

During the year under review, the Group continued to expand its own retail network in major cities on the Mainland in order to complement our nationwide franchising strategy. Overall sales dropped by 15.4% due to intense competition in the market. Furthermore, increase in sales generated from our own retail outlets was not enough to offset the decrease in sales due to the closure of a number of outlets operated by our franchisees.

The number of retail outlets operated by the Group on the Mainland increased from 11 as at 31st July, 2005 to 95 as at 31st July, 2006. These retail outlets, which incorporate a new image in line with the new Crocodile logo, will further enhance brand awareness.

Other income, representing mainly royalty income from licensees, decreased as a result of the termination of a licensee's rights to produce polyamide garments during the second half of the last financial year. The annual increase in royalties paid by other licensees was partly negated by the decrease in royalties due to the termination.

Currently, there are a total of approximately 600 sales outlets on the Mainland, including self-operated retail outlets and those run by our franchisees.

Chairman's Statement

PROSPECTS

The continuing improvement in the unemployment rate in Hong Kong and a general rise in salaries indicates that recovery of the Hong Kong economy is gathering pace. The positive market sentiments and the general increase in purchasing power are favorable to our retail operations in Hong Kong. If this trend continues, the Group is optimistic of achieving better results.

On the Mainland, the retail market and consumer spending power continue to grow at a remarkable rate. The Group is well positioned to benefit from the growing fashion market on the Mainland. The Group currently operates its own retail outlets in the cities of Beijing, Shanghai, Tianjin and Chongqing and in Sichuan, Fujian and Hunan provinces. Nonetheless, the Group will strike a balance between the number of self-operated sales outlets and those operated by our franchisees on the Mainland.

In order to maintain the high quality standards of our products and to maximize business opportunities in garment production, the Group intends to upgrade its production facilities and increase its production capacity on the Mainland. To that end, the Group has made down payments for two pieces of land in Zhongshan city in Guangdong province. When the new production facilities are in place, our production capability will increase significantly.

The Group is also expanding its sportswear product line and has recently licensed out its sports garments to a licensee in China.

The recovery of the Hong Kong property market has provided the Group with an excellent opportunity to capitalize on its property investments. The investment property in Kwun Tong is being redeveloped into a completely new commercial complex which is expected to contribute significantly in both rental income and profit to the Group starting from 2010.

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


Define yourself ... charm & attitude
CROCODILE


鱷魚恤壁球挑戰盃
SQUASH CHALLENGE CUP 2006
CROCODILE

Chairman's Statement

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

Cash and cash equivalents held by the Group amounted to HK$80,878,000 as at 31st July, 2006 and were mainly denominated in Hong Kong dollars, Renminbi and United States dollars.

As at 31st July, 2006, total bank borrowings of the Group amounted to HK$38,094,000 which were due for renewal within one year. Of the total bank borrowings, HK$22,150,000 represented secured short-term bank loans, HK$13,779,000 was trust receipt loans and the balance was unsecured overdrafts. Interest on bank borrowings is charged at floating rates. The Group's bank borrowings are mainly 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, 2006 was only 6.9%, expressed as a percentage of total bank borrowings to total net assets.

As at 31st July, 2006, the Group had pledged investment properties with carrying values of HK$95,000,000 to its bankers to secure banking facilities granted to the Group.

The Group had contracted capital commitments of HK$14,044,000 as at 31st July, 2006.

CONTINGENT LIABILITIES

As at 31st July, 2006, the Company had contingent liabilities for the amount of HK$3,000,000 in respect of guarantee provided by the Company for banking facilities granted to its subsidiary.

On 28th February, 2006, the Company, LSG and Unipress Investments Limited ("Unipress"), a wholly-owned subsidiary of LSG entered into a development agreement (the "Development Agreement") in connection with the redevelopment of an investment property situated at 79 Hoi Yuen Road, Kwun Tong, Kowloon (the "KT Property"), which was previously used for industrial purposes.

Chairman's Statement

In accordance with the Development Agreement, if construction finance is required by Unipress for financing the development and construction cost of the KT Property, the Group has agreed to provide or procure such security over or in relation to the KT Property as may reasonably be required by the relevant lending institution(s) and LSG is expected to provide a corporate guarantee as security for such finance. As at 31st July, 2006, the KT Property was not secured for any construction finance.

Apart from the foregoing, at the balance sheet date, the Group has also entered into a number of construction and consultant contracts for the redevelopment of the KT Property with the contractors and consultants of aggregate principal sums of HK$7,000,000. The Group has also simultaneously entered into the respective deeds of undertakings with Unipress and these contractors of which Unipress/LSG unconditionally and irrevocably undertakes to these contracts, as primary obligor/ guarantor, to perform all obligations of the Group and to pay to the contractors all amounts due from time to time on the part of the Group under and in accordance with terms of these construction and consultant contracts.

EMPLOYEES AND REMUNERATION POLICIES

The total number of employees of the Group, including part-time sales staff, was 1,277 as at 31st July, 2006. Pay rates of the employees are 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 would like to thank all members of staff and management for their dedication and loyalty. I would also like to thank our shareholders and business associates for their continuous support.

Lam Kin Ming
Chairman and Chief Executive Officer

Hong Kong
10th November, 2006