



CROCODILE GARMENTS



CROCODILE GARMENTS LIMITED

Interim Report 2001-2002

PLACE OF INCORPORATION

Hong Kong

BOARD OF DIRECTORS

Lim Por Yen (Chairman)
Lam Kin Ming (Deputy Chairman)
Lam Kin Ngok, Peter
Lam Kin Ko, Stewart
Lam Kin Hong, Matthew
U Po Chu
Shiu Kai Wah
Chiu Wai
Wan Yee Hwa, Edward*
Yeung Sui Sang*

* *Independent Non-executive Directors*

COMPANY SECRETARY

Yeung Kam Hoi

RESULTS

The Board of Directors of Crocodile Garments Limited (the "Company") is pleased to announce that the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 31st January, 2002 together with the comparative figures are as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 31st January, 2002

		Six months ended	
		31/1/2002	31/1/2001
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Turnover	(2)	300,774	358,455
Cost of sales		(140,021)	(180,808)
Gross profit		160,753	177,647
Other revenue		2,583	2,514
Selling and distribution costs		(116,632)	(149,418)
Administrative expenses		(33,904)	(30,504)
Refund of retirement scheme contributions not fully vested		—	18,163
Other operating expenses, net		(731)	(4,134)
PROFIT FROM OPERATING ACTIVITIES	(3)	12,069	14,268
Finance costs		(1,017)	(2,758)
PROFIT BEFORE TAX		11,052	11,510
Tax	(4)	(1,585)	(817)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS		9,467	10,693
EARNINGS PER SHARE — BASIC	(5)	HK cents 1.53	HK cents 1.73

Other than the net profit attributable to shareholders, the Group did not have recognised gains or losses. Accordingly, no condensed consolidated statement of recognised gains or losses is presented.

CONDENSED CONSOLIDATED BALANCE SHEET

31st January, 2002

		31/1/2002 (Unaudited) HK\$'000	31/7/2001 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Fixed assets		221,626	227,866
Investment properties		125,000	125,000
Rental and utility deposits		6,741	9,903
		353,367	362,769
CURRENT ASSETS			
Stocks	(6)	123,679	114,822
Debtors, deposits and prepayments	(7)	74,879	56,363
Cash and bank balances		43,978	68,919
		242,536	240,104
CURRENT LIABILITIES			
Bank loans, secured and overdrafts		32,157	32,437
Trust receipt loans		28,239	31,270
Creditors and accruals	(8)	114,677	123,269
Current portion of finance lease payables		46	91
Amount due to the ultimate holding company		505	3,125
Amount due to a related company		1,342	2,546
Tax payable		10,432	8,921
		187,398	201,659
NET CURRENT ASSETS		55,138	38,445
TOTAL ASSETS LESS CURRENT LIABILITIES			
		408,505	401,214
LONG TERM LIABILITIES			
Long term bank loans, secured		—	(2,302)
Long term portion of finance lease payables		(126)	—
		(126)	(2,302)
		408,379	398,912
CAPITAL AND RESERVES			
Share capital	(9)	154,282	154,282
Reserves	(10)	442,350	442,350
Accumulated losses		(188,253)	(197,720)
		408,379	398,912

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31st January, 2002

	Six months ended	
	31/1/2002	31/1/2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH (OUTFLOW)/INFLOW FROM OPERATING		
ACTIVITIES		
Returns on investments and servicing of finance	(17,398)	2,208
Tax paid	(707)	(5,517)
Investing activities	(74)	(890)
	(2,482)	(2,630)
Net cash outflow before financing activities	(20,661)	(6,829)
Financing activities	(2,683)	(2,403)
DECREASE IN CASH AND CASH EQUIVALENTS	(23,344)	(9,232)
Cash and cash equivalents at beginning of period	51,261	36,582
CASH AND CASH EQUIVALENTS AT END OF PERIOD	27,917	27,350
ANALYSIS OF BALANCES OF CASH AND CASH		
EQUIVALENTS		
Cash and bank balances	43,978	42,165
Bank overdrafts	(2,937)	(1,513)
Trust receipts loans maturing within three months from		
date of advance	(13,124)	(13,302)
	27,917	27,350

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES

The accounting policies and methods of computation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31st July, 2001.

2. TURNOVER AND SEGMENTAL INFORMATION

Current year turnover represents the net invoiced value of goods supplied to customers after allowances for returns and discounts and the revenue from rental of properties.

During the prior year, the Group ceased to operate its restaurant. As the contribution from the operation of the restaurant was not significant to the Group, no discontinued operation disclosure has been made.

An analysis of the Group's turnover and contribution to profit before tax by activity and geographical location of operations is as follows:

	Turnover		Contribution to profit before tax	
	Six months ended		Six months ended	
	31/1/2002 (Unaudited) HK\$'000	31/1/2001 (Unaudited) HK\$'000	31/1/2002 (Unaudited) HK\$'000	31/1/2001 (Unaudited) HK\$'000
By activity:				
Manufacture and sale of garments	295,997	351,714	8,084	12,955
Property rental	4,777	3,891	4,544	516
Others	—	2,850	(1,576)	(1,961)
	300,774	358,455	11,052	11,510
By geographical location of operations:				
The People's Republic of China				
Mainland	156,160	143,200	23,883	10,253
Hong Kong	144,117	203,984	(12,877)	2,256
Others	497	11,271	46	(999)
	300,774	358,455	11,052	11,510

3. PROFIT FROM OPERATING ACTIVITIES

Profit from operating activities is arrived at after charging:

	Six months ended	
	31/1/2002 (Unaudited) HK\$'000	31/1/2001 (Unaudited) HK\$'000
Depreciation of owned fixed assets	8,765	8,275
Depreciation of fixed assets held under finance leases	46	40
Loss on disposal of fixed assets	75	2,170

4. TAX

	Six months ended	
	31/1/2002 (Unaudited) HK\$'000	31/1/2001 (Unaudited) HK\$'000
Current period provision		
Hong Kong	—	—
Outside Hong Kong	1,585	817
Tax charge for the period	1,585	817

No Hong Kong profits tax has been provided as the Group had no assessable profit arising in Hong Kong. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

5. EARNINGS PER SHARE

Earnings per share is calculated based on the net profit attributable to shareholders of HK\$9,467,000 (2001: HK\$10,693,000) and the weighted average of 617,127,130 (2001: 617,127,130) shares of the Company in issue throughout the period.

Diluted earnings per share for the six months ended 31st January, 2002 and 2001 have not been calculated because no diluting events existed during these periods.

6. STOCKS

	31/1/2002 (Unaudited) HK\$'000	31/7/2001 (Audited) HK\$'000
Raw materials	10,147	8,653
Work in progress	840	973
Finished goods	108,823	105,196
Goods in transit	3,869	—
	123,679	114,822

The carrying amounts of the Group's inventories included in the above that are carried at net realisable value were HK\$30,326,000 (2001: HK\$22,194,000).

7. DEBTORS, DEPOSITS AND PREPAYMENTS

Other than cash sales made at retail outlets of the Group, trading terms with wholesale customers are largely on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 30 days of issuance, except for certain well-established customers, where the terms are extended to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by senior management.

The analysis below ages trade receivables, net of provisions, based on the invoice date, which is when the goods are delivered and services are rendered.

	31/1/2002 <i>(Unaudited)</i> HK\$'000	31/7/2001 <i>(Audited)</i> HK\$'000
Current to 90 days	35,876	28,882
91 days to 180 days	1,740	1,034
181 days to 365 days	1,480	397
Over 365 days	267	438
Trade debtors	39,363	30,751
Deposits and prepayments	35,516	25,612
	74,879	56,363

8. CREDITORS AND ACCRUALS

The analysis below ages trade creditors based on the date of receipt of the goods and services purchased.

	31/1/2002 <i>(Unaudited)</i> HK\$'000	31/7/2001 <i>(Audited)</i> HK\$'000
Current to 90 days	39,878	36,156
91 days to 180 days	3,358	14,440
181 days to 365 days	3,489	883
Over 365 days	2,388	1,585
Trade Creditors	49,113	53,064
Accruals	65,564	70,205
	114,677	123,269

9. SHARE CAPITAL

	31/1/2002 (Unaudited) HK\$'000	31/7/2001 (Audited) HK\$'000
Authorised		
800,000,000 ordinary shares of HK\$0.25 each	200,000	200,000
Issued and fully paid:		
617,127,130 ordinary shares of HK\$0.25 each	154,282	154,282

10. RESERVES

	Share premium account HK'000	Capital reserve HK'000	Fixed assets revaluation reserve HK'000	Total HK'000
At 31st July, 2001 (Audited) and 31st January, 2002 (Unaudited)	164,921	350	277,079	442,350

11. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the period:

		Six months ended	
		31/1/2002 (Unaudited) HK'000	31/1/2001 (Unaudited) HK'000
Purchases of garment products from the ultimate holding company	(i)	—	2,739
Rental expenses paid and payable to a related company	(ii)	4,920	5,038
Interest paid and payable to the ultimate holding company	(iii)	101	601

Notes:

- (i) Purchases from the ultimate holding company were made on prices and terms similar to those granted by major suppliers of the Group.
- (ii) Rental expenses are charged by a related company pursuant to respective lease agreements.
- (iii) The interest expense of HK\$101,000 was charged on the Group's banking facilities obtained and guaranteed by the ultimate holding company, which bore interest at 1% per annum on the banking facilities amounting HK\$20,000,000.

The Company's directors considered that the above transactions have been conducted in the ordinary and usual course of the Group's business.

12. COMMITMENTS

At the balance sheet date, the Group had the following commitments:

- (a) Capital commitments in respect of capital expenditure not provided for in the financial statements were as follows:

	31/1/2002 <i>(Unaudited)</i> HK\$'000	31/7/2001 <i>(Audited)</i> HK\$'000
Authorised and contracted for	34	505

There were no capital commitments authorised, but not contracted for, as at 31st January, 2002 (2001:Nil).

- (b) Aggregate future minimum lease payments commitments for non-cancellable operating leases in respect of land and buildings payable in the following periods are as follows:

	31/1/2002 <i>(Unaudited)</i> HK\$'000	31/7/2001 <i>(Audited)</i> HK\$'000
Within one year	68,229	75,375
In the second to fifth years, inclusive	34,361	29,916
	102,590	105,291

13. OPERATING LEASE ARRANGEMENTS

At the balance sheet date, the Group had minimum lease receipts under non-cancellable operating leases which fall due as follows:

	31/1/2002 <i>(Unaudited)</i> HK\$'000	31/7/2001 <i>(Audited)</i> HK\$'000
Within one year	9,376	8,136
In the second to fifth years, inclusive	7,085	10,681
	16,461	18,817

Operating lease receipts represent rentals receivable by the Group for certain of its investment properties.

14. COMPARATIVE AMOUNTS

In the opinion of the directors, the following reclassifications of the prior period comparative amounts provide better presentation as to the nature of these transactions and accord with the presentation adopted in the current period:

- (1) Refund of retirement scheme contributions not fully vested of HK\$18,163,000 previously recorded as other revenue has been reclassified and separately disclosed on the face of the profit and loss account; and
- (2) Exchange gains of HK\$437,000 and recovery of bad debts of HK\$4,500,000 previously recorded as other revenue have been reclassified as other operating expenses, net.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 31st January, 2002 (2001: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Overview of Operating Results

During the half-year ended 31st January, 2002, the Hong Kong retail operation of the Group reported a turnover of HK\$139.3 million, representing a 30% decrease when compared with the previous corresponding period, due to the brief slowdown in the U.S. economy and pervasive pessimism in consumer sentiment in Hong Kong. However, as a result of tight control on costs, a higher gross profit margin had been achieved when compared with the figure for last year. Turnover for the Mainland operation increased by 9%, accompanied by an increase in gross profit margin. Total turnover for the half-year under review was HK\$300.8 million, and an unaudited net profit attributable to shareholders of HK\$9.5 million had been reported.

Operation in the Mainland of China

During the period under review, the Group continued to focus on the development of the Mainland operation. Steady improvement in operating results had been attained with turnover increasing by 9% to HK\$156.2 million. Whilst the Group continued to pursue its business development plans in the Mainland market, it had been actively procuring potential franchise partners with substantial resources who were willing to commit to establish sales networks covering whole provinces on an exclusive basis. At the same time, training programmes for staff of franchised stores had been intensified. Sales and operational management had also been strengthened to further improve logistics in the movement of inventory to meet demands for different merchandise in different regions. The objective was to increase turnover and to reduce the risks of customers holding a large inventory, thereby improving cashflow.

The Group had been actively improving the current product lines. For menswear, a full range of products covering underwear to down overcoat had been marketed to meet the demands of customers.

Operation in Hong Kong

In the Hong Kong retail sector, sentiment in the consumer market in general remained weak. The Hong Kong retail operation of the Group reported a drop in turnover of 30%, but operating loss was lower than forecast due to stringent control on gross profit margin and operating expenses.

Prospects

With the continuing liberalisation and development of the Mainland market, consumers in the Mainland are aspiring after greater varieties in menswear design. The Group will continue to maintain its core menswear line and at the same time, will diversify into leisure and casual wear products and to establish a foothold in this market sector. The Group is further expanding its fashion sales network to penetrate different sectors of the market.

Apart from consolidating the menswear line, the Group plans to cultivate and promote a ladies wear line during this financial year. The ladies wear line is now under preparation and it is anticipated that this will generate steady income for the Group starting from the second half of this financial year.

Contingent Liabilities

There is no material change in contingent liabilities since the last annual report date.

Liquidity and Financial Resources

As at 31st January, 2002, total bank borrowings of the Group amounted to HK\$60,396,000. The Group's gearing was considered to be at a reasonable level, as the debt to equity ratio on 31st January, 2002 was only 15%, expressed as a percentage of total bank borrowings to total net assets. The cash and bank balances of the Group as at 31st January, 2002 were HK\$43,978,000.

As at 31st January, 2002, the Group pledged investment properties with carrying values of HK\$125,000,000 and certain land and buildings with net book values of HK\$192,474,000 to its bankers to secure banking facilities granted to the Group.

Out of the total bank borrowings of HK\$60,396,000 as at 31st January, 2002, HK\$4,970,000 was a secured term loan repayable by instalments, HK\$24,250,000 represented secured short term bank loans and HK\$28,239,000 was trust receipt loans. The secured term loan is repayable within one year while 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. 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 total number of employees of the Group, including part-time sales staff, was approximately 1,200 as at 31st January, 2002. 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, provident fund benefits, subsidised meals, staff discount on purchases, internal training for sales staff and external training programme subsidies. In addition, discretionary bonuses are granted to eligible employees based on the Group's performance and individual performance. Total staff costs including retirement scheme contributions for the six months ended 31st January, 2002 was approximately HK\$42 million.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31st January, 2002, the interests of the Directors or the chief executive of the Company in the equity or debt securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register required to be kept pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Code for Securities Transactions by Directors adopted by the Company (the "Code") were as follows:

(1) The Company

	Number of Shares Held				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Lim Por Yen	Nil	Nil	338,982,809	Nil	338,982,809

(Note)

Note: Lai Sun Garment (International) Limited ("LSG") and its wholly-owned subsidiary beneficially owned 338,982,809 shares in the Company. Mr. Lim Por Yen (together with his spouses) held an interest of approximately 34.3% in the issued share capital of LSG. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming, Madam U Po Chu and Madam Lai Yuen Fong were directors of LSG and held in aggregate 42% of the issued share capital of LSG.

(2) Associated Corporations

(a) *Lai Sun Garment (International) Limited ("LSG")*

	Number of LSG Shares Held				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Lim Por Yen	484,991,750	4,451,790	Nil	Nil	489,443,540
Lam Kin Ngok, Peter	110,794,951	Nil	Nil	Nil	110,794,951
U Po Chu	3,669,000	Nil	Nil	Nil	3,669,000
Chiu Wai	199,600	Nil	Nil	Nil	199,600

(b) *Lai Sun Development Company Limited ("LSD")*

	Number of LSD Shares Held				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Lim Por Yen	197,859,550	Nil	1,582,869,192 <i>(Note)</i>	Nil	1,780,728,742
Lam Kin Ngok, Peter	10,099,585	Nil	Nil	Nil	10,099,585
U Po Chu	633,400	Nil	Nil	Nil	633,400
Chiu Wai	195,500	Nil	Nil	Nil	195,500

Note: LSG and its wholly-owned subsidiary beneficially owned 1,582,869,192 LSD Shares. Mr. Lim Por Yen (together with his spouses) held an interest of approximately 34.3% in the issued share capital of LSG. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming, Madam U Po Chu and Madam Lai Yuen Fong were directors of LSG and held in aggregate 42% of the issued share capital of LSG.

(c) *Lai Fung Holdings Limited ("LFH")*

	Number of LFH Shares Held				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Lim Por Yen	Nil	Nil	1,413,700,289 <i>(Note)</i>	Nil	1,413,700,289

Note: LSG and its wholly-owned subsidiary held 633,741,377 shares in LFH. Further, LSG and its wholly-owned subsidiary held an interest of approximately 42.25% in the issued ordinary share capital of LSD which held 779,958,912 shares in LFH. Mr. Lim Por Yen was deemed to be interested in the 1,413,700,289 ordinary shares in LFH by virtue of his interest (including those of his spouses) of approximately 34.3% in the issued share capital of LSG. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Madam U Po Chu and Madam Lai Yuen Fong were directors of LSG and held an interest of approximately 42% in aggregate in the issued share capital of LSG.

In addition to the above, certain Directors held non-beneficial interests in the share capital of some of the subsidiaries of the Company and of its associated corporations as nominee shareholders, mainly for the purpose of complying with the statutory requirements for a minimum number of shareholders for those subsidiaries.

Save as disclosed above, as at 31st January, 2002, none of the Directors or chief executive of the Company or their respective associates had any interest in the equity or debt securities of the Company or of any of its associated corporations which was required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to Section 28 of the SDI Ordinance or the Code (including interests which they were deemed or taken to have under Section 31 or Part 1 of the Schedule to the SDI Ordinance) or which was required, pursuant to Section 29 of that Ordinance, to be entered in the register referred to therein.

SUBSTANTIAL SHAREHOLDERS

As at 31st January, 2002, the persons listed below were interested in 10% or more of the total issued share capital of the Company as recorded in the register required to be kept under Section 16 (1) of the SDI Ordinance:

	Number of Shares Held
Joy Mind Limited (<i>Note</i>)	336,316,809
Lai Sun Garment (International) Limited ("LSG")	338,982,809
Lim Por Yen	338,982,809

Note: Joy Mind Limited was a wholly-owned subsidiary of LSG. Its interest in the Company constituted part of the interest held by LSG in the Company.

Lim Por Yen was deemed to be interested in the shares in the Company since he (together with his spouses) held an interest of approximately 34.3% in the issued share capital of LSG.

Save for the interests disclosed above, the Directors are not aware of any other person being interested in 10% or more of the issued share capital of the Company as at 31st January, 2002.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 31st January, 2002, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

CODE OF BEST PRACTICE

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the period covered by the Interim Report of the Company for the six months ended 31st January, 2002, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The non-executive Directors of the Company are subject to retirement by rotation and re-election at the Company's Annual General Meeting in accordance with the Articles of Association of the Company. The Interim Report has been reviewed by the Audit Committee of the Company.

By Order of the Board

Lim Por Yen

Chairman

Hong Kong, 19th April, 2002