# CROCODILE

# 2009-2010

Crocodile Garments Limited Interim Report | 鱷魚恤有限公司中期報告

Stock Code | 股份代號 122

## PLACE OF INCORPORATION

Hong Kong

## BOARD OF DIRECTORS

Lam Kin Ming *(Chairman and Chief Executive Officer)*
Lam Wai Shan, Vanessa *(Deputy Chief Executive Officer)*
Lam Kin Ngok, Peter
Lam Kin Hong, Matthew
Cheng Suet Fei, Sophia
Lam Suk Ying, Diana
Tong Ka Wing, Carl
Wan Yee Hwa, Edward*
Yeung Sui Sang*
Chow Bing Chiu*

* *Independent non-executive directors*

## COMPANY SECRETARY

Yeung Kam Hoi



**Crocodile Garments Limited**
11/F Lai Sun Commercial Centre
680 Cheung Sha Wan Road
Kowloon, Hong Kong
**Tel** (852) 2785 3898 **Fax** (852) 2786 0190
**Website** http://www.crocodile.com.hk
**E-mail** corpadmin@crocodile.com.hk

*Stock code on Hong Kong Stock Exchange: 122*

## RESULTS

The board of directors (the "Board") of Crocodile Garments Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 31 January 2010 together with the comparative figures as follows:

**Condensed Consolidated Income Statement**

*For the six months ended 31 January 2010*

| | | Six months ended 31 January | |
|---|---|---|---|
| | | **2010** | 2009 |
| | | **(Unaudited)** | (Unaudited) |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| **REVENUE** | *3* | **248,561** | 245,240 |
| Cost of sales | | **(93,050)** | (98,520) |
| Gross profit | | **155,511** | 146,720 |
| Fair value gain on investment property | | **24,000** | — |
| Other income and gains | *4* | **21,575** | 24,482 |
| Selling and distribution costs | | **(145,808)** | (144,052) |
| Administrative expenses | | **(24,470)** | (26,562) |
| Other operating expenses, net | | **(3,101)** | (2,722) |
| Finance costs | | **(186)** | (325) |
| **PROFIT/(LOSS) BEFORE TAX** | *5* | **27,521** | (2,459) |
| Tax | *6* | **(6,940)** | (3,408) |
| **PROFIT/(LOSS) FOR THE PERIOD** | | **20,581** | (5,867) |
| **EARNINGS/(LOSS) PER SHARE** | | | |
| — basic (HK cents) | *7* | **3.33** | (0.95) |

**Condensed Consolidated Statement of Comprehensive Income/(Loss)**

*For the six months ended 31 January 2010*

| | Six months ended 31 January | |
|---|---|---|
| | **2010** | 2009 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Profit/(loss) for the period | **20,581** | (5,867) |
| Other comprehensive income for the period: | | |
| Exchange differences on translating foreign operations recognised directly in equity | — | 75 |
| Total comprehensive income/(loss) for the period | **20,581** | (5,792) |

## Condensed Consolidated Balance Sheet

*As at 31 January 2010*

| | Notes | 31 January 2010 (Unaudited) HK$'000 | 31 July 2009 (Audited) HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **21,824** | 24,672 |
| Investment properties | | **586,000** | 562,000 |
| Construction in progress | | **14,308** | 6,145 |
| Long-term deposits | | **7,435** | 8,473 |
| Land lease prepayments | | **14,914** | 15,072 |
| Rental and utility deposits | | **19,011** | 18,575 |
| Deposits for land lease prepayments | | **32,255** | 32,255 |
| | | **695,747** | 667,192 |
| **Current assets** | | | |
| Inventories | *8* | **94,428** | 85,797 |
| Trade receivables, deposits and prepayments | *9* | **64,013** | 62,165 |
| Amounts due from related companies | *17(b)* | **9** | — |
| Cash and cash equivalents | *10* | **112,056** | 95,482 |
| | | **270,506** | 243,444 |
| **Current liabilities** | | | |
| Short-term borrowings | | **46,284** | 36,090 |
| Trade and other payables | *11* | **76,964** | 58,474 |
| Amounts due to related companies | *17(b)* | **1,323** | 1,912 |
| Tax payable | | **13,487** | 10,410 |
| | | **138,058** | 106,886 |
| **Net current assets** | | **132,448** | 136,558 |
| **Total assets less current liabilities** | | **828,195** | 803,750 |
| **Non-current liabilities** | | | |
| Provision for long service payments | | **3,285** | 3,285 |
| Deferred tax liabilities | *12* | **73,783** | 69,919 |
| | | **77,068** | 73,204 |
| **Net assets** | | **751,127** | 730,546 |
| **EQUITY** | | | |
| Issued capital | *13* | **154,282** | 154,282 |
| Reserves | | **292,053** | 292,053 |
| Retained profits | | **304,792** | 284,211 |
| **Total equity** | | **751,127** | 730,546 |

## Condensed Consolidated Statement of Changes in Equity

*For the six months ended 31 January 2010*

| | Issued capital | Share premium account | Capital reserve | Exchange fluctuation reserve | Asset revaluation reserve | Retained profits | Total |
|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 August 2009 | 154,282 | 164,921 | 1,738 | 16,304 | 109,090 | 284,211 | 730,546 |
| Profit for the period | — | — | — | — | — | 20,581 | 20,581 |
| Total comprehensive income for the period | — | — | — | — | — | 20,581 | 20,581 |
| **At 31 January 2010 (unaudited)** | **154,282** | **164,921** | **1,738** | **16,304** | **109,090** | **304,792** | **751,127** |
| At 1 August 2008 | 154,282 | 164,921 | 1,006 | 17,469 | 109,090 | 159,647 | 606,415 |
| Loss for the period | — | — | — | — | — | (5,867) | (5,867) |
| Other comprehensive income: | | | | | | | |
| Exchange differences on translating foreign operations recognised directly in equity | — | — | — | 75 | — | — | 75 |
| Total comprehensive loss for the period | — | — | — | 75 | — | (5,867) | (5,792) |
| Recognition of equity-settled share-based payments | — | — | 485 | — | — | — | 485 |
| Dividend paid | — | — | — | — | — | (18,514) | (18,514) |
| At 31 January 2009 (unaudited) | 154,282 | 164,921 | 1,491 | 17,544 | 109,090 | 135,266 | 582,594 |

**Condensed Consolidated Cash Flow Statement**

*For the six months ended 31 January 2010*

| | Six months ended 31 January | |
|---|---|---|
| | **2010** | 2009 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Net cash generated from/(used in) operating activities | **18,021** | (23,828) |
| Net cash used in investing activities | **(11,641)** | (6,897) |
| Net cash generated from/(used in) financing activities | **10,194** | (4,154) |
| Net increase/(decrease) in cash and cash equivalents | **16,574** | (34,879) |
| Cash and cash equivalents at beginning of period | **95,482** | 149,371 |
| **Cash and cash equivalents at end of period** | **112,056** | 114,492 |
| **Analysis of the balances of cash and cash equivalents** | | |
| Cash and bank balances | **112,056** | 114,492 |
| | **112,056** | 114,492 |

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared under the historical cost convention except for certain investment properties which have been measured at fair value. The accounting policies and methods of computation used in the preparation of the condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 July 2009, except for adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which also include HKASs and Interpretations ("Int")) which are generally effective for the current accounting period of the Group:

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs 2008 |
| HKFRSs (Amendments) | Improvements to HKFRSs 2009 |
| HKAS 1 (Revised) | Presentation of financial statements |
| HKAS 23 (Revised) | Borrowing costs |
| HKAS 27 (Revised) | Consolidated and separate financial statements |
| HKAS 32 & HKAS 1 (Amendments) | Puttable financial instruments and obligations arising on liquidation |
| HKAS 39 (Amendment) | Eligible hedged items |
| HKFRS 1 (Revised) | First-time adoption of Hong Kong Financial Reporting Standards |
| HKFRS 1 and HKAS 27 (Amendments) | Cost of an investment in a subsidiary, jointly controlled entity or associate |
| HKFRS 2 (Amendments) | Share-based payment — Vesting conditions and cancellations |
| HKFRS 3 (Revised) | Business combinations |
| HKFRS 7 (Amendments) | Improving disclosures about financial instruments |
| HKFRS 8 | Operating segments |
| HK(IFRIC) — Int 15 | Agreements for the construction of real estates |
| HK(IFRIC) — Int 16 | Hedges of a net investment in a foreign operation |
| HK(IFRIC) — Int 17 | Distributions of non-cash assets to owners |

Except as described below, the adoption of these new and revised HKFRSs has no material effect on the Group's results and financial position for the current or prior accounting periods reflected in these financial statements.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (a) HKAS 1 (Revised) Presentation of financial statements

HKAS 1 (Revised) separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owner and all non-owner changes in equity will be presented in a single line. In addition, this revised standard also introduces the statement of comprehensive income, with all items of income and expense recognised in income statement, together with all other items of income and expense recognised directly in equity, to be presented either in one single statement, or in two linked statements. The Group has elected to present in two statements.

### (b) HKFRS 8 Operating Segments

HKFRS 8 replaced HKAS 14 "Segment Reporting", requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. The adoption of this standard did not have any effect on the results or financial position of the Group. The Group determined that the operating segments were the same as the reportable segments previously identified under HKAS 14, "Segment Reporting".

The Group has not early adopted the following new and revised HKFRSs which have been issued but not yet effective:

| | | **Effective for annual periods beginning on or after** |
|---|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs 2009 in relation to HKAS 1, HKAS 7, HKAS 17, HKAS 30, HKAS 39, HKFRS 5 and HKFRS 8 | 1 January 2010 |
| HKAS 24 (Revised) | Related Party Disclosures | 1 January 2011 |
| HKAS 32 (Amendment) | Classification of right issues | 1 February 2010 |
| HKFRS 1 (Amendment) | Amendments to HKFRS 1 — First-time adoption of Hong Kong Financial Reporting Standards — additional exemptions for first-time adopters | 1 January 2010 |
| HKFRS 1 (Amendment) | Limited exemption from comparative HKFRS 7 disclosures for first-time adopters | 1 July 2010 |
| HKFRS 2 (Amendment) | Share-based payment — Group cash-settled share-based payment transactions | 1 January 2010 |
| HKFRS 9 | Financial instruments | 1 January 2013 |
| HK(IFRIC) — Int 14 (Amendment) | Prepayments of a minimum funding requirement | 1 January 2011 |
| HK(IFRIC) — Int 19 | Extinguishing financial liabilities with equity instruments | 1 July 2010 |

The directors of the Company anticipate that the application of these new and revised HKFRSs will have no material impacts on the financial statements of the Group.

**3. SEGMENT INFORMATION**

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the garment and related accessories segment engages in the manufacture and sale of garments and related accessories; and

(b) property investment segment invests in land and buildings for their rental income potential.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

## 3. SEGMENT INFORMATION *(Continued)*

**Business segments**

***For the six months ended 31 January 2010 (unaudited)***

| | Garment and related accessories *HK$'000* | Property investment *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|
| **Segment revenue:** | | | |
| Sales of goods/income from external customers | 248,561 | — | 248,561 |
| Other revenue | 19,965 | 1,420 | 21,385 |
| Total | 268,526 | 1,420 | 269,946 |
| **Segment results** | 3,494 | 24,028 | 27,522 |
| Unallocated corporate income and expenses | | | (5) |
| | | | 27,517 |
| Interest income | | | 190 |
| Finance costs | | | (186) |
| Profit before tax | | | 27,521 |
| Tax | | | (6,940) |
| Profit for the period | | | 20,581 |
| **Assets and liabilities:** | | | |
| Segment assets | 267,575 | 586,622 | 854,197 |
| Unallocated assets | | | 112,056 |
| Total assets | | | 966,253 |
| Segment liabilities | 81,447 | 125 | 81,572 |
| Unallocated liabilities | | | 133,554 |
| Total liabilities | | | 215,126 |
| **Other segment information:** | | | |
| Depreciation of property, plant and equipment | 6,327 | — | 6,327 |
| Amortisation of land lease prepayments | 158 | — | 158 |
| Write-back of provision for bad and doubtful debts | (217) | — | (217) |
| Write-back of provision for slow-moving inventories, net | (1,764) | — | (1,764) |
| Capital expenditure | 12,887 | — | 12,887 |
| Loss on disposal/write-off of property, plant and equipment, net | 1,214 | — | 1,214 |
| Write-back of long outstanding trade payables | (54) | — | (54) |
| Bad debts written off | 39 | — | 39 |
| Fair value gain on investment property | — | (24,000) | (24,000) |

## 3. SEGMENT INFORMATION *(Continued)*

**Business segments** *(Continued)*

*For the six months ended 31 January 2009 (unaudited)*

| | Garment and related accessories *HK$'000* | Property investment *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|
| **Segment revenue:** | | | |
| Sales of goods/income from external customers | 245,240 | — | 245,240 |
| Other revenue | 19,579 | 4,260 | 23,839 |
| Total | 264,819 | 4,260 | 269,079 |
| **Segment results** | (6,412) | 3,643 | (2,769) |
| Unallocated corporate income and expenses | | | (8) |
| | | | (2,777) |
| Interest income | | | 643 |
| Finance costs | | | (325) |
| Loss before tax | | | (2,459) |
| Tax | | | (3,408) |
| Loss for the period | | | (5,867) |
| **Other segment information:** | | | |
| Depreciation of property, plant and equipment | 7,470 | — | 7,470 |
| Amortisation of land lease prepayments | 159 | — | 159 |
| Provision for bad and doubtful debts | 424 | — | 424 |
| Provision for slow-moving inventories, net | 492 | — | 492 |
| Capital expenditure | 8,170 | — | 8,170 |
| Loss on disposal/write-off of property, plant and equipment, net | 1,289 | — | 1,289 |
| Gain on disposal of property, plant and equipment classified as assets held for sale | (195) | — | (195) |
| Bad debts written off | 85 | — | 85 |

## 3. SEGMENT INFORMATION *(Continued)*

**Geographical segments**

***For the six months ended 31 January 2010 (unaudited)***

| | Hong Kong | Mainland China | Consolidated |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Segment revenue:** | | | |
| Sales of goods/income from external customers | **161,997** | **86,564** | **248,561** |
| Other revenue | **2,430** | **18,955** | **21,385** |
| Total | **164,427** | **105,519** | **269,946** |
| **Other segment information:** | | | |
| Total assets | **740,106** | **226,147** | **966,253** |
| Capital expenditure | **4,239** | **8,648** | **12,887** |

*For the six months ended 31 January 2009 (unaudited)*



| | Hong Kong | Mainland China | Consolidated |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Segment revenue:** | | | |
| Sales of goods/income from external customers | 155,322 | 89,918 | 245,240 |
| Other revenue | 4,443 | 19,396 | 23,839 |
| Total | 159,765 | 109,314 | 269,079 |
| **Other segment information:** | | | |
| Capital expenditure | 5,189 | 2,981 | 8,170 |

## 4. OTHER INCOME AND GAINS

| | Six months ended 31 January 2010 (Unaudited) *HK$'000* | Six months ended 31 January 2009 (Unaudited) *HK$'000* |
|---|---|---|
| **Other income** | | |
| Royalty income | **19,064** | 18,752 |
| Interest income | **190** | 643 |
| Sale of miscellaneous materials | **222** | 433 |
| Income from a related company for contributing an investment property as security | **1,420** | 4,260 |
| Others | **679** | 371 |
| | **21,575** | 24,459 |
| **Gains** | | |
| Foreign exchange differences, net | **—** | 23 |
| | **21,575** | 24,482 |

## 5. PROFIT/(LOSS) BEFORE TAX

Profit/(loss) before tax is arrived at after charging/(crediting):



| | Six months ended 31 January 2010 (Unaudited) *HK$'000* | Six months ended 31 January 2009 (Unaudited) *HK$'000* |
|---|---|---|
| Depreciation of property, plant and equipment | **6,327** | 7,470 |
| Amortisation of land lease prepayments (included in administrative expense) | **158** | 159 |
| (Write-back of provision)/provision for slow-moving inventories, net | **(1,764)** | 492 |

## 6. TAX

No Hong Kong profits tax has been provided as the Group sustained a tax loss in Hong Kong during the period (2009 (unaudited): Nil). The tax charge represented deferred tax.

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.

| | **Six months ended 31 January** | |
|---|---|---|
| | **2010** | 2009 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Current — elsewhere | **3,076** | 3,408 |
| Deferred *(Note 12)* | **3,864** | — |
| | **6,940** | 3,408 |

## 7. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share is based on the profit of the Group for the period of HK$20,581,000 (2009 (unaudited): loss of HK$5,867,000) and the number of 617,127,130 (2009 (unaudited): 617,127,130) ordinary shares in issue throughout the periods.



No diluted earnings/(loss) per share amount for the period ended 31 January 2010 and 2009 has been presented as the share options outstanding during these two periods had an anti-dilutive effect on the basic earnings/(loss) per share for the periods.

## 8. INVENTORIES

| | **31 January** | 31 July |
|---|---|---|
| | **2010** | 2009 |
| | **(Unaudited)** | (Audited) |
| | ***HK$'000*** | *HK$'000* |
| Raw materials | **1,576** | 1,412 |
| Finished goods | **92,852** | 84,385 |
| | **94,428** | 85,797 |

### 9. TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | **31 January 2010 (Unaudited) *HK$'000*** | 31 July 2009 (Audited) *HK$'000* |
|---|---|---|
| Trade receivables | **40,305** | 32,500 |
| Less: Allowance for bad and doubtful debts | **(15,717)** | (15,938) |
| | **24,588** | 16,562 |
| Deposits and prepayments | **39,425** | 45,603 |
| | **64,013** | 62,165 |

(i) 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 term is 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.

(ii) All of the trade receivables (net of allowance for bad and doubtful debts) are expected to be recovered within one year.

(iii) An aging analysis of the trade receivables as at the balance sheet date, net of provisions, based on the overdue date was as follows:

| | **31 January 2010 (Unaudited) *HK$'000*** | 31 July 2009 (Audited) *HK$'000* |
|---|---|---|
| Trade receivables: | | |
| Current to 90 days | **21,706** | 13,353 |
| 91 to 180 days | **2,160** | 2,525 |
| 181 to 365 days | **722** | 675 |
| Over 365 days | **—** | 9 |
| | **24,588** | 16,562 |

**9. TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS** *(Continued)*

(iv) The movements in the allowance for bad and doubtful debts during the period, including both specific and collective loss components, are as follows:

| | **31 January 2010 (Unaudited) *HK$'000*** | 31 July 2009 (Audited) *HK$'000* |
|---|---|---|
| At beginning of period | **15,938** | 15,353 |
| (Write-back)/recognised of impairment loss | **(217)** | 622 |
| Exchange realignments | **(4)** | (37) |
| At end of period | **15,717** | 15,938 |

At 31 January 2010, the Group's trade receivables of HK$15,717,000 (31 July 2009 (audited): HK$15,938,000) were individually determined to be impaired. The individually impaired trade receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowance for doubtful debts was fully recognised. The Group does not hold any collateral over these balances.

(v) An aging analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:



| | **31 January 2010 (Unaudited) *HK$'000*** | 31 July 2009 (Audited) *HK$'000* |
|---|---|---|
| Neither past due nor impaired | **3,247** | 4,311 |
| Past due | | |
| Within 90 days | **18,459** | 9,042 |
| 91 days to 180 days | **2,160** | 2,525 |
| 181 days to 365 days | **722** | 675 |
| Over 365 days | **—** | 9 |
| | **21,341** | 12,251 |
| | **24,588** | 16,562 |

Trade receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

## 10. CASH AND CASH EQUIVALENTS

| | **31 January 2010 (Unaudited)** | 31 July 2009 (Audited) |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Cash and bank balances | **112,056** | 95,482 |
| Cash and cash equivalents | **112,056** | 95,482 |

At 31 January 2010, cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$74,459,000 (31 July 2009 (audited): HK$74,343,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies in respect of approved transactions through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits were made for varying periods of between one week and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates.

## 11. TRADE AND OTHER PAYABLES

An aging analysis of the trade payables as at the balance sheet date, based on the date of receipt of the goods and services purchased, and the balances of deposits received and accruals and other payables was as follows:

| | **31 January 2010 (Unaudited)** | 31 July 2009 (Audited) |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables: | | |
| Current to 90 days | **30,030** | 9,650 |
| 91 to 180 days | **1,116** | 1,722 |
| 181 to 365 days | **611** | 1,249 |
| Over 365 days | **2,393** | 1,582 |
| | **34,150** | 14,203 |
| Deposits received | **18,071** | 18,197 |
| Other payables and accruals | **24,743** | 26,074 |
| | **76,964** | 58,474 |

The trade payables are non-interest-bearing and are normally settled between 30 to 60 days.

## 12. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities and assets during the period were as follows:

| | Losses available for offsetting against future taxable profits | Accelerated capital allowances | Revaluation of properties | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Net deferred tax assets/(liabilities) at 1 August 2008 (audited) | 58 | (278) | (34,796) | (35,016) |
| Deferred tax credited/(charged) during the year | 112 | 26 | (35,041) | (34,903) |
| Net deferred tax assets/(liabilities) at 31 July 2009 (audited) and 1 August 2009 | 170 | (252) | (69,837) | (69,919) |
| Deferred tax credited/(charged) during the period *(Note 6)* | 82 | 14 | (3,960) | (3,864) |
| **Net deferred tax assets/(liabilities) at 31 January 2010 (unaudited)** | **252** | **(238)** | **(73,797)** | **(73,783)** |



The Group has tax losses arising in Hong Kong of HK$278,198,000 (31 July 2009 (audited): HK$271,033,000). During the period, the Group did not have tax losses arising in Mainland China (31 July 2009 (audited): Nil). Tax losses in Hong Kong are available for offsetting against future taxable profits of the companies in which the losses arose for an indefinite period.

Deferred tax assets have not been recognised to the extent that, in the Directors' opinion, it is uncertain that future taxable profits would arise to offset against these losses.

At 31 January 2010, there was no significant unrecognised deferred tax liability (31 July 2009 (audited): Nil) for taxes that would be payable on the unremitted earnings of the Group's subsidiaries as no tax liability would arise should such amounts be remitted.

## 13. SHARE CAPITAL

| | **31 January 2010 (Unaudited)** | 31 July 2009 (Audited) |
|---|---|---|
| | ***HK$'000*** | *HK$'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 |

## 14. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases certain of its investment properties under operating lease arrangements, with leases negotiated for terms ranging from three to four years. The terms of the leases generally also require the tenants to pay security deposits.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with their tenants falling due as follows:

| | **31 January 2010 (Unaudited) *HK$'000*** | 31 July 2009 (Audited) *HK$'000* |
|---|---|---|
| Within one year | **2,526** | — |
| In the second to fifth years, inclusive | **8,377** | — |
| | **10,903** | — |

### (b) As lessee

The Group leases its office properties, warehouses and retail outlets under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | **31 January 2010 (Unaudited) *HK$'000*** | 31 July 2009 (Audited) *HK$'000* |
|---|---|---|
| Within one year | **89,825** | 99,980 |
| In the second to fifth years, inclusive | **54,725** | 60,455 |
| | **144,550** | 160,435 |

The operating lease rentals of certain retail shops are based on the higher of a fixed rental and a contingent rent based on sales of the retail shops pursuant to the terms and conditions as set out in the respective rental agreements. As the future sales of these retail shops could not be accurately determined, the relevant contingent rent has not been included above and only the minimum lease commitment has been included in the above table.

## 15. COMMITMENTS

In addition to the operating lease commitments detailed in Note 14(b) above, the Group had the following capital commitments at the balance sheet date:

| | **31 January 2010 (Unaudited) *HK$'000*** | 31 July 2009 (Audited) *HK$'000* |
|---|---|---|
| Contracted but not provided for: | | |
| Land lease payments in Mainland China | **3,905** | 3,905 |
| Construction of property, plant and equipment in Mainland China | **10,419** | 12,100 |
| Expenditure on shop and office decorations in Hong Kong | **2,767** | 679 |
| Acquisition of equity interest | **—** | 1,720 |
| | **17,091** | 18,404 |

## 16. CONTINGENT LIABILITIES

As at 31 January 2010, the Group had the following contingent liabilities:

On 28 February 2006, the Company, Lai Sun Garment (International) Limited ("LSG") and Unipress Investments Limited ("Unipress"), a wholly-owned subsidiary of LSG, entered into a conditional development agreement (the "Development Agreement") in connection with the redevelopment of an investment property situated at 79 Hoi Yuen Road, Kwun Tong, Kowloon (the "Crocodile Center"). Further details of the redevelopment are included in the Company's circular dated 29 April 2006. In accordance with the Development Agreement, if construction finance is required by Unipress for financing the development and construction cost of the Crocodile Center, the Group has agreed to provide or procure such security over or in relation to the Crocodile Center 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.

On 8 February 2007, the Company's wholly-owned subsidiary, Crocodile KT Investment Limited ("Crocodile KT") entered into an agreement with a bank for a HK$361,000,000 term loan facility for financing the development and construction cost of the Crocodile Center (the "Bank Term Loan"). The Bank Term Loan drawn will be secured by a first legal charge over the Crocodile Center and a first floating charge over all the undertaking, property and assets of Crocodile KT (the "Charges").

Pursuant to a deed of undertaking, guarantee and indemnity entered into amongst the Company, Crocodile KT, Unipress and LSG dated 10 July 2006, Crocodile KT is only required to be a party to the Bank Term Loan arrangement, and Unipress and LSG should be responsible for the funding obligations in respect thereof. Accordingly, in substance Unipress and LSG are the borrowers of the Bank Term Loan and the Bank Term Loan would not be recognized in the financial statements of the Group.

As at 31 January 2010, the total amount of the Bank Term Loan drawn in respect of the above facility was HK$298,000,000 (31 July 2009 (audited): HK$232,000,000).

The Bank Term Loan was fully settled on 22 March 2010 and the Charges were consequently released.

Apart from the foregoing, at 31 January 2010, the Group has also entered into a number of construction and consultancy contracts for the redevelopment of the Crocodile Center with the contractors and consultants of aggregate principal sums of approximately HK$327,321,000 (31 July 2009 (audited): HK$327,321,000). The Group has also simultaneously entered into respective deeds of undertaking with Unipress and these contractors pursuant to which Unipress/LSG unconditionally and irrevocably undertakes to these contractors, 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 the terms of these construction and consultancy contracts. Accordingly, the obligation of these contracts would not be reflected in the financial statements of the Group.

## 17. RELATED PARTY TRANSACTIONS

### (a) Transactions with related parties

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the period:

| | | Six months ended 31 January | |
|---|---|---|---|
| | | **2010** | 2009 |
| | | **(Unaudited)** | (Unaudited) |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| Rental expenses and building management fee paid and payable to: | | | |
| Lai Sun Textiles Company Limited | *(i)* | **1,290** | 1,344 |
| A related company | *(ii)* | **1,459** | 1,528 |
| Royalty income from a related company | *(iii)* | **283** | 190 |
| Income from a related company for contributing an investment property as security | *(iv)* | **1,420** | 4,260 |

*Notes:*

(i) Lai Sun Textiles Company Limited is a company beneficially owned by certain Directors of the Company. The rental expenses and building management fee were paid to this related company pursuant to the respective lease agreements.

(ii) The rental expenses and building management fee were paid to this related company, of which certain Directors of the Company are also the directors of this related company, based on terms stated in the respective lease agreements.

(iii) The royalty income was received from a related company of which a Director of the Company is also its director.

(iv) In consideration of the Group contributing the Crocodile Center as security for the construction finance, in accordance with the Development Agreement, Unipress will make a quarterly payment of HK$2,130,000 to the Group during the period from the delivery of vacant possession of the Crocodile Center to the completion of construction. Further details are set out in the Company's circular dated 29 April 2006.

The Directors consider that the above transactions have been conducted in the ordinary and usual course of the Group's business.

### (b) Outstanding balances with related parties

The balances were derived from normal business activities and are unsecured, interest-free and repayable on demand.

## INTERIM DIVIDEND

The Board has resolved not to pay an interim dividend for the six months ended 31 January 2010 (2009: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Performance

During the period under review, turnover was HK$248,561,000 (2009: HK$245,240,000), representing an increase of 1.4% over the previous year. Gross profit of the Group increased by 6.0%, to HK$155,511,000 (2009: HK$146,720,000).

Even with an improved turnover and gross profit, the performance of the "Garment and Related Accessories" segment of the Group has been eroded by the high standing rental expenses. On the other hand, the Group launched a series of advertising and promotional campaigns in the period under review as continuation of the policy of enhancing its own brand "Crocodile". In addition, the Group has invested heavily in its product design and development to maintain quality merchandise and service to customers.

Before taking into account the surplus from revaluation of the investment property (the "Crocodile Center"), the Group recorded an operating profit of HK$3,707,000 (2009: operating loss of HK$2,134,000).



Income from the "Property Investment" segment was the major contributor to the overall performance of the period under review. A surplus of HK$24,000,000 (2009: Nil) on revaluation of the Crocodile Center was recorded during the period.

As a result of the above, the Group recorded a profit attributable to shareholders of HK$20,581,000 for the six months ended 31 January 2010 (2009: loss attributable to shareholders of HK$5,867,000).

### Operations in Hong Kong and Macau

The Group operated 28 outlets for Crocodile line and 7 outlets for Lacoste line in Hong Kong and Macau as at 31 January 2010. These outlets achieved an increase of 4.3% in turnover as compared to the same period last year.

The revamping of the Group's own brand, "Crocodile", proved to be successful with its enhanced brand personality being well-received in the market. Together with improvements in product design and quality, and the enhanced sales campaign strategy, the Crocodile line has achieved a higher gross profit margin during the first half-year.

The Lacoste line, which offers casual and fashionable high-end products, recorded a double-digit increment in sales after the opening of new shops for improving the sales network.

Under current booming property market conditions, the Group will inevitably continue to bear the burden of high rental expenses. To secure its competitiveness, the Group has been taking positive steps to maximize the rental cost efficiency through shop re-positioning and relocation.

**Operations in the Mainland of China (the "Mainland")**

The consumer market in the Mainland was adversely affected by the unexpected bad weather during the period. Efforts put in by the Group in restructuring its own retail network in major cities on the Mainland were jeopardized and total sales decreased by 3.7% in the period under review.

On the other hand, as a result of exercising stringent cost control, operating expenses in the Mainland were reduced which had mitigated the negative effect of the above fall in sales. The number of retail outlets run by the Group was 85 as at 31 January 2010 (2009: 79).

Other income, mainly representing royalty income derived from licensees, remained stable in the period under review.

As at 31 January 2010, there were a total of 347 sales outlets in the Mainland, including self-operated retail outlets and those operated by our franchisees.

**Prospects**

Though it is generally believed that the worst of the economic condition is over, the recovery of the consumer spending is foreseen to be bumpy. The uncertainties of the effects of ending the stimulus measures to financial sectors by various governments will definitely be of considerable concern to the consumer market. The Group is therefore on high alert in the volatile business environment ahead and will preserve financial resources to tackle any challenges in the coming years.



The occupation permit in respect of the redevelopment project of the Crocodile Center in joint venture with Lai Sun Garment (International) Limited was granted in September 2009. The Group now owns the office floors and certain carparks. This portion of the Crocodile Center is expected to generate rental income to hedge a portion of the heavy rental expenses of the Group. The Company will retain a portion of the Crocodile Center for the Group's self-use purposes.

**Contingent Liabilities**

Details of contingent liabilities of the Group are set out in Note 16 to the unaudited condensed consolidated interim financial statements.

**Liquidity, Financial Resources, Foreign Exchange Risk Exposure, Gearing, Charges on Assets and Capital Commitments**

The Group's financing and treasury activities are centrally managed and controlled at the corporate level. The main objective is to utilize the funding efficiently and to manage the financial risks effectively.

The Group maintains a conservative approach in treasury management by constantly monitoring its interest rates and foreign exchange exposure. Except for normal trade financial instruments, such as letters of credit and trust receipt loans, the Group has not employed other financial instruments for the six months ended 31 January 2010.

### **Liquidity, Financial Resources, Foreign Exchange Risk Exposure, Gearing, Charges on Assets and Capital Commitments** *(Continued)*

The Group mainly earns revenue and incurs cost in Hong Kong dollars and Renminbi. The Group considers the impact of foreign exchange risks is not significant as the Group will consider the foreign exchange effect of the terms of purchase and sale contracts entered into with foreign enterprises and will not bear unforeseeable foreign currency exchange risks.

Cash and cash equivalents held by the Group amounted to HK$112,056,000 as at 31 January 2010 and were mainly denominated in Hong Kong dollars and Renminbi. The cash and cash equivalents denominated in Renminbi as at 31 January 2010 amounted to HK$74,459,000 which is not freely convertible into other currencies. However, under the Mainland's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for other currencies in respect of approved transactions through banks authorized to conduct foreign exchange business.

As at 31 January 2010, the total outstanding borrowings of the Group amounted to approximately HK$46,284,000 which were repayable within a period not exceeding one year. The total outstanding borrowings comprised unsecured short-term bank loan of approximately HK$22,000,000 and unsecured trust receipt loans of approximately HK$24,284,000. Interest on bank borrowings is charged at floating rates. All bank borrowings of the Group are denominated in Hong Kong dollars. No financial instruments for hedging purposes were employed by the Group in the six months ended 31 January 2010.



The Group's gearing was considered to be at a reasonable level, as the debt to equity ratio as at 31 January 2010 was 6.2%, expressed as a percentage of total bank borrowings to total net assets.

As at 31 January 2010, the Group had capital commitments, contracted, but not provided for, in respect of the land lease payments in the Mainland of approximately HK$3,905,000; construction of property, plant and equipment in the Mainland of approximately HK$10,419,000 and expenditure on shop and office decorations in Hong Kong of approximately HK$2,767,000.

### **Major Investments, Acquisitions and Disposals**

The Group had no significant investments, material acquisitions or disposals for the six months ended 31 January 2010.

### **Employees and Remuneration Policy**

The total number of employees of the Group, including part-time sales staff, was 991 as at 31 January 2010. 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. Total staff costs including retirement scheme contributions for the six months ended 31 January 2010 were approximately HK$39,471,000.

## SHARE OPTION SCHEME

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives or rewards to eligible employees, directors of the Company or its subsidiaries, agents or consultants of members of the Group, and employees of the shareholder or members of the Group or holders of securities issued by members of the Group (the "Participants") for their contribution or would-be contribution to the Group and/or to enable the Group to recruit and retain high calibre employees and attract human resources that are valuable to the Group. The Share Option Scheme was adopted by the Company on 22 December 2006 and became effective on 29 December 2006 and unless otherwise cancelled or amended, will remain in force for 10 years from the latter date.

The following options were outstanding under the Share Option Scheme as at 31 January 2010:

| Name or category of Participants | Number of options | | | | | | Date of grant of options (dd/mm/yyyy) | Exercise period (dd/mm/yyyy to dd/mm/yyyy) | Exercise price of options[1] per share |
|---|---|---|---|---|---|---|---|---|---|
| | At 1 August 2009 | Granted during the period | Exercised during the period | Lapsed during the period | Cancelled during the period | At 31 January 2010 | | | *(HK$)* |
| **Directors** | | | | | | | | | |
| Lam Kin Ming | 617,000[2] | — | — | — | — | 617,000[2] | 13/07/2007 | 13/07/2007 to 12/07/2011 | 0.68 |
| Lam Wai Shan, Vanessa | 6,170,000[2] | — | — | — | — | 6,170,000[2] | 13/07/2007 | 13/07/2007 to 12/07/2011 | 0.68 |
| **Other participants** (in aggregate) | 5,800,000[2] | — | — | — | — | 5,800,000[2] | 13/07/2007 | 13/07/2007 to 12/07/2011 | 0.68 |
| **Total** | 12,587,000 | — | — | — | — | 12,587,000 | | | |

1 *The exercise price of the options is subject to adjustment in the case of rights or bonus issues or similar changes in the Company's share capital.*

2 *The vesting period of the options was two years commencing from the date of grant.*

During the period under review, no options were exercised or cancelled or lapsed in accordance with the terms of the Share Option Scheme. As at 31 January 2010, the total number of 12,587,000 options outstanding under the Share Option Scheme represented approximately 2.04% of the Company's shares in issue at that date.

## DIRECTORS' INTERESTS

As at 31 January 2010, the following directors and chief executive of the Company were interested, or were deemed to be interested in the following long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein (the "Register"); or (c) were required, pursuant to the Code of Practice for Securities Transactions by Directors and Designated Employees adopted by the Company, to be notified to the Company and the Stock Exchange:

### (1) The Company

**Long positions in the shares of the Company**

| Name of Director | Personal Interests | Family Interests | Corporate Interests | Other Interests | Capacity | Total | Percentage |
|---|---|---|---|---|---|---|---|
| Lam Kin Ming | 3,412,000 | Nil | 314,800,000 *(Note)* | 617,000 *(under share option)* | Beneficial owner | 318,829,000 | 51.66% |
| Lam Wai Shan, Vanessa | Nil | Nil | Nil | 6,170,000 *(under share option)* | Beneficial owner | 6,170,000 | 1.00% |



*Note:* Rich Promise Limited ("RPL") beneficially owned 314,800,000 shares in the Company. Mr. Lam Kin Ming was deemed to be interested in 314,800,000 shares in the Company by virtue of his 100% interest in RPL.

### (2) Associated Corporation

**Rich Promise Limited ("RPL")**

**Long positions in the shares of RPL**

| Name of Director | Personal Interests | Family Interests | Corporate Interests | Capacity | Total | Percentage |
|---|---|---|---|---|---|---|
| Lam Kin Ming | 1 | Nil | Nil | Beneficial owner | 1 | 100% |

Save as disclosed above, as at 31 January 2010, none of the directors or chief executive of the Company was interested, or was deemed to be interested in the long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation which were required to be notified to the Company and the Stock Exchange or recorded in the Register as aforesaid.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 31 January 2010, the following persons, one of whom is a director and chief executive of the Company, had an interest in the following long positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

**Long positions in the shares of the Company**

| Name | Capacity | Nature of Interests | Number of Shares | Percentage |
|---|---|---|---|---|
| Rich Promise Limited ("RPL") | Beneficial owner | Corporate | 314,800,000 *(Note 1)* | 51.01% |
| Lam Kin Ming | Beneficial owner | Personal, corporate and other | 318,829,000 *(Notes 1 and 2)* | 51.66% |

*Notes:* (1) Mr. Lam Kin Ming was deemed to be interested in 314,800,000 shares in the Company by virtue of his 100% interest in RPL.

(2) Mr. Lam Kin Ming was personally interested in 3,412,000 shares in the Company and was granted options to subscribe for 617,000 shares in the Company on 13 July 2007.

Save as disclosed above, no other person was recorded in the register required to be kept under Section 336 of the SFO as having an interest or short position in the shares and underlying shares of the Company as at 31 January 2010.



## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 31 January 2010, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

## CORPORATE GOVERNANCE

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the accounting period covered by this interim report save for deviations from code provisions A.2.1 and A.4.1 summarised below:

*Code Provision A.2.1*

Under code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

In view of the present composition of the Board, the in-depth knowledge of the Chairman and Chief Executive Officer of the operations of the Company and of the garment and fashion industry in general, his extensive business network and connections, and the scope of operations of the Company, the Board believes it is in the best interest of the Company for Mr. Lam Kin Ming to assume the roles of Chairman and Chief Executive Officer.

*Code Provision A.4.1*

Under code provision A.4.1, non-executive directors should be appointed for a specific term and be subject to re-election.

None of the existing non-executive directors of the Company was appointed for a specific term. However, all directors of the Company are subject to the retirement provisions in the articles of association of the Company which provide that the directors for the time being shall retire from office by rotation once every three years since their last election at each annual general meeting and a retiring director shall be eligible for re-election.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a Code of Practice for Securities Transactions by Directors and Designated Employees (the "Securities Code") on terms no less exacting than the required standard set out in the Model Code in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all directors who have confirmed their compliance with the required standard set out in the Securities Code during the six months ended 31 January 2010.

## REVIEW OF INTERIM REPORT

The interim report of the Company for the six months ended 31 January 2010 has been reviewed by the audit committee of the Company. The audit committee comprises the three independent non-executive directors of the Company, namely, Messrs. Wan Yee Hwa, Edward, Yeung Sui Sang and Chow Bing Chiu.

By Order of the Board
**Lam Kin Ming**
*Chairman and Chief Executive Officer*

Hong Kong, 9 April 2010

CROCODILE