

CROCODILE

2017-2018

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



CORPORATE INFORMATION

Place of Incorporation

Hong Kong

Board of Directors

Executive 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

Wan Edward Yee Hwa

Non-executive Director

Lam Suk Ying, Diana

Independent Non-executive Directors

Chow Bing Chiu

Leung Shu Yin, William

Yeung Sui Sang

Audit Committee

Leung Shu Yin, William *(Chairman)*

Chow Bing Chiu

Yeung Sui Sang

Remuneration Committee

Leung Shu Yin, William *(Chairman)*

Chow Bing Chiu

Yeung Sui Sang

Wan Edward Yee Hwa

Company Secretary

Ko Ming Kin

Authorised Representatives

Lam Kin Ming

Lam Wai Shan, Vanessa

Shares Listing

Place

The Main Board of The Stock Exchange of
Hong Kong Limited

Stock Code

122

Board Lot

1,000 shares

Share Registrar and Transfer Office

Tricor Tengis Limited

Level 22

Hopewell Centre

183 Queen's Road East

Hong Kong

Independent Auditor

Deloitte Touche Tohmatsu

Certified Public Accountants

Solicitors

Deacons

Reed Smith Richards Butler

Vincent T.K. Cheung, Yap & Co.

Principal Bankers

Bank of China (Hong Kong) Limited

China Construction Bank (Asia) Corporation
Limited

Chong Hing Bank Limited

DBS Bank (Hong Kong) Limited

Hang Seng Bank Limited

Industrial and Commercial Bank of
China (Asia) Limited

Registered Office

11th Floor

Lai Sun Commercial Centre

680 Cheung Sha Wan Road

Kowloon, Hong Kong

Principal Place of Business

12th Floor, Wing Tai Centre

12 Hing Yip Street

Kwun Tong

Kowloon, Hong Kong

Website

www.crocodile.com.hk

RESULTS

The board of directors (“**Board**” and “**Directors**”, respectively) of Crocodile Garments Limited (“**Company**”) presents the unaudited consolidated results of the Company and its subsidiaries (“**Group**”) for the six months ended 31 January 2018 together with the comparative figures of the last corresponding period as follows:

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 31 January 2018

	Notes	Six months ended 31 January	
		2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Revenue	3	131,258	135,804
Cost of sales		(45,714)	(52,751)
Gross profit		85,544	83,053
Fair value gains (loss) on investment properties	12	69,877	(149)
Other income	4	10,958	21,486
Selling and distribution expenses		(76,267)	(76,870)
Administrative expenses		(30,663)	(30,637)
Other gains and (losses)	5	8,933	1,994
Finance costs	6	(6,746)	(6,395)
Share of profit from an associate		4,178	4,171
Profit (loss) before tax	7	65,814	(3,347)
Income tax credit	8	452	132
Profit (loss) for the period attributable to owners of the Company		66,266	(3,215)
Other comprehensive income (expense)			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		9,191	(6,939)
Total comprehensive income (expense) for the period attributable to owners of the Company		75,457	(10,154)
		<i>HK Cents</i>	<i>HK Cents</i>
Earnings (loss) per share	10		
— Basic		6.99	(0.34)
— Diluted		N/A	N/A

Condensed Consolidated Statement of Financial Position

As at 31 January 2018

	Notes	31 January 2018 (Unaudited) HK\$'000	31 July 2017 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment	11	130,730	128,280
Investment properties	12	1,776,114	1,745,655
Land lease prepayments		13,249	12,556
Amount due from an associate		12,958	12,639
Interest in an associate		44,474	40,296
Rental and utility deposits		8,205	8,876
Deposits for land lease prepayments	13	17,140	16,034
		2,002,870	1,964,336
Current assets			
Inventories		50,627	48,054
Trade and other receivables, deposits and prepayments	14	111,533	71,118
Financial assets at fair value through profit or loss		195,134	153,982
Amounts due from a related company	22(b)	83	77
Pledged bank deposits		13,454	14,199
Bank balances and cash		96,160	125,908
		466,991	413,338
Current liabilities			
Bank borrowings	15	330,910	324,057
Margin loans payable		15,018	11,588
Trade and other payables and deposits received	16(a)	77,283	73,034
Other current liability	16(b)	15,000	15,000
Amounts due to related companies	22(b)	33,858	25,601
Tax payable		21,659	20,262
		493,728	469,542
Net current liabilities		(26,737)	(56,204)
Total assets less current liabilities		1,976,133	1,908,132
Non-current liabilities			
Bank borrowings	15	256,750	263,431
Provision for long service payments		1,993	2,315
Deferred tax liabilities		3,018	3,471
		261,761	269,217
Net assets		1,714,372	1,638,915
Capital and reserves			
Share capital	17	332,323	332,323
Reserves		1,382,049	1,306,592
Total equity		1,714,372	1,638,915

Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 January 2018

	Attributable to owners of the Company					Total equity HK\$'000
	Share capital HK\$'000	Translation reserve HK\$'000	Asset revaluation reserve HK\$'000	Retained profits HK\$'000	Share option reserve HK\$'000	
At 31 July 2017 (Audited) and 1 August 2017	332,323	21,137	109,689	1,174,365	1,401	1,638,915
Profit for the period	—	—	—	66,266	—	66,266
Other comprehensive income: <i>Items that may be subsequently reclassified to profit or loss</i>						
Exchange differences arising on translation of foreign operations	—	9,191	—	—	—	9,191
Total comprehensive income for the period	—	9,191	—	66,266	—	75,457
At 31 January 2018 (Unaudited)	332,323	30,328	109,689	1,240,631	1,401	1,714,372
At 31 July 2016 (Audited) and 1 August 2016	332,323	23,125	109,689	1,086,247	—	1,551,384
Loss for the period	—	—	—	(3,215)	—	(3,215)
Other comprehensive expense: <i>Items that may be subsequently reclassified to profit or loss</i>						
Exchange differences arising on translation of foreign operations	—	(6,939)	—	—	—	(6,939)
Total comprehensive expense for the period	—	(6,939)	—	(3,215)	—	(10,154)
Recognition of equity-settled Share-based payment	—	—	—	—	1,401	1,401
At 31 January 2017 (Unaudited)	332,323	16,186	109,689	1,083,032	1,401	1,542,631

Condensed Consolidated Statement of Cash Flows

For the six months ended 31 January 2018

	Six months ended 31 January	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Operating activities		
Net cash (used in) from operating activities	(84,085)	15,274
Investing activities		
Interest received	166	206
Purchase of property, plant and equipment	(4,040)	(1,455)
Withdrawal (placement) of pledged bank deposits	745	(7,752)
Proceeds from disposal of property, plant and equipment	—	29
Proceeds from disposal of investment property	43,855	1,631
Net cash from (used in) investing activities	40,726	(7,341)
Financing activities		
New bank loans raised	45,440	12,358
Advance from (repayments to) a related company	5,884	(11,483)
Repayments of bank loans	(43,857)	(6,632)
Decrease in trust receipt loans	(1,411)	(1,819)
Advance from (repayments of) margin loans	3,430	(8,845)
Net cash from (used in) financing activities	9,486	(16,421)
Net decrease in cash and cash equivalents	(33,873)	(8,488)
Cash and cash equivalents at the beginning of the period	125,908	152,787
Effect of foreign exchange rate changes	4,125	(3,716)
Cash and cash equivalents at the end of the period represented by bank balances and cash	96,160	140,583
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	91,918	136,129
Non-pledged time deposits with original maturity of less than 3 months when acquired	4,242	4,454
	96,160	140,583

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 31 January 2018

(1) *Basis of Preparation*

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 31 January 2018 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 (“**HKICPA**”). In addition, the unaudited condensed consolidated interim financial statements also comply with the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (“**Companies Ordinance**”) and the disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”).

These financial statements have been prepared under the historical cost convention, except for the investment properties and certain financial instruments which have been measured at fair value.

These financial statements are presented in Hong Kong dollars (“**HK\$**”) except otherwise indicated.

In preparing the consolidated financial statements of the Company, the Directors has given careful consideration to the future liquidity of the Group in light of the fact that the Group’s current liabilities exceeded its current assets by approximately HK\$26,737,000 as at 31 January 2018.

In the opinion of the Directors, the Group will be able to continue as a going concern at least in the coming twelve months taking into consideration that the Group is able to renew banking facilities from various banks in full upon their maturity for the operation requirements of the Group based on the fair value of the related investment properties being pledged as security for the banking facilities, the past history of renewal and the good relationships of the Group with the banks.

Based on the aforesaid factors, the Directors are satisfied that the Group will have sufficient financial resources to meet in full its financial obligations as and when they fall due for the foreseeable future. Accordingly, the Directors consider it appropriate to prepare the consolidated financial statements on a going concern basis.

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The financial information relating to the year ended 31 July 2017 that is included in the condensed consolidated interim financial statements as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 July 2017 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company’s independent auditor has reported on those financial statements. The independent auditor’s report was unqualified; did not include a reference to any matters to which the independent auditor drew attention by way of emphasis of matter without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

The condensed consolidated interim financial statements have not been audited by the Company’s independent auditor but have been reviewed by the Company’s audit committee.

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 31 January 2018

(2) **Principal Accounting Policies**

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31 January 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 July 2017.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements.

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle

The application of these amendments to HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

(3) **Segment Information**

Information reported to the executive directors of the Company, being the chief operating decision maker, for the purposes of resources allocation and assessment of segment performance focuses in types of goods or services delivered or provided and nature of operations.

The Group has three operating segments, namely i) garment and related accessories business, ii) property investment and letting business, and iii) trading of securities, of which the former two are also reportable segments. The operating segments are managed separately as each business line offers different products and services and requires different business strategies.

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 31 January 2018

(3) Segment Information (Continued)

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segments:

For the six months ended 31 January

	Garment and related accessories business		Property investment and letting business		Others		Total	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Revenue from external customers	102,905	108,192	28,353	27,612	—	—	131,258	135,804
Other income from external customers	10,340	12,409	452	8,871	—	—	10,792	21,280
Group's total revenue and other income	113,245	120,601	28,805	36,483	—	—	142,050	157,084
Reportable segment (loss) profit	(15,007)	(18,823)	102,270	37,117	5,257	2,492	92,520	20,786
Unallocated corporate income							166	206
Unallocated corporate expenses							(20,126)	(17,944)
Finance costs							(6,746)	(6,395)
Profit (loss) before tax							65,814	(3,347)

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 2. Segment profit (loss) represents the profit earned (loss from) by each segment without allocation of bank interest income, finance costs and corporate expenses. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 31 January 2018

(4) Other Income

	Six months ended 31 January	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Royalty income	9,477	12,324
Bank interest income	166	206
Interest income on amount due from an associate	319	303
Others	996	8,653
	10,958	21,486

(5) Other Gains and (Losses)

	Note	Six months ended 31 January	
		2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Provision for doubtful debts on trade receivables		(444)	(668)
Write-off of trade receivables		(58)	—
Profit (loss) on disposal of investment property	(i)	2,855	(103)
Loss on disposal of property, plant and equipment		—	(379)
Net gain on financial assets at fair value through profit or loss		5,257	2,492
Exchange gain, net		681	245
Others		642	407
		8,933	1,994

- (i) As disclosed in the Company's announcement dated 19 January 2018, the Group disposed of an investment property in Hong Kong situated at Kwun Tong, Kowloon under the Order for Sale pursuant to the Land (Compulsory Sale for Redevelopment) Ordinance. The unaudited actual gain arising from the disposal was HK\$2,855,000 as calculated by deducting the fair value of the investment property on the date of completion of the disposal (i.e. 22 January 2018) and the transaction costs from the final apportioned sale proceeds of HK\$43,836,445.30.

(6) Finance Costs

	Six months ended 31 January	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Interest on:		
Bank borrowings	6,242	5,643
Amount due to a related company	504	752
	6,746	6,395

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 31 January 2018

(7) Profit (Loss) Before Tax

The Group's profit (loss) before tax has been arrived at after charging:

	Six months ended 31 January	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Depreciation of property, plant and equipment	6,595	7,041
Amortisation of land lease prepayments (included in administrative expenses)	164	160
Cost of inventories recognised as an expense (including reversal of provision for slow-moving inventories of HK\$1,462,000 (2017: provision for slow moving inventories of HK\$1,386,000))	45,351	52,368

(8) Income Tax Credit

	Six months ended 31 January	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Current tax	—	—
Deferred tax	(452)	(132)
Income tax credit	(452)	(132)

No current Hong Kong Profits Tax has been provided for the six months ended 31 January 2018 (2017: Nil) as the Group either has unused tax loss available to offset against assessable profits or there was no estimated assessable profit for the period.

Under the Law of the People's Republic of China ("PRC") on Enterprise Income Tax ("EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Group's PRC subsidiaries is 25% from 1 January 2008 onwards. No PRC enterprise income tax has been provided for the six months ended 31 January 2018 and 31 January 2017 as the Group did not have assessable profit in the PRC.

(9) Dividend

No dividend was paid, declared or proposed during the six months ended 31 January 2018. The Directors do not recommend the payment of an interim dividend (six months ended 31 January 2017: Nil).

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 31 January 2018

(10) Earnings (Loss) Per Share

The calculation of the basic and diluted earnings (loss) per share attributable to the owners of the Company for the period is based on the following data:

	Six months ended 31 January	
	2018 (Unaudited)	2017 (Unaudited)
Earnings (loss)		
Profit (loss) for the period attributable to owners of the Company for the purpose of basic and diluted earnings (loss) per share (HK\$'000)	66,266	(3,215)
Number of shares		
Number of ordinary shares for the purpose of basic earnings (loss) per share	947,543,695	947,543,695
Effect of dilutive potential ordinary shares:		
— Options	N/A	N/A
Number of ordinary shares for the purpose of diluted earnings (loss) per share	N/A	N/A

The computation of diluted earnings per share for the period ended 31 January 2018 did not assume the exercise of share options of the Company as the exercise price of those options is higher than the average market prices of the Company for the period.

In considering the dilution impact of the share options outstanding, no adjustment has been made for the period ended 31 January 2017 as their assumed conversion would have an anti-dilutive effect on the basic loss per share amounts presented.

(11) Property, Plant and Equipment

	31 January 2018 (Unaudited) HK\$'000	31 July 2017 (Audited) HK\$'000
At the beginning of the period/year	128,280	138,924
Additions	4,040	6,885
Depreciation provided for the period/year	(6,595)	(14,038)
Impairment loss recognised in profit or loss for the period/year	—	(2,300)
Disposals/write-off	—	(404)
Exchange realignment	5,005	(787)
At the end of the period/year	130,730	128,280

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 31 January 2018

(12) Investment Properties

	31 January 2018 (Unaudited) HK\$'000	31 July 2017 (Audited) HK\$'000
At the beginning of the period/year	1,745,655	1,632,793
Disposal	(41,000)	(1,616)
Increase in fair value recognised in profit or loss	69,877	114,721
Exchange realignment	1,582	(243)
	<hr/>	<hr/>
At the end of the period/year	1,776,114	1,745,655

All of the Group's properties interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The fair values of the Group's investment properties as at 31 January 2018 and 31 July 2017 have been arrived at on the basis of a valuation carried out on the respective dates by Messrs Savills Valuation and Professional Services Limited, independent qualified professional valuers not connected to the Group.

As at 31 January 2018, certain investment properties of approximately HK\$1,751,500,000 (31 July 2017: HK\$1,685,000,000) of the Group were pledged to banks to secure the bank loans granted to the Group.

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(13) Deposits for land lease prepayments

In accordance with the agreements dated 22 June 2006 (the "Agreements") entered into by the Group, Zhongshan Hong Feng Real Property Consultancy Company Limited (中山市宏豐房地產諮詢服務有限公司) (the "Vendor") and Zhongshan Sanxiang Town Local Government (the "Local Government"), the Group paid RMB14,721,000 (equivalent to HK\$18,254,000 (2017: HK\$17,076,000)) to the Vendor (the "Vendor Deposit") and RMB13,822,000 (equivalent to HK\$17,139,000 (2017: HK\$16,034,000)) to a company owned by the Local Government (the "Government Deposit") as deposits for land lease prepayments (the "Land Lease Prepayments") to acquire the land use rights of a piece of land in the PRC (the "Land").

In October 2010, April 2011 and October 2011, various letters had been issued by the Local Government which acknowledged (i) the receipt of the Government Deposit; (ii) the progress of the application for the issuance of the land use rights certificate; and (iii) the undertaking by the Local Government to compensate and refund the deposits (including the Vendor Deposit and the Government Deposit) to the Group in case the land use right certificate cannot be obtained by the Group (the "Undertaking").

In October 2012, the Vendor and the Local Government each issued a letter to the Group respectively which acknowledged (i) their respective receipt of the deposit from the Group; (ii) their respective responsibility to assist the Group in obtaining the land use rights certificate of the Land; and (iii) their respective obligation to refund the respective deposit received with interest to the Group upon the request from the Group in the event that the Group fails to obtain the land use rights certificate of the Land. However, the letter issued by the Local Government in October 2012 did not undertake the refund of the Vendor Deposit.

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 31 January 2018

(13) Deposits for land lease prepayments (Continued)

In October 2012, the Group obtained legal opinion from an independent PRC law firm (the “Lawyer”) and received the legal advice that whilst the other letters had not specified or confirmed the amount of the Land Lease Prepayments (i.e. the Government Deposit together with the Vendor Deposit) or the timing of commitment by the Local Government to refund, however, based on the Undertaking, the Group would have reasonable grounds to recover the amount of the Land Lease Prepayments paid with interest from the Local Government, regardless of whether the Vendor is able to refund the Vendor Deposit or not, despite the associated risk and uncertainty which may exist during the course of legal action taken. The Lawyer further advised that appropriate legal action should be taken within a valid time bar under the PRC law and regulations, which was before the end of February 2013, in order to secure and support the Group’s right to recover the amount of the Land Lease Prepayments from the Local Government.

On 26 October 2012, the date on which the consolidated financial statements of the Group for the year ended 31 July 2012 were approved by the Directors, the Directors resolved not to take immediate legal action but to further negotiate with the Local Government and the Vendor with a view to obtain the land use rights certificate of the Land in near future, as the Directors believed that there had been appreciation in the value of the Land, though that it may exceed the valid time bar to recover the amount of the Land Lease Prepayments with interest from the Local Government if legal action was to be taken later on. The Directors believed that the Group would either be able to recover such amount of the Land Lease Prepayments or to obtain the relevant land use rights certificate in the near future. No impairment loss on the deposits paid was then considered necessary by the Directors for the year ended 31 July 2012.

Up to 25 October 2013, the date of approval of the consolidated financial statements for the year ended 31 July 2013, no legal action was taken by the Group against the Local Government and the Vendor because the negotiation with the Local Government and the Vendor to obtain the land use rights certificate of the Land was still in progress.

In September 2013, the Local Government further issued a letter to the Group which acknowledged (i) its receipt of the Government Deposit from the Group; (ii) its responsibility to assist the Group in obtaining the land use rights certificate of the Land; and (iii) its obligation to refund the Government Deposit received with interest to the Group upon the request from the Group in the event that the Group fails to obtain the land use rights certificate of the Land. The Vendor had not issued any letter to the Group to acknowledge the receipt of the Vendor Deposit subsequent to the October 2012 letter.

Since the valid time bar under the PRC law and regulations to take legal action to recover the Vendor Deposit from the Local Government has expired during the year ended 31 July 2013 and the Group had not received any acknowledgement from the Vendor in 2013, the Directors have performed a detailed assessment on the recoverability of the carrying amount of the Vendor Deposit as at 31 July 2013. On the basis of the assessment, an impairment loss on the Vendor Deposit had been recognised and charged to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 July 2013 as the management opined that the impairment loss was incurred in the year ended 31 July 2013 due to the Group’s option to recover the Vendor Deposit from the Local Government was legally expired at the end of February 2013 and as a result of the assessment of the financial position of the Vendor.

The Group assessed the recoverability of the Government Deposit and no impairment loss is considered necessary by the Directors for the year ended 31 July 2017.

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 31 January 2018

(13) Deposits for land lease prepayments (Continued)

With reference to the Company's announcement dated 29 January 2018, the Group entered into the Share Disposal Agreement with the effect of termination of the Agreements and the Acquisition contemplated thereunder in respect of which the deposits for land lease prepayments were paid for. Pursuant to the Share Disposal Agreement, the Vendor had deposited the Consideration into the lawyer of the relevant subsidiary of the Group to be disposed of ("Relevant Subsidiary") and, accordingly, the Group had rescinded the counter-claims. However, as there was uncertainty about the approval by the corresponding PRC authorities for all the consequential changes in, including but not limited to, shareholder, legal representative, directors and manager of the Relevant Subsidiary, which are the conditions of completion of the Share Disposal, no recognition in accounting aspect, including but not limited to any gain on disposal, will be made until the Share Disposal has been successfully completed and the Consideration has been received.

(14) Trade and Other Receivables, Deposits and Prepayments

	Notes	31 January 2018 (Unaudited) HK\$'000	31 July 2017 (Audited) HK\$'000
Trade receivables	(i) & (ii)	18,457	17,860
Less: Allowance for doubtful debts		(10,967)	(9,854)
		7,490	8,006
Other receivables		86,622	71,833
Less: Allowance for doubtful debts		(30,586)	(28,613)
		56,036	43,220
Deposits and prepayments	(iii)	56,212	28,768
		119,738	79,994
Less: Rental and utility deposits shown under non-current assets		(8,205)	(8,876)
		111,533	71,118

- (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 been set with a maximum credit limit. The Group does not hold any collateral over these balances.

The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by senior management.

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 31 January 2018

(14) Trade and Other Receivables, Deposits and Prepayments (Continued)

- (ii) The following is an aging analysis of trade receivables (net of allowance for doubtful debts), presented based on the invoice date which approximated the respective revenue recognition date as at the end of the reporting periods:

	31 January 2018 (Unaudited) HK\$'000	31 July 2017 (Audited) HK\$'000
Trade receivables:		
0 to 90 days	7,212	6,221
91 to 180 days	114	1,249
181 to 365 days	164	536
	7,490	8,006

- (iii) Included in the deposits and prepayments as at 31 January 2018, there was a deposit of HK\$30,930,037 (2017: Nil) for the acquisition of unlisted equity interest in a company incorporated in the British Virgin Islands for the purpose of participating in an investment in a property situated in Hong Kong.

(15) Bank Borrowings

	31 January 2018 (Unaudited) HK\$'000	31 July 2017 (Audited) HK\$'000
Bank loans, secured	577,860	576,277
Trust receipt loans, secured	9,800	11,211
	587,660	587,488
Carrying amount repayable:		
Within one year	330,910	324,057
Beyond one year, but not exceeding two years	13,424	13,394
Beyond two years, but not exceeding five years	233,034	238,830
Beyond five years	10,292	11,207
	587,660	587,488
Less: Amounts shown under current liabilities	(330,910)	(324,057)
Amounts shown under non-current liabilities	256,750	263,431

During the reporting period/year, in respect of a bank loan with a carrying amount of approximately HK\$468,530,000 as at 31 January 2018 and HK\$446,841,000 as at 31 July 2017 ("**Bank Loan**"), the Group complied with the terms of the Bank Loan except for certain terms which are primarily related to the current ratio and quick ratio of the Group. The Group had informed the relevant bank and obtained waiver of the above mentioned exceptions.

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 31 January 2018

(16) Trade and Other Payables and Deposits Received and Other Current Liability**(a) Trade and other payables and deposits received**

The following is an aging analysis of trade payables as at the end of the reporting periods, based on the date of receipt of goods, and the details of balances of advance from customers, deposits received, other payables and accruals:

	31 January 2018 (Unaudited) HK\$'000	31 July 2017 (Audited) HK\$'000
Trade payables:		
0 to 90 days	12,164	9,268
91 to 180 days	439	118
181 to 365 days	356	915
Over 365 days	2,211	2,166
	15,170	12,467
Advance from customers	5,644	5,115
Provision for onerous contracts	11,000	11,000
Deposits received	14,194	14,008
Other payables and accruals	31,275	30,444
	77,283	73,034

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The credit period for purchase of goods is between 30 and 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

(b) Other current liability

During the year ended 31 July 2013, the Group entered into a loan agreement with an independent third party (the "Investor"). Pursuant to the agreement, the Investor agreed to lend HK\$15,000,000 to the Group and the loan is interest-free, unsecured and shall not be repayable or become due for repayment until the date when the Group disposed of one of its investment properties, which is located at Ground Floor, Hennessy Road Court, 219 Hennessy Road, Wan Chai, Hong Kong. Upon disposal of the said investment property, 50% on disposal gain or loss will be shared with the Investor and will be added to or subtracted from the principal amount of the loan to be repaid. The loan is designated and measured as financial liability at fair value through profit or loss with any gains or losses arising on remeasurement recognised in profit or loss. No fair value change is recognised in respect of the liability for the current period since there has been no change in fair value of the relevant investment property.

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 31 January 2018

(17) Share Capital

	<u>Number of shares</u>	<u>HK\$'000</u>
Issued and fully paid:		
At 1 August 2016, 31 July 2017 and 31 January 2018	947,543,695	332,323

(18) Equity-settled Share-based Payments

The Company has a share option scheme ("**Share Option Scheme**") which was adopted on 15 December 2015 whereby the Directors are authorised, at their discretion, to invite employees of the Group, including directors of any subsidiary company in the Group at a consideration of HK\$1 to take up options to subscribe for shares of the Company. On and subject to the terms of the Share Option Scheme and the requirements of the Listing Rules, the Directors shall be entitled, at any time and from time to time within ten years commencing on the Adoption Date (as defined in the Share Option Scheme) and subject to such conditions as the Directors may think fit, to grant options to subscribe at the Subscription Price (as defined in the Share Option Scheme) for such number of shares in the Company as the Directors may determine.

- (a) **The following share options were outstanding under the Share Option Scheme as at 31 January 2018:**

Category of participants	Number of underlying shares comprised in share options			Date of grant of options (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	Exercise price of options per share (HK\$)
	At 1 August 2017	Granted during the period	At 31 January 2018			
Directors	2,900,000	—	2,900,000	16/01/2017	16/01/2017 to 15/01/2020	0.994

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- (b) **Fair value of share options and assumptions**

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on Black-Scholes model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the model.

Fair value of share options and assumptions are as follows:

Fair value at measurement date	HK\$0.4831
Closing share price at the date of grant (per share)	HK\$0.99
Exercise price	HK\$0.994
Expected volatility (i)	74.26%
Expected life (ii)	3 years
Expected dividend yield	0%
Risk-free interest rate	1.181%

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 31 January 2018

(18) Equity-settled Share-based Payments (Continued)

(b) Fair value of share options and assumptions (Continued)

Notes:

- (i) The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.
- (ii) The expected life of the share options is not necessarily indicative of the exercise patterns that may occur.
- (iii) No other feature of the share options granted was incorporated into the measurement of fair value.

The Group recognised the total expenses of HK\$1,401,000 for the period ended 31 January 2017 in related to share options granted by the Company.

At the date of approval of these condensed consolidated interim financial statements, the Company had a total of 2,900,000 underlying shares comprised in options outstanding under the Share Option Scheme, which represented approximately 0.31% of the Company's total issued shares as at that date.

(19) Fair Value Measurements of Financial Instruments

Financial assets and financial liabilities carried at fair value

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

The Group's financial assets at fair value through profit or loss are measured at fair value at the end of each reporting period. The fair values of the Group's investments in listed securities have been determined by reference to their quoted bid prices at the end of the reporting periods. The fair value of unlisted investments was based on the value quoted by the brokers at the end of the reporting periods. The fair value of the Group's financial liability at fair value through profit or loss, being the other current liability, is disclosed in Note 16(b).

There were no transfers between the three levels during both period/year.

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 31 January 2018

(19) Fair Value Measurements of Financial Instruments (Continued)

Financial assets and financial liabilities carried at fair value (Continued)

Fair value hierarchy as at 31 January 2018 and 31 July 2017

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
As at 31 January 2018 (Unaudited)				
Listed investments				
— Equity securities listed in Hong Kong	4,748	—	—	4,748
— Equity securities listed outside Hong Kong	5,549	—	—	5,549
— Debt securities listed in Hong Kong	20,384	—	—	20,384
— Debt securities listed outside Hong Kong	56,205	—	—	56,205
— Perpetual securities listed in Hong Kong	16,048	—	—	16,048
— Perpetual securities listed outside Hong Kong	25,884	—	—	25,884
Unlisted investments				
— Equity securities	—	13,569	—	13,569
— Debt securities	—	52,747	—	52,747
Financial liabilities at fair value through profit or loss				
— Other current liability	—	—	(15,000)	(15,000)
	128,818	66,316	(15,000)	180,134
As at 31 July 2017 (Audited)				
Listed investments				
— Equity securities listed in Hong Kong	1,836	—	—	1,836
— Equity securities listed outside Hong Kong	4,362	—	—	4,362
— Debt securities listed in Hong Kong	25,900	—	—	25,900
— Debt securities listed outside Hong Kong	42,475	—	—	42,475
— Perpetual securities listed in Hong Kong	14,665	—	—	14,665
— Perpetual securities listed outside Hong Kong	22,504	—	—	22,504
Unlisted investments				
— Equity securities	—	12,458	—	12,458
— Debt securities	—	29,782	—	29,782
Financial liabilities at fair value through profit or loss				
— Other current liability	—	—	(15,000)	(15,000)
	111,742	42,240	(15,000)	138,982

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 31 January 2018

(20) Operating Lease Arrangements

(a) As lessor

At the end of the reporting periods, the Group had future minimum lease receivables under non-cancellable operating leases contracted with tenants as follows:

	31 January 2018 (Unaudited) HK\$'000	31 July 2017 (Audited) HK\$'000
Within one year	52,767	51,889
In the second to fifth years, inclusive	32,713	47,758
	85,480	99,647

(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 end of the reporting periods, the Group had commitments for future minimum lease payments under non-cancellable operating leases as follows:

	31 January 2018 (Unaudited) HK\$'000	31 July 2017 (Audited) HK\$'000
Within one year	48,694	61,950
In the second to fifth years, inclusive	42,446	39,450
	91,140	101,400

The operating lease rentals of certain retail shops are charged on the higher of fixed rental or 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 in these retail shops could not be accurately determined at this stage, the relevant contingent rent has not been estimated and included in the analysis above in which only the minimum lease commitments are included.

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 31 January 2018

(21) Commitments

In addition to the operating lease commitments disclosed in Note 20 above, the Group had the following capital commitments at the end of the reporting periods:

	31 January 2018 (Unaudited) HK\$'000	31 July 2017 (Audited) HK\$'000
Contracted but not provided for:		
Land lease prepayments in the PRC	4,285	4,009
Acquisition and construction of property, plant and equipment in the PRC	2,232	2,088
	6,517	6,097

(22) Related Party Transactions

(a) Transactions with related parties

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

		Six months ended 31 January	
	Notes	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Rental expense and building management fees:			
— Lai Sun Textiles Company Limited	(i)	1,790	1,790
Rental expenses:			
— Guangzhou Tianhe Baitao Culture and Entertainment Square Company Limited	(i), (ii)	343	473
— Honor Lamp Investments Limited	(i), (ii)	398	338
— Guangzhou Besto Real Estate Development Company Limited	(i), (ii)	189	174
Interest expense:			
— Guangzhou Besto Real Estate Development Company Limited	(i), (ii)	504	752
Company secretarial fee:			
— Lai Sun Development Company Limited	(iii)	536	459
Royalty income:			
— Guangzhou Beautifirm Cosmetic Ltd.	(iv)	471	459
Rental income and building management fee:			
— Big Honor Asia Limited	(i), (ii)	1,064	1,057
Interest income:			
— Mass Energy Limited	(v)	319	303

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 31 January 2018

(22) Related Party Transactions (Continued)

(a) Transactions with related parties (Continued)

Notes:

- (i) Dr. Lam Kin Ming has control over this company.
- (ii) Dr. Lam Kin Ming is one of the key management personnel members of this company.
- (iii) Dr. Lam Kin Ngok, Peter, a younger brother of Dr. Lam Kin Ming and one of the key management personnel members of the Company, has control over this company.
- (iv) Dr. Lam Kin Ngok, Peter is one of the key management personnel members of this company.
- (v) Mass Energy Limited is an associate of the Group.

(b) Outstanding balances with related parties

Except for the amounts due to Guangzhou Besto Real Estate Development Company Limited of approximately HK\$24,800,000 (31 July 2017: HK\$17,400,000) as at 31 January 2018 which are unsecured, interest bearing at 5.35% per annum and repayable on demand, the remaining balances of the Group were derived from the above related party transactions and are unsecured, interest-free and repayable on demand.

(c) Compensation of key management personnel of the Group

	Six months ended 31 January	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Short-term employee benefits	6,712	8,074
Post-employment benefits	36	36
	6,748	8,110

INTERIM DIVIDEND

The Board has resolved not to pay an interim dividend for the six months ended 31 January 2018 (2017: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

During the period under review, turnover of the Group was HK\$131,258,000 (2017: HK\$135,804,000), representing a decline of 3%. Albeit the slide in turnover, the gross profit of the Group increased by 3% to HK\$85,544,000 (2017: HK\$83,053,000) which was mainly attributable to the increment in margin earned by the “Garment and Related Accessories Business” segment.

The performance of the “Garment and Related Accessories Business” segment of the Group remained similar during the six months ended 31 January 2018 with a skid of revenue by 5% to HK\$102,905,000 and a loss of HK\$15,007,000.

The rental income generated by the “Property Investment and Letting Business” segment was steady at a level of HK\$28,353,000 for the six months ended 31 January 2018 (2017: HK\$27,612,000). Under buoyant market environment primarily in Hong Kong, the revaluation of the investment properties held by the Group resulted in fair value gains of HK\$69,877,000 as at 31 January 2018 (2017: losses of HK\$149,000). Moreover, there was a gain of HK\$2,855,000 on disposal of an investment property situated in Hong Kong, details of which are disclosed in the announcement of the Company dated 19 January 2018.

Taking into account the results of the two business segments above with the share of profit of an associate of HK\$4,178,000 (2017: HK\$4,171,000) and the gain of exchange differences arising on translation of foreign operations in the Mainland of China (“**Mainland**”) of HK\$9,191,000 (2017: loss of HK\$6,939,000), the total comprehensive income attributable to the owners of the Company was HK\$75,457,000 for the six months ended 31 January 2018 (2017: expense of HK\$10,154,000).

“Garment and Related Accessories Business” Segment

Operations in Hong Kong and Macau

The “Garment and Related Accessories Business” segment still took time to recover in the six months ended 31 January 2018. Though the retail market in Hong Kong showed signs of rebound recently, it was too early to say it will be sustainable, especially for apparel sector. Local and overseas customers have shifted their spending abroad of more favorable foreign currency exchange rates. The consumption power of higher proportion of the visitors from the Mainland was declining. On the other hand, thanks for rationalising its merchandise mix to cater for the changes in clientele and restraining inventory level, there was a growth in gross margin.

The Group heightened its operational efficiency and implement stringent cost controls. The Group had closed down under-performing shops and fought for reasonable rentals upon renewal of shop leases. As at 31 January 2018, the Group operated 18 (2017: 20) shops for Crocodile line and 7 (2017: 6) shops for Lacoste line. Furthermore, the Group has streamlined the back-office structure and workflow to retain the administrative expenses.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

“Garment and Related Accessories Business” Segment (Continued)

Operations in the Mainland

To tackle the tough operating conditions of exorbitant rents and rising wages in the Mainland, the Group pursued to restructure the sales channel by discontinuing under-performing sale points and redeveloping the franchise and e-commerce strategies. As at 31 January 2018, there were a total of 14 (2017: 17) shops in the Mainland, including self-operated shops of 5 (2017: 5) and those operated by the Group’s franchisees of 9 (2017: 12). For transforming the sales framework, inevitably the revenue was suffered and decreased to HK\$5,700,000 for the six months ended 31 January 2018 (2017: HK\$6,348,000). As a buffer against the above negative aspect of transformation, the Group had simplified its merchandise mix and product design, consolidated the supplier chains and centralised the inventory processing.

The licensing of the prestige brand “Crocodile” in the Mainland remained to be the major source of the Group’s other income and the royalty income derived therefrom for the six months ended 31 January 2018 was HK\$9,477,000 (2017: HK\$12,324,000).

“Property Investment and Letting Business” Segment

The “Property Investment and Letting Business” segment in Hong Kong and the Mainland, respectively generated rental revenue of HK\$27,714,000 (2017: HK\$27,060,000) and HK\$639,000 (2017: HK\$552,000) for the six months ended 31 January 2018; and as at that date, the fair value gains on investment properties in Hong Kong were HK\$69,500,000 (2017: Nil) whereas in the Mainland were HK\$377,000 (2017: loss of HK\$149,000).

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As disclosed in the Company’s announcement dated 19 January 2018, the Group disposed of an investment property in Hong Kong situated at Kwun Tong, Kowloon under the Order for Sale pursuant to the Land (Compulsory Sale for Redevelopment) Ordinance. The unaudited actual gain arising from the disposal was HK\$2,855,000 as calculated by deducting the fair value of the investment property on the date of completion of the disposal (i.e. 22 January 2018) and the transaction costs from the final apportioned sale proceeds of HK\$43,836,445.30.

In addition, an indirect wholly-owned subsidiary of the Company entered into an agreement (“**Share Disposal Agreement**”) with the effect of termination of the acquisition of a piece of land situated in Zhongshan City, the Mainland, details of which are contained in the Company’s announcement dated 29 January 2018. Pursuant to the Share Disposal Agreement, the counter-party had deposited the consideration of disposal (“**Consideration**”) into the lawyer of the relevant subsidiary of the Group to be disposed of (“**Relevant Subsidiary**”) and, accordingly, the Group had rescinded the counter-claims. However, as there was uncertainty of the approval by the corresponding Mainland authorities for all the consequential changes in, including but not limited to, shareholder, legal representative, directors and manager of the Relevant Subsidiary, which are conditions of completion of the disposal, no recognition of gain thereon will be made until the disposal has been successfully completed and the Consideration has been received.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Prospects

Hong Kong and the Mainland may continue to benefit from an upswing in the global economy, but also faces potential problems.

Debt in the Mainland has ballooned in recent years. Any new measures to crack down on excessive borrowing will surely have negative spillover effects on the economy and could cause a painful slowdown. On the other hand, trade tensions between the Mainland and the United States, the world's two-biggest economies, have flared anew recently. Threats to global trade may begin to materialise, which would be a serious concern for the Mainland, the world's biggest exporter of goods; and Hong Kong, an externally oriented economy. The above adversities will cause the Mainland visitors and local Hong Kong people to be more cautious of their spending despite upbeat employment and income scenario.

For the "Garment and Related Accessories Business" segment, the Group is tenacious of enhancing the brand image and unique identity of "Crocodile" by launching premier fashion of distinctive functionalities and personalities, and non-price marketing and promotional campaigns. The Group keeps on refining the sales network to magnify operational efficiency and deploying substantial resources on staff training to offer quality customer services and shopping experience to our prestige patrons.

The cliff-diving drops in the stock markets in early February 2018 in the United States, and then in Hong Kong clearly revealed the extreme volatility prevailing the capital markets. Facing the turbulence of the international money flow as further fueled by the tapering of liquidity originated in the United States, the Group will vigilantly manage the portfolios of its "investment properties" and "financial assets at fair value through profit or loss" to monitor the risk exposure of their market values.

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The acceleration in supply of office premises in Eastern Kowloon, Hong Kong has weighed on the Groups' rental income of the "Property Investment and Letting Business" segment. The Group will foster the wide leasing appeal of its investment properties to retain the rental incomes promising.

The Group will also fortify its financial base to be resilient for any unexpected intricate situations.

Contingent Liabilities

As at 31 January 2018, the Group had no material contingent liabilities.

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 utilise 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 financial assets at fair value through profit or loss, letters of credit and trust receipt loans, the Group has not employed other financial instruments for the six months ended 31 January 2018.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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, Renminbi and United States dollars. 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 dealt with foreign enterprises and will not bear unforeseeable foreign currency exchange risks.

Cash and cash equivalents held by the Group amounted to HK\$96,160,000 as at 31 January 2018 (31 July 2017: HK\$125,908,000) and were mainly denominated in Hong Kong dollars and Renminbi. The pledged bank deposits of approximately HK\$13,454,000 (31 July 2017: HK\$14,199,000) represent deposits pledged to banks to secure margin loans and are therefore classified as current assets. The cash and cash equivalent denominated in Renminbi as at 31 January 2018 were equivalent to HK\$37,127,000 (31 July 2017: HK\$33,035,000) 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 authorised to conduct foreign exchange business.

As at 31 January 2018, the total outstanding borrowings including margin loans of the Group amounted to HK\$602,678,000. The total outstanding borrowings comprised secured short-term bank trust receipt loans of HK\$9,799,000, secured bank mortgage loans of HK\$22,130,000, secured margin loans of HK\$15,018,000, secured long-term bank loan of HK\$247,980,000 and secured short-term bank revolving loans of HK\$307,751,000. Short-term bank loans were repayable within a period not exceeding one year. The secured bank mortgage loans above were repayable by instalments with its current portion of HK\$2,680,000 repayable within one year and long-term portion of HK\$19,450,000 repayable in the second to tenth years.

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Interests on bank borrowings are charged at floating rates. The bank borrowings of the Group are denominated principally in Hong Kong and United States dollars. No financial instruments for hedging purposes were employed by the Group for the six months ended 31 January 2018.

As at 31 January 2018, the Group had mortgaged certain of its investment properties with carrying values of HK\$1,751,500,000 and created floating charges on its certain assets to its bankers to secure banking facilities granted to the Group.

The Group's gearing revealed by the debt to equity ratio at 31 January 2018 was 35%, expressed as a percentage of total bank borrowings and margin loans payable of total net assets. In view of the coming rises in interest rates in Hong Kong, the Group will explore any pragmatic funding methods for business development while containing its gearing within a suitable range for controlling its finance costs.

As at 31 January 2018, the Group had the capital commitments, contracted but not provided for, in respect of the land lease payments in the Mainland of HK\$4,285,000 and acquisition and construction of property, plant and equipment in the Mainland of HK\$2,232,000.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Major Investments, Acquisitions and Disposals

Save for the disposals of the investment property in Hong Kong and the Relevant Subsidiary (yet to be completed) as disclosed in the Company's announcements dated 19 and 29 January 2018, respectively, the Group had no other significant investments, material acquisitions or disposals in the six months ended 31 January 2018.

Employees and Remuneration Policies

The total number of employees of the Group, including part-time sales staff, was 296 as at 31 January 2018 (31 January 2017: 292). 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 share option scheme, 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Corporate Governance

The Company has complied with all applicable code provisions set out from time to time in the Corporate Governance Code ("**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**" and "**Stock Exchange**", respectively) throughout the six months ended 31 January 2018 save for the deviations from code provisions A.2.1, A.4.1 and A.5.1 as follows:

Under code provision A.2.1 of the CG Code, the roles of the chairman and the 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 (who is also the Chief Executive Officer) of the Company's operations and the garment and fashion industry in general, his extensive business network and connections, and the scope of operations of the Company, the Board believes that it is in the best interest of the Company for Dr. Lam Kin Ming ("**Dr. KM Lam**") to assume the roles of both the Chairman and the Chief Executive Officer.

CORPORATE GOVERNANCE AND OTHER INFORMATION *(Continued)*

Corporate Governance *(Continued)*

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

None of the existing non-executive Directors (“**NEDs**”, including the independent non-executive Directors (“**INEDs**”)) is appointed for a specific term. However, all Directors are subject to the retirement provisions of the Articles of Association of the Company, which require that the Directors for the time being shall retire from office by rotation once every three years since their last election by shareholders of the Company (“**Shareholders**”) and the retiring Directors are eligible for re-election. In addition, any person appointed by the Board (including a NED) will hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to the Board) and will then be eligible for re-election at that meeting. Further, in line with the relevant code provision of the CG Code, each of the Directors appointed to fill a casual vacancy has been/will be subject to election by the Shareholders at the first general meeting after his/her appointment. In view of these, the Board considers that such requirements are sufficient to meet the underlying objective of the said code provision A.4.1 and therefore, does not intend to take any remedial steps in this regard.

Under code provision A.5.1 of the CG Code, a nomination committee comprising a majority of the independent non-executive directors should be established and chaired by the chairman of the board or an independent non-executive director.

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The Company has not established a nomination committee whose functions are assumed by the full Board. Potential new Directors will be recruited based on their knowledge, skills, experience and expertise and the requirements of the Company at the relevant time and candidates for the INEDs must meet the independence criterion set out in Rule 3.13 of the Listing Rules. The process of identifying and selecting appropriate candidates for consideration and approval by the Board has been, and will continue to be, carried out by the executive Directors (“**Executive Directors**”). As the above selection and nomination policies and procedures have already been in place and the other duties of the nomination committee as set out in the CG Code have long been performed by the full Board effectively, the Board does not consider it necessary to establish a nomination committee at the current stage.

Securities Transactions by Directors and Designated Employees

The Company has adopted a Code of Practice for Securities Transactions by Directors and Designated Employees (“**Securities Code**”) on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all Directors and they have confirmed in writing their compliance with the required standard set out in the Securities Code during the six months ended 31 January 2018.

CORPORATE GOVERNANCE AND OTHER INFORMATION (Continued)

Share Option Schemes

On 15 December 2015, the Shareholders approved the adoption of a new share option scheme (“**2015 Scheme**”) and the termination of the share option scheme which was adopted by the Company on 22 December 2006 (“**2006 Scheme**”) to the effect that no more share options will be granted under the 2006 Scheme. Also as at 15 December 2015, no share option is valid and outstanding under the 2006 Scheme.

The 2015 Scheme which became effective on 18 December 2015 remains in force for a period of 10 years commencing on its adoption date. The maximum number of the Company’s shares (“**Shares**”) issuable pursuant to the 2015 Scheme is 94,754,369 Shares, being 10% of the total issued Shares on the date of approval of the 2015 Scheme. Details of the 2015 Scheme are set out in the circular of the Company dated 13 November 2015.

As at 31 January 2018 and the date of this Report, the Company has a total of 2,900,000 underlying Shares comprised in options outstanding under the 2015 Scheme (representing approximately 0.31% of the total issued Shares as at those dates).

The movements of the share options granted under the 2015 Scheme during the six months ended 31 January 2018 are as follows:

		Number of underlying Shares comprised in share options						
Category/Name of participants	Date of grant (dd/mm/yyyy) <i>(Note 1)</i>	As at 1 August 2017	Granted during the period	Lapsed during the period	As at 31 January 2018	Exercise period (dd/mm/yyyy)	Exercise price per Share (HK\$) <i>(Note 2)</i>	
Directors								
Lam Kin Ming	16/01/2017	900,000	—	—	900,000	16/01/2017 – 15/01/2020	0.994	
Lam Wai Shan, Vanessa	16/01/2017	2,000,000	—	—	2,000,000	16/01/2017 – 15/01/2020	0.994	
Total		2,900,000	—	—	2,900,000			

Notes:

1. The above share options were vested on the date of grant.
2. The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other specific changes in the Company’s share capital.

Save as disclosed above, no share options had been granted, exercised, cancelled, or lapsed in accordance with the terms of the 2015 Scheme during the six months ended 31 January 2018. Further details of the 2015 Scheme are disclosed in Note 18 to the Condensed Consolidated Interim Financial Statements.

CORPORATE GOVERNANCE AND OTHER INFORMATION (Continued)

Directors' Interests

The following Directors and chief executive of the Company who held office on 31 January 2018 and their respective close associates (as defined in the Listing Rules) were interested, or were deemed to be interested, in the following long or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (“SFO”)) on that date (a) as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions, if any, which they were taken or deemed to have under such provisions of the SFO); or (b) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO (“Register of Directors and Chief Executive”); or (c) as notified to the Company and the Stock Exchange pursuant to the Securities Code; or (d) as otherwise known by the Directors:

(1) Interests in the Company

Long positions in the Shares and underlying Shares						
Name of Directors	Capacity	Number of Shares		Share options	Total	Approximate percentage of total issued Shares <i>(Note 1)</i>
		Personal interests	Corporate interests	Personal interests		
Lam Kin Ming	Beneficial owner and owner of controlled corporation	8,085,000 <i>(Note 2)</i>	472,200,000 <i>(Note 3)</i>	900,000 <i>(Note 2)</i>	481,185,000	50.78%
Lam Wai Shan, Vanessa <i>(“Ms. Lam”)</i>	Beneficial owner	6,026,500	Nil	2,000,000 <i>(Note 4)</i>	8,026,500	0.85%
Wan Edward Yee Hwa <i>(“Mr. Wan”)</i>	Beneficial owner	610,000 <i>(Note 5)</i>	Nil	Nil	610,000	0.06%

CORPORATE GOVERNANCE AND OTHER INFORMATION (Continued)

Directors' Interests (Continued)

(1) Interests in the Company (Continued)

Notes:

1. The total number of issued Shares as at 31 January 2018 (947,543,695 Shares) has been used in the calculation of the approximate percentage.
2. Dr. KM Lam (the Chairman, an Executive Director and the Chief Executive Officer of the Company) had purchased an aggregate of 2,546,000 Shares during the six months ended 31 January 2018.

Details of the share option granted to Dr. KM Lam under the 2015 Scheme are shown in section headed "Share Option Schemes" of this Report.
3. Rich Promise Limited ("**RPL**") beneficially owned 472,200,000 Shares, representing approximately 49.83% of the total issued Shares. Dr. KM Lam was deemed to be interested in the same 472,200,000 Shares by virtue of his 100% shareholding interest in RPL.
4. Details of the share option granted to Ms. Lam (an Executive Director and the Deputy Chief Executive Officer of the Company) under the 2015 Scheme are shown in section headed "Share Option Schemes" of this Report.
5. Mr. Wan (an Executive Director) had disposed of 100,000 Shares during the six months ended 31 January 2018.

(2) Interests in Associated Corporation

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RPL — the parent and ultimate holding company of the Company

Long position in the ordinary shares of RPL					
Name of Director	Capacity	Personal interests	Corporate interests	Total	Percentage of total issued shares
Lam Kin Ming	Beneficial owner	1	Nil	1	100%

Save as disclosed above, as at 31 January 2018, none of the Directors and the chief executive of the Company and their respective close associates was interested, or was deemed to be interested, in the long and short positions in the shares, underlying shares and/or debentures of the Company or any of its associated corporations which were required to be notified to the Company and the Stock Exchange under the SFO, recorded in the Register of Directors and Chief Executive, notified under the Securities Code or otherwise known by the Directors.

CORPORATE GOVERNANCE AND OTHER INFORMATION (Continued)

Substantial Shareholders' and Other Persons' Interests

As at 31 January 2018, so far as it is known by or otherwise notified by any Director or the chief executive of the Company, the particulars of the corporations or individuals (one being an Executive Director and the Chief Executive Officer of the Company), who had 5% or more interests in the following long positions in the Shares and underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO ("**Register of Shareholders**") or were entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the Company ("**Voting Entitlements**") (i.e. within the meaning of substantial shareholders of the Listing Rules) were as follows:

Long positions in the Shares and underlying Shares				
Name	Capacity	Nature of Interests	Number of Shares and underlying Shares held	Approximate percentage of total issued Shares <i>(Note 1)</i>
Substantial Shareholders				
Rich Promise Limited	Beneficial owner	Corporate	472,200,000 <i>(Note 2)</i>	49.83%
Lam Kin Ming	Beneficial owner and owner of controlled corporation	Personal and corporate	481,185,000 <i>(Note 2)</i>	50.78%
Other Persons				
Wykeham Capital Asia Value Fund (" WCAVF ")	Beneficial owner	Corporate	47,386,000 <i>(Note 3)</i>	5.00%
Wykeham Capital Limited	Investment manager	Corporate	47,386,000 <i>(Note 3)</i>	5.00%
Thomas Howel Gruffudd Rhys (" Mr. Thomas ")	Owner of controlled corporations	Corporate	47,386,000 <i>(Note 3)</i>	5.00%

CORPORATE GOVERNANCE AND OTHER INFORMATION (Continued)

Substantial Shareholders' and Other Persons' Interests (Continued)

Notes:

1. The total number of issued Shares as at 31 January 2018 (947,543,695 Shares) has been used in the calculation of the approximate percentage.
2. Dr. KM Lam was deemed to be interested in the 472,200,000 Shares owned by RPL by virtue of his 100% shareholding interest in RPL. Please also refer to "Directors' Interests" section above for further details.

Dr. KM Lam was personally interested in 8,085,000 Shares and was granted an option by the Company on 16 January 2017 to subscribe for 900,000 Shares (details of which are shown in the section headed "Share Option Schemes" of this Report).

3. Based on the disclosure of interests notices received by the Company, as at 31 January 2018, Mr. Thomas was deemed to be interested in the 47,386,000 Shares owned by WCAVF by virtue of his 100% shareholding interest in Wykeham Capital Limited (which is the investment manager of WCAVF).

Save as disclosed above, the Directors are not aware of any other corporation or individual (other than a Director or the chief executive of the Company) which/who, as at 31 January 2018, had the Voting Entitlements or 5% or more interests or short positions in the Shares or underlying Shares as recorded in the Register of Shareholders.

Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended 31 January 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed the Company's listed securities.

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Disclosures Pursuant to Rule 13.21 of the Listing Rules

The Company has entered into certain banking facility agreements, pursuant to which, the Company has undertaken to ensure that Dr. KM Lam and his family should at all times maintain not less than 30% or 50% direct or indirect beneficial shareholding with the Company. The aggregate outstanding balance of the relevant facilities as at 31 January 2018 was HK\$485,530,000, of which HK\$237,550,000 were repayable within 12 months and HK\$247,980,000 were repayable more than 12 months.

Update on Directors' Information

Pursuant to Rule 13.51B(1) of the Listing Rules, changes in the Directors' information since the disclosure made in the Company's 2016-2017 Annual Report for the year ended 31 July 2017 are set out as follows:

Dr. Lam Kin Ngok, Peter, an Executive Director, (a) was appointed as a non-official member of the Trade and Industry Advisory Board on 31 August 2017 for a term from 1 September 2017 to 31 December 2019; (b) was appointed a Standing Committee member of the 13th National Committee of the Chinese People's Political Consultative Conference on 24 January 2018; (c) has been re-appointed as a non-official member of Lantau Development Advisory Committee for a term of two years with effect from 1 February 2018; and (d) has been appointed as the Chairman of Hong Kong Trade Development Council Entertainment Industry Advisory Committee for a two-year term from 1 April 2018 to 31 March 2020.

CORPORATE GOVERNANCE AND OTHER INFORMATION *(Continued)*

Review of Interim Report

The Audit Committee of the Company currently comprises three INEDs, namely Messrs. Leung Shu Yin, William (Chairman), Chow Bing Chiu and Yeung Sui Sang. The Audit Committee has reviewed the interim report (including the unaudited condensed consolidated interim financial statements) of the Company for the six months ended 31 January 2018, the accounting principles and practices adopted by the Company, and the internal control and financial reporting matters.

Appreciation

On behalf of the Board, I would like to thank all members of the staff and management for their dedication and continuous support and look forward to sharing the prosperous future of Crocodile with them and all the Shareholders and customers.

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

Hong Kong, 26 March 2018

CROCODILE

