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Crocodile Garments Limited

(Incorporated in Hong Kong with limited liability)
(Stock Code: 122)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 JANUARY 2013

RESULTS

The board of directors (“**Directors**” and “**Board**”, respectively) of Crocodile Garments Limited (“**Company**”) announces the unaudited consolidated results of the Company and its subsidiaries (“**Group**”) for the six months ended 31 January 2013 together with the comparative figures of the last corresponding period as follows:

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 31 January 2013

		Six months ended 31 January	
	Notes	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000 (Restated)
REVENUE	3	267,997	294,074
Cost of sales		<u>(107,019)</u>	<u>(104,768)</u>
Gross profit		160,978	189,306
Fair value gains on investment properties		234,146	25,553
Other income	4	30,992	24,261
Selling and distribution expenses		(173,249)	(154,952)
Administrative expenses		(30,926)	(29,521)
Other operating (expenses) income, net		(1,292)	813
Finance costs	5	(1,958)	(615)
Share of profit from an associate		<u>165</u>	<u>626</u>
PROFIT BEFORE INCOME TAX	6	218,856	55,471
Income tax expense	7	<u>(2,791)</u>	<u>(4,919)</u>
PROFIT FOR THE PERIOD		216,065	50,552
OTHER COMPREHENSIVE INCOME:			
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS			
Surplus on revaluation of leasehold properties transferred to investment properties		<u>599</u>	-
		216,664	50,552
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS			
Exchange differences arising on translation of foreign operations		<u>3,754</u>	<u>2,236</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		<u>220,418</u>	<u>52,788</u>
EARNINGS PER SHARE			
- Basic (HK cents)	9	<u>23.09</u>	<u>5.40</u>

Condensed Consolidated Statement of Financial Position

As at 31 January 2013

	<i>Notes</i>	31 January 2013 (Unaudited) HK\$'000	31 July 2012 (Audited) HK\$'000 (Restated)
Non-current assets			
Property, plant and equipment		68,063	63,588
Investment properties		1,125,044	930,700
Construction in progress		47,720	43,197
Land lease prepayments		58,227	19,199
Interest in an associate		22,954	22,540
Rental and utility deposits		25,382	22,407
Deposits for acquisition and construction of property, plant and equipment		2,232	2,196
Deposits for acquisition of an investment property		2,700	-
Deposits for land lease prepayments		35,394	34,823
Available-for-sale financial asset		21,374	20,045
Deferred tax assets		<u>1,113</u>	<u>1,862</u>
		<u>1,410,203</u>	<u>1,160,557</u>
Current assets			
Inventories		150,850	99,708
Trade and other receivables, deposits and prepayments	10	130,021	103,964
Amounts due from related companies		1	177
Financial assets at fair value through profit and loss		100,789	75,957
Pledged bank deposits		794	42,493
Cash and cash equivalents		<u>82,480</u>	<u>49,651</u>
		<u>464,935</u>	<u>371,950</u>
Current liabilities			
Borrowings		296,798	1,648
Margin loan payable		39,007	34,301
Trade and other payables and deposits received	11	104,796	83,584
Amounts due to related companies		25,550	801
Tax payable		<u>23,750</u>	<u>21,361</u>
		<u>489,901</u>	<u>141,695</u>
Net current (liabilities) assets		<u>(24,966)</u>	<u>230,255</u>
Total assets less current liabilities		<u>1,385,237</u>	<u>1,390,812</u>
Non-current liabilities			
Borrowings		7,039	233,510
Provision for long service payments		3,409	2,952
Deferred tax liabilities		<u>38</u>	<u>17</u>
		<u>10,486</u>	<u>236,479</u>
		<u>1,374,751</u>	<u>1,154,333</u>
Capital and reserves			
Share capital		233,936	233,936
Reserves		<u>1,140,815</u>	<u>920,397</u>
		<u>1,374,751</u>	<u>1,154,333</u>

Notes:

(1) BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standards (“**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 Hong Kong Companies Ordinance and the disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

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

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

(2) PRINCIPAL ACCOUNTING POLICIES

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 2012, except for adoption of the following new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which also include HKASs and Interpretations) which are generally effective for the current accounting period of the Group.

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:

Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

Amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets

In December 2010, the Hong Kong Institute of Certified Public Accountants amended HKAS 12, “Income taxes”, to introduce an exception to the principle for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. HKAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely by sale. The amendment is applicable retrospectively to annual periods beginning on or after 1 January 2012 with early adoption permitted.

The Group has adopted this amendment retrospectively in the current period and the effects of adoption are disclosed as follows.

The Group has investment properties measured at their fair values totaling HK\$930,700,000 as at 1 August 2012. As required by the amendment, the Group has re-measured retrospectively the deferred tax relating to certain investment properties in Hong Kong on the presumption that they are recovered entirely by sale. The comparative figures for 2012 has been restated to reflect the change in accounting policy, as summarized below.

	As at 31 January 2013 <i>HK\$'000</i>	As at 31 July 2012 <i>HK\$'000</i>
Effect on consolidated balance sheet		
Decrease in deferred tax liabilities	122,163	82,780
Increase in deferred tax assets	1,113	1,862
Increase in interest in an associate	1,979	1,979
Increase in retained earnings	<u>125,255</u>	<u>86,621</u>
	Six months ended	
	31 January	31 January
	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Effect on consolidated statement of comprehensive income		
Decrease in income tax expense	38,634	4,216
Increase in share of profit of an associate	-	83
Increase in consolidated profit attributable to owners of the Company	38,634	4,299
Increase in basic earnings per share	<u>4.13 HK cents</u>	<u>0.46 HK cents</u>

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on the interim financial information.

The Group has not early adopted any new or amended standards or interpretations that are not yet effective for this interim period. The adoption of such standards and interpretations in future periods is not expected to result in a material impact to the Group.

(3) SEGMENT INFORMATION

(a) Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment.

For the six months ended 31 January

	Garment and related accessories business		Property investment and letting business		Others		Total	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000 (Restated)	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000 (Restated)
Revenue from external customers	255,353	282,036	12,644	12,038	-	-	267,997	294,074
Other revenue from external customers	27,127	23,075	792	456	2,617	-	30,536	23,531
Group's revenue	<u>282,480</u>	<u>305,111</u>	<u>13,436</u>	<u>12,494</u>	<u>2,617</u>	<u>-</u>	<u>298,533</u>	<u>317,605</u>
Reportable segment (loss) profit	<u>(26,605)</u>	<u>19,792</u>	<u>244,350</u>	<u>35,603</u>	<u>2,617</u>	<u>-</u>	<u>220,362</u>	<u>55,395</u>
Unallocated corporate income							456	730
Unallocated corporate expenses							(4)	(39)
Finance costs							(1,958)	(615)
Profit before income tax							<u>218,856</u>	<u>55,471</u>

(b) Segment assets

The following is an analysis of the Group's assets by reportable segment:

	Garment and related accessories business		Property investment and letting business		Others		Total	
	31 January 2013 (unaudited) HK\$'000	31 July 2012 (audited) HK\$'000	31 January 2013 (unaudited) HK\$'000	31 July 2012 (audited) HK\$'000 (Restated)	31 January 2013 (unaudited) HK\$'000	31 July 2012 (audited) HK\$'000	31 January 2013 (unaudited) HK\$'000	31 July 2012 (audited) HK\$'000 (Restated)
ASSETS								
Segment assets	472,562	382,651	1,196,026	959,865	100,789	75,957	1,769,377	1,418,473
Unallocated corporate assets							105,761	114,034
Total consolidated assets							<u>1,875,138</u>	<u>1,532,507</u>

(4) OTHER INCOME

	Six months ended 31 January	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Other income		
Royalty income	26,250	21,772
Bank interest income	456	730
Interest income from an associate	249	237
Fair value gain on financial assets at fair value through profit and loss	2,617	372
Others	1,420	1,150
	<u>30,992</u>	<u>24,261</u>

(5) FINANCE COSTS

	Six months ended 31 January	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on borrowings		
- wholly repayable within five years	1,883	545
- not wholly repayable within five years	75	70
	<u>1,958</u>	<u>615</u>

(6) PROFIT BEFORE INCOME TAX

The Group's profit before income tax has been arrived at after charging:

	Six months ended 31 January	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	8,562	7,726
Amortisation of land lease prepayments (included in administrative expense)	212	169
Provision for slow-moving inventories, net	2,981	1,983

(7) **INCOME TAX EXPENSE**

	Six months ended	
	31 January	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
		(Restated)
Current tax		
– PRC Enterprise Income Tax	2,022	3,881
– Hong Kong	-	880
Deferred tax	<u>769</u>	<u>158</u>
Income tax expense	<u><u>2,791</u></u>	<u><u>4,919</u></u>

No current Hong Kong Profits Tax has been provided for the six months ended 31 January 2013 as the Group either has unused tax loss available to offset against assessable profits or there was no estimated assessable profit for the period. Hong Kong profit tax was provided at the rate of 16.5% for the six months ended 31 January 2012 on the estimated assessable profits arising in Hong Kong.

Under the Law of the PRC on Enterprise Income Tax (the “**EIT Law**”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

(8) **DIVIDENDS**

No dividend was paid, declared or proposed during the six months ended 31 January 2013. The directors of the Company do not recommend the payment of an interim dividend (six months ended 31 January 2012: nil).

(9) **EARNINGS PER SHARE**

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 31 January 2013 is based on the consolidated profit attributable to owners of the Company of approximately HK\$216,065,000 (2012 (unaudited): HK\$50,552,000 (as restated)) and the number of ordinary shares of 935,743,695 (2012 (unaudited): the number of ordinary shares of 935,743,695 (as restated)).

(b) Diluted earnings per share

Diluted earnings per share amount for the six months ended 31 January 2013 and 2012 has not been presented as no diluting event existed during the period.

(10) TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	31 January 2013 (Unaudited) HK\$'000	31 July 2012 (Audited) HK\$'000
Trade receivables	33,893	24,881
Less: Allowance for bad and doubtful debts	<u>(1,598)</u>	<u>(1,141)</u>
	32,295	23,740
Other receivables	48,234	43,618
Deposits and prepayments	<u>49,492</u>	<u>36,606</u>
	<u>130,021</u>	<u>103,964</u>

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

- (ii) An aging analysis of the trade receivables as at the end of reporting period, net of allowance, based on the invoice date is as follows:

	31 January 2013 (Unaudited) HK\$'000	31 July 2012 (Audited) HK\$'000
Trade receivables:		
0 to 90 days	23,645	17,042
91 to 180 days	2,653	2,120
181 to 365 days	<u>5,997</u>	<u>4,578</u>
	<u>32,295</u>	<u>23,740</u>

(11) TRADE AND OTHER PAYABLES AND DEPOSITS RECEIVED

An aging analysis of trade payables as at the end of the reporting period, based on the date of receipt of goods and provision of services, and the details of balances of advance from customers, deposits received, other payables and accruals are as follows:

	31 January 2013 (Unaudited) HK\$'000	31 July 2012 (Audited) HK\$'000
Trade payables:		
0 to 90 days	45,907	17,488
91 to 180 days	1,828	2,722
181 to 365 days	375	635
Over 365 days	668	636
	<hr/> 48,778	<hr/> 21,481
Advance from customers	12,703	14,957
Deposits received	8,578	7,275
Other payables and accruals	34,737	39,871
	<hr/> 104,796 <hr/>	<hr/> 83,584 <hr/>

The trade payables are normally settled between 30 and 90 days. The Group have financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

INTERIM DIVIDEND

The Board has resolved not to pay an interim dividend for the six months ended 31 January 2013 (2012: Nil) to retain the liquidity of the Group in the prevailing harsh business ambience.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

The turnover for the period under review was HK\$267,997,000 (2012: HK\$294,074,000), a decline of 9% over the corresponding period last year and the gross profit of the Group decreased by 15% to HK\$160,978,000 (2012: HK\$189,306,000).

The “Garment and Related Accessories Business” segment has been operating under a very tough environment in both aspects of income and expense in the six months ended 31 January 2013. The short chilly weather in the winter of 2012, together with the sluggish spending of customers, had hampered the sales of the high-end merchandises. The relentless raising of rental expenses upon lease renewals of shops undermined the cost-saving effort of the Group through restructuring its sales network. In these challenging circumstances, the Group has continued to pursue the long-term strategy of enhancing its brand image and value. Leveraged on the celebration of the 60th anniversary, the Group staged a series of marketing activities in the period under review, which successfully positioned “Crocodile” in the limelight.

The “Property Investment and Letting Business” segment remained the stable income contributor to the Group and generated a rental income of HK\$12,644,000 for the six months ended 31 January 2013 (2012: HK\$12,038,000). Attributed to the very thriving property market in Hong Kong, the fair value gains on investment properties as at 31 January 2013 amounted to HK\$234,146,000 (2012: HK\$25,553,000).

Taking into account the results of the two business segments above with the share of profit of an associated company of HK\$165,000 (2012: HK\$626,000) and the exchange differences arising on translation of foreign operations of HK\$3,754,000 (2012: HK\$2,236,000), the total comprehensive income for the six months ended 31 January 2013 attributable to the owners of the Company was HK\$220,418,000 (2012: HK\$52,788,000).

Operations in Hong Kong and Macau

The Group has been restructuring the sales network of the “Garment and Related Accessories Business” segment to improve the operation efficiency in view of the hyper rental expenses. It took time for the newly set-up shops to build up the clientele. Moreover, the unpredicted short chilly weather in the winter of 2012 dwindled the sales of high-end fall/winter items. Hence, the revenue dropped by 9% in the six months ended 31 January 2013. As at 31 January 2013, the Group operated 26 shops for Crocodile line (2012: 25) and 8 shops for Lacoste line (2012: 8).

On the other hand, the “Property Investment and Letting Business” segment delivered an encouraging performance. The rental revenue remained steady in the period under review and was HK\$12,644,000 (2012: HK\$12,038,000). The fair value gains on investment properties was HK\$234,146,000 as at 31 January 2013.

Operations in the Mainland of China (“Mainland”)

The business conditions in the Mainland remained difficult. In the macro-perspective, the economic growth revealed a sign of slowdown which worsened the consumer demand in general. In the micro-perspective, the woes of apparel industry not only came from price competitions of the foreign and local brands, but also from the shopping malls at which the shops of the Group were operating. In order to increase the retail traffic, the shopping mall operators frequently launched steep discounting programs and required all the shops therein to follow. Such measures eroded the profit margins of the Group and also increased the uncertainties in cash flow management. To tide the thorny operation environment, the Group expedited the consolidation process of the sales channels, and adopted a prudent approach to inventory management for self-operated shops and franchisees, to minimize the risk of stock obsolescence.

As at 31 January 2013, there were a total of 249 shops in the Mainland (2012: 297), including self-operated shops of 97 (2012: 93) and those operated by the Group’s franchisees of 152 (2012: 204).

Being the major component of the other income, the royalty income from licensees for the six months ended 31 January 2013 was HK\$26,250,000. The negotiations on renewal of expiring royalty agreements were in orderly progress and it was expected that the royalty income would continue to be the Group’s steady income stream.

Prospects

The Mainland Government liquidity-easing measures for driving the economic growth seemed to take effect as its economy regained the growth momentum in the 4th quarter of 2012. However, giving the intricate external economic circumstances, it is uncertain this nascent recovery in the Mainland is sustainable.

The new rounds of quantitative easing implemented by the United States, Europe and Japan will possibly trigger spikes in the commodity prices which lead to inflationary pressure. Consequently, the market sentiments of consumer products in Hong Kong and the Mainland will be jeopardized. The spending power of customers will be diminished.

The “Garment and Related Accessories Business” segment, the major cash generator of the Group, is facing a bumpy path ahead. To preserve its vibrancy, the Group has been broadening its revenue base by exploring new business and investment opportunities. Moreover, the Group will remain cautious in cash management so to have a healthy financial position to cater for any unexpected challenges.

Contingent Liabilities

As at 31 January 2013, 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 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 financial assets at fair value through profit or loss, available for sale financial assets, letters of credit and trust receipt loans, the Group has not employed other financial instruments for the six months ended 31 January 2013.

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\$82,480,000 as at 31 January 2013 (31 July 2012: HK\$49,651,000) and were mainly denominated in Hong Kong dollars and Renminbi. The pledged bank deposits of approximately HK\$794,000 (31 July 2012: HK\$42,493,000) represent deposits pledged to banks to secure banking facilities and margin loans and are therefore classified as current assets. The cash and cash equivalent denominated in Renminbi as at 31 January 2013 amounted to HK\$36,484,000 (31 July 2012: HK\$24,778,000) 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 2013, the total outstanding borrowings including margin loans of the Group amounted to HK\$342,844,000. The total outstanding borrowings comprised unsecured short-term bank trust receipt loans of HK\$9,862,000, secured bank mortgage loan of HK\$7,975,000, secured margin loans of HK\$39,007,000 and secured short-term bank revolving loans of HK\$286,000,000. Short-term bank loans were repayable within a period not exceeding one year. The secured bank mortgage loan above was repayable by instalments with its current portion of HK\$936,000 repayable within one year and long-term portion of HK\$7,039,000 repayable in the second to eighth years.

The Group is currently arranging a long term refinancing for the above secured short-term bank revolving loans of HK\$286,000,000 in order to have sufficient funding for long term business development.

Interest on bank borrowings is charged at floating rates. All the bank borrowings of the Group are denominated in Hong Kong dollars. No financial instruments for hedging purposes were employed by the Group for the six months ended 31 January 2013.

As at 31 January 2013, the Group had mortgaged certain of its investment properties with carrying values of HK\$1,094,000,000 and created floating charges on its certain assets to its bankers to secure banking facilities granted to the Group.

The Group's gearing was considered to be at a reasonable level, as the debt to equity ratio at 31 January 2013 was 24.9%, expressed as a percentage of total bank borrowings and margin loans payable to total net assets.

As at 31 January 2013, 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; acquisition and construction of property, plant and equipment in the Mainland of HK\$7,202,000, expenditure on shop and office decorations in Hong Kong of HK\$3,751,000 and acquisition of available-for-sale financial asset of HK\$9,826,000.

Major Investments, Acquisitions and Disposals

Except for the acquisition of property as disclosed in the announcement dated 15 November 2012, the Group had no significant investments, material acquisitions or disposals in the six months ended 31 January 2013.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

During the six months ended 31 January 2013, the Company did not redeem any of its shares (“**Shares**”) listed and traded on The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”) nor did the Company or any of its subsidiaries purchase or sell any of such Shares.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions set out in the Corporate Governance Code (“**CG Code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange throughout the six months ended 31 January 2013 save for the deviations from code provisions A.2.1, A.4.1, A.5.1 and A.6.7.

Code Provision A.2.1

Under code provision A.2.1, 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 to assume the roles of both the Chairman and the 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 (“**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 as an additional Director (including a NED) will hold office only until the next annual general meeting of the Company (“**AGM**”) and will then be eligible for re-election. Further, in line with the relevant code provision, 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.

Code Provision A.5.1

Under code provision A.5.1, 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.

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. 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. 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.

Code Provision A.6.7

Under code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of the shareholders.

Due to other pre-arranged business commitments which must be attended to by Ms. Lam Suk Ying, Diana (NED), she was not present at the AGM held on 17 December 2012. The aforesaid Director was neither the chairman nor a member of any Board committee.

REVIEW OF INTERIM RESULTS

The audit committee of the Company currently comprises three INEDs, namely Messrs. Leung Shu Yin, William, Yeung Sui Sang and Chow Bing Chiu. Such committee has reviewed the interim results (including the unaudited condensed consolidated financial statements) of the Company for the six months ended 31 January 2013.

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

Hong Kong, 22 March 2013

As at the date of this announcement, the Board comprises five executive Directors, namely Dr. Lam Kin Ming (Chairman and Chief Executive Officer), Ms. Lam Wai Shan, Vanessa (Deputy Chief Executive Officer), Dr. Lam Kin Ngok, Peter, Mr. Lam Kin Hong, Matthew and Mr. Wan Yee Hwa, Edward; one NED, namely Ms. Lam Suk Ying, Diana; and three INEDs, namely Messrs. Yeung Sui Sang, Chow Bing Chiu and Leung Shu Yin, William.