



# Crocodile Garments Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 122)

## ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31ST JANUARY, 2007

### RESULTS

The Board of Directors (the “Board”) of Crocodile Garments Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 31st January, 2007 together with the comparative figures as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31st January, 2007

		Six months ended 31st January, 2007 (Unaudited) HK\$'000	2006 (Audited) HK\$'000
	Notes		
REVENUE	3	218,690	198,240
Cost of sales		(85,949)	(81,220)
Gross profit		132,741	117,020
Other income	4	20,289	16,368
Selling and distribution costs		(124,213)	(95,236)
Administrative expenses		(24,028)	(27,886)
Other operating expenses	5	(1,489)	(599)
PROFIT FROM OPERATING ACTIVITIES		3,300	9,667
Fair value gains on investment properties		2,000	146,593
Finance costs		(893)	(802)
PROFIT BEFORE TAX	5	4,407	155,458
Tax	6	(2,267)	(22,686)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		2,140	132,772
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
— basic	7	0.35 HK cents	21.51 HK cents

### CONDENSED CONSOLIDATED BALANCE SHEET

As at 31st January, 2007

		31st January, 2007 (Unaudited) HK\$'000	31st July, 2006 (Audited) HK\$'000
	Notes		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		30,864	31,208
Investment properties		446,628	444,628
Rental and utility deposits		12,568	13,906
Deposits for prepaid land lease payments		39,643	33,022
Total non-current assets		529,703	522,764
<b>CURRENT ASSETS</b>			
Inventories		102,212	84,332
Trade receivables, deposits and prepayments	8	46,685	39,131
Amount due from a related company		710	1,459
Cash and cash equivalents		65,325	80,878
Total current assets		214,932	205,800
<b>CURRENT LIABILITIES</b>			
Short-term borrowings		49,026	38,094
Trade and other payables	9	77,858	78,256
Amounts due to related companies		1,052	290
Current tax payable		16,377	14,755
Total current liabilities		144,313	131,395
<b>NET CURRENT ASSETS</b>		70,619	74,405
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		600,322	597,169
<b>NON-CURRENT LIABILITIES</b>			
Provision for long service payments		2,171	3,846
Deferred tax liabilities		42,033	41,704
Total non-current liabilities		44,204	45,550
Net assets		556,118	551,619
<b>EQUITY</b>			
Equity attributable to equity holders of the parent			
Issued capital		154,282	154,282
Reserves		339,673	337,314
Retained profits		62,163	60,023
Total equity		556,118	551,619

### NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

#### 1. Basis of Preparation

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

#### 2. Principal Accounting Policies

The condensed consolidated interim financial statements have been prepared under the historical cost convention except for certain investment properties which have been measured at fair value. The accounting policies and methods of computation used in the preparation of the condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31st July, 2006, except for adoption of the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include HKASs and Interpretations (“Int”)) which are generally effective for annual periods beginning on or after 1st January, 2006:

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HK(IFRIC) — Int 4	Determining whether an Arrangement contains a Lease

The adoption of these new HKFRSs has no material effect on the Group’s results and financial position for the current or prior accounting periods reflected in these financial statements.

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

HKAS 1 Amendment	Presentation of Financial Statements: Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC) — Int 10	Interim Financial Reporting and Impairment
HK(IFRIC) — Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) — Int 12	Service Concession Arrangements

HKAS 1 Amendment & HKFRS 7	Effective for annual periods beginning on or after 1st January, 2007.
HKFRS 8	Effective for annual periods beginning on or after 1st January, 2009.
HK(IFRIC) — Int 10	Effective for annual periods beginning on or after 1st November, 2006.
HK(IFRIC) — Int 11	Effective for annual periods beginning on or after 1st March, 2007.
HK(IFRIC) — Int 12	Effective for annual periods beginning on or after 1st January, 2008.

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

#### 3. Segment Information

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

#### Business segments

For the six months ended 31st January, 2007 (unaudited)

	Garment and related accessories HK\$'000	Property investment HK\$'000	Corporate and others HK\$'000	Consolidated HK\$'000
<b>Segment revenue:</b>				
Sales to/income from external customers	216,912	1,778	—	218,690
Other revenue	15,713	4,260	—	19,973
Total	232,625	6,038	—	238,663
<b>Segment results</b>	(2,244)	7,236	(8)	4,984
Interest income				316
Finance costs				(893)
Profit before tax				4,407
Tax				(2,267)
Profit for the period attributable to equity holders of the parent				2,140
<b>Assets and liabilities:</b>				
Segment assets	230,806	448,504	—	679,310
Unallocated assets				65,325
Total assets				744,635
Segment liabilities	80,057	1,023	1	81,081
Unallocated liabilities				107,436
Total liabilities				188,517
<b>Other segment information:</b>				
Depreciation	7,552	89	—	7,641
Provision for slow-moving inventories, net	39	—	—	39
Fair value gain on investment properties	—	2,000	—	2,000
Capital expenditure	7,297	—	—	7,297

For the six months ended 31st January, 2006 (audited)

	Garment and related accessories HK\$'000	Property investment HK\$'000	Corporate and others HK\$'000	Consolidated HK\$'000
<b>Segment revenue:</b>				
Sales to/income from external customers	194,588	3,652	—	198,240
Other revenue	13,310	107	—	13,417
Total	207,898	3,759	—	211,657
<b>Segment results</b>	4,119	149,201	(11)	153,309
Interest income				2,951
Finance costs				(802)
Profit before tax				155,458
Tax				(22,686)
Profit for the period attributable to equity holders of the parent				132,772
<b>Other segment information:</b>				
Depreciation	5,718	90	—	5,808
Write-back of provision for slow-moving inventories, net	(2,922)	—	—	(2,922)
Capital expenditure	7,235	—	—	7,235
Loss on disposals/write-offs of items of property, plant and equipment	14	—	—	14
Fair value gains on investment properties	—	(146,593)	—	(146,593)

#### Geographical segments

For the six months ended 31st January, 2007 (unaudited)

	Hong Kong HK\$'000	Mainland China HK\$'000	Consolidated HK\$'000
<b>Segment revenue:</b>			
Sales to/income from external customers	140,691	77,999	218,690
Other revenue	4,375	15,598	19,973
Total	145,066	93,597	238,663
<b>Other segment information:</b>			
Segment assets	543,765	135,545	679,310
Unallocated assets			65,325
Total assets			744,635
Capital expenditure	2,983	4,314	7,297

For the six months ended 31st January, 2006 (audited)

	Hong Kong HK\$'000	Mainland China HK\$'000	Consolidated HK\$'000
<b>Segment revenue:</b>			
Sales to/income from external customers	126,877	71,363	198,240
Other revenue	145	13,272	13,417
Total	127,022	84,635	211,657
<b>Other segment information:</b>			
Capital expenditure	4,788	2,447	7,235

**4. Other Income**

	Six months ended 31st January, 2007 (Unaudited) HK\$'000	2006 (Audited) HK\$'000
Royalty income	13,701	11,532
Interest income	316	2,951
Sale of miscellaneous materials	258	249
Income from a related company for contributing an investment property as security	4,260	—
Others	1,754	1,636
	<u>20,289</u>	<u>16,368</u>

**5. Profit Before Tax**

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

	Six months ended 31st January, 2007 (Unaudited) HK\$'000	2006 (Audited) HK\$'000
Depreciation	7,641	5,808
Provision/(write-back of provision) for slow-moving inventories, net	39	(2,922)
Other operating expenses/(income):		
Severance payments	1,667	503
Foreign exchange differences, net	(178)	82
Loss on disposals/write-offs of items of property, plant and equipment, net	—	14
	<u>1,489</u>	<u>599</u>

**6. Tax**

No Hong Kong profits tax has been provided as the Group had no assessable profits arising in Hong Kong during the period (2006 (audited): Nil). The current and prior periods' tax charge represented deferred tax.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 31st January, 2007 (Unaudited) HK\$'000	2006 (Audited) HK\$'000
Current — Elsewhere	1,938	—
Deferred	329	22,686
	<u>2,267</u>	<u>22,686</u>

**7. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent**

The calculation of basic earnings per share is based on the profit attributable to equity holders of the parent for the period of HK\$2,140,000 (2006 (audited): HK\$132,772,000) and the number of 617,127,130 (2006 (audited): 617,127,130) ordinary shares in issue throughout the period.

Diluted earnings per share amounts for the six months ended 31st January, 2007 and 2006 have not been calculated because no diluting events existed during these periods.

**8. Trade Receivables, Deposits and Prepayments**

Other than cash sales made at retail outlets of the Group, trading terms with wholesale customers are largely on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 30 days of issuance, except for certain well-established customers, where the terms are extended to 90 days. Each customer has a maximum credit limit.

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

An aged analysis of trade receivables as at the balance sheet date, net of provisions, based on the overdue date, and the balances of deposits and prepayments are as follows:

	31st January, 2007 (Unaudited) HK\$'000	31st July, 2006 (Audited) HK\$'000
Trade receivables:		
Current to 90 days	11,869	9,662
91 to 180 days	2,512	5,119
181 to 365 days	2,917	12
	<u>17,298</u>	<u>14,793</u>
Deposits and prepayments	29,387	24,338
	<u>46,685</u>	<u>39,131</u>

**9. Trade and Other Payables**

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

	31st January, 2007 (Unaudited) HK\$'000	31st July, 2006 (Audited) HK\$'000
Trade payables:		
Current to 90 days	40,932	26,688
91 to 180 days	2,767	3,276
181 to 365 days	1,012	643
Over 365 days	3,005	4,609
	<u>47,716</u>	<u>35,216</u>
Deposit received	9,828	16,105
Accruals and other payables	20,314	26,935
	<u>77,858</u>	<u>78,256</u>

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

**10. Post Balance Sheet Event**

In accordance with the conditional development agreement in respect of the redevelopment of the investment property situated at 79 Hoi Yuen Road, Kwun Tong, Kowloon (the "KT Property") entered into by the Company, Lai Sun Garment (International) Limited ("LSG") and Unipress Investments Limited ("Unipress"), a wholly-owned subsidiary of LSG, on 28th February, 2006 (the "Development Agreement"), if construction finance was required by Unipress for financing the development and construction cost of the KT Property, the Group had agreed to provide or procure such security over or in relation to the KT Property as might reasonably be required by the relevant lending institution(s) and LSG was expected to provide a corporate guarantee as security for such finance. On 8th February, 2007, Crocodile KT Investment Limited ("Crocodile KT"), a wholly-owned subsidiary of the Company, entered into an agreement with a bank for a HK\$361,000,000 term loan facility in accordance with the Development Agreement and the Group has put up certain security relating to the KT Property and entered into certain ancillary agreements in relation thereto. Details of the agreements are set out in the announcement of the Company dated 8th February, 2007.

**INTERIM DIVIDEND**

The Board has resolved not to pay an interim dividend for the six months ended 31st January, 2007 (2006: Nil).

**MANAGEMENT DISCUSSION AND ANALYSIS****Financial Performance**

During the period under review, turnover was HK\$219 million (2006: HK\$198 million), representing a 10.6% increase. Gross profit of the Group increased by 13.7%, to HK\$133 million (2006: HK\$117 million). Operating profit amounted to about HK\$3.3 million, down by 66.0% compared to the same period last year (2006: HK\$9.7 million). This was mainly attributable to the increase in rentals for Hong Kong retail outlets. At the same time, the number of retail outlets on the Mainland of China (the "Mainland") increased from 36 in the same period of last year to 91 this year, resulting in significant increase in shop related expenses on the Mainland. During the period under review, the Group recorded a profit attributable to shareholders of HK\$2.1 million (2006: HK\$132.8 million). The change in the property market contributed a revaluation surplus of HK\$2 million to this half year (2006: HK\$146.6 million).

**Operations in Hong Kong**

The Group operates 20 Crocodile outlets and 6 Lacoste outlets in Hong Kong. Total sales from retail in Hong Kong showed a 12.7% increase in the first half year compared to the same period last year. The Lacoste line, which offers casual and fashionable high-end products, recorded significant increase in sales during the first half year.

However, the boom in the Hong Kong economy and property market resulted in significant increases in rental cost, which partly offset the increase in contributions from retail in Hong Kong.

**Operations on the Mainland**

During the period under review, the Group continued to expand its own retail network in major cities on the Mainland to complement its nationwide franchising strategy. Total sales increased by 9.3% in the first half year compared to the same period last year.

The number of retail outlets operated by the Group increased from 36 as at 31st January, 2006 to 91 as at 31st January, 2007. The contribution generated from the increase in sales was partly offset by the increase in costs associated with the operation of these outlets.

Other income, mainly representing royalty income derived from licensees, increased by 18.8% as a result of granting of Crocosports to the new licensee and the increase in fees from the existing licensees.

Currently, there are a total of 515 sales outlets on the Mainland (2006: 515), including self-operated retail outlets and those operated by our franchisees.

**Prospects**

The Group believes that the continuing improvement in the unemployment rate in Hong Kong and a general rise in salaries, as well as the booming stock market should stimulate consumer spending. If the trend continues, the Group is of the opinion that the results in future can improve. On the other hand, management is concerned with the impacts from increase in rental and salaries and will devote greater efforts to discipline expenses in order to achieve better results.

On the Mainland, the retail market and consumer spending power continue to grow at a remarkable speed. The Group is well positioned to benefit from the Mainland's growing demand in this market. The Group is restructuring its self-operated outlets, aimed at achieving better economic results, and put efforts to win new franchisees in the second and third-tier of cities on the Mainland.

The boom in the Hong Kong property market, especially the redevelopment plan in Kwun Tong by the Government of the HKSAR, has provided the Group with an excellent opportunity to improve the quality of its property investments. The investment property in Kwun Tong is now under redevelopment and will be built into a completely new commercial complex, which is expected to contribute stable income to the Group in the future.

**Contingent Liabilities**

As at 31st January, 2007, the Company had contingent liabilities for the amount of HK\$3,000,000 in respect of guarantee provided by the Company for banking facilities granted to its subsidiary.

In accordance with the Development Agreement, if construction finance was required by Unipress for financing the development and construction cost of the KT Property, the Group had agreed to provide or procure such security over or in relation to the KT Property as might reasonably be required by the relevant lending institution(s) and LSG was expected to provide a corporate guarantee as security for such finance. As at 31st January, 2007, the KT Property was not secured for any construction finance. Subsequent to that balance sheet date, Crocodile KT entered into an agreement on 8th February, 2007 with a bank for a HK\$361,000,000 term loan facility in accordance with the Development Agreement and the Group has put up certain security relating to the KT Property and entered into certain ancillary agreements in relation thereto. Details of the agreements are set out in the announcement of the Company dated 8th February, 2007.

Apart from the foregoing, at the balance sheet date, the Group has also entered into a number of construction and consultancy contracts for the redevelopment of the KT Property with the contractors and consultants of aggregate principal sums of about HK\$52,400,000 (31st July, 2006 (audited): HK\$7,000,000). The Group has also simultaneously entered into the respective deeds of undertakings with Unipress and these contractors of which Unipress/LSG unconditionally and irrevocably undertakes to these contractors as primary obligor/guarantor, to perform all obligations of the Group and to pay to the contractors all amounts due from time to time on the part of the Group under and in accordance with terms of these construction and consultancy contracts.

**Liquidity, Financial Resources, Gearing, Charges on Assets and Capital Commitments**

Cash and cash equivalents held by the Group amounted to HK\$65,325,000 as at 31st January, 2007 and were mainly denominated in Hong Kong dollars and Renminbi.

As at 31st January, 2007, total bank borrowings of the Group amounted to HK\$49,026,000 which were due for renewal within one year. Of the total bank borrowings, HK\$22,150,000 represented secured short-term bank loans and HK\$5,000,000 represented unsecured short-term bank loan, HK\$20,285,000 was trust receipt loans and the balance was unsecured overdrafts. Interest on bank borrowings is charged at floating rates. All of the Group's bank borrowings are denominated in Hong Kong dollars. No financial instruments for hedging purposes were employed by the Group during the period under review.

The Group's gearing was considered to be at a reasonable level, as the debt to equity ratio at 31st January, 2007 was only 8.8%, expressed as a percentage of total bank borrowings to total net assets.

As at 31st January, 2007, the Group had pledged investment properties with carrying values of HK\$97,000,000 to its bankers to secure banking facilities granted to the Group.

The Group had contracted capital commitments of HK\$8,394,000 as at 31st January, 2007.

**PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the six months ended 31st January, 2007, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

**CORPORATE GOVERNANCE**

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

**Code Provision A.2.1**

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

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

**Code Provision A.4.1**

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

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

**REVIEW OF INTERIM RESULTS**

The interim results of the Company for the six months ended 31st January, 2007 have been reviewed by the audit committee of the Company. The audit committee comprises the three independent non-executive Directors of the Company, namely, Messrs. Wan Yee Hwa, Edward, Yeung Sui Sang and Chow Bing Chiu.

By Order of the Board

**Lam Kin Ming**

*Chairman and Chief Executive Officer*

Hong Kong, 20th April, 2007

*As at the date of this announcement, the executive Directors of the Company are Mr. Lam Kin Ming, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Hong, Matthew, Ms. Lam Wai Shan, Vanessa and Ms. Cheng Suet Fei, Sophia; the non-executive Directors are Ms. Lam Suk Ying, Diana and Mr. Tong Ka Wing, Carl; and the independent non-executive Directors are Mr. Wan Yee Hwa, Edward, Mr. Yeung Sui Sang and Mr. Chow Bing Chiu.*