CROCODILE

**Crocodile Garments Limited**
(Incorporated in Hong Kong with limited liability)
**(Stock Code: 122)**

# ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 JULY 2016

## RESULTS

The board of directors ("**Board**" and "**Directors**" respectively) of Crocodile Garments Limited ("**Company**") announces the audited consolidated results of the Company and its subsidiaries ("**Group**") for the financial year ended 31 July 2016 together with the comparative figures for the previous financial year as follows:

**Consolidated Statement of Profit or Loss and Other Comprehensive Income**
*For the year ended 31 July 2016*

| | *Notes* | **2016** *HK$'000* | 2015 *HK$'000* |
|---|---|---|---|
| **REVENUE** | *3* | **313,217** | 405,325 |
| Cost of sales | | **(126,383)** | (153,417) |
| Gross profit | | **186,834** | 251,908 |
| Fair value gains on investment properties | | **39,444** | 97,493 |
| Other income | *4* | **47,179** | 53,827 |
| Selling and distribution expenses | | **(197,661)** | (264,087) |
| Administrative expenses | | **(65,167)** | (63,148) |
| Other operating expenses, net | | **(1,933)** | (17,226) |
| Finance costs | *5* | **(12,105)** | (11,188) |
| Share of profit of an associate | | **2,843** | 6,829 |
| **(LOSS) PROFIT BEFORE TAX** | *6* | **(566)** | 54,408 |
| Income tax credit (expense) | *7* | **1,021** | (3,263) |
| **PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY** | | **455** | 51,145 |
| **OTHER COMPREHENSIVE EXPENSE** | | | |
| Item that may be subsequently reclassified to profit or loss: | | | |
| Exchange differences arising on translation of foreign operations | | **(11,388)** | (1,696) |
| Other comprehensive expense for the year | | **(11,388)** | (1,696) |
| **TOTAL COMPREHENSIVE (EXPENSE) INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY** | | **(10,933)** | 49,449 |
| | | ***HK cents*** | *HK cents* |
| **EARNINGS PER SHARE** | *9* | | |
| — Basic | | **0.05** | 5.47 |
| — Diluted | | **0.05** | 5.44 |

**Consolidated Statement of Financial Position**
*As at 31 July 2016*

| | Notes | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **138,924** | 154,667 |
| Investment properties | | **1,632,793** | 1,595,050 |
| Land lease prepayments | | **13,318** | 14,578 |
| Interest in an associate | | **42,482** | 39,065 |
| Rental and utility deposits | | **11,102** | 11,131 |
| Deposits for land lease prepayments | *10* | **16,172** | 17,278 |
| Available-for-sale financial asset | | **—** | 26,366 |
| | | **1,854,791** | 1,858,135 |
| **Current assets** | | | |
| Inventories | | **73,336** | 102,407 |
| Trade and other receivables, deposits and prepayments | *11* | **67,587** | 85,552 |
| Financial assets at fair value through profit or loss | | **140,299** | 141,540 |
| Pledged bank deposits | | **4,367** | 1,819 |
| Bank balances and cash | | **152,787** | 72,143 |
| | | **438,376** | 403,461 |
| **Current liabilities** | | | |
| Bank borrowings | *12* | **295,572** | 495,241 |
| Margin loans payable | | **22,990** | 21,824 |
| Trade and other payables and deposits received | *13* | **61,004** | 69,355 |
| Perpetual loan | | **15,000** | 15,000 |
| Amounts due to related companies | | **42,412** | 42,991 |
| Tax payable | | **20,436** | 21,834 |
| | | **457,414** | 666,245 |
| **Net current liabilities** | | **(19,038)** | (262,784) |
| **Total assets less current liabilities** | | **1,835,753** | 1,595,351 |
| **Non-current liabilities** | | | |
| Bank borrowings | *12* | **276,764** | 26,047 |
| Provision for long service payments | | **2,882** | 2,774 |
| Deferred tax liabilities | | **4,723** | 5,744 |
| | | **284,369** | 34,565 |
| **Net assets** | | **1,551,384** | 1,560,786 |
| **Capital and reserves** | | | |
| Share capital | | **332,323** | 330,214 |
| Reserves | | **1,219,061** | 1,230,572 |
| **Total equity** | | **1,551,384** | 1,560,786 |

## Notes to the Consolidated Financial Statements

*For the year ended 31 July 2016*

### (1) BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the Hong Kong Companies Ordinance ("**Companies Ordinance**"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

These consolidated financial statements are presented in Hong Kong dollars ("**HK$**") except otherwise indicated.

In preparing the consolidated financial statements of the Company, the Directors have 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$19,038,000 as at 31 July 2016.

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 consolidated financial statements have been prepared on a going concern basis.

The financial information relating to the years ended 31 July 2016 and 31 July 2015 included in this preliminary announcement of annual results for the year ended 31 July 2016 does not constitute the Company's statutory annual consolidated financial statements for those years 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 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31 July 2016 in due course.

Auditor's reports have been prepared on these financial statements of the Group for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

## (2) APPLICATION OF HKFRSs

**New and revised HKFRSs issued but not yet effective**

The Group has not early applied the following new and revised HKFRSs that have been issued by the HKICPA but are not yet effective:

| | |
|---|---|
| HKFRS 9 | Financial Instruments[1] |
| HKFRS 15 | Revenue from Contracts with Customers[1] |
| HKFRS 16 | Leases[4] |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based, Payment Transactions[1] |
| Amendments to HKFRS 11 | Accounting for Acquisitions of Interests in Joint Operations[2] |
| Amendments to HKFRS 15 | Clarifications to HKFRS 15 Revenue from Contracts with Customers[1] |
| Amendments to HKAS 1 | Disclosure Initiative[2] |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation[2] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2012-2014 Cycle[2] |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer Plants[2] |
| Amendments to HKAS 27 | Equity Method in Separate Financial Statements[2] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment Entities: Applying the Consolidation Exception[2] |
| Amendments to HKAS 7 | Disclosure Initiative[5] |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses[5] |

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2019
5 Effective for annual periods beginning on or after 1 January 2017

**HKFRS 15 Revenue from Contracts with Customers**

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Group are still in the process of assessing the impact of HKFRS 15 on the amounts reported and disclosures made in the Group's consolidated financial statements at the moment. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

## (2) APPLICATION OF HKFRSs *(continued)*

### HKFRS 16 Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases", introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash payments of the lease liability into a principal portion and an interest portion and presents them in the consolidated statement of cash flows. Also, the right-of-use asset and these lease liabilities are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for these two types of leases differently.

The directors of the Group will assess the impact of application of HKFRS 16. For the moment, it is not practicable to provide a reasonable estimate of the effect of the application of HKFRS 16 until the Group performs a detailed review.

The directors of the Group anticipate that the application of other new and revised HKFRSs will have no material impact on the results and the financial position of the Group.

## (3) SEGMENT INFORMATION

### (a) Segment revenues and results

*For the year ended 31 July*

| | Garment and related accessories business | | Property investment and letting business | | Others | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Revenue from external customers | **259,438** | 354,162 | **53,779** | 51,163 | **—** | — | **313,217** | 405,325 |
| Other income from external customers *(Note)* | **35,356** | 51,011 | **2,571** | 1,671 | **8,935** | 748 | **46,862** | 53,430 |
| Group's total revenue and other income *(Note)* | **294,794** | 405,173 | **56,350** | 52,834 | **8,935** | 748 | **360,079** | 458,755 |
| Reportable segment (loss) profit | **(49,560)** | (43,981) | **93,173** | 149,369 | **8,935** | 748 | **52,548** | 106,136 |
| Unallocated corporate income | | | | | | | **317** | 397 |
| Unallocated corporate expenses | | | | | | | **(41,326)** | (40,937) |
| Finance costs | | | | | | | **(12,105)** | (11,188) |
| (Loss) profit before tax | | | | | | | **(566)** | 54,408 |

*Note: The income excludes bank interest income.*

## (3) SEGMENT INFORMATION *(continued)*

### (b) Segment assets and liabilities

*As at 31 July*

| | Garment and related accessories business | | Property investment and letting business | | Others | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| ASSETS | | | | | | | | |
| Segment assets | **316,342** | 381,277 | **1,679,372** | 1,638,450 | **140,299** | 141,541 | **2,136,013** | 2,161,268 |
| Unallocated corporate assets | | | | | | | **157,154** | 100,328 |
| Total consolidated assets | | | | | | | **2,293,167** | 2,261,596 |
| LIABILITIES | | | | | | | | |
| Segment liabilities | **89,892** | 100,299 | **16,406** | 14,821 | **22,990** | 21,824 | **129,288** | 136,944 |
| Unallocated corporate liabilities | | | | | | | **612,495** | 563,866 |
| Total consolidated liabilities | | | | | | | **741,783** | 700,810 |

### (c) Other segment information

*For the year ended 31 July*

| | Garment and related accessories business | | Property investment and letting business | | Others | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Amounts included in the measure of segment profit or loss or segment assets: | | | | | | | | |
| Interest in an associate | **—** | — | **42,482** | 39,065 | **—** | — | **42,482** | 39,065 |
| Additions and transfer to non-current assets *(Note)* | **5,495** | 9,706 | **—** | 44,918 | **—** | — | **5,495** | 54,624 |
| Depreciation and amortisation | **15,496** | 16,350 | **288** | 299 | **—** | — | **15,784** | 16,649 |
| Provision for doubtful debts | **1,977** | 15,879 | **—** | — | **—** | — | **1,977** | 15,879 |
| Provision for (reversal of provision for) slow-moving inventories | **1,589** | (1,317) | **—** | — | **—** | — | **1,589** | (1,317) |
| Loss on disposal/write-off of property, plant and equipment | **48** | 38 | **—** | — | **—** | — | **48** | 38 |
| Bad debts write-off | **—** | 10 | **—** | — | **—** | — | **—** | 10 |
| Write-off of long outstanding trade payables | **(536)** | (67) | **—** | — | **—** | — | **(536)** | (67) |
| Fair value gains on investment properties | **—** | — | **(39,444)** | (97,493) | **—** | — | **(39,444)** | (97,493) |
| Net gain on financial assets at fair value through profit or loss ("**FVTPL**") | **—** | — | **—** | — | **(8,935)** | (748) | **(8,935)** | (748) |
| Share of profit of an associate | **—** | — | **(2,843)** | (6,829) | **—** | — | **(2,843)** | (6,829) |
| Interest income from an associate | **—** | — | **(574)** | (546) | **—** | — | **(574)** | (546) |

*Note:* *Non-current assets include property, plant and equipment, investment properties and land lease prepayments.*

## (3) SEGMENT INFORMATION *(continued)*

### (d) Geographical information

| | Revenue from external customers | | Non-current assets | |
|---|---|---|---|---|
| | Year ended 31 July | | As at 31 July | |
| | **2016** | 2015 | **2016** | 2015 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Hong Kong | **271,970** | 331,302 | **1,697,292** | 1,658,602 |
| The People's Republic of China ("**PRC**") | **41,247** | 74,023 | **134,359** | 150,573 |
| | **313,217** | 405,325 | **1,831,651** | 1,809,175 |

*Note: Non-current assets exclude financial instruments and deferred tax assets.*

### (e) Information about major customers

None of the Group's customers contributed 10% or more of the Group's total revenue in both years.

## (4) OTHER INCOME

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Royalty income | **35,045** | 50,615 |
| Bank interest income | **317** | 397 |
| Interest income on amount due from an associate | **574** | 546 |
| Net gain on financial assets at FVTPL | **8,935** | 748 |
| Others | **2,308** | 1,521 |
| | **47,179** | 53,827 |

## (5) FINANCE COSTS

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest on: | | |
| Bank borrowings | **10,175** | 9,127 |
| Amount due to a related company | **1,930** | 2,061 |
| | **12,105** | 11,188 |

## (6) (LOSS) PROFIT BEFORE TAX

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

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Depreciation of property, plant and equipment | **15,449** | 16,300 |
| Amortisation of land lease prepayments (included in administrative expenses) | **335** | 349 |
| Provision for (reversal of provision for) slow-moving inventories (included in cost of sales) | **1,589** | (1,317) |

## (7) INCOME TAX (CREDIT) EXPENSE

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current tax | **—** | — |
| Deferred tax | **(1,021)** | 3,263 |
| Income tax (credit) expense | **(1,021)** | 3,263 |

No current tax has been provided for the years ended 31 July 2016 and 2015 as the Group either has unused tax loss available to offset against assessable profits or there was no estimated assessable profit for the year.

Under the Law of the 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.

## (8) DIVIDEND

No dividend was paid or declared during the year ended 31 July 2016 (2015: Nil) nor has any dividend been proposed by the Company since the end of the reporting period (2015: Nil).

## (9) EARNINGS PER SHARE

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

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Earnings** | | |
| Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share | **455** | 51,145 |

| | **2016** | 2015 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | **947,342,056** | 935,798,490 |
| Effect of dilutive potential ordinary shares: | | |
| Options | **36,838** | 4,671,945 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | **947,378,894** | 940,470,435 |

## (10) 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$17,224,000 (2015: HK$18,401,000)) to the Vendor (the "**Vendor Deposit**") and RMB13,822,000 (equivalent to HK$16,172,000 (2015: HK$17,278,000)) 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 rights certificate cannot be obtained by the Group (the "**Undertaking**").

## (10) DEPOSITS FOR LAND LEASE PREPAYMENTS *(continued)*

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.

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 of 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 years ended 31 July 2016 and 31 July 2015.

## (11) TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | 2016 | 2015 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Trade receivables | **14,825** | 17,652 |
| Less: Allowance for doubtful debts | **(7,394)** | (8,562) |
| | **7,431** | 9,090 |
| Other receivables *(Note a)* | **62,764** | 64,908 |
| Less: Allowance for doubtful debts | **(21,871)** | (20,613) |
| | **40,893** | 44,295 |
| Deposits and prepayments *(Note b)* | **30,365** | 43,298 |
| | **78,689** | 96,683 |
| Less: Rental and utility deposits shown under non-current assets | **(11,102)** | (11,131) |
| | **67,587** | 85,552 |

*Notes:*

*(a) As at 31 July 2016, royalty receivables of the Group of approximately HK$37,076,000 (2015: HK$40,934,000) is included in the other receivables, where payments are required semi-annually.*

*(b) As at 31 July 2016, land lease prepayments of the Group of approximately HK$327,000 (2015: HK$349,000) are included in the current portion of 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 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.

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:

| | 2016 | 2015 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| 0 to 90 days | **4,173** | 8,540 |
| 91 to 180 days | **2,114** | 332 |
| 181 to 365 days | **1,144** | 218 |
| | **7,431** | 9,090 |

## (11) TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(continued)*

The movements in the allowance for doubtful debts for trade and other receivables during the year, including both specific and collective loss components, are as follows:

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At the beginning of the year | **29,175** | 13,398 |
| Allowance provided | **1,977** | 15,879 |
| Exchange realignment | **(1,887)** | (102) |
| At the end of the year | **29,265** | 29,175 |

Included in allowance for doubtful debts of the Group are individually impaired trade receivables with an aggregate balance of approximately HK$29,265,000 (2015: HK$29,175,000). The impaired trade receivables related to customers that were in financial difficulties and consequently, specific allowance for doubtful debts was fully recognised.

## (12) BANK BORROWINGS

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | ***HK$'000*** | **Effective interest rates (%) p.a.** | *HK$'000* | Effective interest rates (%) p.a. |
| Bank loans, secured | **561,247** | **1.49 - 2.30** | 506,594 | 1.49 - 2.30 |
| Trust receipt loans, secured | **11,089** | **2.13 - 2.17** | 14,694 | 1.93 - 1.94 |
| | **572,336** | | 521,288 | |

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Carrying amount repayable *(Note)*: | | |
| Within one year | **295,572** | 495,241 |
| Beyond one year, but not exceeding two years | **13,338** | 2,603 |
| Beyond two years, but not exceeding five years | **250,416** | 8,141 |
| Beyond five years | **13,010** | 15,303 |
| | **572,336** | 521,288 |
| Less: Amounts shown under current liabilities | **(295,572)** | (495,241) |
| Amounts shown under non-current liabilities | **276,764** | 26,047 |

*Note: The amounts due are based scheduled repayment dates set out in the loan agreements.*

The borrowings of the Group bore interest at floating interest rates and were denominated in HK$.

The Group's variable-rate borrowings are mainly subject to interest at Hong Kong Interbank Offered Rate ("**HIBOR**") plus 1.30% to 1.75% (2015: HIBOR plus 1.25% to 1.75%).

During the reporting year, in respect of a bank loan with a carrying amount of approximately HK$433,394,000 as at 31 July 2016 ("**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 an one-off waiver of the above mentioned exceptions.

## (13) TRADE AND OTHER PAYABLES AND DEPOSITS RECEIVED

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

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables: | | |
| 0 to 90 days | **6,180** | 10,966 |
| 91 to 180 days | **—** | 1,163 |
| 181 to 365 days | **431** | 1,998 |
| Over 365 days | **2,236** | 928 |
| | **8,847** | 15,055 |
| Advance from customers | **6,511** | 7,171 |
| Deposits received | **13,141** | 12,681 |
| Other payables and accruals | **32,505** | 34,448 |
| | **61,004** | 69,355 |

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.

## FINAL DIVIDEND

The Board has resolved not to recommend the payment of a final dividend for the year ended 31 July 2016 (2015: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Performance

The revenue of the Group for the year ended 31 July 2016 was HK$313,217,000 (2015: HK$405,325,000) and the gross profit of the Group was HK$186,834,000 (2015: HK$251,908,000).

The business ambience of the "Garment and Related Accessories Business" segment was fraught with challenges in the year ended 31 July 2016. The segment revenue skidded by 27% to HK$259,438,000 (2015: HK$354,162,000) with a loss of HK$49,560,000 (2015: HK$43,981,000).

The rental revenue generated by the "Property Investment and Letting Business" segment was HK$53,779,000 for the year ended 31 July 2016 (2015: HK$51,163,000). The fair value gains on investment properties slumped to HK$39,444,000 as at 31 July 2016 (2015: HK$97,493,000), attributed to the property cooling down measures implemented by the Hong Kong SAR Government and potential rise in interest rate.

Integrating the results of the two business segments above with the share of profit of an associate of HK$2,843,000 (2015: HK$6,829,000) and the exchange loss arising on translation of foreign operations of HK$11,388,000 (2015: HK$1,696,000), the total comprehensive expense attributable to the owners of the Company was HK$10,933,000 for the year ended 31 July 2016 (2015: income of HK$49,449,000).

### Operations in Hong Kong and Macau

The "Garment and Related Accessories Business" segment was still in an embattled situation. The market conditions festered as indicated by the governmental statistics reporting a drop of about 8% in sales value of apparel in Hong Kong in the first half of 2016. The deteriorating competitiveness of Hong Kong as a consumer paradise on its relative currency appreciation, the changes in spending appetite of the tourists of the Mainland of China ("**Mainland**"), the unseasonable weather during the Christmas and New Year period and the social yawning gap made the whole fashion sector sunk in mire in Hong Kong. Stunning sales discounts spilled over into every level of garment retailers, even at the roll out of new season. In view of the above adversities, the Group has pursued stringent cost controls, especially on shop rental expenses by negotiations with landlords and by reorganisation of its shop portfolio in order to optimise the operational scale at reasonable costs. As at 31 July 2016, the Group operated 21 (2015: 20) shops for Crocodile line and 6 (2015: 6) shops for Lacoste line. The Group has curtailed the operating and administrative expenses by computerising and streamlining the management and clerical flows among different departments.

The performance of the "Property Investment and Letting Business" segment was steady with the rental revenue of HK$53,779,000 in the year ended 31 July 2016 and the fair value gains on investment properties of HK$39,444,000 as at 31 July 2016.

**Operations in the Mainland**

The "Garment and Related Accessories Business" segment was facing a gloomy market in the Mainland. The goldilocks economy, the devaluation of Renminbi ("**RMB**") and the volatile stock markets collectively dampened the consumption power. The process of the transformation of economy to domestic demand and the curb of overcapacity was twisting and turning. The governmental fiscal and monetary policies were consequentially flip-flopping. It further magnified the market uncertainties and hence, the difficulties for investment planning. Accordingly, the Group adopted a pragmatic approach in running the "Garment and Related Accessories Business" segment by restructuring of its overall sales network through closures of non-performing shops and realignment of sales force. The Group has consolidated the supply chains to rein the procurement costs. Simplifying product design and strict inventory discipline have been implemented to shorten the stock turnover period. As at 31 July 2016, there were a total of 41 (2015: 87) shops in the Mainland, including self-operated shops of 7 (2015: 21) and those operated by the Group's franchisees of 34 (2015: 66).

As a major other income, the royalty income from licensees provided a steady contribution to the Group of HK$35,045,000 for the year ended 31 July 2016.

**Prospects**

The global environment ahead is full of uncertainties. Being elephant in the room at present, Brexit can cause an unpredictable disturbance in political, economic and financial aspects within a short period of time, especially when the Brexit procedures officially commence in early 2017 and becoming a "hard Brexit". Besides, the mounting legal penalties imposed on Deutsche Bank could shake the banking stability in Europe.

On the other side of the world, though the United States Federal Reserve has held its interest rate steady recently, the near-term interest rate hike, either in November or December 2016, and the market speculation on its timing, can divert some of the massive liquidity that has drenched global markets.

The volatilities of the above advance economies will ripple through to Asia and weaken Asia's contribution to the worldwide economic growth. These factors will not only overshadow the Hong Kong domestic spending sentiment, but also dilute Hong Kong efforts for attracting tourists from Asia and Europe as mitigation for its retail sector amid the decrease in the Mainland tourists. With Hong Kong as its core business base, the Group's "Garment and Related Accessories Business" segment is in turn vulnerable.

Compounding the aforesaid woes with the Mainland's situation, the Group's operation in the Mainland is even more intricate. Building on the current progress, the Mainland is to deepen its supply-side structural reforms with a comprehensive strategy, including state-owned enterprise reform, giving more room to the market and legal mechanisms and to reduce corporate debts. In the private sector, the runaway home-price growth in major cities is stoking the threat of a housing bubble which could destabilise the economy. However, the market presently forecasts another interest rate cut by the People's Bank of China before the year-end to boost domestic consumption. Such further monetary easing may complicate measures to curb asset bubbles. The complex environment will consequentially slow down the Mainland's economic growth, heighten the expectation on further devaluation of RMB and pent-up consumer spending. All of these are harmful to the Group's "Garment and Related Accessories Business" segment.

To grapple with the problems faced by the Group's "Garment and Related Accessories Business" segment, the Group will continue to bolster "Crocodile" as a renowned brand by developing quality merchandises of distinct functionalities and personalities, reinforcing the sales network and supply chain.

The hefty global uncertainties can result in turbulent flows of hot money among different markets internationally. It will intensify the absurd fluctuations in the values of the investment properties and financial assets held by the Group and hence the performances of the Group's segments, namely "Property Investment and Letting Business" and "Others". The Group will cautiously monitor its investment portfolio to contain the risk exposure of its assets on hand. Furthermore, the Group will continue to explore any feasible means of cementing its financial base and fortify the Group's responsiveness in the coming ramifications.

**Contingent Liabilities**

As at 31 July 2016, 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, available for sale financial assets, letters of credit and trust receipt loans, the Group has not employed other financial instruments for the year ended 31 July 2016.

The Group mainly earns revenue and incurs cost in Hong Kong dollars, RMB and United States dollars. The Group considers that 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$152,787,000 as at 31 July 2016 (2015: HK$72,143,000) and were mainly denominated in Hong Kong dollars and RMB. The pledged bank deposits of approximately HK$4,367,000 (2015: HK$1,819,000) 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 July 2016 were equivalent to HK$33,839,000 (2015: HK$39,857,000) 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 July 2016, the total outstanding borrowings including margin loans of the Group amounted to HK$595,326,000. The total outstanding borrowings comprised secured short-term bank trust receipt loans of HK$11,089,000, secured bank mortgage loan of HK$26,047,000, secured margin loans of HK$22,990,000, secured long-term bank loan of HK$264,000,000 and secured short-term bank revolving loans of HK$271,200,000. 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$2,603,000 repayable within one year and long-term portion of HK$23,444,000 repayable in the second to twelfth years.

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 year ended 31 July 2016.

As at 31 July 2016, the Group had mortgaged certain of its investment properties with carrying values of approximately HK$1,570,200,000 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 July 2016 was 38.4%, expressed as a percentage of total bank borrowings and margin loans payable to total net assets. To cater for any possible rises in interest rates, the Group will actively consider any fund-raising means in order to keep its gearing at a reasonable level for controlling its interest expenses while further developing its business.

As at 31 July 2016, the Group had the capital commitments, contracted but not provided for, in respect of the land lease payments in the Mainland of HK$4,043,000 and acquisition and construction of property, plant and equipment in the Mainland of HK$2,106,000.

**Major Investments, Acquisitions and Disposals**

The Group had no significant investments, material acquisitions or disposals in the year ended 31 July 2016.

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

During the year ended 31 July 2016, neither the Company nor any of its subsidiaries had purchased, sold or redeemed the Company's listed securities.

## CORPORATE GOVERNANCE

The Company is committed to achieving and maintaining high standards of corporate governance and has established policies and procedures for compliance with the principles and 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 ("**Listing Rules**") on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**").

The Company has complied with all applicable code provisions set out in the CG Code throughout the year ended 31 July 2016 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 to assume the roles of both the Chairman and the Chief Executive Officer.

*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 ("**AGM**") (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.*

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. 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.

## REVIEW OF ANNUAL RESULTS

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 with the management of the Company the consolidated financial statements of the Company for the year ended 31 July 2016 including the accounting principles and practices adopted by the Group as well as the internal control and financial reporting matters.

## REVIEW OF PRELIMINARY RESULTS ANNOUNCEMENT BY INDEPENDENT AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 July 2016 as set out in this preliminary results announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu ("**DTT**"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by DTT in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by DTT on this preliminary results announcement.

## ANNUAL GENERAL MEETING

The forthcoming AGM will be held on Monday, 19 December 2016. Notice of such AGM together with the Company's Annual Report for the year ended 31 July 2016 will be published on the respective websites of the Stock Exchange and the Company and despatched to the Shareholders in about mid-November 2016.

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

Hong Kong, 28 October 2016

*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 Edward Yee Hwa; one Non-executive Director, namely Ms. Lam Suk Ying, Diana; and three Independent Non-executive Directors, namely Messrs. Chow Bing Chiu, Leung Shu Yin, William and Yeung Sui Sang.*