CROCODILE

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

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 JANUARY 2018

RESULTS

The board of directors ("**Board**" and "**Directors**", 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 2018 together with the comparative figures of the last corresponding period as follows:

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the six months ended 31 January 2018

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

Condensed Consolidated Statement of Financial Position
As at 31 January 2018

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 January 2018

(1) BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 31 January 2018 have been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). In addition, the unaudited condensed consolidated interim financial statements also comply with the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) ("**Companies Ordinance**") and the disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

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

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

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

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

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

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

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

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

(2) PRINCIPAL ACCOUNTING POLICIES

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

(2) PRINCIPAL ACCOUNTING POLICIES *(continued)*

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

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

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

(3) SEGMENT INFORMATION

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

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

Segment revenues and results

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

For the six months ended 31 January

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

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

(4) OTHER INCOME

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

(5) OTHER GAINS AND (LOSSES)

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

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

(6) FINANCE COSTS

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

(7) PROFIT (LOSS) BEFORE TAX

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

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

(8) INCOME TAX CREDIT

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

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

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

(9) DIVIDEND

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

(10) EARNINGS (LOSS) PER SHARE

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

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

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

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

(11) DEPOSITS FOR LAND LEASE PREPAYMENTS

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

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

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

(11) DEPOSITS FOR LAND LEASE PREPAYMENTS *(continued)*

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

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

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

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

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

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

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

(12) TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

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

(i) Other than cash sales made at retail outlets of the Group, trading terms with wholesale customers are largely on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 30 days of issuance, except for certain well-established customers, where the term is extended to 90 days. Each customer has been set with a maximum credit limit. The Group does not hold any collateral over these balances.

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

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

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

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

(13) BANK BORROWINGS

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

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

(14) TRADE AND OTHER PAYABLES AND DEPOSITS RECEIVED

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

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

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.

INTERIM DIVIDEND

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

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

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

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

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

"Garment and Related Accessories Business" Segment

Operations in Hong Kong and Macau

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

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

Operations in the Mainland

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

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

"Property Investment and Letting Business" Segment

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

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

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

Prospects

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

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

Prospects *(continued)*

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

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

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

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

Contingent Liabilities

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

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

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

The Group maintains a conservative approach in treasury management by constantly monitoring its interest rates and foreign exchange exposure. Except for financial assets at fair value through profit or loss, letters of credit and trust receipt loans, the Group has not employed other financial instruments for the six months ended 31 January 2018.

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

Cash and cash equivalents held by the Group amounted to HK$96,160,000 as at 31 January 2018 (31 July 2017: HK$125,908,000) and were mainly denominated in Hong Kong dollars and Renminbi. The pledged bank deposits of approximately HK$13,454,000 (31 July 2017: HK$14,199,000) represent deposits pledged to banks to secure margin loans and are therefore classified as current assets. The cash and cash equivalent denominated in Renminbi as at 31 January 2018 were equivalent to HK$37,127,000 (31 July 2017: HK$33,035,000) which is not freely convertible into other currencies. However, under the Mainland's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for other currencies in respect of approved transactions through banks authorised to conduct foreign exchange business.

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

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

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

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

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

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

Major Investments, Acquisitions and Disposals

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

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

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

CORPORATE GOVERNANCE

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

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

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

CORPORATE GOVERNANCE *(continued)*

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

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

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

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 INTERIM 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 the unaudited interim results (including the unaudited condensed consolidated interim financial statements) of the Company for the six months ended 31 January 2018, the accounting principles and practices adopted by the Company, and the internal control and financial reporting matters.

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

Hong Kong, 26 March 2018

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.