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 2019

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 2019 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 2019

		Six months ended 31 January	
		2019	2018
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	*3*	**123,886**	131,258
Cost of sales		**(40,879)**	(45,714)
Gross profit		**83,007**	85,544
Fair value gains on investment properties		**51,262**	69,877
Other income	*4*	**2,582**	10,958
Selling and distribution expenses		**(65,393)**	(76,267)
Administrative expenses		**(29,214)**	(30,663)
Other gains and (losses)	*5*	**4,321**	8,933
Finance costs	*6*	**(8,471)**	(6,746)
Share of profit from an associate		**3,202**	4,178
Profit before tax	*7*	**41,296**	65,814
Income tax credit	*8*	**314**	452
Profit for the period attributable to owners of the Company		**41,610**	66,266
Other comprehensive income			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**2,234**	9,191
Total comprehensive income for the period attributable to owners of the Company		**43,844**	75,457
		HK cents	*HK cents*
Earnings per share	*10*		
— Basic		**4.39**	6.99
— Diluted		**N/A**	N/A

Condensed Consolidated Statement of Financial Position
As at 31 January 2019

	Notes	**31 January 2019 (Unaudited) *HK$'000***	31 July 2018 (Audited) *HK$'000*
Non-current assets			
Property, plant and equipment		**121,223**	123,033
Investment properties		**1,940,157**	1,888,489
Land lease prepayments		**12,174**	12,127
Available-for-sale investment		**31,111**	33,000
Amount due from an associate		**13,611**	13,271
Interest in an associate		**53,824**	50,622
Rental and utility deposits		**12,941**	11,679
		2,185,041	2,132,221
Current assets			
Inventories		**51,116**	39,660
Trade and other receivables, deposits and prepayments	*11*	**27,769**	35,215
Financial assets at fair value through profit and loss		**353,872**	450,777
Amounts due from related companies		**–**	88
Pledged bank deposits		**15,533**	7,169
Bank balances and cash		**98,287**	104,031
		546,577	636,940
Current liabilities			
Bank borrowings	*12*	**463,838**	551,471
Margin loans payable		**67,812**	50,526
Trade and other payables and deposits received	*13*	**81,753**	74,855
Other current liability		**15,000**	15,000
Amounts due to related companies		**244**	2,266
Tax payable		**20,436**	20,087
		649,083	714,205
Net current liabilities		**(102,506)**	(77,265)
Total assets less current liabilities		**2,082,535**	2,054,956
Non-current liabilities			
Bank borrowings	*12*	**243,343**	250,048
Provision for long service payments		**2,565**	2,336
Deferred tax liabilities		**2,667**	2,981
		248,575	255,365
Net assets		**1,833,960**	1,799,591
Capital and reserves			
Share capital		**332,323**	332,323
Reserves		**1,501,637**	1,467,268
Total equity		**1,833,960**	1,799,591

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 January 2019

(1) BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 31 January 2019 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$102,506,000 as at 31 January 2019.

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 year ended 31 July 2018 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 2018 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; included a reference to material uncertainty related to going concern 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 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 July 2018.

(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.

HKFRS 9 (2014)	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
HK (International Financial Reporting Interpretations Committee) – Int 22	Foreign Currency Transactions and Advance Consideration

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. The operating segments are managed separately as each business line 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**		**Securities trading**		**Total**	
	2019 (Unaudited) *HK$'000*	2018 (Unaudited) *HK$'000*	**2019 (Unaudited) *HK$'000***	2018 (Unaudited) *HK$'000*	**2019 (Unaudited) *HK$'000***	2018 (Unaudited) *HK$'000*	**2019 (Unaudited) *HK$'000***	2018 (Unaudited) *HK$'000*
Revenue from external customers	**95,418**	102,905	**28,468**	28,353	**—**	—	**123,886**	131,258
Other income from external customers	**1,354**	10,340	**662**	452	**—**	—	**2,016**	10,792
Group's total revenue and other income	**96,772**	113,245	**29,130**	28,805	**—**	—	**125,902**	142,050
Reportable segment (loss) profit	**(5,789)**	(15,007)	**77,923**	102,270	**(4,059)**	5,257	**68,075**	92,520
Unallocated corporate income							**566**	166
Unallocated corporate expenses							**(18,874)**	(20,126)
Finance costs							**(8,471)**	(6,746)
Profit before tax							**41,296**	65,814

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 2. Segment (loss) profit represents the (loss from) profit earned 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 resources allocation and assessment of segment performance.

(4) OTHER INCOME

	Six months ended 31 January	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Royalty income	**358**	9,477
Bank interest income	**146**	114
Interest income on amount due from an associate	**340**	319
Interest income in advance to independent third parties	**420**	52
Others	**1,318**	996
	2,582	10,958

(5) OTHER GAINS AND (LOSSES)

	Six months ended 31 January	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Net reversal of provision (provision) for doubtful debts on trade and other receivables	**9,994**	(444)
Write-off of trade and other receivables	**(159)**	(58)
Gain on disposal of investment property	**—**	2,855
Impairment loss on available-for-sale investment	**(1,889)**	—
Net (loss) gain on financial assets at fair value through profit or loss	**(4,059)**	5,257
Exchange gain, net	**87**	681
Others	**347**	642
	4,321	8,933

(6) FINANCE COSTS

	Six months ended 31 January	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on:		
Bank borrowings	**8,471**	6,242
Amount due to a related company	**—**	504
	8,471	6,746

(7) PROFIT BEFORE TAX

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

	Six months ended 31 January	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**5,970**	6,595
Amortisation of land lease prepayments (included in administrative expenses)	**159**	164
Cost of inventories recognised as an expense (including reversal of provision for slow-moving inventories of HK$235,000 (2018: HK$1,462,000))	**40,542**	45,351

(8) INCOME TAX CREDIT

	Six months ended 31 January	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current tax	**—**	—
Deferred tax	**(314)**	(452)
Income tax credit	**(314)**	(452)

No current tax has been provided for the six months ended 31 January 2019 (2018: 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.

(9) DIVIDEND

During the period, a final dividend of HK$0.01 per share of the Company totalling HK$9,475,000 in respect of the year ended 31 July 2018 was declared and subsequently paid in January 2019. The Directors do not recommend the payment of an interim dividend (six months ended 31 January 2018: Nil).

(10) EARNINGS PER SHARE

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

	Six months ended 31 January	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	**41,610**	66,266

	Six months ended 31 January	
	2019	2018
	(Unaudited)	(Unaudited)
Number of shares		
Number of ordinary shares for the purpose of basic earnings per share	**947,543,695**	947,543,695
Effect of dilutive potential ordinary shares:		
– Share options	**N/A**	N/A
Number of ordinary shares for the purpose of diluted earnings per share	**N/A**	N/A

The computation of diluted earnings per share for the periods ended 31 January 2019 and 31 January 2018 did not assume the exercise of share options of the Company as the exercise prices of those options are higher than the average market prices of the Company for the period.

(11) TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

		31 January 2019	31 July 2018
		(Unaudited)	(Audited)
	Notes	***HK$'000***	*HK$'000*
Trade receivables	*(i) & (ii)*	**16,596**	13,415
Less: Allowance for doubtful debts		**(9,993)**	(9,684)
		6,603	3,731
Other receivables		**56,870**	74,318
Less: Allowance for doubtful debts		**(44,926)**	(54,453)
		11,944	19,865
Deposits and prepayments		**22,163**	23,298
		40,710	46,894
Less: Rental and utility deposits shown under non- current assets		**(12,941)**	(11,679)
		27,769	35,215

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

(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 2019 (Unaudited) ***HK$'000***	31 July 2018 (Audited) *HK$'000*
Trade receivables:		
0 to 90 days	**6,275**	3,379
91 to 180 days	**128**	81
181 to 365 days	**200**	271
	6,603	3,731

(12) BANK BORROWINGS

	31 January 2019 (Unaudited) ***HK$'000***	31 July 2018 (Audited) *HK$'000*
Bank loans, secured	**697,556**	792,157
Trust receipt loans, secured	**9,625**	9,362
	707,181	801,519
Carrying amount repayable:		
Within one year	**463,838**	551,471
Beyond one year, but not exceeding two years	**229,427**	234,737
Beyond two years, but not exceeding five years	**5,464**	5,948
Beyond five years	**8,452**	9,363
	707,181	801,519
Less: Amounts shown under current liabilities	**(463,838)**	(551,471)
Amounts shown under non-current liabilities	**243,343**	250,048

(13) 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 2019 (Unaudited) *HK$'000*	31 July 2018 (Audited) *HK$'000*
Trade payables:		
0 to 90 days	**18,519**	8,413
91 to 180 days	**415**	187
181 to 365 days	**389**	527
Over 365 days	**1,085**	2,292
	20,408	11,419
Advance from customers	**5,307**	5,217
Provision for onerous contracts	**8,625**	8,625
Deposits received	**14,498**	14,864
Payable for acquisition of available-for-sale investment	**1,342**	2,070
Other payables and accruals	**31,573**	32,660
	81,753	74,855

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 2019 (2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

During the period under review, the turnover of the Group decreased by 6% to HK$123,886,000 (2018: HK$131,258,000) and the gross profit trimmed by 3%, to HK$83,007,000 (2018: HK$85,544,000).

The performance of the "Garment and related accessories business" segment of the Group encountered a headwind during the six months ended 31 January 2019 with a fall of revenue by 7% to HK$95,418,000 (2018: HK$102,905,000). Mitigated by the refinement of sales network, tightened cost control measures and a net reversal of provision for doubtful debts on trade and other receivables, the loss was reduced to HK$5,789,000 (2018: HK$15,007,000) albeit declines in revenue and gross profit.

The "Property investment and letting business" segment continued to generate steady rental income of HK$28,468,000 for the six months ended 31 January 2019 (2018: HK$28,353,000). As the market sentiment has been cooling down, the revaluation of the investment properties held by the Group resulted in fair value gains of HK$51,262,000 as at 31 January 2019 (2018: HK$69,877,000).

Under the choppy and murky capital markets worldwide, the "Securities trading" segment suffered a major setback in the six months ended 31 January 2019 and recorded a loss of HK$4,059,000 (2018: profit of HK$5,257,000), as imputed to the material devaluation of the portfolio of financial assets at fair value through profit and loss held by the Group.

Aggregating the results of the above three business segments with the share of profit of an associate of HK$3,202,000 (2018: HK$4,178,000) and the exchange differences arising on translation of foreign operations of gain of HK$2,234,000 (2018: HK$9,191,000), the total comprehensive income attributable to the owners of the Company was HK$43,844,000 for the six months ended 31 January 2019 (2018: HK$75,457,000 which included a gain of HK$2,855,000 on disposal of an investment property situated in Hong Kong, the details of which were disclosed in the Company's announcement dated 19 January 2018).

"Garment and related accessories business" Segment

<u>Hong Kong and Macau</u>

The green shoots of the retail market in the six months ended 31 January 2019 withered gradually. The downturn of global economy weighed on the spending ability and willingness of Hong Kong and overseas customers, especially for those come from the Mainland of China ("**Mainland**"), the major source of visitors, as they were worse sapped by the inexorable devaluation of Renminbi and securities in the stock markets there. Furthermore, the absurd warm weather during the fall/winter season suppressed the sales of high-end merchandises.

Facing the challenges above, the Group pursues to enhance the functionalities of its merchandise for offering high value-for-money apparel to fit the more cautious spending behaviours of "Crocodile" clientele. To safeguard its gross margin, the Group keeps on restraining the inventory level to avoid any pressure on providing heavy discounts for stock clearance.

In addition, the Group has been strengthening its operational efficiency and cost controls. The Group repositioned the sales points by shutting down under-performing shops and seeking for new locations of reasonable rentals and with satisfactory pedestrian flows. As at 31 January 2019, the Group operated 18 (2018: 18) "Crocodile" shops and 6 (2018: 7) "Lacoste" shops. The Group's back-office structure and workflow has been simplified to save the administrative expenses.

“Garment and related accessories business” Segment *(continued)*

The Mainland

The Mainland’s economic growth decelerated in 2018 as a years-long campaign to reduce a mountain of debt and crackdown on shadow banking pushed up borrowing costs, dampened investment and hurt domestic demand. The trade war with the United States took a heavy toll on its trade sector and raised the risk of a sharper economic slowdown. Several key economic gauges released in January 2019 were hovering around record lows despite months of policy easing. In the face of such a faltering macro-environment, many consumers had no mood to spend.

The above tough operating atmosphere crimped the Group’s licensing business of the brand “Crocodile”. The royalty income was HK$358,000 for the six months ended 31 January 2019 (2018: HK$9,477,000). On the other hand, because of the Group’s determined and concerted effort in chasing the recovery of royal income from the licensees, it led to a net reversal of provision for doubtful debts on trade and other receivables of HK$9,994,000 for the six months ended 31 January 2019 as compared to provisions of HK$26,612,000 and HK$444,000 for the year ended 31 July 2018 and the six months ended 31 January 2018, respectively.

In respect of its own performance, the Group’s decision of restructuring the sale channels made several years ago was now proven to be effective on relieving the burden thereon. As at 31 January 2019, there were a total of 16 (2018: 14) shops in the Mainland, including self-operated shops of 6 (2018: 5) and those operated by the Group’s consignees and franchisees of 10 (2018: 9). The revenue from this aspect was HK$5,899,000 for the six months ended 31 January 2019 (2018: HK$5,700,000).

Seasonality

As its track record shows, the sales and results of the “Garment and related accessories business” segment bear heavy correlation with seasonality. In general, more than 50% of this segment’s annual sales are derived from the first half of the financial year in which fall/winter collections of higher values and margins are rolled out against the backdrop of festive holidays, Christmas, New Year and Lunar New Year.

“Property investment and letting business” Segment

The Group’s investment property portfolio had remained intact since 31 July 2018 after the disposal 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, Chapter 545 of the Laws of Hong Kong, as disclosed in the Company’s announcement dated 19 January 2018.

The investment properties of the Group in Hong Kong and the Mainland generated rental revenue for the six months ended 31 January 2019 of HK$27,949,000 (2018: HK$27,714,000) and HK$519,000 (2018: HK$639,000), respectively. Having been robust for quite some time, the Hong Kong property market signaled a downturn currently. As at 31 January 2019, the fair value gains on investment properties in Hong Kong were HK$51,000,000 (2018: HK$69,500,000) whereas in the Mainland were HK$262,000 (2018: HK$377,000).

“Securities trading” Segment

The global investment markets have gone into a tailspin in the six months ended 31 January 2019. The whipsaw trading manners, as investors responded to mixed news coverage on the trade talks between the Mainland and United States, the stance of the Federal Reserve of the United States on coming interest rate hikes and balance sheet contraction, the worse-than-expected deceleration in economic momentum in the Mainland and the “Brexit” being stuck in limbo, massively intensified the fluctuations in the values of currencies, commodities and assets around the world.

"Securities trading" Segment *(continued)*

As at 31 January 2019, the Group's portfolio of financial assets at fair value through profit and loss suffered from plunges in quoted values and this segment booked a loss of HK$4,059,000 for the six months then ended (2018: profit of HK$5,257,000).

Prospects

Though the trade friction between the Mainland and the United States currently appears to be soothing, the emergence of new conflicts cannot be ruled out, given the long-term nature and complexity of the trade imbalances between the world's two largest economies, among their other tug-of-wars in politics and technology.

Having been reliant on export for decades, the Mainland now faces an ever-growing list of headwinds on its economic growth; and tries to shift its economy to being driven by domestic consumption. However, the worry is that consumers will not have the means, or the enthusiasm, to spend. Already, retail sales growth has lost momentum significantly on swinging Sino-United States trade relationship. This round of economic decline is caused by, to a large degree, a downturn in individual and private sector confidence. Unfortunately, it appears the Mainland does not have many tools left to spur the economy under such a slowdown.

The euro-zone suffers its biggest deceleration in half a decade as evident by economic data. The situation could be deteriorated should the United States commence another trade battlefield on it and the social unrest in France and the Brexit loom large.

All these factors darken the global economic outlook and pose challenges for the Group's "Garment and related accessories business" segment when customers are becoming more cautious of their spending. To tide the lacklustre period ahead, the Group will persist to roll out high value-for-money products and excellent customer services under the prestige brand "Crocodile" to our patrons. In parallel, the overall operational efficiency will be additionally reinforced by revamping the shop portfolio and back-office structure.

Being a buffer against any macro-economic setbacks on the "Property investment and letting business" segment, the Group will optimise the tenancy combinations of its "investment properties", aiming at promising rental incomes as a support for their market values.

Mindful of the turbulent fund cross-currents around the world in the six months ended 31 January 2019, even the Federal Reserve of the United States will retard the normalisation progress, the Group continues to diversify the portfolio of financial assets at fair value through profit and loss with focus on securities of more defensive nature to temper any further disruptions on the "Securities trading" segment.

Contingent Liabilities

As at 31 January 2019, 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 rate and foreign exchange exposures. 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 2019.

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

The Group mainly earns revenue and incurs cost in Hong Kong dollars, Renminbi, United States dollars and Japanese Yen. The Group considers the foreign exchange risk is not high 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$98,287,000 as at 31 January 2019 (31 July 2018: HK$104,031,000) and were mainly denominated in Hong Kong dollars and Renminbi. The pledged bank deposits of approximately HK$15,533,000 (31 July 2018: HK$7,169,000) 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 2019 were equivalent to HK$45,007,000 (31 July 2018: HK$35,666,000) which is not freely convertible into other currencies. However, under the Mainland's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for other currencies in respect of approved transactions through banks authorised to conduct foreign exchange business.

As at 31 January 2019, the total outstanding borrowings including margin loans of the Group amounted to HK$774,993,000. The total outstanding borrowings comprised secured short-term bank trust receipt loans of HK$9,625,000, secured bank mortgage loans of HK$19,456,000, secured margin loans of HK$67,812,000, secured long-term bank loan of HK$237,300,000 and secured short-term bank revolving loans of HK$440,800,000. 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$2,733,000 repayable within one year and long-term portion of HK$16,723,000 repayable in the second to ninth years.

Interests on bank borrowings are charged at floating rates. The bank borrowings of the Group are denominated principally in Hong Kong dollars, United States dollars and Japanese Yen. No financial instruments for hedging purposes were employed by the Group for the six months ended 31 January 2019.

As at 31 January 2019, the Group had mortgaged certain of its investment properties with carrying values of HK$1,916,500,000 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 2019 was 42%, expressed as a percentage of total bank borrowings and margin loans payable of total net assets. In view of the uncertain worldwide economic environment and the possible rises in interest rates in Hong Kong, the Group will be prudent for business development to contain its gearing within a suitable range for controlling its risk exposure and finance costs.

Major Investments, Acquisitions and Disposals

The Group had no major investments, acquisitions or disposals in the six months ended 31 January 2019.

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

During the six months ended 31 January 2019, 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 2019 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 (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. Pursuant to the Mandatory Disclosure Requirement L.(d)(ii) of the CG Code, the Company has approved to adopt its nomination policy at its board meeting held on 28 January 2019 for improving transparency around the nomination process.

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 2019, the accounting principles and practices adopted by the Company, and financial reporting matters.

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

Hong Kong, 29 March 2019

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.