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ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 JULY 2022

RESULTS

The board of directors (“**Board**” and “**Directors**” respectively) of Crocodile Garments Limited (“**Company**”) announces the consolidated results of the Company and its subsidiaries (“**Group**”) for the financial year ended 31 July 2022 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 2022

	Notes	2022 HK\$'000	2021 HK\$'000
REVENUE	3	103,288	112,000
Cost of sales		<u>(28,436)</u>	<u>(30,562)</u>
Gross profit		74,852	81,438
Fair value losses on investment properties		(47,588)	(3,538)
Other income	4	20,322	16,026
Selling and distribution expenses		(44,633)	(45,178)
Administrative expenses		(51,510)	(46,871)
Other (losses) gains, net	5	(20,622)	8,892
Finance costs	6	(11,102)	(11,532)
Share of profit (loss) of an associate		<u>1,896</u>	<u>(1,170)</u>
LOSS BEFORE TAX	7	(78,385)	(1,933)
Income tax	8	<u>—</u>	<u>—</u>
LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		<u>(78,385)</u>	<u>(1,933)</u>
OTHER COMPREHENSIVE INCOME (EXPENSE)			
Item that will not be subsequently reclassified to profit or loss:			
Gain arising on transfer of property, plant and equipment to investment properties at fair value		43,076	—
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		<u>(2,785)</u>	<u>6,713</u>
Other comprehensive income for the year		<u>40,291</u>	<u>6,713</u>
TOTAL COMPREHENSIVE (EXPENSE) INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		<u><u>(38,094)</u></u>	<u><u>4,780</u></u>
		<i>HK cents</i>	<i>HK cents</i>
LOSSES PER SHARE	10		
— Basic		<u><u>(8.27)</u></u>	<u><u>(0.20)</u></u>
— Diluted		<u><u>(8.27)</u></u>	<u><u>(0.20)</u></u>

Consolidated Statement of Financial Position
As at 31 July 2022

	<i>Notes</i>	2022 HK\$'000	2021 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		84,527	67,944
Investment properties		1,673,478	1,725,948
Right-of-use assets		80,542	48,932
Financial asset at fair value through profit or loss (“FVTPL”)		27,568	29,457
Amount due from an associate		7,941	8,135
Interest in an associate		51,817	49,921
Rental and utility deposits		3,009	3,344
		<u>1,928,882</u>	<u>1,933,681</u>
Current assets			
Inventories		12,484	29,134
Trade and other receivables, deposits and prepayments	<i>11</i>	29,344	29,135
Financial assets at FVTPL		164,000	160,239
Amount due from a related company		—	45
Pledged bank deposits		2,924	7,432
Bank balances and cash		277,756	40,953
		<u>486,508</u>	<u>266,938</u>
Current liabilities			
Bank borrowings	<i>12</i>	249,447	349,198
Margin loans payable		28,523	4,396
Trade and other payables and deposits received	<i>13</i>	36,288	47,465
Amounts due to related companies		—	338
Lease liabilities		15,332	25,510
Tax payable		20,645	21,357
		<u>350,235</u>	<u>448,264</u>
Net current assets (liabilities)		<u>136,273</u>	<u>(181,326)</u>
Total assets less current liabilities		<u>2,065,155</u>	<u>1,752,355</u>
Non-current liabilities			
Bank borrowings	<i>12</i>	559,960	206,034
Deposits received	<i>13</i>	6,571	5,829
Provision for long service payments		1,057	350
Lease liabilities		4,140	8,621
Deferred tax liabilities		—	—
		<u>571,728</u>	<u>220,834</u>
Net assets		<u>1,493,427</u>	<u>1,531,521</u>
Capital and reserves			
Share capital		332,323	332,323
Reserves		1,161,104	1,199,198
Total equity		<u>1,493,427</u>	<u>1,531,521</u>

NOTES

For the year ended 31 July 2022

(1) BASIS OF PREPARATION

The consolidated financial statements of the Group for the year ended 31 July 2022 have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (“**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.

The financial information relating to the years ended 31 July 2022 and 31 July 2021 included in this preliminary announcement of annual results for the year ended 31 July 2022 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 2021 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 2022 in due course.

The Company’s independent auditor has reported on these financial statements of the Group for both years. The independent auditor’s reports were unqualified; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance. However, for the year ended 31 July 2021, the independent auditor’s reports 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 reports.

(2) APPLICATION OF HKFRSs

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied, for its first time, the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) which are effective for the Group’s financial year beginning 1 August 2021:

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2
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The application of the amendments to HKFRSs in the current year has had no material effect on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised HKFRSs issued but not yet effective

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

HKFRS 17	Insurance Contracts and related Amendments ²
Amendments to HKFRS 3	Reference to the Conceptual Framework ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and the related amendments to Hong Kong Interpretation 5 (2020) Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ²
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ²
Amendments to HKAS 8	Definition of Accounting Estimates ²
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ²
Amendments to HKAS 16	Property, plant and Equipment: Proceeds before Intended Use ¹
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract ¹
Amendment to HKFRSs	Annual Improvements to HKFRSs 2018 — 2020 cycle ¹

¹ Effective for annual periods beginning on or after 1 January 2022.

² Effective for annual periods beginning on or after 1 January 2023.

³ Effective for annual periods beginning on or after a date to be determined.

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

(3) SEGMENT INFORMATION

The Group has three operating segments, namely (i) garment and related accessories business, (ii) property investment and letting business, and (iii) treasury management (formerly titled as “securities trading”). The operating segments are managed separately as each business line offers different products and services and requires different business strategies.

(a) Segment revenues and results

For the years ended 31 July

	Garment and related accessories business		Property investment and letting business		Treasury management (formerly titled as “securities trading”)		Total	
	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000
Revenue from external customers	50,485	59,137	52,803	52,863	—	—	103,288	112,000
Other income from external customers (Note)	19,076	14,501	557	633	—	—	19,633	15,134
Group's total revenue and other income (Note)	<u>69,561</u>	<u>73,638</u>	<u>53,360</u>	<u>53,496</u>	<u>—</u>	<u>—</u>	<u>122,921</u>	<u>127,134</u>
Reportable segment (loss) profit	<u>(11,903)</u>	<u>(15,113)</u>	<u>(4,714)</u>	<u>44,821</u>	<u>(24,514)</u>	<u>4,670</u>	<u>(41,131)</u>	<u>34,378</u>
Unallocated corporate income							689	892
Unallocated corporate expenses							(26,841)	(25,671)
Finance costs							(11,102)	(11,532)
Loss before tax							<u>(78,385)</u>	<u>(1,933)</u>

Note: The income excludes bank interest income and interest income on advances to independent third parties.

(b) Segment assets and liabilities

As at 31 July

	Garment and related accessories business		Property investment and letting business		Treasury management (formerly titled as “securities trading”)		Total	
	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000
ASSETS								
Segment assets	200,163	167,589	1,742,979	1,787,949	164,000	160,239	2,107,142	2,115,777
Unallocated corporate assets							308,248	84,842
Total consolidated assets							<u>2,415,390</u>	<u>2,200,619</u>
LIABILITIES								
Segment liabilities	45,856	71,498	17,532	16,615	28,523	4,396	91,911	92,509
Unallocated corporate liabilities							830,052	576,589
Total consolidated liabilities							<u>921,963</u>	<u>669,098</u>

(3) SEGMENT INFORMATION (continued)

(c) Other segment information

For the years ended 31 July

	Garment and related accessories business		Property investment and letting business		Treasury management (formerly titled as "securities trading")		Total	
	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000
Amounts included in the measure of segment profit or loss or segment assets:								
Interest in an associate	—	—	51,817	49,921	—	—	51,817	49,921
Additions to property, plant and equipment	1,570	1,033	4,110	5	—	—	5,680	1,038
Addition of right-of-use assets	11,220	10,789	—	—	—	—	11,220	10,789
Depreciation	12,012	10,523	209	167	—	—	12,221	10,690
Impairment loss recognised in respect of right-of-use assets	—	4,427	—	—	—	—	—	4,427
Provision (reversal of) impairment on trade and other receivables	6,431	(4,702)	900	—	—	—	7,331	(4,702)
Reversal of provision for slow-moving inventories	(4,359)	(883)	—	—	—	—	(4,359)	(883)
Loss (gain) on disposal of property, plant and equipment	192	(167)	—	—	—	—	192	(167)
Fair value losses on investment properties	—	—	47,588	3,538	—	—	47,588	3,538
Net losses (gains) on financial assets at FVTPL (Note)	—	—	—	—	24,514	(4,670)	24,514	(4,670)
Share of (profit) loss of an associate	—	—	(1,896)	1,170	—	—	(1,896)	1,170
Interest income from an associate	—	—	(406)	(412)	—	—	(406)	(412)

Note: The amount excludes loss from financial assets at FVTPL under non-current assets.

(d) Geographical information

	Revenue from external customers		Non-current assets	
	Year ended 31 July 2022 HK\$'000	2021 HK\$'000	As at 31 July 2022 HK\$'000	2021 HK\$'000
Hong Kong	95,460	103,153	1,802,968	1,796,191
The People's Republic of China ("PRC")	7,828	8,847	87,396	96,554
	103,288	112,000	1,890,364	1,892,745

Note: Non-current assets exclude financial instruments.

(e) Information about major customers

For the year ended 31 July 2022, revenue generated from a single customer of the Group from the segment of Property investment and letting business amounting to approximately HK\$10,567,000 has accounted for over 10% of the Group's total revenue.

For the year ended 31 July 2021, none of the Group's customers contributed 10% or more of the Group's total revenue.

(4) OTHER INCOME

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Royalty income	9,647	5,098
Bank interest income	269	52
Interest income on amount due from an associate	406	412
Interest income on advances to independent third parties	420	840
Government grants	1,852	4,012
COVID-19-related rent concessions	5,361	5,130
Others	2,367	482
	<u>20,322</u>	<u>16,026</u>

(5) OTHER (LOSSES) GAINS, NET

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Impairment loss recognised in respect of on right-of-use assets	—	(4,427)
(Provision) reversal of impairment on trade and other receivables	(7,331)	4,702
(Loss) gain on disposal of property, plant and equipment	(192)	167
Gain on early termination of lease	25	2,739
Net (losses) gains on financial assets at FVTPL	(26,403)	5,073
Exchange gains (losses), net	278	(883)
Written off of other payables	12,278	—
Others	723	1,521
	<u>(20,622)</u>	<u>8,892</u>

(6) FINANCE COSTS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest on:		
Bank borrowings	10,260	9,757
Lease liabilities	842	1,775
	<u>11,102</u>	<u>11,532</u>

(7) LOSS BEFORE TAX

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Cost of inventories recognised as an expense (including reversal of provision for slow-moving inventories)	<u>27,673</u>	<u>29,745</u>
Depreciation of property, plant and equipment	<u>6,563</u>	<u>5,878</u>
Depreciation of right-of-use assets	<u>5,658</u>	<u>4,812</u>

(8) INCOME TAX

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current tax	—	—
Deferred tax	—	—
	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>

No current tax has been provided for the years ended 31 July 2022 and 31 July 2021 as the Group either has unused tax loss available to offset against assessable profits or there was no estimated assessable profit for both years.

Under the two-tiered profits tax rates regime of Hong Kong Profits Tax, the first HK\$2 million of profits of qualifying corporation will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. Hong Kong profits tax of the qualified entity of the Group to calculated in accordance with the two-tiered profits tax rates regime. The profits of other group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%.

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.

(9) DIVIDEND

No dividend was paid or declared during the year ended 31 July 2022 nor has any dividend been proposed by the Company since the end of the reporting period (2021: Nil).

(10) LOSSES PER SHARE

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Losses		
Loss for the year attributable to owners of the Company for the purpose of basic and diluted losses per share	<u>(78,385)</u>	<u>(1,933)</u>
	2022	2021
Number of shares		
Number of ordinary shares for the purposes of basic losses per share and diluted losses per share	<u>947,543,695</u>	<u>947,543,695</u>

For the year ended 31 July 2022, diluted losses per share were same as basic losses per share as the Company had no dilutive potential ordinary shares in issue.

For the year ended 31 July 2021, the computation of diluted losses per share did not assume the exercise of the Company’s outstanding share options as the exercise prices of those share options were higher than the average market price of the Company’s shares.

(11) TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2022 HK\$'000	2021 HK\$'000
Trade receivables	16,209	17,049
Less: Allowance for impairment	<u>(12,048)</u>	<u>(11,111)</u>
	4,161	5,938
Other receivables (Notes (a) and (b))	46,216	41,143
Less: Allowance for impairment	<u>(34,816)</u>	<u>(29,725)</u>
	11,400	11,418
Deposits and prepayments	<u>16,792</u>	<u>15,123</u>
	32,353	32,479
Less: Rental and utility deposits shown under non-current assets	<u>(3,009)</u>	<u>(3,344)</u>
	<u><u>29,344</u></u>	<u><u>29,135</u></u>

Notes:

- (a) As at 31 July 2022, net royalty receivables of the Group of nil (2021: nil), net of allowance for impairment of approximately HK\$27,813,000 (2021: HK\$29,772,000), was included in the other receivables, where payments are required monthly or semi-annually. The Group makes impairment based on the assessment of the recoverability of royalty receivables. During the year ended 31 July 2022, the Group made reversal of provision for impairment of approximately HK\$955,000 (2021: HK\$5,005,000).
- (b) As at 31 July 2022, included in other receivables of the Group was advance of HK\$7,000,000 (2021: HK\$7,000,000) to two independent third parties which were unsecured, interest bearing at 12% per annum and repayable in April 2022. During the year ended 31 July 2022, there was a provision for impairment amounted to HK\$7,000,000 (2021: nil).

As at 31 July 2022, gross amount of approximately HK\$11,749,000 (2021: HK\$13,532,000) included in the trade receivables arose from the sales of goods in accordance with HKFRS 15.

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 impairment), presented based on the invoice date which approximated the respective revenue recognition date as at the end of the reporting periods:

	2022 HK\$'000	2021 HK\$'000
0 to 90 days	1,368	3,641
91 to 180 days	2,333	648
181 to 365 days	<u>460</u>	<u>1,649</u>
	<u><u>4,161</u></u>	<u><u>5,938</u></u>

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

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
At the beginning of the year	40,836	42,317
Provision (reversal of allowance) provided, net	7,331	(4,702)
Exchange realignment	<u>(1,303)</u>	<u>3,221</u>
At the end of the year	<u><u>46,864</u></u>	<u><u>40,836</u></u>

(12) BANK BORROWINGS

	2022 <i>HK\$'000</i>	Effective interest rates (%) <i>p.a.</i>	2021 <i>HK\$'000</i>	Effective interest rates (%) <i>p.a.</i>
Bank loans, secured	<u><u>809,407</u></u>	1.72 - 3.49	<u><u>555,232</u></u>	1.07 - 2.26
			2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Carrying amount repayable (<i>Note</i>):				
On demand or within one year			249,447	349,198
Beyond one year, but not exceeding two years			23,631	206,034
Beyond two years, but not exceeding five years			74,421	—
Beyond five years			<u>461,908</u>	<u>—</u>
Less: Amounts shown under current liabilities			<u>809,407</u> <u>(249,447)</u>	555,232 <u>(349,198)</u>
Amounts shown under non-current liabilities			<u><u>559,960</u></u>	<u><u>206,034</u></u>

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

The borrowings of the Group are mainly denominated in HK\$ and USD.

As at 31 July 2022, the Group's floating-rate borrowings are mainly subject to interest at Hong Kong Interbank Offered Rate ("HIBOR") plus 1.00% to 1.50% per annum.

As at 31 July 2021, the Group's fixed-rate and floating-rate borrowings are mainly subject to interest at 2.26% and HIBOR plus 1.00% to 1.50% per annum, respectively.

(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 deposits received, other payables and accruals:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade payables:		
0 to 90 days	700	1,263
91 to 180 days	165	254
181 to 365 days	270	821
Over 365 days	2,388	2,811
	3,523	5,149
Other deposits	17,957	17,923
Other payables and accruals	21,379	30,222
	42,859	53,294
Less: Deposits received shown under non-current liabilities	(6,571)	(5,829)
	36,288	47,465

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 2022 (2021: Nil).

No interim dividend was declared during the year (2021: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

The revenue of the Group for the year ended 31 July 2022 slid to HK\$103 million (2021: HK\$112 million), and the gross profit of the Group declined by 8%, to HK\$75 million (2021: HK\$81 million).

Hong Kong's economy gradually recovered in late 2021, but it showed a marked weakening momentum in first quarter of 2022, brought about by heightened restrictions and increased cautiousness by the public in response to the spread of Omicron variants. In addition, the termination of the distribution in respect of the "Lacoste" brand was completed in February 2022. The revenue of this segment, including the Mainland of China ("**Mainland**"), dropped by about 15% to HK\$50 million (2021: HK\$59 million).

The Group has taken decisive cost adjustment measures to mitigate the negative impact of the COVID-19 situation, including conducting a comprehensive review of our retail store portfolio by closing underperforming shops and targeting new ones with more rational rent benchmarking a certain percentage of sales target. For existing shops, the Group has succeeded in attaining rent concessions from landlords for some of major shops to further enhance the operational efficiency. Savings were achieved in implementing stringent measures on merchandise procurement and other direct selling costs. As a result, the loss of "Garment and Related Accessories Business" segment trimmed by about 21% to HK\$12 million (2021: loss of HK\$15 million).

The "Property Investment and Letting Business" segment continued to generate a stable rental income of HK\$53 million for the year ended 31 July 2022 (2021: HK\$53 million), despite that a revaluation loss of the investment properties of the Group of HK\$48 million was recorded during the year (2021: loss of HK\$4 million).

Facing economic uncertainty and weaken business momentum under new geopolitical tensions and the continued impact of the pandemic, the "Treasury Management" (formerly tilted as "Securities Trading") segment suffered a loss of HK\$25 million for the year ended 31 July 2022 (2021: profit of HK\$5 million), notwithstanding the Group has taken a prudent approach in managing the portfolio of financial assets at fair value through profit or loss.

Combining the results of the three business segments above with the share of gain of an associate of HK\$2 million (2021: a loss of HK\$1 million), gain arising on transfer of property, plant and equipment to investment properties at fair value of HK\$43 million (2021: nil) and the exchange differences arising on translation of foreign operations of loss of HK\$3 million (2021: profit of HK\$7 million), the total comprehensive expense attributable to the owners of the Company was HK\$38 million for the year ended 31 July 2022 (2021: income of HK\$5 million).

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

“Garment and Related Accessories Business” Segment

Hong Kong and Macau

During the first six months ended 31 January 2022, Hong Kong and Macau retail market experienced a recovery when Hong Kong community was gradually adapting to the “new normal” under the epidemic of COVID-19. Unfortunately, the outbreak of Omicron variant in January 2022 severely dented local consumption demand.

The 5th wave of local COVID-19 pandemic affected especially our retail business with tighten social distancing measures enforced in Hong Kong from January to April 2022. The progressive relaxation of social distancing measures and the new round of consumption voucher scheme rendered some support to the domestic demand in the last quarter of the financial year ended 31 July 2022 helped to facilitate the retail market recovery.

To cope with the harsh operating conditions suffered by our retail brick and mortar stores, the Group continued to close unprofitable shops, negotiate with landlords for rent concessions and focus on strategically important locations. For our premier brand “Crocodile”, the Group operated 10 (2021: 11) shops as at 31 July 2022. Following the termination of the “Lacoste” brand distribution in early 2022, the Group closed 4 “Lacoste” shops out of 5 during the year. This resulted in a drop of retail revenue in Hong Kong and Macau from HK\$51 million to HK\$44 million.

Having taken austerity measures by streamlining the workflow of different departments and instigating stringent inventory control, the Group could reduce operating costs and freed up resources to develop the brand, “CROCO”, with urban safari theme. The remaining 1 “Lacoste” shop was renovated for this new brand “CROCO”, which has commenced business in August 2022.

The Mainland

Since December 2021, the highly infectious Omicron variant has spread across the Mainland, resulting in the lockdown of various provinces. Compounded with strict safety measures and zero-COVID strategy in the Mainland, the consumer spending was deeply depressed.

In view of the maze, the Group managed its own sales channels and scale of operation cautiously. As at 31 July 2021, there was a total of 12 (2021: 13) shops in the Mainland, including self-operated shops of 6 (2021: 7) and those operated by the Group’s consignees of 6 (2021: 6). The revenue of this segment was HK\$6 million for the year ended 31 July 2022 (2021: HK\$8 million).

Royalty Income

The Group’s licensing business of the brand “Crocodile” in Hong Kong, Macau and the Mainland contributed royalty income of HK\$10 million for the year ended 31 July 2022 (2021: HK\$5 million). The improvement was accredited to the ample effort in chasing the settlement of royalty income in the Mainland.

Seasonality

As its track record shows, the sales and results of the “Garment and Related Accessories Business” segment of the Group 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, coupling with festive holidays — Christmas, New Year and Lunar New Year.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

“Property Investment and Letting Business” Segment

The Group’s investment property portfolio remained intact since 31 July 2021 save for sparing one own-used property to investment property for earning rental income since February 2022.

The investment properties of the Group in Hong Kong and the Mainland generated the similar level of rental revenue for the year ended 31 July 2022 of HK\$52 million (2021: HK\$52 million) and HK\$1 million (2021: HK\$1 million), respectively.

Thanks to expediting transformation of Kowloon East as another core business district in Hong Kong, it is anticipated that Kowloon East has potential of supplying more commercial/office floor area in foreseeable years. As most of the Group’s investment properties situated in Kwun Tong, this segment has been facing a keen competition. The decreasing demand from our office tenants is another threat, as the business trend of work-from-home is becoming more popular. The revaluation of the investment properties held by the Group in Hong Kong ticked fair value losses of HK\$47 million (2021: loss of HK\$2 million) during the financial year ended 31 July 2022. The investment properties held in the Mainland were kept relatively constant, recording a mild loss of 1 million (2021: loss of HK\$2 million).

“Treasury Management” Segment

The unexpected rising geopolitical tensions between Russia and Ukraine and the surging energy and commodity prices drastically changed the world’s inflation expectations. To steer the persistently high inflation, the Federal Reserve and other central raised the interest rates at a faster pace than expectation. The global concern to a possible recession dampened the investor sentiment and the investment portfolio performance.

Mindful of the unfavorable market conditions, the Group took a vigilant and cautious approach to managing the portfolios of financial assets at fair value through profit or loss. Notwithstanding that, “Treasury Management” segment of the Group recorded a loss of HK\$25 million during the financial year ended 31 July 2022 (2021: profit of HK\$5 million).

Prospects

“Crocodile”, a prestigious and longstanding brand name in the apparel business for 70 years, is definitely one of the valuable assets to the Group. It is foreseen that some key factors would adversely influence the performance of our garment-related segment, including the emergence of COVID-19 variances, the rate of recovery in customer spending power in the Mainland and Hong Kong, and global geopolitical developments to mitigate the inflation and possible recession risk. These significant uncertainties make the Group prudent to rationalise its sales network and restrain inventory level for our traditional brand, “Crocodile”.

After termination of the distribution of “Lacoste”, the Group could spare more resources in developing our self-owned brand focusing on sincerity and customer experience. In order to achieve long-term sustainable growth, building another brand “CROCO” with different brand image and unique brand identity is of utmost importance to expand our footprint in Hong Kong retail market. Our first “CROCO” shop in Tsim Sha Tsui was solemnly opened in August 2022. The Group will continue to gear up its effort to improve its merchandise mix under both “Crocodile” and “CROCO”, catering for local customer preferences and fortifying a higher gross margin. As long as the local epidemic situation remains under control, the Group is confident that the “Garment and Related Accessories Business” segment would continue to revive.

Being a landlord of investment properties, the “Property Investment and Letting Business” segment can commit a stable rental income and cashflow to replenish the Group’s operation. Facing the decline in demand for commercial properties in the uptrend of work-from-home in many businesses and the increase in supply of office premises in Kowloon East, the Group will offer favourable lease terms to retain valuable tenants. On the other hand, the Group is also re-positioning certain investment properties to attract new tenants in different industries to improve the rental yield and reduce the vacancy rate.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Prospects *(continued)*

In addition, the Group has been streamlining its back-office structure to strengthen the procedural efficacy.

The imminent global investment is undoubtedly choppy. The “Treasury Management” segment has experienced a twisting financial year. The Group will bolster its value-oriented strategy in managing the portfolio of financial assets at fair value through profit or loss. After restructuring the bank loan, the Group increased the cash holding to preserve sufficient cash and liquid assets to meet the needs of daily operation, business development and challenges.

Facing all the ramifications ahead, the Group will, continue to build on its past in creating bright future for our stakeholders, as in the past seventy years.

Contingent Liabilities

As at 31 July 2022, the Group had no material contingent liabilities.

Liquidity, Financial Resources and Foreign Exchange Risk Exposure

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, the Group has not employed other financial instruments as of 31 July 2022.

The Group mainly earns revenue and incurs cost mainly in Hong Kong dollars, Renminbi and United States dollars. 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 trading of overseas securities.

Cash and cash equivalents held by the Group amounted to HK\$278 million as at 31 July 2022 (2021: HK\$41 million) and were mainly denominated in Hong Kong dollars, United States dollars and Renminbi. The pledged bank deposits of approximately HK\$3 million (2021: HK\$7 million) 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 2022 were equivalent to HK\$6 million (2021: HK\$13 million) which is not freely convertible into other currencies. However, under the regulations on foreign exchange controls of the Mainland, 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 2022, after restructuring certain bank loans, the total outstanding borrowings including margin loans of the Group amounted to HK\$838 million. The total outstanding borrowings comprised secured margin loans of HK\$29 million, secured bank term loan of HK\$583 million of which HK\$23 million was short-term, and secured short-term bank revolving loans of HK\$226 million. Short-term bank loans were repayable within a period not exceeding one year.

As at 31 July 2022, interests on bank borrowings are charged at floating rates. The bank borrowings of the Group are denominated principally in Hong Kong dollars and United States dollars. Save for the fixed interest rate arrangement terminated during the year, no financial instruments for hedging purposes were employed by the Group as at 31 July 2022.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Charges on Assets

As at 31 July 2022, the Group has charged certain of its assets, including own-use properties, investment properties and right-of-use assets with carrying values of HK\$1,747 million, to its bankers to secure banking facilities granted to the Group.

Gearing

The Group's gearing revealed by the debt-to-equity ratio at 31 July 2022 was approximately 56%, expressed as a percentage of total bank borrowings and margin loans payable of total net assets. In view of the volatile worldwide economic and financial landscapes, the Group continues to be prudent for business development to contain its gearing within a suitable range for controlling its risk exposure and finance costs.

Capital Commitments

The Group had no material capital commitments as at 31 July 2022.

Major Investments, Acquisitions and Disposals

The Group had no major investments, acquisitions or disposals during the year ended 31 July 2022.

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

During the year ended 31 July 2022, 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" and "Stock Exchange", respectively) throughout the year ended 31 July 2022 save for the deviations disclosed below:

Code provision C.2.1 (previous code provision A.2.1) in respect of the roles of chairman and chief executive should be separate and should not be performed by the same individual.

The Board is collectively responsible for the management and operations of the Company. Ms. Lam Wai Shan, Vanessa ("**Ms. Vanessa Lam**") was appointed the chairman of the Board ("**Chairman**") and the chief executive officer of the Company ("**CEO**") since January 2021. As the Chairman, Ms. Vanessa Lam provides leadership to the Board to ensure the Board works effectively and performs its responsibilities. As the CEO, Ms. Vanessa Lam has in-depth experience in the garment and retail industry. Coupled with her extensive business network and connections and numerous awards in the industry, she is responsible for leading the development and execution of long-term strategies for the Company's business. Hence, the Board believes that it is in the best interest of the Company for Ms. Vanessa Lam to assume the roles of both the Chairman and the CEO.

CORPORATE GOVERNANCE *(continued)*

Code provision B.3.1 (previous code provision A.5.1) in respect of the nomination committee should be established with specific written terms of reference which deal clearly with its authority and duties.

To fulfil code provision B.3.1 and Rule 3.27A of the Listing Rules, the Board resolved to establish the nomination committee of the Company (“**Nomination Committee**”) with written terms of reference in January 2022. The Nomination Committee comprises Ms. Vanessa Lam (executive Director, Chairman and CEO) as the chairman, Mr. Fung Cheuk Nang, Clement (“**Mr. Clement Fung**”) and Mr. Woo King Hang (“**Mr. KH Woo**”), two independent non-executive Directors (“**INEDs**”) as members. Majority members of the Nomination Committee are INEDs.

Before the establishment of the Nomination Committee, the Board assumed its functions in accordance with the nomination policy of the Company and other duties set out in the CG Code.

Previous code provision A.4.1 (deleted on 1 January 2022) in respect of non-executive directors should be appointed for a specific term, subject to re-election.

The Board notices that none of the existing non-executive Directors (“**NEDs**”, including the INEDs) is appointed for a specific term. However, pursuant to the Articles of Association of the Company (“**Articles of Association**”), all Directors are subject to the retirement provisions which require that the Directors for the time being shall retire from office by rotation once every three years since their last election by shareholders of the Company (“**Shareholders**”) and the retiring Directors are eligible for re-election. In addition, any person appointed by the Board as a Director (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 previous 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. The Board considers that the relevant retirement provisions in the Articles of Association and the CG Code are sufficient to meet the underlying objective of the previous code provision A.4.1.

Following the amendments to the CG Code which took effect on 1 January 2022, NEDs are no longer required to be appointed for a specific term.

Rules 3.10(1), 3.10A, 3.21 and 3.25 of the Listing Rules and paragraph 2 of each of the terms of reference of the Audit Committee and the Remuneration Committee in respect of the Board must have at least three INEDs, must appoint INEDs representing at least one-third of the Board, the Audit Committee must comprise a minimum of three members and majority of its members must be INEDs and the Remuneration Committee must comprise a majority of INEDs.

After the resignation of Mr. Yeung Sui Sang as an INED and ceased a member of each of the audit committee and the remuneration committee of the Company (“**Audit Committee**” and “**Remuneration Committee**”, respectively) with effect from 1 November 2021, the number/majority of INEDs and members of the Audit Committee and the Remuneration Committee fell below the requirements under Rules 3.10(1), 3.10A, 3.21 and 3.25 of the Listing Rules and paragraph 2 of each of the terms of reference of the Audit Committee and the Remuneration Committee. Following the appointment of Mr. KH Woo on 28 January 2022, the Company has complied with the said rules and terms of reference.

REVIEW OF ANNUAL RESULTS

The Audit Committee, currently comprises three INEDs, namely Mr. Leung Shu Yin, William (Chairman), Mr. Clement Fung and Mr. KH Woo, has reviewed the consolidated financial statements of the Company for the year ended 31 July 2022, the accounting principles and practices adopted by the Company as well as the risk management and 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 2022 as set out in this preliminary results announcement have been agreed by the Group's independent auditor, SHINEWING (HK) CPA Limited ("SHINEWING"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by SHINEWING 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 SHINEWING on this preliminary results announcement.

ANNUAL GENERAL MEETING

The 2022 annual general meeting of the Company ("2022 AGM") will be held on Friday, 16 December 2022. Notice of 2022 AGM together with the Company's annual report for the year ended 31 July 2022 will be published on the respective websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.crocodile.com.hk) and despatched to the Shareholders in November 2022.

By order of the Board
Crocodile Garments Limited
Lam Wai Shan, Vanessa
Chairman, Executive Director and
Chief Executive Officer

Hong Kong, 14 October 2022

As at the date of this announcement, the Board comprises four Executive Directors, namely Ms. Lam Wai Shan, Vanessa (Chairman and Chief Executive Officer), Dr. Lam Kin Ngok, Peter, Mr. Lam Kin Hong, Matthew and Mr. Wan Edward Yee Hwa; two Non-executive Directors, namely Mr. Chow Bing Chiu and Ms. Lam Suk Ying, Diana; and three Independent Non-executive Directors, namely Mr. Leung Shu Yin, William (Deputy Chairman), Mr. Fung Cheuk Nang, Clement and Mr. Woo King Hang.