

# CROCODILE

## 2010-2011

Crocodile Garments Limited Interim Report | 鱷魚恤有限公司中期報告



## PLACE OF INCORPORATION

Hong Kong

## BOARD OF DIRECTORS

### Executive Directors

Lam Kin Ming (*Chairman and Chief Executive Officer*)

Lam Wai Shan, Vanessa (*Deputy Chief Executive Officer*)

Lam Kin Ngok, Peter

Lam Kin Hong, Matthew

Wan Yee Hwa, Edward (re-designated as an executive director on 1 February 2011)

Cheng Suet Fei, Sophia (retired on 17 December 2010)

### Non-executive Directors

Lam Suk Ying, Diana

Tong Ka Wing, Carl

### Independent Non-executive Directors

Yeung Sui Sang

Chow Bing Chiu

Leung Shu Yin, William (appointed on 1 February 2011)

## COMPANY SECRETARY

Kwok Siu Man

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### Crocodile Garments Limited

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Kowloon, Hong Kong

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Stock code on the Hong Kong Stock Exchange: **122**

## RESULTS

The board of directors (the “Board”) of Crocodile Garments Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 31 January 2011 together with the comparative figures of the last corresponding period as follows:

### Condensed Consolidated Statement of Comprehensive Income

For the six months ended 31 January 2011

		Six months ended 31 January	
		2011	2010
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
<b>REVENUE</b>	3	<b>284,147</b>	248,561
Cost of sales		<b>(99,443)</b>	(93,050)
<hr/>			
Gross profit		<b>184,704</b>	155,511
Fair value gain on investment properties		<b>35,453</b>	24,000
Other income and gains	4	<b>23,572</b>	21,575
Selling and distribution costs		<b>(147,865)</b>	(145,808)
Administrative expenses		<b>(35,481)</b>	(24,470)
Other operating expenses, net		<b>(689)</b>	(3,101)
Finance costs		<b>(137)</b>	(186)
Share of profit from an associate		<b>1,100</b>	—
<hr/>			
<b>PROFIT BEFORE INCOME TAX</b>	5	<b>60,657</b>	27,521
Income tax expense	6	<b>(11,165)</b>	(6,940)
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<b>PROFIT FOR THE PERIOD</b>		<b>49,492</b>	20,581
<b>OTHER COMPREHENSIVE INCOME:</b>			
Exchange differences arising on translation of foreign operations		<b>2,565</b>	—
<hr/>			
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>			
		<b>52,057</b>	20,581
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<b>EARNINGS PER SHARE</b>			
— basic (HK cents)	7	<b>8.00</b>	3.33
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## Condensed Consolidated Statement of Financial Position

As at 31 January 2011

		31 January 2011 (Unaudited) <i>HK\$'000</i>	31 July 2010 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment		21,656	21,492
Investment properties		750,000	700,000
Construction in progress		33,633	20,234
Long-term deposits		10,513	2,070
Land lease prepayments		15,116	15,018
Interest in an associate		16,818	15,718
Rental and utility deposits		22,533	20,887
Deposits for land lease prepayments		33,396	32,825
		<b>903,665</b>	828,244
<b>Current assets</b>			
Inventories	8	79,186	73,970
Trade receivables, deposits and prepayments	9	91,623	76,481
Amounts due from related companies		—	12
Cash and cash equivalents	10	88,869	96,985
		<b>259,678</b>	247,448
<b>Current liabilities</b>			
Short-term borrowings	11	17,282	34,616
Trade and other payables and deposits received	12	98,755	67,406
Amounts due to related companies		341	585
Tax payable		18,220	15,556
		<b>134,598</b>	118,163
<b>Net current assets</b>		<b>125,080</b>	129,285
<b>Total assets less current liabilities</b>		<b>1,028,745</b>	957,529
<b>Non-current liabilities</b>			
Long-term borrowing	11	8,816	—
Provision for long service payments		3,324	3,324
Deferred tax liabilities	13	63,665	57,460
<b>Net assets</b>		<b>952,940</b>	896,745
<b>EQUITY</b>			
Issued capital	14	155,803	154,282
Reserves		299,950	294,768
Retained profits		497,187	447,695
<b>Total equity</b>		<b>952,940</b>	896,745

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 January 2011

	Issued capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Asset revaluation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31 July 2010 (Audited) and 1 August 2010	154,282	164,921	1,738	19,019	109,090	447,695	896,745
Total comprehensive income for the period	—	—	—	2,565	—	49,492	52,057
Exercise of share options	1,521	3,457	(840)	—	—	—	4,138
<b>At 31 January 2011 (Unaudited)</b>	<b>155,803</b>	<b>168,378</b>	<b>898</b>	<b>21,584</b>	<b>109,090</b>	<b>497,187</b>	<b>952,940</b>
At 31 July 2009 (Audited) and 1 August 2009	154,282	164,921	1,738	16,304	109,090	284,211	730,546
Total comprehensive income for the period	—	—	—	—	—	20,581	20,581
<b>At 31 January 2010 (Unaudited)</b>	<b>154,282</b>	<b>164,921</b>	<b>1,738</b>	<b>16,304</b>	<b>109,090</b>	<b>304,792</b>	<b>751,127</b>

## Condensed Consolidated Statement of Cash Flows

For the six months ended 31 January 2011

	Six months ended	
	31 January	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash generated from operating activities	35,156	18,021
Net cash used in investing activities	(40,150)	(11,641)
Net cash generated (used in)/from financing activities	(4,380)	10,194
Net (decrease)/increase in cash and cash equivalents	(9,374)	16,574
Cash and cash equivalents at beginning of period	96,985	95,482
Effect of foreign exchange rate changes	1,258	—
<b>Cash and cash equivalents at end of period</b>	<b>88,869</b>	<b>112,056</b>
<b>Analysis of the balances of cash and cash equivalents</b>		
Cash and bank balances	65,375	112,056
Non-pledged time deposits with original maturity of less than 3 months when acquired	23,494	—
	<b>88,869</b>	<b>112,056</b>

## Notes to Condensed Consolidated Interim Financial Statements

### (1) BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standards (“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 Hong Kong Companies Ordinance and the disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

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

These financial statements are presented in Hong Kong dollars (“HK\$”) except otherwise indicated.

### (2) PRINCIPAL ACCOUNTING POLICIES

The accounting policies and methods of computation used in the preparation of the condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 July 2010, except for adoption of the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include HKASs and Interpretations) which are generally effective for the current accounting period of the Group:

HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 relation to amendments to HKAS 24 and HK(IFRIC) — Interpretation 14
HKFRSs 2 (Amendment)	Group cash-settled share-based payment transactions
Amendments to HKAS 32	Classification of Rights Issues
HK(IFRIC) — Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments
HK Interpretation 5	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause

The adoption of the above new/revised HKFRSs had no material effect on the reported results or financial position of the Group for both the current and prior reporting periods reflected in these financial statements.

The Group has not early applied the following new or revised HKFRSs that have been issued but are not yet effective, but potentially relevant to the Group’s operations.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 in relation to amendments to HKAS 1, HKAS 27, HKFRS 1, HKFRS 3 and HKFRS 7 <sup>1</sup>
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters <sup>2</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>1</sup>
HK (IFRIC) — Interpretation 14 (Amendment)	Prepayments of a Minimum Funding Requirement <sup>1</sup>
HKFRS 7 (Amendment)	Disclosures – transfers of Financial Assets <sup>2</sup>
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets <sup>3</sup>
HKFRS 9	Financial Instruments <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2012

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2013

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

## Notes to Condensed Consolidated Interim Financial Statements (Continued)

### (3) SEGMENT REPORTING

#### (a) Reportable segments

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

The Group has two reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- Garment and related accessories business
- Property investment and letting business

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Corporate expenses, assets and liabilities are not allocated to the reportable segments as they are not included in the measure of the segments' profit, assets and liabilities that is used by the chief operating decision-makers for assessment of segment performance.



Notes to Condensed Consolidated Interim Financial Statements (Continued)

(3) SEGMENT REPORTING (Continued)

(a) Reportable segments (Continued)

For the six months ended 31 January 2011 (unaudited)

	Garment and related accessories business HK\$'000	Property investment and letting business HK\$'000	Total HK\$'000
Revenue from external customers	273,965	10,182	284,147
Other revenue from external customers	23,329	—	23,329
<b>Total</b>	<b>297,294</b>	<b>10,182</b>	<b>307,476</b>
Reportable segment profit before tax	21,965	38,591	60,556
Depreciation and amortization	(6,109)	(297)	(6,406)
Fair value gain on investment properties	—	35,453	35,453
Share of profit of an associate	—	1,100	1,100
Reportable segment assets	299,332	775,142	1,074,474
Total assets includes:			
Investment in an associate	—	16,818	16,818
Additions to non-current assets	22,339	53,082	75,421
Reportable segment liabilities	(94,357)	(24,161)	(118,518)

For the six months ended 31 January 2010 (unaudited)

	Garment and related accessories business HK\$'000	Property investment and letting business HK\$'000	Total HK\$'000
Revenue from external customers	248,561	—	248,561
Other revenue from external customers	19,965	1,420	21,385
<b>Total</b>	<b>268,526</b>	<b>1,420</b>	<b>269,946</b>
Reportable segment profit before tax	3,494	24,028	27,522
Depreciation and amortisation	(6,485)	—	(6,485)
Fair value gain on investment properties	—	24,000	24,000
Reportable segment assets	267,575	586,622	854,197
Total assets includes:			
Investment in an associate	—	—	—
Additions to non-current assets	4,556	23,999	28,555
Reportable segment liabilities	(81,447)	(125)	(81,572)

Notes to Condensed Consolidated Interim Financial Statements (Continued)

(3) SEGMENT REPORTING (Continued)

(b) Reconciliation of reportable segment profit or loss, assets and liabilities

	Six months ended 31 January	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
<b>Profit before income tax</b>		
Reportable segment profit	60,556	27,522
Unallocated corporate expenses	(5)	(5)
Interest revenue	243	190
Finance costs	(137)	(186)
Consolidated profit before income tax	<b>60,657</b>	27,521
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Assets</b>		
Reportable segment assets	1,074,474	854,197
Unallocated corporate assets	88,869	112,056
Consolidated total assets	<b>1,163,343</b>	966,253
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Liabilities</b>		
Reportable segment liabilities	118,518	81,572
Unallocated corporate liabilities	91,885	133,554
Consolidated total liabilities	<b>210,403</b>	215,126

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(c) Geographical information

The following table provides a geographical analysis based on place of domicile of the Group's revenue from external customers and non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets ("Specified non-current assets") for the six months ended 31 January 2011 and 2010:

	Revenue from external customer		Specified non-current assets	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Hong Kong	203,116	164,427	804,537	618,791
Mainland China	104,360	105,519	99,128	76,956
	<b>307,476</b>	269,946	<b>903,665</b>	695,747

(d) None of the Group's customers contributed 10% or more of the Group's revenue during the two periods ended 31 January 2011 and 2010.

Notes to Condensed Consolidated Interim Financial Statements (Continued)

(4) OTHER INCOME AND GAINS

	Six months ended 31 January	
	2011	2010
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
<b>Other income</b>		
Royalty income	22,059	19,064
Interest income	243	190
Sale of miscellaneous materials	45	222
Income from a related company for contributing an investment property as security	—	1,420
Others	1,225	679
	<b>23,572</b>	<b>21,575</b>

(5) PROFIT BEFORE INCOME TAX

The Group's profit before income tax is arrived at after charging/(crediting):

	Six months ended 31 January	
	2011	2010
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Depreciation of property, plant and equipment	6,243	6,327
Amortisation of land lease prepayments (included in administrative expense)	163	158
Provision/(write-back of provision) for slow-moving inventories, net	193	(1,764)

(6) TAX

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 31 January 2010: Nil) on the estimated assessable profits arising in Hong Kong. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 31 January	
	2011	2010
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Current — Mainland China	4,218	3,076
Current — Hong Kong	742	—
Deferred tax — Hong Kong	6,205	3,864
Income tax expense	<b>11,165</b>	<b>6,940</b>

Notes to Condensed Consolidated Interim Financial Statements (Continued)

(7) EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit of the Group for the period of HK\$49,492,000 (2010 (unaudited): HK\$20,581,000) and the weighted average number of 618,915,717 (2010 (unaudited): the number of 617,127,130) ordinary shares in issue throughout the periods.

Diluted earnings per share amount for the six months ended 31 January 2011 has not been presented as the dilutive effect of share options outstanding during the period is not material. No diluted earnings per share amount for the six months ended 31 January 2010 was presented as the share options outstanding during the period had an anti-dilutive effect on the basic earnings per share for that period.

(8) INVENTORIES

	<b>31 January 2011 (Unaudited) HK\$'000</b>	31 July 2010 (Audited) HK\$'000
Raw materials	1,030	1,211
Finished goods	78,156	72,759
	<b>79,186</b>	<b>73,970</b>

(9) TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS

	<b>31 January 2011 (Unaudited) HK\$'000</b>	31 July 2010 (Audited) HK\$'000
Trade receivables	37,742	29,447
Less: Allowance for bad and doubtful debts	(15,374)	(15,352)
	<b>22,368</b>	<b>14,095</b>
Deposits and prepayments	<b>69,255</b>	<b>62,386</b>
	<b>91,623</b>	<b>76,481</b>

- (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 a maximum credit limit.

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

- (ii) All of the trade receivables (net of allowance for bad and doubtful debts) are expected to be recovered within one year.

Notes to Condensed Consolidated Interim Financial Statements (Continued)

(9) TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

- (iii) An aging analysis of the trade receivables as at the end of reporting period, net of provisions, based on the overdue date is as follows:

	<b>31 January 2011 (Unaudited) HK\$'000</b>	31 July 2010 (Audited) HK\$'000
Trade receivables:		
Current to 90 days	<b>18,520</b>	12,743
91 to 180 days	<b>3,048</b>	697
181 to 365 days	<b>596</b>	655
Over 365 days	<b>204</b>	—
	<b>22,368</b>	14,095

- (iv) The movements in the allowance for bad and doubtful debts during the period, including both specific and collective loss components, are as follows:

	<b>31 January 2011 (Unaudited) HK\$'000</b>	31 July 2010 (Audited) HK\$'000
At beginning of period/year	<b>15,352</b>	15,938
Impairment loss (reversed)/recognised	<b>(2)</b>	(590)
Exchange realignments	<b>24</b>	4
At end of period	<b>15,374</b>	15,352

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At 31 January 2011, the Group's trade receivables of HK\$15,374,000 (31 July 2010 (audited): HK\$15,352,000) were individually determined to be impaired. The individually impaired trade receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowance for doubtful debts was fully recognised. The Group does not hold any collateral over these balances.

- (v) An aging analysis of trade receivables that are neither individually nor collectively considered to be impaired as at the end of the reporting period and year is as follows:

	<b>31 January 2011 (Unaudited) HK\$'000</b>	31 July 2010 (Audited) HK\$'000
Neither past due nor impaired	<b>1,897</b>	3,169
Past due:		
Within 90 days	<b>16,623</b>	9,574
91 to 180 days	<b>3,048</b>	697
181 to 365 days	<b>596</b>	655
Over 365 days	<b>204</b>	—
	<b>20,471</b>	10,926
	<b>22,368</b>	14,095

Trade receivables that were neither past due nor impaired related to a wide range of customers for whom there were no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there have not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

Notes to Condensed Consolidated Interim Financial Statements (Continued)

(10) CASH AND CASH EQUIVALENTS

	31 January 2011 (Unaudited) HK\$'000	31 July 2010 (Audited) HK\$'000
Cash and bank balances	65,375	94,695
Time deposits	23,494	2,290
Cash and cash equivalents	<b>88,869</b>	96,985

At the end of reporting period, cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$66,683,000 (31 July 2010 (audited): HK\$73,707,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies in respect of approved transactions through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits were made for varying periods of between one week and three months depending on the immediate cash requirements of the Group, and earned interest at the respective short-term time deposit rates.

(11) BORROWINGS

	31 January 2011 (Unaudited) HK\$'000	31 July 2010 (Audited) HK\$'000
Non-current		
Bank loan — secured	8,816	—
Current		
Current portion of long term bank loan — secured	984	—
Short term bank loan — secured	5,000	—
Short term bank loan — unsecured	10,000	22,000
Short term trust receipt loans — secured	1,298	—
Short term trust receipt loans — unsecured	—	12,616
	<b>17,282</b>	34,616
Total borrowings	<b>26,098</b>	34,616

Notes to Condensed Consolidated Interim Financial Statements (Continued)

(12) TRADE AND OTHER PAYABLES AND DEPOSITS RECEIVED

An aging analysis of the trade payables as at the end of reporting period, based on the date of receipt of the goods and services purchased, and the balances of deposits received and accruals and other payables was as follows:

	<b>31 January 2011 (Unaudited) HK\$'000</b>	31 July 2010 (Audited) HK\$'000
Trade payables:		
Current to 90 days	<b>30,069</b>	13,674
91 to 180 days	<b>2,759</b>	798
181 to 365 days	<b>24</b>	115
Over 365 days	<b>2,283</b>	1,998
	<b>35,135</b>	16,585
Deposits received	<b>23,042</b>	20,100
Other payables and accruals	<b>40,578</b>	30,721
	<b>98,755</b>	67,406

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

(13) DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities and assets during the period were as follows:

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	<b>Losses available for offsetting against future taxable profits HK\$'000</b>	<b>Accelerated capital allowances HK\$'000</b>	<b>Revaluation of properties HK\$'000</b>	<b>Total HK\$'000</b>
Net deferred tax assets/(liabilities) at 31 July 2009 (audited) and 1 August 2009	170	(252)	(69,837)	(69,919)
Decrease in deferred tax liabilities in respect of reversal of temporary difference	—	219	34,796	35,015
Deferred tax credited/(charged) during the year	3,091	(1,474)	(24,173)	(22,556)
Net deferred tax assets/(liabilities) at 31 July 2010 (audited) and 1 August 2010	3,261	(1,507)	(59,214)	(57,460)
Deferred tax credited/(charged) during the period (Note 6)	316	(746)	(5,775)	(6,205)
<b>Net deferred tax assets/(liabilities) at 31 January 2011 (unaudited)</b>	<b>3,577</b>	<b>(2,253)</b>	<b>(64,989)</b>	<b>(63,665)</b>

**Notes to Condensed Consolidated Interim Financial Statements** (Continued)

**(13) DEFERRED TAX LIABILITIES** (Continued)

The Group has tax losses arising in Hong Kong of HK\$288,695,000 (31 July 2010 (audited): HK\$276,989,000). During the period, the Group did not have tax losses arising in Mainland China (31 July 2010 (audited): Nil). Tax losses in Hong Kong are available for offsetting against future taxable profits of the companies in which the losses arose for an indefinite period.

Deferred tax assets have not been recognised to the extent that, in the Directors' opinion, it is uncertain that future taxable profits would arise to offset against these losses.

**(14) SHARE CAPITAL**

	<b>31 January 2011 (Unaudited) HK\$'000</b>	31 July 2010 (Audited) HK\$'000
Authorised:		
800,000,000 ordinary shares of HK\$0.25 each	<b>200,000</b>	200,000
Issued and fully paid:		
At beginning of period: 617,127,130 ordinary shares of HK\$0.25 each	<b>154,282</b>	154,282
Exercise of share options: 6,085,000 ordinary shares of HK\$0.25 each (Note)	<b>1,521</b>	—
At end of period	<b>155,803</b>	154,282

Note:

During the period ended 31 January 2011, 6,085,000 ordinary shares were issued as a result of exercise of share options.

**(15) OPERATING LEASE ARRANGEMENTS**

**(a) As lessor**

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from three to four years. The terms of the leases generally require the tenants to pay security deposits.

At the end of reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>31 January 2011 (Unaudited) HK\$'000</b>	31 July 2010 (Audited) HK\$'000
Within one year	<b>23,826</b>	13,151
In the second to fifth years, inclusive	<b>38,822</b>	28,865
	<b>62,648</b>	42,016



Notes to Condensed Consolidated Interim Financial Statements (Continued)

(15) OPERATING LEASE ARRANGEMENTS (Continued)

(b) As lessee

The Group leases their office properties, warehouses and retail outlets under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At the end of reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>31 January 2011 (Unaudited) HK\$'000</b>	31 July 2010 (Audited) HK\$'000
Within one year	<b>98,064</b>	99,149
In the second to fifth years, inclusive	<b>92,193</b>	99,295
	<b>190,257</b>	198,444

The operating lease rentals of certain retail shops are based on the higher of a fixed rental and a contingent rent based on sales of the retail shops pursuant to the terms and conditions as set out in the respective rental agreements. As the future sales in these retail shops could not be accurately determined, the relevant contingent rent has not been included above and only the minimum lease commitment has been included in the above table.

(16) COMMITMENTS

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In addition to the operating lease commitments detailed in Note 15 above, the Group had the following capital commitments at the end of reporting period:

	<b>31 January 2011 (Unaudited) HK\$'000</b>	31 July 2010 (Audited) HK\$'000
Contracted but not provided for:		
— Land lease payments in Mainland China	<b>4,043</b>	3,974
— Construction and acquisition of property, plant and equipment in Mainland China	<b>16,070</b>	15,491
— Expenditure on shop decorations in Hong Kong and Mainland China	—	37
	<b>20,113</b>	19,502

Notes to Condensed Consolidated Interim Financial Statements (Continued)

(17) RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the period:

		Six months ended 31 January	
		2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
	Notes		
Rental expenses and building management fee to:			
Lai Sun Textiles Company Limited	(i)	1,352	1,290
Related companies	(ii)	1,219	1,459
Royalty income from a related company	(iii)	291	283
Rental income from a related company	(iv)	613	—
Income from a related company for contributing an investment property as security	(v)	—	1,420

Notes:

- (i) Lai Sun Textiles Company Limited is a company beneficially owned by certain Directors of the Company. The rental expenses and building management fee were charged by this related company pursuant to the respective lease agreements.
- (ii) The rental expenses and building management fee were charged by these related companies, of which certain Directors of the Company are also their directors, based on terms stated in the respective lease agreements.
- (iii) The royalty income was earned from a related company of which a Director of the Company is also its director.
- (iv) The rental income was earned from a related company of which a Director of the Company is also its director.
- (v) On 28 February 2006, the Company, Lai Sun Garment (International) Limited (“LSG”) and Unipress Investments Limited (“Unipress”), a wholly-owned subsidiary of LSG, entered into a conditional development agreement (the “Development Agreement”) in connection with the redevelopment of an investment property situated at 79 Hoi Yuen Road, Kwun Tong, Kowloon (the “KT Property”). Further details of the redevelopment were included in the Company’s circular dated 29 April 2006.

For the same period last year, in consideration of the Company contributing the KT Property as security for the construction finance, in accordance with the Development Agreement, Unipress would make a quarterly payment of HK\$2,130,000 to the Company during the period from the delivery of vacant possession of the KT Property to the completion of construction. The construction was completed at the end of September 2009 and the charges were released on March 2010, as such less than one quarter payment was earned by the Company.

The Directors consider that the above transactions have been conducted in the ordinary and usual course of the Group’s business.

(b) Outstanding balances with related parties

The balances were derived from normal business activities and are unsecured, interest-free and repayable on demand.

## INTERIM DIVIDEND

The Board has resolved not to pay an interim dividend for the six months ended 31 January 2011 (2010: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Performance

During the period under review, the turnover was HK\$284,147,000 (2010: HK\$248,561,000), representing an increase of 14.3% over the corresponding period last year and the gross profit of the Group increased by 18.8% to HK\$184,704,000 (2010: HK\$155,511,000).

The Group's enduring effort on upgrading the "Crocodile" brand image, underpinned by successful product developments and marketing strategies, has delivered the satisfactory results of the "Garment and Related Accessories Business" segment. In addition, the Group has deployed heavy investment in its human resources to assure quality service to customers.

Income from the "Property Investment and Letting Business" segment also contributed greatly to the overall performance of the period under review. Besides the rental revenue of HK\$10,182,000, the Group recorded a surplus on revaluation of investment properties amounting to HK\$35,453,000 (2010: HK\$24,000,000).

As a result of the above and together with the share of profit of an associated company of HK\$1,100,000, the Group recorded a profit attributable to shareholders of HK\$49,492,000 (2010: HK\$20,581,000).

### Operations in Hong Kong and Macau

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The Group operated 27 outlets for Crocodile line and 7 outlets for Lacoste line in Hong Kong and Macau as at 31 January 2011. These outlets achieved a double-digit growth in turnover as compared to the same period of last year. This remarkable advancement was mainly attributed to the enhancement in sales network through shop re-positioning and relocation in districts with high pedestrian flows coupled with prestigious product brand and quality.

With distinctive architectural design and good location in the prime region of Eastern Kowloon, Crocodile Center's leasing has been encouraging and will continue to generate steady rental revenue to the Group.

### Operations in the Mainland of China (the "Mainland")

Severe market competition in the Mainland is still a big challenge being faced by the Group. Moreover, the hike of inflation in the Mainland during the period under review had eroded the spending power of the general public. Under such an adverse business environment, the Group consolidated its sales network and concentrated its effort on strategic marketing campaign. The total sales decreased by 1.1% in the period under review. In order to further alleviate the negative impact above, the Group had implemented stringent controls on costs and expenses.

As at 31 January 2011, there were a total of 281 (2010: 347) sales outlets in the Mainland, including self-operated retail outlets of 80 (2010: 85) and those operated by the Group's franchisees.

Other income, mainly representing royalty income derived from licensees, increased by 15.7% in the period under review.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Prospects

Though it is expected that the strong economic growth in the Mainland will sustain and continue to benefit the consumer market there and in Hong Kong, there are still many uncertainties ahead as the risk of inflation is mounting. The rise in food and other commodity prices will inevitably weaken consumer spending in other sectors. Apart from this direct effect, any upturn in interest rates and other measures to tighten liquidity, as a consequence of high inflation, will definitely hamper the whole market sentiment. The situation is further complicated by the recent disasters in Japan. The Group will closely monitor the performance under such volatile operation conditions.

The ever-rising prices in Hong Kong properties will certainly increase the burden of high shop rental expenses on the Group. To sustain its competitiveness, the Group will maximize the value-for-money of its retail network.

### Contingent Liabilities

As at 31 January 2011, 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 utilize the funding efficiently and to manage the financial risks effectively.

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The Group maintains a conservative approach in treasury management by constantly monitoring its interest rates and foreign exchange exposure. Except for normal trade financial instruments, such as letters of credit and trust receipt loans, the Group has not employed other financial instruments for the six months ended 31 January 2011.

The Group mainly earns revenue and incurs cost in Hong Kong dollars and Renminbi. 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 sales 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\$88,869,000 as at 31 January 2011 and were mainly denominated in Hong Kong dollars and Renminbi. The cash and cash equivalents denominated in Renminbi as at 31 January 2011 amounted to HK\$66,683,000, 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 authorized to conduct foreign exchange business.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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

As at 31 January 2011, the total outstanding borrowings of the Group amounted to HK\$26,098,000. The total outstanding borrowings comprised unsecured short term bank loan of HK\$10,000,000, secured short term bank loan of HK\$5,000,000, secured trust receipt loans of HK\$1,298,000 and secured long term bank loan of HK\$9,800,000. Short term bank loans were repayable within a period not exceeding one year. The secured long term bank loan was repayable by instalments with its current portion of HK\$984,000 repayable within one year and long term portion of HK\$8,816,000 repayable in the second to tenth years. Interest on bank borrowings is charged at floating rates. Except for secured trust receipt loans equivalent to HK\$1,298,000 which is denominated in Renminbi, all other bank borrowings of the Group are denominated in Hong Kong dollars. No financial instruments for hedging purposes were employed by the Group for the six months ended 31 January 2011.

As at 31 January 2011, the Group had mortgaged its investment properties with total carrying value of HK\$750,000,000 and created floating charges on its certain assets to its bankers to secure banking facilities granted to the Group.

The Group's gearing was considered to be at a reasonable level, as the debt to equity ratio at 31 January 2011 was 2.7% expressed as a percentage of total bank borrowings to total net assets.

As at 31 January 2011, the Group had capital commitments, contracted but not provided for, in respect of the land lease payments in the Mainland of HK\$4,043,000 and construction and acquisition of property, plant and equipment in the Mainland of HK\$16,070,000.

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### Major Investments, Acquisitions and Disposals

The Group had no significant investments, material acquisitions or disposals for the six months ended 31 January 2011.

### Employees and Remuneration Policy

The total number of employees of the Group, including part-time sales staff, was 895 as at 31 January 2011. Pay rates of the employees are largely based on industry practice and the performance of individual employee. In addition to salary and bonus payments, other staff benefits include subsidised medical care, free hospitalisation insurance plans, provident fund benefits, subsidised meals, staff discount on purchases, internal training for sales staff and external training programme subsidies.

## SHARE OPTION SCHEME

The Company operates a share option scheme (the “Share Option Scheme”) for the purpose of providing incentives or rewards to eligible employees and directors of the Company or its subsidiaries, agents or consultants of members of the Group, and employees of the shareholders or members of the Group or holders of securities issued by members of the Group (the “Participants”) for their contribution or would-be contribution to the Group and/or to enable the Group to recruit and retain high calibre employees and attract human resources that are valuable to the Group. The Share Option Scheme was adopted by the Company on 22 December 2006 and became effective on 29 December 2006 and unless otherwise cancelled or amended, will remain in force for 10 years from the latter date.

Particulars of the options outstanding under the Share Option Scheme as at 31 January 2011 are as follows:

Name or category of Participants	Number of underlying shares comprised in options					At 31 January 2011	Date of grant of options (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	Exercise price of options <sup>2</sup> per share (HK\$)
	At 1 August 2010	Granted during the period	Exercised during the period <sup>1</sup>	Lapsed during the period	Cancelled during the period				
<b>Directors</b>									
Lam Kin Ming	617,000 <sup>3</sup>	—	—	—	—	617,000 <sup>3</sup>	13/07/2007	13/07/2007 to 12/07/2011	0.68
Lam Wai Shan, Vanessa	6,170,000 <sup>3</sup>	—	(3,085,000)	—	—	3,085,000 <sup>3</sup>	13/07/2007	13/07/2007 to 12/07/2011	0.68
<b>Other participant</b>	5,800,000 <sup>3</sup>	—	(3,000,000)	—	—	2,800,000 <sup>3</sup>	13/07/2007	13/07/2007 to 12/07/2011	0.68
<b>Total</b>	<b>12,587,000</b>	<b>—</b>	<b>(6,085,000)</b>	<b>—</b>	<b>—</b>	<b>6,502,000</b>			

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### Notes:

- <sup>1</sup> The weighted average closing price of the shares immediately before the dates on which the options were exercised during the period was HK\$0.71 per share.
- <sup>2</sup> The exercise price of the options is subject to adjustment in the case of rights or bonus issues or similar changes in the Company's share capital.
- <sup>3</sup> The vesting period of the options was two years commencing from the date of grant.

During the period under review, options comprising a total of 6,085,000 underlying shares were exercised and no options were granted, cancelled or lapsed in accordance with the terms of the Share Option Scheme. As at 31 January 2011, there were a total of 6,502,000 underlying shares comprised in options outstanding under the Share Option Scheme, which represented approximately 1.04% of the Company's shares in issue at that date.

## DIRECTORS' INTERESTS

The directors and chief executive of the Company who held office on 31 January 2011 and their respective associates (as defined in the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") had the following interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")) on that date (a) as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions, if any, which they were taken or deemed to have under such provision of the SFO); or (b) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO (the "Register"); or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Code of Practice for Securities Transactions by Directors and Designated Employees adopted by the Company:

### (1) The Company

#### Long positions in the ordinary shares of HK\$0.25 each (the "Shares")

Name of Directors	Personal Interests	Family Interests	Corporate Interests	Other Interests	Capacity	Total Interests	Approximate
							% of Total Interests to Total Issued Shares
Lam Kin Ming	2,369,000 (Note 1)	Nil	314,800,000 (Note 2)	Nil	Beneficial owner	317,169,000	50.89%
Lam Wai Shan, Vanessa	4,970,000 (Note 3)	Nil	Nil	Nil	Beneficial owner	4,970,000	0.80%

Notes: (1) Dr. Lam Kin Ming was personally interested in 1,752,000 Shares in the Company and held an option to subscribe for 617,000 Shares in the Company.

(2) Rich Promise Limited ("RPL") beneficially owned 314,800,000 Shares in the Company. Dr. Lam Kin Ming was deemed to be interested in 314,800,000 Shares in the Company by virtue of his 100% shareholding interest in RPL.

(3) Ms. Lam Wai Shan, Vanessa was personally interested in 1,885,000 Shares in the Company and held an option to subscribe for 3,085,000 Shares in the Company.

## DIRECTORS' INTERESTS (Continued)

### (2) Associated Corporation

Rich Promise Limited ("RPL") – the parent and ultimate company of the Company

#### Long positions in the shares of US\$1.00 each of RPL

Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Capacity	Total Interests	Approximate % of Total Interests to Total Issued Shares
Lam Kin Ming	1	Nil	Nil	Nil	Beneficial owner	1	100%

Save as disclosed above, as at 31 January 2011, none of the directors and chief executive of the Company were interested or were deemed to be interested in the long and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations which were required to be notified to the Company and the Stock Exchange or recorded in the Register as aforesaid.

### INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at 31 January 2011, so far as it is known by or otherwise notified to any director or the chief executive of the Company, the particulars of the corporations or persons, one being a director and chief executive of the Company, who had 5% or more interests in the following long positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO or were entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the Company (the "Voting Entitlements") (i.e. within the meaning of substantial shareholders of the Listing Rules) were as follows:



## INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS (Continued)

### Long positions in the Shares of the Company

Name	Capacity	Nature of Interests	Number of Shares	Approximate % of Shares in Issue
Rich Promise Limited ("RPL")	Beneficial owner	Corporate	314,800,000 (Note 1)	50.51%
Lam Kin Ming	Beneficial owner	Personal, corporate and other	317,169,000 (Notes 1 and 2)	50.89%

Notes: (1) Dr. Lam Kin Ming was deemed to be interested in 314,800,000 Shares in the Company by virtue of his 100% shareholding interest in RPL.

(2) Dr. Lam Kin Ming was personally interested in 1,752,000 Shares in the Company and held an option to subscribe for 617,000 Shares in the Company.

Save as disclosed above, the directors of the Company are not aware of any other corporation or person who, as at 31 January 2011, had the Voting Entitlements or any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

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### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 31 January 2011, the Company did not redeem any of its listed shares nor did the Company or any of its subsidiaries purchase or sell any of the Company's listed shares.

### CORPORATE GOVERNANCE

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules throughout the six months ended 31 January 2011 save for the deviations from code provisions A.2.1 and A.4.1 summarised below:

## **CORPORATE GOVERNANCE** *(Continued)*

### *Code Provision A.2.1*

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

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

### *Code Provision A.4.1*

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

None of the existing non-executive directors (including the independent non-executive directors) of the Company is appointed for a specific term. However, all directors of the Company are subject to the retirement provisions in the Articles of Association of the Company which require that the directors for the time being shall retire from office by rotation once every three years since their last election and the retiring directors are eligible for re-election. In addition, any person appointed by the Board to fill a casual vacancy or as an additional director (including a non-executive director) will hold office only until the next annual general meeting and will then be eligible for re-election. As such, the Board considers that such requirements are sufficient to meet the underlying objective of the relevant code provision and, therefore, does not intend to take any remedial steps in this regard.

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## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted a Code of Practice for Securities Transactions by Directors and Designated Employees (the "Securities Code") on terms no less exacting than the standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules. The Company has made specific enquiry on all directors of the Company who have confirmed in writing their compliance with the required standard set out in the Securities Code during the six months ended 31 January 2011.

## **UPDATE ON DIRECTORS' INFORMATION**

Pursuant to rule 13.51B(1) of the Listing Rules, the information of the director(s) of the Company is updated as follows:

Mr. Wan Yee Hwa, Edward ceased to be a member of the Audit Committee of the Company with effect from 1 February 2011 but remains as a member of the Remuneration Committee of the Company.

## REVIEW OF INTERIM REPORT

The audit committee of the Company currently comprises three independent non-executive directors of the Company, namely Messrs. Leung Shu Yin, William, Yeung Sui Sang and Chow Bing Chiu. It has reviewed with the management the interim report (containing the unaudited condensed consolidated interim financial statements) of the Company for the six months ended 31 January 2011 and expressed no disagreement over the same (including the accounting policies adopted by the Group).

By Order of the Board

**Lam Kin Ming**

*Chairman and Chief Executive Officer*

Hong Kong, 28 March 2011

**CROCODILE**

