



LEVEL 7 ASSESSMENT SPECIFICATION

Student name:	WU Hon Kwong	Student ID number:	1812210
Programme:	MBA		
Module:	Financial Management		
Module code:	SBMA7100	Contribution to Overall Module Assessment (%):	100%
Lecturer:	Dr Katherine Mo	Internal Verifier:	
Assignment Title:	Assignment 1	Word count (or equivalent):	5,000 words
Submission deadline:	19 August 2019	Return date of provisional marks & written feedback:	Within 20 days after submission
Submission method:	All written assessments, where practical and possible, must be submitted via Turnitin unless otherwise instructed by the Lecturer. (Please DO NOT put this assessment specification into Turnitin or it will match many similarities with other students' submissions.) Alternative submission method (if applicable): Late submission of the assessment will result in a late penalty mark. Penalties for late submission: Up to one week late, maximum mark of 50%. Over one week late, 0%. Only the Extenuating Circumstances Panel may approve a change to submission dates.		
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University of Wales
Trinity Saint David
and
The Hong Kong Management Association

Financial Management
(SBMA7100)

A Business Report :
Crocodile Garments Limited

Dr Katherine Mo

Assignment 1

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19th August, 2019

Executive Summary

This report examines the performance of Crocodile Garments Limited. The report first provided a review of the company and the operating business overview of the company. Chapter two examined the financial performance of Crocodile Garments Limited. Findings indicate that crocodile garments ltd is performing poorly when compared to their peers. The company Z-score was seen to be under 1.8 implying that the company is likely to go bankrupt in the near future. The company was able found to be inefficient and unable to pay its debt obligations. The company should thus work on ensuring that increasing efficiency and liquidity. The company has strong corporate governance rules. The board, however, does not comply with corporate governance rules. This may have affected the financial performance of the company and would greatly affect the image of the group. The chairman was for instance seen to play a dual role which is against the company CG code. The report suggests that crocodile garments abide by the set corporate governance code. The company should also ensure that each executive understands and performs his or her role accordingly. The board should delegate minor duties and perform strategic tasks that enhance the company value including formulating strategic goals and plans. The suggested investment project has a positive NPV of 8.25 and thus should be undertaken.

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Crocodile Garments Limited

1. Introduction

This chapter provides a review of the company under examination. It presents a background of Crocodile Garments Limited, a review of the business environment, and a short analysis of the company structure.

Figure 1: Crocodile Garments Limited Logo



(Source: Crocodile Garments, 2018)

1.1. Company Background

Crocodile Garments Limited is a global fashion brand that engages in the delivery of quality wear (Crocodile Garments, 2018). The company was founded by Chan Shun in 1952. Dr. Chan had learned to sew and fix sewing machines. He used the cash from his endeavor to travel between Chinese towns in his teenage years (Crocodile Garments, 2018). The company was then called Li Wah Man Shirt Factory. Back then, the company was solely bent on delivering men's garments. Dr. Chan introduced the Crocodile Garments brand to help the company produce products that are as tough and luxurious as a crocodile skin (Crocodile Garments, 2019). The crocodile garments brand initially produced and sold dress shirts before expanding to become the largest fashion store in Hong Kong (Crocodile Garments, 2018).

Today, Crocodile Garments Limited has diversified its product range. The company is now manufacturing and selling products for men, kids, and women (Crocodile Garments, 2019). The

company is recognized as the top fashion brand in Hong Kong, Macau, and Mainland China. It is uncompromisingly and progressively determined to provide quality products that enhance customer value. The company trades on the Hong Kong securities exchange under the ticker, 122HK (Reuters, 2019). It has now moved from a fashion label to a renowned lifestyle brand. As part of its strategy, the company invited Mr. Alan Chan, a reputed international fashion designer, to design several brand elements including advertisements, packaging, interior design, products, and brand logo. These elements have helped the brand become fresher and unique than ever before. The company introduced a new label SMARTCROCO, in 2011. The label is based on three basic elements-clean, charm, and demanded and is meant to help the company expand its product range (Crocodile Garments, 2018).

1.2. Operating Business Overview

Crocodile Garments Limited is an HK-based investment group that principally engages in garment business (Crocodile Garments, 2019). Currently, the Group operates three business segments: garment segment, securities segment, and property segment. The garment business segment engages in the manufacture of garment and retailing and wholesale of fashion apparel (Reuters, 2019). Products under the garment segment include not limited to pants, outwears, shirts, and accessories, such as bags, shoes, scarves, and belts. The property business segment deals in property investment and letting. Property investment and letting business is mainly done in mainland China and Hong Kong. The last business segment, securities, engages in the trading of securities. The three operating segments are managed separately partly because each business line provides different products and requires distinct business strategies (Crocodile Garments, 2018).

The 2018 segmental reports indicate that garment and related accessories business segment remains to be the cash cow for Crocodile Garments Limited. Total revenues for the business segment amounted to HKD211 million in 2018. Sales from the garment segment are seasonal. Most of the revenues from the segment are generated in the first half of the year and seasons of New Year and Christmas. The company launches the fall/winter collection of high revenues and margins (Crocodile Garments, 2018). The segment was followed closely by the property business segment which earned HKD 59 million in 2018. The performance was comparatively lower in 2018 than in 2017 as shown in figure 2 below.

Figure 2: Crocodile Garment Limited's Segment Revenues and Results

	Garment and related accessories business		Property investment and letting business		Trading of securities		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	207,814	208,811	57,190	55,308	—	—	265,004	264,119
Other income from external customers <i>(Note)</i>	2,910	23,153	1,808	9,459	—	—	4,718	32,612
Group's total revenue and other income <i>(Note)</i>	210,724	231,964	58,998	64,767	—	—	269,722	296,731
Reportable segment (loss) profit	(40,398)	(57,081)	252,028	182,391	5,446	10,827	217,076	136,137
Unallocated corporate income							611	369
Unallocated corporate expenses							(41,112)	(37,067)
Finance costs							(14,572)	(12,573)
Profit before tax							162,003	86,866

(Source: Crocodile Garments, 2018).

The above figure shows the three segments operated by Crocodiles Garments Limited. The securities segment did not contribute substantial amounts to the company as can be seen in figure 2. The three reporting segments earned a totally revenue of HKD 270 million in 2018. This was a decline in performance since the company had earned more in 2017, i.e. HKD 297

million. Profit from the three business segments increased marginally from HKD86.9 million in 2017 to HKD 162 million in 2018 (Crocodile Garments, 2018).

1.3. Today's Business Environment

Hong Kong maintains an open business environment for commerce and business activities (InvestHK, 2019). It has unique legal, political, and business systems. This allows the city to continue to flourish as an international hub for business. The city is currently enjoying the benefits of unrivaled access to opportunities from mainland china (InvestHK, 2019). The HK government is supportive of commerce. It has adopted a policy of nonintervention in the private sector. It has also helped develop a modern commercial infrastructure and a supportive legal environment for businesses (InvestHK, 2019).

The HK fashion industry is very critical to the economy. It is the largest employers in Hong Kong, with 603 establishments hiring close to 4100 workers as of 2018. The Hong Kong government supports the establishment of forward-looking fashion industry. Most of the firms in the sector have however set up offshore production facilities. This is meant to help cut down on operating costs which is particularly high in HK. Relocation of production facilities is has hurt the industry and cost the HK government losses in jobs (InvestHK, 2019).

1.4. Company Structure

Organization structure describes the way different business units or departments are organized (Shafie et al., 2018). There are different types of company structures, including functional structure, divisional structure, and matrix structure (Shafie et al., 2018). Crocodile Garments Limited has a functional company structure whereby the workforce is grouped based on their skills and competencies (Banerjee and Srivastava, 2017). Kim Ming Lan is the group chairman and the CEO of the company. He is deputized by Wai Shan Lam. These two people oversee

functional executives who include the human resource director, finance director, and other non-executive directors. Ming Kin Ko is the group's chief financial officer and the company secretary. Both executive and non-executive directors are encouraged to apply the democratic management style which involves juniors in the key decision-making process. Strategic decisions are however made by a select committee to fast track the decision-making process.

1.5. Research Comparison Company Information

This business report examines the financial performance of Crocodile Garments Limited. The report analyzed the performance of the company in the last three years. Comparisons are made with two other companies which include the Yangtzekiang Garment Limited and High Fashion International Limited. The three businesses operate in the same industry and are similar in their business models and thus comparison would help gauge how Crocodile Garments Limited is performing. Table 1 compares the market capitalization and the P/E ratio of the three firms. The table shows that Crocodile Garments Limited has a high market ratio than Yangtzekiang Garment Limited and High Fashion International Limited. The company is however seen to have a lower P/E ratio than its counterparts in the industry. This means that Crocodile Garments Limited is expected to perform dismally when compared to Yangtzekiang Garment Limited and High Fashion International Limited.

Company Name	Crocodile Garments Limited	YangtzeKiang Garment Limited	High Fashion International Limited
Stock Number	122	294	608
Business Nature	Investing Holding Company, Garments Businesses	Garment Retailing and Textiles	Investment Holding Company, Manufacturing of Garments
Market Value (HKD million \$)	\$653.81	\$599.57	\$562.43
PE Ratio	4.74	19.74	12.89
Number of Employees	274	3600	6500

Table 1: Comparing Crocodile Garments Limited's market cap and PE with peers

2. Crocodile Garments Limited's Financial Analysis

Financial analysis is the use of financial data to assess the performance of a company and make suggestions on how to improve going forward (Williams and Dobelman, 2017). This section provides an analysis of Crocodile Garments Limited. It also provides a comparison of the company's performance with two peers in the market. Financial ratios are used to evaluate the performance of the company in terms of profitability, liquidity, growth, and operating capacity. The risk for bankruptcy is also evaluated using the Z-score model.

2.1. Bankruptcy Index Z-Score Analysis

Financial distress has been a headache for most firms (Altman et al., 2017). The term describes a condition in which a firm cannot generate adequate income or revenue. In times of financial distress, most firms are unable to pay their financial obligations due to high fixed cost and illiquid assets (Altman et al., 2017). Ignoring signs of financial distress can be devastating to an organization. Financial distress can occasion bankruptcy which describes a situation whereby a company cannot repay its financial obligation (Geng et al., 2015). Firms can, however, predict the likelihood of experiencing financial distress and bankruptcy. The Z score can, for instance, be used to help firms predict corporate defaults. The measure was designed in 1968 to help firms predict the probability that they would go into bankruptcy within two years. The Z-score, which is also termed as the standard score, uses multiple income statement and balance sheet values to determine the financial wellbeing of a firm. Studies have shown that the Z-score is 72% accurate in predicting the likelihood of corporate failure (Geng et al., 2015). A score that is less than 1.8 indicates that a company is headed in the wrong direction and that it is likely to run into bankruptcy. A score of between 1.8 and 2.99 shows that a company is in a gray area whereas a score greater than 3 suggests that a firm is unlikely to go bankrupt. Below is a comparison of the three garment firms in terms of their Z-scores.

Company Name	Crocodile Garments Limited			YangtzeKiang Garment Limited	High Fashion International Limited
(HKD Million) (Year)	2016	2017	2018	2018	2018
Net current assets	-19	-57	-77	410	826
Total assets	\$2,293.00	\$2,378.00	\$2,769.00	\$1,391.00	\$5,084.00

Retained earnings	0	88	162	37	44
EBIT	- 41	-14	-53	12	13
Stock Value (HKD per share)	1.637804	1.72890295 4	1.898734	3.1	1.907
HKD/RMB Ex Rate	1.1168	1.1976	1.1385	1.1385	1.1385
Number of Shares	947	948	948	207	306
Total Liabilities	742	739	970	143	2559
Sales	\$313.00	\$264.00	\$265.00	\$749.00	\$3,075.00
Z score = 1.2A + 1.4B + 3.3C + 0.6D + 0.999E					
A = Working Capital/Total Assets = Retained Earnings/Total Assets = EBIT / Total Assets ;					
D = [(Stock value x Total number of stocks)/RMB&HKD ex rate]/Total Liabilities; E = Sales/Total Assets					

Company Name	Crocodile Garments Limited			Yangtzekiang Garment Limited	High Fashion International Limited
Year	2016	2017	2018	2018	2018
A	-0.008	-0.024	-0.028	0.295	0.162
B	0.000	0.037	0.059	0.027	0.009
C	-0.018	-0.006	-0.019	0.009	0.003
D	1.872	1.852	1.630	3.942	0.200
E	0.137	0.111	0.096	0.538	0.605
Z Score	1.190	1.226	1.059	3.322	0.940

Table 2: Calculating Crocodile Garments Limited's Z-score

Crocodile Garments Limited has a Z-score that is below 1.8. The score improved in 2017 but fell drastically in 2018. This means that the company is performing poorly and that it is likely to experience bankruptcy in the near future. Yangtzekiang Garment Limited is the only company that is in the safe zone since it has a Z score of 3.3.

2.2. Financial Structure

Financial structure describes a mix of debt and equity that organizations use to finance their assets (Serfling, 2016). Significant use of debt helps shareholders realize a higher return on investment. More debt can, however, increase the likelihood of bankruptcy since it tends to increase debt obligations that must be repaid (Alipour et al., 2015). There are a number of ratios which show how a firm is financially structured. This includes the fixed assets-to-long term

liabilities ratio, current assets to net assets ratio and current liabilities to stock ratio. Below table compared the financial structures of Crocodile Garments Limited, YangtzeKiang Garment Limited, and High Fashion International Limited based on the three ratios.

Company Name	Crocodile Garments Limited			YangtzeKiang Garment Limited	High Fashion International Limited
Year	2016	2017	2018	2018	2018
Fixed Asset to Long Term Liability Ratio	0.489	0.476	0.529	1.463	0.861
Current Liabilities to NA Ratio	0.295	0.287	0.397	0.082	0.649
Current Liabilities to Stock Ratio	6.260	9.792	17.850	1.478	3.590

Table 3: Capital Structure Ratios

Fixed Asset to Long Term Liability Ratio

FA-to-LTL ratio is used to determine the solvency of a firm (Robinson et al., 2015). Firms' usually secure their long-term debts using fixed assets and that is the reason why creditors are interested in this ratio. The ratio is typically computed by dividing fixed assets figure by the amount of long-term debt. Investors and creditors often prefer a bigger number for fixed asset-to-long term liabilities ratio because it indicates that a company is more secure and that it can pay its debt obligations using fixed assets (Robinson et al., 2015). Crocodile Garments Limited fixed assets to LTL has remained relatively stable over the last three years. The figure improved in 2018 but has been below 0.53. This means that the company's fixed assets cannot cover the debt obligations. Simply, the firm's fixed assets are lower than the company's debts. The company performed poorly when compared to its peers in the industry. YangtzeKiang

Garment Limited, for instance, had fixed assets to LTL ratio of 1.46 in 2018. This means that it is more secure and that creditors would be more willing to finance its operations. High Fashion International Limited also performed better than Crocodile Garments Limited. It has a ratio of 0.86 which is more than the Crocodile Garments Limited's calculated fixed assets-to- LTE figure of 0.53. Crocodile Garments Limited should thus work to improve its capacity to cover long term liabilities using fixed assets.

Current Liabilities to Net Assets Ratio

Current liabilities to net assets ratio is another significant measure of solvency (Robinson et al., 2015). The ratio indicates the relationship between net assets and capital contributed by current obligation creditors. Net assets are always equal to shareholders funds and thus the ratio is sometimes known as current liabilities to net worth ratio. As a rule, the ratio needs not to exceed 60%; higher percentages like 80% mean that a business' future cash flows are significantly under pressure. Based on the calculated ratios, High Fashion International Limited has higher current liability to NA ratio. This means that its cash flows will come under increasing pressure in the future. Crocodile Garments has the lowest current liabilities to net assets ratio, meaning that is secure and that is under no pressure to earn more cash flows.

Current Liabilities to Stock Ratio

This ratio is supposed to show the relationship between inventory and the total amount due to creditors in a particular year (Brigham et al., 2016). In other words, the ratio indicates the extent to which a firm depends on funds from the disposal of unsold stock to meet its debt obligations. A higher ratio tends to indicate that a firm is relying more on unsold inventory to finance maturing debt obligations. Crocodile Garments Limited has seen its current liabilities to stock increase in the last three years. The ratio has increased from 6.26 in 2017 to 17.85 in 2018. This

trend shows that the company is increasingly becoming more reliant on funds from unsold inventory to finance its maturing debt obligations. Peers in the industry have lower current liabilities to stock ratio. High fashion International Limited has a ratio of 3.59 while YangtzeKiang Garment Limited has current liabilities-to-stock ratio of 1.478. The two companies do not rely much on unsold stock for their financing needs.

2.3. Paying Debt Ability

Debt is an important part of any company (Robinson et al., 2015). It is sourced from creditors to help finance operations. Firms must, however, be able to repay their debt obligations. The ability to repay is determined by solvency and liquidity ratios some of which are calculated below.

Company Name	Crocodile Garments Limited			YangtzeKiang Garment Limited	High Fashion International Limited
	2016	2017	2018	2018	2018
Current Ratio	0.958	0.879	0.892	5.020	1.505
Quick Ratio	0.799	0.777	0.836	4.343	1.226
Cash Ratio	0.641	0.596	0.777	3.167	0.436
Total Debt Ratio	0.324	0.311	0.350	0.103	0.503
Debt/Equity Ratio	0.478	0.451	0.539	0.115	1.014
LTD Ratio	0.033	0.029	0.029	0.029	0.136
Total Debt/ Fixed Asset Ratio	0.400	0.376	0.455	0.163	0.976
Time Interest Coverage Ratio	-3.417	-1.273	-3.533	6.000	0.433

Table 4: Determining Crocodile Garment Limited's Debt Paying Ability

Current Ratio/Quick Ratio

Both current and quick ratios are liquidity ratios (Bragg, 2018). They are used to help determine a company's ability to repay short term dues using current assets and quick assets respectively (Bragg, 2018). The two ratios tell investors how a firm can maximize current assets to satisfy their short-term debt obligations. Investors prefer a current asset ratio that is more than 1, simply because it shows that current assets are enough to cover current liabilities. The current ratio and quick ratio for Crocodile Garments Limited are below the required ratio of 1. This implies that the company is not able to repay its current debt obligations using its most liquid assets. Other companies in the industry have a current ratio/quick ratio of more than one meaning that Crocodile is lagging behind its peers in performance.

Cash Ratio

Cash ratio measures a company's ability to repay its short-term debts using cash and cash equivalents (Bragg, 2018). The ratio is more conservative when compared to other liquidity ratios. The cash ratio for Crocodile Garments Limited increased from 0.596 in 2017 to 0.78 in 2018. This indicates that the company became more liquid in 2018. The company has however been performing dismally when compared to YangtzeKiang Garment Limited who had a cash ratio of 3.20 in 2018.

Debt/Equity Ratio

Debt to equity ratio is a financial metric that compares a firm's total debt with total equity (Bragg, 2018). It shows how a company is financed and how much of the financing comes from debt and equity. A lower debt/equity ratio indicates that a company is less geared and that it is able less risky. Crocodile Garments Limited saw its debt/equity ratio increased from 0.478 in 2016 to 0.539 in 2018. The ratio is less when compared to the 1.014 debt/equity figure for High

Fashion International Limited. YangtzeKiang Garment Limited has the lowest debt/equity ratio of 0.115 which implies that it is less risky than its peers in the garment industry.

Time Interest Coverage

Time interest cover is a debt ratio that helps determine how easily a firm can pay the interest on outstanding debts (Bragg, 2018). The ratio measures the margin of safety a company has for paying interest on debt. Crocodile Garments Limited has had a negative interest cover in the last three years. In 2018, the company had an interest coverage ratio of -3.53, implies that its interest has been more than its operating income. The company is therefore not able to pay its interest on outstanding debt. Other firms in the garment industry are performing better than Crocodile Garments Limited. YangtzeKiang Garment Limited and High Fashion International Limited, for instance, has an interest coverage ratio of 6x and 0.433x respectively. Overall, Crocodile Garments Limited has a lower debt repaying ability when compared to their peers in the fashion industry. The company should work on improving its liquidity position to attract creditors and investors.

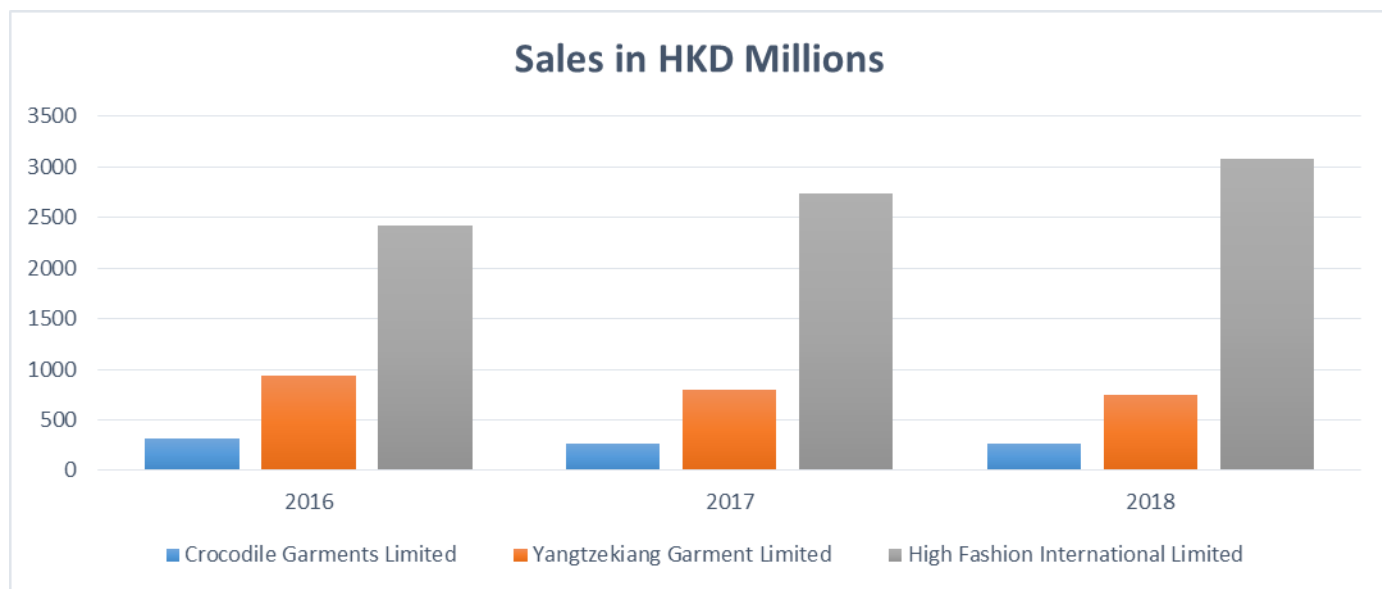
2.4. Operational Ability

The table and figure below show that Crocodile Garments Limited has been performing badly off when compared to its peers. The presented table shows that sales revenue for Crocodile Garments Limited and YangtzeKiang Garment Limited reduced marginally in 2017. Crocodile Garments Limited is however seen to improve its sales performance in 2018, although the increment is small. High Fashion International Limited reported the largest figure for sales in all the three years under consideration. This implies that the company has more operational ability than Crocodile Garments Limited and YangtzeKiang Garment Limited combined.

<u>Year</u>	<u>Crocodile Garments Limited</u>	<u>YangtzeKiang Garment Limited</u>	<u>High Fashion International Limited</u>
2016	313	938	2423
2017	264	800	2733
2018	265	749	3075

Table 5: Comparing Crocodile Garments Limited's Sales Performance

Figure 3: Comparing Crocodile Garment Limited and Industry Peers Sales Performance



In terms of growth, Crocodile Garments Limited sales reduced by 15.65% in 2017 but rose by 0.38% in 2018. YangtzeKiang Garment Limited experienced a decline in performance for the three years under consideration whereas High Fashion International Limited sales increased by 12.79% and 12.51% in 2017 and 2018 respectively.

Figure 4: Sales Growth Rate Analysis



Company Name	Crocodile Garments Limited			YangtzeKiang Garment Limited	High Fashion International Limited
Year	2016	2017	2018	2018	2018
Employee costs	22.76%	23.12%	24.03%	22.32%	9.54%
Depreciation and amortization	4.93%	5.32%	5.09%	0.69%	1.84%
Rental expenses	1.88%	2.12%	2.09%	0.99%	0.03%
Other expenses	0.00%	4.16%	0.90%	0.30%	0.00%

Table 6: Operating Expenses Analysis

According to the above table, Crocodile Garments Limited has higher employee costs, depreciation costs, and rental costs than both High Fashion International Limited and YangtzeKiang Garment Limited. Employee costs are seen to increase year on year from 22.76% in 2016 to 24.03% in 2018. The company should work on cutting down on its expenses by increasing employee productivity.

Crocodile Garments Limited operational efficiency can be measured using a number of ratios including the total assets turnover, payment period and days in inventory as shown in the table below.

Company Name	Crocodile Garments Limited			YangtzeKiang Garment Limited	High Fashion International Limited
Year	2016	2017	2018	2018	2018
Total assets turnover	0.137	0.111	0.096	0.538	0.605
Average collection period	89.230	95.840	51.550	33.280	50.000
Days inventory	253.770	233.130	189.370	43.010	84.690
Payables period	188.240	257.420	182.330	28.580	48.380

Table 7: Operating Efficiency Ratios

Total Asset Turnover

This is an efficiency ratio which indicates whether a company is able to generate sales from total assets (Bragg, 2018). The ratio compares net sales revenue with total assets to show how efficiently a firm has been generating sales from assets. Crocodile Garments Limited is seen to have the lowest total asset turnover ratio. The ratio has been reducing since 2016 and thus there is a need for concern if this trend is anything to go by.

Average Collection Period

This measures the number of days it takes to collect cash from credit customers (Robinson et al., 2015). The computed ratio shows that Crocodile Garments Limited takes more days to collect cash from customers. The company day sales outstanding reduced from 96 days in 2017 to 53 days in 2018. The period is, however, more than the period it takes for YangtzeKiang Garment Limited (34 days) and High Fashion International Limited (50 days) to collect cash.

Day's Inventory

The day's inventory figure shows that the number of days it takes Crocodile Garments Limited to sell its inventory has been reducing in the last three years. The number has reduced from 254 days in 2016 to 190 days in 2018. The company, however, needs to do more to catch up with its peers who have a lesser number of inventory days. Overall, the company is less efficient and needs to work on enhancing its operational performance.

2.5. Profitability

Profitability ratios are used here to help determine the ability of Crocodile Garments Limited to make profits from operations (Bragg, 2018). The ratios show how the company uses assets to generate value and profit for shareholders.

Company Name	Crocodile Garments Limited			Yangtzekiang Garment Limited	High Fashion International Limited
Year	2016	2017	2018	2018	2018
Net Profit	0.00	88.00	162.00	37.00	44.00
Net Profit Growth	-	-	84.09%	23.33%	4.76%
Net Profit Margin	0.00%	33.33%	61.13%	4.94%	1.43%

Table 8: Comparing Profitability Ratios for Crocodile Garment Limited and Industry Peers

The net profit figure shows that Crocodile Garments Limited has been performing better in the last two years relative to its peers in the market. The company's net profit grew by 84.09% between 2017 and 2018 to reach KH\$ 162 million. Net profit margin is also seen to grow year on year to reach 61.13% in 2018. Increment in net profit and net margin is due to reduced operating expenses in the last three years. Sales, administrative, and general expenses are for instance seen to reduce from HK\$ 263 million in 2016 to HK\$ 210 in 2018.

Company Name	Crocodile Garments Limited			Yangtzekiang Garment Limited	High Fashion International
Year	2016	2017	2018	2018	2018
Total asset turnover	0.14	0.11	0.10	0.54	0.60
Leverage Ratio	1.48	1.45	1.54	1.11	2.01
Return on Equity	0.00%	5.37%	9.00%	2.96%	1.74%
Return on Asset	0.00%	3.70%	5.85%	2.66%	0.87%

Table 9: Profitability Analysis

Return on asset and return on equity for Crocodile Garments Limited are shown to improve in years 2017 and 2017. The above table shows that Crocodile Garments Limited has been performing well when compared to Yangtzekiang Garment Limited and High Fashion International Limited. The main driver of increasing profitability is reduced operating expenses due to increased efficiency. The company should, however, focus on improving sales performance to sustain its profitability.

2.6. Growth Capacity

Company Name	Crocodile Garments Limited			Yangtzekiang Garment Limited	High Fashion International Limited
Year	2016	2017	2018	2018	2018
Retained yield (times)	-	13.34	8.25	24.62	37.43
Self-sustainable Growth Ratio (%)	0.70	0.72	0.74	0.73	0.65

Table 10: Analyzing Growth Capacity of Crocodile Garments Limited

Crocodile Garments Limited's retained yield has declined drastically in the last three years. The ratio is seen to reduce from 13.34x to 8.25x. Industry peers including Yangtzekiang Garment Limited and High Fashion International Limited have a higher retained yield than Crocodile Garments Limited, implying that the company is performing badly in terms of growth. The

self-sustainable growth rate is however seen to increase marginally over the last three accounting years. This implies that the company can achieve growth without relying on debt finance or impairing the capital structure. Regardless, the company has a low growth capacity which needs to be enhanced.

2.7. Stock Market Prospects Analysis

Company Name	Crocodile Garments Limited			Yangtzekiang Garment Limited	High Fashion International Limited
Earnings Per Share	-	0.09	0.17	0.18	0.14
PE Ratio	0	10.88	4.51	17.22	13.62
Dividend Yield	0.00%	0.00%	1.43%	3.87%	3.15%

Table 11: Comparing Crocodile Garments Limited Market Performance

Crocodile Garments Limited's earnings per share are up by 89%. This means that shareholders would receive more in 2018 if all profits were distributed to them. Increasing EPS is due to increases in net profit in the last two accounting period. The ratio is however below 0.18 reported by Yangtzekiang Garment Limited. PE ratio is seen to decline from 10.88 in 2017 to 4.51 in 2018. The performance is below average since other players in the market have a high PE ratio as indicated above. Dividend yield is also seen to fall below what is reported by Yangtzekiang

Garment Limited and High Fashion International Limited. The company thus needs to work hard to improve its future performance.

3. Crocodile Garments Limited's Corporate Governance Assessment

The above analysis has shown that Crocodile Garments Limited has been performing poorly in a number of areas. The company's performance is likely to have an impact on shareholders' interests and future development. This section examines how Crocodile Garments Limited is governed, its internal controls, and risk management techniques. Examination of these issues will help determine key areas of weakness and help the researcher make appropriate suggestions.

3.1. Corporate Governance and its impact and importance

Corporate governance is the cornerstone of today's business (Tricker and Tricker, 2015). It includes the policies, processes, and systems that a firm relies upon to make decisions and manage the company. A good corporate governance structure is supposed to incorporate a set of rules that describe the relationship between shareholders, management, the board of directors and other stakeholders (Tricker and Tricker, 2015). Corporate governance principles and structures define the distribution of rights as well as duties among the many stakeholders of a corporation, such as creditors, managers, auditors, regulators, directors, shareholders among others. Governance mechanisms include the supervision of the actions, decisions, practices, and policies of organizations, their managers and concerned stakeholders (Yermack, 2017).

The board of directors makes up the people who are responsible for the governance of their companies (Du Plessis et al., 2018). Shareholders role in corporate governance is to appoint the directors and auditors and to satisfy themselves that an appropriate governance system is in place. The board is constituted to help set up strategic aims, provide leadership to work on the aims,

supervise managers, and report to shareholders on their stewardship. Corporate governance is thus about what a company's board does and how it sets the values of the company.

Good corporate governance is supposed to make companies more transparent and accountable to investors (Du Plessis et al., 2018). It often contributes to boosting economic growth, development of opportunities, and increased access to capital. It is aimed at helping organizations achieve their objectives, manage risks, and comply with rules and regulations. A lack of corporate governance may result in loss of profit, instances of corruption, and a tarnished image. Poor corporate governance can also increase conflicts of interest within organizations, expropriation and unfair treatment of minority shareholder.

3.2. Crocodile Garments Limited's Existing Corporate Governance

Crocodile Garments Limited is committed to maintaining high standards of corporate governance. It has set out procedures and policies for compliance with the corporate governance code. As its part CG code, Crocodile Garments Limited has separated the roles of chairman and the chief executive officer. The two roles are not supposed to be performed by the same person. The company has however chosen Dr. Lam King Ming has the group chairman and CEO due to his in-depth knowledge and industry experience. The company's board of directors is currently made up of nine members, five of whom are executive directors, three are independent non-executive directors (INEDs) and one is a non-executive director (NED). The board of directors oversees the overall management of the company and its affairs. The board's core duty is ensuring that the company is viable and ascertaining that it is managed in the best interest of shareholders and other stakeholders. There are a number of committees that assist the board in the implementation of its function. The board has delegated the daily management of the company business to the executive committee and management. Its aim remains to focus on long

term goals and the plans for attaining those goals. Performance can be evaluated by considering the after-tax return on assets and the after-tax return on equity as shown below.

Company Name	Crocodile Garments Limited			YangtzeKiang Garment Limited	High Fashion International Limited
Year	2016	2017	2018	2018	2018
ROA (after tax) (%)	0.00%	4.48%	7.60%	2.54%	4.77%
ROE (after tax) (%)	0.00%	5.37%	9.00%	1.81%	1.74%

Table 12: Corporate Governance Performance

The company board is seen to have overseen an improvement in performance in the last three years. The after-tax return on assets is for instance seen to increase from 4.48% to 7.6% which is higher than the industry average. The company is however found to have not been complying with corporate governance rules. This may have affected the financial performance of the company and would greatly affect the image of the group.

The chairman was for instance seen to play a dual role which is against the company CG code. The chairman may be very competent and performing the two roles may bring about confusion and disorder in the company. The board has also not constituted the nomination committee. It instead undertakes the functions of the committee instead of focusing on its principal mandate.

3.3. Suggestions

The above analysis shows that Crocodile Garments Limited needs to enhance its corporate governance mechanism. This can be done through a number of ways including:

- Ensuring that the corporate governance code is followed to the later. The company, for instance, needs to appoint a chief executive officer as required by the CG code.
- Ensuring that each executive officer understands his or her role. The company needs to have a proper separation of duties. This will go a long way in ensuring that the board delivers on its mandate.
- The group should work on increasing transparency. Information should be provided on a timely basis for users to make informed decisions
- The board should delegate minor duties and perform strategic tasks that enhance the company value including formulating strategic goals and plans

4. Investment Project Appraisal

Crocodile Garments Limited plans to open a new store on a 12,000 square meter area. The store is meant to help the company increase its sales performance in the next five years. Below is an appraisal of the project.

4.1. Project Items Basic Information

Sales per square meter (RMB) 12,000 *1 (Parkson,2010)
VIP Counters sales ratio 85%*1 (Parkson, 2010)
Direct Sales Ratio 12%*1 (Parkson, 2010)
Total Sales (Million RMB) 338 Jinan Branch area33,800 sq. m x RMB12,000/sq. m
VIP counter flat rate 20% *1 (Parkson, 2010)
VIP counter commission (Million RMB) 57.5 (Total Sales x VIP counter Sales ratio x flat rate
Direct Sales (Million RMB) 40.56 = (Total Sales x Direct Sales Ratio)
Total Revenue (Million RMB) 98.0

Table 13: Basic Project Information

The above estimates are based on Parkon's 2010 annual report. The estimates have however been adjusted to fit crocodile garment's operating environment.

5. Calculate Tax and Other Cost

project (Unit: Million RMB)			1st year	2nd year	3rd year	4th year	5th year
Sales = Last year sales x (1+growth rate)		12%	25.5	28.6	32.0	35.9	40.2
Earnings before Interest,Tax,dep&Amort(EBITDA)		38%	9.7	10.9	12.2	13.6	15.3
Dep = -(Building/50+Decoration/5)	Mall (Building)	50	(6.8)	(6.8)	(6.8)	(6.8)	(6.8)
	Decoration	5	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)
		Total depreciation	(8.1)	(8.1)	(8.1)	(8.1)	(8.1)
EBIT:			1.6	2.8	4.1	5.6	7.2
Tax expense (std tax rate: 25%)		25%	(0.4)	(0.7)	(1.0)	(1.4)	(1.8)
Profit:			1.2	2.1	3.1	4.2	5.4

Table 14: Calculating Project Profitability

The above analysis shows that the project would be profitable in the first five years of operation.

5.1. Free Cash Flow Calculation

Free cash flow calculation			1	2	3	4	5	6
Project (Unit: Million RMB) Initial cost		Initial Cost	1st	2nd	3rd	4th	5th year	
EBITDA			9.7	10.9	12.2	13.6	15.3	
Working capital movement ^{*1}	12%		(0.9)	(1.0)	(1.2)	(1.3)	(1.5)	
Expenditure ^{*2}			(8.0)	(8.0)	(8.0)	(8.0)	(8.0)	
Tax Expenses			(0.4)	(0.7)	(1.0)	(1.4)	(1.8)	
free cash flow ^{*3} :	3%	-1.3	0.4	1.1	2.0	2.9	4.0	4.1

Table 15: Calculating Project's Free Cash Flows

5.2. NPV Analysis

NPV calculation	0	1	2	3	4	5	6
free cash flow*3:	-1.3	0.4	1.1	2	2.9	4	4.1
Discount rate 10%	1.0000	0.9091	0.8264	0.7513	0.6830	0.6209	0.5645
PV of cash flows	-1.3	0.363636	0.909091	1.50263	1.980739	2.483685	2.314343
NPV	8.254124301						
Irr	89%						

Table 16: NPV Analysis

The proposed project has a positive NPV of 8.25 and an IRR of 72%. The project should thus be undertaken as it would increase the company's profitability.

5.3. Discounted Payback Period

Discounted Payback period				
Year	Free cash flows	Discount rate at 10%	PV of cash flows	Cumulative PV of cash flows
0	-1.3	1.0000	-1.3	-1.3
1	0.4	0.9091	0.363636	-0.936363636
2	1.1	0.8264	0.909091	-0.027272727
3	2	0.7513	1.50263	1.475356875
4	2.9	0.6830	1.980739	3.456095895
5	4	0.6209	2.483685	5.939781187
6	4.1	0.5645	2.314343	8.254124301
Discounted payback period			$2 + 0.02727 / 1.50263$	2.01814818

Table 17: Calculating Discounted Payback Period

The project would take a period of 2 years and 7 days to recoup the initial investment. The company needs to invest 1.3million into the project. The project needs to be financed by retained earnings since the company has adequate internal funds. The rationale for the use of retained earnings is based on the pecking order theory which demands that firms exhaust cheaper sources of finance before considering more costly options such as equity finance. The project should be managed independently by a project manager to ensure its success.

6. Conclusion and Recommendations

The above analysis has shown that Crocodile Garments Limited is performing poorly when compared to their peers. The company Z-score was seen to be under 1.8 implying that the company is likely to go bankrupt in the near future. The company was able found to be inefficient and unable to pay its debt obligations. The company should thus work on ensuring that increasing efficiency and liquidity. The company has strong corporate governance rules. The board, however, does not comply with corporate governance rules. This may have affected the financial performance of the company and would greatly affect the image of the group. The chairman was for instance seen to play a dual role which is against the company CG code. The report suggests that Crocodile Garments Limited abide by the set corporate governance code. The company should also ensure that each executive understands and performs his or her role accordingly. The board should delegate minor duties and perform strategic tasks that enhance the company value including formulating strategic goals and plans.

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Student Self Evaluation Form			
Student name:	WU Hon Kwong	Student number:	1812210
Programme:	MBA	Year of programme	2018 to 2020
Assignment Title:	A Business Plan : Crocodile Garments Limited		

This section repeats in brief the common assessment criteria detailed on previous pages. The *extent* to which these are demonstrated by you determines your mark. Using these criteria, tick the box that best indicates the level of achievement you feel you have achieved with regard to each of them.

Common Assessment Criteria Applied	Level of Achievement						
	REFER			PASS		DISTINCTION	
	FAIL	FAIL	MARGINAL FAIL	SATISFACTORY	GOOD to VERY GOOD	EXCELLENT	EXCEPTIONAL
1. Engagement with literature	0-29%	30-39%	40-49%	50-59%	60-69%	70-84%	85-100%
	☐	☐	☐	☐	☒	☐	☐
2. Knowledge and Understanding	0-29%	30-39%	40-49%	50-59%	60-69%	70-84%	85-100%
	☐	☐	☐	☐	☒	☐	☐
3. Cognitive and intellectual skills	0-29%	30-39%	40-49%	50-59%	60-69%	70-84%	85-100%
	☐	☐	☐	☐	☒	☐	☐
4. Practical Skills	0-29%	30-39%	40-49%	50-59%	60-69%	70-84%	85-100%
	☐	☐	☐	☐	☒	☐	☐
5. Transferable Skills for Life and Professional Practice	0-29%	30-39%	40-49%	50-59%	60-69%	70-84%	85-100%
	☐	☐	☐	☐	☒	☐	☐

PLEASE COMMENT ON AREAS IN WHICH YOU FEEL THAT YOU HAVE PERFORMED WELL		PLEASE COMMENT ON AREAS YOU FEEL THAT YOU NEED TO DEVELOP	
The professor has explained very detail and provided a lot of practice opportunities before starting this assignment. Therefore, I believe this assignment is prepared well.		This assignment would be prepared more precise if I could have more time for doing the research areas. Due to the limitation of time, I have tried my utmost effort to complete this assignment.	
Student's Name	WU Hon Kwong	Date	19 August, 2019
Student's Signature			