



CROCODILE GARMENTS



CROCODILE GARMENTS LIMITED

Interim Report 2003-2004

PLACE OF INCORPORATION

Hong Kong

BOARD OF DIRECTORS

Lim Por Yen (*Chairman*)

Lam Kin Ming (*Deputy Chairman*)

Lam Kin Ngok, Peter

Lam Kin Hong, Matthew

U Po Chu

Shiu Kai Wah

Chiu Wai

Wan Yee Hwa, Edward *

Yeung Sui Sang *

Lam Kin Ko, Stewart (*resigned on 1st April, 2004*)

* *Independent Non-executive Directors*

COMPANY SECRETARY

Yeung Kam Hoi

Crocodile Garments Limited

11/F Lai Sun Commercial Centre

680 Cheung Sha Wan Road

Kowloon, Hong Kong

Tel (852) 2785 3898 Fax (852) 2786 0190

Internet <http://www.crocodile.com.hk>

E-mail corpadmin@crocodile.com.hk

Stock code on Hong Kong Stock Exchange: 122

RESULTS

The Board of Directors of Crocodile Garments Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 31st January, 2004 together with the comparative figures as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 31st January, 2004

		Six months ended	
		31/1/2004	31/1/2003
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
			(Restated)
TURNOVER	(3)	245,408	280,925
Cost of sales		(128,713)	(136,435)
Gross profit		116,695	144,490
Other revenue and gains	(4)	5,701	3,938
Selling and distribution costs		(82,388)	(101,448)
Administrative expenses		(23,769)	(30,255)
Loss on disposal/write-off of fixed assets, net		(38)	(889)
Other operating expenses		(649)	(892)
PROFIT FROM OPERATING ACTIVITIES	(5)	15,552	14,944
Finance costs		(484)	(623)
PROFIT BEFORE TAX		15,068	14,321
Tax	(6)	(4,161)	(1,499)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS		10,907	12,822
EARNINGS PER SHARE — BASIC	(7)	HKcents 1.77	HKcents 2.08

CONDENSED CONSOLIDATED BALANCE SHEET

31st January, 2004

		31/1/2004	31/7/2003
		(Unaudited)	(Audited)
	<i>Notes</i>	HK\$'000	HK\$'000
			(Restated)
NON-CURRENT ASSETS			
Fixed assets		26,215	27,758
Investment properties		183,000	183,000
Deferred tax assets	(8)	5,882	10,043
Rental and utility deposits		6,994	9,564
		222,091	230,365
CURRENT ASSETS			
Inventories	(9)	88,664	92,034
Debtors, deposits and prepayments	(10)	42,248	29,666
Cash and bank balances		84,054	64,445
		214,966	186,145
CURRENT LIABILITIES			
Bank loans and overdrafts		25,472	26,580
Trust receipt loans		13,938	17,929
Creditors and accruals	(11)	106,047	91,444
Amount due to the ultimate holding company		20	3
Amount due to a related company		123	4
Tax payable		10,551	10,551
		156,151	146,511
NET CURRENT ASSETS		58,815	39,634
TOTAL ASSETS LESS CURRENT LIABILITIES		280,906	269,999
NON-CURRENT LIABILITY			
Provision for long service payments		4,338	4,338
		276,568	265,661
CAPITAL AND RESERVES			
Share capital	(12)	154,282	154,282
Reserves		336,826	336,826
Accumulated losses		(214,540)	(225,447)
		276,568	265,661

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31st January, 2004

	Issued share capital HK\$'000	Share premium account HK\$'000	Capital reserve HK\$'000	Fixed assets revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
As at 31st July, 2002 and 1st August, 2002 (Audited)	154,282	164,921	350	171,555	(177,360)	313,748
Prior year adjustment — deferred tax assets	—	—	—	—	10,681	10,681
As restated	154,282	164,921	350	171,555	(166,679)	324,429
Loss for the year as previously reported	—	—	—	—	(58,130)	(58,130)
Prior year adjustment — deferred tax assets arising from:						
Utilization of tax losses during the year	—	—	—	—	(1,499)	(1,499)
The change in tax rate from 16% to 17.5%	—	—	—	—	861	861
Loss for the year as restated	—	—	—	—	(58,768)	(58,768)
As at 31st July, 2003 and 1st August, 2003 (Restated)	154,282	164,921	350	171,555	(225,447)	265,661
Profit for the period	—	—	—	—	10,907	10,907
As at 31st January, 2004 (Unaudited)	154,282	164,921	350	171,555	(214,540)	276,568

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31st January, 2004

	Six months ended	
	31/1/2004 (Unaudited) HK\$'000	31/1/2003 (Unaudited) HK\$'000 (Restated)
Net cash inflow/(outflow) from operating activities	25,630	(9,943)
Net cash outflow from investing activities	(922)	(2,489)
Net cash inflow/(outflow) from financing activities	(3,991)	2,350
Net increase/(decrease) in cash and cash equivalents	20,717	(10,082)
Cash and cash equivalents at beginning of period	62,115	78,791
Cash and cash equivalents at end of period	82,832	68,709

ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS

Cash and bank balances	84,054	71,661
Bank overdrafts	(1,222)	(2,952)
	82,832	68,709

5

The comparatives have been restated as a result of the adoption of SSAP 15 (Revised) "Cash Flow Statements" which prescribes the revised definition of cash & cash equivalents.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The unaudited condensed financial statements have been prepared in accordance with the Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (“HKSA”) and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) (the “Listing Rules”).

2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies and methods of computation used in the preparation of the condensed interim financial statements are consistent with those used in the annual accounts for the year ended 31st July, 2003 except that the Group has adopted SSAP 12 (Revised) “Income Taxes” issued by the HKSA. The effect to the Group arising from adopting this revised SSAP is set out as below:

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carried forward of unused tax losses (deferred tax).

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carried forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carried forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

The SSAP 12 (revised) was adopted for the first time during the current period, the impact of which is detailed in notes 6 and 8 to these interim financial statements. This change in accounting policy has been applied retrospectively such that the comparative amounts have been restated accordingly. This change has resulted in the recognition of deferred tax assets in current period and prior years.

Certain comparative amounts of the audited consolidated balance sheet as at 31st July, 2003 have been restated to conform with the current period presentation.

3. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the garment and related accessories segment engages in the manufacture and sale of garments and related accessories;
- (b) the property investment segment invests in land and buildings for its rental income potential;
- (c) the corporate and others segment comprises the Group's corporate income and expense items and other segment income and segment expense items.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Business segments

For the six months ended 31st January, 2004

	Garment and related accessories (Unaudited) HK\$'000	Property investment (Unaudited) HK\$'000	Corporate and others (Unaudited) HK\$'000	Eliminations (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Segment revenue:					
Sales to external customers	239,844	5,564	—	—	245,408
Intersegment sales	—	256	—	(256)	—
Other revenue	5,357	107	—	—	5,464
Total	245,201	5,927	—	(256)	250,872
Segment results	10,157	5,297	(139)	—	15,315
Interest income					237
Profit from operating activities					15,552
Finance costs					(484)
Profit before tax					15,068
Tax					(4,161)
Net profit attributable to shareholders					10,907

3. SEGMENT INFORMATION (continued)

Business segments (continued)

For the six months ended 31st January, 2003

	Garment and related accessories (Unaudited) HK\$'000	Property investment (Unaudited) HK\$'000	Corporate and others (Unaudited) HK\$'000	Eliminations (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000 (Restated)
Segment revenue:					
Sales to external customers	275,173	5,752	—	—	280,925
Intersegment sales	—	2,066	—	(2,066)	—
Other revenue	3,560	104	—	—	3,664
Total	278,733	7,922	—	(2,066)	284,589
Segment results	11,863	2,820	(13)	—	14,670
Interest income					274
Profit from operating activities					14,944
Finance costs					(623)
Profit before tax					14,321
Tax					(1,499)
Net profit attributable to shareholders					12,822

8

Geographical segments

For the six months ended 31st January, 2004

	Hong Kong (Unaudited) HK\$'000	Mainland of China (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Segment revenue:			
Sales to external customers	136,573	108,835	245,408
Other revenue	498	4,966	5,464
Total	137,071	113,801	250,872

For the six months ended 31st January, 2003

	Hong Kong (Unaudited) HK\$'000	Mainland of China (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Segment revenue:			
Sales to external customers	158,755	122,170	280,925
Other revenue	557	3,107	3,664
Total	159,312	125,277	284,589

4. OTHER REVENUE AND GAINS

	Six months ended	
	31/1/2004	31/1/2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Other revenue		
Royalty income	4,182	2,361
Sale of miscellaneous materials	347	269
Sale of export quotas	302	260
Interest income	237	274
Others	633	752
	5,701	3,916
Gains		
Exchange gains, net	—	22
Other revenue and gains	5,701	3,938

5. PROFIT FROM OPERATING ACTIVITIES

Profit from operating activities is arrived at after charging:

	Six months ended	
	31/1/2004	31/1/2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation of owned fixed assets	2,664	3,359
Loss on disposal/write-off of fixed assets, net	38	889

6. TAX

		Six months ended	
		31/1/2004	31/1/2003
		(Unaudited)	(Unaudited)
	<i>Note</i>	HK\$'000	HK\$'000
			(Restated)
Current tax provision			
Hong Kong		—	—
Outside Hong Kong		—	—
		—	—
Deferred tax	(8)	4,161	1,499
Tax charge for the period		4,161	1,499

No provision for Hong Kong profits tax has been made during the current and prior period as the Group had available tax losses brought forward to offset the assessable profits arising in Hong Kong which are estimated based on the tax rate of 17.5% (Period ended 31st January, 2003: 16%). During the period, the increased Hong Kong profits tax rate from 16% to 17.5% became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole year ending 31st July, 2004.

6. TAX (continued)

No provision for tax outside Hong Kong was made as the Group incurred a taxable loss during the current and prior period from these operations.

During the period, with the adoption of SSAP 12 (Revised), prior year adjustments were resulted to recognise a deferred tax asset. Details of which have been disclosed in note 8 to these interim financial statements.

7. EARNINGS PER SHARE

Earnings per share is calculated based on the net profit attributable to shareholders of HK\$10,907,000 (2003: HK\$12,822,000) (Restated) and the weighted average of 617,127,130 (2003: 617,127,130) ordinary shares of the Company in issue throughout the period.

Diluted earnings per share for the six months ended 31st January, 2004 and 2003 have not been calculated because no diluting events existed during these periods.

8. DEFERRED TAX ASSETS

The movements of the deferred tax assets are as follows:

	Deferred Tax Assets HK\$'000
Balance as at 1st August, 2002 (Audited)	—
Prior year adjustment - deferred tax assets	10,681
<hr/>	
As restated	10,681
Movement during the period — prior year adjustment	(1,499)
<hr/>	
Balance as at 31st January, 2003 (Restated)	9,182
Provision against the change in tax rate from 16% to 17.5%	861
<hr/>	
Balance as at 31st July, 2003 (Restated)	10,043
Movement during the period	(4,161)
<hr/>	
Balance as at 31st January, 2004 (Unaudited)	5,882
<hr/>	

The deferred tax assets of the Group as at the current and prior year balance sheet dates represented tax losses carried forward.

The Group has tax losses arising in Hong Kong of approximately HK\$334,204,000 (31st July, 2003: HK\$354,234,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses of approximately HK\$46,355,000 (31st July, 2003: HK\$31,176,000) arising from subsidiaries registered in the Mainland of China (the "Mainland").

At the balance sheet date, approximately HK\$5,882,000 (31st July, 2003: HK\$10,043,000) of deferred tax asset was recognised which represented the unused tax losses arising in Hong Kong where future taxable profits are probably to be generated to offset against these tax losses in the foreseeable future. In respect of the remaining unused tax losses, deferred tax assets have not been recognised as they were arisen in subsidiaries that have been loss-making for some time.

8. DEFERRED TAX ASSETS (continued)

At 31st January, 2004, the Group had unprovided deferred tax assets which represented:

	31/1/2004 (Unaudited) HK\$'000	31/7/2003 (Audited) HK\$'000 (Restated)
Unused tax losses carried forward	65,120	60,365
Temporary differences on investment properties	5,286	5,453
	70,406	65,818

At 31st January, 2004 there is no significant unrecognised deferred tax liability (31st July, 2003: Nil) for taxes that would be payable on the undistributed earnings of certain of the Group's subsidiaries or joint ventures as the Group has no liability to additional tax should such amounts be distributed.

9. INVENTORIES

	31/1/2004 (Unaudited) HK\$'000	31/7/2003 (Audited) HK\$'000
Raw materials	11,522	6,145
Work in progress	528	134
Finished goods	76,614	85,755
	88,664	92,034

The carrying amounts of the Group's inventories included in the above that are carried at net realisable value were HK\$34,440,000 (2003: HK\$39,471,000).

10. DEBTORS, DEPOSITS AND PREPAYMENTS

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 terms are 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.

The analysis below ages trade receivables, net of provisions, based on the overdue date, which is when the goods are delivered and services are rendered.

	31/1/2004 (Unaudited) HK\$'000	31/7/2003 (Audited) HK\$'000
Current to 90 days	31,647	22,511
91 days to 180 days	1,948	35
181 days to 365 days	1,302	5
Over 365 days	—	—
Trade debtors	34,897	22,551
Deposits and prepayments	7,351	7,115
	42,248	29,666

11. CREDITORS AND ACCRUALS

The analysis below ages trade creditors based on the date of receipt of the goods and services purchased.

	31/1/2004 (Unaudited) HK\$'000	31/7/2003 (Audited) HK\$'000
Current to 90 days	51,114	32,017
91 days to 180 days	9,554	582
181 days to 365 days	694	554
Over 365 days	4,259	5,296
<hr/>		
Trade creditors	65,621	38,449
Accruals	40,426	52,995
<hr/>		
	106,047	91,444
<hr/>		

12. SHARE CAPITAL

	31/1/2004 (Unaudited) HK\$'000	31/7/2003 (Audited) HK\$'000
Authorised		
800,000,000 ordinary shares of HK\$0.25 each	200,000	200,000
<hr/>		
Issued and fully paid:		
617,127,130 ordinary shares of HK\$0.25 each	154,282	154,282
<hr/>		

12

13. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the period:

	Six months ended	
	31/1/2004 (Unaudited) HK\$'000	31/1/2003 (Unaudited) HK\$'000
Rental expenses paid and payable to related companies	2,240	3,815
<hr/>		

Rental expenses are charged by related companies pursuant to respective lease agreements.

The Company's directors considered that the above transactions have been conducted in the ordinary and usual course of the Group's business.

14. OPERATING LEASE ARRANGEMENTS

At the balance sheet date, the Group had the following commitments:

(a) As lessee

Aggregate future minimum lease payments commitments for non-cancellable operating leases in respect of land and buildings payable in the following periods are as follows:

	31/1/2004 (Unaudited) HK\$'000	31/7/2003 (Audited) HK\$'000
Within one year	42,637	47,169
In the second to fifth years, inclusive	17,808	32,462
	60,445	79,631

(b) As lessor

The Group had minimum lease receipts under non-cancellable operating leases which fall due as follows:

	31/1/2004 (Unaudited) HK\$'000	31/7/2003 (Audited) HK\$'000
Within one year	11,555	9,964
In the second to fifth years, inclusive	3,294	7,617
	14,849	17,581

13

Operating lease receipts represent rentals receivable by the Group for certain of its investment properties.

Other than the operating lease commitments detailed above, the Group did not have other material commitments at the balance sheet date.

INTERIM DIVIDEND

The Board has resolved not to pay an interim dividend for the six months ended 31st January, 2004 (2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Overview of Operating Results

The Group recorded a turnover of HK\$245,408,000 for the six months ended 31st January, 2004, which represented a decrease of 13% compared with the corresponding period last year. Gross profit margin fell to 48% from the 51% recorded last year but net profit attributable to shareholders was maintained at HK\$10,907,000. This could be attributed to the good results achieved by the Group in controlling costs, with selling and distribution costs reduced by 19% and administrative expenses by 21%.

Operation in Hong Kong

With the increase in inbound tourists from specific provinces and cities in the Mainland, improvement in local consumer spending became more evident and this had had a beneficial impact on local consumer market sentiment. In addition, due to the successful implementation of the rationalisation programme of the Group's retail operation structure, the Group was able to report a profit in garment retail. As at 31st January, 2004, the total number of Crocodile retail shops of the Group was 14, whilst the number of shops for Lacoste products was maintained at 7.

A profit of HK\$5,297,000 derived from the investment properties of the Group had been recorded during the half-year under review. This represented an increase of HK\$2,477,000 compared with the corresponding period last year, and contributed to a steady stream of additional revenue to the Group.

Overall, the performance of the operations of the Group in Hong Kong was encouraging, and this could be attributed to the improvement in local investment and consumer market sentiment and the effective cost control measures adopted by the Group.

Operation in the Mainland

The economy of the Mainland had reported consistent growth over the past few years, and strong demand in the retail market had also been maintained, which had had a positive impact on the operations of the Group. However, given the proliferation of brands and increasing intense competition, the Group had reported lower turnover and profit for the period under review compared with the same period last year. To encourage the exclusive provincial or city franchisees of the Group to recruit more sub-franchisees so as to develop the existing sales network, the Group had been offering more attractive discounts and allowances to the exclusive franchisees. The objective was to support the business development of the franchisees to achieve a win-win situation for both the franchisees and the Group. Based on sales statistics available, the objective of the plan had been achieved.

14

During the period under review, the Group continued to conduct regular inspection of design and decor of all retail outlets and to strengthen training of staff, in order to maintain a standardised image of the "Crocodile" brand and to further improve quality of service.

Prospects

Following further relaxation in travel restrictions for residents of a larger number of cities and provinces in the Mainland to visit Hong Kong, the Group is optimistic about the prospects for the Group's operations in Hong Kong. Following a review of the Group's local operation, the Group is considering the feasibility of increasing the number of retail shops in Hong Kong. This should enhance the image of the Group and at the same time, allows the Group to seize any opportunities that may arise.

Preparations are underway for the launch of the new "Crocodile" mark of the Group, and this involves the design of the shop-front at all retail outlets and the general decor. The new mark will be launched in fall/winter of 2004, heralding a totally new image of the Group and the vitality of the Crocodile brand.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Contingent Liabilities

There is no material change in contingent liabilities since the last annual report date.

Liquidity and Financial Resources

As at 31st January, 2004, total bank borrowings of the Group amounted to HK\$39,410,000. The Group's gearing was considered to be at a reasonable level, as the debt to equity ratio on 31st January, 2004 was only 14%, expressed as a percentage of total bank borrowings to total net assets. Out of the total bank borrowings of HK\$39,410,000, HK\$24,250,000 represented secured short-term bank loans, HK\$13,938,000 was trust receipt loans and the other bank borrowings are repayable on demand. Interest on bank borrowings is charged at floating rates.

The cash and bank balances of the Group as at 31st January, 2004 were HK\$84,054,000 and were mainly denominated in Hong Kong dollars, Renminbi and United States dollars.

As at 31st January, 2004, the Group pledged investment properties with carrying values of HK\$183,000,000 and certain land and buildings with net book values of HK\$6,192,000 to its bankers to secure banking facilities granted to the Group.

Sales are mainly conducted in Hong Kong dollars and Renminbi. The sales receipts in Renminbi are sufficient to cover the Group's Renminbi payments for the business operations and further expansion in the Mainland. Surplus funds are placed as short-term deposits with maturities matching the requirements of the Group's daily operations as well as its expansion plans in the Mainland.

Most of the Group's purchases are made in Hong Kong dollars, Renminbi, United States dollars and Euro. Exchange risk between Hong Kong dollars and United States dollars is minimal because the exchange rate between the two currencies is pegged. Foreign purchases in Euro are mostly hedged with forward contracts to minimise exchange risk and therefore are subject only to negligible exchange risk.

Employees and Remuneration Policy

The total number of employees of the Group, including part-time sales staff, was approximately 910 as at 31st January, 2004. Remuneration of the employees is 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. Total staff costs including retirement scheme contributions for the six months ended 31st January, 2004 was approximately HK\$35 million.

DIRECTORS' INTERESTS

As at 31st January, 2004, the following directors and chief executive of the Company were interested, or were deemed to be interested in the following long and short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to

DIRECTORS' INTERESTS (continued)

the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein (the "Register"); or (c) were required, pursuant to the Code for Securities Transactions by Directors adopted by the Company, to be notified to the Company and the Stock Exchange:

(1) The Company

	Personal Interests	Family Interests	Long positions in the shares		Total	Percentage
			Corporate Interests	Capacity		
Lim Por Yen	Nil	Nil	338,982,809 (Note 1)	Beneficial owner	338,982,809	54.93%
U Po Chu	Nil	338,982,809 (Note 2)	Nil	Beneficial owner	338,982,809	54.93%

Notes:

1. Lai Sun Garment (International) Limited ("LSG") and its wholly-owned subsidiary beneficially owned 338,982,809 shares in the Company. Mr. Lim Por Yen was deemed to be interested in 338,982,809 shares in the Company by virtue of his holding (together with his associates) of approximately 33.99% in the issued share capital of LSG.

Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming, Madam U Po Chu and Madam Lai Yuen Fong were directors of LSG and held in aggregate 42% of the issued share capital of LSG.

2. Madam U Po Chu was deemed to be interested in 338,982,809 shares in the Company by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.

(2) Associated Corporations

Lai Sun Garment (International) Limited ("LSG")

	Personal Interests	Family Interests	Long positions in shares of LSG		Total	Percentage
			Corporate Interests	Capacity		
Lim Por Yen	484,991,750	3,669,000 (Note 1)	Nil	Beneficial owner	488,660,750	33.99%
Lam Kin Ming	4,451,790	Nil	Nil	Beneficial owner	4,451,790	0.31%
Lam Kin Ngok, Peter	110,794,951	Nil	Nil	Beneficial owner	110,794,951	7.71%
U Po Chu	3,669,000	484,991,750 (Note 2)	Nil	Beneficial owner	488,660,750	33.99%
Chiu Wai	199,600	Nil	Nil	Beneficial owner	199,600	0.01%

DIRECTORS' INTERESTS (continued)

(2) Associated Corporations (continued)

Notes:

1. Mr. Lim Por Yen was deemed to be interested in 3,669,000 shares by virtue of the interest in such shares of his spouse, Madam U Po Chu.
2. Madam U Po Chu was deemed to be interested in 484,991,750 shares by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.

Save as disclosed above, as at 31st January, 2004, 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 of equity derivatives and debentures of the Company or any associated corporation which were required to be notified to the Company and the Stock Exchange or recorded in the Register as aforesaid.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 31st January, 2004, the following persons, some of whom are directors or chief executive of the Company, had an interest in the following long positions in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be kept under section 336 of the SFO:-

Name	Long positions in the shares		Number of shares	Percentage
	Capacity	Nature (Note 1)		
Joy Mind Limited	Beneficial owner	Corporate	336,316,809	54.50% (Note 2)
Lai Sun Garment (International) Limited ("LSG")	Beneficial owner	Corporate	338,982,809	54.93% (Note 2)
Lim Por Yen	Beneficial owner	Corporate	338,982,809	54.93% (Note 3)
U Po Chu	Beneficial owner	Family	338,982,809	54.93% (Note 3)
Lai Yuen Fong	Beneficial owner	Family	338,982,809	54.93% (Note 3)

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS *(continued)*

Notes:

1. Personal, family and corporate denote personal interest, family interest and corporate interest respectively.
2. Joy Mind Limited was a wholly-owned subsidiary of LSG. Its interest in the Company constituted part of the interest held by LSG in the Company.
3. Mr. Lim Por Yen and his spouses, Madam U Po Chu and Madam Lai Yuen Fong, were deemed to be interested in 338,982,809 shares by virtue of their interest of approximately 33.99% in the issued share capital of LSG.

Save as disclosed above, no other person was recorded in the register required to be kept under section 336 of the SFO as having an interest in the long or short positions in the shares and underlying shares of equity derivatives of the Company as at 31st January, 2004.

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

During the six months ended 31st January, 2004, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

CODE OF BEST PRACTICE

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the period covered by the Interim Report of the Company for the six months ended 31st January, 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules. The non-executive Directors of the Company are subject to retirement by rotation and re-election at the Company's Annual General Meeting in accordance with the Articles of Association of the Company.

In accordance with the requirements of the Code of Best Practice, the Company established in March 2000 an audit committee which comprises the two independent non-executive directors of the Company. The Interim Report has been reviewed by the Audit Committee of the Company.

By Order of the Board

Lim Por Yen

Chairman

Hong Kong, 16th April, 2004