Notes to Financial Statements

31st July, 2000

1. CORPORATE INFORMATION

The registered office of the Company is located at 11th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong.

During the year, the Group was involved in the following principal activities:

- manufacture and sale of garments;
- property investment;
- property letting; and
- operation of a restaurant.

In the opinion of the directors, the ultimate holding company is Lai Sun Garment (International) Limited, which was incorporated in Hong Kong.

2. IMPACT OF REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following SSAPs have been adopted for the first time in the preparation of the current year's consolidated financial statements, together with a summary of their major effects.

- SSAP 1: Presentation of Financial Statements
- SSAP 2: Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The formats of the profit and loss account and the balance sheets as set out on pages 22, 23 and 25 respectively, have been revised in accordance with the SSAP. Additional disclosures as required are included in the supporting notes to the financial statements.

SSAP 2 prescribes the classification, disclosure and accounting treatment of certain items in the profit and loss account, and specifies the accounting treatment for changes in accounting estimates, changes in accounting policies and the correction of fundamental errors. The principal impact of the SSAP on the preparation of these financial statements is that exceptional items, previously disclosed on the face of the profit and loss account, are now disclosed primarily by way of note, (note 6 to the financial statements) and are no longer specifically referred to as "exceptional".

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of investment properties and certain fixed assets, as further explained below.

Notes to Financial Statements

31st July, 2000

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year ended 31st July, 2000. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Capital reserve arising on consolidation

The capital reserve arising on consolidation represents the excess of the fair value ascribed to the net assets of subsidiaries at the date of acquisition over the purchase consideration in respect thereof.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

The transitional provisions set out in paragraph 72 of Statement of Standard Accounting Practice No. 17 "Property, Plant and Equipment" issued by the Hong Kong Society of Accountants ("SSAP17") have been adopted for assets stated at valuation. As a result, those assets stated at revalued amounts based on revaluations which were reflected in financial statements for periods ended before 30th September, 1995, have not been revalued to fair value by class at the balance sheet date. It is the directors' intention not to revalue these assets in the future.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Notes to Financial Statements

31st July, 2000

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

Depreciation of fixed assets is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the lease terms
Buildings	2%–5%
Plant and machinery	10%
Furniture and fixtures	10%–20%
Computer equipment	20%
Vehicles	20%

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes the cost of materials computed using the first-in, first-out method and, in the case of work in progress and finished goods, direct labour and an appropriate portion of production overheads. Net realisable value is determined by reference either to the net sales proceeds of items in the ordinary course of business subsequent to the balance sheet date, or to management estimates based on prevailing market conditions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rental income, on a straight-line basis over the terms of the lease;

(c) revenue from restaurant operations, upon delivery of food and beverages to customers; and

(d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

Deferred tax

Provision is made for deferred tax, using the liability method, on all material timing differences to the extent that it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Timing differences are differences between profits or losses as computed for tax purposes and as stated in the financial statements. Such differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. Timing differences which originate in one period are capable of reversal in one or more subsequent periods.

Pension costs

The Group operates a defined benefit retirement scheme for its employees, the assets of which are held separately from those of the Group in an independently administered fund. Contributions to the scheme are charged to the profit and loss account so as to charge the cost of the retirement benefits over the eligible employees' working lives within the Group. The contribution rate is recommended by independent, qualified actuaries on the basis of triennial valuations, using the aggregate method.

Notes to Financial Statements

31st July, 2000

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

The financial records of the Company and its subsidiaries are maintained and the financial statements are stated in Hong Kong dollars.

Monetary assets and liabilities denominated in foreign currencies are translated at the applicable rates of exchange ruling at the balance sheet date. Foreign currency transactions during the year are recorded at the applicable rates existing on the respective transaction dates. Profits and losses on exchange are dealt with in the profit and loss account.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

4. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the year.

		Group	
		2000	1999
		HK$'000	HK$'000
Sales of garment products to the ultimate holding company	(i)	**2,947**	16,040
Purchase of garment products from the ultimate holding company	(i)	**5,710**	—
Rental expenses paid and payable to fellow subsidiaries	(ii)	**—**	19,321
Rental expenses paid and payable to related companies	(ii)	**12,478**	—
Rental expenses paid and payable to a company in which a former director of the Company and his associate are major shareholders	(ii)	**3,480**	4,012
Interest paid and payable to the ultimate holding company	(iii)	**502**	—

(i) Sales to and purchases from the ultimate holding company were made on prices and terms similar to those granted to major customers and granted by major suppliers of the Group.

(ii) Rental expenses are charged by fellow subsidiaries and related companies pursuant to respective lease agreements.

(iii) Including in the interest expenses paid and payable to the ultimate holding company, HK$318,000 was charged on a loan advance amounting to HK$16,400,000 which bore interest at Hong Kong dollar three months' deposit rate plus 1% per annum.

Notes to Financial Statements

31st July, 2000

4. RELATED PARTY TRANSACTIONS (continued)

The remaining interest expense of HK$184,000 was charged on the Group's banking facilities obtained and guaranteed by the ultimate holding company, which bore interest at 1% per annum on the banking facilities amounting HK$20,000,000.

During the year, the Company's ultimate holding company advanced a loan of HK$16,400,000 to the Company pursuant to an agreement dated 31st March, 2000. This loan is unsecured, interest-bearing at Hong Kong dollar three months' deposit rate plus 1% per annum, and is repayable in six months from the date of grant, subject to further renewal by both parties. Pursuant to a supplemental agreement dated 1st October, 2000, the repayment of the loan was extended for another six months to 31st March, 2001. Also, during the year, the Group obtained a banking facility of HK$20,000,000 from a bank which was secured by the guarantee granted by the Company's ultimate holding company.

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

5. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods supplied to customers after allowances for returns and discounts, rental income and revenue from restaurant operations.

An analysis of turnover and revenue is as follows:

	Group	
	2000	1999
	HK$'000	HK$'000
Sales of goods	**712,851**	639,124
Rental income	**7,791**	6,002
Revenue from restaurant operation	**6,880**	6,858
Turnover	**727,522**	651,984
Forfeiture of deposits received in respect of a property sale transaction	**12,004**	—
Exchange gains, net	**752**	—
Interest income	**324**	562
Others	**6,194**	4,654
Other revenue	**19,274**	5,216
Total revenue	**746,796**	657,200

Notes to Financial Statements

31st July, 2000

6. LOSS FROM OPERATING ACTIVITIES

Loss from operating activities is arrived at after charging/(crediting):

	Group	
	2000	1999
	HK$'000	HK$'000
Costs of inventories sold	**376,666**	371,027
Depreciation:		
Owned fixed assets	**21,331**	21,640
Leased fixed assets	**81**	40
Operating lease rentals in respect of land and buildings	**124,418**	144,721
Auditors' remuneration	**800**	850
Foreign exchange losses, net	**—**	3,219
Loss on disposal of land and buildings	**—**	4,806
Loss on disposal of fixed assets, other than land and buildings	**4,139**	2,078
Deficit on revaluation of investment properties — note 14	**—**	1,000
Staff costs:		
Salaries and allowances (including directors' remuneration but excluding retirement scheme contributions — note 7)	**95,576**	120,625
Retirement scheme contributions	**2,207**	2,832
	97,783	123,457
Gross rental income	**(7,791)**	(6,002)
Less: Outgoings	**4,020**	4,592
Net rental income	**(3,771)**	(1,410)
Severance payments for streamlining the Hong Kong operations	**15,491**	11,818
Provision for bad and doubtful debts	**453**	8,624
Provision made/(write-back) for slow-moving stocks*	**(20,301)**	7,090

* Provision of HK$20,301,000 was written back following the sale of slow-moving stock items during the year.

7. DIRECTORS' REMUNERATION

	Group			
	Executive		Non-executive	
	2000	1999	**2000**	1999
	HK$'000	HK$'000	**HK$'000**	HK$'000
Fees	**52**	55	**50**	50
Other emoluments:				
Salaries, allowances and benefits in kind	**2,750**	5,435	**240**	240
Retirement scheme contributions	**89**	137	**—**	—
Bonus paid and payable	**20**	270	**—**	—
	2,859	5,842	**240**	240
	2,911	5,897	**290**	290

Directors' remuneration paid to independent non-executive directors during the year amounted to HK$20,000 (1999: HK$20,000).

The remuneration of the above directors fell within the following bands:

	Number of directors	
	2000	1999
Nil–HK$1,000,000	**10**	10
HK$1,000,001–HK$1,500,000	**1**	1
HK$1,500,001–HK$2,000,000	**—**	2
	11	13

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Notes to Financial Statements

31st July, 2000

8. FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

The five highest paid employees during the year included two (1999: three) directors, details of whose remuneration are set out in note 7 above. The details of the remuneration of the remaining three (1999: two) non-director, highest paid employees are set out below:

	Group	
	2000	1999
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**2,586**	2,632
Retirement scheme contributions	**56**	68
Bonus paid and payable	**—**	175
	2,642	2,875

The remuneration of the non-director, highest paid employees fell within the following bands:

	Group Number of individuals	
	2000	1999
Nil–HK$1,000,000	**3**	—
HK$1,000,001–HK$1,500,000	**—**	1
HK$1,500,001–HK$2,000,000	**—**	1
	3	2

9. FINANCE COSTS

	Group	
	2000	1999
	HK$'000	HK$'000
Interest on bank loans and overdrafts	**4,497**	8,399
Interest on finance leases	**38**	19
Interest paid to the ultimate holding company	**502**	—
	5,037	8,418

Notes to Financial Statements

31st July, 2000

10. TAX

	Group 2000 HK$'000	Group 1999 HK$'000
Current year provision:		
Hong Kong	**62**	53
Outside Hong Kong	**6,781**	1,279
	6,843	1,332
Prior year under/(over)provision	**(145)**	44
Tax charge for the year	**6,698**	1,376

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits arising in Hong Kong during the year. 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.

11. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss of the Company for the year ended 31st July, 2000 dealt with in the consolidated profit and loss account, amounted to HK$45,242,000 (1999: HK$159,339,000).

12. LOSS PER SHARE

Loss per share is calculated based on the net loss attributable to shareholders of HK$35,728,000 (1999: HK$196,345,000) and the 617,127,130 (1999: 617,127,130) shares of the Company in issue throughout the year.

Diluted loss per share for the years ended 31st July, 2000 and 1999 has not been calculated because no diluting events existed during these years.

Notes to Financial Statements

31st July, 2000

13. FIXED ASSETS

Group

	Land and buildings HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Computer equipment HK$'000	Vehicles HK$'000	Total HK$'000
Cost or valuation:						
At beginning of year	362,900	29,827	102,874	17,976	4,380	517,957
Additions	—	1,100	3,608	4,701	—	9,409
Disposals	—	—	(19,982)	(3,500)	(815)	(24,297)
At 31st July, 2000	**362,900**	**30,927**	**86,500**	**19,177**	**3,565**	**503,069**
Accumulated depreciation:						
At beginning of year	41,778	26,717	72,317	15,138	3,711	159,661
Provided during the year	7,699	1,161	10,369	1,961	222	21,412
Disposals	—	—	(16,467)	(2,875)	(651)	(19,993)
At 31st July, 2000	**49,477**	**27,878**	**66,219**	**14,224**	**3,282**	**161,080**
Net book value:						
At 31st July, 2000	**313,423**	**3,049**	**20,281**	**4,953**	**283**	**341,989**
At 31st July, 1999	321,122	3,110	30,557	2,838	669	358,296

Notes to Financial Statements

31st July, 2000

13. FIXED ASSETS (continued)

Company

	Land and buildings HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Computer equipment HK$'000	Vehicles HK$'000	Total HK$'000
Cost or valuation:						
At beginning of year	216,680	12,836	84,162	17,976	3,229	334,883
Additions	—	—	3,298	4,701	—	7,999
Disposals	—	—	(19,933)	(3,500)	(634)	(24,067)
At 31st July, 2000	**216,680**	**12,836**	**67,527**	**19,177**	**2,595**	**318,815**
Accumulated depreciation:						
At beginning of year	20,114	12,338	56,838	15,138	2,973	107,401
Provided during the year	4,188	74	9,100	1,961	125	15,448
Disposals	—	—	(16,448)	(2,875)	(613)	(19,936)
At 31st July, 2000	**24,302**	**12,412**	**49,490**	**14,224**	**2,485**	**102,913**
Net book value:						
At 31st July, 2000	**192,378**	**424**	**18,037**	**4,953**	**110**	**215,902**
At 31st July, 1999	196,566	498	27,324	2,838	256	227,482

The net book value of the fixed assets of the Group and of the Company held under finance leases included in the above fixed assets at 31st July, 2000 amounted to HK$283,000 (1999: HK$364,000). The depreciation charge for the year in respect of such assets amounted to HK$81,000 (1999: HK$40,000).

Notes to Financial Statements

31st July, 2000

13. FIXED ASSETS (continued)

An analysis of the leasehold land and buildings of the Group and of the Company at the balance sheet date was as follows:

	Group		Company	
	2000	1999	**2000**	1999
	HK$'000	HK$'000	**HK$'000**	HK$'000
At cost:				
Long term leasehold land and buildings situated in the People's Republic of China	**17,778**	17,778	**—**	—
At 1992 valuation:				
Long term leasehold land and buildings situated in Hong Kong	**7,989**	7,989	**—**	—
Medium term leasehold land and buildings situated in Hong Kong	**337,133**	337,133	**216,680**	216,680
	345,122	345,122	**216,680**	216,680
	362,900	362,900	**216,680**	216,680

A revaluation of the leasehold land and buildings situated in Hong Kong was carried out by Chesterton Petty Limited, independent chartered surveyors, on an open market value basis as at 31st July, 1992. Had these land and buildings not been revalued, their net book values would have been as follows:

	Group		Company	
	2000	1999	**2000**	1999
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cost	**32,786**	32,786	**6,826**	6,826
Accumulated depreciation	**(11,455)**	(10,883)	**(3,687)**	(3,560)
Net book value as at 31st July	**21,331**	21,903	**3,139**	3,266

Certain of the Group's land and buildings are pledged to secure the Group's bank borrowings, as detailed in note 19.

14. INVESTMENT PROPERTIES

	Group	
	2000	1999
	HK$'000	HK$'000
Balance at beginning of year	**67,000**	76,000
Disposal	—	(8,000)
Deficit on revaluation charged to the profit and loss account — note 6	—	(1,000)
Balance at end of year	**67,000**	67,000

The investment properties are situated in Hong Kong and are held under medium lease terms.

The investment properties were revalued at HK$67,000,000 (1999: HK$67,000,000) based on their open market values and their existing use at 31st July, 2000 by Centaline Surveyors Limited, independent professionally qualified valuers. The deficit arising on revaluation in the prior year was charged to the profit and loss account.

The Group's investment properties are pledged to secure the Group's bank borrowings, as detailed in note 19.

The details of the investment properties are as follows:

Location	Existing use
Shop G9/9A and G10 on ground floor, Room no. 213A on 2nd floor and Room no. 413A on 4th floor, Hankow Centre, 5–15 Hankow Road, 41–51 Peking Road, 4, 4A and 4B Ashley Road and 1, 1A–1E Middle Road, Tsim Sha Tsui, Kowloon, Hong Kong	Commercial rental