Notes to Financial Statements

31st July, 2003

1. CORPORATE INFORMATION

During the year, the principal activities of the Group consisted of the manufacture and trading of garments, property development, property investment and investment holding.

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

The following new and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 34: "Employee benefits"
- SSAP 35: "Accounting for government grants and disclosure of government assistance"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs which have had a significant effect on the financial statements, are summarised as follows:

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 principal impact of the revision of this SSAP is that a consolidated statement of changes in equity is now presented on pages 32 to 34 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserve note.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

SSAP 15 prescribes the revised format for the consolidated cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes are included in the accounting policies for "Cash and cash equivalents" and "Foreign currencies" in note 3 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no material change to the previously adopted accounting treatments for employee benefits.

Notes to Financial Statements

31st July, 2003

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 requirements of Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties, fixed assets and short term investments in securities, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st July, 2003. 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.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

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.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of the net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's interests in associates.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are treated as long term assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Notes to Financial Statements

31st July, 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of not more than 20 years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill that remains eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries and associates represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. For negative goodwill which does not relate to depreciable/amortisable assets, the negative goodwill is recognised in the consolidated profit and loss account when the related assets are sold or utilised. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

Notes to Financial Statements

31st July, 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative goodwill (continued)

In the case of associates, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately, identified item on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, negative goodwill arising on acquisitions was credited to capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost or valuation less accumulated depreciation and any impairment losses. No depreciation is provided for investment properties.

Notes to Financial Statements

31st July, 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

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 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 the asset.

Depreciation 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 unexpired lease terms
Buildings	2% — 5%
Leasehold improvements	2.5% — 20%
Plant and machinery	10%
Furniture, fixtures and equipment	5% — 20%
Motor vehicles	10% — 25%
Computers	10% — 25%
Motor vessels	25%

The transitional provisions set out in paragraph 72 of SSAP 17 "Property, plant and equipment" have been adopted for assets stated at valuation. As a result, those assets stated at revalued amounts based on revaluations which were reflected in the financial statements in periods ended before 30th September, 1995 have not been further revalued to fair value at subsequent balance sheet dates. 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, other than investment properties, 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.

On a transfer of a revalued asset to investment properties, the remaining fixed asset revaluation reserve arising from that asset is frozen and remains as a fixed asset revaluation reserve until the asset is sold, when the frozen fixed asset revaluation reserve is transferred to retained earnings as a movement in reserves.

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, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

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. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

Properties under development

Properties under development are stated at cost less any impairment losses. Cost includes the cost of land, construction, financing and other related expenses.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow-moving items. 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, cost includes direct materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

Textile quota entitlements

The Group is entitled to certain textile quotas. Temporary textile quota purchased from outside parties are written off to the profit and loss account at the time of utilisation, or in the absence of such utilisation, upon the expiry of the relevant utilisation period. Temporary textile quotas granted by government are not capitalised as assets in the balance sheet. The profit on the transfer of temporary textile quota entitlements to a third party is recognised upon the execution of a legally binding, unconditional and irrevocable transfer form.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Notes to Financial Statements

31st July, 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Prior to the adoption of the revised SSAP 15 during the year, as explained in note 2 to the financial statements, cash equivalents in the consolidated cash flow statement, in addition to bank overdrafts, also included advances from banks repayable within three months from the date of the advance. The definition of "cash equivalents" under the revised SSAP 15 has been revised from that under the previous SSAP 15. This has resulted in trust receipt loans no longer qualifying as cash equivalents. The amount of cash equivalents in the consolidated cash flow statement at 31st July, 2002 has been adjusted to remove trust receipt loans of HK$10,181,000 previously included at that date. This year's movement in trust receipt loans is now included in cash flows from financing activities and the comparative consolidated cash flow statement has been changed accordingly.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

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) from the sale of goods and transfer of quotas, 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) from the sale of properties held for sale, upon the establishment of a binding contract in respect of the sale of properties, or upon the issue of an occupation permit by the Hong Kong Government or a completion certificate by the relevant government authorities, whichever is the later;

(c) rental and property management fee income, in the period in which the properties are let out and on the straight-line basis over the lease terms;

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(e) dividend income, when the shareholders' right to receive payment has been established; and

(f) royalty income, when the right to receive the income is established.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a financial year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Prior to the adoption of SSAP 34 during the year, as explained in note 2 to the financial statements, the Group did not accrue for paid annual leave carried forward at the balance sheet date. This change in accounting policy, however, has had no material effect on the financial statements.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

Pension schemes

The Group operates defined contribution pension schemes under the Mandatory Provident Fund Schemes Ordinance (the "MPF Schemes") for those employees who are eligible to participate in the MPF Schemes. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Schemes. The assets of the MPF Schemes are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Schemes, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Schemes.

The employees of the Group's subsidiaries which operate in the Mainland of China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they became payable in accordance with the rules of the central pension scheme.

Notes to Financial Statements

31st July, 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of an asset which takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. The capitalisation of such borrowing costs ceases when the asset is substantially ready for its intended use or sale. The capitalisation rate for the year is based on the weighted average of the attributable borrowing costs of the borrowings. All other borrowing costs are charged to the profit and loss account in the period in which they are incurred.

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.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. These changes have had no material effect on the financial statements.

Notes to Financial Statements

31st July, 2003

4. 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 operation segment engages in the trading and distribution of garments and the transfer of textile quotas;

(b) the property development segment engages in property development and the sale of properties;

(c) the property investment segment comprises the leasing of commercial and residential premises; and

(d) the "others" segment comprises, principally, the Group's property management services business, and corporate income and expense items.

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

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.

Notes to Financial Statements

31st July, 2003

4. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group

	Garment operation 2003 HK$'000	Garment operation 2002 HK$'000	Property development 2003 HK$'000	Property development 2002 HK$'000	Property investment 2003 HK$'000	Property investment 2002 HK$'000	Others 2003 HK$'000	Others 2002 HK$'000	Eliminations 2003 HK$'000	Eliminations 2002 HK$'000	Consolidated 2003 HK$'000	Consolidated 2002 HK$'000
Segment revenue:												
Sales to external customers	1,268,361	1,274,750	—	—	14,054	11,739	12,826	11,133	—	—	1,295,241	1,297,622
Intersegment sales	—	—	—	—	3,999	4,131	—	—	(3,999)	(4,131)	—	—
Other revenue	6,802	7,483	—	—	211	128	—	2	—	—	7,013	7,613
Total	1,275,163	1,282,233	—	—	18,264	15,998	12,826	11,135	(3,999)	(4,131)	1,302,254	1,305,235
Segment results	29,902	44,617	(1,239)	(11,800)	(10,184)	9,005	(13,160)	(8,365)	—	—	5,319	33,457
Interest income and unallocated other revenue and gains											3,402	3,683
Profit from operating activities											8,721	37,140
Finance costs											(13,099)	(6,814)
Share of profits and losses of associates											(32,809)	(922,849)
Negative goodwill recognised											12,561	3,723
Provision for impairment in value of an associate											—	(273,812)
Loss before tax											(24,626)	(1,162,612)
Tax											(32,639)	(28,622)
Loss before minority interests											(57,265)	(1,191,234)
Minority interests											26,199	(9,040)
Net loss from ordinary activities attributable to shareholders											(31,066)	(1,200,274)

Notes to Financial Statements

31st July, 2003

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Garment operation 2003 HK$'000	Garment operation 2002 HK$'000	Property development 2003 HK$'000	Property development 2002 HK$'000	Property investment 2003 HK$'000	Property investment 2002 HK$'000	Others 2003 HK$'000	Others 2002 HK$'000	Consolidated 2003 HK$'000	Consolidated 2002 HK$'000
Segment assets	588,551	769,696	179,655	180,798	259,874	232,314	4,237	3,064	1,032,317	1,185,872
Interests in associates									1,661,272	1,659,150
Bank overdrafts included in segment assets	2,330	4,002	—	—	—	—	—	—	2,330	4,002
Total assets									2,695,919	2,849,024
Segment liabilities	362,026	524,488	2,986	813	907	3,348	13,190	7,428	379,109	536,077
Unallocated liabilities									338,255	323,036
Bank overdrafts included in segment assets	2,330	4,002	—	—	—	—	—	—	2,330	4,002
Total liabilities									719,694	863,115
Other segment information:										
Depreciation	7,501	15,261	22	66	289	264	153	277	7,965	15,868
Amortisation of goodwill on acquisition of subsidiaries	17,980	17,980	—	—	—	—	—	—	17,980	17,980
Deficit on revaluation of fixed assets	—	25,836	—	—	—	—	—	—	—	25,836
Deficit on revaluation of investment properties	—	—	—	—	23,700	1,700	—	—	23,700	1,700
Impairment of properties under development	—	—	943	11,414	—	—	—	—	943	11,414
Capital expenditure	6,565	4,968	—	—	245	736	54	103	6,864	5,807

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

Group

	Hong Kong 2003 HK$'000	Hong Kong 2002 HK$'000	Mainland of China 2003 HK$'000	Mainland of China 2002 HK$'000	United States of America 2003 HK$'000	United States of America 2002 HK$'000	Consolidated 2003 HK$'000	Consolidated 2002 HK$'000
Segment revenue:								
Sales to external customers	253,703	303,475	246,047	304,742	795,491	689,405	1,295,241	1,297,622
Other segment information:								
Segment assets	484,785	481,692	315,482	371,475	232,050	332,705	1,032,317	1,185,872
Capital expenditure	4,936	3,814	1,928	1,993	—	—	6,864	5,807

Notes to Financial Statements

31st July, 2003

5. RELATED PARTY TRANSACTIONS

In addition to the related party transactions and balances detailed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year.

		Group	
		2003	2002
	Notes	HK$'000	HK$'000
Rental expenses paid and payable to associates	(i)	8,996	11,607
Interest expense paid to a shareholder	(ii)	10,571	3,164

Notes:

(i) The rental expenses were charged by the associate pursuant to the respective lease agreements.

(ii) The interest was charged by a shareholder at the best lending rate quoted by a designated bank in Hong Kong in respect of the note payable (note 25).

6. TURNOVER

Turnover comprises the net invoiced value of garments sold, proceeds from the transfer of textile quotas, rental income and income from other operations. Revenue from the following activities has been included in turnover.

	Group	
	2003	2002
	HK$'000	HK$'000
Sale of garments and transfer of textile quotas	1,268,361	1,274,750
Property rentals	14,054	11,739
Other operations	12,826	11,133
	1,295,241	1,297,622

Notes to Financial Statements

31st July, 2003

7. PROFIT FROM OPERATING ACTIVITIES

This is arrived at after charging/(crediting):

	Group	
	2003	2002
	HK$'000	HK$'000
Auditors' remuneration	1,470	1,520
Amortisation of goodwill on acquisition of subsidiaries*	17,980	17,980
Deficit on revaluation of fixed assets	—	25,836
Deficit on revaluation of investment properties	23,700	1,700
Depreciation	7,965	15,868
Foreign exchange losses, net	202	10
Impairment of properties under development	943	11,414
Loss on disposal of fixed assets	1,041	1,985
Loss on disposal of properties held for sale	—	100
Minimum lease payments under operating leases in respect of land and buildings	67,479	89,724
Provision for doubtful debts	523	2,068
Severance payment	2,562	19,056
Staff costs (including directors' remuneration — see note 9):		
Wages and salaries	102,097	112,288
Pension scheme contributions	2,857	3,563
Less: Forfeited contributions	(219)	—
Net pension scheme contributions**	2,638	3,563
	104,735	115,851
Unrealised losses/(gains) of short term investments	(1,487)	133
Dividend income from short term listed investments	(845)	(778)
Gain on deregistration of subsidiaries	—	(1,610)
Interest income from bank deposits	(653)	(660)
Other interest income	(48)	(56)
Rental income	(14,054)	(11,739)
Less: Outgoings	1,152	1,692
Net rental income	(12,902)	(10,047)

* The amortisation of goodwill is included in "Other operating expenses" on the face of the consolidated profit and loss account.

** As at 31st July, 2003, no forfeited contributions were available to the Group to reduce its contributions to the pension scheme in future years (2002: Nil).

Notes to Financial Statements

31st July, 2003

8. FINANCE COSTS

	Group 2003 HK$'000	Group 2002 HK$'000
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	13,099	6,814

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(a) Directors' remuneration

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Companies Ordinance is as follows:

	Group 2003 HK$'000	Group 2002 HK$'000
Fees	608	579
Other emoluments:		
Basic salaries, housing and other allowances and benefits in kind	10,357	9,052
Bonuses paid and payable	1,530	960
Pension scheme contributions	38	62
	12,533	10,653

Fees include HK$106,000 (2002: HK$77,000) paid to independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2002: Nil).

The number of directors whose remuneration fell within the following bands is as follows:

	Group 2003 Number of directors	Group 2002 Number of directors
Nil — HK$1,000,000	9	11
HK$1,000,001 — HK$1,500,000	1	1
HK$2,500,001 — HK$3,000,000	—	1
HK$4,000,001 — HK$4,500,000	1	—
HK$5,000,001 — HK$5,500,000	—	1
HK$6,000,001 or above	1	—
	12	14

There were no arrangements under which a director waived or agreed to waive any emoluments during the year.

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

(b) Five highest paid employees

The five highest paid employees during the year included three directors (2002: three directors), details of whose emoluments are set out in (a) above. Details of the remuneration of the remaining two (2002: two) non-director, highest paid employees are set out below:

	Group	
	2003	2002
	HK$'000	HK$'000
Basic salaries, housing and other allowances and benefits in kind	4,460	4,135
Bonuses paid and payable	2,000	2,100
Pension scheme contributions	24	24
	6,484	6,259

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Group	
	2003 Number of individuals	2002 Number of individuals
HK$2,000,001 — HK$2,500,000	1	1
HK$3,500,001 — HK$4,000,000	1	1
	2	2

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10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 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 places in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group 2003 HK$'000	Group 2002 HK$'000
Provision for tax for the year:		
Hong Kong	18,202	11,060
Outside Hong Kong	—	2,300
	18,202	13,360
Prior year underprovision/(overprovision):		
Hong Kong	500	(1,100)
Share of tax attributable to associates:		
Hong Kong	12,885	15,179
Outside Hong Kong	1,432	1,183
Deferred	(380)	—
	13,937	16,362
Tax charge for the year	32,639	28,622

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31st July, 2003 dealt with in the financial statements of the Company is HK$73,903,000 (2002: net loss of HK$1,748,379,000).

12. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$31,066,000 (2002: HK$1,200,274,000) and the weighted average of 1,437,709,710 (2002: 1,437,709,710) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 31st July, 2003 and 2002 have not been disclosed as no diluting events existed during these years.

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13. FIXED ASSETS

Group

	31st July, 2002 HK$'000	Additions HK$'000	Disposals HK$'000	Transfer to investment properties HK$'000	Revaluation HK$'000	31st July, 2003 HK$'000
Cost or valuation:						
Leasehold land and buildings	30,441	—	—	(49,500)	45,917	26,858
Leasehold improvements	753	—	—	—	—	753
Plant and machinery	22,615	555	(925)	—	—	22,245
Furniture, fixtures and equipment	75,797	5,414	(13,320)	—	—	67,891
Motor vehicles	14,042	456	(197)	—	—	14,301
Computers	19,334	439	(3,027)	—	—	16,746
Motor vessels	16,951	—	—	—	—	16,951
	179,933	6,864	(17,469)	(49,500)	45,917	165,745
Accumulated depreciation:						
Leasehold land and buildings	10,658	1,029	—	—	(1,624)	10,063
Leasehold improvements	719	27	—	—	—	746
Plant and machinery	19,360	802	(472)	—	—	19,690
Furniture, fixtures and equipment	67,187	4,420	(12,746)	—	—	58,861
Motor vehicles	12,612	385	(197)	—	—	12,800
Computers	16,865	1,302	(2,998)	—	—	15,169
Motor vessels	16,951	—	—	—	—	16,951
	144,352	7,965	(16,413)	—	(1,624)	134,280
Net book value	35,581					31,465

Notes to Financial Statements

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13. FIXED ASSETS (continued)

The Group's leasehold land and buildings as stated above are held under the following lease terms:

	Hong Kong HK$'000	Outside Hong Kong HK$'000	Total HK$'000
Long term	6,680	17,778	24,458
Medium term	2,400	—	2,400
	9,080	17,778	26,858

Company

	31st July, 2002 HK$'000	Additions HK$'000	Disposals HK$'000	Transfer to investment properties HK$'000	Revaluation HK$'000	31st July, 2003 HK$'000
Cost or valuation:						
Medium term leasehold land and buildings situated in Hong Kong	5,983	—	—	(49,500)	45,917	2,400
Furniture, fixtures and equipment	5,729	1,885	—	—	—	7,614
Motor vehicles	10,609	—	(19)	—	—	10,590
Motor vessels	16,951	—	—	—	—	16,951
	39,272	1,885	(19)	(49,500)	45,917	37,555
Accumulated depreciation:						
Medium term leasehold land and buildings situated in Hong Kong	2,561	136	—	—	(1,624)	1,073
Furniture, fixtures and equipment	5,198	396	—	—	—	5,594
Motor vehicles	9,690	255	(19)	—	—	9,926
Motor vessels	16,951	—	—	—	—	16,951
	34,400	787	(19)	—	(1,624)	33,544
Net book value	4,872					4,011

Notes to Financial Statements

31st July, 2003

13. FIXED ASSETS (continued)

Certain land and buildings of the Group with a net book value of HK$6,239,000 (2002: HK$7,600,000) were pledged to banks to secure banking facilities granted to the Group.

In the prior year, land and buildings of the Company with a net book value of HK$1,267,000 was pledged to banks to secure banking facilities granted to the Group.

Certain leasehold land and buildings held by the Group and the Company were revalued on 31st July, 1992 and 31st July, 1994, by Chesterton Petty Limited, independent chartered surveyors, on an open market value basis.

The analysis of cost or valuation of the leasehold land and buildings is as follows:

	Group HK$'000	Company HK$'000
At cost	17,778	—
At 1992 valuation	6,680	—
At 1994 valuation	2,400	2,400
	26,858	2,400

If the carrying values of the revalued assets were reflected in these financial statements at cost less accumulated depreciation, the following amounts would have been shown:

	Group		Company	
	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000
Leasehold land and buildings situated in Hong Kong	2,111	3,426	60	1,333

All other fixed assets are stated at cost.

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14. INVESTMENT PROPERTIES

	Group		Company	
	2003	2002	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000
At beginning of year, at valuation	221,100	142,800	16,100	17,800
Transfer from fixed assets	49,500	80,000	49,500	—
Deficit on revaluation	(23,700)	(1,700)	(1,700)	(1,700)
At end of year, at valuation	246,900	221,100	63,900	16,100

The Group's and the Company's investment properties are situated in Hong Kong and are held under medium term leases.

At 31st July, 2003, the Group's investment properties were revalued by Centaline Surveyors Limited, independent professionally qualified valuers and Chesterton Petty Limited, independent chartered surveyors, on an open market basis.

Certain investment properties of the Group and the Company were leased to third parties under operating leases, further summary details of which are included in note 31 to the financial statements.

Certain investment properties of the Group and of the Company with carrying values of HK$244,300,000 (2002: HK$217,500,000) and HK$61,300,000 (2002: HK$12,500,000), respectively, were pledged to banks to secure banking facilities granted to the Group.

15. PROPERTIES UNDER DEVELOPMENT

	Group	
	2003	2002
	HK$'000	HK$'000
At beginning of year, at carrying value	177,228	188,702
Impairment provided for during the year	(943)	(11,414)
Exchange realignments	112	(60)
At end of year, at carrying value	176,397	177,228

The Group's properties under development are situated outside Hong Kong and are held under long term leases. These properties were carried at net realisable value in both years.

The balance at 31st July, 2003 represents the carrying value of a property development project of Shanghai Hu Xin Real Estate Development Co., Ltd. ("Hu Xin"), a subsidiary of the Group, undertaken in Shanghai, the Mainland of China.

15. PROPERTIES UNDER DEVELOPMENT (continued)

Pursuant to a land use rights agreement entered into between Hu Xin and the Shanghai Land Administration Bureau (the "Land Administration Bureau") in September 1995, Hu Xin had to complete 60% of the development project by 31st December, 1998, and the entire project by 31st December, 1999 (the "Completion Date"). If the completion was delayed, a penalty would be charged at (1) 1% of the land consideration of RMB13,745,000 during the first six months after the Completion Date; (2) 3% during the following six months; and (3) 7% during the second year after the Completion Date. If the project was not able to be completed within two years after the Completion Date, the Land Administration Bureau would have the right to repossess the land use rights.

On 25th December, 1998, Hu Xin extended the Completion Date to 31st December, 2001. A further extension of the Completion Date to 31st December, 2004 was successfully obtained on 18th December, 2002.

16. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK$'000	HK$'000
Shares listed in Hong Kong, at cost	7,265	7,265
Unlisted shares, at cost	486	486
	7,751	7,751
Amounts due from subsidiaries	1,065,897	1,054,865
Amounts due to subsidiaries	(111,839)	(126,256)
	954,058	928,609
Provision for impairment	(374,898)	(374,898)
	579,160	553,711
	586,911	561,462
Market value of listed shares at the balance sheet date	600	309

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

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16. INTERESTS IN SUBSIDIARIES (continued)

Details of the principal subsidiaries are as follows:

Name of company	Place of incorporation/ registration and operations	Nominal value of issued/ registered capital	Class of shares held	Equity interest attributable to the Company Direct (%)	Indirect (%)	Principal activities
Costroll Company Limited	Hong Kong	HK$20	Ordinary	—	54.93	Property letting
Creative Fashions Limited	Hong Kong	HK$500,000	Ordinary	100.00	—	Garment trading
Crocodile (China) Limited	Hong Kong	HK$4	Ordinary	—	54.93	Garment trading
Crocodile Garments Limited	Hong Kong	HK$154,281,783	Ordinary	0.43	54.50	Garment manufacturing and trading
Crocodile Garments (Zhong Shan) Limited	Mainland of China	HK$17,200,000	*	—	49.44**	Garment manufacturing and trading
Crocodile Investment Limited	Hong Kong	HK$20	Ordinary	—	54.93	Investment holding
Dackart Trading Company Limited	Hong Kong	HK$20	Ordinary	—	54.93	Property investment
Gold Nation Development Limited	Hong Kong	HK$2	Ordinary	—	54.93	Property investment
Joy Mind Limited	Hong Kong	HK$2	Ordinary	100.00	—	Investment holding
Kingscord Investment Limited	Hong Kong	HK$2	Ordinary	—	100.00	Investment holding

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16. INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ registration and operations	Nominal value of issued/ registered capital	Class of shares held	Equity interest attributable to the Company Direct (%)	Equity interest attributable to the Company Indirect (%)	Principal activities
Kingscord Real Estate (Shanghai) Co., Ltd.	Mainland of China	US$1,500,000	*	—	100.00	Investment holding
Shanghai Hu Xin Real Estate Development Co., Ltd.	Mainland of China	US$6,000,000	*	—	95.00	Property development and investment
Silver Glory Securities Limited	British Virgin Islands	US$1	Ordinary	100.00	—	Investment holding

* These subsidiaries have registered rather than issued share capital.

** Crocodile Garments (Zhong Shan) Limited is a 90% owned subsidiary of Crocodile Garments Limited and, accordingly, is accounted for as a subsidiary by virtue of the Company's control over it.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group at the balance sheet date. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

As at 31st July, 2003, 96,000,000 ordinary shares of Crocodile Garments Limited ("Crocodile") held by the Group were pledged to a bank to secure banking facilities granted to the Company.

Notes to Financial Statements

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17. GOODWILL

The amounts of goodwill capitalised as an asset arising from the acquisition of subsidiaries are as follows:

	Group 2003 HK$'000	Group 2002 HK$'000
Cost:		
At beginning and at end of year	534,373	534,373
Accumulated amortisation and impairment:		
At beginning of year	426,506	408,526
Amortisation provided during the year	17,980	17,980
	444,486	426,506
Net book value	89,887	107,867

There was no goodwill arising on the acquisitions of subsidiaries in prior years that was eliminated against consolidated reserves.

As detailed in note 3 to the financial statements, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted negative goodwill in respect of acquisitions which occurred prior to the adoption of the SSAP, to remain credited to the capital reserve.

The amount of negative goodwill remaining in consolidated reserves, which arose from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, was HK$7,994,000 as at 1st August, 2002 and 31st July, 2003.

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18. INTERESTS IN ASSOCIATES

	Group		Company	
	2003	2002	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000
Shares listed in Hong Kong, at cost	—	—	2,344,673	2,320,417
Share of net assets	2,560,243	2,845,489	—	—
Negative goodwill on acquisition	(899,388)	(911,949)	—	—
	1,660,855	1,933,540	2,344,673	2,320,417
Amounts due from associates	2,571	5,854	2,435	2,670
Amounts due to associates	(2,019)	(3,248)	(2,015)	(2,000)
	1,661,407	1,936,146	2,345,093	2,321,087
Provision for impairment	(135)	(276,996)	(1,974,225)	(1,974,225)
	1,661,272	1,659,150	370,868	346,862
Market value of listed shares at balance sheet date	356,875	260,713	265,079	200,472

An impairment loss of HK$273,812,000 was made against the Group's interests in the LSD Group (as defined below) and was charged to the consolidated profit and loss account in the prior year. The impairment loss was provided by the directors based on the estimated recoverable amount of the Group's interests in the LSD Group, being the net realisable value, determined by taking a discount on the market value of the LSD shares held by the Group as quoted by The Stock Exchange of Hong Kong Limited as at the balance sheet date.

During the year, provision for impairment in the LSD Group of HK$273,812,000 was written back and applied to offset the additional share of losses in the LSD Group amounted to HK$323,812,000.

The balances with associates are unsecured, interest-free and have no fixed terms of repayment, except for an amount of HK$252,000 (2002: HK$586,000) due from an associate which bears interest at the prevailing market rate.

As detailed in note 3 to the financial statements, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted negative goodwill in respect of acquisitions, which occurred prior to the adoption of the SSAP, to remain credited to the capital reserve.

The amount of negative goodwill remaining in the capital reserve, arising from the acquisition of associates prior to the adoption of SSAP 30 in 2001, was HK$3,906,654,000 as at 1st August, 2002 and 31st July, 2003.

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18. INTERESTS IN ASSOCIATES (continued)

The amount of negative goodwill recognised in the consolidated balance sheet arising from the acquisition of associates which was accounted for in accordance with SSAP 30 is as follows:

Group

	HK$'000
Cost:	
At beginning and at end of year	915,672
Recognition as income:	
At beginning of year	3,723
Recognised as income during the year	12,561
	16,284
Net book value:	
At 31st July, 2003	899,388
At 31st July, 2002	911,949

Details of the principal associates are as follows:

Name of company	Business structure	Place of incorporation/ registration and operations	Class of shares held	Percentage of capital held	Principal activities
Lai Fung Holdings Limited	Corporate	Cayman Islands	Ordinary	46.04	Note 1
Lai Sun Development Company Limited	Corporate	Hong Kong	Ordinary	42.25	Note 2

Notes:

1. Lai Fung's principal activity during the year was investment holding.

   The principal activities of Lai Fung and its subsidiaries (collectively the "Lai Fung Group") during the year consisted of property development for sale and property investment for rental purposes.

2. LSD's principal activities during the year consisted of property development for sale, property investment and investment holding.

   The principal activities of LSD and its subsidiaries (collectively the "LSD Group") during the year consisted of property development for sale, property investment, investment in and operation of hotels and restaurants and investment holding.

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18. INTERESTS IN ASSOCIATES (continued)

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

As at 31st July, 2003, 115,000,000 ordinary shares of Lai Fung held by the Group had been pledged to a bank to secure banking facilities granted to the Company.

Included in the Group's share of the net assets of its associates are its share of net assets of LSD and Lai Fung, companies listed on The Stock Exchange of Hong Kong Limited which, in the opinion of the directors, are material in the context of the Group's financial statements.

(a) LSD Group *

Summary of the deficiency in assets of the LSD Group as at 31st July, 2003 and the results for the financial year ended 31st July, 2003 are set out below:

	As at 31st July, 2003 HK$'000
Non-current assets	7,684,632
Current assets	386,620
Current liabilities	(8,040,621)
Non-current liabilities	(45,359)
Minority interests	(359,428)
	(374,156)
Contingent liabilities	194,772

	Year ended 31st July, 2003 HK$'000
Turnover	906,590
Loss before tax	(404,488)
Tax	(28,516)
Loss before minority interests	(433,004)
Minority interests	(28,036)
Net loss from ordinary activities attributable to shareholders	(461,040)

* The amounts are extracted from the audited financial statements of LSD for the year ended 31st July, 2003.

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18. INTERESTS IN ASSOCIATES (continued)

(a) LSD Group (continued)

Save as disclosed above, LSD had the following contingent liabilities not provided for in its financial statements at the balance sheet date:

Pursuant to certain indemnity deeds dated 12th November, 1997 entered into between LSD and Lai Fung, LSD has undertaken to indemnify Lai Fung in respect of certain potential PRC income tax and land appreciation tax ("LAT") payable or shared by Lai Fung in consequence of the disposal of any of the property interests attributable to Lai Fung through its subsidiaries and its associates as at 31st October, 1997 (the "Property Interests"). These tax indemnities given by LSD apply in so far as such tax is applicable to the difference between (i) the value of the Property Interests in the valuation thereon by Chesterton Petty Limited, independent chartered surveyors, as at 31st October, 1997 (the "Valuation"); and (ii) the aggregate costs of such Property Interests incurred up to 31st October, 1997, together with the amount of unpaid land costs, unpaid land premium and unpaid costs of resettlement, demolition and public utilities and other deductible costs in respect of the Property Interests. The indemnity deeds assume that the Property Interests are disposed of at the values attributed to them in the Valuation, computed by reference to the rates and legislation governing PRC income tax and LAT prevailing at the time of the Valuation.

The indemnities given by LSD do not cover (i) new properties acquired by Lai Fung subsequent to the listing of the shares of Lai Fung on The Stock Exchange of Hong Kong Limited (the "Listing"); (ii) any increase in the relevant tax which arises due to an increase in tax rates or changes to the legislation prevailing at the time of the Listing; and (iii) any claim to the extent that provision for deferred tax on the revaluation surplus has been made in the calculation of the adjusted net tangible asset value of Lai Fung as set out in Lai Fung's prospectus dated 18th November, 1997.

Lai Fung had no LAT payable during the year. No income tax payable by Lai Fung was indemnifiable by LSD during the year.

The current year auditors' report of LSD was disclaimed, as the auditors of LSD were unable to form an opinion in respect of the going concern basis adopted by the LSD Group. The basis of presentation extracted from the financial statements of LSD is summarised as follows:

The LSD Group sustained a net loss from ordinary activities attributable to shareholders of HK$461 million (2002: HK$1,942 million). At the balance sheet date, the LSD Group had consolidated net current liabilities of HK$7,654 million (2002: HK$6,193 million) and consolidated deficiency in assets of HK$374 million (2002: net assets of HK$766 million). The deterioration in the LSD Group's net asset position primarily resulted from the valuation deficit arising in respect of the LSD Group's investment properties and the loss incurred by the LSD Group during the year.

During the year, the LSD Group had ongoing discussions with all of its financial creditors with the objective of refinancing the LSD Group to put it in a better financial position. On 17th December, 2002, meetings with exchangeable bondholders (the "Exchangeable Bondholders") and convertible bondholders (the "Convertible Bondholders") were held at which, among other things, resolutions to approve the deferral of the LSD Group's obligations to redeem exchangeable bonds (the "Exchangeable Bonds") and convertible bonds (the "Convertible Bonds") to 31st March, 2003 were duly passed.

18. INTERESTS IN ASSOCIATES (continued)

(a) LSD Group (continued)

The LSD Group defaulted in the repayment of a debt (the "Debt") due to Golden Pool Enterprise Limited, a wholly-owned subsidiary of eSun Holdings Limited ("eSun"), on 31st December, 2002. In addition, the Convertible Bonds were due to be redeemed by the LSD Group on 31st March, 2003 but were not so redeemed and, at the same time, the LSD Group also failed to satisfy the redemption rights exercised by certain of the Exchangeable Bondholders, which in turn, has resulted in the Exchangeable Bonds becoming due for redemption in their entirety. Accordingly, the LSD Group had defaulted in the repayment of the Debt and the redemption of both of the Convertible Bonds and the Exchangeable Bonds. Such defaults, in turn, constituted a technical event of default under all of the LSD Group's other borrowing facilities.

As at the date of approval of its financial statements, the LSD Group has yet to reach an agreement with the Exchangeable Bondholders, the Convertible Bondholders, eSun and its other financial creditors as to the terms of a comprehensive restructuring of the LSD Group's indebtedness (the "Debt Restructuring Plan"). The LSD Group is currently operating under a period of informal standstill and up to now, neither the Exchangeable Bondholders, the Convertible Bondholders, eSun nor its other financial creditors has taken any action to enforce their respective securities. The LSD Group is, with the assistance of its financial and legal advisers, conducting ongoing negotiations with all of its financial creditors with a view to securing the terms of a Debt Restructuring Plan acceptable to all relevant parties.

Throughout the year and up to the date of approval of its financial statements, the LSD Group continued to implement an orderly disposal of its assets, including properties and other investments, to generate positive cash flows for the partial repayment of certain bonds payable, bank and other borrowings and to help provide sufficient working capital for the LSD Group's operations.

The directors of LSD believe that the LSD Group will be able to secure the agreement of all its financial creditors to the Debt Restructuring Plan and, at the same time will be able to continue the orderly disposal of the assets of the LSD Group and to obtain financing or refinancing arrangements to generate additional positive cash flows. On this basis, the directors of LSD consider that the LSD Group will have sufficient working capital to finance its operations in the foreseeable future. Accordingly, the directors of LSD are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

If the going concern basis is not appropriate, adjustments would have to be made to restate the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

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18. INTERESTS IN ASSOCIATES (continued)

(b) Lai Fung Group **

Summary of the net assets of the Lai Fung Group as at 31st July, 2003 and the results for the financial year ended 31st July, 2003 are set out below:

	As at 31st July, 2003 HK$'000
Non-current assets	6,957,990
Current assets	264,392
Current liabilities	(313,336)
Non-current liabilities	(1,087,028)
Minority interests	(219,746)
	5,602,272
Contingent liabilities	1,280,000

	Year ended 31st July, 2003 HK$'000
Turnover	119,338
Profit before tax	62,922
Tax	(4,103)
Profit before minority interests	58,819
Minority interests	(1,824)
Net profit from ordinary activities attributable to shareholders	56,995

** The amounts are extracted from the audited financial statements of Lai Fung for the year ended 31st July, 2003.

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18. INTERESTS IN ASSOCIATES (continued)

(b) Lai Fung Group (continued)

Save as disclosed above, Lai Fung had the following contingent liabilities not provided for in the financial statements at the balance sheet date:

(i) Under a mortgage loan facility provided by a bank to the end-buyers of the office and apartment units of Hong Kong Plaza, Lai Fung agreed to guarantee up to 95% of the liabilities of Shanghai Li Xing Real Estate Development Co., Ltd., a 90% owned subsidiary of Lai Fung, for the due performance of its undertaking to buy back the relevant property in case of default by the borrowers. It is not practical to determine the outstanding amount of the contingent liabilities of Lai Fung at the balance sheet date.

(ii) Under a mortgage loan facility provided by another bank to the end-buyers of Eastern Place Phase I and Phase II, Lai Fung agreed to provide guarantees to the bank to buy back the relevant property in case of default by the borrowers. It is not practical to determine the outstanding amount of the contingent liabilities of Lai Fung at the balance sheet date.

19. SHORT TERM INVESTMENTS

	Group and Company	
	2003	2002
	HK$'000	HK$'000
Listed equity investments in Hong Kong, at market value	19,637	18,150

20. INVENTORIES

	Group	
	2003	2002
	HK$'000	HK$'000
Raw materials	6,145	7,398
Work in progress	133	563
Finished goods	85,755	130,603
	92,033	138,564

The carrying amounts of the Group's inventories included in the above that are carried at net realisable value were HK$39,471,000 (2002: HK$30,626,000).

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21. TRADE RECEIVABLES

The credit term extended by the Group to trade debtors is normally within 30 days to 180 days.

Crocodile and its subsidiaries (collectively the "CGL Group"), a listed subgroup of the Company maintains its own set of credit policies. Other than cash sales made at retail outlets of the CGL 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 designed 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.

An aged analysis of trade receivables, based on invoice due date, as at 31st July, 2003 is as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Current to 90 days	171,123	199,006
91 days to 180 days	5,535	36,674
181 days to 365 days	35,577	80,582
Over 365 days	43,646	45,047
	255,881	361,309

The settlement of certain of the Group's trade receivables correlates with the payment of trade payables. Certain of these creditors have agreed not to demand repayment until the Group receives settlement from its debtors.

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003	2002	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000
Cash and bank balances	78,718	86,156	9,795	2,553
Time deposits	20,857	13,019	18,231	10,516
	99,575	99,175	28,026	13,069

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$60,077,000 (2002: HK$46,826,000). The RMB is not freely convertible into other currencies, however, under the Mainland's Foreign Exchange Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Notes to Financial Statements

31st July, 2003

23. TRADE AND BILLS PAYABLES

An aged analysis of trade and bills payables as at 31st July, 2003 is as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Current to 90 days	179,912	237,239
91 days to 180 days	4,943	39,601
181 days to 365 days	36,546	80,902
Over 365 days	54,437	56,094
	275,838	413,836

24. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group		Company	
	2003	2002	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000
Unsecured bank overdrafts	2,330	4,002	—	886
Secured bank loans	64,250	66,538	40,000	40,000
Trust receipt loans	17,930	17,787	—	—
Other borrowings, unsecured	7	86	7	86
	84,517	88,413	40,007	40,972
Portion due within one year or on demand classified as current liabilities	(84,517)	(88,406)	(40,007)	(40,965)
Long term portion	—	7	—	7
The long term portion of bank and other borrowings is repayable within a period of more than one year but not exceeding two years	—	7	—	7

The secured bank loans are secured by fixed charges on certain properties and floating charges over certain assets held by the Group.

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25. NOTE PAYABLE

The amount represented the outstanding balance of a note payable to Mr. Lim Por Yen (the "Loan Note"), an executive director and substantial shareholder of the Company (as defined in the Listing Rules). The Loan Note is unsecured, bears interest at the best lending rate quoted by a designated bank in Hong Kong and repayable by 30th April, 2004. On 28th October, 2003, the repayment term of the Loan Note was extended to 30th April, 2005, and the Loan Note has remained to be classified as non-current liabilities.

26. DEFERRED TAX

The principal components of the deferred tax assets are as follows:

Group

	Recognised		Not recognised	
	2003	2002	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000
Decelerated capital allowances on fixed assets	—	—	339	473
Tax losses	—	—	65,815	58,142
Other	—	—	90	—
	—	—	66,244	58,615

Company

	Recognised		Not recognised	
	2003	2002	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000
Decelerated capital allowances on fixed assets	—	—	265	616

The revaluation of the Group's investment properties in Hong Kong does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

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27. SHARE CAPITAL

	2003 HK$'000	2002 HK$'000
Authorised:		
4,000,000,000 ordinary shares of HK$0.50 each	2,000,000	2,000,000
Issued and fully paid:		
1,437,709,710 ordinary shares of HK$0.50 each	718,855	718,855

28. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 32 to 34 of the financial statements.

(b) Company

	Share premium account HK$'000	Fixed asset revaluation reserve HK$'000	Investment property revaluation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1st August, 2001	1,119,738	19,785	7,235	531,576	1,678,334
Deficit on revaluation of investment properties	—	—	(1,700)	—	(1,700)
Net loss for the year	—	—	—	(1,748,379)	(1,748,379)
At 31st July, 2002 and At 1st August, 2002	1,119,738	19,785	5,535	(1,216,803)	(71,745)
Surplus on revaluation of fixed assets on their transfer to investment properties	—	47,541	—	—	47,541
Deficit on revaluation of investment properties	—	—	(1,700)	—	(1,700)
Net profit for the year	—	—	—	73,903	73,903
At 31st July, 2003	1,119,738	67,326	3,835	(1,142,900)	47,999

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31st July, 2003

29. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

In the prior year, the Group acquired from LSD approximately 25.40% of the issued capital of Lai Fung for a consideration of HK$225,200,000. This transaction was settled through the issuance of the Loan Note which was simultaneously assigned by LSD to Mr. Lim Por Yen pursuant to a deed of assignment, and therefore had no effect on the Group's cashflows.

30. CONTINGENT LIABILITIES

In the prior year, Crocodile was involved in legal disputes with a supplier, which alleged that Crocodile had infringed its trademark in the Mainland of China and sought orders from the courts in the Mainland of China for compensation of RMB3,500,000. Subsequent to the balance sheet date, on 23rd October, 2003, a joint declaration was announced by both parties pursuant to which Crocodile agreed to use a new trademark device in the Mainland of China and the supplier agreed to abandon all of the claims against Crocodile. In the opinion of the directors, no losses have arisen from this settlement and accordingly, no further costs have to be provided at the balance sheet date.

31. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group and the Company lease their investment properties (note 14 to the financial statements) and certain land and buildings under operating lease arrangements, with leases negotiated for terms ranging from one to four years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the balance sheet date, the Group and the Company had total future minimum lease receivables under non-cancellable operating leases with the tenants falling due as follows:

	Group		Company	
	2003	2002	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000
Within one year	13,533	10,571	3,569	1,396
In the second to fifth years, inclusive	10,448	11,155	2,831	1,178
	23,981	21,726	6,400	2,574

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31st July, 2003

31. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee

The Group leases its office properties, certain warehouses and retail outlets under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years. At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2003	2002	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000
Within one year	47,240	63,058	57	97
In the second to fifth years, inclusive	32,462	42,820	—	57
After five years	—	28	—	—
	79,702	105,906	57	154

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31(b) above, the Group and the Company had the following commitments at the balance sheet date:

	Group		Company	
	2003	2002	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000
Capital commitments in respect of development costs attributable to properties under development:				
Contracted, but not provided for	156,384	156,384	—	—
Authorised, but not contracted for	94,470	94,470	—	—
	250,854	250,854	—	—

33. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 7th November, 2003.