Notes to Financial Statements

31st July, 2005

1. CORPORATE INFORMATION

The Company is a company incorporated in Hong Kong with limited liability. 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 manufacture and sale of garments and property investment and letting.

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

2. EARLY ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES

The Group has resolved to early adopt all Hong Kong Financial Reporting Standards ("HKFRSs"), which also include all Hong Kong Accounting Standards ("HKASs") and Interpretations ("HKAS-Ints") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), in the financial year ended 31st July, 2005. These HKFRSs are generally effective for accounting periods beginning on or after 1st January, 2005, or otherwise stated, for the preparation of these financial statements.

The following new HKFRSs are relevant to the Group's financial statements and are adopted for the first time for the preparation of the current year's financial statements:

HKAS 1	"Presentation of Financial Statements"
HKAS 2	"Inventories"
HKAS 7	"Cash Flow Statements"
HKAS 8	"Accounting Policies, Changes in Accounting Estimates and Errors"
HKAS 10	"Events after the Balance Sheet Date"
HKAS 12	"Income Taxes"
HKAS 14	"Segment Reporting"
HKAS 16	"Property, Plant and Equipment"
HKAS 17	"Leases"
HKAS 18	"Revenue"
HKAS 19	"Employee Benefits"
HKAS 21	"The Effects of Changes in Foreign Exchange Rates"
HKAS 23	"Borrowing Costs"
HKAS 24	"Related Party Disclosures"
HKAS 27	"Consolidated and Separate Financial Statements"
HKAS 32	"Financial Instruments: Disclosure and Presentation"
HKAS 33	"Earnings per Share"
HKAS 36	"Impairment of Assets"
HKAS 37	"Provisions, Contingent Liabilities and Contingent Assets"
HKAS 39	"Financial Instruments: Recognition and Measurement"
HKAS 39 Amendment	"Transition and Initial Recognition of Financial Assets and Financial Liabilities"
HKAS 40	"Investment Property"
HKFRS 3	"Business Combinations"
HKAS-Int 15	"Operating Leases – Incentives"
HKAS-Int 21	"Income Taxes – Recovery of Revalued Non-Depreciable Assets"

Notes to Financial Statements

31st July, 2005

2. EARLY ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES (continued)

The adoption of HKASs 2, 7, 8, 10, 12 ,14, 16, 18, 19 , 21, 23, 27, 32, 33, 36, 37, 39, 39 Amendment and HKAS-Int 15, has had no material impact on the Group's accounting policies, the methods of computation in the Group's consolidated financial statements and the presentation and disclosures of the consolidated financial statements. The effects of adoption of the relevant HKFRSs including the new accounting measurement and disclosure practices are summarised as follows:

(a) HKAS 1 "Presentation of Financial Statements"

HKAS 1 sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. HKAS 1 required the following new disclosure to be made in these financial statements:

- the Group is no longer permitted not to disclose comparative information for the reconciliation of movements in property, plant and equipment.

Apart from the above change, HKAS 1 also requires the disclosure of judgements (apart from those involving estimations), management has made in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in these financial statements. Moreover, the standard requires disclosure of the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities of the Group within the next financial year. These disclosures are detailed in notes 4 and 15 to the financial statements.

(b) HKAS 17 "Leases"

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interests in land and buildings are separated into leasehold land and leasehold buildings. Leasehold land is classified as operating leases, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments. Leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the respective lease terms. When the lease payment cannot be allocated reliably between the land and buildings elements, the entire lease payment is included in the cost of land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the previously reported consolidated income statement and accumulated losses as the Group's land lease payments cannot be determined reliably between the land and buildings elements. The new accounting policy for prepaid land lease payments is summarised in note 5 to the financial statements.

Notes to Financial Statements

31st July, 2005

2. EARLY ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES (continued)

(c) HKAS 40 "Investment Property"

In prior years, changes in the fair values of investment properties were dealt with as movements in the investment property revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

The change in the accounting policy has been adopted retrospectively and the change has had no significant effect on the comparative amounts for the earlier year presented. The effects of the above changes and the new accounting policy are summarised in notes 3 and 5 to the financial statements.

(d) HKFRS 3 "Business Combinations"

In prior years, negative goodwill arising on acquisitions prior to 1st January, 2001 was included in consolidated capital reserve in the year of acquisition and was not recognised in the income statement until disposal or impairment of the acquired business.

Upon the adoption of HKFRS 3, any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries and associates (previously referred to as "negative goodwill"), after reassessment, is recognised immediately in the consolidated income statement.

The transitional provisions of HKFRS 3 have required the Group to derecognise the carrying amounts of negative goodwill remaining in consolidated capital reserve with a corresponding adjustment to the opening balance of accumulated losses at 1st August, 2004.

HKFRS 3 shall apply to accounting for business combinations for which the agreement date is on or after 1st January, 2005. The effects of the above changes are summarised in note 3 to the financial statements. In accordance with the transitional provisions, HKFRS 3 is prospectively applied and accordingly, comparative amounts have not been restated. The new accounting policies are disclosed in note 5 to the financial statements for business combinations.

Notes to Financial Statements

31st July, 2005

2. EARLY ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES (continued)

(e) HKAS-Int 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets"

In prior years, deferred tax arising on the revaluation of investment properties was recognised based on the tax rates that would be applicable upon the sale of the investment properties.

Upon the adoption of HKAS-Int 21, deferred tax arising on the revaluation of the Group's investment properties is determined on the basis that these properties will be recovered through use. Accordingly, the profits tax rate has been applied to the calculation of deferred tax.

The change in accounting policy has been adopted retrospectively and the change has had no effect on the comparative amounts for the earlier year presented. The effects of the above changes are summarised in note 3 to the financial statements.

(f) HKAS 24 "Related Party Disclosures"

HKAS 24 affects the identification of related parties and requires more extensive disclosures for related party transactions.

For those HKFRSs which are effective for accounting periods beginning on or after 1st January, 2006, they have not been early adopted by the Group. The Group has already commenced an assessment of these HKFRSs which are effective for accounting periods beginning on or after 1st January, 2006 but is not yet in a position to state whether the impact of which would have a significant impact on its result of operations and financial position.

Notes to Financial Statements

31st July, 2005

3. SUMMARY OF THE EFFECT OF CHANGES IN THE ACCOUNTING POLICIES

The adoption of the HKFRSs has had no effect on the comparative amounts previously presented. Pursuant to HKAS 8 (which outlines the disclosure requirements when a change in accounting policy has a material effect on the current year's and prior years' amounts presented), the Group has restated the opening balances of total equity as at 1st August, 2004 to take into account the effects of changes in the accounting policies disclosed in note 2 to the financial statements. The amount of adjustment for each financial statement line item affected, and the impact to the basic earnings per share are summarised as follows:

(a) Consolidated balance sheet

	Effect of adopting			
	HKAS 40	**HKFRS 3**	**HKAS-Int 21**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
As at 31st July, 2005				
Increase in deferred tax liability	—	—	(5,827)	(5,827)
Decrease in net assets	—	—	(5,827)	(5,827)
Decrease in investment properties revaluation reserve (note)	(16,300)	—	—	(16,300)
Decrease/(increase) in accumulated losses	16,300	—	(5,827)	10,473
Equity	—	—	(5,827)	(5,827)
As at 1st August, 2004				
Decrease in capital reserve	—	(350)	—	(350)
Decrease in accumulated losses	—	350	—	350
Equity	—	—	—	—

(b) Consolidated income statement

	HKAS 40	**HKFRS 3**	**HKAS-Int 21**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
For the year ended 31st July, 2005				
Increase in surplus on revaluation	16,300	—	—	16,300
Increase in tax	—	—	(5,827)	(5,827)
Net profit for the year attributable to equity holders of the parent	16,300	—	(5,827)	10,473
Increase/(decrease) in earnings per share (cents)	2.6	—	(0.9)	1.7

Notes to Financial Statements

31st July, 2005

3. SUMMARY OF THE EFFECT OF CHANGES IN THE ACCOUNTING POLICIES (continued)

Note:

As a result of the adoption of HKAS 40, all investment property revaluation surplus amounted to HK$36,300,000 was credited to the income statement in the current year. However, should the previous accounting policy been adopted, a revaluation surplus of HK$20,000,000 would have been credited to the income statement to offset against the prior period's revaluation deficit, resulting in an excess surplus of HK$16,300,000 to be the investment properties revaluation reserve.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

(a) Investment property

In distinguishing investment property from owner-occupied property, management has to exercise judgement by assessing (i) whether such property is held to earn rentals or for capital application; (ii) in case if the property is vacant, whether it is held to be leased out under one or more operating leases and (iii) whether the portion which is held for use in the production or supply of goods or services or for administrative purposes, is insignificant.

(b) Impairment of assets

In determining an asset is impaired or the event previously causing the impairment no longer exists, management has to exercise judgement in the area of asset impairment, particularly in assessing (i) whether an event has occurred that may affect asset value or such event affecting the asset value has not been in existence; (ii) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate.

(c) Income tax

Deferred tax is provided using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for unused tax losses carried forward to the extent it is probable (i.e. more likely than not) that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgement regarding the future performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, group relief, tax planning strategies and the periods in which estimated tax losses can be utilised.

Notes to Financial Statements

31st July, 2005

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Judgements (continued)

(d) Provision for obsolete and slow-moving inventories

The Group's inventories are stated at the lower of cost and net realisable value. The Group makes provisions based on estimates of the realisable value with reference to the age and conditions of the inventories, together with the economic circumstances on the marketability of such inventories. Inventories will be reviewed annually for obsolescence provisions, if appropriate.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimate of fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, management determines the amount within a range of reasonable fair value estimates. In making such estimation, management considers information from current prices in an active market for properties of different nature, condition or location. This conclusion is supported by an independent professional valuer who was engaged by the Group to perform a valuation on the Group's investment properties.

(b) Impairment test of assets

Management determines whether an asset is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units. Estimating the value in use requires the management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

(c) Income tax

The carrying amount of deferred tax assets and related financial models and budgets are reviewed by management at each balance sheet date. To the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the tax losses carried forward, the asset balance will be reduced and charged to the income statement.

Notes to Financial Statements

31st July, 2005

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties, 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, 2005. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, until the date such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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 income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as a subsidiary when the Group has unilateral control, directly or indirectly, over the joint venture company.

Business combination

Excess over the costs of business combination

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

Negative goodwill (applicable to the accounting year ended 31st July, 2004)

In prior periods, negative goodwill arising on acquisitions prior to 1st January, 2001 remained credited to the capital reserve pursuant to the transitional provisions of the relevant accounting standard. Upon the adoption of HKFRS 3, the carrying amount of negative goodwill was derecognised by way of a corresponding adjustment to the opening balance of accumulated losses as at 1st August, 2004.

Notes to Financial Statements

31st July, 2005

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 or cash-generating unit's fair value less costs to sell and value in use and is determined on an individual asset basis, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. An impairment loss is charged to the income statement 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 income statement 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.

Property, plant and equipment and depreciation

Property, plant and equipment, other than investment properties, are stated at cost less accumulated depreciation and any impairment losses.

The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to its working condition and location for its intended use and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance, is normally charged to the income statement 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 asset, the expenditure is capitalised as an additional cost of that asset.

Notes to Financial Statements

31st July, 2005

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

Leasehold land and buildings	4.5%
Plant and machinery	10%
Furniture and fixtures, including	10% - 20%
leasehold improvements	Over the lease terms
Computer equipment	20%
Motor vehicles	20%

Upon a transfer of an asset to investment properties, a valuation is performed to determine the fair value of the asset to be transferred. Any revaluation surplus/deficit so arising, being the difference between the valuation and the net carrying value of the asset at the date of transfer, is credited/charged to the fixed asset revaluation reserve of the related asset. The remaining fixed asset revaluation reserve attached to that asset, if any, is frozen and remains as a fixed asset revaluation reserve until that asset is sold.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss on disposal or retirement of property, plant and equipment recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are owned by the Group or held by Group under finance leases to earn rentals or for capital appreciation or both. Such properties are not depreciated, and are measured initially at cost including all transaction costs and, after initial recognition, carried at fair values, being their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the fair values of investment properties are recognised in the income statement in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The gain or loss arising from the retirement or disposal of an investment property, calculated as the differences between the net disposal proceeds and the carrying amount of the investment property, is recognised in the income statement in the period of the retirement or disposal.

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 income statement 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 income statement on the straight-line basis over the lease terms.

Notes to Financial Statements

31st July, 2005

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, comprises 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 the prevailing market conditions.

Trade receivables

Trade receivables are recognised and carried at original invoice amounts less allowances for any uncollectible amounts.

An estimate for doubtful debts for debtors is made when there is an objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

Bank and other borrowings

All banks and other borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowings.

Borrowing costs

Borrowing costs represented interest on bank overdrafts, short-term and long-term borrowings. Borrowing costs are recognised as an expense in the period in which they are incurred.

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.

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.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

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

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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, 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 the straight-line basis over the terms of the lease;

(c) royalty income, when the right to receive the income has been established and on the straight-line basis over the terms of the relevant agreement; and

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

Notes to Financial Statements

31st July, 2005

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar 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.

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 a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme 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 Scheme.

Employees of subsidiaries operating in Mainland China are members of the Central Pension Scheme operated by the Chinese government. The subsidiaries are required to contribute a certain percentage of their covered payroll to the Central Pension Scheme to fund the benefits. The only obligation of the Group with respect to the Central Pension Scheme is to make the required contributions, which are charged to the income statement in the year to which they relate.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions are initially recorded using the functional currency rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Notes to Financial Statements

31st July, 2005

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The functional currencies of certain overseas subsidiaries are not Hong Kong dollars. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company (i.e., Hong Kong dollars) at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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.

Related parties

A party is related to the Group if:

(a) directly, or indirectly through one or more intermediaries, the party:

- (i) controls, is controlled by, or is under common control with, the Group;
- (ii) has an interest in the Group that gives it significant influence over the Group; or
- (iii) has joint control over the Group;

(b) the party is a joint venture in which the entity is a venturer;

(c) the party is an associate;

(d) the party is a member of the key management personnel of the Company or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Notes to Financial Statements

31st July, 2005

6. SEGMENT INFORMATION

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

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

(a) the garment and related accessories segment engages in the manufacture and sale of garments and related accessories;

(b) the property investment segment invests in land and buildings for its rental income potential; and

(c) the corporate and others segment comprises the Group's corporate income and expense items and other segment income and segment expense items.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the 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, 2005

6. SEGMENT INFORMATION (continued)

Business segments

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

Group

	Garment and related accessories		Property investment		Corporate and others		Eliminations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:										
Sales to/income from external customers	**386,537**	449,041	**10,325**	10,521	**—**	—	**—**	—	**396,862**	459,562
Intersegment sales	**—**	—	**12**	525	**—**	—	**(12)**	(525)	**—**	—
Other revenue	**37,943**	19,321	**217**	213	**—**	—	**—**	—	**38,160**	19,534
Total	**424,480**	468,362	**10,554**	11,259	**—**	—	**(12)**	(525)	**435,022**	479,096
Segment results	**24,518**	34,275	**121,482**	10,771	**(577)**	(180)	**—**	—	**145,423**	44,866
Interest income									**1,675**	551
Profit from operating activities									**147,098**	45,417
Finance costs									**(1,118)**	(876)
Profit before tax									**145,980**	44,541
Tax									**(18,775)**	3,355
Profit for the year attributable to equity holders of the parent									**127,205**	47,896

Notes to Financial Statements

31st July, 2005

6. SEGMENT INFORMATION (continued)

Business segments (continued)

Group

	Garment and related accessories		Property investment		Corporate and others		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**136,917**	113,718	**162,241**	192,626	**—**	—	**299,158**	306,344
Unallocated assets							**276,796**	169,874
Total assets							**575,954**	476,218
Segment liabilities	**71,642**	105,455	**3,011**	2,989	**10**	9	**74,663**	108,453
Unallocated liabilities							**59,795**	53,653
Total liabilities							**134,458**	162,106
Other segment information:								
Depreciation	**8,622**	5,312	**180**	292	**—**	—	**8,802**	5,604
Provision/(write-back of provision) for bad and doubtful debts	**(1,484)**	—	**59**	—	**—**	—	**(1,425)**	—
Write-back of provision for slow-moving inventories, net	**(4,633)**	(13,063)	**—**	—	**—**	—	**(4,633)**	(13,063)
Capital expenditure	**19,406**	1,595	**—**	26	**—**	—	**19,406**	1,621
Loss/(gain) on disposals/write-offs of property, plant and equipment, net	**(20)**	1,108	**3**	143	**—**	—	**(17)**	1,251
Revaluation surplus on investment properties	**—**	—	**(36,300)**	(1,000)	**—**	—	**(36,300)**	(1,000)
Gain on disposal of investment properties	**—**	—	**(77,009)**	—	**—**	—	**(77,009)**	—

Notes to Financial Statements

31st July, 2005

6. SEGMENT INFORMATION (continued)

Geographical segment

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

Group

	Hong Kong		Mainland China		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:						
Sales to/income from						
external customers	**230,344**	241,648	**166,518**	217,914	**396,862**	459,562
Other revenue	**835**	1,271	**37,325**	18,263	**38,160**	19,534
Total	**231,179**	242,919	**203,843**	236,177	**435,022**	479,096
Other segment information:						
Segment assets	**244,070**	261,007	**55,088**	45,337	**299,158**	306,344
Unallocated assets					**276,796**	169,874
Total assets					**575,954**	476,218
Capital expenditure	**16,496**	783	**2,910**	838	**19,406**	1,621

Notes to Financial Statements

31st July, 2005

7. TURNOVER, REVENUE AND GAINS

Turnover represents the net invoiced value of goods supplied to customers after allowances for returns, trade discounts and value-added tax, and rental income.

An analysis of turnover, other revenue and gains is as follows:

		Group	
		2005	2004
	Note	**HK$'000**	HK$'000
Turnover			
Sale of goods		**386,537**	449,041
Gross rental income	8	**10,325**	10,521
		396,862	459,562
Other revenue			
Royalty income		**33,767**	16,026
Interest income		**1,675**	551
Sale of miscellaneous materials		**550**	632
Sale of export quotas		**345**	767
Others		**2,252**	2,109
		38,589	20,085
Gains			
Exchange gains, net		**1,246**	—
		39,835	20,085

Notes to Financial Statements

31st July, 2005

8. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

		Group	
		2005	2004
	Note	**HK$'000**	HK$'000
Cost of inventories sold		**194,933**	252,219
Depreciation	15	**8,802**	5,604
Auditors' remuneration		**1,100**	870
Lease payment in respect of land and buildings:			
Minimum lease payments under operating leases		**61,630**	52,301
Contingent rents		**4,855**	5,429
		66,485	57,730
Staff costs:			
Salaries and allowances (including directors' remuneration but excluding pension scheme contributions – note 9)		**63,187**	62,604
Pension scheme contributions		**1,958**	1,851
Provision/(write-back of provision) for long service payments	24	**869**	(353)
		66,014	64,102
Gross rental income	7	**(10,325)**	(10,521)
Less: Outgoings		**1,771**	308
Net rental income		**(8,554)**	(10,213)
Write-back of provision for slow-moving inventories, net (included in cost of sales)		**(4,633)**	(13,063)
Other operating expenses/(income), net:			
Severance payments		**32**	889
Write-back of provision for bad and doubtful debts, net		**(1,425)**	—
Loss/(gain) on disposals/write-offs of property, plant and equipment, net		**(17)**	1,251
Exchange losses, net		**—**	684
		(1,410)	2,824

Notes to Financial Statements

31st July, 2005

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	Group			
	Executive directors		Non-executive directors	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Fees	**30**	47	**166**	63
Other emoluments:				
Salaries, allowances and benefits in kind	**4,781**	5,558	**—**	—
Pension scheme contributions	**12**	20	**—**	—
Bonuses paid and payable	**1,656**	858	**—**	—
	6,449	6,436	**—**	—
	6,479	6,483	**166**	63

The above balances included the remuneration paid to a director who passed away during the year and a director who resigned in the prior year.

Directors' remuneration paid to independent non-executive directors during the year amounted to HK$136,000 (2004: HK$33,000).

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

Notes to Financial Statements

31st July, 2005

9. DIRECTORS' REMUNERATION (continued)

The remuneration of every director is set out below:

	2005					2004
Name	Fees HK$'000	Salaries HK$'000	Employer contribution to provident fund HK$'000	Bonuses paid and payable HK$'000	Total HK$'000	Total HK$'000
Executive directors:						
Lam Kin Ming	10	2,759	—	1,656	4,425	2,508
Lam Kin Ngok, Peter	10	—	—	—	10	10
Lam Kin Hong, Matthew	10	1,772	12	—	1,794	2,072
Lim Por Yen (note 1)	—	250	—	—	250	610
Lam Kin Ko, Stewart (note 2)	—	—	—	—	—	1,283
Non-executive directors:						
U Po Chu (note 3)	10	—	—	—	10	10
Shiu Kai Wah	10	—	—	—	10	10
Chiu Wai	10	—	—	—	10	10
Non-executive independent directors:						
Yeung Sui Sang	48	—	—	—	48	16
Wan Yee Hwa, Edward	48	—	—	—	48	17
Chow Bing Chiu (note 4)	40	—	—	—	40	—
	196	4,781	12	1,656	6,645	6,546

Notes:

1. Passed away on 18th February, 2005
2. Resigned on 1st April, 2004
3. Resigned on 6th October, 2005
4. Appointed on 30th September, 2004

Notes to Financial Statements

31st July, 2005

10. FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

The five highest paid employees during the year included two (2004: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining three (2004: two) non-director, highest paid employees for the year are set out below:

	Group	
	2005	2004
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**5,067**	2,070
Pension scheme contributions	**24**	17
Bonuses paid and payable	**1,160**	2,900
	6,251	4,987

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

	Group Number of employees	
	2005	2004
HK$1,000,001 – HK$1,500,000	**1**	—
HK$1,500,001 – HK$2,000,000	**—**	1
HK$2,000,001 – HK$2,500,000	**1**	—
HK$2,500,001 – HK$3,000,000	**1**	—
HK$3,000,001 – HK$3,500,000	**—**	1
	3	2

11. FINANCE COSTS

	Group	
	2005	2004
	HK$'000	HK$'000
Interest on bank loans and overdrafts	**1,118**	876

Notes to Financial Statements

31st July, 2005

12. TAX

No Hong Kong profits tax has been provided as the Group had available tax losses brought forward from prior years to offset the estimated assessable profits arising in Hong Kong for both the current and prior years. The current and prior years' tax charge/credit represented deferred tax.

A reconciliation of the tax expense and credit applicable to profit before tax using the statutory rates for the places in which the Group are domiciled to the tax position at the effective tax rates, and a reconciliation of the statutory tax rates to the effective tax rates, are as follows:

Group – 2005

	Hong Kong		**Mainland China**		**Total**	
	HK$'000	**%**	**HK$'000**	**%**	**HK$'000**	**%**
Profit/(loss) before tax	**146,822**		**(842)**		**145,980**	
Tax at the statutory tax rate	**25,694**	**17.5**	**(227)**	**27.0***	**25,467**	**17.4**
Income not subject to tax	**(14,775)**	**(10.1)**	**(400)**	**47.5**	**(15,175)**	**(10.4)**
Expenses not deductible for tax	**500**	**0.4**	**7,848**	**(932.1)**	**8,348**	**5.7**
Write-off of deferred tax assets	**7,239**	**4.9**	**—**	**—**	**7,239**	**5.0**
Tax losses utilised	**(443)**	**(0.3)**	**(6,100)**	**724.5**	**(6,543)**	**(4.5)**
Increase/(decrease) in unprovided deferred tax assets	**560**	**0.4**	**(1,121)**	**133.1**	**(561)**	**(0.4)**
Tax charge at the Group's effective rate	**18,775**	**12.8**	**—**	**—**	**18,775**	**12.8**

Group – 2004

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	60,531		(15,990)		44,541	
Tax at the statutory tax rate	10,593	17.5	(4,317)	27.0*	6,276	14.1
Income not subject to tax	(5,304)	(8.8)	—	—	(5,304)	(11.9)
Expenses not deductible for tax	429	0.7	4,537	(28.4)	4,966	11.1
Decrease in unprovided deferred tax assets	(9,073)	(14.9)	(220)	1.4	(9,293)	(20.8)
Tax credit at the Group's effective rate	(3,355)	(5.5)	—	—	(3,355)	(7.5)

* *The Group's operations in the Coastal Open Economic Zones of Mainland China are entitled to a preferential tax rate of 27%.*

Notes to Financial Statements

31st July, 2005

13. PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The profit for the year ended 31st July, 2005 attributable to equity holders of the parent dealt with in the financial statements of the Company was HK$41,705,000 (2004: HK$18,245,000) (note 26).

14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity holders of the parent for the year of HK$127,205,000 (2004: HK$47,896,000) and the weighted average of 617,127,130 (2004: 617,127,130) ordinary shares in issue throughout the year.

Diluted earnings per share amounts for the years ended 31st July, 2005 and 2004 have not been calculated because no diluting events existed during these years.

Notes to Financial Statements

31st July, 2005

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings* HK$'000	Plant and machinery HK$'000	Furniture and fixtures/ (including leasehold improvements) HK$'000	Computer equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:						
At 1st August, 2003	24,458	22,244	59,311	16,746	3,514	126,273
Additions	—	359	837	425	—	1,621
Disposals/write-offs	—	(4,484)	(12,222)	(1,063)	(310)	(18,079)
Revaluation upon transfer	20	—	—	—	—	20
Transferred to investment properties	(6,700)	—	—	—	—	(6,700)
At 31st July, 2004	17,778	18,119	47,926	16,108	3,204	103,135
At 1st August, 2004	17,778	18,119	47,926	16,108	3,204	103,135
Additions	—	75	14,401	1,860	3,070	19,406
Disposals/write-offs	—	(88)	(3,730)	(4,530)	(1,333)	(9,681)
Exchange realignments	—	48	62	15	10	135
At 31st July, 2005	**17,778**	**18,154**	**58,659**	**13,453**	**4,951**	**112,995**
Accumulated depreciation and impairment:						
At 1st August, 2003	8,991	19,690	51,988	15,169	2,677	98,515
Provided during the year	894	731	2,724	1,148	107	5,604
Disposals/write-offs	—	(4,292)	(11,200)	(954)	(310)	(16,756)
Revaluation upon transfer	(535)	—	—	—	—	(535)
At 31st July, 2004	9,350	16,129	43,512	15,363	2,474	86,828
At 1st August, 2004	9,350	16,129	43,512	15,363	2,474	86,828
Provided during the year	800	624	6,183	548	647	8,802
Disposals/write-offs	—	(72)	(3,677)	(4,519)	(1,333)	(9,601)
Exchange realignments	—	31	25	4	3	63
At 31st July, 2005	**10,150**	**16,712**	**46,043**	**11,396**	**1,791**	**86,092**
Net book value:						
At 31st July, 2005	**7,628**	**1,442**	**12,616**	**2,057**	**3,160**	**26,903**
At 31st July, 2004	8,428	1,990	4,414	745	730	16,307

* *Since the land lease payment cannot be allocated reliably between the land and buildings elements, the entire lease payment is included in the cost of land and buildings as a finance lease in property, plant and equipment.*

Notes to Financial Statements

31st July, 2005

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Plant and machinery HK$'000	Furniture and fixtures/ (including leasehold improvements) HK$'000	Computer equipment HK$'000	Motor Vehicles HK$'000	Total HK$'000
Cost:					
At 1st August, 2003	4,441	42,659	16,576	2,087	65,763
Additions	—	544	213	—	757
Disposals/write-offs	(4,441)	(11,941)	(1,063)	(178)	(17,623)
At 31st July, 2004	—	31,262	15,726	1,909	48,897
At 1st August, 2004	—	31,262	15,726	1,909	48,897
Additions	—	12,170	1,256	2,670	16,096
Disposals/write-offs	—	(3,665)	(4,517)	(1,333)	(9,515)
At 31st July, 2005	**—**	**39,767**	**12,465**	**3,246**	**55,478**
Accumulated depreciation and impairment:					
At 1st August, 2003	4,207	38,157	15,135	2,087	59,586
Provided during the year	51	2,123	1,083	—	3,257
Disposals/write-offs	(4,258)	(11,146)	(954)	(178)	(16,536)
At 31st July, 2004	—	29,134	15,264	1,909	46,307
At 1st August, 2004	—	29,134	15,264	1,909	46,307
Provided during the year	—	5,268	454	534	6,256
Disposals/write-offs	—	(3,665)	(4,517)	(1,333)	(9,515)
At 31st July, 2005	**—**	**30,737**	**11,201**	**1,110**	**43,048**
Net book value:					
At 31st July, 2005	**—**	**9,030**	**1,264**	**2,136**	**12,430**
At 31st July, 2004	—	2,128	462	—	2,590

The leasehold land and buildings of the Group are situated in the People's Republic of China and are held under long term leases.

Notes to Financial Statements

31st July, 2005

15. PROPERTY, PLANT AND EQUIPMENT (continued)

During the prior year, certain leasehold land and buildings situated in Hong Kong were transferred to investment properties (note 16) upon a change of use. At the date of transfer, a revaluation of the aforesaid land and buildings was carried out based on their open market value existing use basis with reference to a valuation performed by Centaline Surveyors Limited, independent chartered surveyors. The surplus arising therefrom was credited to the Group's fixed asset revaluation reserve which is presented in the consolidated statement of changes in equity.

16. INVESTMENT PROPERTIES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
At beginning of year, at valuation	**190,700**	183,000	**58,000**	70,000
Disposed of during the year	**(66,000)**	—	**—**	—
Transferred from leasehold land and buildings (note 15)	**—**	6,700	**—**	—
Surplus/(deficit) on revaluation	**36,300**	1,000	**5,000**	(12,000)
At end of year, at valuation	**161,000**	190,700	**63,000**	58,000

At 31st July, 2005, the investment properties were stated at their aggregate open market value of HK$161,000,000 (2004: HK$190,700,000) based on their existing use with reference to a valuation performed by Centaline Surveyors Limited, independent chartered surveyors. The revaluation surplus of HK$36,300,000 (2004: HK$1,000,000) so arising for the Group was credited to the income statement. The revaluation surplus of HK$5,000,000 (2004: deficit of HK$12,000,000) so arising for the Company was credited/(charged) to the Company's income statement.

The investment properties are situated in Hong Kong. Apart from a property with a market value of HK$11,000,000 (2004: HK$6,700,000) which is held under long term lease, other investment properties are held under medium term leases.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 28(a) to the financial statements.

The Group's investment properties are pledged to secure the Group's bank borrowings, as further detailed in note 22 to the financial statements .

During the year, the Group disposed of one of its properties to an independent third party for a cash consideration of HK$145,000,000. A gain of approximately 77,009,000, after deducting expenses, was recognised upon disposal.

Further details of the Group's and the Company's investment properties are disclosed on page 67 of this report.

Notes to Financial Statements

31st July, 2005

17. DEFERRED TAX

Movements in deferred tax during the year are as follows:

Group

Deferred tax liabilities

	Accelerated capital allowance HK$'000	Revaluation of properties HK$'000	Total HK$'000
At 1st August, 2003, 31st July, 2004 and 1st August, 2004	—	—	—
Deferred tax charged to the income statement	404	5,827	6,231
Gross deferred tax liabilities at 31st July, 2005	**404**	**5,827**	**6,231**

Deferred tax assets

	Losses available for offset against future taxable profit HK$'000
At 1st August, 2003	10,043
Deferred tax credited to the income statement during the year	3,355
Deferred tax assets as at 31st July, 2004 and 1st August, 2004	13,398
Deferred tax charged to the income statement during the year	(12,544)
Gross deferred tax assets at 31st July, 2005	**854**
Net deferred tax liabilities at 31st July, 2005	**5,377**

Notes to Financial Statements

31st July, 2005

17. DEFERRED TAX (continued)

Company

Deferred tax assets

	Losses available for offset against future taxable profit HK$'000
At 1st August, 2003	10,043
Deferred tax credited to the income statement during the year	3,355
Deferred tax assets as at 31st July, 2004 and 1st August, 2004	13,398
Deferred tax charged to the income statement during the year	(13,398)
Deferred tax assets at 31st July, 2005	**—**

At the balance sheet date, the Group had unprovided deferred tax assets which represented the following tax losses and temporary differences:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Tax losses:				
Hong Kong	**168,545**	244,898	**91,894**	164,114
Mainland China	**24,845**	47,439	**—**	—
Decelerated capital allowances	**14,022**	11,214	**14,306**	19,789
Others	**19,123**	23,279	**728**	731
	226,535	326,830	**106,928**	184,634

Tax losses in Hong Kong are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Tax losses in Mainland China are available for a period of five years for offsetting against future taxable profits of the respective Group companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in entities that have been loss-making for some time or in the directors' opinion, it is uncertain whether future taxable profits would arise to offset against these losses.

At 31st July, 2005, there was no significant unrecognised deferred tax liability (2004: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

Notes to Financial Statements

31st July, 2005

18. INTERESTS IN SUBSIDIARIES

	Company 2005 HK$'000	Company 2004 HK$'000
Unlisted shares, at cost	**4,050**	4,050
Amounts due from subsidiaries	**267,019**	375,942
Amounts due to subsidiaries	**(32,414)**	(8,934)
	238,655	371,058
Provision for impairment	**(139,377)**	(151,520)
	99,278	219,538

Except for certain amounts due from subsidiaries which bear interest at Hong Kong dollar prime rate plus 2% per annum (2004: Hong Kong dollar prime rate plus 2% per annum), the amounts due from/(to) the subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries at the balance sheet date are as follows:

Name of company	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company 2005	2004	Principal activities
Crocodile (China) Limited	Hong Kong	HK$4	**100**	100	Garment trading
Crocodile Garments (Zhong Shan) Limited*	Mainland China	HK$17,200,000	**90**	90	Garment manufacturing and trading
Dackart Trading Company Limited	Hong Kong	HK$20	**100**	100	Property investment
Gold Nation Development Limited#	Hong Kong	HK$2	**100**	100	Property investment
Shenton Investment Limited	Hong Kong	HK$2	**100**	100	Property investment

* *This subsidiary is a joint venture and is indirectly held by the Company. The paid-up capital represents the registered capital in Mainland China. The subsidiary is registered as a sino-foreign owned enterprise under the law of Mainland China.*

\# *This subsidiary becomes dormant after it has disposed its investment property during the year.*

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

Notes to Financial Statements

31st July, 2005

19. INVENTORIES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Raw materials	**9,511**	10,225	**2,051**	2,964
Work in progress	**342**	511	**—**	—
Finished goods	**58,154**	64,250	**41,181**	43,702
	68,007	74,986	**43,232**	46,666

The carrying amounts of the Group's and the Company's inventories included in the above at net realisable value were HK$16,576,000 (2004: HK$27,467,000) and HK$12,912,000 (2004: HK$15,321,000), respectively at the balance sheet date.

20. TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS

Other than cash sales made at retail outlets of the Group, trading terms with wholesale customers are largely on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 30 days of issuance, except for certain well-established customers, where the term is extended to 90 days. Each customer has a maximum credit limit.

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

An aged analysis of trade receivables, net of provisions, based on the overdue date, and the balance of deposits and prepayments are as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables:				
Current to 90 days	**6,028**	5,820	**646**	276
91 days to 180 days	**5,239**	10	**2**	—
181 days to 365 days	**201**	552	**—**	98
	11,468	6,382	**648**	374
Deposits and prepayments	**17,035**	8,681	**7,114**	7,543
	28,503	15,063	**7,762**	7,917

Notes to Financial Statements

31st July, 2005

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**94,019**	156,476	**25,347**	25,888
Time deposits	**182,777**	—	**153,977**	—
	276,796	156,476	**179,324**	25,888

At the balance sheet date, cash and bank balances and time deposits of the Group denominated in Renminbi ("RMB") amounted to HK$65,748,000 (2004: HK$129,386,000) and HK$28,800,000 (2004: Nil), respectively. RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies in respect of approved transactions through banks authorised to conduct foreign exchange business.

22. SHORT-TERM BORROWINGS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts repayable within one year and on demand:				
Bank overdrafts, secured	**2,425**	2,231	**—**	—
Bank loans, secured	**24,250**	24,250	**24,250**	24,250
	26,675	26,481	**24,250**	24,250
Trust receipt loans:				
Secured	**9,881**	14,322	**9,881**	14,322
Unsecured	**7,311**	2,299	**7,311**	2,299
	17,192	16,621	**17,192**	16,621
	43,867	43,102	**41,442**	40,871

At the balance sheet date, bank borrowings of the Group were secured by its investment properties (note 16) with an aggregate carrying amount of HK$161,000,000 (2004: HK$190,700,000).

Notes to Financial Statements

31st July, 2005

23. TRADE AND OTHER PAYABLES

An aged analysis of trade payables, based on the date of receipt of the goods and services purchased, and the balance of deposits received and accruals and other payables are as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables:				
Current to 90 days	**17,576**	19,901	**9,328**	14,697
91 days to 180 days	**1,180**	6,590	**677**	632
181 days to 365 days	**1,049**	709	**—**	459
Over 365 days	**3,826**	4,038	**1,021**	1,063
	23,631	31,238	**11,026**	16,851
Deposits received	**22,619**	47,068	**738**	1,236
Accruals and other payables	**25,406**	27,052	**8,439**	8,004
	71,656	105,358	**20,203**	26,091

24. PROVISION FOR LONG SERVICE PAYMENTS

	Group and Company	
	2005	2004
	HK$'000	HK$'000
At beginning of year	**3,088**	4,338
Amount provided/(written back) during the year (note 8)	**869**	(353)
Amounts utilised during the year	**(965)**	(897)
At end of year	**2,992**	3,088

The Group provides for probable future long service payments expected to be made to employees under the Hong Kong Employment Ordinance, as further explained under the heading "Employee benefits" in note 5 to the financial statements. 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 at the balance sheet date.

Notes to Financial Statements

31st July, 2005

25. SHARE CAPITAL

	Company	
	2005	2004
	HK$'000	HK$'000
Authorised:		
800,000,000 ordinary shares of HK$0.25 each	**200,000**	200,000
Issued and fully paid:		
617,127,130 ordinary shares of HK$0.25 each	**154,282**	154,282

26. 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 page 24 of the financial statements.

(b) Company

	Share premium account	Fixed asset revaluation reserve	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1st August, 2003	164,921	109,090	(133,521)	140,490
Profit for the year	—	—	18,245	18,245
At 31st July, 2004 and 1st August, 2004	164,921*	109,090*	(115,276)	158,735
Profit for the year	—	—	41,705	41,705
At 31st July, 2005	**164,921***	**109,090***	**(73,571)**	**200,440**

The Company's fixed asset revaluation reserves represent a frozen revaluation surplus in relation to leasehold land and buildings which were transferred to investment properties in prior years.

* *These reserve accounts comprised the reserves of HK$274,011,000 (2004: HK$274,011,000) in the Company's balance sheet.*

Notes to Financial Statements

31st July, 2005

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, cash and short-term time deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The directors of the Company meet periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The directors review and agree policies for managing each of these risks and they are summarised as follows:

(i) Fair value and cash flow interest rate risks

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

(ii) Foreign currency risk

A portion of the Group's revenue is denominated in Renminbi ("RMB") and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group does not expect any significant movements in the exchange rate of RMB to Hong Kong dollar.

(iii) Commodity price risk

The Group's exposure to commodity price risk is minimal.

(iv) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that the wholesale sales of products are made to customers with an appropriate credit history. Sales to retail customers are made in cash or via major credit cards.

(v) Liquidity risk

The Group's objective is to maintain a balance between the continuity of funding and the flexibility through the use of bank overdrafts and bank loans. In addition, banking facilities have been put in place for contingency purposes.

Notes to Financial Statements

31st July, 2005

28. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group and the Company lease their investment properties (note 16) under operating lease arrangements with leases negotiated for terms ranging from one to six years. The terms of the leases generally also require the tenants to pay security deposits.

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

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**5,309**	6,938	**1,229**	3,256
In the second to fifth years, inclusive	**9,669**	1,184	**—**	1,184
After five years	**644**	—	**—**	—
	15,622	8,122	**1,229**	4,440

(b) As lessee

The Group and the Company lease their office properties, 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	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**72,935**	49,499	**66,200**	46,552
In the second to fifth years, inclusive	**65,670**	39,392	**60,369**	37,266
	138,605	88,891	**126,569**	83,818

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

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

29. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**—**	—	**3,000**	3,000

30. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

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

	Notes	**2005 HK$'000**	2004 HK$'000
Rental expenses and building management fee paid and payable to:			
Lai Sun Textiles Company Limited	(i)	**2,010**	59
Related companies	(ii)	**2,540**	3,337
Purchase of a motor vehicle from a related party	(iii)	**400**	—

Notes:

(i) Lai Sun Textiles Company Limited is a company beneficially owned by certain directors of the Company. Rental expenses and building management fee were paid to this related company pursuant to the respective lease agreements.

(ii) Rental expenses and building management fee were paid to these related companies, of which certain directors of the Company are also the directors of these related companies, based on terms stated in the respective lease agreements.

(iii) The purchase of the motor vehicle was made at a price determined by the parties. The related party represented a close family member of a key management personnel.

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

Notes to Financial Statements

31st July, 2005

30. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts due to:				
Ultimate holding company				
Lai Sun Garment (International) Limited	**6**	7	**6**	7
Related company				
Lai Sun Development Company Limited	**9**	—	**9**	—

The balances were derived from normal business activities and are unsecured, interest-free and repayable on terms similar to those granted to major customers or by major suppliers of the Group.

(c) Compensation of key management personnel of the Group

	2005	2004
	HK$'000	HK$'000
Short-term employee benefits	**6,467**	6,463
Post-employment benefits	**12**	20
	6,479	6,483

31. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the early adoption of the HKFRSs 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.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18th November, 2005 .