NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000

1. GENERAL

The Company is an exempted company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Group is engaged in apparel manufacturing, trading and retailing, property holding, development and management, hospitality management and other investing activities.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities.

The principal accounting policies which have been adopted in preparing these financial statements and which conform with accounting principles generally accepted in Hong Kong are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") made up to 31st December each year.

The results of subsidiaries and associates acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary. Goodwill is eliminated against reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets over the purchase consideration at the date of acquisition of a subsidiary, is credited to reserves.

Any premium or discount arising on the acquisition of interests in associates, representing the excess or shortfall respectively of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets of the associate at the date of acquisition, is dealt with in the same manner as goodwill.

On disposal of a subsidiary or an associate, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any decline in the value of the subsidiary that is other than temporary.

Interests in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. The carry amount of such interests is reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group intends to hold to maturity are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium arising on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary. The amount of reduction is recognised as an expense immediately.

Other investments are stated at fair value, with unrealised gains and losses included in the net profit or loss for the period.

Revenue recognition

Sales of goods are recognised when the goods are delivered and title has passed.

Service revenue is recognised when the services are rendered.

Rental income, including rental invoiced in advance under operating leases, is recognised on a straight line basis over the period of the leases.

Interest income is accrued on a time basis, by reference to the principal outstanding and the applicable rate of interest.

Income from investments is recognised when the Group's right to receive payment has been established.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income derived therefrom is negotiated at arm's length.

No depreciation is provided in respect of investment properties which are held on leases with unexpired terms, including the renewable period, of more than 20 years. Where the investment properties are held on leases with unexpired terms of 20 years or less, depreciation is provided on the then carrying amount over the remaining term of the lease.

Investment properties are stated at open market value based on annual professional valuation at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance in this reserve is insufficient to cover a deficit on a portfolio basis, in which case the excess of the deficit over the balance in the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance in the investment property revaluation reserve attributable to that property is transferred to the income statement.

Properties under development

Properties under development which will not be completed within a year from the balance sheet date are stated at cost less any impairment loss.

Costs relating to the development of properties, including financial expenses, are capitalised and included as properties under development until such time when they are identified for transfer to the appropriate categories of properties.

Other properties, plant and equipment

Other properties, plant and equipment (other than freehold land) are stated at cost or valuation, less depreciation and amortisation at the balance sheet date.

Cost comprises the purchase price and any directly attributable costs of bringing an asset to its working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, 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 the asset.

The cost or valuation of freehold land is not amortised whereas the cost of land use rights and leasehold land is amortised over the period of the right, using the straight line method.

The cost of a freehold property at No. 1 Savile Row, London, in the United Kingdom is not depreciated. The Group follows a programme of regular refurbishment and maintenance in respect of this property, including the reinstatement of the fabric of the building, where necessary, to maintain it to a high standard compatible with the "No. 1 Savile Row" brand name. Accordingly, having regard to the residual value at the date of the acquisition, in the opinion of the directors, any element of depreciation would be immaterial and no provision is made in the financial statements.

The Group has adopted the transitional relief provided in paragraph 72 of Statement of Standard Accounting Practice No.17 "Property, plant and equipment" issued by the Hong Kong Society of Accountants with regard to the requirement to make regular revaluations of land and buildings other than investment properties. On subsequent sale of these revalued assets, any attributable revaluation surplus will be transferred to other distributable reserves.

Depreciation is provided to write off the cost or valuation of other items of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Buildings	2% - 4%
Furniture, fixtures and equipment	10% - 33$^{1}/_{3}$%
Motor vehicles	20% - 30%
Plant and machinery	7$^{1}/_{2}$% - 35%

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

When the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of these assets. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Capitalisation of borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the year in which they are incurred.

Textile quota entitlements

Revenue from the sale of, and the cost of acquiring, temporary textile quota entitlements are dealt with in the income statement in the period in which they arise. Textile quota entitlements allocated by the authorities in Hong Kong are not capitalised and are not included as assets in the balance sheet. The cost of permanent textile quota entitlements acquired is amortised on a straight line basis over three years.

Trademark

Costs incurred in the acquisition of trademarks are capitalised and amortised on a straight line basis over their estimated useful lives of ten years.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method and comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Cash equivalents

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which are within three months of maturity when acquired, less advances from banks which are repayable within three months from the dates of the advances.

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expenses are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on translation are dealt with in the income statement.

In preparing the consolidated financial statements, the results of overseas operations are translated using the average exchange rates for the year. The assets and liabilities of the overseas operations are translated using the rates ruling on the balance sheet date. On consolidation, any differences arising on translation of overseas operations are dealt with in the translation reserve.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the period of the leases.

Retirement benefits cost

Under the Group's defined contribution scheme, the contributions charged to the income statement represent the contributions payable by the Group under the scheme.

Under the Group's pension scheme, the expected costs of providing pensions are charged to the income statement over the periods benefiting from the services of employees at a level percentage of pensionable salary.

3. TURNOVER

Turnover represents the net amounts received and receivable from third parties in connection with the following activities:

(HK$'m)	**2000**	1999
Sales of goods	**1,541.1**	1,594.4
Rental and property management income *(note a)*	**83.7**	84.9
Income from investing activities *(note b)*	**43.8**	39.8
	1,668.6	1,719.1

Notes:

(a) The amount includes gross rental income of HK$49.6 million (1999: HK$51.6 million), before deduction of outgoings of HK$2.6 million (1999: HK$1.9 million).

(b) Income from investing activities comprises:

(HK$'m)	**2000**	1999
Interest income from associates	**40.3**	32.8
Income from investments in securities	**3.5**	7.0
	43.8	39.8

An analysis of the Group's turnover and profit from operations by geographical region and activity is as follows:

	Turnover		Profit from Operations	
For the year ended 31st December (HK$'m)	**2000**	1999	**2000**	1999
Geographical region				
North America	**841.5**	765.8	**47.9**	35.0
United Kingdom	**411.9**	525.9	**(33.6)**	20.9
Other European countries	**215.0**	227.3	**5.6**	10.3
Hong Kong	**142.2**	135.3	**(17.5)**	17.7
Other areas	**58.0**	64.8	**6.6**	10.5
	1,668.6	1,719.1	**9.0**	94.4
Activity				
Garment manufacturing	**1,061.2**	970.1	**77.9**	67.1
Garment trading	**192.2**	323.8	**(38.3)**	(0.6)
Branded products distribution	**287.7**	300.5	**(0.3)**	18.3
Property rental and management	**83.7**	84.9	**22.5**	25.0
Investing activities	**43.8**	39.8	**(13.8)**	(15.4)
Less: Provision for impairment in value of associates holding property development projects	**–**	–	**(39.0)**	–
	1,668.6	1,719.1	**9.0**	94.4

4. RESTRUCTURING COSTS AND OTHERS

(HK$'m)	**2000**	1999
Write-off of overseas audio books Internet distribution development costs	**8.6**	–
Restructuring costs in respect of overseas operations	**8.1**	7.7
Redundancy payments and others	**2.2**	8.6
	18.9	16.3

5. PROFIT FROM OPERATIONS

(HK$'m)	**2000**	1999
Profit from operations has been arrived at after charging:		
Staff costs including directors emoluments	**290.8**	286.9
Retirement benefits costs, net of negligible forfeited contributions	**5.4**	4.7
Total staff costs	**296.2**	291.6
Auditors' remuneration	**2.5**	2.4
Amortisation of		
– trademark	**0.1**	0.1
– permanent textile quota entitlements	**4.3**	3.3
Cost of temporary textile quota entitlements written off on purchase	**41.1**	36.6
Depreciation and amortisation of other properties, plant and equipment	**28.1**	27.8
Operating lease rentals in respect of		
– land and buildings	**20.3**	20.9
– equipment and motor vehicles	**1.9**	2.4
Provision for doubtful debts	**14.7**	8.0
and after crediting:		
Quota income	**37.0**	32.7