

Notes to Financial Statements

31st July, 2001

1. CORPORATE INFORMATION

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

2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE (“SSAP”)

The revised SSAP 14 “Leases” has been adopted for the first time in the preparation of the current year’s consolidated financial statements. The revised SSAP 14 prescribes the appropriate accounting policies and disclosures to apply in relation to finance and operating leases. The principal impact of the revised SSAP 14 on the preparation of these financial statements is that the total aggregate future minimum lease receipts and payments under non-cancellable operating leases are required to be disclosed in the supporting notes to the financial statements. There were no changes arising from the amended measurement requirements of the SSAP.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

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Basis of consolidation

These consolidated financial statements include the financial statements of the Company and its subsidiaries and associates for the year ended 31st July, 2001. 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.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than 50% of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated in the Company’s balance sheet at cost unless, in the opinion of the directors, there have been impairments in values, other than those considered to be temporary in nature, when they are written down to values determined by the directors.

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 not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates (continued)

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 investments in associates are stated in the consolidated balance sheet at the Group's share of the associates' net assets, other than any goodwill recorded in the associates' own financial statements, under the equity method of accounting less any provisions for impairments in value deemed necessary by the directors. Any goodwill arising on the acquisition of interests in the associates, in so far as it has not already been written off or amortised, is also included in the amount of the Group's investments in associates in the consolidated balance sheet.

The results of associates are included in the Company's profit and loss account to the extent of dividends received. The interests in associates in the Company's balance sheet are stated at cost unless, in the opinion of the directors, there have been impairments in values, other than those considered to be temporary in nature, when they are written down to the directors' valuations.

Certain interest on loans borrowed for investments in associates engaged in property development is capitalised in the Group's share of the net assets of the associates.

Goodwill

Goodwill arising on consolidation of subsidiaries and on acquisition of associates represents the excess of the purchase consideration paid for the subsidiaries/associates over the fair values ascribed to the net underlying assets acquired at the date of acquisition.

Goodwill arising on the acquisition of subsidiaries is eliminated against reserves at the time of acquisition. The goodwill arising on the acquisition of a subsidiary, Crocodile Garments Limited ("Crocodile"), is amortised on the straight-line basis over a period of sixty years. Such goodwill is stated at the amortised balance and adjusted for impairments in values considered necessary by the directors.

Capital reserve

The capital reserve arising on consolidation of subsidiaries and on the acquisition of associates represents the excess of the fair values ascribed to the net underlying assets of the subsidiaries/associates acquired at the date of acquisition over the purchase consideration paid for the subsidiaries/associates.

Fixed assets and depreciation

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

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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

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.

Where, in the opinion of the directors, the recoverable amounts of fixed assets have declined below their carrying amounts, provisions are made to write down the carrying amounts of such assets to their recoverable amounts. Reductions of recoverable amounts are charged to the profit and loss account.

Investment properties

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

Where a deficit has previously been charged to the profit and loss account and a revaluation surplus subsequently arises, this surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

Properties under development

Properties under development intended to be held for their investment potential are stated at their open market values on the basis of annual professional valuations.

Changes in the values of properties under development which have been revalued are dealt with as movements in the revaluation reserve for properties under development held for investment potential. If 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. On completion, the properties are transferred to investment properties.

Where a deficit has previously been charged to the profit and loss account and a revaluation surplus subsequently arises, this surplus is credited to the profit and loss account to the extent of the deficit previously charged.

Upon disposal of a property under development which has been revalued, the relevant portion of the revaluation reserve for properties under development held for investment potential realised in respect of previous valuations is released to the profit and loss account.

Properties under development held for other purposes are stated at cost less any provisions for impairments in values, other than those considered to be temporary in nature, considered necessary by the directors. Cost includes the cost of land, construction, financing and other related expenses.

Where pre-sale profits are recognised on properties under development, the attributable profit on the pre-sold portion of the properties under development is recognised over the course of the development after taking into account all further costs to completion and due allowances for contingencies and is calculated on each project by reference to the lower of:

- (i) the percentage which results from the proportion of the total construction cost incurred to the total estimated construction costs to completion; and
- (ii) the proportion of the actual cash received to the total sales consideration.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Net realisable value is estimated by the directors based on prevailing market conditions. Cost includes all direct costs attributable to such properties.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 allowance 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 entitlements 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. 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.

Leased assets

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

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

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;

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

- (b) from the sale of completed properties developed 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) income from pre-sale of certain properties under development, when the construction work has reached a stage where the ultimate realisation of profit can be reasonably determined, and on the basis set out under the heading "Properties under development" above;
- (d) from the sale of investment properties, when all the conditions of a sale have been met and the risks and rewards of ownership have been transferred to the buyer;
- (e) 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;
- (f) from hotel and restaurant operations and other related service income, in the period in which such services are rendered;
- (g) dealing in securities and sale of investments, on the transaction date when the relevant contract is entered into;
- (h) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (i) dividend income, when the shareholders' right to receive payment is established.

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 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.

Pension costs

The Group operates defined contribution pension schemes under the Mandatory Provident Fund Schemes Ordinance (the "MPF Schemes") and a defined benefit retirement scheme for its employees, the assets of which are held separately from those of the Group in independently administered funds.

Contributions to the MPF Schemes are made based on a percentage of the eligible employees' salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Schemes. 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 an employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Schemes.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pension costs (continued)

Contributions to the defined benefit retirement scheme are charged to the profit and loss account so as to charge the cost of the retirement benefits over the eligible employees' working lives within the Group. The contribution rate is recommended by independent qualified actuaries on the basis of triennial valuations, using the aggregate method.

On 1st December, 2000, the date when the MPF Schemes became effective, the Group dissolved the defined benefit scheme and transferred the amount of the employer's contributions, which were adequate to cover the cost of the retirement benefit over the eligible employees' working lives within the Group, to the administered fund operated under the MPF Schemes. Any excess of the contributions previously made by the Group over the transferred contributions was refunded to the Group by the administrator of the defined benefit scheme and was recognised as other operating income for the year ended 31st July, 2001.

Foreign currencies

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

On consolidation, the financial statements of subsidiaries and associates outside Hong Kong are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

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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 until its realisation is assured beyond reasonable doubt.

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.

Cash equivalents

For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use. For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

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4. 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.

	Notes	Group	
		2001 HK\$'000	2000 HK\$'000
Interest income received from associates	(i)	—	51,356
Rental expenses paid and payable to an associate	(ii)	10,380	19,321
Interest expenses paid to a shareholder	(iii)	1,652	—

- (i) The interest income received from associates arose from advances thereto. Interest was charged at the prevailing market rates.
- (ii) Rental expenses were charged by the associate pursuant to the respective lease agreements.
- (iii) Interest was charged by a shareholder at the best lending rate quoted by The Hong Kong and Shanghai Banking Corporation Limited and was due for repayment on 30th November 2002.

On 22nd November, 2000, the Company entered into a loan agreement with Mr. Lim Por Yen ("Mr. Lim"), a substantial shareholder of the Company. Pursuant to the loan agreement, Mr. Lim agreed to make available to the Company a revolving loan facility ("the Facility") of up to a maximum principal amount of HK\$100 million. The loan facility was unsecured, interest-bearing at the best lending rate quoted by The Hong Kong and Shanghai Banking Corporation Limited and was due for repayment on 30th November 2002. During the year, the Facility was utilised by the Company for financing the Group's acquisition of its equity interest in Lai Fung Holdings Limited. There were no outstanding balances under the Facility as at the balance sheet date.

5. TURNOVER

Turnover comprises the net invoiced value of garments sold, commission and handling charges earned, proceeds from the sales of quotas, proceeds from the sales of properties, rental income and income from hotel, restaurant and other operations. Revenue from the following activities has been included in turnover.

	Group	
	2001 HK\$'000	2000 HK\$'000
Sales of garments and quotas	1,295,647	1,556,083
Sales of properties	—	524,993
Property rentals	10,676	456,149
Hotel, restaurant and other operations	11,248	429,659
	1,317,571	2,966,884

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6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

This is arrived at after charging:

	Group	
	2001 HK\$'000	2000 HK\$'000
Auditors' remuneration	1,830	5,287
Depreciation:		
Owned fixed assets	17,764	49,623
Leased fixed assets	211	131
Staff costs:		
Wages and salaries (including directors' remuneration — see note 8)	144,504	327,397
Pension contributions	4,191	6,827
Less: Forfeited contributions	—	(745)
	4,191	6,082
Amortisation of goodwill on acquisition of:		
Subsidiaries	2,519	5,178
Associates	—	892
Loss on disposal of fixed assets	3,920	5,442
Deficits on revaluation of investment properties	2,900	—
Unrealised losses on short term investments	3,379	—
Operating lease rentals in respect of land and buildings	107,907	118,466
Foreign exchange losses/(gains), net	(1,653)	4,415
Loss on disposal of investment properties	—	104,010
Adjustment for impairment in value of goodwill in an associate	—	24,167
Provisions for diminutions in values of, and advances to, associates and investee companies engaged in hotel operations	—	22,500
Write off of deferred pre-operating expenses	—	10,718
Loss on disposal of properties under development	—	96
	4,191	6,082

* The defined contribution pension schemes were terminated on 1st December, 2000 and were replaced by the Schemes under the Mandatory Provident Fund Schemes Ordinance.

As at 31st July, 2001, no forfeited contributions from the defined contribution pension schemes were available to the Group to reduce its contributions to pension schemes in future years.

As at 31st July, 2000, forfeited contributions available to the Group to reduce its contributions to the pension scheme in future years amounted to approximately HK\$16,000.

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31st July, 2001

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES (continued)

and after crediting:

	Group	
	2001 HK\$'000	2000 HK\$'000
Rental income	(10,676)	(456,149)
Less: Outgoings	4,724	71,817
Net rental income	<u>(5,952)</u>	<u>(384,332)</u>
Interest from bank deposits	(3,353)	(26,367)
Other interest income	(2,914)	(80,898)
Dividend income from listed and unlisted investments	(445)	(9,703)
Refund of retirement scheme contributions not fully vested	(18,169)	—
Realised gain on the disposal of a subsidiary of the Company and a subsidiary of an associate [#]	(20,709)	(55,343)
Write back of revaluation deficits previously written off, arising from disposal of investment properties	—	(197,466)
Gain on disposal of subsidiaries	—	(68,643)
Write back of contingent loss in respect of a guarantee given to a bank	—	(58,604)
Gain on disposal of short term unlisted investments	—	(22,338)
Gain on disposal of short term listed investments	—	(2,056)

[#] In 1998, Kingscord Investment Limited, a subsidiary of the Company, disposed of its interest in Shanghai Wayee Real Estate Development Co., Ltd. to Lai Fung Holdings Limited ("Lai Fung"), a then subsidiary of the Group. Relevant portions of the gains arising from this transaction were realised upon the deemed disposal of Lai Sun Development Company Limited ("LSD") by the Group in 2000 (which was a then holding company of Lai Fung), and the deemed disposal of Lai Fung by LSD in 2001.

7. FINANCE COSTS

	Group	
	2001 HK\$'000	2000 HK\$'000
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	9,003	435,862
Interest on bonds payable	—	33,544
Interest on convertible bonds and convertible note	—	93,656
Less: Amounts capitalised in properties under development	—	(40,752)
Amounts capitalised in associates engaged in property development	—	(4,137)
	<u>9,003</u>	<u>518,173</u>
Provision for premium on bonds redemption	—	85,229
Provision for premium on convertible note redemption	—	15,000
Bank charges and refinancing charges	—	100,792
	<u>9,003</u>	<u>719,194</u>

Notes to Financial Statements

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8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	Group	
	2001	2000
	HK\$'000	HK\$'000
Fees	522	518
Basic salaries, housing and other allowances and benefits in kind	8,534	20,445
Bonuses paid and payable	205	185
Pension scheme contributions	50	42
	<u>9,311</u>	<u>21,190</u>

Directors' emoluments paid to independent non-executive directors during the year were HK\$48,000 (2000: HK\$77,600).

The emoluments of the directors fell within the following bands:

	Group	
	2001	2000
	Number of directors	Number of directors
Nil – HK\$1,000,000	8	7
HK\$1,000,001 – HK\$1,500,000	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	—	2
HK\$3,500,001 – HK\$4,000,000	1	—
HK\$10,500,001 – HK\$11,000,000	—	1
	<u>11</u>	<u>11</u>

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

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8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' emoluments

The five highest paid employees during the year included 2 directors (2000: 3 directors), details of whose emoluments are set out above. The details of the emoluments of the remaining 3 non-director (2000: 2 non-director), highest paid employees are set out below:

	Group	
	2001 HK\$'000	2000 HK\$'000
Basic salaries, housing and other allowances and benefits in kind	<u>6,347</u>	<u>6,059</u>

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

	Group	
	2001 Number of individuals	2000 Number of individuals
HK\$1,000,001 – HK\$1,500,000	1	—
HK\$2,000,001 – HK\$2,500,000	1	—
HK\$2,500,001 – HK\$3,000,000	1	1
HK\$3,000,001 – HK\$3,500,000	—	1
	<u>3</u>	<u>2</u>

Notes to Financial Statements

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9. TAX

Hong Kong profits tax has been provided at the rate of 16% (2000: 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	
	2001	2000
	HK\$'000	HK\$'000
Provision for tax for the year:		
Hong Kong	5,366	48,704
Outside Hong Kong	6,228	15,796
Deferred — note 24	<u>(1,063)</u>	<u>(500)</u>
	<u>10,531</u>	<u>64,000</u>
Prior year overprovision:		
Hong Kong	(19)	(11,370)
Outside Hong Kong	<u>(4,266)</u>	<u>(821)</u>
	<u>(4,285)</u>	<u>(12,191)</u>
Associates:		
Hong Kong	12,449	(22,598)
Outside Hong Kong	<u>—</u>	<u>—</u>
	<u>12,449</u>	<u>(22,598)</u>
Tax charge for the year	<u>18,695</u>	<u>29,211</u>

10. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company is HK\$499,663,000 (2000: net profit of HK\$78,414,000).

11. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$629,436,000 (2000: HK\$1,055,830,000) and the weighted average of 1,437,709,710 (2000: 1,437,709,710) ordinary shares in issue during the year.

The diluted loss per share for the years ended 31st July, 2001 and 2000 has not been calculated because there were no diluting events during these years.

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12. FIXED ASSETS

Group

	31st July, 2000	Additions	Disposals	Transfer to investment properties [#]	Exchange realignments	31st July, 2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:						
Leasehold land and buildings	401,383	—	—	(152,952)	—	248,431
Leasehold improvements	726	27	—	—	—	753
Plant and machinery	40,446	1,044	(10,453)	—	—	31,037
Furniture, fixtures and equipment	101,138	4,743	(19,278)	—	5	86,608
Motor vehicles	13,349	610	(330)	—	1	13,630
Computers	19,177	410	(435)	—	—	19,152
Motor vessels	16,951	—	—	—	—	16,951
	<u>593,170</u>	<u>6,834</u>	<u>(30,496)</u>	<u>(152,952)</u>	<u>6</u>	<u>416,562</u>
Accumulated depreciation:						
Leasehold land and buildings	57,415	7,020	—	(26,275)	—	38,160
Leasehold improvements	471	151	—	—	—	622
Plant and machinery	36,556	874	(10,303)	—	—	27,127
Furniture, fixtures and equipment	77,851	7,820	(14,373)	—	3	71,301
Motor vehicles	12,727	404	(313)	—	1	12,819
Computers	14,224	1,706	(415)	—	—	15,515
Motor vessels	16,951	—	—	—	—	16,951
	<u>216,195</u>	<u>17,975</u>	<u>(25,404)</u>	<u>(26,275)</u>	<u>4</u>	<u>182,495</u>
Net book value	<u>376,975</u>					<u>234,067</u>

[#] During the year, certain land and buildings of the Group were transferred to investment properties. At the dates of transfers, an excess of the carrying amounts of HK\$35,385,000 over the fair values of the properties were charged against the Group's fixed asset revaluation reserve.

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12. 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	7,990	17,778	25,768
Medium term	222,663	—	222,663
	<u>230,653</u>	<u>17,778</u>	<u>248,431</u>

Company

	31st July, 2000 HK\$'000	Additions HK\$'000	Disposals HK\$'000	Transfer to investment properties* HK\$'000	31st July, 2001 HK\$'000
Cost or valuation:					
Medium term leasehold land and buildings situated in Hong Kong	38,483	—	—	(32,500)	5,983
Plant and machinery	9,517	—	(595)	—	8,922
Furniture, fixtures and equipment	13,951	158	—	—	14,109
Motor vehicles	9,590	—	—	—	9,590
Motor vessels	16,951	—	—	—	16,951
	<u>88,492</u>	<u>158</u>	<u>(595)</u>	<u>(32,500)</u>	<u>55,555</u>
Accumulated depreciation:					
Medium term leasehold land and buildings situated in Hong Kong	7,938	190	—	(5,740)	2,388
Plant and machinery	8,678	220	(595)	—	8,303
Furniture, fixtures and equipment	10,989	1,337	—	—	12,326
Motor vehicles	9,304	131	—	—	9,435
Motor vessels	16,951	—	—	—	16,951
	<u>53,860</u>	<u>1,878</u>	<u>(595)</u>	<u>(5,740)</u>	<u>49,403</u>
Net book value	<u>34,632</u>				<u>6,152</u>

* During the year, certain land and buildings of the Company were transferred to investment properties. At the dates of transfers, an excess of the carrying amounts of HK\$12,360,000 over the fair values of the properties were charged against the Company's fixed asset revaluation reserve.

Notes to Financial Statements

31st July, 2001

12. FIXED ASSETS (continued)

The net book value of assets held under finance leases included in the total amount of fixed assets of the Group and the Company at 31st July, 2001 amounted to HK\$356,000 (2000: HK\$606,000) and HK\$154,000 (2000: HK\$323,000), respectively. The depreciation charge for the year in respect of such assets of the Group amounted to HK\$211,000 (2000: HK\$131,000).

Certain land and buildings of the Group and the Company with net book values of HK\$195,993,000 (2000: HK\$329,193,000) and HK\$1,378,000 (2000: HK\$28,641,000) were 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 or on 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	21,361	3,583
At 1992 valuation	224,670	—
At 1994 valuation	2,400	2,400
	<u>248,431</u>	<u>5,983</u>

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

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Leasehold land and buildings situated in				
Hong Kong	<u>7,472</u>	<u>24,538</u>	<u>1,450</u>	<u>3,207</u>

All other fixed assets are stated at cost.

Notes to Financial Statements

31st July, 2001

13. INVESTMENT PROPERTIES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
At beginning of year, at valuation	77,700	10,034,000	10,700	12,100
Additions, at cost	—	1,481	—	—
Disposals	—	(194,514)	—	—
Transfer to properties held for sale	(4,400)	(285,460)	(4,400)	—
Transfer from fixed assets	72,400	—	14,400	—
Arising on deemed disposal of a subsidiary	—	(9,480,861)	—	—
Surplus/(deficits) on revaluation	(2,900)	3,054	(2,900)	(1,400)
At end of year, at valuation	142,800	77,700	17,800	10,700

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

At 31st July, 2001, 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 value basis.

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Certain investment properties of the Group and of the Company with carrying values of HK\$4,400,000 were disposed of subsequent to the balance sheet date. Accordingly, these properties were reclassified as properties held for sale as at 31st July, 2001. Such properties were pledged to a bank to secure banking facilities granted to the Group.

All investment properties of the Group and the Company were employed to generate operating lease rental income for the Group and the Company.

Certain investment properties of the Group and of the Company with carrying values of HK\$138,800,000 (2000: HK\$73,700,000) and HK\$13,800,000 (2000: HK\$6,700,000), respectively, were pledged to banks to secure banking facilities granted to the Group.

Notes to Financial Statements

31st July, 2001

14. PROPERTIES UNDER DEVELOPMENT

	Group	
	2001 HK\$'000	2000 HK\$'000
Properties under development held for investment potential:		
At beginning of year, at valuation	—	2,921,454
Interest capitalised, net	—	14,019
Other additions, at cost	—	43,075
Reclassified to properties under development held for other purposes	—	(309,524)
Deficits on revaluation	—	(114,935)
Arising on deemed disposal of a subsidiary	—	(2,557,963)
Exchange realignments	—	3,874
	<u>—</u>	<u>—</u>
At end of year, at valuation		
	<u>—</u>	<u>—</u>
Properties under development held for other purposes, at cost less provision:		
At beginning of year	187,840	5,060,651
Interest capitalised, net	—	26,733
Other additions, at cost	—	8,612
Reclassified from properties under development held for investment potential	—	131,449
Revenue generated from holding a property under development	—	(103,284)
Transferred to completed properties for sale	—	(132,247)
Disposals	—	(81,421)
Arising on deemed disposal of a subsidiary	—	(3,843,810)
Provisions for diminutions in values	—	(858,454)
Exchange realignments	862	(20,389)
	<u>188,702</u>	<u>187,840</u>
At end of year, at cost less provision		
	<u>188,702</u>	<u>187,840</u>
Total balance at end of year		
	<u>188,702</u>	<u>187,840</u>

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

The balance at 31st July, 2001 represents the carrying value of a property development project of a Group company, Shanghai Hu Xin Real Estate Development Co., Ltd ("Hu Xin"), undertaken in Shanghai.

Notes to Financial Statements

31st July, 2001

14. 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 was 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 has the right to repossess the land use rights.

On 25th December, 1998, Hu Xin successfully obtained an extension of the Completion Date to 31st December, 2001. If the project was not completed by 31st December, 2003, Hu Xin is subject to a maximum penalty of RMB1,540,000. Hu Xin has applied for another extension of the Completion Date to 31st December, 2004, which is the Group's expected completion date for the whole project. The directors are confident that the extension will be granted.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2001	2000
	HK\$'000	HK\$'000
Shares listed in Hong Kong, at cost	7,265	7,265
Unlisted shares, at cost	486	—
	<u>7,751</u>	<u>7,265</u>
Amounts due from subsidiaries	1,038,232	967,355
Amounts due to subsidiaries	(123,199)	(121,970)
	<u>915,033</u>	<u>845,385</u>
	<u>922,784</u>	<u>852,650</u>
Market value of listed shares at the balance sheet date	<u>507</u>	<u>544</u>

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In prior year, an amount of HK\$16,400,000 due from a subsidiary was unsecured, interest-bearing at the Hong Kong dollar three-month deposit rate plus 1% per annum. The balance was fully repaid in the current year.

Notes to Financial Statements

31st July, 2001

15. INTERESTS IN SUBSIDIARIES (continued)

Details of the principal subsidiaries are as follows:

Name of company	Place of incorporation or registration/ place of operations	Issued/ registered capital	Class of shares held	Equity interest attributable to the Company		Principal activities
				Direct (%)	Indirect (%)	
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	People's Republic 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 holding
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
Kingscord Real Estate (Shanghai) Co. Ltd.	People's Republic of China	US\$1,500,000	*	—	100.00	Investment holding
Kentpark Development Limited	Hong Kong	HK\$2	Ordinary	—	54.93	Property holding
Shanghai Hu Xin Real Estate Development Co., Ltd.	People's Republic of China	US\$6,000,000	*	—	95.00	Property development and investment
Shenton Investment Limited	Hong Kong	HK\$2	Ordinary	—	54.93	Property holding
Silver Glory Securities Limited	British Virgin Islands	US\$1	Ordinary	100.00	—	Investment holding

* These subsidiaries have registered rather than issued share capital.

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.

Notes to Financial Statements

31st July, 2001

15. INTERESTS IN SUBSIDIARIES (continued)

96,000,000 ordinary shares of Crocodile held by the Group have been pledged to a bank to secure banking facilities granted to the Company.

Certain of the Group's subsidiaries had the following connected transactions during the year.

- (1) On 31st March, 2000, the Company entered into a loan agreement with Crocodile, pursuant to which, the Company agreed to advance HK\$16,400,000 to Crocodile as a deposit to the High Court for a litigation case. The advance was unsecured, interest-bearing with interest charged at a rate equal to the Hong Kong dollar three-month deposit rate plus 1% per annum, and was to be repaid within six months. The Company beneficially owned approximately 54.93% of the issued share capital of Crocodile. The loan was extended for another six months to 31st March, 2001 pursuant to a supplemental agreement entered into on 1st October, 2000. The loan was fully repaid by Crocodile on 7th April, 2001.
- (2) On 12th October, 2000, the Company gave consent to execute a deed of guarantee in favour of a bank for banking facilities of HK\$20,000,000 granted to Crocodile. In relation to this arrangement, Crocodile agreed to pay the Company an annual guarantee fee of 1% of the utilised amount.

16. GOODWILL ON CONSOLIDATION OF SUBSIDIARIES

	Group	
	2001	2000
	HK\$'000	HK\$'000
<hr/>		
Cost:		
At beginning of year	247,355	372,355
Adjustments for impairment	—	(125,000)
	<hr/>	<hr/>
	247,355	247,355
	<hr/>	<hr/>
Accumulated amortisation:		
At beginning of year	118,989	113,811
Charge for the year	2,519	5,178
	<hr/>	<hr/>
	121,508	118,989
	<hr/>	<hr/>
Net book value	125,847	128,366
	<hr/>	<hr/>

Notes to Financial Statements

31st July, 2001

17. INTERESTS IN ASSOCIATES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Shares listed in Hong Kong, at cost	—	—	2,070,971	2,019,425
Share of net assets other than goodwill	<u>2,791,335</u>	<u>2,654,296</u>	<u>—</u>	<u>—</u>
	2,791,335	2,654,296	2,070,971	2,019,425
Amounts due from associates	5,613	5,569	2,429	2,385
Amounts due to associates	<u>(5,112)</u>	<u>(2,551)</u>	<u>(2,029)</u>	<u>(2,263)</u>
	2,791,836	2,657,314	2,071,371	2,019,547
Provisions for impairments in values	<u>(3,184)</u>	<u>(3,184)</u>	<u>(539,786)</u>	<u>—</u>
	<u>2,788,652</u>	<u>2,654,130</u>	<u>1,531,585</u>	<u>2,019,547</u>
Market value of listed shares at balance sheet date	<u>398,990</u>	<u>372,781</u>	<u>292,330</u>	<u>372,781</u>

The balances due are unsecured, interest-free and have no fixed terms of repayment, except for an amount of HK\$1,379,000 (2000: HK1,500,000) due from an associate which bears interest at prevailing market rate.

Notes to Financial Statements

31st July, 2001

17. INTERESTS IN ASSOCIATES (continued)

Details of the principal associates are as follows:

Name of company	Business structure	Place of incorporation or registration/ place of operations	Class of shares held	Percentage of capital held	Principal activities
Lai Fung Holdings Limited*	Corporate	Cayman Islands	Ordinary	20.64	Note 1
Lai Sun Development Company Limited	Corporate	Hong Kong	Ordinary	42.25	Note 2

* Audited by public accountants other than Ernst & Young. Certain interests in these associates are held separately by LSD.

Notes:

- Lai Fung's principal activity is investment holding.

The principal activities of Lai Fung and its subsidiaries consist of property development for sale and property investment for rental purposes.

- LSD's principal activities consist of property development for sale, property investment for investment potential purposes and investment holding.

The principal activities of LSD and its subsidiaries consist of property development for sale, property investment for investment potential purposes, investment in and operation of hotels and restaurants and investment holding.

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.

120,000,000 ordinary shares of LSD held by the Group have been pledged to a bank to secure banking facilities granted to the Company.

Notes to Financial Statements

31st July, 2001

17. INTERESTS IN ASSOCIATES (continued)

Included in the Group's share of the net assets of its associates are the shares 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. Details of the net assets of LSD and its subsidiaries (collectively the "LSD Group") and Lai Fung and its subsidiaries (collectively the "Lai Fung Group") as at 31st July, 2001 and their respective results for the financial year ended 31st July, 2001 are set out below:

(a) LSD Group*

	As at 31st July, 2001 HK\$'000
Non-current assets	10,560,613
Current assets	805,129
Current liabilities	(1,779,776)
Non-current liabilities	(4,392,620)
Convertible bonds	(965,287)
Minority interests	(361,744)
	<u>3,866,315</u>
Share of net assets, other than goodwill	<u>1,633,518</u>
	Year ended 31st July, 2001 HK\$'000
Turnover	<u>1,899,862</u>
Loss before tax	(1,155,522)
Tax	<u>(30,476)</u>
Loss before minority interests	(1,185,998)
Minority interests	<u>(10,184)</u>
Net loss from ordinary activities attributable to shareholders	<u>(1,196,182)</u>

* Figures are extracted from the audited financial statements of LSD for the year ended 31st July, 2001.

Notes to Financial Statements

31st July, 2001

17. INTERESTS IN ASSOCIATES (continued)

(a) LSD Group (continued)

The LSD Group sustained a net loss from ordinary activities attributable to shareholders of HK\$1,196 million for the year ended 31st July, 2001 (2000: HK\$2,758 million). The loss was mainly resulted from the effects of the non-recurring transactions in respect of the deemed disposal of its interests in Lai Fung and eSun Holdings Limited.

As at the balance sheet date, the LSD Group had consolidated net current liabilities of HK\$975 million (2000: HK\$1,589 million), an improvement of HK\$614 million, and consolidated net assets of HK\$3,866 million (2000: HK\$6,382 million).

As reported in the LSD Group's last annual report, in the meeting of the holders of the Exchangeable Bonds and the Convertible Bonds 2002 held on 4th August, 2000, the LSD Group successfully obtained the agreement of the Exchangeable Bondholders and the Convertible Bondholders to the restructuring proposal put forward by the LSD Group which included the deferral of the repayment of the bonds' principal to 31st December, 2002. In addition, during the prior year, the LSD Group successfully rescheduled the principal repayments of the borrowings from its principal lending banks under their bilateral facilities. The LSD Group's bond payables, bank and other borrowings have been classified in accordance with the terms in the respective loan agreements and trust deeds prevailing as at 31st July, 2001.

During the year, the LSD Group continued to implement an asset disposal programme (the "Disposal Programme"). The LSD Group disposed of certain properties and equity interest in an associate which generated a total cash inflow of HK\$586 million which was used for the repayment of bank borrowings and as working capital of the LSD Group. The LSD Group will continue to implement the Disposal Programme, as appropriate, in the coming year. On the basis that the Disposal Programme continues to be successfully implemented, 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.

Notes to Financial Statements

31st July, 2001

17. INTERESTS IN ASSOCIATES (continued)

(b) Lai Fung Group**

	As at 31st July, 2001 HK\$'000
Non-current assets	6,989,236
Current assets	228,136
Current liabilities	(389,886)
Non-current liabilities	(952,223)
Minority interests	(162,376)
	<u>5,712,887</u>
Share of net assets, other than goodwill	<u>1,159,360</u>
	Year ended 31st July, 2001 HK\$'000
Turnover	<u>161,743</u>
Loss before tax	(165,864)
Tax	<u>2,068</u>
Loss before minority interests	(163,796)
Minority interests	<u>(823)</u>
Net loss from ordinary activities attributable to shareholders	<u>(164,619)</u>

** Figures are extracted from the audited financial statements of Lai Fung for the year ended 31st July, 2001.

Interests in Lai Fung were acquired through the following transactions.

- (i) During the period between 21st November, 2000 and 23rd November, 2000, the Company acquired certain convertible guaranteed bonds due 2000 issued by Lai Fung Overseas Finance Limited ("LF Convertible Bonds"), a subsidiary of Lai Fung, with an aggregate principal face value of US\$11,260,000 (approximately HK\$87,828,000) from independent third parties for an aggregate consideration of approximately HK\$51,119,000, and 1,000,000 ordinary shares in Lai Fung from independent third parties for an aggregate consideration of HK\$426,584.

Notes to Financial Statements

31st July, 2001

17. INTERESTS IN ASSOCIATES (continued)

(b) Lai Fung Group (continued)

- (ii) On 23rd November, 2000, a sale and purchase agreement was entered into between the Company and an independent third party (the "Vendor"), pursuant to which the Company agreed to acquire the entire issued share capital of Silver Glory Securities Ltd ("Silver Glory") held by the Vendor and the shareholder's loan of Silver Glory due to the Vendor for a total consideration of HK\$100,000,000. The principal assets held by Silver Glory at the date of acquisition were certain LF Convertible Bonds with an aggregate principal face value of US\$26,380,000 (approximately HK\$205,764,000).
- (iii) On 10th January, 2001, an aggregate of 632,741,377 new shares of HK\$0.10 each in the share capital of Lai Fung ("Lai Fung Shares") were allotted and issued to the Company and Silver Glory at a conversion price of HK\$0.464 per new Lai Fung Share upon the mandatory conversion of the LF Convertible Bonds in accordance with the terms and conditions of the LF Convertible Bonds. Following the allotment and issue of the new Lai Fung Shares, the Group owned a beneficial interest of 20.64% in Lai Fung. Accordingly, Lai Fung was accounted for by the Group as an interest in an associate from 10th January, 2001.

18. SHORT TERM INVESTMENTS

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Listed equity investments in Hong Kong, at market value	17,800	—	17,800	—

19. INVENTORIES

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Raw materials	12,780	18,566	4,126	2,483
Work in progress	2,842	4,354	1,869	1,759
Finished goods	110,914	97,290	5,719	4,815
	126,536	120,210	11,714	9,057

The carrying amounts of the Group's and the Company's inventories included in the above that are carried at net realisable value were HK\$22,194,000 (2000: HK\$34,828,000) and Nil (2000: Nil), respectively.

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20. TRADE RECEIVABLES AND BILL RECEIVABLES

The Group's average credit term to trade debtors is 120 days. The ageing analysis of trade receivables and bill receivables as at 31st July, 2001 is as follows:

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current to 90 days	188,001	111,769	158,132	85,194
91 days to 180 days	13,191	11,075	12,157	8,320
181 days to 365 days	5,711	3,443	4,849	2,688
Over 365 days	19,815	49,391	18,940	48,216
	<u>226,718</u>	<u>175,678</u>	<u>194,078</u>	<u>144,418</u>

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	80,125	60,076	8,915	7,077
Time deposits	13,363	76,620	10,008	76,620
	<u>93,488</u>	<u>136,696</u>	<u>18,923</u>	<u>83,697</u>

22. TRADE PAYABLES AND BILL PAYABLES

The ageing analysis of trade payables and bill payables at 31st July, 2001 is as follows:

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current to 90 days	192,292	143,822	156,136	90,176
91 days to 180 days	27,079	8,979	12,639	7,214
181 days to 365 days	7,124	7,976	5,784	5,673
Over 365 days	26,633	50,801	24,611	49,273
	<u>253,128</u>	<u>211,578</u>	<u>199,170</u>	<u>152,336</u>

Notes to Financial Statements

31st July, 2001

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Unsecured bank overdrafts	2,919	5,037	—	3,037
Secured bank loans	81,820	89,981	50,000	50,000
Trust receipt loans	32,165	28,507	895	—
Obligations under finance leases	259	475	168	243
	<u>117,163</u>	<u>124,000</u>	<u>51,063</u>	<u>53,280</u>
Portion due within one year or on demand classified as current liabilities	<u>(114,776)</u>	<u>(116,142)</u>	<u>(50,978)</u>	<u>(53,111)</u>
Long term portion	<u>2,387</u>	<u>7,858</u>	<u>85</u>	<u>169</u>
The long term portion of bank and other borrowings is repayable within periods of:				
More than one year but not exceeding two years	2,380	5,257	78	—
More than two years but not exceeding five years	7	2,601	7	169
	<u>2,387</u>	<u>7,858</u>	<u>85</u>	<u>169</u>

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

The obligations under finance leases are repayable in various instalments up to 2003. Interest is charged on the outstanding balances at the rate of 13% per annum.

Notes to Financial Statements

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24. DEFERRED TAX

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of year	1,063	188	1,063	1,063
Arising on deemed disposal of a subsidiary	—	1,426	—	—
Tax — note 9	(1,063)	(500)	(1,063)	—
Exchange realignments	—	(51)	—	—
At end of year	—	1,063	—	1,063

The principal components of the deferred tax assets/(liabilities) are as follows:

Group

	Provided		Not provided	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accelerated capital allowances on fixed assets	—	(1,063)	(1,153)	(439)
Tax losses	—	—	56,014	31,183
	—	(1,063)	54,861	30,744

Company

	Provided		Not provided	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accelerated capital allowances on fixed assets	—	(1,063)	(11)	—

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.

25. SHARE CAPITAL

	2001	2000
	HK\$'000	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

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26. RESERVES

Group

	Share premium account HK\$'000	Fixed asset revaluation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Revaluation reserve for properties under development held for investment potential HK\$'000	Capital reserve HK\$'000	General reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st August, 1999	1,119,738	87,297	43,562	622,769	3,423,498	57	32,871	(1,554,306)	3,775,486
Surplus/(deficits) on revaluation	—	—	1,534	(38,321)	—	—	—	—	(36,787)
Share of revaluation surplus of an associate	—	—	2,234	702	—	—	—	—	2,936
Share of reserves of associates	—	—	—	—	29,222	—	5,997	—	35,219
Release upon disposal of investment properties	—	—	28,654	—	—	—	—	—	28,654
Release upon transfer of investment properties to completed properties for sale	—	—	159,629	—	—	—	—	—	159,629
Release upon transfer of properties under development held for investment potential to properties under development held for other purposes	—	—	—	(59,386)	—	—	—	—	(59,386)
Release upon deemed disposal of interest in subsidiaries	—	—	(388)	(36,431)	(66,531)	—	(1,619)	—	(104,969)
Release upon disposal of subsidiaries	—	—	—	—	(775)	—	(38)	—	(813)
Write back of revaluation deficits previously written off, arising from disposal of investment properties	—	—	(197,466)	—	—	—	—	—	(197,466)
Exchange realignments:									
Subsidiaries	—	—	—	—	—	—	(3,887)	—	(3,887)
Associates	—	—	—	—	—	—	26	—	26
Jointly controlled entities	—	—	—	—	—	—	95	—	95
Goodwill arising on acquisition of subsidiaries	—	—	—	—	(1,228)	—	—	—	(1,228)
Net loss for the year	—	—	—	—	—	—	—	(1,055,830)	(1,055,830)
At 31st July, 2000 and 1st August, 2000	1,119,738	87,297	37,759	489,333	3,384,186	57	33,445	(2,610,136)	2,541,679
Share of reserves of associates	—	—	(37,759)	(340,604)	(33,721)	—	—	—	(412,084)
Exchange realignments:									
Subsidiaries	—	—	—	—	—	—	505	—	505
Associates	—	—	—	—	—	—	(4,195)	—	(4,195)
Negative goodwill arising on acquisition of an associate	—	—	—	—	1,078,547	—	—	—	1,078,547
Deficits on revaluation of fixed assets on their transfers to investment properties	—	(35,385)	—	—	—	—	—	—	(35,385)
Net loss for the year	—	—	—	—	—	—	—	(629,436)	(629,436)
At 31st July, 2001	1,119,738	51,912	—	148,729	4,429,012	57	29,755	(3,239,572)	2,539,631

Notes to Financial Statements

31st July, 2001

26. RESERVES (continued)

Group

	Share premium account HK\$'000	Fixed asset revaluation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Revaluation reserve for properties under development held for investment potential HK\$'000	Capital reserve HK\$'000	General reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
Reserves retained by:									
Company and subsidiaries	1,119,738	51,912	—	—	3,916,604	57	5,180	850,423	5,943,914
Associates	—	—	—	148,729	512,408	—	24,575	(4,089,995)	(3,404,283)
At 31st July, 2001	1,119,738	51,912	—	148,729	4,429,012	57	29,755	(3,239,572)	2,539,631
Company and subsidiaries	1,119,738	87,297	—	—	2,838,057	57	4,675	792,199	4,842,023
Associates	—	—	37,759	489,333	546,129	—	28,770	(3,402,335)	(2,300,344)
At 31st July, 2000	1,119,738	87,297	37,759	489,333	3,384,186	57	33,445	(2,610,136)	2,541,679

Company

	Share premium account HK\$'000	Fixed asset revaluation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st August, 1999	1,119,738	32,145	11,535	952,825	2,116,243
Deficit on revaluation of investment properties	—	—	(1,400)	—	(1,400)
Net profit for the year	—	—	—	78,414	78,414
At 31st July, 2000 and 1st August, 2000	1,119,738	32,145	10,135	1,031,239	2,193,257
Deficit on revaluation of fixed assets on their transfer to investment properties	—	(12,360)	—	—	(12,360)
Deficit on revaluation of investment properties	—	—	(2,900)	—	(2,900)
Net loss for the year	—	—	—	(499,663)	(499,663)
At 31st July, 2001	1,119,738	19,785	7,235	531,576	1,678,334

Notes to Financial Statements

31st July, 2001

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) from operating activities to net cash inflow from operating activities

	2001 HK\$'000	2000 HK\$'000
Profit/(loss) from operating activities	76,023	(1,852,978)
Interest income	(6,267)	(107,265)
Dividend income from listed and unlisted investments	(445)	(9,703)
Depreciation	17,975	49,754
Amortisation of goodwill on acquisition of subsidiaries and associates	2,519	6,070
Loss on disposal of a long term listed investment	—	3,500
Loss on disposal of fixed assets	3,920	5,442
Gain on disposal of subsidiaries	—	(68,643)
Loss on disposal of properties under development	—	96
Loss on disposal of investment properties	—	104,010
Loss on deemed disposal of subsidiaries	—	2,692
Realised gain on the disposal of a subsidiary of the Company and a subsidiary of an associate	(20,709)	(55,343)
Write back of revaluation deficits previously written off, arising from disposal of investment properties	—	(197,466)
Deficits on revaluation of investment properties	2,900	—
Provisions for diminutions in values of properties under development	—	858,454
Provisions for diminutions in values of completed properties for sale	—	402,184
Provisions for contingent losses in respect of profit guarantees	—	11,480
Provision for contingent loss in respect of the put options relating to the disposal of a subsidiary in the prior year	—	145,000
Provisions for diminutions in values of associates holding properties under development	—	25,000
Provisions for diminutions in values of, and advances to, associates and investee companies engaged in hotel operations	—	22,500
Write off of deferred pre-operating expenses	—	10,718
Provisions for diminutions in values of long term unlisted investments	—	158,587
Unrealised losses on short term investments	3,379	—
Adjustment for impairment in value of goodwill in consolidation of subsidiaries	—	125,000
Adjustments for impairment in values of goodwill in an associate	—	24,167
Increase in amounts due from associates	(44)	—
Increase in amounts due to associates	2,561	194
Write back of contingent loss in respect of a guarantee given to a bank	—	(58,604)
Provisions for diminutions in values of fixed assets	—	638,170
Decrease/(increase) in short term investments	(21,179)	27,080
Decrease/(increase) in inventories	(6,326)	84,549
Decrease in completed properties for sale	—	154,975
Decrease/(increase) in debtors, bills receivable and deposits	(24,626)	362,662
Increase/(decrease) in creditors, deposits received, bills payable and accruals	104,270	(255,053)
Increase/(decrease) in trust receipt loans with maturity of more than three months at acquisition date	(5,163)	8,461
Net cash inflow from operating activities	<u>128,788</u>	<u>625,690</u>

Notes to Financial Statements

31st July, 2001

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)
 (b) Analysis of changes in financing during the year

	Share capital and share premium HK\$'000	Bank loans and other borrowings HK\$'000	Convertible bonds HK\$'000	Convertible note HK\$'000	Bonds payable HK\$'000	Minority interests HK\$'000
At 1st August, 1999	1,838,593	6,387,542	2,098,581	600,000	891,250	9,123,369
Net cash inflow/(outflow) from financing	—	(187,886)	—	—	—	48,311
Share of net loss for the year	—	—	—	—	—	(2,008,849)
Share of surplus on revaluation of investment properties	—	—	—	—	—	226,248
Share of deficits on revaluation of properties under development held for investment potential	—	—	—	—	—	(198,402)
Share of capital reserve	—	—	—	—	—	(2,489)
Inception of finance lease	—	308	—	—	—	—
Share of exchange fluctuation reserve	—	—	—	—	—	(5,279)
Share of capital reserve release from disposal of subsidiaries	—	—	—	—	—	(1,585)
Share of capital reserve upon acquisition of subsidiary	—	—	—	—	—	(187)
Arising on acquisition of interests in subsidiaries	—	—	—	—	—	1,640
Arising on disposal of a subsidiary	—	(142)	—	—	—	(19,701)
Arising on deemed disposal of subsidiaries	—	(6,108,625)	(2,098,581)	(600,000)	(891,250)	(6,962,438)
Exchange realignments	—	(741)	—	—	—	(1,758)
At 31st July 2000 and 1st August, 2000	1,838,593	90,456	—	—	—	198,880
Net cash outflow from financing	—	(8,377)	—	—	—	—
Share of profits for the year	—	—	—	—	—	2,550
Release upon transfer of fixed assets to investment properties	—	—	—	—	—	(18,892)
Exchange realignments	—	—	—	—	—	3
At 31st July, 2001	1,838,593	82,079	—	—	—	182,541

(c) Major non-cash transactions

In prior year, the Group recognised forfeited deposits of HK\$12,004,000 in respect of a property sale transaction as income, which did not involve any cash inflow to the Group because the forfeited deposits were received in prior years.

Notes to Financial Statements

31st July, 2001

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(d) Acquisition of subsidiaries

	2001 HK\$'000	2000 HK\$'000
Net assets acquired:		
Fixed assets	—	64
Long term investment	90,173	—
Cash and bank balances	7	4,108
Other receivables	9,820	—
Creditors, deposits received and accruals	—	(72)
Minority interests	—	(1,640)
	<u>100,000</u>	<u>2,460</u>
Goodwill	—	2,930
	<u>100,000</u>	<u>5,390</u>
Satisfied by:		
Cash	<u>100,000</u>	<u>5,390</u>

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The subsidiary acquired during the year was Silver Glory, which held certain LF Convertible Bonds. Details of the acquisitions were included in note 17(b). The acquisition of Silver Glory has made a contribution of HK\$2,230,000 in respect of the net returns on investments and servicing of finance to the cash flows of the Group.

The subsidiaries acquired in prior year made no significant contribution to the Group in respect of the cash flows for the prior year.

Analysis of net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries:

	2001 HK\$'000	2000 HK\$'000
Cash consideration	100,000	5,390
Cash and bank balances acquired	<u>(7)</u>	<u>(4,108)</u>
Net outflow of cash and cash equivalents in respect of acquisition of subsidiaries	<u>99,993</u>	<u>1,282</u>

Notes to Financial Statements

31st July, 2001

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(e) Disposal of subsidiaries

	2001 HK\$'000	2000 HK\$'000
Net assets disposed of:		
Fixed assets	—	1,350
Interests in associates	—	118,163
Bank overdrafts	—	(185)
Debtors and deposits	—	4,240
Inventories	—	76
Bank loans and other borrowings	—	(142)
Creditors, deposits received and accruals	—	(7,717)
Tax payable	—	(38)
Minority interests	—	(19,701)
Release of exchange reserve	—	(160)
Release of capital reserve	—	(3,318)
	—	92,568
Profit on disposal	—	68,643
	—	161,211
Satisfied by:		
Cash	—	161,211

In prior year, the subsidiaries disposed of utilised HK\$2,874,000 of the Group's net operating cash flows, paid HK\$240,000 in respect of returns on investments and servicing of finance, made no payments in respect of taxes, utilised HK\$10,091,000 to investing activities and utilised HK\$7,456,000 for financing activities.

Analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	2001 HK\$'000	2000 HK\$'000
Cash consideration received	—	161,211
Bank overdrafts disposed of	—	185
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	—	161,396

Notes to Financial Statements

31st July, 2001

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(f) Disposal of interest in subsidiaries

	2001 HK\$'000	2000 HK\$'000
Net assets excluded from consolidation:		
Fixed assets	—	1,361,043
Investment properties	—	9,480,861
Properties under development	—	6,401,773
Interests in jointly-controlled entities	—	151,772
Interests in associates	—	901,741
Long term investments	—	1,002,653
Deferred tax	—	1,426
Cash	—	813,663
Short term investments	—	16,507
Completed properties for sale	—	435,326
Short term note receivable	—	100,000
Debtors and deposits	—	709,208
Stocks	—	18,077
Creditors, deposits received and accruals	—	(1,182,994)
Tax payable	—	(207,801)
Bank loans and other borrowings	—	(6,108,625)
Long term rental deposits received	—	(90,684)
Provision for premium on bond redemption	—	(334,784)
Provision for premium on convertible note redemption	—	(16,667)
Bonds payable	—	(1,093,747)
Convertible note	—	(600,000)
Convertible bonds	—	(1,888,323)
Minority interests	—	(7,080,231)
Realised gain on disposal of a subsidiary	—	55,343
	<u>—</u>	<u>2,845,537</u>
Satisfied by:		
Reclassification to interests in associates	—	2,845,537
	<u>—</u>	<u>2,845,537</u>
<p>In prior year, the subsidiaries of which the Group's interest was disposed during the year contributed HK\$452,913,000 of the Group's net operating cash flows, paid HK\$430,617,000 in respect of returns on investments and servicing of finance, paid HK\$30,930,000 in respect of tax, contributed HK\$150,974,000 for investing activities and utilised HK\$129,240,000 for financing activities.</p>		
<p>Analysis of net outflow of cash and cash equivalents in respect of the exclusion of the subsidiary from consolidation</p>		
	<u>—</u>	<u>813,663</u>

Notes to Financial Statements

31st July, 2001

28. COMMITMENTS

Other than disclosed elsewhere in the financial statements, the Group and the Company had the following commitments not provided for in the financial statements at the balance sheet date:

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(a) Authorised capital expenditure:				
Contracted, but not provided for subsidiaries	156,384	156,384	—	—
Authorised, but not contracted for subsidiaries	94,470	94,470	—	—
	<u>250,854</u>	<u>250,854</u>	<u>—</u>	<u>—</u>
(b) Future minimum lease commitments under non-cancellable operating leases in respect of land and buildings for the following periods:				
Within one year	75,375	101,014	—	627
Within the second to the fifth years, inclusive	29,916	61,344	—	—
	<u>105,291</u>	<u>162,358</u>	<u>—</u>	<u>627</u>

29. CONTINGENT LIABILITIES

As at 31st July, 2001, the Company had contingent liabilities in respect of corporate guarantees of approximately HK\$20,000,000 (2000: HK\$20,000,000) given to a bank in connection with the banking facilities granted to a subsidiary. The banking facilities had not been utilised as at 31st July, 2001 (2000: Nil).

Apart from the foregoing, Crocodile is involved in legal disputes with a supplier, who alleges that Crocodile has infringed its trademark in the PRC and is seeking orders from the courts in the PRC for compensation of RMB3,500,000. In the opinion of the directors, having taken legal advice, the claim for compensation against Crocodile is unlikely to be successful and, therefore, no provision has been made in these financial statements.

Notes to Financial Statements

31st July, 2001

30. OPERATING LEASE ARRANGEMENTS

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

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	9,484	6,078	1,348	641
In the second to fifth years, inclusive	<u>10,849</u>	<u>—</u>	<u>168</u>	<u>—</u>
	<u>20,333</u>	<u>6,078</u>	<u>1,516</u>	<u>641</u>

Operating lease receivables represent rentals receivable by the Group and the Company for certain of its investment properties.

31. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of the revised SSAP 14 during the current year, all future minimum lease payment under non-cancellable operating leases have been disclosed to comply with the new requirements. Accordingly, the comparative amounts have been restated to conform with the current year's presentation.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 9th November, 2001.