Notes to Financial Statements

31st July, 2002

1. CORPORATE INFORMATION

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

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

- manufacture and sale of garments;
- property investment; and
- property letting.

Prior to April 2001, the Group was also engaged in the operation of a restaurant.

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

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

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised): "Events after the balance sheet date"
- SSAP 18 (Revised): "Revenue"
- SSAP 26: "Segment reporting"
- SSAP 28: "Provisions, contingent liabilities and contingent assets"
- SSAP 29: "Intangible assets"
- SSAP 30: "Business combinations"
- SSAP 31: "Impairment of assets"
- SSAP 32: "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12: "Business Combinations - subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13: "Goodwill - continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"
- Interpretation 14: "Evaluating the substance of transactions involving the legal form of a lease"
- Interpretation 15: "Business combinations - date of exchange and fair value of equity investments"
- Interpretation 16: "Disclosure - service concession arrangements"
- Interpretation 17: "Revenue - barter transactions involving advertising services"

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

Notes to Financial Statements

31st July, 2002

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

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. The SSAP has had no effect on the preparation of these financial statements.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9. The SSAP has had no effect on the preparation of these financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. Additional disclosures on contingent liabilities have been disclosed in note 27 to the financial statements.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatment for intangible assets. This SSAP has had no effect in the preparation of these financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill and negative goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Negative goodwill is recognised in the consolidated profit and loss account depending on the circumstances from which it arose, as further described in the accounting policy for negative goodwill disclosed in note 3 to the financial statements. Interpretation 13 prescribes the application of SSAP 30 to goodwill or negative goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of the SSAP and Interpretation has not resulted in a prior year adjustment, for the reasons detailed in note 24 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no impact on the preparation of these financial statements.

Notes to Financial Statements

31st July, 2002

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 Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of investment properties and certain fixed assets, as further explained below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year ended 31st July, 2002. 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 half of its voting power or issued share capital or controls the composition of its board of directors.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Negative goodwill

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

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

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

In prior years, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits negative goodwill on acquisitions which occurred prior to 1st August, 2001 to remain credited to the capital reserve. Negative goodwill on subsequent acquisitions is treated according to the new accounting policy above.

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

Notes to Financial Statements

31st July, 2002

3. 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 value in use or its net selling price.

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

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost or valuation less accumulated depreciation and any impairment losses.

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

The transitional provisions set out in paragraph 80 of Statement of Standard Accounting Practice No. 17 "Property, Plant and Equipment" issued by the Hong Kong Society of Accountants 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 for periods ended before 30th September, 1995, have not been revalued to their fair values by class at the balance sheet date. It is the directors' intention not to revalue these assets in the future.

Changes in the values of fixed assets, other than investment properties, are dealt with as movements in the fixed asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the fixed asset revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

Notes to Financial Statements

31st July, 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

On 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 arisen therefrom 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, will remain in the fixed asset revaluation reserve and will not be released until that asset is sold.

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

Leasehold land	Over the lease terms
Buildings	2% - 5%
Plant and machinery	10%
Furniture and fixtures	10% - 20%
Computer equipment	20%
Motor vehicles	20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

Leased assets

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

Notes to Financial Statements

31st July, 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leased assets (continued)

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes the cost of materials computed using the first-in, first-out method and, in the case of work in progress and finished goods, 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 prevailing market conditions.

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

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

(d) royalty income, when the right to receive the income is established; and

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

Cash equivalents

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.

Notes to Financial Statements

31st July, 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 profit and loss account.

Deferred tax

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

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

Retirement benefits scheme

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. The MPF Scheme became effective from 1st December, 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF 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.

Prior to the MPF Scheme being effective, the Group operated a defined benefit retirement scheme (the "Old Scheme") for its employees, the assets of which were also held separately from those of the Group in an independently administered fund. Contributions to the Old Scheme were charged to the profit and loss account in the prior years. The contribution rates were recommended by independent, qualified actuaries on the basis of triennial valuations, using the aggregate method.

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

Notes to Financial Statements

31st July, 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits scheme (continued)

Employees of subsidiaries in the Mainland of 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 for the Group with respect to the Central Pension Scheme is to make the required contributions, which are charged to the profit and loss account in the year to which they relate.

Foreign currencies

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

Related parties

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

4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. 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 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;

(c) the restaurant segment engages in the operation of a restaurant; and

(d) the corporate and other 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 and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Notes to Financial Statements

31st July, 2002

4. SEGMENT INFORMATION (continued)

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.

Business segments

Group	Garment and related accessories		Property investment		Restaurant		Corporate and other		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:												
Sales to external customers	585,346	668,193	9,974	8,896	—	2,850	—	—	—	—	595,320	679,939
Intersegment sales	—	—	4,131	4,794	—	24	—	—	(4,131)	(4,818)	—	—
Other revenue	7,236	8,334	128	31	—	50	2	—	—	—	7,366	8,415
Total	592,582	676,527	14,233	13,721	—	2,924	2	—	(4,131)	(4,818)	602,686	688,354
Segment results	16,753	12,874	9,156	2,382	—	(2,154)	(2,278)	(1,683)	—	—	23,631	11,419
Interest income											478	760
Profit from operating activities											24,109	12,179
Segment assets	290,680	466,623	216,214	134,875	—	54	71	1,321	—	—	506,965	602,873
Segment liabilities	131,273	124,528	3,348	3,333	—	24	151	1,146	—	—	134,772	129,031
Unallocated liabilities											58,445	74,930
Total liabilities											193,217	203,961
Other segment information:												
Depreciation	14,097	13,706	264	1,929	—	—	11	11	—	—	14,372	15,646
Provision for/(write-back) of bad and doubtful debts	2,017	8,230	51	476	—	—	—	(4,500)	—	—	2,068	4,206
Capital expenditure	3,686	5,858	736	664	—	10	—	—	—	—	4,422	6,532

Notes to Financial Statements

31st July, 2002

4. SEGMENT INFORMATION (continued)

Geographical segments

The following tables present revenue, profit/(loss), certain assets and capital expenditure information for the Group's geographical segments.

Group	Hong Kong		Elsewhere in PRC		Corporate and other		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:								
Sales to external customers	301,710	371,296	293,610	296,603	—	12,040	595,320	679,939
Other revenue	898	837	6,468	7,008	—	570	7,366	8,415
Total	302,608	372,133	300,078	303,611	—	12,610	602,686	688,354
Segment results	(10,538)	(14,202)	34,169	27,303	—	(1,682)	23,631	11,419
Other segment information:								
Segment assets	318,683	430,745	188,282	172,128	—	—	506,965	602,873
Capital expenditure	2,460	4,409	1,962	2,123	—	—	4,422	6,532

Notes to Financial Statements

31st July, 2002

5. TURNOVER, REVENUE AND GAINS

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

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

	2002 HK$'000	2001 HK$'000
Turnover		
Sale of goods	585,346	668,193
Rental income	9,974	8,896
Revenue from restaurant operation*	—	2,850
	595,320	679,939
Other revenue		
Royalty income	4,265	2,516
Sale of miscellaneous materials	748	1,380
Sale of export quota	582	419
Interest income	478	760
License fee income	144	144
Others	1,544	2,277
	7,761	7,496
Gains		
Exchange gains, net	83	1,679
Other revenue and gains	7,844	9,175

* In the prior year, the Group ceased to operate its restaurant. As the contribution from the operation of the restaurant was not significant to the Group, no discontinued operations disclosures have been made.

Notes to Financial Statements

31st July, 2002

6. PROFIT FROM OPERATING ACTIVITIES

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

	Group	
	2002	2001
	HK$'000	HK$'000
Auditors' remuneration	850	850
Cost of inventories sold	279,697	326,145
Depreciation:		
Owned fixed assets	14,325	15,565
Leased fixed assets	47	81
Minimum lease payments under operating leases in respect of land and buildings	88,411	107,019
Staff costs:		
Salaries and allowances (including directors' remuneration but excluding retirement scheme contributions - note 7)	78,262	86,594
Retirement scheme contributions	2,469	2,565
	80,731	89,159
Gross rental income	(9,974)	(8,896)
Less: Outgoings	692	4,202
Net rental income	(9,282)	(4,694)
Legal fees (including interest accrual)	6,870	15,369
Severance payments #	1,101	4,989
Provision for/(write-back of provision for) slow-moving inventories *	344	(16,150)
Provision for bad and doubtful debts #	2,068	4,206

* In the prior year, inventory provisions of HK$16,150,000 were written back to cost of sales following the sale of certain inventory items.

\# Items are included in other operating expenses.

Notes to Financial Statements

31st July, 2002

7. DIRECTORS' REMUNERATION

	Group			
	Executive		Non-executive	
	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000
Fees	50	50	48	50
Other emoluments:				
Salaries, allowances and benefits in kind	5,416	4,897	60	240
Retirement scheme contributions	36	24	—	—
Bonuses paid and payable	1,260	1,200	—	—
	6,712	6,121	60	240
	6,762	6,171	108	290

Directors' remuneration paid to independent non-executive directors during the year amounted to HK$18,000 (2001: HK$20,000).

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

	Number of directors	
	2002	2001
Nil - HK$1,000,000	7	7
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	2	2
	10	10

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

Notes to Financial Statements

31st July, 2002

8. FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

The five highest paid employees during the year included three (2001: two) directors, details of whose remuneration are set out in note 7 above. The details of the remuneration of the remaining two (2001: three) non-director, highest paid employees are set out below:

	Group	
	2002	2001
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	4,135	4,931
Retirement scheme contributions	24	16
Bonuses paid and payable	2,100	1,400
	6,259	6,347

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

	Group Number of employees	
	2002	2001
HK$1,000,001 - HK$1,500,000	—	1
HK$2,000,001 - HK$2,500,000	1	1
HK$2,500,001 - HK$3,000,000	—	1
HK$3,000,001 - HK$4,000,000	1	—
	2	3

9. FINANCE COSTS

	Group	
	2002	2001
	HK$'000	HK$'000
Interest on bank loans and overdrafts	1,608	3,466
Interest on finance leases	3	21
Interest paid to the ultimate holding company	140	862
	1,751	4,349

Notes to Financial Statements

31st July, 2002

10. TAX

	Group 2002 HK$'000	Group 2001 HK$'000
Current year provision:		
Hong Kong	—	—
Outside Hong Kong	2,300	6,228
	2,300	6,228
Prior year overprovision:		
Hong Kong	—	(9)
Outside Hong Kong	—	(4,266)
	—	(4,275)
Tax charge for the year	2,300	1,953

No Hong Kong profits tax has been provided in both current and prior years as the Group had no assessable profit arising in Hong Kong during the years. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31st July, 2002 dealt with in the profit and loss account of the Company, amounted to HK$19,562,000 (2001: loss of HK$24,426,000).

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK$20,058,000 (2001: HK$5,877,000) and the weighted average of 617,127,130 (2001: 617,127,130) ordinary shares in issue throughout the year.

Diluted earnings per share amounts for the years ended 31st July, 2002 and 2001 have not been calculated because no diluting events existed during these years.

Notes to Financial Statements

31st July, 2002

13. FIXED ASSETS

Group

	Land and buildings HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Computer equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation:						
At beginning of year	242,448	22,114	71,689	19,152	3,845	359,248
Additions	—	821	3,419	182	—	4,422
Deficit on revaluation*	(136,680)	—	—	—	—	(136,680)
Transfer to investment properties (note 14)	(80,000)	—	—	—	—	(80,000)
Disposals**	(1,310)	(320)	(5,953)	—	(609)	(8,192)
At 31st July, 2002	24,458	22,615	69,155	19,334	3,236	138,798
Accumulated depreciation:						
At beginning of year	35,771	18,825	58,064	15,515	3,207	131,382
Provided during the year	3,871	677	8,388	1,350	86	14,372
Write-back on revaluation*	(31,458)	—	—	—	—	(31,458)
Disposals	(87)	(142)	(5,591)	—	(567)	(6,387)
At 31st July, 2002	8,097	19,360	60,861	16,865	2,726	107,909
Net book value:						
At 31st July, 2002	16,361	3,255	8,294	2,469	510	30,889
At 31st July, 2001	206,677	3,289	13,625	3,637	638	227,866

Notes to Financial Statements

31st July, 2002

13. FIXED ASSETS (continued)

Company

	Land and buildings HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Computer equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation:						
At beginning of year	216,680	4,394	54,194	19,152	2,265	296,685
Additions	—	47	1,495	182	—	1,724
Deficit on revaluation*	(136,680)	—	—	—	—	(136,680)
Transfer to investment properties (note 14)	(80,000)	—	—	—	—	(80,000)
Disposals	—	—	(4,905)	—	—	(4,905)
At 31st July, 2002	—	4,441	50,784	19,334	2,265	76,824
Accumulated depreciation:						
At beginning of year	28,491	4,105	43,089	15,515	2,265	93,465
Provided during the year	2,967	51	7,385	1,350	—	11,753
Write-back on revaluation*	(31,458)	—	—	—	—	(31,458)
Disposals	—	—	(4,834)	—	—	(4,834)
At 31st July, 2002	—	4,156	45,640	16,865	2,265	68,926
Net book value:						
At 31st July, 2002	—	285	5,144	2,469	—	7,898
At 31st July, 2001	188,189	289	11,105	3,637	—	203,220

* During the year, certain land and buildings of the Group and of the Company were reclassified as investment properties. Such land and buildings were revalued at HK$80,000,000 based on their open market value and existing use at the date of transfer by Centaline Surveyors Limited, independent professionally qualified valuers. A revaluation deficit of HK$105,222,000 arose and was charged against the Group's and the Company's fixed asset revaluation reserve (note 24).

** During the year, the Group disposed of certain land and buildings. The respective amount of the accumulated surplus on revaluation of this asset of HK$302,000 (note 24) was released from the Group's fixed asset revaluation reserve, and transferred to the accumulated losses of the Group.

Notes to Financial Statements

31st July, 2002

13. FIXED ASSETS (continued)

At 31st July, 2002, the Group had no fixed assets which were held under finance leases (2001: a net book value of HK$47,000). The depreciation charge for the year in respect of such assets amounted to HK$47,000 (2001: HK$81,000).

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

	Group		Company	
	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000
At cost:				
Long term leasehold land and buildings situated in the People's Republic of China (the "PRC")	17,778	17,778	—	—
At 1992 valuation:				
Long term leasehold land and buildings situated in Hong Kong	6,680	7,990	—	—
Medium term leasehold land and buildings situated in Hong Kong	—	216,680	—	216,680
	6,680	224,670	—	216,680
	24,458	242,448	—	216,680

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

	Group		Company	
	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000
Cost	4,331	12,164	—	6,826
Accumulated depreciation	(2,238)	(6,142)	—	(3,814)
Net book value as at 31st July	2,093	6,022	—	3,012

Certain of the Group's land and buildings are pledged to secure the Group's bank borrowings, as detailed in note 18.

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14. INVESTMENT PROPERTIES

	Group		Company	
	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000
Balance at beginning of year	125,000	67,000	—	—
Transfer from fixed assets (note 13)	80,000	58,000	80,000	—
Balance at end of year	205,000	125,000	80,000	—

The investment properties are situated in Hong Kong and are held under medium term leases.

The investment properties were revalued at HK$205,000,000 (2001: HK$125,000,000) based on their open market values and their existing use at 31st July, 2002 by Centaline Surveyors Limited, independent professionally qualified valuers. No revaluation surplus/deficit arose as a result of the valuation.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 26 to the financial statements.

The Group's investment properties are pledged to secure the Group's bank borrowings, as detailed in note 18.

The details of the Group's and the Company's investment properties are as follows:

Location	Existing use	Property held by
Shops G9/9A and G10 on Ground Floor, Room No. 213A on 2nd floor and Room No. 413A on 4th floor, Hankow Centre, Nos. 5-15 Hankow Road, 41-51 Peking Road, Nos. 4, 4A and 4B Ashley Road and Nos. 1, 1A - 1E Middle Road, Tsimshatsui, Kowloon, Hong Kong	Commercial rental	Group
The whole basement, Shop No. 24 on Ground and Mezzanine Floors, Shop No. 33B on Ground and Mezzanine Floors, Tsimshatsui Mansion, Nos. 83-97 Nathan Road, Nos. 36-50 Lock Road, Tsimshatsui, Kowloon, Hong Kong	Commercial rental	Group
Crocodile Building, No. 79 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong	Commercial rental	Group and Company

Notes to Financial Statements

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15. INTERESTS IN SUBSIDIARIES

	Company	
	2002	2001
	HK$'000	HK$'000
Unlisted shares, at cost	4,050	4,050
Amounts due from subsidiaries	303,743	281,649
Amounts due to subsidiaries	(8,993)	(8,989)
	298,800	276,710
Provisions for impairments	(87,951)	(76,741)
	210,849	199,969

Except for certain amounts due from subsidiaries which bear interest at Hong Kong dollar prime rate plus 2% per annum (2001: HIBOR plus 1.5%, to 10% per annum), the amounts due from and to the subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The particulars of the principal subsidiaries 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 2002	2001	Principal activities
Costroll Company Limited	Hong Kong	HK$20	100	100	Property letting
Crocodile (China) Limited	Hong Kong	HK$4	100	100	Garment trading
Crocodile Garments (Zhong Shan) Limited#	PRC	HK$17,200,000*	90	90	Garment manufacturing and trading
Crocodile Investment Limited	Hong Kong	HK$20	100	100	Investment holding
Dackart Trading Company Limited	Hong Kong	HK$20	100	100	Property investment

15. INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company 2002	2001	Principal activities
Gold Nation Development Limited	Hong Kong	HK$2	100	100	Property investment
Kentpark Development Limited	Hong Kong	HK$2	100	100	Property holding
Shenton Investment Limited	Hong Kong	HK$2	100	100	Property holding

\# Indirectly held by the Company.

* The amount represents the paid-up capital in the PRC.

The above summary lists the principal 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.

16. INVENTORIES

	Group 2002 HK$'000	Group 2001 HK$'000	Company 2002 HK$'000	Company 2001 HK$'000
Raw materials	7,398	8,653	2,006	1,960
Work in progress	563	973	—	—
Finished goods	130,603	105,196	43,964	52,939
	138,564	114,822	45,970	54,899

The carrying amounts of the Group's and the Company's inventories included in the above at net realisable value were HK$30,626,000 (2001: HK$22,194,000) and HK$8,376,000 (2001: HK$7,784,000), respectively.

Notes to Financial Statements

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17. DEBTORS, 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 terms are 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, is as follows:

	Group		Company	
	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000
Current to 90 days	26,062	28,882	1,599	993
91 days to 180 days	184	1,034	87	35
181 days to 365 days	754	397	21	342
Over 365 days	53	438	24	157
Trade debtors	27,053	30,751	1,731	1,527
Deposits and prepayments	14,493	25,612	10,218	13,303
	41,546	56,363	11,949	14,830

18. BANK BORROWINGS

	Group		Company	
	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000
Bank overdrafts	2,920	2,919	—	—
Short term bank loans, secured	24,250	24,250	24,250	24,250
Trust receipt loans	17,787	31,270	17,787	31,270
Term loan, secured	2,288	7,570	2,288	7,570
	47,245	66,009	44,325	63,090
Portion due within one year included under current liabilities:				
Secured	(43,478)	(49,520)	(40,558)	(49,520)
Unsecured	(3,767)	(14,187)	(3,767)	(11,268)
	(47,245)	(63,707)	(44,325)	(60,788)
Long term portion	—	2,302	—	2,302

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31st July, 2002

18. BANK BORROWINGS (continued)

	Group		Company	
	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000
The bank loans and overdrafts are repayable:				
Within one year or on demand	47,245	63,707	44,325	60,788
In the second year	—	2,302	—	2,302
	47,245	66,009	44,325	63,090

The short term bank loans, trust receipt loans and bank overdrafts are repayable within one year and certain of these loans and overdrafts are secured by the investment properties and certain land and buildings of the Group. The term loan, which is repayable by instalments, is secured by the investment properties of the Group (note 14).

At the balance sheet date, the Group had pledged investment properties (note 14) with carrying values of HK$205,000,000 (2001: HK$125,000,000) and certain land and buildings (note 13) with a net book value of HK$6,333,000 (2001: HK$194,615,000) to bankers to secure banking facilities granted to the Group.

19. CREDITORS AND ACCRUALS

An aged analysis of trade creditors based on the date of receipt of the goods and services purchased is as follows:

	Group		Company	
	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000
Current to 90 days	62,012	36,156	28,653	21,412
91 days to 180 days	4,470	14,440	3,332	7,273
181 days to 365 days	1,027	883	511	210
Over 365 days	4,566	1,585	1,045	—
Trade creditors	72,075	53,064	33,541	28,895
Accruals	61,331	70,205	26,832	22,532
	133,406	123,269	60,373	51,427

Notes to Financial Statements

31st July, 2002

20. FINANCE LEASE PAYABLE

There were commitments under finance leases at the balance sheet date as follows:

	Group and Company	
	2002	2001
	HK$'000	HK$'000
Amounts payable:		
Within one year	—	94
Total minimum lease payments	—	94
Less: Future finance charges	—	(3)
Total net finance lease payable	—	91
Portion classified as current liabilities	—	(91)
Long term portion	—	—

SSAP 14 (revised) requires the disclosure of the present value of minimum finance lease payments. As the effect on present value for the prior year balance is not significant, no additional disclosure has been made.

21. AMOUNTS DUE TO THE ULTIMATE HOLDING COMPANY/A RELATED COMPANY

	Group		Company	
	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000
Amounts due to:				
Ultimate holding company				
Lai Sun Garment (International) Limited	118	3,125	118	3,125
Related company				
Lai Sun Development Company Limited	1,248	2,546	1,248	2,497

The related company, Lai Sun Development Company Limited, is a company beneficially owned by certain directors of the Company and an associate of the Company's ultimate holding company.

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. Details of the material transactions with the ultimate holding company and a related company have been set out in note 28 to the financial statements.

Notes to Financial Statements

31st July, 2002

22. DEFERRED TAX

The major components of the net deferred tax assets not recognised in the financial statements are as follows:

	Group		Company	
	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000
Tax losses	(57,817)	(55,603)	(47,441)	(46,929)
Accelerated capital allowances	143	1,142	137	1,132
	(57,674)	(54,461)	(47,304)	(45,797)

Deferred tax has not been quantified on the revalued assets because the revaluations do not constitute timing differences.

23. SHARE CAPITAL

	Company	
	2002	2001
	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

Notes to Financial Statements

31st July, 2002

24. RESERVES

	Share premium account HK$'000	Capital reserve HK$'000	Fixed asset revaluation reserve HK$'000	Total HK$'000
Group				
At 1st August, 2000	164,921	350	318,995	484,266
Deficit on revaluation	—	—	(41,916)	(41,916)
At 31st July, 2001 and 1st August, 2001	164,921	350	277,079	442,350
Deficit on revaluation (note 13)	—	—	(105,222)	(105,222)
Release upon write-off of fixed assets	—	—	(302)	(302)
At 31st July, 2002	164,921	350	171,555	336,826
Company				
At 1st August, 2000 and 31st July, 2001	164,921	—	214,312	379,233
Deficit on revaluation (note 13)	—	—	(105,222)	(105,222)
At 31st July, 2002	164,921	—	109,090	274,011

Included in the Group's and the Company's fixed asset revaluation reserve, revaluation surplus of HK$167,005,000 (2001: HK$57,915,000) and HK$109,090,000 (2001: Nil), respectively, related to certain leasehold land and buildings which were transferred to investment properties in the current and prior years.

SSAP 30 was adopted during the year, as detailed in note 2 to the financial statements. As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits negative goodwill in respect of acquisitions which occurred prior to 1st August, 2001 to remain credited to the capital reserve. The amount of negative goodwill remaining in the capital reserve, arising from the acquisition of a subsidiary prior to 1st August, 2001, was HK$350,000 as at 1st August, 2001 and 31st July, 2002, representing the excess of the value of the assets and liabilities being acquired over the cost of acquisition.

Notes to Financial Statements

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25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	Group	
	2002	2001
	HK$'000	HK$'000
Profit from operating activities	24,109	12,179
Loss on disposal of fixed assets	1,745	4,515
Provision for bad and doubtful debts	2,068	4,206
Write-off/(write-back) of provision for slow-moving inventories	344	(16,150)
Interest income	(478)	(760)
Depreciation	14,372	15,646
(Increase)/decrease in inventories	(24,086)	12,481
Decrease in debtors, deposits and prepayments	13,397	11,833
Decrease in trust receipt loans with maturity of more than three months	(8,925)	(5,163)
Increase in creditors and accruals	10,137	9,808
Movements in balance with the ultimate holding company	(3,007)	(16,087)
(Decrease)/increase in an amount due to a related company	(1,298)	906
Net cash inflow from operating activities	28,378	33,414

(b) Analysis of changes in financing during the year

	Bank loans (excluding bank overdrafts and trust receipt loans) HK$'000	Finance lease payable HK$'000
Balance at 1st August, 2000	39,981	232
Net cash outflow from financing activities	(8,161)	(141)
Balance at 31st July, 2001 and 1st August, 2001	31,820	91
Net cash outflow from financing activities	(5,282)	(91)
Balance at 31st July, 2002	26,538	—

Notes to Financial Statements

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26. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14 to the financial statements) under operating lease arrangements with leases negotiated for terms ranging from one to four years. The terms of the leases generally also require the tenants to pay security deposits.

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

	Group		Company	
	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000
Within one year	9,175	8,136	3,068	—
In the second to fifth years, inclusive	9,977	10,681	4,904	—
	19,152	18,817	7,972	—

(b) As lessee

The Group leases its office properties, warehouses and retail outlets under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to six 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	
	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000
Within one year	62,943	75,375	61,228	73,365
In the second to fifth years, inclusive	42,753	29,916	41,234	28,974
After five years	28	—	—	—
	105,724	105,291	102,462	102,339

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

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27. CONTINGENT LIABILITIES

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

	Group		Company	
	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	—	—	3,000	3,500

Apart from the above, the Company is involved in legal disputes with a supplier, who alleges that the Company has infringed its trademark in the Mainland of China and is seeking orders from the courts in the Mainland of China for compensation of RMB3,500,000. In the opinion of the directors, having taken legal advice, there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources arising from the claim for compensation against the Company. With reference to the criteria as set out in SSAP 28, no provision is required to be recognised in these financial statements. The possible financial effects arising from the aforesaid contingent liability have not been quantified, as in the opinion of the directors, it is not practicable to estimate these financial effects where no relevant information was readily made available at the date of this report.

28. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

		Group	
		2002	2001
	Notes	HK$'000	HK$'000
Purchases of garment products from the ultimate holding company	(i)	—	2,800
Rental expenses paid and payable to related companies	(ii)	10,968	10,380
Interest paid and payable to the ultimate holding company	(iii)	140	862

Notes:

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

(ii) The rental expenses are charged by certain related companies, in which certain directors of the ultimate holding company have beneficial interests, pursuant to the respective lease agreements.

(iii) The interest expense of HK$140,000 (2001: HK$200,000) was paid and payable to the ultimate holding company in connection with the Group's banking facilities of HK$20,000,000 obtained and guaranteed by the ultimate holding company, which bore interest at 1% per annum.

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28. RELATED PARTY TRANSACTIONS (continued)

In the prior year, the remaining interest expense of HK$662,000 was paid in connection with a loan advance that amounted to HK$16,400,000 which bore interest at the Hong Kong dollar three months' deposit rate plus 1% per annum.

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

29. COMPARATIVE AMOUNTS

In the opinion of the directors, the following reclassifications of the prior year comparative amounts provide better presentation as to the nature of these transactions and accord with the presentation adopted in the current year:

(i) exchange gains of HK$1,679,000 previously recorded as other operating expenses, have been reclassified as other revenue and gains;

(ii) a refund of other taxes of HK$977,000 previously recorded as selling and distribution costs has been reclassified as cost of sales;

(iii) miscellaneous income arising from the sale of sample goods of HK$1,114,000 previously offset against selling and distribution costs has been reclassified as other revenue and gains; and

(iv) sundry income of HK$925,000 previously offset against the administrative expenses has been reclassified as other revenue and gains.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 8th November, 2002.