Notes to Financial Statements

31st July, 2002

1. CORPORATE INFORMATION

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

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

The following 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 those SSAPs and Interpretations which have had a significant effect on the financial statements, are summarised as follows:

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.

Notes to Financial Statements

31st July, 2002

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

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 arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of the SSAP and Interpretation has resulted in a prior year adjustment, further details of which are included in note 13 to the financial statements. The required new additional disclosures are included in notes 18, 19 and 29 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.

In addition to the above new and revised SSAPs and related Interpretations, certain minor revisions to the following SSAPs are effective for the first time for the current year's financial statements:

SSAP 10: "Accounting for investments in associates"
SSAP 17: "Property, plant and equipment"

The only significant effect of these revisions is that SSAP 10 requires that negative goodwill arising on the acquisition of associates is accounted for in accordance with SSAP 30, except that negative goodwill arising on the acquisition of associates is included as part of the Group's interests in associates rather than separately presented on the face of the consolidated balance sheet. In addition, the recognition of negative goodwill is separately presented on the face of the consolidated profit and loss account.

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 periodic remeasurement of investment properties, fixed assets and short term investments in securities, as further explained below.

Basis of consolidation

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

Associates

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

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

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

Notes to Financial Statements

31st July, 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

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

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

During the year, the Group revised the estimated useful life of goodwill arising on the acquisition of a subsidiary, Crocodile Garments Limited ("Crocodile"), from sixty years to twenty years in accordance with SSAP 30. Had the estimated life of goodwill remained unchanged from the previous year, the amortisation charge for the year would have decreased by approximately HK$15,461,000.

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

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

Negative goodwill

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative goodwill (continued)

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

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, the date when the SSAP was first adopted by the Group, to remain credited to capital reserve. Negative goodwill on subsequent acquisitions is treated according to the new accounting policy described above.

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

Impairment of assets

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

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

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

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

Notes to Financial Statements

31st July, 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

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

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

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

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

The transitional provisions set out in paragraph 72 of SSAP 17 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 profits as a movement in reserves.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 represent properties developed for sale and are stated at cost less any impairment losses. Cost includes the cost of land, construction, financing and other related expenses.

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.

Short term investments

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

Inventories

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

Textile quota entitlements

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

Notes to Financial Statements

31st July, 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases

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

Deferred tax

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods and transfer of textile quotas, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

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

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

(d) from restaurant operations and other related service income, in the period in which such services are rendered;

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

(f) dividends, when the shareholders' right to receive payment has been established; and

(g) royalty income, when the right to receive the income 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 of such borrowing costs ceases when the asset is substantially ready for its intended use or sale. The capitalisation rate for the year is based on the weighted average of the attributable borrowing costs of the borrowings. All other borrowing costs are charged to the profit and loss account in the period in which they are incurred.

Notes to Financial Statements

31st July, 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits scheme

The Group operates defined contribution pension schemes under the Mandatory Provident Fund Schemes Ordinance (the "MPF Schemes") for its employees, the assets of which are held separately from those of the Group in independently administered funds. The MPF Schemes have operated since 1st December, 2000. 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 Scheme. The Group's employer contributions vest fully with the employees when contributed into the MPF Schemes, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Schemes.

Prior to the MPF Schemes becoming effective, the Group operated a defined contribution retirement scheme (the "Contribution Scheme") and a defined benefit retirement scheme (the "Benefit Scheme") for those employees who were eligible to participate in these schemes.

The Contribution Scheme operated in a similar way to the MPF Schemes, except that when an employee left the prior scheme before his/her interest in the Group's employer contributions vested fully, the ongoing contributions payable by the Group were reduced by the relevant amount of the forfeited employer contributions. With effect from 1st December, 2000, the contribution scheme was terminated.

Contributions to the Benefit Scheme were 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 was 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 Benefit Scheme and transferred the amount of the employer 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 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 Benefit Scheme and was recognised as other operating income in the prior year.

The employees of the Group's subsidiaries which operate in the People's Republic of China (the "PRC") are required to participate in a central pension scheme operated by the local municipal government. The PRC subsidiaries are required to contribute certain percentage of their payroll costs to the central pension scheme.

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 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 operating 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.

Notes to Financial Statements

31st July, 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

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 that 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 operation segment engages in the manufacture, trading and distribution of garments and the transfer of textile quotas;

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

(c) the property investment segment comprises the leasing of and sale of investment properties; and

(d) others segment comprises the Group's property management services business which provides property management services to office and commercial properties, restaurant operations and corporate income and expense items.

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

Intersegment sales and transfers are transacted with reference to the prevailing market prices.

Notes to Financial Statements

31st July, 2002

4. SEGMENT INFORMATION (continued)

Business segments

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

	Garment operation		Property development		Property investment		Others		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:												
Sale to external customers	1,274,750	1,295,647	—	—	11,739	10,676	11,133	11,248	—	—	1,297,622	1,317,571
Intersegment sales	—	—	—	—	4,131	4,794	—	24	(4,131)	(4,818)	—	—
Other revenue	7,483	8,345	—	20,709	128	31	2	52	—	—	7,613	29,137
Total	1,282,233	1,303,992	—	20,709	15,998	15,501	11,135	11,324	(4,131)	(4,818)	1,305,235	1,346,708
Segment results	44,617	61,417	(11,800)	20,709	9,005	1,070	(8,365)	(14,776)	—	—	33,457	68,420
Interest income and unallocated other revenue and gains											3,683	7,603
Profit from operating activities											37,140	76,023
Finance costs											(6,814)	(9,003)
Share of profits and losses of associates											(922,849)	(675,211)
Negative goodwill recognised											3,723	—
Impairment in value of an associate											(273,812)	—
Loss before tax											(1,162,612)	(608,191)
Tax											(28,622)	(18,695)
Loss before minority interests											(1,191,234)	(626,886)
Minority interests											(9,040)	(2,550)
Net loss from ordinary activities attributable to shareholders											(1,200,274)	(629,436)

Notes to Financial Statements

31st July, 2002

4. SEGMENT INFORMATION (continued)

Business segments (continued)

	Garment operation		Property development		Property investment		Others		Consolidated	
	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
Segment assets	769,696	852,195	180,798	191,717	232,314	152,675	3,064	5,084	1,185,872	1,201,671
Interests in associates									1,659,150	2,788,652
Bank overdrafts included in segment assets	4,002	2,919	—	—	—	—	—	—	4,002	2,919
Total assets									2,849,024	3,993,242
Segment liabilities	524,488	390,456	813	575	3,348	787	7,428	7,758	536,077	399,576
Unallocated liabilities									323,036	149,720
Bank overdrafts included in segment assets	4,002	2,919	—	—	—	—	—	—	4,002	2,919
Total liabilities									863,115	552,215
Other segment information:										
Depreciation	15,261	15,691	66	—	264	1,929	277	355	15,868	17,975
Amortisation of goodwill on acquisition of subsidiaries	17,980	2,519	—	—	—	—	—	—	17,980	2,519
Deficit on revaluation of fixed assets	25,836	—	—	—	—	—	—	—	25,836	—
Deficit on revaluation of investment properties	—	—	—	—	1,700	2,900	—	—	1,700	2,900
Impairment of properties under development	—	—	11,414	—	—	—	—	—	11,414	—
Capital expenditure	4,968	6,016	—	—	736	764	103	54	5,807	6,834

Geographical segments

The following table presents revenue, profit/(loss), asset and certain expenditure information for the Group's geographical segments.

	Hong Kong		Elsewhere in the PRC		United States of America		Other locations		Consolidated	
	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
Segment revenue:										
Sale to external customers	303,475	373,075	304,742	303,943	689,405	628,513	—	12,040	1,297,622	1,317,571
Other revenue	898	837	6,468	23,999	247	3,731	—	570	7,613	29,137
Total	304,373	373,912	311,210	327,942	689,652	632,244	—	12,610	1,305,235	1,346,708
Segment results	(57,914)	(20,502)	19,691	43,261	71,680	47,343	—	(1,682)	33,457	68,420
Other segment information:										
Segment assets	481,692	639,137	371,475	367,554	332,705	194,980	—	—	1,185,872	1,201,671
Capital expenditure	3,814	4,667	1,993	2,167	—	—	—	—	5,807	6,834

5. RELATED PARTY TRANSACTIONS

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

		Group	
		2002	2001
	Notes	HK$'000	HK$'000
Rental expenses paid and payable to associates	(i)	11,607	10,380
Interest expense paid to a shareholder	(ii)	3,164	1,652

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

(ii) The interest was charged by a shareholder at the best lending rate quoted by a designated bank in Hong Kong in respect of the note payable (note 26) and an amount of HK$16,000,000 (2001: HK$100,000,000) advanced from the shareholder. The advances received from a shareholder during the current and prior years were fully repaid in these respective years.

6. TURNOVER

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

	Group	
	2002	2001
	HK$'000	HK$'000
Sale of garments and transfer of textile quotas	1,274,750	1,295,647
Property rentals	11,739	10,676
Restaurant and other operations	11,133	11,248
	1,297,622	1,317,571

Notes to Financial Statements

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7. PROFIT FROM OPERATING ACTIVITIES

This is arrived at after charging/(crediting):

	Group	
	2002	2001
	HK$'000	HK$'000
Auditors' remuneration	1,520	1,830
Amortisation of goodwill on acquisition of subsidiaries*	17,980	2,519
Deficit on revaluation of fixed assets	25,836	—
Deficit on revaluation of investment properties	1,700	2,900
Depreciation	15,868	17,975
Foreign exchange losses/(gains), net	10	(1,653)
Impairment of properties under development	11,414	—
Loss on disposal of fixed assets	1,985	3,920
Loss on disposal of properties held for sale	100	—
Minimum lease payments under operating leases in respect of land and buildings	89,724	107,907
Provision for doubtful debts	2,068	4,206
Severance payment	19,056	6,761
Staff costs (including directors' remuneration - see note 9):		
Wages and salaries	112,288	144,504
Pension scheme contributions	3,563	4,191
Less: Forfeited contributions	—	—
Net pension scheme contributions**	3,563	4,191
	115,851	148,695
Unrealised losses of short term investments	133	3,379
Dividend income from short term listed investments	(778)	(445)
Gain on deregistration of subsidiaries	(1,610)	—
Interest income from bank deposits	(660)	(3,353)
Other interest income	(56)	(2,914)
Realised gain on the disposal of a subsidiary of an associate #	—	(20,709)
Refund of retirement scheme contributions not fully vested	—	(18,169)
Rental income	(11,132)	(10,676)
Less: Outgoings	1,692	4,724
Net rental income	(9,440)	(5,952)

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

** As at 31st July, 2002, no forfeited contributions were available to the Group to reduce its contributions to the pension scheme in future years (2001: Nil).

\# 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 (the "Transaction"). In 2000, Lai Sun Development Company Limited ("LSD") (which was then a holding company of Lai Fung) became an associate of the Group and Lai Fung became a subsidiary of an associate of the Group. Relevant portion of the gain arising from the Transaction was realised upon the deemed disposal of Lai Fung by LSD in 2001.

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8. FINANCE COSTS

	Group 2002 HK$'000	Group 2001 HK$'000
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	6,814	9,003

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(a) Directors' remuneration

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

	Group 2002 HK$'000	Group 2001 HK$'000
Fees	579	522
Other emoluments:		
Basic salaries, housing and other allowances and benefits in kind	9,052	8,534
Bonuses paid and payable	960	205
Pension scheme contributions	62	50
	10,653	9,311

Fees include HK$76,933 (2001: HK$48,000) paid to independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2001: Nil).

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

	Group 2002 Number of directors	Group 2001 Number of directors
Nil - HK$1,000,000	11	8
HK$1,000,001 - HK$1,500,000	1	1
HK$2,000,001 - HK$2,500,000	—	1
HK$2,500,001 - HK$3,000,000	1	—
HK$3,500,001 - HK$4,000,000	—	1
HK$5,000,001 - HK$5,500,000	1	—
	14	11

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

Notes to Financial Statements

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

(b) **Five highest paid employees**

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

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

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

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

Notes to Financial Statements

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10. TAX

Hong Kong profits tax has been provided at the rate of 16% (2001: 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	
	2002	2001
	HK$'000	HK$'000
Provision for tax for the year:		
Hong Kong	11,060	5,366
Outside Hong Kong	2,300	6,228
Deferred	—	(1,063)
	13,360	10,531
Prior year overprovision:		
Hong Kong	(1,100)	(19)
Outside Hong Kong	—	(4,266)
	(1,100)	(4,285)
Share of tax attributable to associates:		
Hong Kong	15,179	12,449
Outside Hong Kong	1,183	—
	16,362	12,449
Tax charge for the year	28,622	18,695

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31st July, 2002 dealt with in the financial statements of the Company is HK$1,748,379,000 (2001: HK$499,663,000).

12. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$1,200,274,000 (2001: HK$629,436,000) and the weighted average of 1,437,709,710 (2001: 1,437,709,710) ordinary shares in issue during the year.

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

Notes to Financial Statements

31st July, 2002

13. PRIOR YEAR ADJUSTMENT

In accordance with paragraph 88 of SSAP 30 and Interpretation 13, the Group is required to estimate any impairment loss that arose on goodwill, which was previously eliminated against consolidated reserves, in accordance with the requirements of SSAP 31 since the date of acquisition of the subsidiaries and associates. Implementation of this policy is treated as a change in accounting policy in accordance with SSAP 2 "Net profit or loss for the period, fundamental errors and changes in accounting policies".

LSD, a 42.25% owned associate of the Group, has assessed the carrying values of goodwill previously eliminated against consolidated reserves prior to 1st August, 2001, and has recognised an impairment of goodwill, which was previously eliminated against consolidated reserves, of HK$62,619,000. The impairment has been accounted for retrospectively as a prior year adjustment in accordance with the transitional provisions of SSAP 30. Accordingly, the Group has restated its share of LSD's prior year adjustment of HK$26,457,000 in both accumulated losses and capital reserve as at 31st July, 2001 (note 29). This prior year adjustment has no effect on the results and net asset values of the Group for the current and last years.

14. FIXED ASSETS

Group

	31st July, 2001 HK$'000	Additions HK$'000	Disposals HK$'000	Transfer to investment properties HK$'000	Revaluation HK$'000	31st July, 2002 HK$'000
Cost or valuation:						
Leasehold land and buildings	248,431	—	(1,310)	(80,000)	(136,680)	30,441
Leasehold improvements	753	—	—	—	—	753
Plant and machinery	31,037	821	(9,243)	—	—	22,615
Furniture, fixtures and equipment	86,608	3,784	(14,595)	—	—	75,797
Motor vehicles	13,630	1,020	(608)	—	—	14,042
Computers	19,152	182	—	—	—	19,334
Motor vessels	16,951	—	—	—	—	16,951
	416,562	5,807	(25,756)	(80,000)	(136,680)	179,933
Accumulated depreciation:						
Leasehold land and buildings	38,160	4,044	(88)	—	(31,458)	10,658
Leasehold improvements	622	97	—	—	—	719
Plant and machinery	27,127	781	(8,548)	—	—	19,360
Furniture, fixtures and equipment	71,301	9,236	(13,350)	—	—	67,187
Motor vehicles	12,819	360	(567)	—	—	12,612
Computers	15,515	1,350	—	—	—	16,865
Motor vessels	16,951	—	—	—	—	16,951
	182,495	15,868	(22,553)	—	(31,458)	144,352
Net book value	234,067					35,581

Notes to Financial Statements

31st July, 2002

14. FIXED ASSETS (continued)

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

	Hong Kong HK$'000	Outside Hong Kong HK$'000	Total HK$'000
Long term	6,680	17,778	24,458
Medium term	5,983	—	5,983
	12,663	17,778	30,441

Company

	31st July, 2001 HK$'000	Additions HK$'000	Disposals HK$'000	31st July, 2002 HK$'000
Cost or valuation:				
Medium term leasehold land and buildings situated in Hong Kong	5,983	—	—	5,983
Plant and machinery	8,922	—	(8,922)	—
Furniture, fixtures and equipment	14,109	261	(8,641)	5,729
Motor vehicles	9,590	1,019	—	10,609
Motor vessels	16,951	—	—	16,951
	55,555	1,280	(17,563)	39,272
Accumulated depreciation:				
Medium term leasehold land and buildings situated in Hong Kong	2,388	173	—	2,561
Plant and machinery	8,303	104	(8,407)	—
Furniture, fixtures and equipment	12,326	632	(7,760)	5,198
Motor vehicles	9,435	255	—	9,690
Motor vessels	16,951	—	—	16,951
	49,403	1,164	(16,167)	34,400
Net book value	6,152			4,872

Certain land and buildings of the Group and the Company with net book values of HK$7,600,000 (2001: HK$195,993,000) and HK$1,267,000 (2001: HK$1,378,000), respectively, were pledged to banks to secure banking facilities granted to the Group.

Notes to Financial Statements

31st July, 2002

14. FIXED ASSETS (continued)

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	6,680	—
At 1994 valuation	2,400	2,400
	30,441	5,983

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

	Group		Company	
	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000
Leasehold land and buildings situated in Hong Kong	3,426	7,472	1,333	1,450

All other fixed assets are stated at cost.

15. INVESTMENT PROPERTIES

	Group		Company	
	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000
At beginning of year, at valuation	142,800	77,700	17,800	10,700
Transfer to properties held for sale	—	(4,400)	—	(4,400)
Transfer from fixed assets	80,000	72,400	—	14,400
Deficit on revaluation	(1,700)	(2,900)	(1,700)	(2,900)
At end of year, at valuation	221,100	142,800	16,100	17,800

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

15. INVESTMENT PROPERTIES (continued)

At 31st July, 2002, 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.

All investment properties of the Group and the Company were leased to third parties under operating leases, further summary details of which are included in note 32 to the financial statements.

Certain investment properties of the Group and of the Company with carrying values of HK$217,500,000 (2001: HK$138,800,000) and HK$12,500,000 (2001: HK$13,800,000), respectively, were pledged to banks to secure banking facilities granted to the Group.

16. PROPERTIES UNDER DEVELOPMENT

	Group	
	2002	2001
	HK$'000	HK$'000
At beginning of year, at carrying value	188,702	187,840
Impairment provided for during the year	(11,414)	—
Exchange realignments	(60)	862
At end of year, at carrying value	177,228	188,702

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

The balance at 31st July, 2002 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, the PRC.

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 would have 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. During the year, the Group has submitted the request for another extension of the Completion Date of the project. The Group is currently preparing for additional information and documents requested by the Land Administration Bureau for its consideration of the extension application.

Notes to Financial Statements

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17. INTERESTS IN SUBSIDIARIES

	Company 2002 HK$'000	Company 2001 HK$'000
Shares listed in Hong Kong, at cost	7,265	7,265
Unlisted shares, at cost	486	486
	7,751	7,751
Amounts due from subsidiaries	1,054,865	1,038,232
Amounts due to subsidiaries	(126,256)	(123,199)
	928,609	915,033
Provision for impairment	(374,898)	—
	553,711	915,033
	561,462	922,784
Market value of listed shares at the balance sheet date	309	507

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

Details of the principal subsidiaries are as follows:

Name of company	Place of incorporation/ registration and operations	Issued/ registered capital	Class of shares held	Equity interest attributable to the Company Direct (%)	Equity interest attributable to the Company Indirect (%)	Principal activities
Costroll Company Limited	Hong Kong	HK$20	Ordinary	—	54.93	Property letting
Creative Fashions Limited	Hong Kong	HK$500,000	Ordinary	100.00	—	Garment trading
Crocodile (China) Limited	Hong Kong	HK$4	Ordinary	—	54.93	Garment trading
Crocodile Garments Limited	Hong Kong	HK$154,281,783	Ordinary	0.43	54.50	Garment manufacturing and trading

17. INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ registration and operations	Issued/ registered capital	Class of shares held	Equity interest attributable to the Company Direct (%)	Equity interest attributable to the Company Indirect (%)	Principal activities
Crocodile Garments (Zhong Shan) Limited	PRC	HK$17,200,000	*	—	49.44**	Garment manufacturing and trading
Crocodile Investment Limited	Hong Kong	HK$20	Ordinary	—	54.93	Investment holding
Dackart Trading Company Limited	Hong Kong	HK$20	Ordinary	—	54.93	Property investment
Gold Nation Development Limited	Hong Kong	HK$2	Ordinary	—	54.93	Property investment
Joy Mind Limited	Hong Kong	HK$2	Ordinary	100.00	—	Investment holding
Kingscord Investment Limited	Hong Kong	HK$2	Ordinary	—	100.00	Investment holding
Kingscord Real Estate (Shanghai) Co. Ltd.	PRC	US$1,500,000	*	—	100.00	Investment holding
Shanghai Hu Xin Real Estate Development Co., Ltd.	PRC	US$6,000,000	*	—	95.00	Property development and investment
Silver Glory Securities Limited	British Virgin Islands	US$1	Ordinary	100.00	—	Investment holding

* These subsidiaries have registered rather than issued share capital.

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

Notes to Financial Statements

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17. INTERESTS IN SUBSIDIARIES (continued)

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.

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.

On 12th October, 2000, the Company gave its consent to execute a deed of guarantee in favour of a bank for banking facilities of HK$20,000,000 granted to Crocodile (the "Facilities"). In relation to this arrangement, Crocodile agreed to pay the Company an annual guarantee fee of 1% of the utilised amount. The Company beneficially owned approximately 54.93% of the issued share capital of Crocodile during the year. The transaction constituted a connected transaction for the Company as defined under the Listing Rules. On 15th April, 2002, the Facilities were replaced by other new banking facilities granted to Crocodile by the bank which did not require guarantee from the Company.

18. GOODWILL

As detailed in note 2 to the financial statements, SSAP 30 was adopted during the year. The amounts of the goodwill capitalised as an asset arising from the acquisition of subsidiaries are as follows:

Group

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

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

As detailed in noted 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.

18. GOODWILL (continued)

The amounts of negative goodwill that remained in the capital reserve, as a result of the acquisition of subsidiaries prior to 1st August, 2001, are as follows:

Group

	HK$'000
At beginning of year	(9,604)
Release upon deregistration of subsidiaries	1,610
At end of year	(7,994)

19. INTERESTS IN ASSOCIATES

	Group		Company	
	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000
Shares listed in Hong Kong, at cost	—	—	2,320,417	2,070,971
Share of net assets	2,845,489	2,791,335	—	—
Negative goodwill on acquisition	(911,949)	—	—	—
	1,933,540	2,791,335	2,320,417	2,070,971
Amounts due from associates	5,854	5,613	2,670	2,429
Amounts due to associates	(3,248)	(5,112)	(2,000)	(2,029)
	1,936,146	2,791,836	2,321,087	2,071,371
Provision for impairment	(276,996)	(3,184)	(1,974,225)	(539,786)
	1,659,150	2,788,652	346,862	1,531,585
Market value of listed shares at balance sheet date	260,713	398,990	200,472	292,330

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

The balances with associates are unsecured, interest-free and have no fixed terms of repayment, except for an amount of HK$586,000 (2001: HK1,379,000) due from an associate which bears interest at the prevailing market rate.

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19. INTERESTS IN ASSOCIATES (continued)

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 that remained in the capital reserve, as a result of the acquisition of associates prior to 1st August, 2001, was HK$3,906,654,000 as at 1st August, 2001 and 31st July, 2002.

The amount of negative goodwill recognised in the consolidated balance sheet as a result of the Lai Fung Transaction (as defined below) which was accounted for in accordance with SSAP 30 is as follows:

Group

	HK$'000
Cost:	
Acquisition of interest in an associate and at 31st July, 2002	915,672
Recognition as income:	
Recognised as income during the year and at 31st July, 2002	(3,723)
Net book value:	
At 31st July, 2002	911,949

Details of the principal associates are as follows:

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

Notes :

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

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

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

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

Notes to Financial Statements

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19. INTERESTS IN ASSOCIATES (continued)

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

115,000,000 ordinary shares of Lai Fung held by the Group have been pledged to a bank to secure banking facilities granted to the Company.

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

On 7th December, 2001, the Company, LSD and Mr. Lim Por Yen ("Mr. Lim"), an executive director and a substantial shareholder of the Company (as defined under the Listing Rules) entered into an agreement (the "Agreement") pursuant to which:

- LSD agreed to sell to the Company 779,958,912 shares in the capital of Lai Fung, representing approximately 25.40% of the issued share capital of Lai Fung (the "Lai Fung Transaction"), for a consideration of HK$225,200,000. This consideration should be satisfied by the execution by the Company and delivery to LSD, on completion of the Agreement, of a loan note (the "LSG Loan Note") to be issued on completion by the Company in favour of LSD as the consideration for the Lai Fung Transaction in an aggregate principal amount of HK$225,200,000;

- Mr. Lim agreed to sell to LSD 125,450,000 shares in the capital of Asia Television Limited ("ATV"), representing approximately 16.08% of the existing issued share capital of ATV for a consideration of HK$225,200,000 (the "ATV Transaction"); and

- LSD agreed to assign to Mr. Lim (or his nominee) its rights and benefits in respect of the LSG Loan Note in consideration of which the liability of LSD to Mr. Lim in respect of the consideration for the ATV Transaction, in the amount of HK$225,200,000 would be satisfied and discharged (the "Assignment").

As at the date of the agreement, Mr. Lim was a substantial shareholder of the Company and was an executive director of both the Company and LSD. In addition, the Company, together with its subsidiary, was a substantial shareholder of LSD. Accordingly, the Lai Fung Transaction, the ATV Transaction and the Assignment constituted related and connected transactions of the Company and LSD as defined under SSAP 20 "Related party disclosures" and the Listing Rules, respectively. The transactions were approved by the independent shareholders of the Company and LSD at their respective extraordinary general meetings held on 7th February, 2002 and were completed on 30th April, 2002. Following the completion of the above transactions, the Group's shareholding in the Lai Fung Group increased to 46.04%.

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19. 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 the LSD Group and the Lai Fung Group as at 31st July, 2002 and their respective results for the financial year ended 31st July, 2002 are set out below:

(a) LSD Group *

	As at 31st July, 2002 HK$'000
Non-current assets	8,919,354
Current assets	394,684
Current liabilities	(6,587,485)
Non-current liabilities	(1,608,861)
Minority interests	(351,274)
	766,418
Contingent liabilities	269,194

	Year ended 31st July, 2002 HK$'000
Turnover	934,720
Loss before tax	(1,881,190)
Tax	(35,927)
Loss before minority interests	(1,917,117)
Minority interests	(24,391)
Net loss from ordinary activities attributable to shareholders	(1,941,508)

* The amounts are extracted from the audited financial statements of LSD for the year ended 31st July, 2002.

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19. INTERESTS IN ASSOCIATES (continued)

(a) LSD Group (continued)

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

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

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

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

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

The LSD Group sustained a net loss from ordinary activities attributable to shareholders of HK$1,942 million for the year ended 31st July, 2002 (2001: HK$1,196 million). The loss principally arose from non-recurring transactions in respect of the disposal of certain subsidiaries and associates, and was compounded by impairment provisions in respect of its interests in certain properties under development, unlisted investments, associates and goodwill related thereto.

At the balance sheet date, the LSD Group had consolidated net current liabilities of HK$6,193 million (2001: HK$957 million) and consolidated net assets of HK$766 million (2001: HK$3,866 million).

Notes to Financial Statements

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19. INTERESTS IN ASSOCIATES (continued)

(a) LSD Group (continued)

Included in such net current liabilities were the outstanding balance of the US$115 million exchangeable bonds of HK$740 million, the outstanding balance of the US$150 million convertible guaranteed bonds of HK$965 million, a debt of HK$1,500 million owed by Furama Hotel Enterprises Limited, a wholly-owned subsidiary of LSD, to Golden Pool Enterprises Limited, a wholly-owned subsidiary of eSun Holdings Limited ("eSun"), which in turn is an associate of the LSD Group and bank and other borrowings of HK$2,445 million, all of which are scheduled to mature within the next 12 months from the balance sheet date.

Over the past two years, the LSD Group has successfully monitored an orderly disposal of assets, including properties and other investments, to generate positive cash flows for the repayment of bank and other borrowings and to provide sufficient working capital for the LSD Group's operations. The LSD Group will continue to implement appropriate asset disposal programmes to further reduce its overall level of indebtedness.

During the year, the LSD Group has been working closely with its legal and financial advisors in formulating a plan for the repayment and/or refinancing of its outstanding indebtedness. Recently, the LSD Group initiated discussions with the exchangeable bondholders, convertible bondholders and eSun to explore the terms of a new debt restructuring plan (the "New Restructuring Plan"). The LSD Group has also initiated negotiations with its principal banks with a view to arranging a rescheduling and/or refinancing of its bank borrowings (the "Refinancing Arrangements"). As at 8th November, 2002, the date of approval of the financial statements of LSD, no fixed terms or binding agreements in respect of the New Restructuring Plan or the Refinancing Arrangements had been agreed upon or executed.

The directors of LSD believe that the LSD Group will be able to secure the agreement of the exchangeable bondholders, convertible bondholders, eSun and the banks to the New Restructuring Plan and the Refinancing Arrangements and, at the same time, continue the successful orderly disposal of the necessary LSD Group assets to generate additional positive cash flows. On this basis, the directors of LSD consider that the LSD Group will have sufficient working capital to finance its operations in the foreseeable future. Accordingly, the directors of LSD are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

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

Notes to Financial Statements

31st July, 2002

19. INTERESTS IN ASSOCIATES (continued)

(b) Lai Fung Group **

	As at 31st July, 2002 HK$'000
Non-current assets	6,817,686
Current assets	193,351
Current liabilities	(395,388)
Non-current liabilities	(927,066)
Minority interests	(165,085)
	5,523,498
Contingent liabilities	1,166,000

	Year ended 31st July, 2002 HK$'000
Turnover	142,510
Loss before tax	(89,471)
Tax	(2,352)
Loss before minority interests	(91,823)
Minority interests	(2,153)
Net loss from ordinary activities attributable to shareholders	(93,976)

** The amounts are extracted from the audited financial statements of Lai Fung for the year ended 31st July, 2002.

Notes to Financial Statements

31st July, 2002

19. INTERESTS IN ASSOCIATES (continued)

(b) Lai Fung Group (continued)

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

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

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

20. SHORT TERM INVESTMENTS

	Group		Company	
	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000
Listed equity investments in Hong Kong, at market value	18,150	17,800	18,150	17,800

21. INVENTORIES

	Group		Company	
	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000
Raw materials	7,398	12,780	—	4,126
Work in progress	563	2,842	—	1,869
Finished goods	130,603	110,914	—	5,719
	138,564	126,536	—	11,714

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$30,626,000 (2001: HK$22,194,000) and Nil (2001: Nil), respectively.

22. TRADE RECEIVABLES AND BILL RECEIVABLES

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

Crocodile and its subsidiaries (collectively the "CGL Group"), a listed subgroup of the Company maintains its own set of credit policies. Other than cash sales made at retail outlets of the CGL Group, trading terms with wholesale customers are largely on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 30 days of issuance, except for certain well-estimated customers, where the terms are extended to 90 days. Each customer has a designed credit limit.

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

An aged analysis of trade receivables and bill receivables, based on invoice due date, as at 31st July, 2002 is as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Current to 90 days	199,006	188,001
91 days to 180 days	36,674	13,191
181 days to 365 days	80,582	5,711
Over 365 days	45,047	19,815
	361,309	226,718

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

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000
Cash and bank balances	86,156	80,125	2,553	8,915
Time deposits	13,019	13,363	10,516	10,008
	99,175	93,488	13,069	18,923

Notes to Financial Statements

31st July, 2002

24. TRADE PAYABLES AND BILL PAYABLES

An aged analysis of trade payables and bill payables as at 31st July, 2002 is as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Current to 90 days	237,239	192,292
91 days to 180 days	39,601	27,079
181 days to 365 days	80,902	7,124
Over 365 days	56,094	26,633
	413,836	253,128

25. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group		Company	
	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000
Unsecured bank overdrafts	4,002	2,919	886	—
Secured bank loans	66,538	81,820	40,000	50,000
Trust receipt loans	17,787	32,165	—	895
Other borrowings, unsecured	86	259	86	168
	88,413	117,163	40,972	51,063
Portion due within one year or on demand classified as current liabilities	(88,406)	(114,776)	(40,965)	(50,978)
Long term portion	7	2,387	7	85
The long term portion of bank and other borrowings is repayable within periods of:				
More than one year but not exceeding two years	7	2,380	7	78
More than two years but not exceeding five years	—	7	—	7
	7	2,387	7	85

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

The Group's and the Company's other borrowings are unsecured, bear interest at 13% per annum and are repayable by various instalments up to 31st August, 2003.

Notes to Financial Statements

31st July, 2002

26. NOTE PAYABLE

The amount represented the outstanding balance of the LSG Loan Note (note 19) which is unsecured, bears interest at the best lending rate quoted by a designated bank and with maturity date on 30th April, 2004.

27. DEFERRED TAX

The principal components of the deferred tax assets/(liabilities) recognised and not recognised in the financial statements are as follows:

Group

	Provided		Not provided	
	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000
Accelerated capital allowances on fixed assets	—	—	473	(1,153)
Tax losses	—	—	58,142	56,014
	—	—	58,615	54,861

Company

	Provided		Not provided	
	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000
Accelerated capital allowances on fixed assets	—	—	616	(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.

28. SHARE CAPITAL

	2002	2001
	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

Notes to Financial Statements

31st July, 2002

29. 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, 2000									
As previously reported	1,119,738	87,297	37,759	489,333	3,384,186	57	33,445	(2,610,136)	2,541,679
Prior year adjustment - note 13	—	—	—	—	26,457	—	—	(26,457)	—
As restated	1,119,738	87,297	37,759	489,333	3,410,643	57	33,445	(2,636,593)	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
Deficit on revaluation of fixed assets on their transfer to investment properties	—	(35,385)	—	—	—	—	—	—	(35,385)
Net loss for the year	—	—	—	—	—	—	—	(629,436)	(629,436)
At 31st July, 2001 and 1st August, 2001 - Page 71	1,119,738	51,912	—	148,729	4,455,469	57	29,755	(3,266,029)	2,539,631

Notes to Financial Statements

31st July, 2002

29. RESERVES (continued)

Group

	Share premium account HK$'000	Fixed asset revaluation reserve HK$'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 31st July, 2001 and 1st August, 2001								
As previously reported	1,119,738	51,912	148,729	4,429,012	57	29,755	(3,239,572)	2,539,631
Prior year adjustment - note 13	—	—	—	26,457	—	—	(26,457)	—
As restated - Page 70	1,119,738	51,912	148,729	4,455,469	57	29,755	(3,266,029)	2,539,631
Release upon write-off of fixed assets	—	(166)	—	—	—	—	166	—
Release upon deregistration of subsidiaries	—	—	—	(1,610)	—	—	—	(1,610)
Share of reserves of associates	—	—	(148,729)	(33,312)	—	—	—	(182,041)
Exchange realignments:								
Subsidiaries	—	—	—	—	—	(38)	—	(38)
Associates	—	—	—	—	—	(809)	—	(809)
Deficit on revaluation of fixed assets on their transfer to investment properties	—	(31,961)	—	—	—	—	—	(31,961)
Net loss for the year	—	—	—	—	—	—	(1,200,274)	(1,200,274)
At 31st July, 2002	1,119,738	19,785	—	4,420,547	57	28,908	(4,466,137)	1,122,898
Reserves retained by:								
Company and subsidiaries	1,119,738	19,785	—	3,914,994	57	5,142	589,526	5,649,242
Associates	—	—	—	505,553	—	23,766	(5,055,663)	(4,526,344)
At 31st July, 2002	1,119,738	19,785	—	4,420,547	57	28,908	(4,466,137)	1,122,898
Company and subsidiaries	1,119,738	51,912	—	3,916,604	57	5,180	850,423	5,943,914
Associates, as restated	—	—	148,729	538,865	—	24,575	(4,116,452)	(3,404,283)
At 31st July, 2001	1,119,738	51,912	148,729	4,455,469	57	29,755	(3,266,029)	2,539,631

Certain amounts of negative goodwill arising on the acquisition of subsidiaries and associates, remain credited to the capital reserve and are further explained in notes 18 and 19 to the financial statements.

Notes to Financial Statements

31st July, 2002

29. RESERVES (continued)

Company

	Share premium account HK$'000	Fixed asset revaluation reserve HK$'000	Investment property revaluation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1st August, 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 and 1st August, 2001	1,119,738	19,785	7,235	531,576	1,678,334
Deficit on revaluation of investment properties	—	—	(1,700)	—	(1,700)
Net loss for the year	—	—	—	(1,748,379)	(1,748,379)
At 31st July, 2002	1,119,738	19,785	5,535	(1,216,803)	(71,745)

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2002 HK$'000	2001 HK$'000
Profit from operating activities	37,140	76,023
Amortisation of goodwill on acquisition of subsidiaries	17,980	2,519
Deficit on revaluation of fixed assets	25,836	—
Deficit on revaluation of investment properties	1,700	2,900
Depreciation	15,868	17,975
Dividend income from short term listed investments	(778)	(445)
Gain on deregistration of subsidiaries	(1,610)	—
Interest income	(716)	(6,267)
Impairment of properties under development	11,414	—
Loss on disposal of fixed assets	1,985	3,920
Loss on disposal of properties held for sale	100	—
Provision for doubtful debts	2,068	4,206
Realised gain on the disposal of a subsidiary of an associate	—	(20,709)
Unrealised losses of short term investments	133	3,379
Increase in amounts due from associates	(241)	(44)
Increase/(decrease) in amounts due to associates	(1,864)	2,561
Increase in short term investments	(483)	(21,179)
Increase in inventories	(12,028)	(6,326)
Increase in trade and bill receivables, deposits and other receivables	(123,327)	(28,832)
Increase in trade and bill payables, deposits received, other payables and accruals	136,523	104,270
Decrease in trust receipt loans with maturity of more than three months at the date of advance	(8,925)	(5,163)
Net cash inflow from operating activities	100,775	128,788

Notes to Financial Statements

31st July, 2002

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

(b) Analysis of changes in financing during the year

	Issued capital and share premium account HK$'000	Bank loans and other borrowings HK$'000	Note payable HK$'000	Minority interests HK$'000
At 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 and 1st August, 2001	1,838,593	82,079	—	182,541
Issuance of a loan note	—	—	225,200	—
Net cash outflow from financing	—	(15,455)	(15,200)	—
Share of profits for the year	—	—	—	9,040
Release upon transfer of fixed assets to investment properties	—	—	—	(47,425)
At 31st July, 2002	1,838,593	66,624	210,000	144,156

(c) Major non-cash transactions

As further detailed in note 19 to the financial statements, the consideration payable under the Lai Fung Transaction was settled through the issuance of the LSG Loan Note and the Assignment, and therefore had no effect on the Group's cash flows.

Notes to Financial Statements

31st July, 2002

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

(d) Acquisition of a subsidiary

	2002 HK$'000	2001 HK$'000
Net assets acquired:		
Long term investment	—	90,173
Cash and bank balances	—	7
Other receivables	—	9,820
	—	100,000
Satisfied by:		
Cash	—	100,000

The subsidiary acquired in the prior year 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.

An analysis of net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary:

	2002 HK$'000	2001 HK$'000
Cash consideration	—	100,000
Cash and bank balances acquired	—	(7)
Net outflow of cash and cash equivalents in respect of acquisition of a subsidiary	—	99,993

31. CONTINGENT LIABILITIES

Crocodile is involved in legal disputes with a supplier, who alleges that Crocodile has infringed its trademark in the Mainland and is seeking orders from the courts in the Mainland 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 Crocodile. 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.

In the prior year, the Company had contingent liabilities in respect of corporate guarantees of approximately HK$20,000,000 given to a bank in connection with the banking facilities granted to a subsidiary. Such corporate guarantees expired during the year.

Notes to Financial Statements

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32. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group and the Company lease their investment properties (note 15 to the financial statements) and certain land and buildings under operating lease arrangements, with leases negotiated for terms ranging from one to four years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

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

	Group		Company	
	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000
Within one year	10,571	9,484	1,396	1,348
In the second to fifth years, inclusive	11,155	10,849	1,178	168
	21,726	20,333	2,574	1,516

(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 five years. At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000
Within one year	63,058	75,375	97	—
Within the second to fifth years, inclusive	42,820	29,916	57	—
After five years	28	—	—	—
	105,906	105,291	154	—

Notes to Financial Statements

31st July, 2002

33. COMMITMENTS

In addition to the operating lease commitments detailed in note 32(b) above, the Group and the Company had the following commitments at the balance sheet date:

	Group		Company	
	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000
Capital commitments in respect of development costs attributable to properties under development:				
Contracted, but not provided for	156,384	156,384	—	—
Authorised, but not contracted for	94,470	94,470	—	—
	250,854	250,854	—	—

34. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs and Interpretations during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, a prior year adjustment (note 13) has been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

35. APPROVAL OF THE FINANCIAL STATEMENTS

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