Notes to Financial Statements

31st July, 2006

1. CORPORATE INFORMATION

Crocodile Garments Limited is a company incorporated in Hong Kong with limited liability. The registered office of the Company is located at 11th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong.

During the year, the Group was involved in the manufacture and sale of garments and property investment and letting.

In the opinion of the directors, Rich Promise Limited, a company incorporated in the British Virgin Islands, is considered as the parent and ultimate holding company of the Group. Lai Sun Garment (International) Limited ("LSG") was the ultimate holding company of the Group up to 29th May, 2006.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations ("Int")) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and accounting principles generally accepted in Hong Kong. They have been prepared under the historical cost convention, except for investment properties which have been measured at fair value as further explained in note 4. These financial statements are presented in Hong Kong dollars ("HK$") except otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st July, 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following applicable new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1st January, 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1st January, 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards capital, and compliance with any capital requirements and the consequences of any non-compliance.

Notes to Financial Statements

31st July, 2006

2.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

HKFRS 7 incorporates the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1st January, 2007.

Except as stated above, the Group expects that the adoption of the pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

(a) Impairment of assets

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

(b) Income tax

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

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

(c) Provision for obsolete and slow-moving inventories

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

Notes to Financial Statements

31st July, 2006

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

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

(a) Estimation of fair value of investment properties

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

(b) Impairment testing of assets

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

(c) Income tax

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint venture

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

Notes to Financial Statements

31st July, 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint venture (continued)

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

A joint venture is treated as a subsidiary when the Group, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Impairment of assets (other than financial assets)

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use, and is determined on an individual asset basis, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Property, plant and equipment and depreciation

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

Notes to Financial Statements

31st July, 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

The cost of an item of property, plant and equipment comprises its purchase price, any directly attributable costs of bringing the asset to its working condition and location for its intended use and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the items of property, plant and equipment, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

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

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed and adjusted if appropriate, at each balance sheet date.

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

Notes to Financial Statements

31st July, 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for property which would otherwise meet the definition of an investment property) held to earn rentals or for capital appreciation or both, and which include those existing investment properties being redeveloped by the Group for continued future use. Such properties are not depreciated, and are measured initially at cost including all transaction costs and, after initial recognition, carried at fair values, being their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the fair values of investment properties are recognised in the income statement in the period in which they arise.

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

Financial assets

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus directly attributable transaction costs. The Group determines the classification of its financial assets after the initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Notes to Financial Statements

31st July, 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Notes to Financial Statements

31st July, 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Operating leases

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment. Deposits for prepaid land lease payments represent the deposits paid for acquisition of the land pending registration of titleship with the relevant authority. No recognition of the land lease payments is made until the registration is completed.

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow-moving items. Cost includes the cost of materials computed using the first-in, first-out method and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate portion of production overheads. Net realisable value is determined by reference either to the net sales proceeds of items in the ordinary course of business subsequent to the balance sheet date, or to management estimates based on the prevailing market conditions.

Notes to Financial Statements

31st July, 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Bank and other borrowings

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

After initial recognition, bank and other borrowings are subsequently measured at amortised cost using the effective interest method.

Gain and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Borrowing costs

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

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

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

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

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Notes to Financial Statements

31st July, 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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

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

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

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

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

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

(b) rental income, on the straight-line basis over the terms of the lease;

Notes to Financial Statements

31st July, 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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

(d) compensation income, on the straight-line basis over the terms of the relevant agreement; and

(e) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance. A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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

Notes to Financial Statements

31st July, 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company (i.e., Hong Kong dollars) at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Related parties

A party is related to the Group if:

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

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

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

(c) the party is an associate;

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

Notes to Financial Statements

31st July, 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

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

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

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

5. SEGMENT INFORMATION

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

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

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

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

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

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Notes to Financial Statements

31st July, 2006

5. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31st July, 2006 and 2005.

Group

	Garment and related accessories		Property investment		Corporate and others		Eliminations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:										
Sales to/income from external customers	**379,222**	386,537	**6,587**	10,325	**—**	—	**—**	—	**385,809**	396,862
Intersegment sales	**—**	—	**—**	12	**—**	—	**—**	(12)	**—**	—
Other revenue	**29,106**	37,943	**1,619**	217	**—**	—	**—**	—	**30,725**	38,160
Total	**408,328**	424,480	**8,206**	10,554	**—**	—	**—**	(12)	**416,534**	435,022
Segment results	**(2,656)**	24,518	**152,556**	121,482	**(25)**	(577)	**—**	—	**149,875**	145,423
Interest income									**4,250**	1,675
Finance costs									**(3,575)**	(1,118)
Profit before tax									**150,550**	145,980
Tax									**(40,531)**	(18,775)
Profit for the year attributable to equity holders of the parent									**110,019**	127,205

Notes to Financial Statements

31st July, 2006

5. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Garment and related accessories		Property investment		Corporate and others		Eliminations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Assets and liabilities:										
Segment assets	**200,457**	136,917	**447,229**	162,241	**—**	—	**—**	—	**647,686**	299,158
Unallocated assets									**80,878**	276,796
Total assets									**728,564**	575,954
Segment liabilities	**81,155**	71,642	**1,236**	3,011	**1**	10	**—**	—	**82,392**	74,663
Unallocated liabilities									**94,553**	59,795
Total liabilities									**176,945**	134,458
Other segment information:										
Depreciation	**14,469**	8,622	**179**	180	**—**	—	**—**	—	**14,648**	8,802
Provision/(write-back of provision) for bad and doubtful debts	**1**	(1,484)	**—**	59	**—**	—	**—**	—	**1**	(1,425)
Write-back of provision for slow-moving inventories, net	**(8,195)**	(4,633)	**—**	—	**—**	—	**—**	—	**(8,195)**	(4,633)
Capital expenditure	**18,782**	19,406	**137,035**	—	**—**	—	**—**	—	**155,817**	19,406
Loss/(gain) on disposal/write-offs of items of property, plant and equipment, net	**14**	(20)	**—**	3	**—**	—	**—**	—	**14**	(17)
Fair value gains on investment properties	**—**	—	**(146,593)**	(36,300)	**—**	—	**—**	—	**(146,593)**	(36,300)
Gain on disposal of investment properties	**—**	—	**—**	(77,009)	**—**	—	**—**	—	**—**	(77,009)

Notes to Financial Statements

31st July, 2006

5. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue, certain asset and capital expenditure information for the Group's geographical segments for the years ended 31st July, 2006 and 2005.

Group

	Hong Kong		Mainland China		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:						
Sales to/income from external customers	**244,866**	230,344	**140,943**	166,518	**385,809**	396,862
Other revenue	**1,660**	835	**29,065**	37,325	**30,725**	38,160
Total	**246,526**	231,179	**170,008**	203,843	**416,534**	435,022
Other segment information:						
Segment assets	**539,605**	244,070	**108,081**	55,088	**647,686**	299,158
Unallocated assets					**80,878**	276,796
Total assets					**728,564**	575,954
Capital expenditure	**150,628**	16,496	**5,189**	2,910	**155,817**	19,406

Notes to Financial Statements

31st July, 2006

6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods supplied to customers after allowances for returns, trade discounts and value-added tax, and rental income.

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

		Group	
		2006	2005
	Notes	**HK$'000**	HK$'000
Revenue			
Sale of goods		**379,222**	386,537
Gross rental income	7	**6,587**	10,325
		385,809	396,862
Other income			
Royalty income		**24,955**	33,767
Interest income		**4,250**	1,675
Sale of miscellaneous materials		**480**	550
Income from a related company for contributing an investment property as security	31(a)(iii)	**1,459**	—
Sale of export quotas		**—**	345
Others		**3,440**	2,252
		34,584	38,589
Gains			
Foreign exchange differences, net		**391**	1,246
		34,975	39,835

Notes to Financial Statements

31st July, 2006

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

		Group	
		2006	2005
	Notes	**HK$'000**	HK$'000
Cost of inventories sold		**161,207**	194,933
Depreciation	14	**14,648**	8,802
Auditors' remuneration		**1,000**	1,100
Lease payments in respect of land and buildings:			
Minimum lease payments under operating leases		**76,682**	61,630
Contingent rents		**5,754**	4,855
		82,436	66,485
Employee benefits expense (including directors' remuneration — note 8):			
Wages and salaries		**73,822**	63,187
Pension scheme contributions		**2,146**	1,958
Provision/(write-back of provision) for long service payments		**(332)**	869
		75,636	66,014
Gross rental income	6	**(6,587)**	(10,325)
Less: outgoings		**1,200**	1,771
Net rental income		**(5,387)**	(8,554)
Write-back of provision for slow-moving inventories, net (included in cost of sales)		**(8,195)**	(4,633)
Other operating expenses/(income):			
Severance payments		**1,465**	32
Provision/(write-back of provision) for bad and doubtful debts, net		**1**	(1,425)
Loss/(gain) on disposal/write-offs of items of property, plant and equipment, net		**14**	(17)
		1,480	(1,410)

Notes to Financial Statements

31st July, 2006

8. DIRECTORS' REMUNERATION

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

	Group			
	Executive directors		Non-executive directors	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Fees	**34**	30	**166**	166
Other emoluments:				
Salaries, allowances and benefits in kind	**6,499**	4,781	**—**	—
Pension scheme contributions	**18**	12	**—**	—
Bonuses paid and payable	**1,205**	1,656	**—**	—
	7,722	6,449	**—**	—
	7,756	6,479	**166**	166

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

Directors' remuneration paid to independent non-executive directors during the year amounted to HK$144,000 (2005: HK$136,000).

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

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31st July, 2006

8. DIRECTORS' REMUNERATION (continued)

The remuneration of each director is set out below:

	2006					2005
Name	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Bonuses paid and payable	Total	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors:						
Lam Kin Ming	10	4,586	—	828	5,424	4,425
Lam Kin Ngok, Peter	10	—	—	—	10	10
Lam Kin Hong, Matthew	10	780	12	—	802	1,794
Lam Wai Shan, Vanessa (note 1)	4	1,133	6	377	1,520	—
Lim Por Yen (note 2)	—	—	—	—	—	250
Non-executive directors:						
U Po Chu (note 3)	2	—	—	—	2	10
Shiu Kai Wah	10	—	—	—	10	10
Chiu Wai	10	—	—	—	10	10
Non-executive independent directors:						
Yeung Sui Sang	48	—	—	—	48	48
Wan Yee Hwa, Edward	48	—	—	—	48	48
Chow Bing Chiu (note 4)	48	—	—	—	48	40
	200	6,499	18	1,205	7,922	6,645

Notes:

1. Appointed on 17th February, 2006

2. Passed away on 18th February, 2005

3. Resigned on 6th October, 2005

4. Appointed on 30th September, 2004

Notes to Financial Statements

31st July, 2006

9. FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

The five highest paid employees during the year included two (2005: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2005: three) non-director, highest paid employees for the year are set out below:

	Group	
	2006	2005
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**8,463**	5,067
Pension scheme contributions	**23**	24
Bonuses paid and payable	**575**	1,160
	9,061	6,251

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

	Group Number of employees	
	2006	2005
HK$1,000,001 — HK$1,500,000	—	1
HK$1,500,001 — HK$2,000,000	**2**	—
HK$2,000,001 — HK$2,500,000	—	1
HK$2,500,001 — HK$3,000,000	—	1
HK$5,500,001 — HK$6,000,000	**1**	—
	3	3

10. FINANCE COSTS

	Group	
	2006	2005
	HK$'000	HK$'000
Interest on bank loans and overdrafts wholly repayable within one year	**3,575**	1,118

Notes to Financial Statements

31st July, 2006

11. TAX

No Hong Kong profits tax has been provided as the Group had available tax losses brought forward from prior years to offset the estimated assessable profits in Hong Kong for the year (2005: Nil). 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. The prior year's tax charge represented deferred tax.

	2006 HK$'000	2005 HK$'000
Group:		
Current — Elsewhere	4,204	—
Deferred — (note 17)	36,327	18,775
	40,531	18,775

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

Group — 2006

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	140,013		10,537		150,550	
Tax at the statutory tax rate	24,502	17.5	2,845	27.0*	27,347	18.2
Income not subject to tax	(892)	(0.6)	—	—	(892)	(0.6)
Expenses not deductible for tax	879	0.6	8,866	84.1	9,745	6.5
Tax losses utilised	(1,524)	(1.1)	(5,121)	(48.6)	(6,645)	(4.4)
Increase/(decrease) in unprovided deferred tax assets	13,362	9.5	(2,386)	(22.6)	10,976	7.2
Tax charge at the Group's effective rate	36,327	25.9	4,204	39.9	40,531	26.9

Notes to Financial Statements

31st July, 2006

11. TAX (continued)

Group — 2005

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

* *The Group's operations in the Coastal Open Economic Zones of Mainland China are entitled to a preferential tax rate of 27% (2005: 27%).*

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

The profit for the year ended 31st July, 2006 attributable to equity holders of the parent dealt with in the financial statements of the Company was HK$175,105,000 (2005: HK$41,705,000) (note 26(b)).

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit attributable to equity holders of the parent for the year of HK$110,019,000 (2005: HK$127,205,000) and the weighted average number of 617,127,130 (2005: 617,127,130) ordinary shares in issue throughout the year.

Diluted earnings per share amounts for the years ended 31st July, 2006 and 2005 have not been calculated because no diluting events existed during these years.

Notes to Financial Statements

31st July, 2006

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings* HK$'000	Plant and machinery HK$'000	Furniture and fixtures, including leasehold improvements HK$'000	Computer equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:						
At 1st August, 2004	17,778	18,119	47,926	16,108	3,204	103,135
Additions	—	75	14,401	1,860	3,070	19,406
Disposals/write-offs	—	(88)	(3,730)	(4,530)	(1,333)	(9,681)
Exchange realignments	—	48	62	15	10	135
At 31st July, 2005	17,778	18,154	58,659	13,453	4,951	112,995
At 1st August, 2005	17,778	18,154	58,659	13,453	4,951	112,995
Additions	—	662	13,855	2,206	2,059	18,782
Disposals/write-offs	—	(542)	(3,088)	(93)	—	(3,723)
Exchange realignment	—	21	192	11	5	229
At 31st July, 2006	**17,778**	**18,295**	**69,618**	**15,577**	**7,015**	**128,283**
Accumulated depreciation and impairment:						
At 1st August, 2004	9,350	16,129	43,512	15,363	2,474	86,828
Provided during the year	800	624	6,183	548	647	8,802
Disposals/write-offs	—	(72)	(3,677)	(4,519)	(1,333)	(9,601)
Exchange realignments	—	31	25	4	3	63
At 31st July, 2005	10,150	16,712	46,043	11,396	1,791	86,092
At 1st August, 2005	10,150	16,712	46,043	11,396	1,791	86,092
Provided during the year	800	541	11,794	723	790	14,648
Disposals/write-offs	—	(530)	(3,088)	(91)	—	(3,709)
Exchange realignment	—	15	19	8	2	44
At 31st July, 2006	**10,950**	**16,738**	**54,768**	**12,036**	**2,583**	**97,075**
Net book value:						
At 31st July, 2006	**6,828**	**1,557**	**14,850**	**3,541**	**4,432**	**31,208**
At 31st July, 2005	7,628	1,442	12,616	2,057	3,160	26,903

* Since the land lease payment cannot be allocated reliably between the land and buildings elements, the entire lease payment is included in the cost of land and buildings as a finance lease in property, plant and equipment. The leasehold land and buildings of the Group are situated in Mainland China and are held under long term leases.

Notes to Financial Statements

31st July, 2006

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Furniture and fixtures, including leasehold improvements	Computer equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Cost:				
At 1st August, 2004	31,262	15,726	1,909	48,897
Additions	12,170	1,256	2,670	16,096
Disposals/write-offs	(3,665)	(4,517)	(1,333)	(9,515)
At 31st July, 2005	39,767	12,465	3,246	55,478
At 1st August, 2005	39,767	12,465	3,246	55,478
Additions	11,186	348	1,508	13,042
Disposals/write-offs	(3,020)	(89)	—	(3,109)
At 31st July, 2006	**47,933**	**12,724**	**4,754**	**65,411**
Accumulated depreciation and impairment:				
At 1st August, 2004	29,134	15,264	1,909	46,307
Provided during the year	5,268	454	534	6,256
Disposals/write-offs	(3,665)	(4,517)	(1,333)	(9,515)
At 31st July, 2005	30,737	11,201	1,110	43,048
At 1st August, 2005	30,737	11,201	1,110	43,048
Provided during the year	9,295	420	584	10,299
Disposals/write-offs	(3,020)	(89)	—	(3,109)
At 31st July, 2006	**37,012**	**11,532**	**1,694**	**50,238**
Net book value:				
At 31st July, 2006	**10,921**	**1,192**	**3,060**	**15,173**
At 31st July, 2005	9,030	1,264	2,136	12,430

Notes to Financial Statements

31st July, 2006

15. INVESTMENT PROPERTIES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
At beginning of year, at fair value	**161,000**	190,700	**63,000**	58,000
Additions during the year	**137,035**	—	**137,035**	—
Disposals during the year	**—**	(66,000)	**(349,628)**	—
Fair value gains	**146,593**	36,300	**149,593**	5,000
At end of year, at fair value	**444,628**	161,000	**—**	63,000

As at 31st July, 2006, the fair value of the Group's investment properties was arrived at after adjusting a land premium of HK$137,035,000 which was borne by a related company for a joint development of one of the Group's investment properties (see below for details), from the aggregate open market value of HK$581,663,000 (2005: HK$161,000,000) based on their existing use/existing physical state. The open market value of these investment properties was determined based on a valuation performed by Savills Valuation and Professional Services Limited, independent chartered surveyors.

On 14th January, 2006, the Company accepted the offer made by the District Lands Office of Kowloon East of the Lands Department for the lease modification of an investment property situated at 79 Hoi Yuen Road, Kwun Tong, Kowloon (the "KT Property"), which was previously used for industrial purposes. The lease modification permitted a change of use of the property from industrial to non-industrial purposes. The total amount of the land premium for the lease modification amounted to HK$274,070,000.

On 28th February, 2006, the Company, LSG and Unipress Investments Limited ("Unipress"), a wholly-owned subsidiary of LSG entered into a conditional development agreement (the "Development Agreement") in connection with the redevelopment of the KT Property, pursuant to which Unipress bears 50% of the aforesaid land premium and the Company grants to Unipress the exclusive right to develop the KT Property. Further details of the redevelopment are included in the Company's circular dated 29th April, 2006.

The investment properties are situated in Hong Kong. Apart from a property with a market value of HK$12,000,000 (2005: HK$11,000,000) which is held under a long term lease, the investment properties are held under medium term leases.

Except for the KT Property, the investment properties with a carrying amount of HK$95,000,000 (2005: HK$161,000,000) are leased to third parties under operating leases, further summary details of which are included in note 28(a) to the financial statements.

Certain of the Group's investment properties with a carrying amount of HK$95,000,000 (2005: HK$161,000,000) are pledged to secure the Group's bank borrowings, as further detailed in note 22 to the financial statements. In accordance with the Development Agreement, the KT Property of the Group is pledged to secure bank borrowings granted to Unipress in relation to the construction work of the KT Property (See note 30).

Notes to Financial Statements

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15. INVESTMENT PROPERTIES (continued)

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

Further details of the Group's investment properties are disclosed on page 69 of this report.

16. DEPOSITS FOR PREPAID LAND LEASE PAYMENTS

During the year, deposits of HK$33,022,000 were paid for the purchase of land use rights in Mainland China. The Group is in the process of obtaining from the relevant authority the land use right certificates which, in the opinion of the directors, will be issued in due course. Details of the capital commitments are set out in note 29 to the financial statements.

17. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Group

	Losses available for offsetting against future taxable profits HK$'000	**Accelerated capital allowances** HK$'000	**Revaluation of properties** HK$'000	**Total** HK$'000
At 1st August, 2004	13,398	—	—	13,398
Deferred tax charged during the year — (note 11)	(12,544)	(404)	(5,827)	(18,775)
Net deferred tax assets/(liabilities) at 31st July, 2005 and 1st August, 2005	854	(404)	(5,827)	(5,377)
Deferred tax charged during the year — (note 11)	(4)	(29)	(36,294)	(36,327)
Net deferred tax assets/(liabilities) at 31st July, 2006	**850**	**(433)**	**(42,121)**	**(41,704)**

Notes to Financial Statements

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17. DEFERRED TAX (continued)

Company

	Losses available for offsetting against future taxable profits HK$'000
At 1st August, 2004	13,398
Deferred tax charged during the year	(13,398)
Net deferred tax liabilities at 31st July, 2005, 1st August, 2005 and 31st July, 2006	—

The Group has tax losses arising in Hong Kong of HK$164,291,000 (2005: HK$73,523,000). During the year, the Group did not have tax losses arising in Mainland China (2005: HK$24,845,000). The Company has tax losses arising in Hong Kong of HK$86,393,000 (2005: Nil). Tax losses in Hong Kong are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Tax losses in Mainland China were available for a period of five years for offsetting against future taxable profits of the respective Group companies in which the losses arose.

Deferred tax assets have not been recognised, to the extent that, in the directors' opinion, it is uncertain that future taxable profits would arise to offset against these losses.

At 31st July, 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

18. INTERESTS IN SUBSIDIARIES

	Company	
	2006 HK$'000	2005 HK$'000
Unlisted shares, at cost	**4,050**	4,050
Amounts due from subsidiaries	**603,202**	267,019
Amounts due to subsidiaries	**(5,429)**	(32,414)
	601,823	238,655
Provision for impairment	**(101,616)**	(139,377)
	500,207	99,278

Notes to Financial Statements

31st July, 2006

18. INTERESTS IN SUBSIDIARIES (continued)

The amounts with the subsidiaries included in the Company's balance sheet are unsecured, interest-free and have no fixed terms of repayment. Included therein are amounts due from subsidiaries of HK$15,602,000 (2005: HK$16,008,000), which bear interest at the Hong Kong dollar prime rate plus 2% per annum (2005: Hong Kong dollar prime rate plus 2% per annum). The carrying amounts of these amounts approximate to their fair values.

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

Name of company	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company 2006	2005	Principal activities
Crocodile (China) Limited	Hong Kong	HK$4	**100**	100	Garment trading
Crocodile Garments (Zhong Shan) Limited*	Mainland China	HK$17,200,000	**90**	90	Garment manufacturing and trading
Crocodile KT Investment Limited	Hong Kong	HK$1	**100**	—	Property development
Dackart Trading Company Limited	Hong Kong	HK$20	**100**	100	Property investment
Shenton Investment Limited	Hong Kong	HK$2	**100**	100	Property investment
Zhongshan Crocodile Garments Limited	Mainland China	HK$8,000,000	**100**	—	Property investment

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

Except for Crocodile Garments (Zhong Shan) Limited, Crocodile KT Investment Limited and Zhongshan Crocodile Garments Limited, all subsidiaries are directly held by the Company.

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

Notes to Financial Statements

31st July, 2006

19. INVENTORIES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Raw materials	**11,081**	9,511	**1,596**	2,051
Work in progress	**438**	342	**—**	—
Finished goods	**72,813**	58,154	**41,209**	41,181
	84,332	68,007	**42,805**	43,232

20. TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS

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

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

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables:				
Current to 90 days	**9,662**	6,028	**576**	646
91 to 180 days	**5,119**	5,239	**23**	2
181 to 365 days	**12**	201	**—**	—
	14,793	11,468	**599**	648
Deposits and prepayments	**24,338**	17,035	**13,419**	7,114
	39,131	28,503	**14,018**	7,762

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31st July, 2006

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**74,878**	94,019	**9,593**	25,347
Time deposits	**6,000**	182,777	**6,000**	153,977
Cash and cash equivalents	**80,878**	276,796	**15,593**	179,324

At the balance sheet date, cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$62,803,000 (2005: HK$65,748,000). In the prior year, the time deposits of the Group denominated in RMB amounted to HK$28,800,000. The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies in respect of approved transactions through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one week and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

22. SHORT-TERM BORROWINGS

	Effective interest rates (%) p.a.	Group		Company	
		2006	2005	**2006**	2005
		HK$'000	HK$'000	**HK$'000**	HK$'000
Current					
Bank overdrafts, unsecured	4.5 — 8.3	**2,165**	—	**2,165**	—
Bank overdrafts, secured	6.5 — 8.3	**—**	2,425	**—**	—
Bank loans, secured	5.1 — 7.5	**22,150**	24,250	**22,150**	24,250
Trust receipt loans — secured	4.5 — 6.4	**205**	9,881	**205**	9,881
Trust receipt loans — unsecured	5.2 — 7.0	**13,574**	7,311	**13,574**	7,311
		38,094	43,867	**38,094**	41,442

At the balance sheet date, the bank borrowings of the Group were secured by its investment properties (note 15) with an aggregate carrying amount of HK$95,000,000 (2005: HK$161,000,000).

Except for unsecured trust receipt loans amounted to HK$636,000 which is denominated in Euro, all other short-term borrowings of the Group and the Company bear interest at floating interest rates and are denominated in Hong Kong dollars. The carrying amounts of the Group's and the Company's short-term borrowings approximate to their fair values.

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23. TRADE AND OTHER PAYABLES

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables:				
Current to 90 days	**26,688**	17,576	**15,287**	9,328
91 to 180 days	**3,276**	1,180	**1,524**	677
181 to 365 days	**643**	1,049	**467**	—
Over 365 days	**4,609**	3,826	**1,070**	1,021
	35,216	23,631	**18,348**	11,026
Deposits received	**16,105**	22,619	**139**	738
Accruals and other payables	**26,935**	25,406	**12,296**	8,439
	78,256	71,656	**30,783**	20,203

The trade payables are non-interest-bearing and are normally settled between 30 to 60 days.

24. PROVISION FOR LONG SERVICE PAYMENTS

	Group and Company	
	2006	2005
	HK$'000	HK$'000
At beginning of year	**2,992**	3,088
Amounts provided during the year	**1,668**	869
Amounts utilised during the year	**(814)**	(965)
At end of year	**3,846**	2,992

The Group provides for probable future long service payments expected to be made to employees under the Hong Kong Employment Ordinance, as further explained under the heading "Employee benefits" in note 4 to the financial statements. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group at the balance sheet date. Included in the above balance was also the provision for the gratuity payment payable to an executive of HK$2,000,000 which will be due in 2008 and 2009.

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25. SHARE CAPITAL

	Company 2006 HK$'000	Company 2005 HK$'000
Authorised:		
800,000,000 ordinary shares of HK$0.25 each	**200,000**	200,000
Issued and fully paid:		
617,127,130 ordinary shares of HK$0.25 each	**154,282**	154,282

26. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for both the current and prior years are presented in the consolidated statement of changes in equity on page 26 of the financial statements.

(b) Company

	Share premium account HK$'000	Asset revaluation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1st August, 2004	164,921	109,090	(115,276)	158,735
Net profit for the year	—	—	41,705	41,705
At 31st July, 2005 and 1st August, 2005	164,921*	109,090*	(73,571)	200,440
Transfer to retained profits#	—	(109,090)	109,090	—
Net profit for the year	—	—	175,105	175,105
At 31st July, 2006	**164,921***	**—***	**210,624**	**375,545**

During the year, the Company's asset revaluation reserve was released to retained profits upon the disposal of a property to a wholly-owned subsidiary of the Company. In the prior years, the Company's asset revaluation reserves represented a frozen revaluation surplus in relation to leasehold land and buildings which were transferred to investment properties in prior years.

* These reserve accounts comprise the reserves of HK$164,921,000 (2005: HK$274,011,000) in the Company's balance sheet.

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27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

(i) Fair value and cash flow interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to both interest rate risks. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's short-term debt obligations with floating interest rates.

Short-term bank and other borrowings, cash and bank balances, and short-term time deposits are stated at cost and are not revalued on a periodic basis. Floating rate interest income and expenses are charged to the income statement as incurred.

(ii) Foreign currency risk

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

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

(iii) Commodity price risk

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

(iv) Credit risk

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

(v) Liquidity risk

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

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28. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of their investment properties (note 15) under operating lease arrangements, with leases negotiated for terms ranging from one to five years. The terms of the leases generally also require the tenants to pay security deposits.

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**3,390**	5,309	—	1,229
In the second to fifth years, inclusive	**6,923**	9,669	—	—
After five years	—	644	—	—
	10,313	15,622	—	1,229

(b) As lessee

The Group and the Company lease their office properties, warehouses and retail outlets under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**79,708**	72,935	**73,120**	66,200
In the second to fifth years, inclusive	**61,876**	65,670	**55,293**	60,369
	141,584	138,605	**128,413**	126,569

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

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29. COMMITMENTS

In addition to the operating lease commitments detailed in note 28(b) above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2006	2005
	HK$'000	HK$'000
Contracted, but not provided for:		
Land lease payments in Mainland China	**14,044**	—

30. CONTINGENT LIABILITIES

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in connection with facilities granted to a subsidiary	**—**	—	**3,000**	3,000

As at 31st July, 2006, the banking facilities granted to a subsidiary subject to guarantee given to the banks by the Company were not utilised (2005: HK$2.43 million).

In accordance with the Development Agreement, if construction finance is required by Unipress for financing the development and construction cost of the KT Property, the Group has agreed to provide or procure such security over or in relation to the KT Property as may reasonably be required by the relevant lending institution(s) and LSG is expected to provide a corporate guarantee as security for such finance. As at 31st July, 2006, the KT Property was not secured for any construction finance.

Apart from the foregoing, at the balance sheet date, the Group has also entered into a number of construction and consultant contracts for the redevelopment of the KT Property with the contractors and consultants of aggregate principal sums of HK$7,000,000. The Group has also simultaneously entered into the respective deeds of undertakings with Unipress and these contractors of which Unipress/LSG unconditionally and irrevocably undertakes to these contracts, as primary obligor/guarantor, to perform all obligations of the Group and to pay to the contractors all amounts due from time to time on the part of the Group under and in accordance with terms of these construction and consultant contracts.

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31. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

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

	Notes	**2006** **HK$'000**	2005 HK$'000
Rental expenses and building management fee paid and payable to:			
Lai Sun Textiles Company Limited	(i)	**2,136**	2,010
Related companies	(ii)	**2,798**	2,540
Income received and receivable from a related company for contributing an investment property as security	(iii)	**1,459**	—
Purchase of a motor vehicle from a related party	(iv)	**—**	400

Notes:

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

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

(iii) In consideration of the Company contributing the KT Property as security for the construction finance, in accordance with the Development Agreement, Unipress will make a quarterly payment of HK$2,130,000 to the Company during the period from the delivery of vacant possession of the KT Property to the completion of construction. Further details are set out in notes 15 and 30 to the financial statements and the Company's circular dated 29th April, 2006.

(iv) In the prior year, the purchase of the motor vehicle was made at a price determined by the parties. The related party represented a close family member of the key management personnel of the Group.

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

(b) Other transactions with related parties

On 28th February, 2006, the Company, LSG and Unipress, entered into the Development Agreement in connection with the redevelopment of the KT Property. Details of the arrangement are set out in note 15 to the financial statements and the Company's circular dated 29th April, 2006.

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31. RELATED PARTY TRANSACTIONS (continued)

(b) Other transactions with related parties (continued)

On 10th July, 2006, the Company, Crocodile KT Investment Limited ("Crocodile KT"), a wholly-owned subsidiary of the Company which now owns the KT Property, Unipress and LSG entered into a deed of undertaking, guarantee and indemnity (the "Deed") of which (a) Unipress (i) has agreed to act as covenantor and primary obligor in relation to a facility agreement to be entered into between a lending institution(s), as lender, and Crocodile KT, as borrower (the "Facility Agreement"); and (ii) has agreed, at its own expense, to arrange for the construction and completion of the redevelopment of the KT Property under such construction contracts as Unipress considers necessary; (b) LSG has agreed to guarantee the performance by Unipress of its obligations thereunder. Pursuant to the Deed, Crocodile KT is required to be a party to the Facility Agreement and some or all of the constructions or consultant contracts entered into from time to time, and Unipress and LSG should be responsible for completing the redevelopment of the KT Property and for the funding obligations in respect thereof.

At the balance sheet date, the Group has not entered into any Facility Agreement as referred to in the Deed and further details of the construction and consultant contracts, which were entered into by the Group at the balance sheet date, but borne by Unipress have been disclosed in note 30 above.

(c) Outstanding balances with related parties

The amount due from a related company disclosed pursuant to Section 161C of the Companies Ordinance and the amounts due to the former ultimate holding company and related companies are as follows:

	Maximum amount outstanding during the year HK$'000	2006 HK$'000	2005 HK$'000
Group and Company			
Amount due from a related company	1,459	1,459	—
Amounts due to:			
Former ultimate holding company —			
Lai Sun Garment (International) Limited		—	6
Related companies		290	9

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

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31. RELATED PARTY TRANSACTIONS (continued)

(d) Compensation of key management personnel of the Group

	2006	2005
	HK$'000	HK$'000
Short-term employee benefits	**7,738**	6,467
Post-employment benefits	**18**	12
	7,756	6,479

Further details of directors' emoluments are included in note 8 to the financial statements.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 10th November, 2006.