

Notes to Financial Statements

31st July, 2001

1. CORPORATE INFORMATION

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

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

- manufacture and sale of garments;
- property investment;
- property letting; and
- operation of a restaurant.

During the year, starting from April 2001, the Group ceased to operate its restaurant.

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

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

The revised SSAP 14 “Leases” has been adopted for the first time in the preparation of the current year’s consolidated financial statements. The revised SSAP 14 prescribes the appropriate accounting policies and disclosures to apply in relation to finance and operating leases. The principal impact of the revised SSAP 14 on the preparation of these financial statements is that total future minimum lease receipts and payments under non-cancellable operating leases have to be disclosed in the supporting notes (notes 26(b) and 28) to the financial statements.

26

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year ended 31st July, 2001. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Capital reserve arising on consolidation

The capital reserve arising on consolidation represents the excess of the fair values ascribed to the net assets of subsidiaries at the date of acquisition over the purchase consideration paid in respect thereof.

Notes to Financial Statements

31st July, 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been impairments in values, when they are written down to values determined by the directors.

Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation.

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

The transitional provisions set out in paragraph 72 of Statement of Standard Accounting Practice No. 17 "Property, Plant and Equipment" issued by the Hong Kong Society of Accountants ("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 for periods ended before 30th September, 1995, have not been revalued to their fair values by class at the balance sheet date. It is the directors' intention not to revalue these assets in the future.

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

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, then the frozen fixed asset revaluation reserve is transferred to retained earnings as a movement in reserves.

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

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

Notes to Financial Statements

31st July, 2001

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.

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

Leased assets

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

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

28

Stocks

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

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) rental income, on a straight line basis over the terms of the lease;
- (c) revenue from restaurant operations, upon delivery of food and beverages to customers;
- (d) royalty income, when the right to receive the income is established; and
- (e) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

Notes to Financial Statements

31st July, 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and bank balances represent assets that are not restricted as to use.

Deferred tax

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

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

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. The MPF Scheme became effective from 1st December, 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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

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

Notes to Financial Statements

31st July, 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits scheme (continued)

Employees of subsidiaries in Mainland China are members of the Central Pension Scheme operated by the Chinese government. The subsidiaries are required to contribute a certain percentage of their covered payroll to the Central Pension Scheme to fund the benefits. The only obligation for the Group with respect to the Central Pension Scheme is to make the required contributions, which are charged to the profit and loss account in the year to which they relate.

Foreign currencies

The financial records of the Company and its subsidiaries are maintained and the financial statements are stated in Hong Kong dollars.

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

Related parties

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

4. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the year:

	Notes	Group	
		2001 HK\$'000	2000 HK\$'000
Sales of garment products to the ultimate holding company	(i)	—	2,947
Purchases of garment products from the ultimate holding company	(i)	2,800	5,710
Rental expense paid and payable to a related company	(ii)	10,380	12,478
Rental expense paid to a company in which a former director of the Company and his associate are major shareholders	(ii)	—	3,480
Interest paid and payable to the ultimate holding company	(iii)	862	502

Notes:

- (i) The sales to and purchases from the ultimate holding company were made on prices and terms similar to those granted to major customers and granted by major suppliers of the Group.
- (ii) The rental expenses are charged by the related companies pursuant to respective lease agreements.
- (iii) Included in the interest expense paid and payable to the ultimate holding company, was HK\$662,000 (2000: HK\$318,000) paid in connection with a loan advance that amounted HK\$16,400,000 which bore interest at the Hong Kong dollar three months' deposit rate plus 1% per annum.

The remaining interest expense of HK\$200,000 (2000: HK\$184,000) was paid in connection with the Group's banking facilities obtained and guaranteed by the ultimate holding company, which bore interest at 1% per annum on the banking facilities of HK\$20,000,000.

Notes to Financial Statements

31st July, 2001

4. RELATED PARTY TRANSACTIONS (continued)

In the prior year, the Company's ultimate holding company advanced a loan of HK\$16,400,000 to the Company pursuant to agreements dated 31st March, 2000 and 30th September, 2000. This loan was unsecured, interest-bearing at the Hong Kong dollar three months' deposit rate plus 1% per annum, and was repaid in the current year. In addition, the Group continued to obtain a banking facility of HK\$20 million from a bank, which was secured by the guarantee granted by the Company's ultimate holding company. Details of the interest expenses borne by the Group in respect of this bank facility have been shown in note (iii) above.

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

5. TURNOVER AND REVENUE

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

An analysis of turnover and revenue is as follows:

	2001 HK\$'000	2000 HK\$'000
Sale of goods	668,193	712,851
Rental income	8,896	7,791
Revenue from restaurant operation*	<u>2,850</u>	<u>6,880</u>
Turnover	<u>679,939</u>	<u>727,522</u>
Royalty income	2,516	29
Sale of miscellaneous materials	1,380	1,393
Interest income	760	324
Sale of export quota	419	1,691
Others	<u>382</u>	<u>1,316</u>
Other revenue	<u>5,457</u>	<u>4,753</u>
Total revenue	<u>685,396</u>	<u>732,275</u>

* During the year, the Group ceased to operate its restaurant. As the contribution from the operation of the restaurant was not significant to the Group, no discontinued operations disclosure has been made in these financial statements.

Notes to Financial Statements

31st July, 2001

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	Group	
	2001	2000
	HK\$'000	HK\$'000
Auditors' remuneration	850	800
Cost of inventories sold	323,867	376,666
Depreciation:		
Owned fixed assets	15,565	21,331
Leased fixed assets	81	81
Operating lease rentals in respect of land and buildings	107,019	124,418
Staff costs:		
Salaries and allowances (including directors' remuneration but excluding retirement scheme contributions — note 7)	86,594	95,576
Retirement scheme contributions	2,565	2,207
	<u>89,159</u>	<u>97,783</u>
Gross rental income	(8,896)	(7,791)
Less: Outgoings	<u>4,202</u>	<u>4,020</u>
Net rental income	<u>(4,694)</u>	<u>(3,771)</u>
Legal fees	15,369	5,701
Severance payments [#]	4,989	15,491
Write-back of provision for slow-moving stocks*	(16,150)	(20,301)
Foreign exchange gains, net [#]	(1,679)	(752)
Provision for bad and doubtful debts [#]	<u>4,206</u>	<u>453</u>

* Stock provisions of HK\$16,150,000 (2000: HK\$20,301,000) were written back following the sale of certain stock items during the year.

[#] Items are included in other operating expenses, net

Notes to Financial Statements

31st July, 2001

7. DIRECTORS' REMUNERATION

	Group			
	Executive		Non-executive	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees	<u>50</u>	<u>52</u>	<u>50</u>	<u>50</u>
Other emoluments:				
Salaries, allowances and benefits in kind	4,897	2,750	240	240
Retirement scheme contributions	24	89	—	—
Bonuses paid and payable	<u>1,200</u>	<u>20</u>	<u>—</u>	<u>—</u>
	<u>6,121</u>	<u>2,859</u>	<u>240</u>	<u>240</u>
	<u>6,171</u>	<u>2,911</u>	<u>290</u>	<u>290</u>

Directors' remuneration paid to independent non-executive directors during the year amounted to HK\$20,000 (2000: HK\$20,000).

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

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

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

Notes to Financial Statements

31st July, 2001

8. FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

The five highest paid employees during the year included two (2000: two) directors, details of whose remuneration are set out in note 7 above. The details of the remuneration of the remaining three (2000: three) non-director, highest paid employees are set out below:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	4,931	2,586
Retirement scheme contributions	16	56
Bonuses paid and payable	1,400	—
	<u>6,347</u>	<u>2,642</u>

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

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

9. FINANCE COSTS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	3,466	4,497
Interest on finance leases	21	38
Interest paid to the ultimate holding company	862	502
	<u>4,349</u>	<u>5,037</u>

Notes to Financial Statements

31st July, 2001

10. TAX

	Group	
	2001	2000
	HK\$'000	HK\$'000
<hr/>		
Current year provision:		
Hong Kong	—	62
Outside Hong Kong	<u>6,228</u>	<u>6,781</u>
	6,228	6,843
Prior year overprovision:		
Hong Kong	(9)	(145)
Outside Hong Kong	<u>(4,266)</u>	<u>—</u>
	<u>(4,275)</u>	<u>(145)</u>
Tax charge for the year	<u>1,953</u>	<u>6,698</u>

No Hong Kong profits tax has been provided as the Group had no assessable profit arising in Hong Kong during the year. In the prior year, Hong Kong profits tax was provided at the rate of 16% on the estimated assessable profits arising in Hong Kong during that year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

11. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss of the Company for the year ended 31st July, 2001 dealt with in the consolidated profit and loss account, amounted to HK\$24,426,000 (2000: HK\$45,242,000).

12. EARNINGS/(LOSS) PER SHARE

The earnings/(loss) per share is calculated based on the net profit attributable to shareholders of HK\$5,877,000 (2000: net loss of HK\$35,728,000) and the weighted average of 617,127,130 (2000: 617,127,130) shares in issue throughout the year.

The diluted earnings/(loss) per share for the years ended 31st July, 2001 and 2000 has not been calculated because no diluting events existed during these years.

Notes to Financial Statements

31st July, 2001

13. FIXED ASSETS

Group

	Land and buildings HK\$'000	Plant and machinery HK\$'000	Furniture and fixtures HK\$'000	Computer equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:						
At beginning of year	362,900	30,927	86,500	19,177	3,565	503,069
Additions	—	1,045	4,467	410	610	6,532
Deficit on revaluation*	(41,916)	—	—	—	—	(41,916)
Transfer to investment properties (note 14)	(78,536)	—	—	—	—	(78,536)
Disposals	—	(9,858)	(19,278)	(435)	(330)	(29,901)
At 31st July, 2001	242,448	22,114	71,689	19,152	3,845	359,248
Accumulated depreciation:						
At beginning of year	49,477	27,878	66,219	14,224	3,282	161,080
Provided during the year	6,830	654	6,218	1,706	238	15,646
Transfer to investment properties (note 14)	(20,536)	—	—	—	—	(20,536)
Disposals	—	(9,707)	(14,373)	(415)	(313)	(24,808)
At 31st July, 2001	35,771	18,825	58,064	15,515	3,207	131,382
Net book value:						
At 31st July, 2001	206,677	3,289	13,625	3,637	638	227,866
At 31st July, 2000	313,423	3,049	20,281	4,953	283	341,989

* During the year, certain land and buildings of the Group were reclassified as investment properties. Such land and buildings were revalued at HK\$58,000,000 based on their open market value and existing use at the date of transfer by Centaline Surveyors Limited, independent professionally qualified valuers. A revaluation deficit of HK\$41,916,000 was charged against the Group's fixed assets revaluation reserve (note 24).

Notes to Financial Statements

31st July, 2001

13. FIXED ASSETS (continued)

Company

	Land and buildings HK\$'000	Plant and machinery HK\$'000	Furniture and fixtures HK\$'000	Computer equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:						
At beginning of year	216,680	12,836	67,527	19,177	2,595	318,815
Additions	—	—	3,326	410	—	3,736
Disposals	—	(8,442)	(16,659)	(435)	(330)	(25,866)
At 31st July, 2001	216,680	4,394	54,194	19,152	2,265	296,685
Accumulated depreciation:						
At beginning of year	24,302	12,412	49,490	14,224	2,485	102,913
Provided during the year	4,189	58	5,449	1,706	93	11,495
Disposals	—	(8,365)	(11,850)	(415)	(313)	(20,943)
At 31st July, 2001	28,491	4,105	43,089	15,515	2,265	93,465
Net book value:						
At 31st July, 2001	188,189	289	11,105	3,637	—	203,220
At 31st July, 2000	192,378	424	18,037	4,953	110	215,902

The net book value of the fixed assets of the Group and of the Company held under finance leases included in the above fixed assets at 31st July, 2001 amounted to HK\$202,000 (2000: HK\$283,000). The depreciation charge for the year in respect of such assets amounted to HK\$81,000 (2000: HK\$81,000).

Notes to Financial Statements

31st July, 2001

13. FIXED ASSETS (continued)

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

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At cost:				
Long term leasehold land and buildings situated in the Mainland China	<u>17,778</u>	<u>17,778</u>	<u>—</u>	<u>—</u>
At 1992 valuation:				
Long term leasehold land and buildings situated in Hong Kong	<u>7,990</u>	<u>7,990</u>	<u>—</u>	<u>—</u>
Medium term leasehold land and buildings situated in Hong Kong	<u>216,680</u>	<u>337,132</u>	<u>216,680</u>	<u>216,680</u>
	<u>224,670</u>	<u>345,122</u>	<u>216,680</u>	<u>216,680</u>
	<u>242,448</u>	<u>362,900</u>	<u>216,680</u>	<u>216,680</u>

38

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

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost	<u>12,164</u>	<u>32,786</u>	<u>6,826</u>	<u>6,826</u>
Accumulated depreciation	<u>(6,142)</u>	<u>(11,455)</u>	<u>(3,814)</u>	<u>(3,687)</u>
Net book value as at 31st July	<u>6,022</u>	<u>21,331</u>	<u>3,012</u>	<u>3,139</u>

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

Notes to Financial Statements

31st July, 2001

14. INVESTMENT PROPERTIES

	Group	
	2001	2000
	HK\$'000	HK\$'000
Balance at beginning of year	67,000	67,000
Transfer from fixed assets (note 13)	58,000	—
Balance at end of year	125,000	67,000

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

The investment properties were revalued at HK\$125,000,000 (2000: HK\$67,000,000) based on their open market values and their existing use at 31st July, 2001 by Centaline Surveyors Limited, independent professionally qualified valuers. No revaluation surplus/deficit arose as a result of the valuation.

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

The details of the investment properties are as follows:

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

Notes to Financial Statements

31st July, 2001

15. INTERESTS IN SUBSIDIARIES

	Company	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	4,050	4,050
Amounts due from subsidiaries	281,649	253,987
Amounts due to subsidiaries	(8,989)	(8,988)
	<u>276,710</u>	<u>249,049</u>
Provisions for diminutions in values	(76,741)	(35,889)
	<u>199,969</u>	<u>213,160</u>

Except for certain amounts due from the subsidiaries which bear interest from HIBOR plus 1.5%, to 10% per annum, the amounts due from and to the subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The particulars of the principal subsidiaries are as follows:

Name of company	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company		Principal activities
			2001	2000	
Costroll Company Limited	Hong Kong	HK\$20	100%	100%	Property letting
Crocodile (China) Limited	Hong Kong	HK\$4	100%	100%	Garment trading
Crocodile Garments (Zhongshan) Limited [#]	The People's Republic of China ("the PRC")	HK\$17,200,000*	90%	90%	Garment manufacturing and trading
Crocodile Investment Limited	Hong Kong	HK\$20	100%	100%	Investment holding
Dackart Trading Company Limited	Hong Kong	HK\$20	100%	100%	Property investment

Notes to Financial Statements

31st July, 2001

15. INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company		Principal activities
			2001	2000	
Gold Nation Development Limited	Hong Kong	HK\$2	100%	100%	Property investment
Kentpark Development Limited	Hong Kong	HK\$2	100%	100%	Property holding
Shenton Investment Limited	Hong Kong	HK\$2	100%	100%	Property holding

Indirectly held by the Company

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

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

16. STOCKS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Raw materials	8,653	16,083	1,960	6,233
Work in progress	973	2,595	—	1,769
Finished goods	105,196	92,475	52,939	47,582
	114,822	111,153	54,899	55,584

The carrying amounts of the Group's and the Company's inventories included in the above at net realisable value were HK\$22,194,000 (2000: HK\$34,828,000) and HK\$7,784,000 (2000: HK\$10,164,000), respectively.

Notes to Financial Statements

31st July, 2001

17. DEBTORS, DEPOSITS AND PREPAYMENTS

Other than cash sales made at retail outlets of the Group, trading terms with wholesale customers are largely on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 30 days of issuance, except for certain well-established customers, where the terms are extended to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by senior management.

The analysis below ages trade receivables, net of provisions, based on the invoice date, which is when the goods are delivered and services are rendered.

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Current to 90 days	28,882	26,363	993	10,570
91 days to 180 days	1,034	2,080	35	1,915
181 days to 365 days	397	755	342	233
Over 365 days	438	1,175	157	2,008
Trade debtors	30,751	30,373	1,527	14,726
Deposits and prepayments	25,612	31,913	13,303	13,319
	56,363	62,286	14,830	28,045

Notes to Financial Statements

31st July, 2001

18. BANK BORROWINGS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bank overdrafts, unsecured	2,919	2,000	—	—
Short term bank loans, secured	24,250	27,600	24,250	27,600
Trust receipt loans	31,270	28,507	31,270	28,507
Term loan, secured	7,570	12,381	7,570	12,381
	<u>66,009</u>	<u>70,488</u>	<u>63,090</u>	<u>68,488</u>
Portion due within one year included under current liabilities:				
Secured	(49,520)	(44,282)	(49,520)	(44,282)
Unsecured	(14,187)	(18,607)	(11,268)	(16,607)
	<u>(63,707)</u>	<u>(62,889)</u>	<u>(60,788)</u>	<u>(60,889)</u>
Long term portion	<u>2,302</u>	<u>7,599</u>	<u>2,302</u>	<u>7,599</u>
The bank loans and overdrafts are repayable:				
Within one year or on demand	63,707	62,889	60,788	60,889
In the second year	2,302	5,257	2,302	5,257
In the third to fifth years, inclusive	—	2,342	—	2,342
	<u>66,009</u>	<u>70,488</u>	<u>63,090</u>	<u>68,488</u>

The short term bank loans, trust receipt loans and bank overdrafts are repayable within one year and certain of these loans and overdrafts are secured by certain land and buildings of the Group and guaranteed by the ultimate holding company. The term loan, which is repayable by instalments, is secured by the investment properties of the Group.

At the balance sheet date, the Group had pledged investment properties with carrying values of HK\$125,000,000 (2000: HK\$67,000,000) and certain land and buildings with a net book value of HK\$194,615,000 (2000: HK\$300,552,000) to bankers to secure banking facilities granted to the Group.

Notes to Financial Statements

31st July, 2001

19. CREDITORS AND ACCRUALS

The analysis below ages trade creditors based on the date of receipt of the goods and services purchased:

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current to 90 days	36,156	53,437	21,412	44,954
91 days to 180 days	14,440	1,090	7,273	858
181 days to 365 days	883	2,304	210	462
Over 365 days	1,585	1,528	—	1,656
	<u>53,064</u>	<u>58,359</u>	<u>28,895</u>	<u>47,930</u>
Trade creditors				
Accruals	<u>70,205</u>	<u>55,102</u>	<u>22,532</u>	<u>10,166</u>
	<u>123,269</u>	<u>113,461</u>	<u>51,427</u>	<u>58,096</u>

20. FINANCE LEASE PAYABLES

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

	Group and Company	
	2001	2000
	HK\$'000	HK\$'000
Amounts payable:		
Within one year	94	161
In the second to fifth years, inclusive	—	95
	<u>94</u>	<u>256</u>
Total minimum lease payments		
Less: Future finance charges	<u>(3)</u>	<u>(24)</u>
	<u>91</u>	<u>232</u>
Total net finance lease payables		
Portion classified as current liabilities	<u>(91)</u>	<u>(141)</u>
	<u>—</u>	<u>91</u>
Long term portion		

Notes to Financial Statements

31st July, 2001

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

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts due to:				
Ultimate holding company				
Lai Sun Garment (International) Limited	<u>3,125</u>	<u>19,212</u>	<u>3,125</u>	<u>19,212</u>
Related company				
Lai Sun Development Company Limited	<u>2,546</u>	<u>1,640</u>	<u>2,497</u>	<u>1,594</u>

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

The balances were derived from normal business activities and are unsecured, interest-free and repayable on terms similar to those granted to major customers or by major suppliers of the Group. In the prior year, a loan advanced from the ultimate holding company that amounted to HK\$16,400,000 was interest-bearing at the Hong Kong dollar three months' deposit rate plus 1% per annum and was fully repaid during the year. Details of the material transactions with the ultimate holding company and a related company have been set out in note 4 to the financial statements.

22. DEFERRED TAX

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

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax losses	<u>(55,603)</u>	<u>(30,995)</u>	<u>(46,929)</u>	<u>(23,370)</u>
Accelerated capital allowances	<u>1,142</u>	<u>439</u>	<u>1,132</u>	<u>372</u>
	<u>(54,461)</u>	<u>(30,556)</u>	<u>(45,797)</u>	<u>(22,998)</u>

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

Notes to Financial Statements

31st July, 2001

23. SHARE CAPITAL

	Company	
	2001	2000
	HK\$'000	HK\$'000
Authorised:		
800,000,000 ordinary shares of HK\$0.25 each	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:		
617,127,130 ordinary shares of HK\$0.25 each	<u>154,282</u>	<u>154,282</u>

24. RESERVES

	Share premium account HK\$'000	Capital reserve HK\$'000	Fixed asset revaluation reserve HK\$'000	Total HK\$'000
Group				
At 1st August, 1999 and 31st July, 2000	164,921	350	318,995	484,266
Deficit on revaluation (note 13)	<u>—</u>	<u>—</u>	<u>(41,916)</u>	<u>(41,916)</u>
At 31st July, 2001	<u>164,921</u>	<u>350</u>	<u>277,079</u>	<u>442,350</u>
Company				
At 1st August, 1999, 31st July, 2000 and 2001	<u>164,921</u>	<u>—</u>	<u>214,312</u>	<u>379,233</u>

Included in the Group's fixed asset revaluation reserve is a frozen revaluation surplus of HK\$57,915,000 in relation to certain leasehold land and buildings which were transferred to investment properties during the year.

Notes to Financial Statements

31st July, 2001

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	Group	
	2001	2000
	HK\$'000	HK\$'000
Profit/(loss) from operating activities	12,179	(23,993)
Loss on disposal of fixed assets, other than land and buildings	4,515	4,139
Forfeiture of deposits received in respect of a property sale transaction	—	(12,004)
Provision for bad and doubtful debts	4,206	453
Write-back of provision for slow-moving stocks	(16,150)	(20,301)
Interest income	(760)	(324)
Depreciation	15,646	21,412
Decrease in stocks	12,481	92,846
Decrease in debtors, deposits and prepayments	11,833	4,025
Movements in balance with the ultimate holding company	(16,087)	19,548
Increase/(decrease) in trust receipt loans with maturity of more than three months	(5,163)	8,461
Increase/(decrease) in creditors and accruals	9,808	(29,025)
Decrease in an amount due to a fellow subsidiary	—	(5,586)
Increase in an amount due to a related company	906	1,640
	<u>33,414</u>	<u>61,291</u>
Net cash inflow from operating activities	<u>33,414</u>	<u>61,291</u>

(b) Analysis of changes in financing during the year:

	Bank loans	Finance lease payables
	HK\$'000	HK\$'000
Balance at 1st August, 1999	56,918	355
Net cash outflow from financing activities	<u>(16,937)</u>	<u>(123)</u>
Balance at 31st July, 2000 and 1st August, 2000	39,981	232
Net cash outflow from financing activities	<u>(8,161)</u>	<u>(141)</u>
Balance at 31st July, 2001	<u>31,820</u>	<u>91</u>

Notes to Financial Statements

31st July, 2001

26. COMMITMENTS

At the balance sheet date, the Group and the Company had the following commitments:

- (a) Capital commitments in respect of capital expenditure not provided for in the financial statements were as follows:

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Authorised and contracted for	<u>505</u>	<u>880</u>	<u>361</u>	<u>418</u>

There were no capital commitments authorised, but not contracted for, as at 31st July, 2001 (2000: Nil).

- (b) Aggregate future minimum lease payments commitments for non-cancellable operating leases in respect of land and buildings payable in the following periods are as follows:

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	<u>75,375</u>	<u>100,387</u>	<u>73,365</u>	<u>93,332</u>
In the second to fifth years, inclusive	<u>29,916</u>	<u>61,344</u>	<u>28,974</u>	<u>60,153</u>
	<u>105,291</u>	<u>161,731</u>	<u>102,339</u>	<u>153,485</u>

27. CONTINGENT LIABILITIES

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

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	<u>—</u>	<u>—</u>	<u>3,500</u>	<u>3,500</u>

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

Notes to Financial Statements

31st July, 2001

28. OPERATING LEASE ARRANGEMENTS

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

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	8,136	5,437	—	—
In the second to fifth years, inclusive	10,681	—	—	—
	<u>18,817</u>	<u>5,437</u>	<u>—</u>	<u>—</u>

Operating lease receipts represent rentals receivable by the Group for certain of its investment properties.

29. SEGMENTAL REPORTING

An analysis of the Group's turnover and contribution to profit/(loss) before tax by activity and geographical location of operations is as follows:

	Turnover		Contribution to profit/ (loss) before tax	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By activity:				
Manufacture and sale of garments	668,193	712,851	9,183	(40,391)
Property rental	8,896	7,791	2,381	601
Operation of a restaurant	2,850	6,880	(2,154)	245
Forfeiture of deposits received in respect of a property sale transaction	—	—	—	12,004
Others	—	—	(1,580)	(1,489)
	<u>679,939</u>	<u>727,522</u>	<u>7,830</u>	<u>(29,030)</u>
By geographical location of operations:				
People's Republic of China:				
Hong Kong	371,296	462,882	(18,676)	(41,332)
Elsewhere	296,603	229,214	27,772	21,218
United States of America	7,964	20,219	(1,185)	(5,579)
United Kingdom	83	1,596	(12)	(441)
Others	3,993	13,611	(69)	(2,896)
	<u>679,939</u>	<u>727,522</u>	<u>7,830</u>	<u>(29,030)</u>

Notes to Financial Statements

31st July, 2001

30. COMPARATIVE AMOUNTS

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

- (i) the forfeiture of deposits received in respect of a property sale transaction of HK\$12,004,000 and the loss on disposal of fixed assets of HK\$4,139,000 have been reclassified and separately disclosed on the face of the profit and loss account;
- (ii) exchange gains of HK\$752,000 previously recorded as other revenue have been reclassified as other operating expenses, net;
- (iii) other revenue of HK\$1,765,000, representing the write-back of over-accrued rental expenses of certain retail shops, previously recorded as other revenue, have been reclassified to offset the rental expenses included in the selling and distribution costs; and
- (iv) as further explained in note 2 to the financial statements, due to the adoption of the revised SSAP 14 during the current year, all future minimum lease payments under non-cancellable operating leases have been disclosed to comply with the new requirements. Accordingly, the comparative amounts have been restated to conform with the current year's presentation.

31. APPROVAL OF THE FINANCIAL STATEMENTS

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