

Notes to Financial Statements

31st July 2004

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; and
- property investment and letting.

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

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

The following revised SSAP and Interpretation are effective for the first time for the current year’s financial statements:

- SSAP 12 (Revised): “Income taxes”
- Interpretation 20: “Income taxes — Recovery of revalued non-depreciable assets”

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is (i) a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised; and (ii) the related notes disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 15 to the financial statements and include a reconciliation between the accounting profit and tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in notes 3 and 15 to the financial statements.

Interpretation 20 requires that a deferred tax asset or liability that arises from the revaluation of certain non-depreciable assets and investment properties is measured based on the tax consequences that would follow from the recovery of the carrying amount of that asset through sale. This policy has been applied by the Group in respect of the revaluation of its investment properties in the deferred tax calculated under SSAP 12. No significant impact arose from the adoption of this interpretation.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year ended 31st July, 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

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

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

Negative goodwill

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

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

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately. Negative goodwill arising on acquisitions prior to 1st August, 2001 remains credited to the capital reserve pursuant to the transitional provisions of the relevant accounting standard.

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price. An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

Fixed assets and depreciation

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

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

The transitional provisions set out in paragraph 80 of Statement of Standard Accounting Practice No. 17 "Property, plant and equipment" issued by the Hong Kong Institute of Certified Public Accountants have been adopted for assets stated at valuation. As a result, those assets stated at revalued amounts based on revaluations which were reflected in the financial statements for periods ended before 30th September, 1995, have not been revalued to their fair values by class at the balance sheet date. It is the Directors' intention not to revalue these assets in the future.

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

On a transfer of an asset carried at valuation less accumulated depreciation to investment properties, a valuation is performed to determine the fair value of the asset to be transferred. Any revaluation surplus/deficit arising therefrom is credited/charged to the fixed asset revaluation reserve of the related asset. The remaining fixed asset revaluation reserve attached to that asset, if any, is frozen and remains as a fixed asset revaluation reserve until that asset is sold.

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

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

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

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

Leased assets

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Cash and cash equivalents

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.

Provisions

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

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

Income tax

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

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. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

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 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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 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.

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

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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

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 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.

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

Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

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

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.

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4. 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 its 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

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4. SEGMENT INFORMATION (continued)

Business segments

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

Group

	Garment and related accessories		Property investment		Corporate and others		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
										(Restated)
Segment revenue:										
Sales to external customers	449,041	472,869	10,521	11,194	—	—	—	—	459,562	484,063
Intersegment sales	—	—	525	3,999	—	—	(525)	(3,999)	—	—
Other revenue	19,321	6,802	213	211	—	—	—	—	19,534	7,013
Total	<u>468,362</u>	<u>479,671</u>	<u>11,259</u>	<u>15,404</u>	<u>—</u>	<u>—</u>	<u>(525)</u>	<u>(3,999)</u>	<u>479,096</u>	<u>491,076</u>
Segment results	<u>34,275</u>	<u>(46,043)</u>	<u>10,771</u>	<u>(11,344)</u>	<u>(180)</u>	<u>(55)</u>	<u>—</u>	<u>—</u>	<u>44,866</u>	<u>(57,442)</u>
Interest income									<u>551</u>	<u>427</u>
Profit/(loss) from operating activities									<u>45,417</u>	<u>(57,015)</u>
Finance costs									<u>(876)</u>	<u>(1,115)</u>
Profit/(loss) before tax									<u>44,541</u>	<u>(58,130)</u>
Tax									<u>3,355</u>	<u>(638)</u>
Net profit/(loss) for the year attributable to shareholders									<u>47,896</u>	<u>(58,768)</u>

Notes to Financial Statements

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4. SEGMENT INFORMATION (continued)

Business segments (continued)

Group

	Garment and related accessories		Property investment		Corporate and others		Consolidated		
	2004	2003	2004	2003	2004	2003	2004	2003	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
								(Restated)	
Segment assets	<u>113,718</u>	<u>150,125</u>	<u>192,626</u>	<u>191,897</u>	<u>—</u>	<u>—</u>	306,344	342,022	
Unallocated assets							<u>169,874</u>	<u>74,488</u>	
Total assets							<u>476,218</u>	<u>416,510</u>	
Segment liabilities	<u>105,455</u>	<u>92,783</u>	<u>2,989</u>	<u>2,986</u>	<u>9</u>	<u>20</u>	108,453	95,789	
Unallocated liabilities							<u>53,653</u>	<u>55,060</u>	
Total liabilities							<u>162,106</u>	<u>150,849</u>	
Other segment information:									
Depreciation	5,312	6,711	292	289	—	—	5,604	7,000	
Provision for bad and doubtful debts	—	523	—	—	—	—	—	523	
Provision/(write-back of provision) for slow-moving inventories, net	(13,063)	29,917	—	—	—	—	(13,063)	29,917	
Capital expenditure	<u>1,595</u>	<u>4,679</u>	<u>26</u>	<u>246</u>	<u>—</u>	<u>—</u>	<u>1,621</u>	<u>4,925</u>	

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4. SEGMENT INFORMATION (continued)

Geographical segments

The following tables present revenue, certain asset and capital expenditure information for the Group's geographical segments.

Group

	Hong Kong		Mainland China		Consolidated	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Restated)					
Segment revenue:						
Sales to external customers	241,648	250,843	217,914	233,220	459,562	484,063
Other revenue	1,271	1,326	18,263	5,687	19,534	7,013
Total	<u>242,919</u>	<u>252,169</u>	<u>236,177</u>	<u>238,907</u>	<u>479,096</u>	<u>491,076</u>
Other segment information:						
Segment assets	<u>261,007</u>	<u>267,447</u>	<u>45,337</u>	<u>74,575</u>	<u>306,344</u>	<u>342,022</u>
Unallocated assets					<u>169,874</u>	<u>74,488</u>
Total assets					<u>476,218</u>	<u>416,510</u>
Capital expenditure	<u>783</u>	<u>3,046</u>	<u>838</u>	<u>1,879</u>	<u>1,621</u>	<u>4,925</u>

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5. TURNOVER AND REVENUE

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

An analysis of turnover and other revenue is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Turnover		
Sale of goods	449,041	472,869
Rental income	10,521	11,194
	<u>459,562</u>	<u>484,063</u>
Other revenue		
Royalty income	16,026	4,712
Sale of miscellaneous materials	632	408
Sale of export quotas	767	474
Interest income	551	427
Others	2,109	1,419
	<u>20,085</u>	<u>7,440</u>

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6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	Group	
	2004	2003
	HK\$'000	HK\$'000
Auditors' remuneration	870	850
Cost of inventories sold	252,219	255,705
Depreciation	5,604	7,000
Lease payment in respect of land and buildings:		
Minimum lease payments under operating leases	52,301	60,668
Contingent rents	5,429	5,365
	<u>57,730</u>	<u>66,033</u>
Staff costs:		
Salaries and allowances (including directors' remuneration but excluding pension scheme contributions — note 7)	62,604	76,471
Pension scheme contributions	1,851	2,139
Provision/(write-back of provision) for long service payments	(353)	4,338
	<u>64,102</u>	<u>82,948</u>
Gross rental income	(10,521)	(11,194)
Less: Outgoings	308	289
Net rental income	<u>(10,213)</u>	<u>(10,905)</u>
Write-back of accrual for litigation claims, overdue interest payments and legal costs, net	(163)	(3,653)
Provision/(write-back of provision) for slow-moving inventories, net (included in cost of sales)	(13,063)	29,917
Other operating expenses, net:		
(Surplus)/deficit on revaluation (note 14)	(1,000)	22,000
Severance payments	889	2,562
Provision for bad and doubtful debts	—	523
Exchange losses, net	684	188
	<u>573</u>	<u>25,273</u>

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7. 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	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees	47	50	63	50
Other emoluments:				
Salaries, allowances and benefits in kind	5,558	6,828	—	—
Pension scheme contributions	20	24	—	—
Bonuses paid and payable	858	1,730	—	—
	<u>6,436</u>	<u>8,582</u>	<u>—</u>	<u>—</u>
	<u>6,483</u>	<u>8,632</u>	<u>63</u>	<u>50</u>

The above balance included the remuneration paid to a director who resigned during the year.

Directors' remuneration paid to the independent non-executive directors during the year amounted to HK\$33,000 (2003: HK\$20,000).

The number of directors, including a director who resigned during the year, whose remuneration fell within the following bands is set out below:

	Number of directors	
	2004	2003
Nil–HK\$1,000,000	7	7
HK\$1,000,001–HK\$1,500,000	1	—
HK\$1,500,001–HK\$2,000,000	—	1
HK\$2,000,001–HK\$2,500,000	1	1
HK\$2,500,001–HK\$3,000,000	1	—
HK\$3,500,001–HK\$4,000,000	—	1
	<u>10</u>	<u>10</u>

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

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8. FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

The five highest paid employees during the year included three (2003: three) directors, details of whose remuneration are set out in note 7 above. The details of the remuneration of the remaining two (2003: two) non-director, highest paid employees for the year are set out below:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	2,070	4,460
Pension scheme contributions	17	24
Bonuses paid and payable	2,900	2,000
	<u>4,987</u>	<u>6,484</u>

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

	Group	
	Number of employees	
	2004	2003
HK\$1,500,001–HK\$2,000,000	1	—
HK\$2,000,001–HK\$2,500,000	—	1
HK\$3,000,001–HK\$3,500,000	1	—
HK\$3,500,001–HK\$4,000,000	—	1
	<u>2</u>	<u>2</u>

9. FINANCE COSTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	<u>876</u>	<u>1,115</u>

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10. 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 arising in Hong Kong for both the current and prior year. The current and prior years' tax charge/credit represented deferred tax.

A reconciliation of the tax expense and credit applicable to profit/(loss) before tax using the statutory rates for the countries in which the Group are 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 — 2004

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>60,531</u>		<u>(15,990)</u>		<u>44,541</u>	
Tax at the statutory tax rate	10,593	17.5	(4,317)	27.0*	6,276	14.1
Income not subject to tax	(5,304)	(8.8)	—	—	(5,304)	(11.9)
Expenses not deductible for tax	429	0.7	4,537	(28.4)	4,966	11.1
Decrease in unprovided deferred tax assets	<u>(9,073)</u>	<u>(14.9)</u>	<u>(220)</u>	<u>1.4</u>	<u>(9,293)</u>	<u>(20.8)</u>
Tax credit at the Group's effective rate	<u>(3,355)</u>	<u>(5.5)</u>	<u>—</u>	<u>—</u>	<u>(3,355)</u>	<u>(7.5)</u>

Group — 2003

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Loss before tax	<u>13,554</u>		<u>(71,684)</u>		<u>(58,130)</u>	
Tax at the statutory tax rate	2,372	17.5	(19,355)	27.0*	(16,983)	29.2
Effect on opening deferred tax of increase in rates	(1,001)	(7.4)	—	—	(1,001)	1.7
Income not subject to tax	(5,935)	(43.8)	—	—	(5,935)	10.2
Expenses not deductible for tax	4,233	31.3	240	(0.3)	4,473	(7.7)
Increase in unprovided deferred tax assets	<u>969</u>	<u>7.1</u>	<u>19,115</u>	<u>(26.7)</u>	<u>20,084</u>	<u>(34.5)</u>
Tax charge at the Group's effective rate	<u>638</u>	<u>4.7</u>	<u>—</u>	<u>—</u>	<u>638</u>	<u>(1.1)</u>

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

Notes to Financial Statements

31st July 2004

11. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31st July, 2004 dealt with in the profit and loss account of the Company amounted to HK\$18,245,000 (2003 (Restated): net loss of HK\$1,857,000).

12. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$47,896,000 (2003 (Restated): net loss of HK\$58,768,000) and the weighted average of 617,127,130 (2003: 617,127,130) ordinary shares in issue throughout the year.

Diluted earnings per share amounts for the years ended 31st July, 2004 and 2003 have not been calculated because no diluting events existed during these years.

13. FIXED ASSETS

Group

	Land and buildings	Plant and machinery	Furniture and fixtures	Computer equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:						
At beginning of year	24,458	22,244	59,311	16,746	3,514	126,273
Additions	—	359	837	425	—	1,621
Disposals	—	(4,484)	(12,222)	(1,063)	(310)	(18,079)
Surplus on revaluation	20	—	—	—	—	20
Transfers (note 14)	(6,700)	—	—	—	—	(6,700)
At 31st July, 2004	17,778	18,119	47,926	16,108	3,204	103,135
Accumulated depreciation:						
At beginning of year	8,991	19,690	51,988	15,169	2,677	98,515
Provided during the year	894	731	2,724	1,148	107	5,604
Disposals	—	(4,292)	(11,200)	(954)	(310)	(16,756)
Write-back on revaluation	(535)	—	—	—	—	(535)
At 31st July, 2004	9,350	16,129	43,512	15,363	2,474	86,828
Net book value:						
At 31st July, 2004	8,428	1,990	4,414	745	730	16,307
At 31st July, 2003	15,467	2,554	7,323	1,577	837	27,758

Notes to Financial Statements

31st July 2004

13. FIXED ASSETS (continued)

Company

	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	4,441	42,659	16,576	2,087	65,763
Additions	—	544	213	—	757
Disposals	(4,441)	(11,941)	(1,063)	(178)	(17,623)
At 31st July, 2004	—	31,262	15,726	1,909	48,897
Accumulated depreciation:					
At beginning of year	4,207	38,157	15,135	2,087	59,586
Provided during the year	51	2,123	1,083	—	3,257
Disposals	(4,258)	(11,146)	(954)	(178)	(16,536)
At 31st July, 2004	—	29,134	15,264	1,909	46,307
Net book value:					
At 31st July, 2004	—	2,128	462	—	2,590
At 31st July, 2003	234	4,502	1,441	—	6,177

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
At cost:		
Long term leasehold land and buildings situated in the Mainland China	17,778	17,778
At 1992 valuation:		
Long term leasehold land and buildings situated in Hong Kong*	—	6,680
	17,778	24,458

* Had these leasehold land and buildings not been revalued, their net book values would have been HK\$2,051,000, being the cost of HK\$4,331,000 less accumulated depreciation of HK\$2,280,000, at 31st July, 2003.

Notes to Financial Statements

31st July 2004

13. FIXED ASSETS (continued)

Included in the Group's land and buildings, certain leasehold land and buildings situated in Hong Kong were stated at revalued amounts based on a valuation carried out by Chesterton Petty Limited, independent chartered surveyors, on an open market value basis as at 31st July, 1992. Such land and buildings were transferred to investment properties (note 14 to the financial statements) upon a change of use. At the date of transfer, a revaluation of the aforesaid land and building was carried out by Centaline Surveyors Limited, independent chartered surveyors, on an open market value basis. Any surplus arising therefrom was credited to the Group's fixed assets revaluation reserve which is presented in the consolidated statement of changes in equity.

As at 31st July, 2003, certain of the Group's land and buildings were pledged to secure the Group's bank borrowings, as further detailed in note 20 to the financial statements.

14. INVESTMENT PROPERTIES

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at beginning of year	183,000	205,000	70,000	80,000
Transferred from leasehold land and buildings (note 13)	6,700	—	—	—
Surplus/(deficit) on revaluation	1,000	(22,000)	(12,000)	(10,000)
Balance at end of year	<u>190,700</u>	<u>183,000</u>	<u>58,000</u>	<u>70,000</u>

The investment properties are situated in Hong Kong. Apart from a property with a market value of HK\$6,700,000 which is held under long-term leases, other investment properties are held under medium term leases.

The investment properties were revalued at HK\$190,700,000 (2003: HK\$183,000,000) based on their open market values and their existing use at 31st July, 2004 by Centaline Surveyors Limited, independent professionally qualified valuers. The revaluation surplus of HK\$1,000,000 (2003: deficit of HK\$22,000,000) so arising for the Group was credited/(charged) to the profit and loss account. The revaluation deficit of HK\$12,000,000 (2003: HK\$10,000,000) so arising for the Company was charged to the Company's profit and loss account.

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

The Group's investment properties are pledged to secure the Group's bank borrowings, as further detailed in note 20 to the financial statements .

Further details of the Group's and the Company's investment properties are disclosed on page 56 of this report.

Notes to Financial Statements

31st July 2004

15. DEFERRED TAX ASSETS

The movements in deferred tax asset arising from losses available for offset against future taxable profit during the year is as follows:

	Group and Company HK\$'000
At 31st July, 2002	
As previously reported	—
Prior year adjustment: SSAP12 — restatement of deferred tax assets	<u>10,681</u>
As restated	10,681
Deferred tax charged to the profit and loss account during the year, including a credit of HK\$1,001,000 due to the effect of a change in tax rates	<u>(638)</u>
Deferred tax asset as at 31st July, 2003	<u>10,043</u>
At 31st July, 2003	
As previously reported	—
Prior year adjustment: SSAP 12 — restatement of deferred tax assets	<u>10,043</u>
As restated	10,043
Deferred tax credited to the profit and loss account during the year	<u>3,355</u>
Deferred tax asset as at 31st July, 2004	<u>13,398</u>

Deferred tax has been calculated at a rate of 17.5% (2003: 17.5%) on cumulative temporary differences at the balance sheet date.

At 31st July, 2004 and 2003, the Group had unprovided deferred tax assets which represented the following temporary differences and tax losses:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000 (Restated)	2004 HK\$'000	2003 HK\$'000 (Restated)
Tax losses	292,337	327,296	164,114	224,023
Decelerated capital allowances	11,214	11,839	19,789	19,297
Others	<u>23,279</u>	<u>40,347</u>	<u>731</u>	<u>726</u>
	<u>326,830</u>	<u>379,482</u>	<u>184,634</u>	<u>244,046</u>

Notes to Financial Statements

31st July 2004

15. DEFERRED TAX ASSETS (continued)

Deferred tax assets have not been recognised because they relate to subsidiaries that have been either loss making for some time or in the Directors' opinion it is uncertain whether future taxable profits would arise to offset against these losses.

At 31st July, 2004, there is no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or joint ventures as the Group has no liability to additional tax should such amounts be remitted.

SSAP 12 (Revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax asset as at 31st July, 2004 and 2003 by HK\$13,398,000 and HK\$10,043,000, respectively. As a consequence, the consolidated net profit and net loss attributable to shareholders for the years ended 31st July, 2004 and 2003 have been increased by HK\$3,355,000 and HK\$638,000, respectively, and the consolidated accumulated losses at 1st August, 2003 and 1st August, 2002 have been decreased by HK\$10,043,000 and HK\$10,681,000, respectively as further detailed in the consolidated statement of changes in equity.

16. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	4,050	4,050
Amounts due from subsidiaries	375,942	323,768
Amounts due to subsidiaries	<u>(8,934)</u>	<u>(8,934)</u>
	371,058	318,884
Provision for impairment	<u>(151,520)</u>	<u>(111,210)</u>
	<u>219,538</u>	<u>207,674</u>

Except for certain amounts due from subsidiaries which bear interest at Hong Kong dollar prime rate plus 2% per annum (2003: Hong Kong dollar prime rate plus 2% per annum), the amounts due from/(to) the subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Notes to Financial Statements

31st July 2004

16. INTERESTS IN SUBSIDIARIES (continued)

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
			2004	2003	
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
Dackart Trading Company Limited	Hong Kong	HK\$20	100	100	Property investment
Gold Nation Development Limited	Hong Kong	HK\$2	100	100	Property investment
Shenton Investment Limited	Hong Kong	HK\$2	100	100	Property investment

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* 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 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.

17. INVENTORIES

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Raw materials	10,225	6,145	2,964	2,648
Work in progress	511	134	—	—
Finished goods	64,250	85,755	43,702	51,697
	74,986	92,034	46,666	54,345

The carrying amounts of the Group's and the Company's inventories included in the above at net realisable value were HK\$27,467,000 (2003: HK\$39,471,000) and HK\$15,321,000 (2003: HK\$12,556,000), respectively.

Notes to Financial Statements

31st July 2004

18. DEBTORS, DEPOSITS AND PREPAYMENTS

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

An aged analysis of trade receivables, net of provisions, based on the overdue date, is as follows:

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current to 90 days	5,820	22,511	276	376
91 days to 180 days	10	35	—	35
181 days to 365 days	552	5	98	5
Trade debtors	6,382	22,551	374	416
Deposits and prepayments	8,681	7,115	7,543	4,801
	15,063	29,666	7,917	5,217

19. CASH AND BANK BALANCES

Group

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$129,386,000 (2003: HK\$56,448,000). 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.

Notes to Financial Statements

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20. BANK LOANS AND OVERDRAFTS

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts repayable within one year and on demand:				
Bank overdrafts, secured	2,231	2,330	—	—
Bank loans, secured	24,250	24,250	24,250	24,250
	<u>26,481</u>	<u>26,580</u>	<u>24,250</u>	<u>24,250</u>
Trust receipt loans				
Secured	14,322	12,785	14,322	12,785
Unsecured	2,299	5,144	2,299	5,144
	<u>16,621</u>	<u>17,929</u>	<u>16,621</u>	<u>17,929</u>
	<u>43,102</u>	<u>44,509</u>	<u>40,871</u>	<u>42,179</u>

At the balance sheet date, the Group had pledged investment properties (note 14 to the financial statements) with carrying values of HK\$190,700,000 (2003: HK\$183,000,000). In the prior year, the Group had also pledged certain land and buildings (note 13 to the financial statements) with a net book value of HK\$6,239,000, to bankers to secure banking facilities granted to the Group.

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21. CREDITORS AND ACCRUALS

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

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current to 90 days	19,901	19,811	14,697	16,559
91 days to 180 days	6,590	100	632	403
181 days to 365 days	709	413	459	446
Over 365 days	4,038	4,961	1,063	1,386
	<u>31,238</u>	<u>25,285</u>	<u>16,851</u>	<u>18,794</u>
Trade creditors	31,238	25,285	16,851	18,794
Deposits received	47,068	32,468	1,236	809
Accruals and other payables	27,052	33,691	8,004	8,997
	<u>105,358</u>	<u>91,444</u>	<u>26,091</u>	<u>28,600</u>

Notes to Financial Statements

31st July 2004

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

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts due to:				
Ultimate holding company				
Lai Sun Garment (International) Limited	7	3	7	3
Related company				
Lai Sun Development Company Limited	—	4	—	4

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

The balances were derived from normal business activities and are unsecured, interest-free and repayable on terms similar to those granted to major customers or by major suppliers of the Group. Further details of the material transactions with the ultimate holding company and the related company are set out in note 28 to the financial statements.

23. PROVISION FOR LONG SERVICE PAYMENTS

	Group and Company	
	2004	2003
	HK\$'000	HK\$'000
At beginning of year	4,338	—
Amount provided/(written back) during the year (note 6)	(353)	4,338
Amounts utilised during the year	(897)	—
At 31st July	3,088	4,338

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 3 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 to the balance sheet date.

Notes to Financial Statements

31st July 2004

24. SHARE CAPITAL

	Company	
	2004	2003
	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>

25. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 23 of the financial statements.

(b) Company

	Note	Share premium account	Fixed asset revaluation reserve	Accumulated losses	Total
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st August, 2002					
As previously reported		164,921	109,090	(142,345)	131,666
Prior year adjustment:					
SSAP 12 — restatement of deferred tax	15	<u>—</u>	<u>—</u>	<u>10,681</u>	<u>10,681</u>
As restated		164,921	109,090	(131,664)	142,347
Net loss for the year (as restated)		<u>—</u>	<u>—</u>	<u>(1,857)</u>	<u>(1,857)</u>
At 31st July, 2003 (as restated)		<u>164,921*</u>	<u>109,090*</u>	<u>(133,521)</u>	<u>140,490</u>

Notes to Financial Statements

31st July 2004

25. RESERVES (continued)

(b) Company (continued)

	Note	Share premium account HK\$'000	Fixed asset revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st August, 2003					
As previously reported		164,921	109,090	(143,564)	130,447
Prior year adjustment:					
SSAP 12 — restatement of deferred tax	15	—	—	10,043	10,043
As restated		164,921	109,090	(133,521)	140,490
Net profit for the year		—	—	18,245	18,245
At 31st July, 2004		164,921*	109,090*	(115,276)	158,735

The Company's fixed asset revaluation reserves represent frozen revaluation surplus in relation to leasehold land and buildings which were transferred to investment properties in prior years.

* These reserve accounts comprised the reserves of HK\$274,011,000 (2003: HK\$274,011,000) in the Company's balance sheet.

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26. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

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

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	6,938	9,964	3,256	2,048
In the second to fifth years, inclusive	1,184	7,617	1,184	3,008
	8,122	17,581	4,440	5,056

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26. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee

The Group leases its office properties, warehouses and retail outlets under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years. At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	49,499	47,169	46,552	45,064
In the second to fifth years, inclusive	39,392	32,462	37,266	31,720
	88,891	79,631	83,818	76,784

The operating lease rentals of certain retail shops are based on the higher of a fixed rental or 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 have not been included above and only the minimum lease commitment have been included in the above table.

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

27. CONTINGENT LIABILITIES

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

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	—	—	3,000	3,000

28. RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed elsewhere in these financial statements, the Group paid rental expenses of HK\$3,764,000 (2003: HK\$7,600,000) to certain related companies in which certain directors of the ultimate holding company have beneficial interests. These rental expenses are charged at rates pursuant to the respective lease agreements.

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

Notes to Financial Statements

31st July 2004

29. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of the revised SSAP 12 during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 12th November, 2004.